



THE CHARTERED ACCOUNTANT

JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

INTERNAL AUDIT AND ETHICS ENABLING TRUST AND TRANSPARENCY IN THE DIGITAL AGE





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The Chartered Accountants' Benevolent Fund (CABF) was established in December, 1962 with the main objective to provide financial assistance for maintenance, and other similar purposes to needy members of the Institute, their wives, widows, children and dependent parent(s).

During the Financial Year 2024-25, CABF has given assistance of Rs. 2.54 Crore to 145 beneficiaries. The available funds with CABF is not sufficient to continue to support all the beneficiaries. To meet the demand, Management Committee of CABF desires to augment funds through a "SPECIAL DRIVE". The contributions can be made by ICAI Members and CA Firms.

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Internal Audit and Ethics: Enabling Trust and Transparency

With the ascent of Artificial Intelligence and Sustainability advancements, business models are being reimagined and redefined over the course of time. Chartered Accountants, being the guardians of numbers and keepers of trust, must embrace change and evolve to build confidence in the digital age. Guided by its ethos and virtues, the accounting profession must capitalise on the digital analytical tools and AI to sharpen its skills and judgement to redefine and protect the future of accountability.

The rapid evolution of technology across industries, in tandem with the changing dynamics of market forces and regulatory landscape, has brought to the fore the necessity of a tech-enabled compliance and governance framework to mitigate the emergent risks and create value for stakeholders. Over time, the Internal Audit function has evolved from a mere compliance checker to a forward-looking strategic advisor, leveraging analytics and modelling tools. To build a future-ready governance model, the profession's ethical practices and standards must evolve parallelly with the audit process to navigate the complexities of the digital economy.

Today, Climate change is putting the Environmental, Social, and Governance (ESG) considerations at the core of corporate strategy. The global sustainability reporting practices and standards are transforming Sustainability reporting from a voluntary initiative to a mandatory reporting requirement. This shift is pushing Internal Audit to evolve and undertake ESG verification while demanding that Ethics frameworks expand beyond traditional financial misconduct to cover environmental greenwashing, social impact measurement, and governance transparency. This new reporting paradigm requires not just technical expertise but also a deep understanding of ethical principles to capture ESG disclosures meaningfully.

The assimilation of technologies in the realm of finance and especially in audit processes is enhancing the profession's ability to detect fraud and ensure compliance. It also gives rise to new ethical dilemmas that require careful navigation in terms of data authenticity and integrity. Data is the new currency and it must be safeguarded through, and used responsibly with, professional oversight for a strategic decision making process. Ethical guidelines around data privacy, cybersecurity, and the maintenance of professional relationships must evolve to address risk management in a virtual environment.

The Institute, in its capacity as a global thought leader, has played a proactive role in strengthening Internal Audit and laying a strong ethical foundation for the profession. Through its Internal Audit Standards Board, constituted in 2004, ICAI develops and issues Standards on Internal Audit (SIAs) that provide a robust and consistent framework for delivering high-quality audit engagements while aligning with global benchmarks. On the ethical front, ICAI took a pioneering step in 1963 by introducing its first Code of Conduct, which laid down professional standards for Chartered Accountants. In 1976, it further strengthened this commitment by establishing the Ethical Standards Committee to frame guidelines and monitor compliance. Renamed as the Ethical Standards Board, it has remained at the forefront of developing and disseminating the Code of Ethics, aligning it with IESBA pronouncements while adapting it to address domestic concerns. Through its continuous professional education program, the Institute ensures that its members make ethics part of their professional life and are acquainted with the latest global standards and practices.

As we navigate this period of unprecedented change, the fundamental mission of the accounting profession remains unchanged: to serve the public interest. Tomorrow's Chartered Accountants must be comfortable in analysing data while questioning its ethical implications, understanding its social impact, and leveraging artificial intelligence while maintaining human judgement and professional skepticism.

The quote, "*change is the only constant thing in this world*", resonates with the dynamics of transformation. The future belong to professionals who can seamlessly integrate technology with timeless ethical principles, audit both financial statements and climate commitments with equal rigour, and serve as both efficiency enhancers and moral guardians. In this transformation lies not just the evolution of Internal Audit and Ethics, but the renewal of public trust in the institutions that drive economic prosperity and social progress.

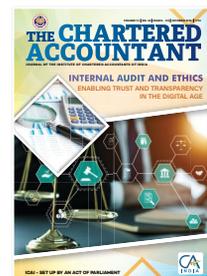
As we embrace this transformation, we must ensure that technological advancements are governed by ethical principles and that profits never come at the expense of moral integrity. The future of business, and indeed society, depends on our ability to get this balance right.

-Editorial Board ICAI

Partner in Nation Building

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From the President



CA. Charanjot Singh Nanda
President, ICAI

Dear Professional Colleagues,

Nations that embrace change surge ahead, while those that resist remain stagnant.

India is harnessing the winds of change with a clear vision to build *Bharat 2.0*. Our nation is setting global benchmarks through bold policy reforms that are not just addressing the needs of the hour but also having far-reaching effects, driving the nation on the path of *Viksit Bharat@2047*. These initiatives reaffirm our commitment towards becoming the fastest-growing economy in the world.

With integrity as its foundation and innovation as its engine, India is shaping a future defined by resilience, leadership, and global responsibility. The recent Next-Gen GST reforms represent a landmark simplification of taxation system, providing direct relief to citizens and businesses alike. By introducing a two-slab structure of 5% and 18%, alongside significant reductions on essentials, healthcare, and farm equipment, these reforms ease household expenses, enhance purchasing power, strengthen MSMEs, and support the common man. In the times to come, these reforms will enhance compliance and foster transparency, creating a fairer,

people-centric framework that uplifts the middle and lower-income groups while reinforcing the nation's economic progress.

In direct taxation, landmark initiative new Income-Tax Act, provides concise and transparent statute, reducing redundancy while retaining policy stability. Meanwhile, the amendments expand taxpayer reliefs by enhancing standard deductions, raising rebate thresholds, ensuring fairness in pension taxation, and simplifying refunds. These steps not only align taxation with present-day realities but also reduce disputes, provide clarity, and deepen trust between the state and its taxpayers.

A new wave of legislative reforms further underscores India's resolve to modernize its financial architecture, enhance accountability, and protect the interests of citizens. The

Insolvency and Bankruptcy Code (Amendment) Bill, 2025, seeks to expedite corporate and group insolvency resolutions, clarify key definitions, and strengthen creditor rights, ensuring that distress situations are resolved swiftly, fairly, and with confidence.

At this defining moment of India's reform journey, our profession proudly stands at the forefront, translating visionary policies into tangible outcomes and ensuring that the fruits of change reach every section of society. Amidst the rapid and dynamic shifts in the financial landscape, we, as Chartered Accountants, always shoulder the responsibility of interpreting reforms with clarity, guiding both citizens and enterprises through transitions with confidence.

As the Hon'ble former Prime Minister, Shri Lal Bahadur Shastri aptly said, "*The loyalty to the country comes ahead of all the loyalties.*" Guided by this spirit of placing the nation above all else, the profession acts as a bridge between governance and grassroots, safeguarding stakeholder interests, educating taxpayers, fostering trust, upholding the timeless values of accountability and transparency and reinforcing India's march toward an inclusive, equitable, and globally admired fiscal architecture.

As the torchbearer of this noble profession, I extend my heartfelt encouragement to each of you—acknowledging your dedication and reminding you to remain ever prepared for the responsibilities entrusted to us. The institute stands firmly beside you, offering a wide range of courses and certifications to equip you with clarity needed to navigate new reforms and policies. Let us uphold the solemn pledge we took to maintain ethics, integrity, and independence and to continue being steadfast partners in nation-building, supporting governance with honesty, accountability, and conviction.

Let us look at some key developments at the institute since our last communication:

World Forum of Accountants 2.0

I am thrilled to announce the second edition of ICAI's landmark event, the World Forum of Accountants (WOFA 2.0) on the theme *"Nation Building to Global Collaboration: Strengthening Trust, Enabling Growth"*.

Following the immense success of our inaugural edition, this year's event promises an even bigger vision, better impact and a brighter future. It's a premier gathering of the global accountancy community, scheduled from 30th January to 1st February, 2026, at the India Expo Centre & Mart, Greater Noida in Delhi-NCR.

This platform will enable us to explore emerging trends shaping the future of our profession and reinforce India's leadership on the world stage. Registration for the same is starting soon and I urge all of you to book your seats early and participate in this momentous event.

Creating opportunities for Export of Services

In today's era of digitization and borderless economy, ICAI has undertaken several significant initiatives to enhance the global presence of Indian Chartered Accountants and open new avenues of professional opportunities.

■ Developing Profession for Global Markets - Outsourcing Certificate Course - UK

Following the success of Outsourcing Certificate Course focused on US Market, a landmark initiative is undertaken with the launch of the 1st batch of the Certificate Course on Overseas Outsourcing Services focusing on UK. This specialized program aims to strengthen the capabilities of Indian professionals in

global service delivery. It supports Indian CA Firms in understanding the regulatory and financial services landscape in the UK, enabling them to explore and undertake professional outsourcing assignments from the UK, especially in light of the recent India-UK Free Trade Agreement.

■ 2nd GCC Summit 2025 at GIFT City

Further, the ICAI successfully hosted the 2nd GCC Summit 2025 on 29th & 30th August, 2025 at GIFT City Club, Gujarat, which was inaugurated by Shri Kalyanaraman Rajaraman, Chairperson, IFSCA, and featured a keynote address by Ms. Ponugumatla Bharathi (IAS), Secretary, Science and Technology Department. With 38+ speakers and 11+ sessions, the summit witnessed participation from over 800 delegates, including policymakers, industry leaders, and professionals.

■ Meeting with Joint Secretary, Ministry of Commerce and IFSCA

On 10th September 2025, a meeting was held with Shri Darpan Jain (IAS), Joint Secretary, Ministry of Commerce, focusing on the globalization of professional services and strategies to position India as a hub for accounting and financial expertise. Also, on 11th September, 2025, ICAI participated in the IFSCA Chintan Shivir 2025 roundtable interaction at GIFT City, Gandhinagar, exploring professional opportunities and regulatory synergies.

■ ITEC – Professional Training Program

ICAI conducted 2nd edition of the ITEC – Professional Training Program from 15th to 26th September, 2025 at the Centre of Excellence, Hyderabad. The programme hosted 29 international delegates from 17 countries under the aegis of the Ministry of External Affairs, Government of India. This initiative signifies India's growing leadership and reinforces its role as a pivotal partner in empowering developing nations through capacity building and knowledge transfer.

CA Business Leader 40 under 40 Awards

As we envision India's rise as an economic superpower, it is imperative to cultivate and celebrate the spirit of leadership, especially amongst the youth. Our profession has been a vital pillar of the nation's economy and diligently contributing towards strengthening and enriching our economy. Over the years, the institute has evolved not only as an institution of excellence but

also as a catalyst for nurturing leadership, with members excelling across diverse domains.

In recognition of these remarkable contributions, and to reward and inspire exceptional young members, ICAI is proud to announce 'ICAI 40 Under 40 - CA Business Leader Award'. The last date for submission of nominations is 30th October, 2025. I encourage all our promising young leaders to nominate themselves or their peers for this prestigious occasion.

Recognition for Work Life Balance Initiative

I am elated to share a momentous milestone - the successful completion of 100 impactful sessions dedicated to promoting Work-Life Balance. This journey has now been honoured with dual recognition - the Asia Book of Records and the India Book of Records. This historic achievement reflects our aspiration to foster a culture where professional excellence is harmonized with personal well-being.

These recognitions along with 100 sessions milestone highlight our shared commitment to purpose, innovation, and resilience. They symbolise the triumph of a mindset that recognizes people as the greatest asset. With immense gratitude, the institute reaffirms its dedication to advancing this mission - empowering individuals to pursue excellence while embracing balance, inclusivity, and holistic growth in every sphere of life.

International Engagements

■ Meeting with Accountancy Bodies in Canada

As part of the Institute's strategy to globalise the Indian CA profession and forge strategic alliances, I visited Canada in September, 2025 and met Ms. Pamela Steer, President & CEO, CPA Canada; Ms. Jovana Blagotic, Director, Federal & Global Affairs, CPA Canada, and Ms. Carol Wilding, President & CEO, CPA Ontario. The meetings centred around existing MoU and explored avenues for deeper collaboration to strengthen the global footprint of the Indian Chartered Accountancy profession. I also invited them for WOFA 2.0. During the visit, I also met Shri. Kapidhwaja Pratap Singh, Acting Consul General of India in Toronto, Canada and discussed the strategies to increase the brand value of the Indian Chartered Accountants in Canada.

■ ECTA Unleashed India-Australia Trade Conference in Sydney

I also visited Australia to strengthen our collaboration with CPA Australia with the objective of creating pathways for enhanced professional mobility, and new business opportunities in both countries thereby, strengthening the Australia-India economic relationship.

During the visit, I addressed one-day forum titled ECTA Unleashed India-Australia Trade Conference on the theme "Bringing the India-Australia Economic Cooperation and Trade Agreement to Life", held on 23rd September, 2025. My address focused on the profession's role in driving sustained growth in the Australia-India relationship.

■ Business Leader's Forum 2025, Singapore

The ICAI Singapore Chapter and the ICAI Committee for Members in Industry and Business hosted the 2nd edition of the Business Leaders Forum, in Singapore on 25th September, 2025. The forum welcomed a lineup of distinguished guests and speakers, including Guest of Honor, CA. Suresh Prabhu, Hon'ble Former Union Minister, Govt. of India and Mr. James Lye, Global Head of International Banking, Standard Chartered Bank. The forum featured discussions on Global trade, AI, Fintech and ESG amid the evolving financial landscape.

■ SAFA Board and Committee Meetings

In today's evolving global trade environment, the institute continues to support the development of the economy and profession in South Asian Region. In this direction, I along with CA. Prasanna Kumar D., Vice President, ICAI attended the 89th SAFA board meeting in Colombo, Sri Lanka held on 16th September, 2025. The meeting featured deliberations on emerging economic trends including AI, Fintech and Sustainability and its impact on the regional economy and the accountancy profession.

I also had the privilege to address CMA Sri Lanka Silver Jubilee National Management Accounting Conference on 16th September, 2025 in the panel discussion on the topic "Artificial Intelligence and the Impact on the Professional Accountancy Organisations (PAOs)". During the visit, we also met with H.E. Shri Santosh Jha, High Commissioner of India to Sri Lanka in Colombo. The meeting focused on strengthening economic and developmental cooperation between the two countries.

MoU Signed with MSME, Uttar Pradesh

On 17th September, 2025, coinciding with Vishwakarma Diwas, ICAI signed a Memorandum of Understanding with the Department of Micro, Small and Medium Enterprises, Government of Uttar Pradesh, in the august presence of Hon'ble Chief Minister of Uttar Pradesh Yogi Adityanath in Lucknow. This collaboration marks a significant step towards strengthening the MSME sector, which serves as driver of employment generation. The MoU aims to support MSMEs through capacity building, entrepreneurship development, and integrated support services in key areas such as marketing, technology, finance, and global outreach. This partnership is in line with ICAI's vision of nation building and inclusive economic development through professional excellence.

MoU with the Mahatma Gandhi State Institute of Public Administration

The institute continuously strives to strengthen the governance ecosystem across local bodies to support citizen-centric decision and policy making, leading to ease of living and societal development. Recently, ICAI through the Committee on Public and Government Financial Management (CPGFM) has signed a Memorandum of Understanding (MoU) with the Mahatma Gandhi State Institute of Public Administration (MGSIPA), Punjab on 3rd September, 2025 in the presence of Shri Anirudh Tewari, IAS, Director General, MGSIPA; and Shri Amit Dhaka, IAS, Director, MGSIPA. The primary focus of this collaboration is capacity building for government officials through workshops, training programmes, and short-term modules in key domains such as Accounting Standards for Local Bodies (ASLBs), Goods and Service Tax, IT-enabled Auditing, and Other related fields. This collaboration marks an important step towards enhancing knowledge and skills among government officials of Punjab and other stakeholders.

Brainstorming Meet on Academic Excellence

The institute convened a Brainstorming Meet on Academic Excellence in New Delhi on 8th September, 2025. The meet aimed to shape a curriculum that not only meets global standards but also anticipates the future needs of business and society. With contributions

from Past Presidents, industry leaders, and academic experts, discussions focused on integrating emerging domains such as AI, ESG, fintech, and data science, while enhancing experiential learning through digital tools and case studies. These insights will serve as valuable inputs for future reforms, ensuring that the next generation of Chartered Accountants continues to lead with competence, adaptability, and integrity in an evolving world.

Conclusion

Our nation is at the threshold of transformative change, and in this journey, each one of us must remain vigilant, reflective, and steadfast in our purpose. By choosing this profession as career, we have chosen a path less travelled - one where decisions are not confined to the boundary of right and wrong but are measured against the higher standard of ethics.

Mahatma Gandhi rightly observed "*that economics is untrue which ignores or disregards moral values.*" In the light of this guiding thought, I urge every professional and aspiring student to embrace our discipline as one of continual self-assessment—demanding responsibility, principled judgment, and ethical conduct at every step. By living these values, we become the silent custodians of progress, empowering institutions and strengthening transparency through our insights and dedication.

As we enter the festive season, I extend my warm wishes to you and your families. May the upcoming festivals bring light, harmony, and renewed inspiration to uphold integrity and serve the nation with pride.

अपने हौसलों को ये खबर करते रहो...
जिंदगी मंजिल नहीं, सफर है, चलते रहो...।



CA. Charanjot Singh Nanda
President, ICAI
New Delhi, 29th September, 2025

1. MoU with Department of MSME, Government of Uttar Pradesh



CA. Charanjot Singh Nanda, President, ICAI along with Central Council Members exchanged a MoU with Department of MSME, Government of Uttar Pradesh on September 17, 2025 at Lucknow in the august presence of Shri Yogi Adityanath, Hon'ble Chief Minister & Shri Rakesh Sachan, Hon'ble Minister of MSME. The MoU aims to empower SMEs & Startups with skills, finance & global outreach.

2. 20th Karnataka State Conference, Bengaluru



CA. Charanjot Singh Nanda, President, ICAI along with Shri Dinesh G. Rao, Hon'ble Minister, Government of Karnataka, Past President, SIRC & Branch Management Committee Members, shared inspiring insights on future of CA profession & its role in financial empowerment & nation-building at 20th Karnataka State Conference organized on August 30, 2025, in Bengaluru.

3. 2nd GCC Summit 2025



CA. Charanjot Singh Nanda, President, ICAI along with Shri K. Rajaraman, IAS, Chairperson IFSCA, Past President, Central Council Members, Secretary, ICAI & other dignitaries, shared visionary insights at the Inaugural Ceremony of the 2nd GCC Summit 2025 organised on August 29, 2025 in GIFT City, Gandhinagar, highlighting global opportunities.

4. Meeting with Joint Secretary, Ministry of Commerce & Industry



CA. Charanjot Singh Nanda, President, ICAI along with Central Council Members met Shri Darpan Jain, IAS-Joint Secretary, Ministry of Commerce & Industry on September 10, 2025 at ICAI Bhawan, New Delhi. The Meeting focused on enhancing collaboration in Capacity Building, Financial Governance & adoption of AI-driven solutions.

5. Brain Storming Meet for Academic Excellence



CA. Charanjot Singh Nanda, President, ICAI along with CA. Prasanna Kumar D., Vice-President, ICAI, CA. Mahaveer Singhvi, Joint Secretary, Ministry of External Affairs, Past Presidents, Central Council Members & Secretary, ICAI shared valuable insights at Brain Storming Meet for Academic Excellence organized on September 8, 2025, in New Delhi.

6. Meeting with Hon'ble Commissioner of Police, Delhi



CA. Charanjot Singh Nanda, President ICAI, along with CA. (Dr.) Jai Kumar Batra Secretary, ICAI, met Sh. Satish Golcha, Hon'ble Commissioner of Police, Delhi, who is also a proud Chartered Accountant, on September 29, 2025. On behalf of ICAI, the President conveyed best wishes to him on assuming charge, marking a moment of pride and honour for the CA profession.

7. Meeting of Group on Developing a Research Paper on Financial Fraud Prevention in Capital Markets



CA. Charanjot Singh Nanda, President, ICAI along with SEBI officials, Central Council Members & Group Members, graced the Meeting of Group on Developing a Research Paper on Financial Fraud Prevention in Capital Markets on September 9, 2025, in New Delhi, to Strengthen Governance & Investor Trust.

8. FINCON2025



CA. Charanjot Singh Nanda, President, ICAI addressed the Valedictory Function of FINCON2025 organised on August 29, 2025, in NFSU, Gandhinagar, reaffirming ICAI's role in financial security & academia-industry collaboration. The Conference was also graced by Dr. Jaimin Vasa, MD, Vasa Pharma & Dr. Haresh Barot, Dean, SMS.

9. Program by CPSU Directors World Foundation



CA. Charanjot Singh Nanda, President, ICAI as Chief Guest along with distinguished Ex-CFOs, Ex-CMDs & other guests graced the Program "Unleashing Power Within" organized by CPSU Directors World Foundation on September 7, 2025 in New Delhi. President, ICAI shared words of wisdom that inspired Leadership & Nation-Building.

10. Investment Ki Paathshaala



CA. Charanjot Singh Nanda, President, ICAI along with Central Council Members & NIRC Members, addressed the Inaugural & Technical Session "CA - The Investment Guru" at the Conference on Capital Markets organized on September 6, 2025 in New Delhi—highlighting CAS' pivotal role in shaping India's financial future.

11. National Conference 2025, Lucknow



CA. Charanjot Singh Nanda, President, ICAI addressed the National Conference 2025 on August 31, 2025, in Lucknow, joined by ICAI Central Council Members, CIRC & Branch Management Committee Members. The Conference reinforced ICAI's role in empowering professionals & building a Viksit Bharat.

12. Meeting with Acting Consul General of India in Toronto



CA. Charanjot Singh Nanda, President, ICAI along with ICAI Toronto Chapter team met Mr. Kapidhwaja Pratap Singh, Acting Consul General of India on September 13, 2025, in Toronto. Discussions focused on ICAI's global presence, member engagement & Indo-Canada professional ties.

13. Meeting with President & CEO, CPA Canada and team



CA. Charanjot Singh Nanda, President, ICAI along with ICAI Toronto Chapter team, met Ms. Pamela Steer, President & CEO, CPA Canada, and her team on September 13, 2025 in Toronto. Discussions focused on Opportunities for Indian CAs in Canada, global collaboration & professional excellence.

15. Career Summit 2025, Toronto



CA. Charanjot Singh Nanda, President, ICAI along with ICAI Toronto Chapter Team graced the Career Summit 2025 on September 16, 2025, engaging with members & professionals on global career opportunities and the evolving role of Chartered Accountants worldwide during his visit to Canada.

14. Meeting with CEO, CPA Ontario



CA. Charanjot Singh Nanda, President, ICAI met Ms. Carol Wilding, CEO, CPA Ontario on September 13, 2025, in Toronto. Discussions focused on strengthening Indo-Canada professional ties & collaboration opportunities in accounting and AI-driven skilling.

17. Meeting with High Commissioner of India to Sri Lanka



CA. Charanjot Singh Nanda, President, ICAI along with CA. Prasanna Kumar D., Vice-President, ICAI; Central Council Members & Secretary, ICAI met H.E. Shri Santosh Jha, High Commissioner of India to Sri Lanka on September 16, 2025 in Colombo, to strengthen professional collaboration, knowledge exchange & India-Sri Lanka ties.

16. 89th SAFA Board Meeting



CA. Charanjot Singh Nanda, President, ICAI & CA. Prasanna Kumar D., Vice-President, ICAI along with Board Members at the 89th SAFA Board Meeting held on September 16, 2025, in Colombo. The meeting focused on enhancing Regional Cooperation & Professional Excellence.

18. CMA Sri Lanka Silver Jubilee International Management Accounting Conference 2025



CA. Charanjot Singh Nanda, President, ICAI along with leaders from SAFA bodies, shared insights at CMA Sri Lanka Silver Jubilee International Management Accounting Conference 2025 held on September 17, 2025 in Colombo on AI Innovation & Sustainable Value Creation, enhancing collaboration & future-ready practices.

19. 5th ETCFO Turning Point 2025



CA. Charanjot Singh Nanda, President, ICAI, the keynote speaker at 5th ETCFO Turning Point 2025 held on September 19, 2025, in Gurugram addressed the participants and shared his words of wisdom about the CFO role being redefined and the next turning point for CFOs.

20. Conference hosted by ICAI and CPA Australia, Sydney



CA. Charanjot Singh Nanda, President, ICAI addressed the Conference hosted jointly by ICAI and CPA Australia on September 23, 2025, in Sydney. Also present were the Hon'ble Anoulack Chanthivong, Minister for Corrections Services, New South Wales, Prof. Dr. Dale Pinto, President, CPA Australia and Mr. Chirs Freeman, CEO CPA Australia. The Conference focused on the profession's contribution to continuous growth in the Australia-India relationship.

21. Fireside Chat with President, CPA Australia



CA. Charanjot Singh Nanda, President, ICAI during fireside chat with Prof. Dr. Dale Pinto, President, CPA Australia on September 23, 2025, in Sydney, where views were exchanged on the future of the profession and the benefits of a stronger economic relationship between India and Australia.

22. 2nd edition of Business Leaders Forum



CA. Charanjot Singh Nanda, President, ICAI along with CA. Suresh Prabhu, Former Union Minister, Govt. of India, Central Council Member and representatives of ICAI Singapore chapter during 2nd edition of Business Leaders Forum 2025 organised in Singapore on September 25, 2025. The Forum focused on shaping the future of business leadership in an evolving global landscape.



CA. Vaibhav Maheshwari
Member of the Institute

Going Beyond the Obvious: The Power of Root Cause Analysis in Internal Audit

In the current dynamic risk landscape, Internal Audit has to look beyond merely defining what went wrong or what may go wrong and instead ask why it occurred. Root Cause Analysis (RCA) allows auditors to move beyond immediate symptoms and discover the root drivers of

failed processes. This article discusses how RCA enhances audit quality through tracing observations back to their roots, using systematic tools like the Five Whys, Fishbone Diagrams, and Bow-Tie Models. It also mentions real-life examples, uncovers typical audit-related root cause patterns, and suggests pragmatic steps for integrating RCA into all stages of the audit process.

By incorporating RCA early, consistently, and systematically, Internal Auditors can eliminate recurring problems, improve governance, and provide strategic insights that fuel sustainable improvement which is an essential necessity in a dynamic risk environment.

Introduction

Internal Audit provides assurance to the leadership and adds value by identifying risks and recommending improvements in processes. However, too many audit reports simply highlight symptoms, such as non-compliances, delays, and control gaps without delving into deeper systemic root causes of why things occurred in the first instance. This, in turn, limits the impact of audit recommendations. Root Cause Analysis (RCA) offers a standardized procedure for uncovering such deeper causes. If implemented in audit planning, fieldwork, and reporting, RCA swaps out “what” happened with “why” it happened, so organizations can fix problems at their core and build sound processes.

Here, we bring a comprehensive & practical analysis of RCA in the context of internal audit applicability, approaches, common tendencies, and implementation steps. You must familiarize yourself with RCA,

whether you are a senior/experienced auditor or a newcomer who’s entering your career as a newbie, for the sake of delivering actionable audit findings.

Reasons Why RCA is Important

- It gives you an idea of how to prevent the issue in the future.
- It exposes weaknesses in the current system that might also impact other departments or processes.
- It shows which control didn’t work effectively.
- It gives you the right insight into risk and helps you mitigate it.

Root Cause Analysis: Enhancing Audit Insight

Internal auditors know the frustration all too well: the same issues showing up year after year. When problems keep coming back, it usually means the real cause hasn’t been nailed down or worse, it hasn’t been acted on. That’s

where Root Cause Analysis (RCA) comes in. Instead of stopping at surface-level symptoms, RCA pushes auditors to dig deeper. It’s about asking the tougher questions: *Is the process designed well? Are the controls strong enough? Is there something in the organization’s culture that allows this gap to keep reappearing?*

The profession itself is also raising the bar. Standards like the Standards on Internal Audit as issued by the ICAI expect auditors to go beyond simply reporting “what went wrong.” Regulators from IAASB to SEBI and NFRA are also stressing the importance of root cause analysis, especially when repeated findings point to weaknesses that are more systemic than isolated.

However, RCA shouldn’t be seen as just another compliance checkbox. Done well, it’s a tool that adds real value for management. It helps leaders see risks before they spiral into major problems, and it shifts the perception of audit. Instead of being viewed as a

passive watchdog, audit becomes an active advisor, someone who not only highlights issues but also helps the organization fix what's driving them in the first place.

Defining the Problem Clearly

Before conducting any root cause analysis, an Internal Auditor must articulate the issue clearly. A vague problem statement always leads to vague conclusions. An effective problem definition answers :

- What happened?
- Where did it happen?
- When did it happen?
- Who was involved?

For example, instead of saying, "Invoice approvals were delayed," a more descriptive way of putting it would be: "In Q4 FY24, 30% of invoices above INR 5 lakh were sent for payment without senior-level approval, contrary to the company's delegation matrix."

A well-defined problem definition concentrates the attention of the RCA process, avoids assumptions, and sustains consistency within audit teams.

Strategic Value of RCA in Internal Audit

Root Cause Analysis offers a number of benefits well beyond fixing isolated issues:

- **Best Recommendations:** RCA allows for pertinent, actionable, and focused recommendations, rather than generic processes.
- **Thematic Reporting:** It facilitates reporting of similar findings under broader systemic causes, easing reporting for boards and management.
- **Risk Prioritization:** RCA can help in identifying hidden vulnerabilities which are not apparently risky but have a likelihood of cascading into major failures.
- **Strengthened Governance:** Identifying the causative roots of failures supports robust policies,

“RCA fosters continued improvement by challenging organizations to treat the disease and not just the symptoms.”

accountability, and decision-making processes.

Ultimately, RCA fosters continued improvement by challenging organizations to treat the disease and not just the symptoms.

Popular RCA Techniques for Internal Auditors

1. Five Whys

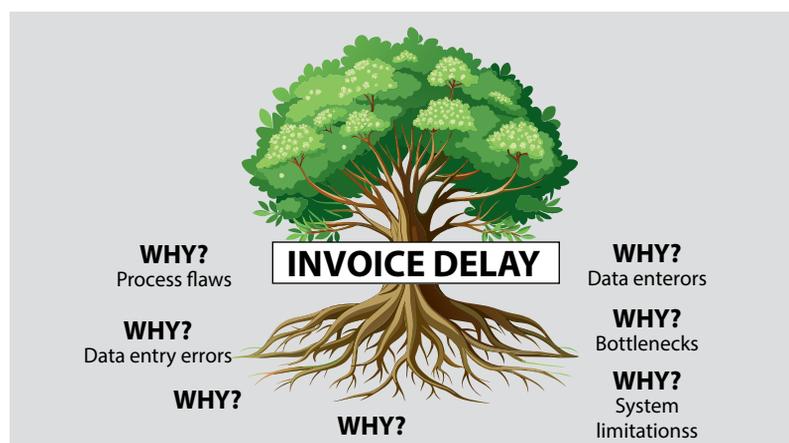
It is a simple but powerful method whereby "why" is repeatedly asked until the cause is determined. For example:

- Was the inventory in error?
Because the stock was not counted as scheduled.
- Why wasn't it counted?
Because nobody was assigned responsibility.
- Why was nobody assigned?
Because there is no mention of accountability in the SOP.

2. Multi-leg Five Whys

This method seeks to look at the different layers of controls - preventative, detective, and corrective - in parallel to

Figure 1: Multi-leg Five Whys



unveil multiple contributing factors. (Refer Figure 1)

3. Fishbone (Ishikawa) Diagram

A visual technique that organizes potential causes into high-level categories: People, Process, Policy, Technology, and Environment. It can help with structured brainstorming and systematic mapping of root causes. (Refer Figure 2)

4. Bow-tie and Fault Tree

Useful tools that help visualize how various events stem from a central issue (fault tree) or how preventive/detective controls manage a central risk (bow-tie). (Refer Figure 3)

5. FMEA (Failure Mode and Effects Analysis)

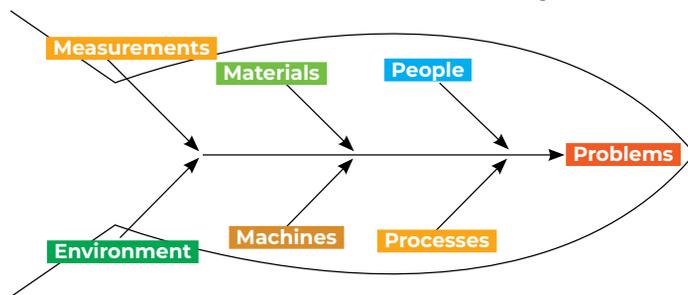
A popular method used in audit for both manufacturing as well as services, FMEA identifies the most potential failure points within the process, as well as their impact and potential corrective measures. (Refer Figure 4)

Using a single method in isolation rarely provides the complete picture; there is usually a clearer and more balanced understanding of the causes when combining techniques.

Common Root Cause Patterns in Audit Observations

Based on field experience and published audit studies, certain patterns emerge repeatedly:

Figure 2: Basic Fishbone (Ishikawa) Cause and Effect Diagram



- **Lack of Ownership:** Indeterminate responsibility and authority are frequent causes for deferred projects and unclear spheres of responsibility.
- **Inadequate Communication:** Lack of proper communication within departments causes inefficiency, errors, or violation of policies.
- **Failure in Training:** Employee who are uninformed of policies or tools end up committing violations in good faith.
- **Procedural Weakness:** Lacking or out-of-date SOPs produce inconsistencies in taskwork.
- **Legacy IT Systems:** Old systems are a primary reason for workarounds and overridden embedded controls.
- **Poor Resource Allocation:** Staffing shortage complaints can often be a reflection of poor resource allocation.
- **Fragile Risk Culture:** A risk culture tolerating deviations or discouraging reporting creates system-wide non-compliance.

These patterns validate the necessity of digging deeper than surface-level conclusions and comprehending additional deeper organizational motivations.

Role of SOPs and Communication in RCA

Two common root causes in any industry are incomplete or ineffective SOPs and communication breakdowns.

Standard Operating Procedures detail what must be done, by whom, when, and how. Without them - whether outdated, missing, or unenforced - staff often operate on assumptions, which frequently leads to control lapses.

Vertical and horizontal communication ensures alignment. RCA often reveals that critical updates are not adequately shared, leaving departments unaware of changes. Similarly, the absence of bottom-up reporting channels means front-line issues remain hidden until a breakdown occurs.

Effective RCA also involves checking whether SOPs and communication channels are functioning properly.

Real-World Audit Examples of RCA

1. Inventory Control

A retailer had frequent stock mismatches. RCA identified the root cause as inconsistent scheduling of physical counts. Further analysis showed that:

- The cycle count did not have a centralized owner.
- The SOPs lacked detailed steps.
- No system alerts existed for missed counts.

Recommendations: Assign inventory accountability, implement a formal SOP, and introduce system-enforced reminders.

2. Expense Claim

Staff repeatedly submitted expense reports with missing documentation. RCA uncovered:

- The travel policy was outdated and unclear.
- No training was conducted on documentation requirements.
- The absence of a digital expense system hindered enforcement.

Corrective actions: The firm updated its travel policy, deployed a digital platform, and launched awareness sessions.

3. Unauthorized System Access

An IT audit discovered that some ex-employees retained access to sensitive systems. RCA findings included:

- The offboarding SOP had not been updated after an HRMS change.
- No automated access deactivation was in place.
- IT and HR assumed that the other was responsible.

Corrective actions: Updating SOPs, integrating HRMS with access controls, and defining joint IT-HR responsibilities.

Figure 3: Bow-tie and Fault Tree

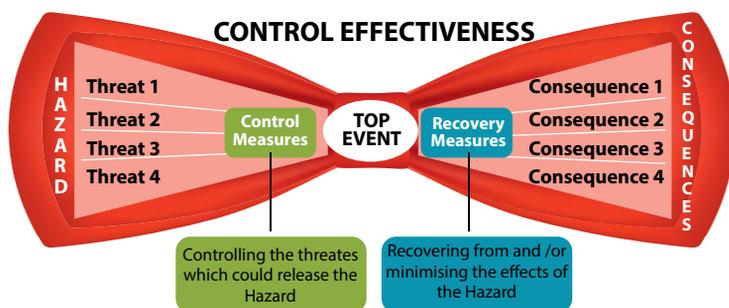
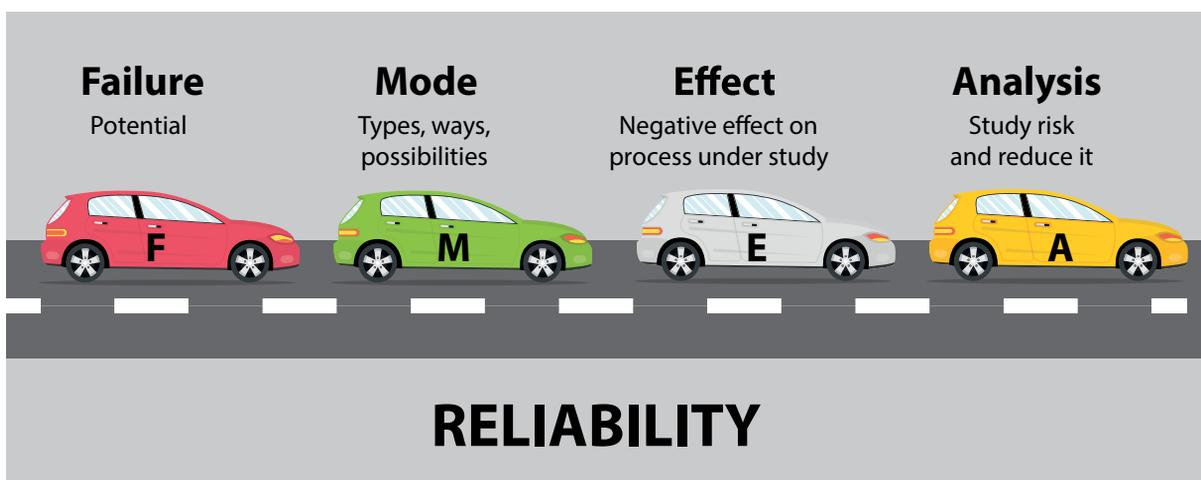


Figure 4: FMEA (Failure Mode and Effects Analysis)



Embedding RCA into the Audit Life Cycle

Steps necessary to institutionalize RCA in audit functions are as follows:

- **Integrate Early:** Begin cause-thinking in walkthroughs and risk assessments.
- **Use Structured Tools/Methods:** Standardize RCA templates and tools for greater consistency.
- **Verify Assumptions:** Engage process owners to confirm identified root causes.
- **Think Beyond the Obvious:** Never go for the first answer. Seek systemic and human control vulnerabilities.
- **Specifically Indicate Root Causes:** Include RCA in audit findings, supported with data or interview results.
- **Capture Trends During Audit:** Keep a centralized root-cause database for determining system-level risks.
- **Widely Communicate with Auditee:** Communicate RCA high-level themes to compliance, risk, and business areas to foster learning throughout the organization.
- **Improve Procedures and Training:** Convert RCA findings into procedure updates and refresher trainings.

Risk Identification with Risk Assessment

RCA is most effective when directly tied to risk assessment to identify the risk. A structured approach can be followed:

- **Risk Identification** – Use walkthroughs, control testing, and interviews to map potential risks (e.g., delayed approvals → risk of unauthorized payments).
- **Observation-to-Risk Mapping** – Align every audit finding with its related risk.
- **Root Cause Analysis** – Apply RCA tools (Five Whys, Fishbone, Bow-tie) to trace *why* the risk materialized.
- **Risk Reassessment** – Update the risk register, as the true risk may differ from the initial assumption (e.g., weak delegation matrix, not just slow approvals).
- **Control Recommendations** – Design improvements that address the real cause, not just the visible symptom.

Conclusion

Root Cause Analysis is not a technique; it's a mindset of the auditor. As Internal Auditors continue to use RCA again and again, they elevate the contribution of their work from fault-finding to problem-solving. Rather

than chasing symptoms, they help the organization overcome real roadblocks to performance, compliance, and control.

From repeat problems such as recurring expense issues, missed approvals, or unauthorized system access, the real value of audit lies in understanding “*The why*” and helping to put it right. As compliance expectations broaden & stakeholders demand assurance to drive meaningful change in processes, RCA has become a key addition to the internal auditor's toolkit. Applied with clarity and discipline, RCA transforms audit from a box-checking exercise into a catalyst for sustainable improvement.

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Driving Accountability: Transforming Internal Audit Through Automation and Technology

Internal audit has always been integral to organizational management oversight and accountability, but in 2025, the landscape is undergoing transformation at an unprecedented pace. With the adoption of advanced technologies, from Data Analytics and Robotics Process Automation (RPA) to Artificial Intelligence (AI), auditors are shifting from traditional, reactive roles to proactive agents of change and confidence. This digital revolution is not only improving audit efficiency and coverage, but also fundamentally changing how boards and management rely on audit results to make strategic decisions and foster a culture of transparency across the enterprise.

Statistical surveys from leading audit consultancies reveal that nearly 70% of global organizations have invested in some form of audit automation, driving measurable improvements in real-time risk review, faster reporting, and more effective compliance checks. In the Indian context, Chartered Accountants are increasingly expected to lead these initiatives, blending their expertise in management oversight with technology-driven insights for stronger confidence outcomes.

The urgency is clear: organizations that hesitate to modernize their audit function risk falling behind in both risk management and regulatory compliance. Amidst this transformation, the role of the auditor is evolving, moving beyond checking the past to shaping the future of accountability, resilience, and trust from others.

The Shift to Technology-Enabled Audit

The evolution of audit from manual, paper-based review to digital, data-driven assessment represents one of the most profound changes in the accounting profession. Today, Chartered Accountants and Auditors

stand at the forefront of embracing emerging tools, such as advanced analytics platforms, AI-powered risk identifiers, and Robotic Process Automation (RPA), to streamline every stage of the audit process.

Automation extends far beyond replacing repetitive tasks. It now empowers auditors to run population-based testing instead of relying on sample data, driving more accurate findings and comprehensive coverage. Automation and data analytics allow continuous auditing, predictive risk assessment, and actionable insights, by highlighting fraud patterns, automating the collection of audit evidence, and ensuring secure data storage. For example, audit teams worldwide leverage platforms capable of extracting and analyzing millions of transactions in seconds, identifying anomalies and outliers that traditional methods may miss. An internal auditor may be able to provide real-time insights and assurance to the board and regulators.

In practice, organizations like Bupa make every engagement “digital by default,” ensuring that planning is informed by predictive analytics, execution is supported by auto-

generated records, and reporting is instantaneous and data-rich. Similarly, Windstream integrated analytics and automation into workflows, enabling auditors to validate controls in real time and customize dashboards for each business segment, improving both speed and accuracy of risk reviews.

This technology-enabled shift is not just a matter of operational efficiency, it is about fundamentally reimagining the scope, scale, and strategic relevance of audit in the modern enterprise. Technology makes it possible to complete internal audit before time, reduce human interference, and provide strategic suggestions supported by in-depth analysis.

Enhancing Accountability through Automation

Accountability lies at the heart of effective auditing, ensuring that organizations uphold controls, comply with regulations, and respond to emerging risks proactively. Automation has revolutionized this process by standardizing, monitoring, and reporting control activities with unprecedented speed and transparency, thereby enhancing the credibility of audit reports. In

“Internal auditors, equipped with digital tools, can now play a far more strategic role in safeguarding assets, promoting transparency, and enabling proactive management action, building resilience and trust across the enterprise.”

today’s landscape, technology enables auditors to conduct wide scale testing, generate instantaneous compliance reports, and track issue resolution efforts in real time, vastly improving management oversight and enhancing trust. Technology enables the internal auditors to focus more attention on high-risk areas.

Leading organizations, such as Bupa, have implemented “Decisions and Judgements” logs on digital audit platforms, allowing every audit step, key validation, and management action to be mapped, timestamped, and reviewed in a transparent workflow. Automated due dates and notifications ensure that accountability moves beyond annual or quarterly cycles to become a daily discipline, where risk owners receive timely reminders and status updates directly from audit systems.

In India, a mid-sized NBFC automated its audits. This allowed real-time tracking of branch operations, auto-generation of compliance checklists, and instant documentation of fixing problems, lending visibility to audit outcomes that previously took weeks to materialize. This led to reduction of manual effort by over 70%, positioning the audit function as a business enabler rather than merely a compliance checkpoint. Similarly, the use of Robotic Process Automation (RPA) at leading manufacturing companies has enabled an 85% reduction in manual effort and near-

complete elimination of errors in invoice and vendor audits, giving management greater confidence in risk management.

Another practical advancement is the adoption of Self-Assessment modules, where process owners easily submit evidence, complete risk reviews, and update control logs through digital channels. Automation facilitates centralized dashboards that display key control failures, unresolved issues, and audit progress in real time, allowing both auditors and business leaders to drive accountability at every organizational level.

Ultimately, automation transforms accountability from a static year-end review into a continuous, data-driven practice. Internal auditors, equipped with digital tools, can now play a far more strategic role in safeguarding assets, promoting transparency, and enabling proactive management action, building resilience and trust across the enterprise.

Technology Reshaping Governance and Risk Management

Technology is fundamentally reshaping how internal audit supports management oversight and risk management, moving from periodic retrospective reviews to ongoing, real-time oversight. Advanced tools like AI-driven analytics and predictive modelling empower internal auditors to detect emerging risks early, analyze complex data patterns for fraud indicators, and evaluate compliance dynamically across diverse regulatory frameworks.

By embedding analytics throughout the audit process, from risk review to testing and reporting, organizations create a seamless and proactive management oversight ecosystem. For example, real-time dashboards provide Boards and Audit Committees with continuous updates on how well controls work, risk trends, and problem-fixing

statuses, facilitating data-driven decisions and quicker responses to failures in controls. This integration leads to more resilient organizations where internal audit results translate swiftly into effective management action.

Indian companies are adopting these models as well, leveraging automation platforms to monitor regulatory compliance, cyber risks, and financial controls continuously, thereby enhancing management oversight, transparency, and stakeholder confidence. Additionally, generative AI tools now assist internal auditors by drafting comprehensive internal audit reports that summarize evidence and suggest areas for further inquiry, reducing manual workloads and improving report quality.

Such technological sophistication not only improves efficiency but also transforms the internal audit’s role to become a vital partner in company-wide risk planning. The closer collaboration between internal audit, risk, and compliance functions driven by technology fosters a holistic view of organizational health, strengthens the attitude toward controls, and supports sustainable growth in an increasingly complex business environment.

The Role of the Internal Auditor

The internal auditor’s role is evolving rapidly from traditional compliance checker to key advisor, empowered by technology to deliver deeper confidence and future-focused ideas. Modern internal auditors are expected to not only validate controls but also to interpret large volumes of complex data, identify emerging risks, and provide actionable recommendations that drive organizational performance.

Technology frees internal auditors from manual, repetitive tasks through automation, allowing them to focus on higher-value activities such as fine-tuning risk models, engaging

with senior management, and collaborating across functions. For instance, internal audit teams now use AI-driven tools to analyze predictive signs of risk, make risk-based internal audit plans, and simulate scenarios that help leadership anticipate potential challenges.

The increasing technical nature of internal audit requires internal auditors to develop cross-functional skills, including data analytics, IT acumen, and business understanding. Collaboration between IT and internal audit professionals is essential to design and maintain automatic checks and testing frameworks that ensure continuous confidence.

At the same time, human judgment remains indispensable. Despite the power of AI and automation, internal auditors must critically evaluate outputs, question assumptions, and apply professional skepticism to avoid overreliance on technology. Balancing technology with expert insight is the key to maximize the value of internal audit in today's complex environments.

Chartered Accountants and internal audit professionals who embrace this evolving role will help their organizations navigate uncertainty, enhance management oversight frameworks, and deliver sustained value through insight-driven internal audit practices.

Challenges and Future Directions

While the benefits of automation and technology in internal audit are significant, their successful adoption is not without challenges. Organizations must address skills gaps, data quality concerns, change management hurdles, and ethical considerations related to use of AI, to fully realize these advancements' potential.

A critical obstacle is workforce readiness. Internal auditors need continuous upskilling in data analytics, AI principles, and emerging risk domains. Training programs that

combine technical knowledge with management oversight expertise are essential to build a resilient internal audit team capable of managing sophisticated tools and interpreting complex data outputs. Certain firms have invested heavily in education, promoting innovation through collaborative learning and agile approaches to digital transformation.

Data quality and system integration also present challenges. Safeguarding sensitive information while using automated processes is also necessary. Automated internal audit systems rely on comprehensive, accurate, and timely data flows; poor data management oversight undermines the reliability of insights generated by advanced analytics and AI models. Effective change management, including stakeholder alignment, clear communication, and gradual implementation, ensures users adopt new technologies and workflows without resistance.

Ethical considerations surrounding AI decision-making require internal auditors to maintain professional judgment and skepticism. Transparency in AI algorithms, accountability for automatic steps, and mitigation of biases are areas demanding attention as audit technologies grow more complex.

Looking ahead, future internal audit functions will increasingly adopt intelligent automation, combining AI, machine learning, and cognitive technologies, to provide near real-time confidence, predictive risk analytics, and integrated enterprise management oversight. Hybrid internal audit models, balancing human expertise and machine intelligence will dominate, with Indian internal audit teams gaining prominence by tailoring automation solutions to local regulatory demands and business models.

By embracing these challenges and future directions, Chartered Accountants can lead the profession into a new era of internal audit

excellence characterized by agility, transparency, and strategic impact.

Conclusion

The transformation of internal audit through automation and technology represents a pivotal opportunity for organizations and internal auditors alike. By embracing advanced analytics, robotic process automation, and AI-driven tools, internal audit functions can significantly enhance accountability, streamline management oversight, and provide deeper, real-time confidence, moving beyond traditional retrospective approaches. This makes internal audit more relevant, reliable, and future-ready.

Chartered Accountants, with their strong foundation in management oversight and risk management, are uniquely positioned to lead this evolution. By combining their expertise with technology, they can elevate internal audit as a strategic partner, capable of anticipating risks, making informed key decisions, and building resilient organizations in an increasingly complex business environment.

The journey is not without challenges. Skill enhancement, data integrity, ethical use of AI, and effective change management are critical factors that need to be addressed. However, those who invest thoughtfully in these areas will harness the full potential of technology to drive transparency, foster trust, and deliver sustained value to stakeholders.

In 2025 and beyond, the future of internal audit lies at the intersection of human judgment and intelligent automation, ushering a new era of management oversight excellence and accountability that strengthens organizations and benefits society.

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The Shifting Landscape of Internal Audit

Let's be honest with each other. How many of us in Internal Audit had that 2 AM moment?

The city is quiet, the presentation for the Audit Committee is done, but you're wide awake. You're not worried about the findings you have; you're haunted by the ones you might have missed. In a business that moves at the speed of light, our traditional audit methods such as sampling, reviewing, looking backward feel like trying to capture a bullet train with a Polaroid camera. We've become expert corporate historians in a world that desperately needs us to be future tellers.

For decades, the role of Internal Audit has been rooted in a predictable cycle: plan, test, report, repeat. Auditors acted as historical record-keepers, arriving after the fact to examine a small sample of transactions and verify that established controls were followed. This traditional approach, while foundational, is fundamentally reactive. It answers the question, "What went wrong?" rather than the more critical question, "What could go wrong?" In today's hyper-connected and volatile business environment, this backward-looking posture is no longer tenable.

Businesses now operate at a digital speed. A single global supply chain can process millions of transactions a day,

From Controls to Confidence: How Digital Twins and AI Agents Are Rewiring Internal Audit

while financial markets execute trades in microseconds. The sheer volume and velocity of data have rendered manual, sample-based auditing insufficient. A 1% sample of ten million transactions still leaves 9,900,000 unexamined, creating a significant assurance gap. Stakeholders, from the board of directors to regulators, are no longer satisfied with a periodic snapshot of compliance. They demand a continuous, dynamic view of risk and control effectiveness. They seek confidence.

For years, Internal Auditors have revolved around one word: Controls. We test them, document them, and write lengthy reports on them. We are the guardians of the rulebook. However, our boards, our CEOs, and our stakeholders are asking for something more. They aren't just asking for compliance; they're asking for confidence.

This is the transformative crossroads at which internal audit finds itself. The profession is shifting its mission from a narrow focus on *controls* i.e., the static gates and checks in a process, to the broader delivery of *confidence*. This confidence is the deep-seated trust that the organization's processes

are resilient, that risks are being identified and mitigated in real-time, and that the internal audit function can provide foresight, not just hindsight. Fuelling this profound evolution are two powerful technological catalysts: digital twins and AI agents. Together, they are rewiring the very DNA of internal audit, turning it from a periodic inspection into a continuous source of strategic assurance.

Digital Twins: The Ultimate Business Simulator for Proactive Assurance

Think of a digital twin as a live, dynamic X-ray of your entire organization. It's not a static process map; it's a living, breathing virtual model of your business, fed by real-time data from your ERP, your supply chain, your factories. For my team, building our first digital twin of the purchase-to-pay cycle was like turning on the lights in a dark room.

Suddenly, we weren't just sampling 100 invoices to test a control. We were watching *every single transaction* flow through the virtual process. More importantly, we could use it as a business flight simulator. Our conversations shifted dramatically.



Before: “We tested the three-way match control and found two exceptions in our sample of 150.”

After: “We simulated a 20% spike in raw material prices from our key supplier. The digital twin shows that our current controls would fail to prevent duplicate payments under that stress, exposing us to a potential ₹5 crore liability. Here’s our recommendation to strengthen the process *before* that happens.”

Do you feel the difference? That’s the shift from reporting on controls to inspiring genuine confidence. We were no longer just the critics; we were the strategic co-pilots, helping the business see around corners.

This technology allows auditors to move beyond simply asking if a control worked in the past. Instead, they can simulate countless “what-if” scenarios to determine if controls *would* hold up under pressure. It’s the difference between inspecting the wreckage after a car crash and using a crash test dummy in a simulator to engineer a safer car in the first place.

How a Digital Twin Works in an Audit Context

The creation of an audit-focused digital twin involves three key steps:

1. **Data Integration:** The twin continuously ingests data from enterprise systems like ERPs (SAP, Oracle), CRMs (Salesforce), and application databases. This creates a live, data-rich representation of reality.
2. **Process and Control Modelling:** Key business processes (e.g., Procure-to-Pay, Order-to-Cash) and their associated controls (e.g., three-way matching, credit limit checks, approval hierarchies) are mapped and modelled within the twin.
3. **Real-Time Monitoring and Simulation:** As real transactions flow through the organization, they are mirrored in the twin. The twin instantly checks each transaction

“The profession is shifting its mission from a narrow focus on controls i.e., the static gates and checks in a process, to the broader delivery of confidence.”

against the modelled controls, flagging deviations as they happen and creating a continuous control monitoring framework. Crucially, auditors can also inject hypothetical scenarios into the twin to stress-test the system.

Practical Use Cases in Detail

■ Example 1: Procure-to-Pay (P2P) Process Resilience

- i. **Scenario:** An internal audit team wants to test for fraudulent vendor activities and payment bypasses. Instead of sampling 100 invoices, they use a digital twin of their P2P cycle.
- ii. **Twin’s Action:** They run several simulations. First, they simulate a series of invoices from a fake vendor, designed to bypass the standard vendor onboarding controls. The twin shows exactly where the control i.e., a required check against a master vendor file, would fail or succeed. Next, they simulate an employee attempting to split a large invoice of INR 15,000 into three separate invoices of INR 4,999 to stay below the INR 5,000 manager approval threshold. The digital twin, configured to recognize such patterns, immediately flags the three linked invoices as a single, suspicious event.
- iii. **Audit Insight:** The audit team provides management with a precise report showing not just that a control *exists*, but how it would

perform under a specific attack. They can confidently recommend strengthening the approval threshold logic based on simulated evidence.

■ Example 2: Cybersecurity Preparedness

- i. **Scenario:** A Chief Audit Executive (CAE) is concerned about the organization’s response to a ransomware attack.
- ii. **Twin’s Action:** A digital twin of the company’s IT network and access control systems is created. The IT audit team simulates a phishing attack where an employee’s credentials are compromised. The twin visually maps out how the attack would propagate from that initial entry point. It tests whether automated controls like locking an account after multiple failed login attempts from a new location or isolating a compromised server from the network would trigger in time. The simulation reveals that a critical database server has outdated access permissions, allowing the simulated malware to spread unimpeded.
- iii. **Audit Insight:** The audit report doesn’t just say, “IT controls need improvement.” It says, “A simulated breach originating from a compromised finance department credential would lead to the encryption of our customer database in 17 minutes due to a specific access control list misconfiguration.” This level of foresight is actionable and provides true confidence when fixed.



■ Example 3: Supply Chain and Operational Risk

- i. **Scenario:** A manufacturing company relies on a single supplier for a critical component. The audit committee wants assurance that the company can withstand a sudden disruption.
- ii. **Twin's Action:** Auditors use a digital twin of the supply chain. They simulate the primary supplier's factory going offline for two weeks due to a natural disaster. The twin models the real-time ripple effect: it shows how quickly current inventory would be depleted, which production lines would halt first, which customer orders would be delayed, and the projected financial impact in terms of lost revenue and penalty clauses. It also tests the activation of the backup supplier control, revealing that the onboarding process for the secondary supplier would take five days longer than anticipated.
- iii. **Audit Insight:** The audit provides a data-driven business continuity assessment. This enables management to proactively renegotiate terms with the backup supplier and adjust safety stock levels, building organizational resilience and providing the board with confidence that the risk is being actively managed.

AI Agents: Intelligent Co-Pilots for the Modern Auditor

If the digital twin is our simulator, AI agents are our tireless crew. I like to think of them as the smartest, most diligent junior auditors you could ever hire. They work 24/7, analyse millions of data points in seconds, and never get bored of the details.

Our first experiment was simple. We were tired of the tedious work of finding potential ghost employees, a classic audit pain point. We trained an AI agent to do one thing: continuously compare our live HR master file with our live payroll and attendance data.

“Far more advanced than simple Robotic Process Automation (RPA) bots that follow rigid, pre-programmed rules, AI agents can handle variability, learn from data, and make context-based decisions.”

Within 48 hours, it flagged an anomaly. It wasn't fraud, but a process gap that was paying a recently exited employee. Our traditional quarterly check would have caught it months later, if at all.

If the digital twin is the virtual environment, AI agents are the intelligent, autonomous entities that perform the audit work within it. Far more advanced than simple Robotic Process Automation (RPA) bots that follow rigid, pre-programmed rules, AI agents can handle variability, learn from data, and make context-based decisions. Think of them as tireless digital co-workers on the audit team, capable of executing complex tasks 24/7 without fatigue or human error.

Turbocharging Audit Tasks with AI

■ Example 1: The “Ghost Employee” Audit, Reimagined

- i. **Traditional Method:** An auditor manually pulls employee lists from HR and payroll systems into Excel, spends hours using VLOOKUP to find discrepancies, and then investigates a few potential hits.
- ii. **AI Agent Method:** A multi-agent system automates the entire process with far greater intelligence. Agent 1 connects to the HR system (e.g., Workday) and extracts the list of active and recently terminated employees. Agent 2 connects to the payroll system (e.g., SAP) and pulls payment records. Agent 3, an analytics agent, performs the reconciliation. It uses fuzzy logic to match names (e.g., “Michael Smith” vs. “Mike J. Smith”) and identifies

any employee paid after their official termination date. Agent 4 compiles the exceptions, pulls the relevant electronic paperwork (termination form, final payslip), and drafts a preliminary audit finding for the human auditor to review and validate. This continuous process can run daily, catching issues in near real-time.

■ Example 2: Intelligent Travel & Expense (T&E) Anomaly Detection

- i. **Traditional Method:** Auditors sample a small percentage of expense reports, often months after they have been paid.
- ii. **AI Agent Method:** An AI agent continuously monitors 100% of T&E submissions as they occur. It goes beyond simple policy checks:
 - **Pattern Recognition:** It flags an employee who submits multiple expense reports for amounts just under the threshold requiring director-level approval (e.g., numerous reports for INR 995 when the limit is INR 1,000).
 - **Natural Language Processing (NLP):** It analyses the text in receipt images to identify non-compliant items, such as “premium liquor” on a dinner receipt that is coded only as “meal.”
 - **Network Analysis:** It identifies groups of employees who consistently approve each other's expenses or dine at the same high-end restaurants on



weekends, flagging potential collusion or misuse of funds.

■ **Example 3: Automated Contract Compliance Verification**

- i. **Traditional Method:** Checking if invoices comply with complex master service agreements is a daunting manual task, rarely performed comprehensively.
- ii. **AI Agent Method:** An AI agent uses NLP to “read” and understand thousands of supplier contracts. It automatically extracts key terms like pricing, volume discounts, payment deadlines, and late penalty clauses. It then continuously compares every incoming invoice against these contractual terms in the ERP system. For instance, it might flag an invoice where a 10% volume discount was not applied despite the purchase order exceeding the required threshold, or where a vendor incorrectly charged for shipping when the contract specified free delivery. This can recover significant financial leakage.

The Human Touch Remains Vital: The Auditor 2.0

The rise of these technologies does not signal the end of the internal auditor. Instead, it marks the beginning of a new, more strategic role: the Auditor 2.0. By automating the repetitive, data-heavy tasks, digital twins and AI agents free up human auditors to focus on what they do best:

- **Critical Thinking and Professional Scepticism:** AI can flag an anomaly, but a human auditor is needed to investigate the “why,” interview stakeholders, and assess intent.
- **Strategic Risk Advisory:** With a real-time view of risk, auditors can engage in more forward-looking conversations with the business, advising on control design for new products or systems before they are even launched.
- **AI and Model Governance:** A new and critical role for audit is to provide assurance over the AI

agents and digital twins themselves. Are the algorithms biased? Is the data feeding the twin accurate and complete? Auditors must audit the technology to ensure its reliability.

This evolution requires a significant upskilling of the profession. Auditors now need to be data-literate, understand the fundamentals of AI, and be comfortable collaborating with their digital counterparts.

Navigating the Challenges on the Road Ahead

The path to this future is not without its obstacles. Organizations must address several key challenges:

- **Data Infrastructure and Quality:** The principle of “Garbage In, Garbage Out” is paramount. A digital twin built on siloed, inaccurate, or incomplete data will produce flawed insights. Considering the integration challenges and scalability limits, significant upfront effort is required to establish robust data governance and a clean, integrated data foundation.
- **Talent and Skills Gap:** The demand for auditors with skills in data science, AI governance, and process modelling currently outstrips supply. Organizations must invest heavily in upskilling their existing teams and rethinking their hiring profiles.
- **Change Management and Trust:** Introducing continuous monitoring can be perceived as “Big Brother” by employees. It is vital to frame these tools as enablers of improvement and efficiency, not instruments of punishment. Running successful pilot programs and transparently communicating quick wins is key to building trust and buy-in.
- **Cost and ROI:** Implementing a full-scale digital twin is a significant investment. Audit leaders must build a compelling business case that highlights not just cost savings from automation, but also the value

“By creating living, virtual models of our organizations and deploying intelligent agents to monitor and protect them, we can achieve a level of assurance that was previously unimaginable.”

of risk reduction and enhanced strategic insight.

Conclusion: Embracing the Future with Confidence

The journey from controls to confidence is the defining transformation for Internal Audit in the 21st century. Digital twins and AI agents are no longer futuristic concepts; they are practical tools that are fundamentally reshaping the profession. By creating living, virtual models of our organizations and deploying intelligent agents to monitor and protect them, we can achieve a level of assurance that was previously unimaginable. Although, at the current stage of technology and the tools available in the industry, digital agents still require human supervision, and validation, effective deployment and monitoring significantly enhance their reliability.

In doing so, we not only strengthen our organizations but also secure the future of our profession, building unwavering confidence for stakeholders in an uncertain world.

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Internal Audit in the City Gas Distribution Sector

Natural Gas adoption being a low-emission fuel is one of the critical factors as India moves towards its target of Net-Zero emission. Presently, in India, the share of natural gas in the energy basket is around 6% as against 24.4% globally. Some of the reasons for a low share of natural gas in India are limited pipeline connectivity, coal dominance and pricing hurdles, among others.

The Government has set a target to raise the share of natural gas in the energy mix to 15% by 2030. To achieve this target, the Government has taken various steps, including the expansion of the National Gas Grid Pipeline and the City Gas Distribution (CGD) network, the setting up of Liquefied Natural Gas (LNG) Terminals, and the allocation of domestic gas to Compressed Natural Gas (Transport)/Piped Natural Gas (Domestic) CNG(T)/PNG(D) as a priority sector, etc. The City Gas Distribution (CGD) sector is a cornerstone of India's strategy for promoting the use of natural gas as it ensures the delivery of gas to the end customer/user.

The Petroleum and Natural Gas Regulatory Board (PNGRB) has authorised various CGD companies under Sections 16 and 42 of the PNGRB Act 2006 for building the required infrastructure and last-mile connectivity. Post the 12th CGD bidding round, the majority of the population currently has access to CGD networks. As of March 2025, India has over 1.5 Cr. PNG connections and over 8000 CNG Stations, which reflects India's push toward cleaner energy and broader access.

A typical structure of a CGD network is depicted in Figure 1.

Challenges in a CGD Business

Capital Intensive: Building a CGD network is a capital-intensive process with a long payback period. It also requires numerous clearances from

multiple stakeholders before laying steel or MDPE pipeline networks.

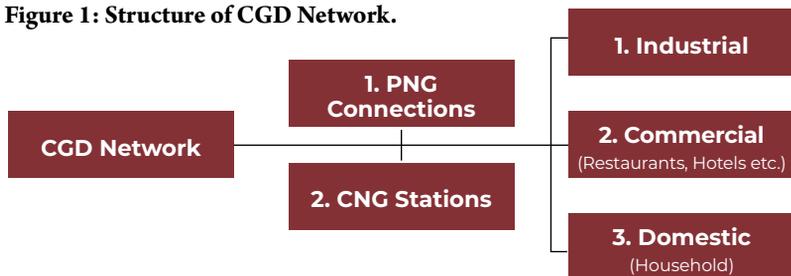
Gas Sourcing: India imports $\approx 49.86\%$ of its total natural gas consumption. Factors like the COVID pandemic, political conflicts, global headwinds, and buoyant gas prices may erode profit margins.

Type of Customers: The presence of industrial, commercial, household, and CNG vehicles is not equally distributed. An inadequacy of industrial and commercial customers poses a risk of lower profit margins.

Market Challenges: Many potential users are unaware of the benefits of PNG/CNG along with uncertain demands.

Availability of Alternate Fuel: Industrial connections are price-sensitive; historically, they have been converted from traditional sources of

Figure 1: Structure of CGD Network.



energy, such as furnace oil, power, coal, diesel, etc. It is quite easy to go back to the previous source in case of price escalation under global uncertainties.

City Gas Distribution Value Chain

Table 1 shows a typical representation of various points of the CGD business value chain bifurcated among the types of business.

Role of Internal Audit in Strengthening the CGD Value Chain

The CGD value chain spans gas sourcing and transmission, development and maintenance of infrastructure, last-mile connectivity, meter reading, and billing and collection. Internal Audit (IA) plays a pivotal role in identifying inefficiencies and providing assurance across each segment. A few critical dimensions highlight this:

- **Gas Sourcing:** Risks include an inaccurate gas nomination process and failure to secure long-term contracts for the supply of gas. IA

can help in placing proper controls over the gas consumption forecast and securing supply contracts. This reduces the scope of procuring gas at higher spot prices.

- **Development of Infrastructure:** Two primary risks, among others, are that companies may fail to achieve the minimum number of connections agreed with PNGRB, and that they may take investment in infrastructure without ensuring gas supply. IA helps companies establish a project approval and monitoring cell that ensures the timely completion of projects with all due clearances.
- **Operation and Maintenance:** The average gas loss in CGD companies was ≈2.33% in FY24. PNGRB targets reducing it to below 2%. IA helps companies strengthen their operation and maintenance processes, with a focus on Supervisory Control and Data Acquisition (SCADA) of gas movement and gas reconciliation practices to minimize the quantity of lost and unaccounted gas.

“ Building a CGD network is a capital-intensive process with a long payback period. It also requires numerous clearances from multiple stakeholders before laying steel or MDPE pipeline networks. ”

- **Last-mile Connectivity:** There is an open pool of potential not-connected customers, which poses a risk of revenue loss due to the pending connectivity of potential customers. IA can review the process of lead management and help reduce the turnaround time for customer conversion and gas commissioning.
- **Meter Reading:** Depending on the type of customer, the meter reading frequency is supposed to be different, which affects the billing of gas consumption charges. With the help of data analytics, IA can establish a second check over the meter reading process. It can highlight lapses and inaccuracies.
- **Billing and Collection:** Risks include missed billing of all active customers or inaccurate billing. IA can help companies ensure complete and accurate billing of customers. IA can also oversee the control of security deposits and the recovery process.
- **Compliance and Reporting:** PNGRB is the designated authority for regulating CGD companies. It poses the risk of failing to comply with applicable regulations and reporting accurate information. IA helps management set an end-to-end compliance monitoring process.

Thus, in line with the value chain, IA can be a critical wheel in the journey of a well-governed CGD company.



Table 1: Representation of various points of the CGD business value chain

	Gas Sourcing	Infrastructure & Maintenance	Conversion & Commissioning	Gas Supplying & Meter Reading	Billing & Collection
Industrial	<ul style="list-style-type: none"> Identifying source of gas (Import vs Domestic) Entering into long-term gas procurement contracts 	<ul style="list-style-type: none"> Marking territory and exploring steel and pipeline network plans Obtaining permission of various stakeholders such as forest, road, railways, irrigation etc. for laying infrastructure Laying infrastructure through extended pipelines, meter skids, pressure valves etc. 	<ul style="list-style-type: none"> Acquiring new customers or replacing traditional fuels such as power, furnace oil, coal, etc. Ensuring minimum guaranteed quantity off-take as per gas procurement contracts Collecting initial connection charges and security deposits for gas supply 	<ul style="list-style-type: none"> Supply of gas at contracted pressure and quality Meter reading at the highest frequency (preferably fortnightly) Billing and invoicing customers 	<ul style="list-style-type: none"> Meter readings are updated in the billing module and customers are billed Different credit periods based on the type of customers Collection of bills Imposing interest and overdue payment charges for delayed collection
(Non) Commercial	<ul style="list-style-type: none"> Balancing market spot price procurement versus LTC procurement 	<ul style="list-style-type: none"> Customers' onboarding Assessing gas requirement through load sheets Placing pipeline and meter 	<ul style="list-style-type: none"> Collecting DCQ charges and deposit Commissioning customers 	<ul style="list-style-type: none"> Meter reading and invoicing (as per standard norms, monthly) 	
CNG Stations	<ul style="list-style-type: none"> Gas procurement versus sales reconciliation 	<ul style="list-style-type: none"> Demand assessment and feasibility study for CNG station Partnering with Oil Marketing Companies (OMCs) for CNG station 	<ul style="list-style-type: none"> Installing equipment such as compressors, dispensers, cascades, etc. based on the type such as online, daughter, or hybrid station Collecting security deposit 	<ul style="list-style-type: none"> Conversion of PNG to CNG Daily monitoring and reading of consumption Invoicing at agreed frequency with OMCs 	
Domestic		<ul style="list-style-type: none"> Customers approach the CGDs for new connection Laying pipeline at customer premises Complaint redressal cell 	<ul style="list-style-type: none"> Collecting security deposit Commissioning customers 	<ul style="list-style-type: none"> Meter reading and invoicing customers After-sale services (temporary or permanent disconnection, etc.) 	

Measuring What Matters: Internal Audit's Role in Driving KPAs and KPIs

To measure the efficiency of a city gas network, organizations need to define Key Performance Areas (KPAs) and track Key Performance Indicators (KPIs). Internal Audit ensures that

these metrics are not just defined but also monitored with discipline, and organizations not only comply with standards but also strive for operational excellence.

Some critical areas include:

- **Gas Loss:** Measuring loss and unaccounted gas in the city gas

network. IA ensures comprehensive reconciliation of gas inflow and outflow through accurate meter readings and near-accurate provisions for unbilled customers.

- **Compression Efficiency:** Achieving gas compression at the optimum cost and ensuring gas availability at all times. IA ensures



that operations achieve the Original Equipment Manufacturer's (OEM) recommended level of compression loss and power consumption cost.

- **Capital Work in Progress:** Monitoring whether Steel, MDPE, and CNG projects are commissioned and monetized in time. IA helps the project committee with project status monitoring, including obtaining due permissions and NOCs from stakeholders. IA ensures Geographic Information System (GIS) mapping of the complete CGD network.
- **Minimum Agreed Plan of Geography:** Monitoring compliance with the minimum agreed plan of the geographical area as committed while bidding for authorization from PNGRB. IA strengthens the process of monitoring CGD authorization commitment in terms of last-mile connectivity. IA ensures the company commissions the targeted connections well before time.
- **Health, Safety & Environment (HSE):** Monitoring safety incident frequency, regulatory compliance, and waste management practices. IA evaluates whether safety protocols, training, and environmental standards are being complied with in practice, not just on paper.
- **Financial Discipline:** Tracking budget adherence, Return on Investment (ROI) on capex,

receivable aging, and compliance with taxation frameworks. IA strengthens governance by reviewing project cost controls, tax compliance, and financial reporting accuracy.

Emerging Focus Areas for Internal Audit

As the city gas network matures and is set to achieve its target in the national energy basket, Internal Audit must look beyond the traditional way of conducting audit and align its focus with the needs of the hour. Emerging focus areas include:

- **Technology and Transformation:** Assessing the adoption of automation, IoT-enabled machinery, robotics, and AI.
- **Cybersecurity & Data Integrity:** Safeguarding personal data against threats such as ransomware and espionage by testing resilience, validating access controls, and ensuring compliance with data protection norms.
- **Resilient Supply of Natural Gas:** Strengthening controls to secure a continuous supply of natural gas at a sustainable price, considering available reserves, import dependency, logistics, geopolitical risks, and other contingencies.
- **Evolving Infrastructure:** Continuously evaluating new technologies in gas sourcing and transmission infrastructure to reduce gas transmission and compression losses.
- **ESG & Sustainability:** Verifying carbon neutrality targets, the use of alternative energy sources alongside natural gas such as biogas, and social responsibility programs.

Conclusion

India's city gas distribution network has been growing at a double-digit rate. This growth comes with various internal and external challenges. Internal Audit, with its unique position, provides independent assurance, actionable insights, and forward-looking advisory

“The CGD value chain spans gas sourcing and transmission, development and maintenance of infrastructure, last-mile connectivity, meter reading, and billing and collection. Internal Audit (IA) plays a pivotal role in identifying inefficiencies and providing assurance across each segment.”



to help organizations navigate risks and build resilient operations.

IA not only helps in identifying gaps in the system but also aligns operations with best industry practices, innovative technologies, and regulatory compliance. For boards, regulators, and stakeholders, Internal Audit has become the conscience-keeper and value-enhancer of the enterprise.

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Why Audit Reports Matter More Than Ever

Every profession has its artifacts; doctors write prescriptions, lawyers draft contracts, architects design blueprints. For auditors, our most enduring artifact is the report. It is both the visible output of our work and the invisible measure of our influence.

Too often, however, audit reports are treated as administrative conclusions; a record of findings, neat recommendations, and executive summaries that tick the box but rarely move the needle.

Yet if the true purpose of internal audit is to strengthen governance, mitigate risk, and cultivate organizational resilience, then the report must become more than a statement of facts.

It must become a persuasive narrative; one that informs, influences, and inspires action.

This is the heart of storytelling in audit reporting. It is the art of shaping information into meaning. Done well, it connects evidence to consequence, consequence to decision, and decision to action. It ensures that audit work does not end at documentation but translates into organizational renewal.

The Art of Storytelling in Audit Reporting: From Findings to Influence

The question before us, then, is this: how do we elevate audit reporting from routine to art, from compliance to influence?

Report Writing as Craft - From Facts to Persuasion

Audit reports are not neutral documents. They are crafted communications aimed at influencing stakeholders to act. Recognizing this changes everything.

A good report must satisfy technical requirements, accuracy, clarity, completeness. But a powerful report goes further; it persuades. It tells a story that enables boards, executives, and process owners to see not just what is wrong, but why it matters and how it can be made right.

This is why report writing deserves to be treated as a craft.

Like a skilled artist, the auditor must step back, see the canvas whole, and decide what composition will most effectively convey the truth.

This requires planning from the start. Observations should not be hurriedly written at the end of fieldwork. Instead, they should be developed throughout, shaped around the “five Cs”; criteria, condition, cause, consequence, and corrective action.

Approached this way, the report evolves alongside the audit, becoming both record and roadmap.

Influence also depends on balance. Reports must highlight deficiencies, but they must also acknowledge what

is working. Presenting a dashboard that shows processes performing well, areas needing intervention, and those requiring overhaul provides a holistic picture. This balanced storytelling earns credibility and makes recommendations more persuasive.

Above all, the craft of report writing rests on intent. If the intent is merely to close the project, the report will remain sterile. If the intent is to influence governance, the report becomes an instrument of change.

While drafting the report, appropriate references to the applicable Standards on Internal Audit (SIAs) may be included, wherever relevant.

Lessons from Practice: Writing as Art, Not Administration

Some of the most powerful insights into audit reporting come from practice. Barrie Enslin, in the book, *The Gardener of Governance - A Call to Action for Effective Internal Auditing*¹, describes the report as a work of art rather than a “run-of-the-mill” deliverable. His message is clear: the primary purpose of the report is not to report findings, but to communicate results in a way that compels understanding and action.

He urges auditors to start building the report early, shaping observations as they emerge, grouping related issues to avoid fragmentation, and weaving causes and consequences into a coherent narrative. His analogy of the report as artwork captures the spirit of

¹ The Gardener of Governance - A Call to Action for Effective Internal Auditing By Rainer Lenz, Barrie Enslin

“ Audit reports are not neutral documents. They are crafted communications aimed at influencing stakeholders to act. Recognizing this changes everything. ”

storytelling; reports should be logical, readable, and even beautiful in their clarity.

Other voices echo this. The ICAI’s Vision 2030 emphasizes world-class competencies, adherence to ethical standards, and the development of trusted, independent professionals. Embedded within this vision is the expectation that auditors must communicate with clarity, transparency, and impact. Similarly, the IIA’s Global Standards and the World Bank’s audit communication toolkits stress that reports should be accurate, concise, constructive, and written with the audience in mind.

Taken together, these sources point to one conclusion: report writing is not a clerical afterthought. It is a central professional act, one that demands technical rigor, narrative clarity, and creative intent.

Storytelling Techniques: How to Make Reports Persuasive

If audit reports are to persuade, auditors must borrow from the storyteller’s toolkit. This does not mean sacrificing accuracy. It means applying structure, language, and design in ways that make meaning irresistible.

a. Structure Like a Narrative

Great stories have a beginning, middle, and end. So too should audit reports. The beginning should frame the purpose and context, showing why the audit matters. The middle should develop the observations, connecting evidence to impact. The end should provide



resolution: recommendations that are actionable and credible.

b. Use the Five Cs as Plot Points

Criteria, condition, cause, consequence, corrective action; these are not bureaucratic boxes. They are the elements of a plot. The criteria set the standard; the condition shows the deviation; the cause reveals the driver; the consequence emphasizes the risk; and the corrective action offers resolution. When presented clearly, they form a narrative arc that carries the reader naturally toward action.

c. Balance Evidence with Judgment

Numbers matter, but so do words. A table of deficiencies may be accurate but uninspiring. Adding context; why it matters, how it links to strategy, what it means for the future, transforms evidence into insight. This requires auditors to apply judgment, to interpret rather than merely list.

d. Visuals as Storytelling Aids

Dashboards, heat maps, and traffic-light systems are not cosmetic. They are narrative devices that guide readers to what matters most. A well-designed one-page dashboard can show in a glance where controls are strong, where risks are emerging, and where urgent attention is required. Visuals anchor the story and make it accessible.

e. Tone and Language

The tone of the report shapes its reception. Harsh or accusatory language creates defensiveness. Balanced, respectful language invites engagement. ICAI’s mission highlights integrity and independence; values best served by clarity and simplicity in language. Simplicity, not complexity, is the hallmark of mastery.

In short, storytelling techniques enable auditors to transform reports from dry documentation into living instruments of influence.

Elevating Impact: The Auditor as Storyteller and Steward

If audit reports are to be more than documents that gather dust, auditors must see themselves not only as technicians but also as storytellers and stewards. The words we choose, the structure we apply, and the courage we bring determine whether our work prompts reflection and reform, or slips silently into the background.

a. Storytelling Anchored in Purpose

Every powerful story has a “why.” For auditors, that “why” is governance; the prevention of failure, the nurturing of resilience, and the cultivation of trust. Storytelling is the vehicle through which purpose becomes visible. When framed around risks that



“ The future of internal audit is in the hands of ‘The Evolving Auditor’ who embraces storytelling as part of their human acumen. They pair technical mastery with empathy, judgment, and presence. ”

matter and linked to organizational goals, the report becomes a compass for decision-making.

b. Courage to Go Beyond the Obvious

Storytelling demands courage. Listing control gaps is safe; pointing to cultural risks or systemic blind spots is not. Yet this is where value lies. Courageous storytelling means naming patterns, connecting dots, and offering targeted remedies, even if uncomfortable.

c. Stewardship of Trust

Auditors are stewards, not owners, of governance. Storytelling should embody this ethic: factual yet mindful of tone, balanced rather than biased, influential without exaggeration. Reports written in this spirit strengthen trust and relationships, ensuring that findings lead to meaningful action.

d. The Evolving Auditor’s Role

The future of internal audit is in the hands of ‘The Evolving Auditor’ who embraces storytelling as part of their human acumen. They pair technical mastery with empathy, judgment, and presence. Writing and storytelling are power skills they master and through which they turn complex evidence into narratives that illuminate choices and consequences.

e. From Reports to Renewal

When auditors write with artistry and courage, reports catalyze renewal. They galvanize boards, nudge executives, and equip teams to reform practices before risks metastasize. Reports that embody

storytelling elevate the profession itself; transforming auditors from watchdogs tolerated out of necessity into trusted advisors and cultivators of governance ecosystems.

Pitfalls to Avoid: From Generic Findings to Missed Influence

If storytelling lifts reports, poor habits sink them. Several recurring pitfalls diminish the power of audit reporting. Naming them clearly is the first step toward avoiding them.

■ Generic observations and recommendations

Too many audit reports still rely on vague phrases like “controls are weak” or “management should strengthen monitoring.” These statements may be technically correct, but they fail to persuade because they lack specificity.

A finding should tell the reader what exactly failed, why it matters, and how it can be fixed. Generic wording drains credibility and leaves the impression of superficial analysis. Reports that stop at the surface risk being dismissed as boilerplate documents.

The antidote is precision: well-structured observations that link criteria, condition, cause, consequence, and corrective action into a coherent story that drives action.

■ Reporting only at the end

A frequent pitfall is leaving report writing until fieldwork is complete. Under deadline pressure, auditors then rush to draft observations, often missing nuances, or root causes.

This approach leads to incomplete analysis, vague recommendations, and observations that could have been strengthened with more evidence. Treating report writing as an afterthought also reduces opportunities for reflection and dialogue during the audit itself.

The better practice is to treat reporting as a living process;

capturing emerging observations throughout the assignment, assessing their validity, and refining them as more information is gathered.

In this way, the report grows alongside the audit, resulting in sharper insights and stronger influence.

■ Ignoring what works

Audit reports sometimes focus exclusively on weaknesses, overlooking areas where controls and processes perform well. This creates a distorted picture, undermines credibility, and fosters defensiveness among stakeholders.

Balanced reporting that highlights both strengths and weaknesses communicates fairness and objectivity. Acknowledging good practices builds trust, motivates process owners, and makes recommendations on deficiencies more persuasive.

A traffic-light dashboard is a powerful storytelling tool here; with green for processes that are strong, amber for those needing attention, and red for those requiring overhaul.

By presenting the full picture, auditors not only earn respect but also position the audit function as a partner in improvement, not just a critic.



“The challenge before us is clear: to treat audit reporting not as an administrative burden, but as the art of storytelling in service of stewardship.”

■ **Overloaded detail, missing narrative**

Another common mistake is overwhelming readers with raw data, long tables, or endless appendices without a clear storyline.

While evidence is essential, too much details without interpretation creates fatigue and dilutes the message. Executives and boards do not have the time or patience to dig through hundreds of lines to extract meaning.

Storytelling requires filtering, prioritizing, and framing. What does the evidence reveal about the bigger risk? What is the real message the reader must walk away with?

Reports that balance data with narrative provide clarity, enabling stakeholders to focus on the issues that matter most and act decisively.



■ **Isolated findings without the bigger picture**

Auditors often present findings as isolated issues, missing the opportunity to tell a bigger story. For instance, in a pricing audit, weaknesses may appear in access controls, manual interventions, and invoice accuracy. Reported separately, these seem like unrelated problems.

But stitched together, they reveal a systemic breakdown in pricing governance with financial and reputational consequences. Storytelling demands this integration.

By connecting dots across findings, auditors elevate the report from a list of problems to a diagnosis of systemic risk. The value lies not just in identifying individual failures, but in narrating the pattern they form and the organizational implications they carry.

■ **Recommendations without ownership**

Many reports dilute their influence with recommendations that are too generic or lack clear accountability. Phrases like *controls should be improved* or *management should consider...* sound advisory but are easy to ignore.

Persuasive reports make recommendations concrete: they specify what action is required, who should own it, and what success will look like. Linking the recommendation explicitly to the root cause and risk consequence strengthens urgency. This level of specificity makes it harder for stakeholders to dismiss or defer corrective action.

Without ownership, recommendations risk becoming commentary; noted but not acted upon. With ownership, they become commitments that drive change.

These examples reinforce a simple truth: storytelling is not



embellishment; it is the method by which audit reporting fulfils its purpose.

■ **Tone that alienates rather than engages**

The words we choose shape how our message is received. Too often, audit reports adopt a harsh, accusatory tone; phrases like *management has failed* or *there was negligence* that immediately trigger defensiveness.

Even when the evidence is valid, the message risks being ignored because the delivery closes doors instead of opening dialogue. Tone is not about sugarcoating the truth; it is about presenting it in a way that invites action.

Balanced language such as *policy compliance has not been consistently enforced* conveys the same point without antagonism.

Ethical reporting requires auditors to write with integrity, respect, and an intent to influence, not to blame.

Bringing it together

Avoiding these pitfalls is not cosmetic. It is central to the profession's credibility. A poorly written report can undo weeks of diligent fieldwork and erode trust in the audit function.

By contrast, reports that are specific, balanced, structured, and actionable become instruments of governance, capable of influencing decisions and catalysing change.

Storytelling is the bridge that transforms audit reporting from routine documentation into organizational renewal.



The STORYCELLING Framework: A 12-Step Guide for Audit Storytelling

To make storytelling actionable, auditors can adopt a structured approach. STORYCELLING is a 12-step framework designed as a practical checklist for turning reports into persuasive narratives.

S - Set the Stage

Frame the purpose of the audit in organizational terms. Why does this review matter now? Beginning with context grounds the reader.

T - Tie to Strategy

Link findings explicitly to business objectives and risks. Audits gain influence when they connect to strategy, not just compliance.

O - Outline the Criteria / benchmark

State the criteria; standards, laws, regulations, or policies, clearly. Without criteria, without a frame of reference, deviations lack weight.

R - Reveal the Reality

Describe the condition: what you found, factually and plainly. Precision builds trust.

Y - Yield the Why

Expose the root cause. Why did this deviation occur? Identifying drivers and underlying factors makes recommendations credible.

C - Clarify the Consequences

Translate technical gaps into real-world risks; financial, reputational, operational, and more. This emphasizes why action is urgent.

E - Elevate with Evidence

Anchor the narrative in data, visuals, and examples. Charts, dashboards, and quotes make findings vivid and irrefutable.

L - Lead with Balance

Acknowledge what is working alongside weaknesses. Balanced storytelling signals fairness and increases receptivity.

L - Language with Care

Choose words that are respectful and simple. Avoid jargon or accusatory tones that trigger defensiveness.

I - Illustrate with Insight

Use analogies, case examples, or scenarios to simplify complexity. Insight helps boards see the bigger picture.

N - Navigate the Next Step

Provide actionable, specific recommendations. A story without resolution leaves the audience frustrated.

G - Guide to Governance

Conclude by linking actions back to governance and organizational resilience. Show how changes contribute to ethical and sustainable success.

Storytelling is a discipline. The STORYCELLING framework ensures that every report carries clarity, meaning, and influence.

Ethics, Integrity, and the Auditor's Duty

ICAI's Vision 2030 commits to being the world's leading accounting body; producing trusted, independent professionals with world-class competencies in assurance, taxation, finance, and business advisory.

Audit reporting, when treated as storytelling, aligns directly with this vision:

- By crafting persuasive reports, we demonstrate professional competence not only in analysis but in communication.
- By writing with balance, accuracy, and clarity, we uphold the highest ethical standards the vision demands.
- By using reports to catalyse change, we prove ourselves to be trusted advisors and global professionals, not mere compliance enforcers.
- By embedding dashboards, visuals, and innovative formats, we embrace innovative practice and position internal auditors as leaders in thought and influence.

Storytelling in reporting is therefore not just a technique. It is a pathway for internal auditors to embody the very essence of the Vision 2030 mission.

Conclusion - The Report as Garden and Compass

The report, for auditors, is not secondary to the test sheet; it is the final test of our relevance. To write well is to think well, to care well, and to serve well.

If governance is a garden, then the audit report is the gardener's journal: part diagnosis, part guidance, part hope. Done poorly, it is a checklist. Done well, it is a catalyst; cultivating trust, prompting action, and elevating governance.

The challenge before us is clear: to treat audit reporting not as an administrative burden, but as the art of storytelling in service of stewardship. For in the end, governance is not a static structure to be inspected but a garden to be cultivated together, with courage, creativity, ethics, and care.

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The Institute of Chartered Accountants of India
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Gabriela Figueiredo Dias

IESBA Chair

Fighting Financial Crime: What ICAI Members Can Do and How the NOCLAR Standard Can Make a Difference

Financial crime such as fraud, money laundering, corruption, or market abuse, affects more than just balance sheets. It corrodes trust, diverts resources from economic growth and development, undermines the rule of law, and leaves companies, along with the professionals who serve them,

exposed to legal and reputational harm.

And in this battle, professional accountants (PAs) are on the front line. Why? Because they are the ones who pore over the ledgers, reconcile the accounts, prepare or authorize the payments, flag the anomalies, and whisper caution to boards when something doesn't feel right. They are often the first to sense when numbers don't align, when controls fail, or when transactions stray from both the spirit and the letter of the law.

At the International Ethics Standards Board of Accountants' (IESBA) inaugural Ethics and Audit Independence Conference in Lisbon, Portugal, this September,¹ I was struck by an audience poll that cut to the heart of the issue. Asked whether they believed the actors at the center of recent corporate scandals had recognized their ethical lapses before the scandals erupted, nearly half of the participants answered "yes."

This response is sobering. It suggests that in many cases, financial misconduct is frequently not the product of ignorance, which, ultimately, does not absolve professionals of their duty to be diligent, but of conscious choice. It also suggests that executives and professionals often knew the lines they were crossing—and crossed them anyway. This recognition pushes the conversation beyond a PA's technical competence

to deeper questions of professional judgment, mindset, courage, honesty and accountability. In a word, ethics questions. It forces us to examine the role of PAs as ethical gatekeepers of integrity and transparency.

In this special edition of the ICAI Journal for Global Ethics Day, I take the opportunity to paint the landscape of financial crime globally and in India, and highlight how the IESBA's standard on Non-Compliance with Laws and Regulations™ (NOCLAR®) plays a crucial role in supporting the profession's duty to act in the public interest when confronted with NOCLAR.

The Scale of the Problem—Globally and at Home

The United Nations Office on Drugs and Crime (UNODC) has long estimated that 2% to 5% of global

gross domestic product is laundered annually, roughly USD 800 billion to USD 2 trillion.² Fraud, sanctions evasion, geopolitical conflict, criminal use of AI, and underground banking are flagged as the top financial crime threats in the 2025 Association of Certified Anti-Money Laundering Specialists (ACAMS) Global Anti-Financial Crime Threats Report.³

Closer to home, India is not immune.

India has been listed as 68th out of 164 countries assessed for money-laundering and terrorist-financing risk using public datasets in the Basel Anti-Money Laundering (AML) Index's 2024 edition, with a risk score of 5.49 on a 0–10 scale where higher is riskier.⁴

Cybercrime and digital fraud have become an accelerating issue. The Indian Ministry of Home Affairs told Parliament that cyber fraud losses

¹ <https://www.ethicsboard.org/iesba-conference-2025>

² UNODC Money Laundering Overview: <https://www.unodc.org/unodc/en/money-laundering/overview.html>

³ ACAMS Global AFC Treats Report 2025: <https://www.acams.org/en/global-afc-threats-report-2025#top-threats-eb681496>

⁴ <https://index.baselgovernance.org/ranking>



rose to a staggering Rs 22,845 crore in 2024, a 206% increase from 2023.⁵ Further, various surveys of executives in organizations across India indicate that:

- About 96% of senior executives in India's financial and professional services sectors anticipate a rise in financial crime risks in 2025.⁶
- Cyberfraud and related incidents constitute 64% of frauds in India, with the top three industries impacted being technology, media and telecommunications; financial services; and manufacturing.⁷
- Procurement fraud, customer fraud, bribery and corruption, and cybercrime were deemed as the most disruptive and serious types of financial crime in terms of impact on organizations in India.⁸

These all point to the same reality: financial crime is evolving, pervasive, and costly. But it is often also detectable by those closest to the books. That is where PAs can make a real difference – they are the first line of defense.

India exceeds the global average in these areas, yet significant room for improvement remains. By reinforcing the fight against financial crime, the country can foster long-term value creation and strengthen its international standing – and here too, PAs can make a critical difference by acting as gatekeepers and partners for good, rather than enablers of misconduct.

Professional Accountants as Ethical Gatekeepers

The Institute of Chartered Accountants of India (ICAI) has taken a decisive step in equipping PAs in the global fight against financial crime by embedding the IESBA's NOCLAR provisions (Sections 260 and 360) into its Code of Ethics. The provisions, which came into effect on 1 October 2022, apply to ICAI members who are:

- Senior PAs employed by listed entities; and
- Auditors of listed entities with a net worth of Rs 250+ crore.

For many years, accountants and auditors confront NOCLAR with little more than their judgment. Faced with NOCLAR, PAs, especially those working alone or under pressure, often found their response shaped more by personality, courage, and circumstance than by structured guidance.

While larger firms could lean on internal ethics resources, smaller practices and individuals often had to lean on their past experiences and resiliency. In some cases, PAs resigned from their employment or client relationship rather than confronted the wrongdoing head-on, leaving the NOCLAR unaddressed.

“The Institute of Chartered Accountants of India (ICAI) has taken a decisive step in equipping PAs in the global fight against financial crime by embedding the IESBA's NOCLAR provisions (Sections 260 and 360) into its Code of Ethics.”



The arrival of the IESBA's NOCLAR standard changed this dynamic and challenged the status quo.

The NOCLAR standard is designed to address any type of NOCLAR situation, especially those that rarely come with flashing red lights. NOCLAR often creeps in quietly: a transaction with vague bona fides, subtle pressure from superiors, or a rationalization that “everyone does it.”

⁵ <https://timesofindia.indiatimes.com/business/cybersecurity/indias-cyber-fraud-epidemic-rs-22845-crore-lost-in-just-a-year-206-jump-from-previous-year-says-government/articleshow/122840099.cms>

⁶ https://bfsi.economicstimes.indiatimes.com/news/industry/96-of-senior-indian-executives-expect-higher-financial-crime-risk-in-2025-kroll-survey/119234637?utm_source=top_news&utm_medium=tagListing

⁷ <https://www.grantthornton.in/insights/financial-and-cyber-fraud-report-2024/>

⁸ <https://www.pwc.in/pwcs-global-economic-crime-survey-2024-india-outlook.html>

A wide range of laws and regulations are covered by the standard, including those dealing with bribery and corruption, money laundering, tax evasion, terrorism financing, fraud and other economic crimes, as well as issues of public health and safety and environmental protection. What the standard does not cover are matters of personal misconduct and matters that are clearly inconsequential.

The standard offers the PA a principles-based, yet practical response framework in such circumstances:

- Understand the facts and circumstances.
- Escalate concerns internally to management or those charged with governance (TCWG) within the PA's employing organization or the audit client.
- Comply with applicable laws and regulations.
- Take action to have the consequences of the NOCLAR corrected, remediated or mitigated by the entity.
- Evaluate the response of management or TCWG.
- Decide whether further action, including disclosure to an appropriate authority, is warranted in the public interest.

By laying out this calibrated response process, the NOCLAR standard strengthens the PA's role and reputation as an ethical gatekeeper. It shifts the PA's mindset from "Can I look away?" to "How should I best respond as a member of ICAI?" In doing so, it anchors the profession to its highest purpose – acting in the public interest.

In most cases, management or TCWG will recognize the significant legal, business, and reputational risks of failing to address NOCLAR and will act with clarity and determination. Yet there may be times when management is complicit or unresponsive to the risks and potential consequences of the NOCLAR. At that critical

“The decision regarding whether a PA should disclose NOCLAR to an appropriate authority is a complex one with multi-faceted considerations.”



juncture, the standard requires PAs to consider whether additional measures are necessary. These measures may include:

- Disclosure to an appropriate authority, unless prohibited by law.
- Resignation from the audit engagement, to signal that the auditor cannot be associated with the NOCLAR. Importantly, the standard requires the resigning auditor to alert the incoming auditor about the NOCLAR, ensuring that the NOCLAR does not remain unaddressed.

The decision regarding whether a PA should disclose NOCLAR to an appropriate authority is a complex one with multi-faceted considerations. With the benefit of legal advice, these considerations should provide a basis for the PA to feel confident and safe to make the disclosure.

Specifically, factors leaning towards disclosure by the PA include whether there is credible evidence of actual or potential substantial harm to stakeholders, the degree of urgency to the situation, and whether there is significant doubt about the integrity of management or TCWG.

However, these factors must be balanced against other factors such as:

- Whether there is an appropriate authority that is accustomed to dealing with such matters, can act on the information, and is trusted.
- Whether there is legal protection against the risks of civil, criminal or professional liability, or retaliation.
- Whether there are threats to the PA's physical safety or that of others.

So, while legal protection is a key factor, it is not the only one. Importantly, the standard is designed to operate even in jurisdictions where whistleblower laws are weak or do not exist.

Key Intended Outcomes

Through its principles-based response framework, the NOCLAR standard is designed to achieve a number of key outcomes:

- Enhanced ethical conduct by clarifying that turning a blind eye to NOCLAR is not an appropriate





response from PAs, while placing renewed emphasis on the roles of management and TCWG in addressing the matter.

- Increased protection for stakeholders and the public by stimulating PAs to proactively respond to NOCLAR, which can lead to (1) an earlier response by management or TCWG or timelier intervention from appropriate authorities, thereby mitigating the consequences for stakeholders and the public; and (2) deterring the commission of NOCLAR.
- Better equipping the auditor with a toolkit to respond to NOCLAR beyond just resigning from the engagement.
- Enhanced value of the profession by enabling it to play a greater role in the global fight against financial crime, and strengthening its reputation as a guardian of trustworthy organizations and a healthy global financial system.

Post-Implementation Review and Why India's Voice Matters

The adoption of the NOCLAR standard in the ICAI Code was a

milestone. But adopting the standard is not the end of the road. The real test of its powerful promise to arrest or slow down NOCLAR and its corrosive effects on the fabric of India's economic foundation lies in how it is working in practice.

This is where a post-implementation review (PIR) of the standard comes in, which the IESBA has just initiated.

A robust PIR, enriched with India's perspectives, will ensure that the standard remains relevant, practical, and effective in fulfilling its core mission: enabling PAs to respond proactively to NOCLAR in the public interest.

The PIR is aimed at determining whether the standard is being consistently understood and implemented in a manner that achieves the IESBA's intended purposes in developing the standard. The PIR will pursue several axes of inquiry while respecting confidentiality, for example:

- What types of NOCLAR have PAs escalated and to what extent did management or TCWG take remedial or mitigating action?
- Which aspects of the standard have been challenging to apply and why?
- Which provisions would benefit from more guidance?

Looking Ahead

The IESBA anticipates issuing a public survey on the PIR in January 2026. It will also undertake targeted outreach around the world to gather input from stakeholders. A final report with recommendations to the IESBA is anticipated in December 2026.

The IESBA looks forward to working closely with ICAI on this PIR. India is home to over 400,000 members of ICAI. I encourage you to contribute your valuable experiences in applying the NOCLAR standard and to follow the progress of this important initiative. There has never been a more important time to protect the integrity, resilience

“ A robust PIR, enriched with India's perspectives, will ensure that the standard remains relevant, practical, and effective in fulfilling its core mission: enabling PAs to respond proactively to NOCLAR in the public interest. ”



and vitality of India's and the world's financial markets and economic systems against financial crime, and never a greater opportunity for the profession to demonstrate its value and contributions to society.

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CA. Ranjeet Kumar Agarwal
Past President, ICAI

Substantial Interest of Auditors: Ethical and Professional Dimensions

Auditor independence remains the bedrock of trust in financial reporting. Across jurisdictions, regulators, courts, and professional bodies have consistently reinforced that even the appearance of conflict of interest can impair credibility. The concept of “Substantial Interest”, whether by ownership, influence, or dual roles, has been a recurring concern in ethical frameworks. This article highlights key regulatory

perspectives, case precedents, and the emerging role of artificial intelligence (AI) in safeguarding independence.

Global Illustrations of Ethical Breaches

Recent global enforcement actions demonstrate how independence lapses can gravely damage both public trust and professional standing:

- In 2016, the SEC fined a global accounting firm USD 9.3 million when audit partners became personally and romantically involved with client executives, misrepresenting independence in audit reports.¹
- In 2018, PCAOB fined a global accounting firm USD 2.75 million for quality control violations when partners pursued joint business opportunities with an audit client before disengaging.²
- During 2023-2025, the “tax leaks” scandal in Australia revealed misuse of confidential government data, conflicts of interest, and tone-at-the-top failures, culminating in sanctions and a ban on the former CEO from tax practice until 2030.

These episodes illustrate how substantial interest, conflicts, and compromised independence are treated as non-negotiable ethical breaches.

Indian Context: ICAI and Case Law

In India, the Chartered Accountants Act, 1949 defines “substantial interest” within its disciplinary framework:

- **Clause (4), Part I, Second Schedule:** Misconduct arises if an auditor expresses an opinion on accounts of an entity where the member, firm, or relatives hold $\geq 20\%$ shareholding or profit entitlement.
- **Case Law:**
 - *Promila Jain vs. Hardesh Kant (2004)*: Auditor guilty where wife held 65% shares and directorship in auditee company.
 - *Anil Kosha vs. Mahendra Kumar Mahajan (2012)*: Auditor guilty where family held 21.85% shares while he was also a director.

The principle emerging is clear: whether through ownership, influence, or dual capacities, substantial interest is inconsistent with independence.

Comparative Regulatory Perspectives

Different statutes and regulators adopt varying thresholds for defining substantial interest:

- **Income-tax Act, 1961:** $\geq 20\%$ voting power or profit entitlement.
- **Banking Regulation Act, 1949:** Beneficial holding exceeding ₹5 lakh or $\geq 10\%$ of capital (whichever is less).
- **SEBI Takeover Regulations:** Thresholds of 25% (initial trigger), 5% (creeping acquisition).
- **Companies Act, 2013:** Analogous concepts like “significant influence” ($\geq 20\%$) and Significant Beneficial Ownership ($\geq 10\%$) under Section 90.
- **FEMA:** $\geq 10\%$ paid-up equity capital (direct or indirect).
- **PMLA:** Beneficial ownership $\geq 10\%$ (company/LLP/trust) and $\geq 15\%$ (partnerships).

This comparative lens highlights that independence concerns transcend legal definitions, demanding vigilance across frameworks.

¹ https://www.sec.gov/newsroom/press-releases/2016-187?utm_

² https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-fines-pwc--2.75-million-for-quality-control-violations-relating-to-independence?utm_

Ethics Beyond Legality

The ICAI Code of Ethics (1963, and as revised) has long emphasized that independence must be maintained not only in fact but also in appearance. Importantly, it requires professionals to ask:

“Even if legal, is it ethical?”

This higher threshold underscores that mere compliance is insufficient if the situation undermines public confidence.

Emerging Role of Artificial Intelligence

Traditionally, substantial interest was tracked through manual disclosures and registry checks. Today, AI-enabled compliance tools are transforming the landscape:

1. Beneficial Ownership Tracing – AI-powered graphs link auditors’ holdings (direct/indirect) across MCA filings, SEBI LODR disclosures, Annual Reports and layered structures.

For example: If an auditor’s spouse owns 7% directly in a company and another 6% through an LLP, AI can aggregate these automatically and flag when thresholds of 10%/15%/20%/25% are breached. This has become more useful now, especially when interests are layered through trusts or partnerships.

2. Cross-Database Matching – PAN, Aadhaar, KYC, and PMLA records are mapped to detect proxy holdings. Corporate houses link AI with KYC/PAN/Aadhaar registries. AI matches auditor IDs with beneficial ownership records filed under PMLA or Companies Act, SBO rules. Even if the auditor uses proxy holdings, AI can trace via common addresses, directors, relatives etc.

3. Transaction Monitoring – Continuous scanning of related-party transactions to flag payments to connected entities.

4. Relational Analytics – Mapping social/directorship networks to uncover undisclosed influence. AI uses social graph analysis (e.g., common directorships, LinkedIn/board networks, litigation databases).

For example: If an auditor’s brother is a director in a supplier with ≥10% interest in the auditee, AI flags it, even if not disclosed voluntarily.

5. Real-Time Dashboards – Continuous independence monitoring with instant alerts for audit committees.

The Nagpur AI-aided fraud detection case (2025), though in law enforcement, is a striking parallel, showing how AI can cut through complexity to uncover hidden relationships. Applied in auditing, similar tools strengthen early-warning systems for independence threats.

Recently, in August 2025, Nagpur police arrested a 31-year-old individual, the alleged mastermind of a ₹3-crore bank fraud racket, by blending artificial intelligence with traditional investigation. The accused duped multiple banks by forging property and identity documents to siphon home loans, targeting at least 11 properties across the city. Despite being wanted in several earlier fraud cases, he evaded capture for three years until the Wathoda Police Station analyzed his family’s social media photos with ChatGPT, identified his childhood school uniform, and set a trap. The gang’s members, skilled in preparing fake registries, Aadhaar and PAN cards created bogus bank accounts to route fraudulent loans, with five cases already registered at different police stations. The successful operation marks a major breakthrough in investigation by using AI technology.³

While AI is used to counter fraud, it still shows how deeply

AI is embedded in both ends i.e., criminal tactics and law enforcement responses.

Conclusion

The issue of substantial interest is not merely a legal definition but an ethical imperative. Global scandals have shown how quickly public trust can erode when independence falters. In India, ICAI’s long-standing emphasis on ethical conduct provides a strong foundation, but with the complexity of ownership structures.

AI will be indispensable in reinforcing independence safeguards. AI is helping trace substantial interest of auditors by:

1. Aggregating fragmented ownership across entities.
2. Mining disclosures and public filings.
3. Using relational graphs to detect hidden influence.
4. Providing real-time independence alerts to audit committees.

This reduces reliance on self-declarations and ensures auditor independence under SA 200, SA 220, SA 500, ICAI Code of Ethics and Compliances of All Regulators’ Regulations!

For members of the profession, the lesson is enduring:

- Independence must be absolute, in both form and substance.
- Ethical responsibility goes beyond compliance, demanding proactive avoidance of conflicts.
- Embracing AI-driven monitoring can help align practice with both regulatory expectations and societal trust.

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³ https://timesofindia.indiatimes.com/city/nagpur/cops-use-chatgpt-to-nab-mastermind-in-rs3-crore-home-loan-fraud/articleshow/123533747.cms?utm_



CA. Chandrashekhar V. Chitale

Member of the Institute

Principles

धर्मो रक्षति रक्षितः (Dharmo Rakshati Rakshitah) is a revered Sanskrit phrase found in ancient Indian scriptures such as the Mahabharata and Manusmriti, which were scripted many centuries ago. It translates to “Dharma (righteousness/ethics) protects those who protect it.” This phrase underscores a timeless truth: by upholding ethical principles and justice, individuals and societies ensure their own protection and harmony. It serves as a guiding beacon in governance, law, and professional conduct, reinforcing that the preservation of moral duty is foundational to collective well-being and personal security.

India’s stature as a global beacon in ethics is not by coincidence but by design rooted in millennia-old philosophy, tested by historical exemplars, and institutionalized in contemporary frameworks. The principles of truth, independence, objectivity, integrity, and public welfare form the immutable core that binds ancient wisdom to modern practice. From the earliest hymns of the Vedas (dating back approximately 3500+ years), Indian thought wove an intricate tapestry of duty, honesty, and selfless service. The Rigveda’s simple declaration, “ऋणं कर्तव्यम्” (“Debt must be repaid”), moves beyond accounting ledgers and

Indian Heritage of Professional Ethics: The Timeless Torchbearer

into the realm of moral contracts. To our ancestors, every promise or entrusted responsibility was sacred, a bond as binding as life itself.

As the Upanishads (dating back approximately 2300 to 2800 years) blossomed, their authors did not restrict themselves to philosophical abstraction. “सत्यं वद, धर्मं चर”, “Speak the truth, follow righteousness”, urges the Taittiriya Upanishad, elegantly linking speech, thought, and conduct into a seamless ideal. These were not mere spiritual prescriptions; they were practical codes, guiding traders, teachers, and kings alike.

The Bhagavad Gita, ritualistically read in millions of Indian homes and debated in countless sabhas, brings this principle to the very center of professional and daily life. In its stirring enunciation, “कर्मण्येवाधिकारस्ते मा फलेषु कदाचन”, Krishna kindles in Arjuna (and in us all) the fearless pursuit of duty, unsullied by greed or attachment. Here is the formula for ethical resilience: perform each action with integrity, undisturbed by material outcome.

While often seen as a pragmatic text on statecraft, Kautilya’s Arthashastra also

contains a strong ethical framework for a ruler. It emphasizes that a king’s happiness lies in the happiness of his subjects and that his foremost duty is their welfare. It also outlines ethical principles for justice, fair trade, and the conduct of officials, showing that political power was intrinsically linked to moral responsibility.

Gurbani provides a holistic ethical framework rooted in spiritual discipline, social responsibility, and practical virtues. It calls for an ethical life characterized by love, humility, honest living, respectful communication, and active selfless service as pathways to both individual salvation and societal harmony.

Acharya Anand Rishiji’s teachings focus on integrating rigorous moral discipline with deep compassion and social welfare, advocating for universal brotherhood and peace through ethical living. His discourses are compiled in the “Anand Pravachan” series and reflected in institutions founded in his honor. He said, “Among all arts, the art of living with righteous conduct (Dharma Kala) is the highest. Life becomes meaningful when one imbibes honesty, humility, compassion, and self-restraint.”



“Banish the dark, view the light by seeing false as false. And from all delusion freed, hark to the mystic vision’s calls.” (Seek truth and enlightenment by rejecting falsehood.) These are the sayings (couplets) of Thiruvalluvar from his classic work Tirukkural.

Thus, Indian philosophy revolved around ethical principles.

Prescriptions

In ancient India, professional ethics were deeply intertwined with philosophical teachings and the societal need for integrity in various vocations such as trade, governance, and medicine. The Arthashastra, authored by Kautilya (Chanakya), is a seminal work that provides a detailed framework for ethical governance, emphasizing that the welfare of the people is the primary concern of a ruler. Kautilya’s teachings on fair trade, justice, and the conduct of officials reflect an early recognition of the importance of ethical practices in professions. His ethical guidelines for rulers also underscore the significance of integrity in leadership, where personal gain should never compromise the welfare of the people.

Similarly, ancient Indian philosophy extended to professions like medicine, where texts like the Charaka Samhita and Sushruta Samhita codified ethical standards for physicians, focusing on

non-maleficence, compassion, and selfless service. These ethical principles ensured that doctors not only had the technical expertise to heal but also the moral responsibility to put the welfare of their patients above personal interests.

In the medieval period, ethics continued to be an essential part of trade practices and business transactions. Indian traders and merchants adhered to codes of conduct that emphasized honesty, transparency, and fairness in their dealings, fostering trust and mutual respect. The concept of Dharma was central to these practices, as individuals were guided by moral duties to their customers, employees, and society.

Practices

History is replete with incidents wherein it is observed that ethics were upheld.

Ekalavya, a Nishada prince, wished to learn archery from Guru Dronacharya. Denied formal training due to his background, he nonetheless practiced before a clay idol of Drona and became a master archer. When Drona later saw his skill, he demanded guru dakshina (a teacher’s fee), Ekalavya’s right thumb, which was vital for archery. Without hesitation, Ekalavya severed it and offered it. This act highlights unflinching respect for the teacher and the ethical principle of honoring one’s guru, even when the cost is immense.

“ In ancient India, professional ethics were deeply intertwined with philosophical teachings and the societal need for integrity in various vocations such as trade, governance, and medicine. ”

Chanakya, the great strategist, guided Chandragupta Maurya to establish a vast empire. Yet, Chanakya himself lived a life of austerity. When a guest once visited his home and he was writing under the royal lamp, he immediately put it off and lit his personal lamp, explaining: *The state’s resources are for state work, not for personal use.* This reflects an extraordinary commitment to ethical use of public resources, a principle still relevant for governance today.

A shining example of ethics in leadership comes from Shivaji Maharaj. Once, after a conquest, a beautiful woman from the enemy’s camp was presented before him. Instead of objectifying her as a war spoil (a common practice in those times), Chhatrapati Shivaji Maharaj honoured her as a mother and arranged for her safe return. This incident reflects his profound respect for women’s dignity and adherence to *maryada* (ethical propriety) even in victory.

During his travels, Swami Vivekananda once visited a famine-stricken area. He saw a group of villagers starving, weak, and unable to stand. Someone nearby was preaching high spiritual ideals to them. Swamiji immediately interrupted and said with deep emotion. “First, give them food. Religion is not for empty stomach! An empty stomach is no good for religion, nor is an empty brain.” He personally arranged food for them and only later spoke about spirituality.

In any military operation, the primary ethical principle is to minimize harm to civilians. During conflicts like



the Pulwama attack and subsequent retaliation, the Indian Army has consistently demonstrated efforts to avoid collateral damage. While tensions were high, India made deliberate efforts to ensure that military strikes were aimed strictly at terrorist facilities or militant bases, keeping the well-being of civilians in mind. The ethical conduct of the army was viewed in stark contrast to the use of terror tactics by hostile forces that often target civilian populations.

In a statement, Indian military leadership emphasized the difference between targeting terrorist infrastructure and the broader population, marking an ethical decision not to escalate the conflict beyond what was necessary for self-defence and counterterrorism.

State Adoption

The emblem adopted by India is: “Satyameva Jayate Nānṛtam” – “Truth alone triumphs, not untruth,” proclaims the Mundaka Upanishad, a wisdom that has echoed across millennia and found its pride of place as India’s national motto. Such shlokas do not merely decorate ancient manuscripts; they are the spiritual DNA of a civilization that placed ethics at the very heart of individual and societal endeavour.

The emblem of the Supreme Court of India features the inscription “Yato Dharmastato Jayah” in Sanskrit, which translates to *Where there is Dharma (righteousness), there is Victory*. This phrase embodies the judiciary’s commitment to justice, truth, and the rule of law. The Supreme Court emblem reflects the Court’s role as the ultimate guardian of the Constitution of India, upholding fairness, equality, and the sacred principles of justice for all citizens. It symbolizes the authority and integrity of India’s highest judicial institution and its mission to ensure that righteousness prevails in society.

Chartered Accountants Act

The Chartered Accountants Act, 1949, and regulations provide a

robust framework for ethical conduct for the members of the Institute of Chartered Accountants of India. The Act specifically outlines professional misconduct under Schedule I and Schedule II, categorizing violations that undermine the integrity and dignity of the profession. The First Schedule deals with professional misconduct in practice, addressing issues like sharing fees with non-members, engaging in practices that compromise independence, or issuing certificates without due diligence. The Second Schedule highlights professional misconduct in service, including breaches of confidentiality or accepting improper inducements. These provisions ensure that Chartered Accountants uphold the highest ethical standards, not just in their professional duties but in their behaviour towards clients, colleagues, and the public. Additionally, the ICAI Code of Ethics sets out principles such as integrity, objectivity, professional competence, and due care. By providing clear guidelines on ethical behaviour, the Act and ICAI regulations foster accountability and transparency, ensuring that Chartered Accountants maintain public trust and societal respect. The Code aligns with international ethical frameworks.

The Institute of Chartered Accountants of India

The ageless wisdom spirals into modernity, where ICAI, the Institute of Chartered Accountants of India, set global benchmarks by establishing the Ethical Standards Board (ESB) even before the world assembled under the IESBA banner. It is fitting that ICAI’s own motto, drawn from the Katha Upanishad, “या एष सुप्तेषु जागर्ति”, celebrates the ever-watchful sentinel; for the ethical accountant never sleeps, sustaining public trust as the ancients sustained fire upon their altars.

The first edition of the Code of Ethics (then called ‘Code of Conduct’) was framed and released by ICAI in the year 1963. This provided the foundation for the ethical regulation of ICAI. Thereafter, in order to provide focused

“By providing clear guidelines on ethical behaviour, the Act and ICAI regulations foster accountability and transparency, ensuring that Chartered Accountants maintain public trust and societal respect.”

attention to ethics, in the year 1975-1976, the Ethical Standards Board, then called the Ethical Standards Committee, was established. Internationally, IFAC was constituted in 1977. The first IFAC Code of Ethics for Professional Accountants was issued in 1990. Thus, India has been a forerunner in the prescription of Ethics globally.

Do what is ethical, not merely what is legal, as stated by CA. G. P. Kapadia, the revered First President of ICAI, captures the essence of professional conduct for Chartered Accountants and other professionals. It highlights the principle that law sets the minimum standard of behaviour, whereas ethics represents the higher, ideal standard that professionals should aspire to. This has been the guiding principle for the professional accountants in India and elsewhere.

Sum Up

Let the world study the latest frameworks, but let us remember: it was here, on Indian soil, that the marriage of knowledge and virtue first became a sacrament, and ethics the profession of the wise. As we stand in boardrooms and courts of account today, may we be worthy torchbearers of this glory, bearing the flame of dharma not in word alone, but in every action.

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Chartered Accountants and Advertisement

The advertisement is an area which is by and large regulated as viewed from the standpoint of Chartered Accountants, although certain modes of visibility have been permitted to them from time to time in line with the statutory provisions.

There is a debate now-a-days as to whether these limits on advertisement need to be relaxed for alignment with the contemporary world, permitting opportunities to young practitioners and letting the firms grow.

The advertisement is not a standalone area, it has close bearing with the philosophy and ideals of the Institute on one hand and the aspirations of various stakeholders on the other.

The first edition of the Institute's Code of Ethics came in 1963, when there were no international ethical standards. It mentioned as under :-

It is an elaboration of the principle propounded in the earlier rule enjoining that for securing professional work the help of others should not be sought, but advertisement in any form should not be indulged in. Such a restraint must be practiced so that members may maintain their independence of judgment and may be able to command the respect of their prospective clients. Some of the members in the earlier years of their professional career may find this inconvenient and irksome. A question may arise in their minds as to how they find work if they are not to advertise or solicit work. But a little reflection would show that professional work cannot be secured by advertisement or by circulars or even by solicitations. It can only be obtained by the member gradually inspiring confidence in his ability and integrity. The service rendered by an accountant is of a personal and intimate character. The value of it can be appraised only

by personal contact and experience. When it is publicly advertised, it may lead to an impression that the person is over-anxious to win confidence which has the opposite effect. On this account personal advertisement has been looked upon with disfavour and has been prohibited for every professional man...

Statutory Provisions on Advertisement and Solicitation

The restrictions on solicitation and advertisement by the Chartered Accountants are contained in Clauses (6) and (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949 respectively.

Moving ahead from the point of complete restriction, the Chartered Accountants (Amendment) Act, 2006 brought the following amendments in Clauses (6) and (7):-

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he:-

(6) solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means:

Provided that nothing herein contained shall be construed as preventing or prohibiting-

- i. any chartered accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice; or*
- ii. a member from responding to tenders or enquiries issued by various users of professional services or organisations from time to time and securing professional work as a consequence;*

Clause (7): *advertises his professional attainments or services, or uses any designation or expressions other than chartered accountant on professional documents, visiting cards, letter heads or sign boards, unless it be a degree of a University established by law in India or recognised by the Central Government or a title indicating membership of the Institute of Chartered Accountants of India or of any other institution that has been recognised by the Central Government or may be recognised by the Council;*

Provided that a member in practice may advertise through a write up, setting out the services provided by



Contributed by Ethical Standards Board of ICAI

“ It is not allowed for the members to list themselves with online Application based service provider Aggregators, wherein other categories like businessmen, technicians, maintenance workers, event organizers etc. are also listed. ”

him or his firm and particulars of his firm subject to such guidelines as may be issued by the Council;

Advertisement Guidelines, 2008

Pursuant to the above mentioned amendment, the Council of the Institute issued Advertisement Guidelines in 2008, wherein, in line with the proviso to Clause (7), advertisement of services or particulars of Firm could be made through a “write-up”, in accordance with the conditions mentioned in the Advertisement Guidelines.

The “write-up” can have font size of 14 as per the Advertisement Guidelines. The term “write-up” has not been defined in the Chartered Accountants Act, 1949, nor it seems to have appeared at the time of passing of the Amendment Act. It is defined under the Advertisement Guidelines as under:-

“write up” means the writing of particulars according to the information given in the Guidelines setting out services rendered by the Members or firms and any writing or display of the particulars of the Member(s) in Practice or of firm(s) issued, circulated or published by way of print or electronic mode or otherwise including in newspapers, journals, magazines and websites, which include social Networking Websites (in Push as well as in Pull mode) in accordance with the Guidelines.



Website Guidelines

The Council at its 212th meeting held in January 2001 approved for the first time website guidelines for posting the particulars on website by Chartered Accountant(s) in practice and firm(s) of Chartered Accountants in practice.

Chartered Accountants and Firms are allowed to have their website in a manner that it does not tantamount to advertisement.

As per ICAI website guidelines, the websites can run on a “pull” model and not a “push” model of the technology to ensure that any person who wishes to locate the Chartered Accountants or Chartered Accountants’ firms would only have access to the information and the information should be provided only on the basis of specific “pull” request. This ensures that the information is not shared to anyone by the member on his own behest.

What other forms of visibility are permitted presently

Some other forms of visibility have been permitted by the Council after careful consideration that these are not violative of the provisions of the Chartered Accountants Act, 1949. The important ones are discussed hereunder: -

1. Online Third Party Platforms

Some organisations, for instance banks and finance companies have a feature wherein they would

request a Chartered Accountants to give consultation (on the questions/issues) through the medium of their Websites. This has been permitted in the Code of Ethics provided that on such Website, the contact details of the member who is providing the consultation and advice should not be mentioned. Further, such Website should also not mention any kind of material through which professional achievements or the status of the Chartered Accountant may be advertised. It can only be mentioned that the person providing consultation is a Chartered Accountant. Also, the name of CA Firm (in case Firm is providing consultation) with the suffix “Chartered Accountants” is not permissible.

2. Publication of Name or Firm Name by Chartered Accountants in the Telephone or other Directories published by Telephone Authorities or Private Bodies

Listing in Directories subject to certain conditions has been permitted by the Institute since 1971. Accordingly, the Chartered Accountants and CA Firms are permitted to have entries in the Telephone Directory (permitted in printed as well as in electronic form). Such listing can be made by making special request or by making of additional payment. It will be subject to certain stipulations provided in detail in the Code of Ethics.

3. Specialised Directories for limited circulation

It has also been provided that the name, description and address of a Chartered Accountant or a CA Firm may be mentioned in a directory or a list of members of an entity wherein names of CAs and CA Firms are listed in an alphabetic manner. In case specialised directory, for example "Who's Who" is published, which may be only on locally basis, the members must use his discretion in sharing the information about them, considering the nature and purpose of such publication. It may be noted that in addition to the name, description and the address of his own and that of the CA Firm, he may also mention, if appropriate, the position of directorship held by him, reasonable personal details about him and may also mention his outside interests. The names of the clients cannot however be mentioned.

4. Exemptions

There are certain exemptions provided in the Code of Ethics which permit publication of name and address of the members and his firm, with the description of Chartered Accountant(s) in an advertisement published in the press in the following circumstances.

- Advertisement for recruiting staff in the member's own office.

“Paid advertisements or listings on search engines are used to increase visibility. As per the clarification of Ethical Standards Board, it is not permissible.”

- Advertisement inserted on behalf of clients requiring staff or wishing to acquire or dispose of business or property.
- Advertisement for the sale of a business or property by a member acting in a professional capacity as trustee, liquidator or receiver.

It is subject to the condition that the advertisement shall not be displayed more prominently than what is usual for such advertisements and that the name of the member or his firm with the designation Chartered Accountant(s) does not appear in type bolder than the substance of such advertisement.

5. CSR Activities

The members sponsoring activities pertaining to Corporate Social Responsibility (CSR) are permitted to mention their individual name with the prefix "CA". However, it is not permissible to mention the Firm name or CA Logo.

What is not allowed

There are certain forms of publicity which have been decided to be not permissible in accordance with the provisions of the Chartered accountants Act, 1949 and the Code of Ethics:-

1. Application based Service provider Aggregators

It is not allowed for the members to list themselves with online Application based service provider Aggregators, wherein other categories like businessmen, technicians, maintenance workers, event organizers etc. are also listed.

The members may enlist themselves and their Firms on CA Connect Portal (caconnect.icaai.org). This is a platform of listing provided by the Institute and serves as a connect between the clients and the Chartered Accountants on the basis of services provided by the members and their geographical location.

2. Firm's Logo

As per the existing provisions and decision of Council, it is not permissible to use firm logo. Although it was permitted earlier, subsequently, the Institute noted cases of registration of firm name which was not in compliance with the provisions contained in the Chartered Accountants Regulations, 1988. It was noted that the members or firms by themselves or through engineered name had been seeking to obtain firm name approval based on the name of the partner/s selected in the manner that logo of the firm would be identical to the firm name which would have not otherwise been permissible as firm name under Regulation 190. Accordingly, in order to ensure compliance with the Regulations, the Institute in December 1997, decided that the use of logo/monogram of any kind/form/style/design/colour etc.



whatsoever on any display material or media e.g. paper stationery, documents, visiting cards, magnetic devices, internet, sign board, by the members in practice and/or the firm of Chartered Accountants, be prohibited. Use/printing of member/firm name in any other manner tantamounting to logo/monogram was also prohibited.

3. Paid Listings on Search Engines:

Paid advertisements or listings on search engines are used to increase visibility. As per the clarification of Ethical Standards Board, it is not permissible.

4. Firm's visibility at events

It is not permissible for the CAFirms to showcase/sponsor events such as Conferences, expos, financial trade shows, etc. It may however be noted that the members and firms may sponsor an event conducted by a Programme Organizing Unit of the ICAI, provided such event has the prior approval of Continuing Professional Education Directorate of the ICAI.

5. Marketing through Networking Groups

As per the provisions of Code of Ethics, it is not permissible for the Firms to join Networks not registered with the Institute (by whichever name called).

6. Teaching Advertisement

As per the Code of Ethics, keeping in view the broad purview of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, an advertisement of Coaching /teaching activities by a member in practice may amount to indirect solicitation, as well as solicitation by any other means, and may therefore be violative of the provisions of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

In view of the above, such members are advised to abstain



from advertising their association with Coaching /teaching activities through hoardings, posters, banners and by any other means, failing which they may be liable for disciplinary action, as per the provisions of Chartered Accountants Act, 1949 and Rules/Regulations framed thereunder.

Subject to the above prohibition, such members may put, outside their Coaching /teaching premises, sign board mentioning the name of Coaching/teaching Institute, contact details and subjects taught therein only. As regards the size and type of sign board, the Council Guidelines as applicable to Firms of Chartered Accountants would apply.

Advertisement as per the IESBA Code of Ethics

The Code of Ethics issued by the International Ethics Standards Board for Accountants (IESBA) mentions following provision on advertisement:-

R115.2 When undertaking marketing or promotional activities, a professional accountant shall not bring the profession into disrepute. A professional accountant shall be honest and truthful and shall not make:

(a) *Exaggerated claims for the services offered by, or the qualifications or experience of, the accountant; or*

(b) *Disparaging references or unsubstantiated comparisons to the work of others.*

It may however be noted that IESBA prescribes the principle based stipulations which may be converged by the member countries of IFAC in their respective Code of Ethics. The domestic regulations on advertisement of jurisdictions are additionally applicable. For instance, AICPA (US) provides that a member in public practice shall not seek to obtain clients by advertising or other forms of solicitation in a manner that is false, misleading, or deceptive. Solicitation by the use of coercion, over-reaching, or harassing conduct is prohibited. Also, ICAEW (UK) provides that Professional Accountant shall never promote or seek to promote their services, or the services of other professional accountants, in such a way, or to such an extent, as to amount to harassment of a potential client or employer.

Inference

The Institute has been taking steps towards allowing requisite changes with regard to advertisement as per the contemporary requirements, while keeping its commitment to compliance with the highest ethical standards. In the same vein, the measures are on for making necessary changes in line with the today's requirements.



Dr. Sony Kuriakose
Academician



Prof. CA. Lovleen Gupta
Academician & Member of
the Institute



Dr. Anu Jossy Joy
Academician

Two Decades of Transformation: Structural Shifts in Direct Tax Collections in India during 2000-2024

The article is a study that examines the structural shifts in India's tax composition over two decades, focusing on the rising prominence of direct taxes, particularly personal income tax, and the corresponding decline in the share of indirect taxes in the total tax collections. Analysing data from 2000-01 to 2023-24, the study highlights key trends, including the increase in personal income tax collections from 46.5% to 53.3% of direct taxes and the surge in income tax filers from 3.5 crore in 2013-14 to over 8.1 crore in 2023-24. It explores the impact of pivotal reforms, such as demonetization, GST, and technological advancements in tax administration, on compliance and revenue growth. The study also assesses the implications of disruptions like COVID-19 on tax structures. The findings underscore the success of policy efforts to formalize the economy and enhance equity while identifying challenges in achieving balanced growth across tax categories for fiscal sustainability.

India's tax structure has undergone a significant transformation over the past few decades, shaped by policy reforms and the growing needs of a rapidly expanding economy. In the 1990s, the tax system was heavily reliant on indirect taxes, with direct taxes contributing less than 20% of the total tax revenue. The reliance on indirect taxation was due to its ease of collection and India's then-limited taxpayer base. However, the era also marked the beginning of reforms such as the introduction of Minimum Alternate Tax (MAT) and a rationalization of tax rates, setting the stage for a gradual shift towards direct taxation.

By the 2000s, the contribution of direct taxes began to increase, reaching 36% of total tax revenue by the early part of the decade. The reforms under

the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, coupled with improvements in tax administration and compliance, were instrumental in this shift. Corporate tax collections gained momentum, driven by robust economic growth and better compliance mechanisms. Personal income tax collections also showed gradual improvement, supported by measures like tax deduction at source (TDS) and the popularization of the Permanent Account Number (PAN).

Despite this progress, India continues to face challenges in achieving an ideal tax-GDP ratio. Globally, a tax-GDP ratio of 15-20% is considered essential for sustainable economic development. India's tax-GDP ratio has hovered around 10-12% for much of the past two decades, indicating room for improvement. Direct taxes' contribution to GDP has

shown gradual growth but remains below global benchmarks, reflecting issues such as limited penetration of the tax net, particularly among individuals, and structural challenges in corporate taxation.

Background of the Study

During the economic history of India, the imbalance between direct and indirect taxes has been a serious concern. While direct taxes are considered progressive and equitable, indirect taxes, which form a significant proportion of India's revenue, tend to be regressive and disproportionately affect lower-income groups. The dominance of corporate taxes within direct taxes, at times exceeding 60% of direct tax collections, further highlights structural challenges in achieving a balanced contribution from personal income taxes and corporate taxes (RBI, 2021).

Over the past two decades, India has undergone a remarkable transformation in its direct tax regime, driven by consistent efforts to simplify tax laws, enhance compliance, and create a more equitable and efficient tax system. The Ministry of Finance has introduced several landmark initiatives to achieve these objectives. The introduction of the e-filing portal and the mandatory use of Permanent Account Numbers (PAN) for financial transactions have revolutionized tax administration. The e-filing system, launched in the mid-2000s, simplified the process of filing returns and reduced paperwork. PAN-based compliance ensured better tracking of financial transactions, curbing tax evasion, and broadening the tax base.

In a bold move to boost investment and improve India's global competitiveness, the government reduced corporate tax rates in 2019. Domestic companies were offered a lower tax rate of 22%, while new manufacturing units were taxed at just 15%. This reform, coupled with the removal of numerous exemptions, aimed to simplify the tax structure and attract both domestic

and foreign investments (CBDT, 2019). Again in 2020, the government launched the Faceless Assessment Scheme 2020 to eliminate human interface and reduce corruption in tax administration. This initiative introduced an automated, randomized system for tax assessments, ensuring greater transparency and efficiency. Taxpayers could now interact with tax authorities without physical meetings, significantly improving ease of compliance (CBDT, 2020). Further, to address the growing backlog of tax disputes, the government introduced the Vivad Se Vishwas Scheme in 2020. This voluntary dispute resolution mechanism allowed taxpayers to settle pending cases by paying only the disputed tax amount, without additional penalties or interest. The scheme not only reduced litigation but also provided much-needed relief to taxpayers and the judiciary (Ministry of Finance, 2020).

These reforms enhanced transparency and widened the tax base. By the end of the decade, direct taxes consistently contributed over 50% of total tax revenue, with a significant rise in personal income tax collections, reflecting improved taxpayer participation (World Bank, 2019). At this juncture, it is important to address the following research questions.

RQ1: How have direct tax collections evolved over the last two decades in India?

RQ2: What are the structural changes in the composition of personal income tax and corporate tax?

RQ 3: What role have policy interventions played in reshaping direct tax collections?

By analysing these aspects, the study seeks to provide insights into the progress and challenges in India's direct tax structure, contributing to the discourse on tax policy reforms and fiscal sustainability.

Research Objectives

Based on the research context and questions provided, the four key objectives for the study are given below.

- To analyse the trajectory of direct tax collections during 2000-2024.
- To examine the growth patterns, year-on-year changes, and compound annual growth rates of personal income tax collections in India during 2000-2024.
- To identify critical inflection points in direct tax collection pattern and their underlying economic drivers during 2000-2024.
- To analyse the changing composition of direct tax collections and indirect tax collections during the last two decades.



Key Trends and Growth Patterns – Personal Income Tax Collections

The analysis of personal income tax collections over the period from 2000-01 to 2023-24 highlights a steady and consistent growth trajectory, with the Compound Annual Growth Rate (CAGR) for the overall period reaching 14.50%, as depicted in Table 1. This growth reflects the impact of economic expansion, improved compliance measures, and progressive policy interventions. The pre-demonetization

period (2000-01 to 2016-17) registered a CAGR of 12.00%, characterized by steady increases in tax collections driven by incremental reforms, such as the popularisation of the Permanent Account Number (PAN), Integrated Tax Payer Data Management System, E-filing of income tax returns, and the expansion of TDS mechanisms. However, the post-demonetization period (2017-18 to 2019-20) saw an accelerated CAGR of 18.00%, marking a significant uptick in collections due to a broader taxpayer base, enhanced digitization, and the push towards formalization of the economy.

The trends indicate a structural shift in personal income tax collections, particularly post-demonetization and post-COVID recovery. The growth in tax collections reflects improved taxpayer behaviour, increased voluntary disclosures, and the effectiveness of policy measures aimed at formalizing the economy. The resilience displayed during the post-COVID period highlights the economy's adaptability and the government's ability to maintain fiscal discipline. Going forward, these trends underline the importance

Table 1: Comparative Growth Periods

Growth Periods	Start Year	End Year	CAGR (%)	Features
Overall Period	2000-01	2023-24	14.50%	Steady, consistent growth pattern
Pre-Demonetization	2000-01	2016-17	12.00%	Steady, consistent growth pattern
Post-Demonetization	2017-18	2019-20	18.00%	Accelerated collection momentum
Pre-COVID	2000-01	2019-20	15.00%	Steady, consistent growth pattern
COVID Period	2020-21	2021-22	Negative Growth	Temporary economic disruption
Post-COVID Recovery	2021-22	2023-24	17.50%	Rapid bounce-back and resilience

Source: Author's analysis

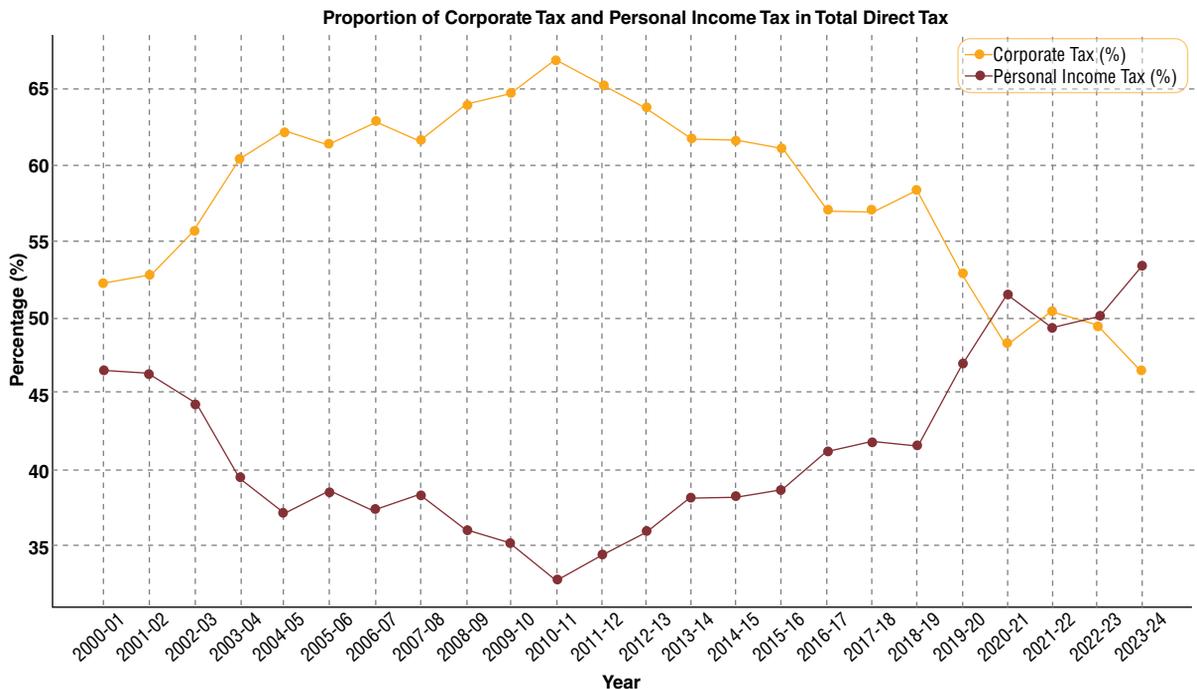


Figure 1: Personal Income Tax Vs Corporate Tax

of sustained policy innovation, simplification of tax structures, and leveraging technology to enhance compliance. This ensures that India continues to strengthen its tax-GDP ratio and revenue mobilization capacity to fund developmental goals.

Structural Shifts in Direct Tax Composition

The composition of direct taxes in India has undergone significant structural changes over the past two decades, as evidenced by the shifting proportions of personal income tax, corporate tax, and other direct taxes, depicted in Figure 1. In the early 2000s, corporate tax dominated the landscape, contributing 52.3% of total direct taxes in 2000-01, while personal income tax accounted for 46.5%. However, by 2020-21, the contribution of personal income tax surpassed that of corporate tax for the first time, reaching 51.5% compared to corporate tax's 48.3%. This trend continued in subsequent years, with personal income tax comprising 53.3% of total direct taxes in 2023-24. These changes reflect a gradual shift toward a more balanced contribution between individual and corporate taxpayers, influenced by policy reforms and economic dynamics. The negligible contribution of other direct taxes, consistently below 1%, underscores the reliance on personal and corporate taxes as primary revenue sources.

“ GST's digital infrastructure, including the GST Network (GSTN) and invoice-matching system, has enhanced transparency in financial transactions, making it harder for businesses to underreport income. ”

Several factors have contributed to these shifts. First, the formalization of the economy post-demonetization and the implementation of the Goods and Services Tax (GST) significantly widened the tax base, particularly among individual taxpayers. The analysis from the NIPFP Working Paper Series (No. 330, March 2021) highlights evidence of formalisation in the Indian economy, as reflected in income tax data. For non-corporate entities, the ratio of business income to operating profits reported in the National Accounts Statistics (NAS) increased from 19% to 22%, indicating greater tax compliance among small businesses. Additionally, the ratio of salary income reported for tax purposes to the total compensation paid to employees in the economy (as per NAS) has also gone up. This indicates that more people are now working in formal jobs with proper contracts and are paying taxes on their salaries. (Rao, 2021).

The implementation of the Goods and Services Tax (GST) in July 2017 has played a pivotal role in formalizing

India's economy, thereby indirectly boosting direct tax compliance. GST's digital infrastructure, including the GST Network (GSTN) and invoice-matching system, has enhanced transparency in financial transactions, making it harder for businesses to underreport income. This formalization has led to a broader tax base, as evidenced by the increase in income tax return filings from 52.9 million in FY 2016-17 to 86.1 million in FY 2023-24.

Enhanced compliance measures, such as mandatory filing for high-value transactions and improved technology-enabled tax administration, have also increased personal income tax contributions. M Govida Rao, former director of NIPFP, argues that the adoption of a standardized and interlinked numbering system, particularly the integration of the Goods and Services Tax (GST) registration number with the Permanent Account Number (PAN), has significantly contributed to the rise in direct tax collections in India. By linking GST turnover with declared income, tax authorities can effectively cross-verify financial data, identify discrepancies, and detect potential cases of tax evasion. This increased probability of detection has encouraged voluntary compliance, as taxpayers are more likely to accurately report their income when they know their financial activities are traceable. Furthermore, the effective

Table 2: Direct Tax Composition: Personal Income Tax Vs Corporate Tax

Financial Year	Personal Income Tax (₹ Crore)	Corporate Tax (₹ Crore)	Other Direct Taxes (₹ Crore)	Total Direct Taxes (₹ Crore)	Personal Income Tax (%)	Corporate Tax (%)	Other Direct Taxes (%)
2000-01	31,764	35,696	845	68,305	46.50%	52.30%	1.20%
2005-06	63,689	1,01,277	250	1,65,216	38.50%	61.30%	0.20%
2010-11	1,46,258	2,98,688	1,049	4,45,995	32.80%	67.00%	0.20%
2015-16	2,87,637	4,53,228	1,079	7,41,945	38.80%	61.10%	0.10%
2020-21	4,87,560	4,57,719	1,897	9,47,176	51.50%	48.30%	0.20%
2022-23	8,33,307	8,25,834	4,545	16,63,686	50.10%	49.60%	0.30%
2023-24	10,45,139	9,11,055	3,972	19,60,166	53.30%	46.50%	0.20%

Source: Author's analysis based on data retrieved from Income Tax Department, Ministry of Finance (incometaxindia.gov.in)

Table 3: Composition of Direct Tax and Indirect Tax Collections

Financial Year	Direct Taxes (₹ Crore)	Indirect Taxes (₹ Crore)	Total Taxes (₹ Crore)	Direct Tax as % of Total Taxes	Indirect Tax as % of Total Taxes
2000-01	68,305	1,19,814	1,88,119	36.31%	63.69%
2005-06	1,65,216	1,99,348	3,64,564	45.32%	54.68%
2010-11	4,45,995	3,43,716	7,89,711	56.48%	43.52%
2015-16	7,41,945	7,11,885	14,54,180	51.03%	48.97%
2020-21	9,47,176	10,74,809	20,21,985	46.84%	53.16%
2022-23	16,63,686	13,81,935	30,45,621	54.63%	45.37%
2023-24	19,60,166	14,95,853	34,56,019	56.72%	43.28%

Source: Author's analysis based on data retrieved from Income Tax Department, Ministry of Finance (incometaxindia.gov.in)

use of technology, especially since 2021, has enhanced transparency by enabling better tracking of income sources for both individuals and corporates. The deployment of data from the GST Network (GSTN) has played a pivotal role in improving income tracking and ensuring that taxable income is properly reported. These measures, combined with a compliance-by-design approach, have strengthened the tax administration system, leading to a steady increase in direct tax collections over the years (Rao, 2023).

Demonetization and the shift toward digital payments further formalized the economy, encouraging more individuals to enter the tax net. Simultaneously, corporate tax rates were rationalized, particularly with the reduction announced in 2019, aimed at spurring investment and economic growth. This policy led to a relative decrease in corporate tax's share. Furthermore, the COVID-19 pandemic impacted corporate profits more severely than individual incomes, further altering the tax composition. The consistent growth in personal income tax collections highlights the success of policy efforts to enhance equity and broaden the tax base, while the relatively stable corporate tax contributions indicate the resilience of India's corporate sector amidst economic fluctuations. The resilience of direct taxes, even during economic disruptions like

COVID-19, and the rising number of tax filers underscore India's transition toward a more balanced and sustainable taxation framework, crucial for funding developmental objectives and achieving fiscal equity.

Shifts in the Composition of Direct and Indirect Taxes

Over the past two decades, the relative contributions of direct and indirect taxes to India's total tax revenue have undergone significant changes, highlighting evolving policy priorities and economic transformations, as depicted in Table 3. In 2000-01, indirect taxes formed the majority, contributing 63.69% of total taxes, while direct taxes accounted for only

36.31%. By 2023-24, this trend had reversed, with direct taxes rising to 56.72% and indirect taxes declining to 43.28%. This shift underscores the increasing reliance on progressive taxation mechanisms, reflecting a policy focus on equity and income-based taxation. Milestones such as the mid-2000s reforms, including rationalization of direct tax rates and the introduction of Tax Deduction at Source (TDS), were instrumental in broadening the direct tax base and enhancing compliance.

The composition of India's gross tax revenues has witnessed significant shifts over the years, particularly in the shares of corporate taxes, income taxes, and the Goods and Services Tax (GST). In 2017-18, corporate

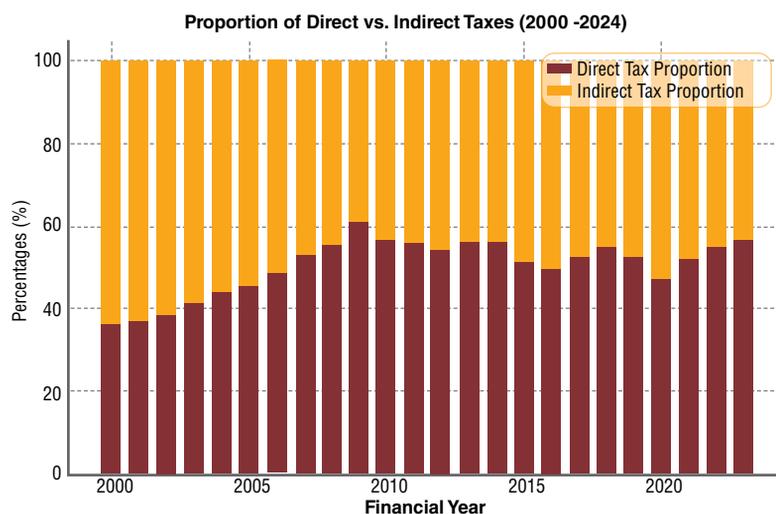


Figure 2: Direct Taxes Vs Indirect Taxes

taxes accounted for nearly 32% of the Centre's gross tax revenues, making it the largest contributor. However, this share has declined steadily since then, falling to 26.5% in the 2024-25 budget estimates. In contrast, the share of income taxes has risen, reaching 30.91% in the same period, making it the largest component of gross tax revenues. Meanwhile, GST, introduced in 2017, has seen its share grow to 27.65% in 2024-25, surpassing corporate taxes. These trends reflect a structural shift in India's tax revenue composition, with income taxes and GST emerging as the dominant sources, while the contribution of corporate taxes has gradually diminished (Budget Estimates, 2024-25).

Conclusion

The evolution of India's tax structure over the past two decades reflects a significant shift toward a more progressive and equitable taxation framework. Direct taxes have emerged as the dominant source of revenue, rising from 36.31% of total taxes in 2000-01 to 56.72% in 2023-24, while indirect taxes have correspondingly declined. This transition underscores the success of policies aimed at broadening the tax base, formalizing the economy, and enhancing compliance. Milestones such as the introduction of PAN,

“ Direct taxes have emerged as the dominant source of revenue, rising from 36.31% of total taxes in 2000-01 to 56.72% in 2023-24, while indirect taxes have correspondingly declined. ”

Tax Deduction at Source (TDS), demonetization, and the adoption of digital tax administration have played pivotal roles in increasing the number of income tax filers from 3.5 crore in 2013-14 to over 8.6 crore in 2023-24.

The resilience of direct taxes, even during disruptions like the COVID-19 pandemic, highlights their stability as a revenue source. However, the relative decline in corporate tax contributions following rate reductions points to a need for balanced growth across individual and corporate taxation. The gradual reduction in the share of indirect taxes addresses equity concerns but calls for further efficiency in tax collection mechanisms like GST. As India continues to modernize its tax policies, fostering voluntary compliance and leveraging technology

will be critical to sustaining revenue growth, reducing inequalities, and ensuring fiscal sustainability.

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GST Implications on Construction of Commercial Immovable Property & Input Tax Credit (ITC)

The Goods and Services Tax (GST) framework has transformed taxation in commercial real estate transactions in India. This article examines GST's impact on construction and sale of commercial properties, focusing on taxability, applicable rates, and Input Tax Credit (ITC) provisions. The article further explores tax computation methods, and ITC eligibility for property-related expenses, offering practical insights into regulatory compliance and cost-saving strategies. By comprehending these aspects, stakeholders

can make informed decisions, minimize unnecessary tax costs, and maximize financial benefits in commercial real estate transactions under the GST regime.

The introduction of the Goods and Services Tax (GST) has restructured the taxation system for the construction and sale of commercial properties in India. Understanding GST provisions is crucial for businesses, developers, and investors to comply with tax regulations while optimizing financial planning. GST applicability depends on factors such as the construction phase, the nature of the real estate project, and whether the property is sold, rented, or constructed for self-use.

Additionally, ITC plays a vital role in determining the overall tax cost, but its availability is subject to specific restrictions, particularly under Section 17(5)(d), which blocks ITC on immovable property constructed for own use or rental purposes.

This article provides an in-depth analysis of GST liability on the construction of commercial immovable property, the availability and applicability of ITC, and their practical implications for commercial real estate stakeholders, offering insights to help them navigate tax complexities effectively.

GST Liability on Construction of Commercial Immovable Property

GST rates on commercial real estate transactions depend on whether the property is under construction or completed. If a commercial

property is sold before obtaining the Completion Certificate (CC) or Occupancy Certificate (OC), GST is applicable. However, once the CC/OC is obtained, the sale is treated as an immovable property transaction, which is exempt from GST.

Tax Rates and Applicability

Particulars	GST Rate	Relevant Section / Notification	Remarks
Construction of commercial apartments [Shops, Godowns, Offices Etc.] in a Residential Real Estate Project (RREP)*, which commences on or after 01-04-2019 or in an ongoing project in respect of which the promoter has opted for new rates effective from 01-04-2019	5% (Without ITC)	Section 9 r/w Notification No. 03/2019-CT (Rate)	GST applies if sold before obtaining the Completion Certificate (CC).
Construction of commercial apartments [Shops, Godowns, Offices Etc.] in a Real Estate Project (REP) other than Residential Real Estate Project (RREP) or in an ongoing project in respect of which the promoter has opted for old rates.	12% (With ITC)	Notification No. 03/2019-Central Tax (Rate)	GST applies if sold before obtaining the Completion Certificate (CC).

Particulars	GST Rate	Relevant Section / Notification	Remarks
Sale of completed commercial property (after Occupancy Certificate/Completion Certificate)	Not taxable	Schedule III, Entry 5	Sale of immovable property is outside GST scope.
Renting of commercial property	18%	Section 7(1)(a) & Section 7(1A) r/w Schedule II, Entry 2	Renting of commercial property is treated as a supply of services.
Self-construction of commercial property for own use	Not taxable	Section 7 r/w Schedule III	No GST applies as there is no "supply". However, ITC is restricted under Section 17(5) (d).

[*RESIDENTIAL REAL ESTATE PROJECT: "Residential Real Estate Project" means a "Real Estate Project" in which the carpet area of the commercial apartments is not more than 15 percent of the total carpet area of all the apartments in the project]



“ If repair & maintenance expenses are treated as revenue expenses (i.e., recorded in the Profit & Loss account and not capitalized in the books), ITC is allowed under Section 16 of CGST Act. ”

GST on Sale of Commercial Immovable Property – Taxable Value Computation

GST applies only if the sale occurs before obtaining the completion certificate. The taxable value is based on the consideration amount, with land value deduction at a standard rate of $1/3^{\text{rd}}$ of the total sale price, as per Notification No. 11/2017-CT (Rate). Thus, GST is applied on $2/3^{\text{rd}}$ of the total sale value.

GST Rate & Calculation Formula

Particulars	GST Rate	Taxable Value	GST Calculation
Sale of Commercial Apartment in Residential Real Estate Project (RREP) (New Scheme)	7.5% (Without ITC)	$2/3^{\text{rd}}$ of Total Sale Value	$\text{GST} = (\text{Total Sale Value} \times 2/3) \times 7.5\%$
Sale of Commercial Apartment in Real Estate Project (REP) (Old Scheme)	18% (With ITC)	$2/3^{\text{rd}}$ of Total Sale Value	$\text{GST} = (\text{Total Sale Value} \times 2/3) \times 18\%$
Sale of completed commercial property (after CC/OC)	Not taxable	Not applicable	No GST applies

Example Calculation

- Total Sale Price of a Commercial Unit = ₹1,00,00,000
- Land Deduction ($1/3^{\text{rd}}$ of Total Price) = ₹33,33,333
- Taxable Value ($2/3^{\text{rd}}$ of Total Price) = ₹66,66,667

GST Payable

- If under 7.5% GST (RREP): ₹66,66,667 × 7.5% = ₹5,00,000. Thus, effective rate is 5% on Total Sale Value.
- If under 18% GST (REP): ₹66,66,667 × 18% = ₹12,00,000. Thus, effective rate is 12% on Total Sale Value.

GST & ITC on Self-Construction for Own Use

Scenario	GST Applicability	ITC Availability	Relevant Section	Remarks
Self-construction of a commercial property for own business use	✗ Not Applicable	✗ Not Available	Section 17(5)(d)	ITC is blocked for immovable property construction for own use.
Self-construction for renting out the property	✗ Not Applicable	✗ Not Available	Section 17(5)(d)	ITC is not available even if the property is used for taxable outward supply.
Construction by hiring a registered works contractor	✓ 18% GST on contractor's bill	✗ Not Available	Section 17(5)(c) & (d)	GST applies on contractor's bill, but ITC is blocked for own use.
Construction of plant & machinery (capital goods)	✓ 18% GST	✓ Available	Explanation to Section 17(5)(d)	ITC is allowed for plant & machinery as they are not considered immovable property.

ITC on Construction of Commercial Immovable Property

Particulars	ITC Availability	Relevant Section	Remarks
GST paid on construction of commercial property for own use	✗ Not Available	Section 17(5)(d)	ITC is blocked if the property is used for own business or rental purposes.
GST paid on construction for resale (before completion certificate)	✓ Available	Section 16 r/w Section 17(5)(d)	ITC can be claimed if the property is intended for sale before completion, and GST at 12% is charged on the sale.
GST paid on repairs, renovation, or maintenance (not capitalized)	✓ Available	Section 16	ITC can be claimed if booked as an expense in P&L and not capitalized.
GST paid on interior work, furniture & fittings	✓ Available	Section 16	ITC is allowed for movable furniture & fittings, as they are not classified as immovable property.

GST on Renting of Commercial Property

Particulars	GST Rate	Relevant Section	Remarks
Renting of commercial property	18%	Section 7(1)(a) & Schedule II, Entry 2	GST applies on rental income if already registered under GST or total turnover exceeds ₹20 lakh (₹10 lakh in special category states).
Renting of residential property for commercial use	18%	Section 7(1A) r/w Schedule II	GST applies if a residential unit is rented for business purposes.
Renting of residential property to a GST-registered person	18% (RCM)	Notification No. 05/2022-CT (Rate)	GST is paid by the tenant under Reverse Charge Mechanism (RCM).

ITC Eligibility for Repairs & Renovation

If repair & maintenance expenses are treated as revenue expenses (i.e., recorded in the Profit & Loss account and not capitalized in the books), ITC is allowed under Section 16 of CGST Act. Some examples include:

Nature of Expense	ITC Eligibility	Remarks
Painting & Polishing	✓ Available	If treated as repair and not as part of new construction. (Also, if not capitalized)
Plumbing & Sanitary Repairs	✓ Available	ITC allowed for repair & maintenance, but not for new installations.
Electrical Repairs (Wiring, Switches, Fixtures, etc.)	✓ Available	Repairs allowed, but new installations may be capitalized.
False Ceiling Repairs	✓ Available	If done as part of regular maintenance.
Air Conditioning System Repair & Servicing	✓ Available	ITC is available unless capitalized.
Carpentry Repairs (Doors, Windows, Furniture, etc.)	✓ Available	For maintenance, not for new construction.
Flooring Repairs (Tiles, Marble, Woodwork, etc.)	✓ Available	ITC allowed for repairs but not for full replacement.
Lift & Elevator Maintenance	✓ Available	Repair services allowed, but new installation is capitalized.
Structural Strengthening & Waterproofing	✓ Available	If classified as repair & not a capital asset.
Roof & Wall Repairs	✓ Available	Allowed if booked as maintenance expense.
Security Systems & Fire Safety Equipment Servicing	✓ Available	ITC available for maintenance contracts.

ITC on Construction of immovable property for Own Use or Rental – Not Eligible

Section 17(5)(d) of the CGST Act, 2017 – Blocked ITC on Construction of Immovable Property

As per Section 17(5)(d) of the CGST Act,

(5) Notwithstanding anything contained in sub-section (1) of section 16 and sub-section (1) of section 18, input tax credit shall not be available in respect of the following, namely:- (d) goods or services or both received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account, including when such goods

or services or both are used in the course or furtherance of business.

Explanation:

For the purposes of clauses (c) and (d), the term “construction” includes:

Re-construction, Renovation, Additions or alterations, and Repairs, to the extent of capitalization in the books of accounts.

Key Takeaways:

ITC is blocked if the construction expense is capitalized in the books.

This restriction applies even if the property is used for business or rental purposes.

Exception: ITC is allowed for plant & machinery.



Nature of Expense	ITC Eligibility	Remarks
New Building Construction (Commercial/ Residential)	✗ Not Available	ITC blocked under Section 17(5)(d).
Structural Work (Columns, Beams, Foundation, RCC, etc.)	✗ Not Available	Treated as construction of immovable property.
Installation of New Plumbing & Sanitary Systems	✗ Not Available	ITC blocked if capitalized.
New Electrical Installations (Main Panels, Transformers, etc.)	✗ Not Available	ITC blocked if part of new construction.
Entire Flooring Replacement	✗ Not Available	ITC blocked if capitalized as part of building cost.
New Lift & Elevator Installation	✗ Not Available	Treated as part of immovable property.
Major Structural Renovation (Wall Demolition & Reconstruction)	✗ Not Available	ITC blocked if treated as capital asset.
New Roofing Work	✗ Not Available	ITC blocked if capitalized.
Construction of New Office Interiors (Cabins, Counters, Partitions, etc.)	✗ Not Available	ITC blocked if forming part of immovable property.

Key Takeaways & Conclusion

- ITC is available on various repair and maintenance expenses if they are not capitalized and are treated as revenue expenditures in the books of accounts. This includes painting, plumbing, electrical repairs, air conditioning servicing, carpentry, flooring repairs, lift maintenance, waterproofing, structural strengthening, roof/wall repairs, and fire safety system servicing. However, ITC is not available for new installations or capitalized expenses, as per Section 17(5) of the CGST Act, 2017.
- GST at 12% applies to construction services. However, as per Section 17(5)(c) of the CGST Act, Input Tax Credit (ITC) on works contract services is generally restricted. ITC shall be available only if the recipient uses such services for further supply of works contract services or if the property is sold before obtaining the completion certificate.

“ ITC is available on various repair and maintenance expenses if they are not capitalized and are treated as revenue expenditures in the books of accounts. ”



- ITC on inputs and input services are blocked for self-construction or rental immovable property purposes under Section 17(5)(d).
- Businesses must plan GST strategies effectively to minimize tax costs and ensure compliance.

The GST framework for commercial real estate requires careful tax liability assessment and ITC claims management. Strategic planning helps stakeholders optimize tax outflows while ensuring adherence to regulatory mandates, ultimately fostering a cost-effective and compliant real estate investment environment.

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Rainmaker in Joint Venture ecosystem: A Finance Leader's Toolbox

Joint venture is the most preferred India-entry strategy of foreign enterprises. India, being a fast-growing nation, offers a combination of traditional skills with innovation. Several economic sectors, such as retail and automobile, are currently growing rapidly, and the total Joint Venture investment valuation is projected to grow exponentially over the next few years. In this article, the author takes a practical approach, explaining real-market scenarios of

various control combinations that the investors use in establishing the Joint Arrangement and the applicability of Ind-AS to each such scenario. This will guide the new-age finance leaders to navigate through the complex Joint Venture ecosystem in framing the appropriate accounting policies and techniques, including financial consolidation of Joint Arrangements. The article would serve as a corporate toolbox for key accounting drivers in long-term partnerships, internal R&D, and inorganic growth of Joint Venture Companies.

Global Investments in the Indian Emerging Market

Forming Joint Ventures (JV) has become the common route for global companies looking to capitalize on the vast opportunities offered by the Indian market. Indian enterprises desiring global technologies, equity, and expansion are ready to shake hands. It is a win-win deal.

In the last ten years, more than five thousand new Joint Venture Companies (JVCS) have been incorporated in India. As per the compliance and financial audit reports published by C&AG of India, in Central Public Sector Enterprises (CPSE) alone, there has been capital participation of ₹1.72 lakh crores in form of equity and ₹74 thousand crores through loans and debentures.

In the private sector, some of the superstar JVs have been Tata-Starbucks (food & beverage), Bharati-Axa (general insurance), Vistara-Air Asia (Aerospace),

Mahindra-Renault (automobile), amongst others. Succeeding the complex venture model is not easy - there are also several JV businesses which faltered in the long run, for example, Yamaha-Escorts (two wheelers), Godrej-P&G (FMCG). The key to success in joint ventures germinates in establishing a solid foundation through a well-structured Joint Arrangement.

In this article, the author takes a practical approach, explaining real-market scenarios of various control combinations that the investors use in establishing the Joint Arrangement and the applicability of Ind-AS to each such scenario. This would guide the new-age finance leaders to navigate through the complex JV ecosystem in framing the appropriate accounting policies and techniques in the financial consolidation of Joint Arrangements. The article would serve as a corporate toolbox for key accounting drivers in long-term partnerships, internal R&D, and inorganic growth of JVCs.

Joint Agreement - Focus on Strategic Diligence

An enforceable contractual arrangement usually is in the form of an executable legal document enumerating the purpose, activities, duration, capital contribution, and most importantly, governance. Indian companies have distinct strategic advantages to incubate and make it big for global ventures.

Marketplace

A dynamic industrial environment and a vast talent pool are attracting investors and customers.

Demographics

Regional expertise and understanding of the local competition, including policy outlook for favorable or adverse government actions, is critical in the diligence process.

Technology

Combining technology with risk mitigation of fast-paced innovation to JVC's competitive advantage.

Culture & Growth

Collaborative approaches to decision-making with early alignment on realistic growth expectations would enable early resolution of roadblocks and foster growth.

Joint Control - Congruence of all values holds the key

New markets bear substantial strategic risk associated with rapid technological innovation and disruption, as well as ecosystem uncertainty. These risks are heightened by the capital-intensive nature of some industries, for example, energy or aerospace, and the economies of scale within infrastructural limitations eg. electric vehicles.

When investors decide to pursue a joint venture, a critical first step is determining the appropriate level of ownership, control, and decision-making influence. The control ratio will depend upon the capital outlays, degree of operating responsibility, and risk appetite of each investor. Another popular option is a 50:50 joint arrangement.

Let us evaluate a few common scenarios and their impact on joint control –

Scenario 1 – A, B, C & D are contracting parties to a joint arrangement. Each of them is exposed to and has rights to the profits of the joint arrangement in proportion to their capital contribution. Do A, B, C & D have joint control over the arrangement?

Evaluation – As per Ind-AS111, merely having a proportionate share in the joint arrangement would not establish joint control. When all the parties collectively are able to direct and control the activities that significantly impact the returns of the arrangement, then A, B, C & D would be said to control the arrangement. It is still not established if they have joint control.

Each of A, B, C & D has to assess if the decision-making of the relevant activities needs the unanimous consent of the parties. In determining

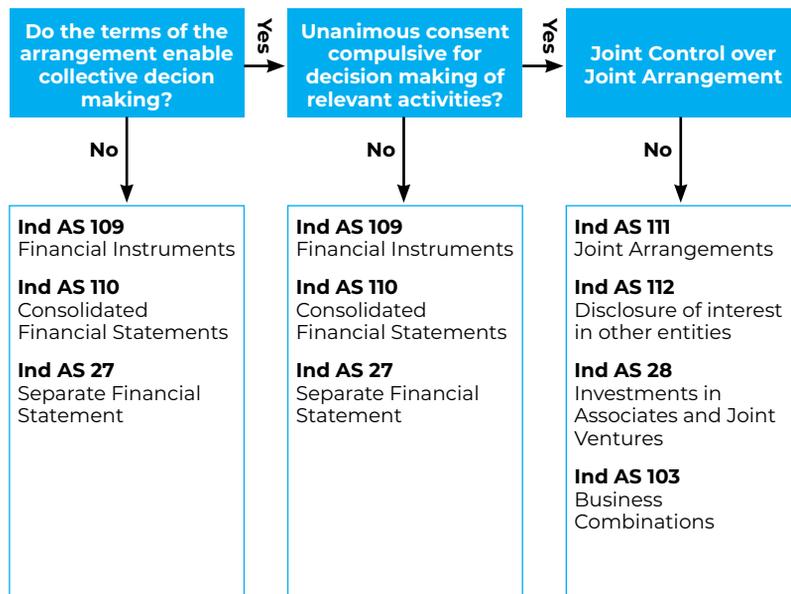
unanimous consent, the test is whether any of the parties is able to prevent the other parties from taking a unilateral decision without its consent. However, merely contractual protective rights without access to the decision-making process of the joint arrangement will not grant joint control to the party.

Any party that might fail the test of joint control will be a participant in the arrangement and has to account for the investment in the arrangement in accordance with Ind-AS 109 on Financial Instruments.

Scenario 2 – In the above example, each party has an unequal profit share and equal voting rights. The contract specifies that at least 76% of the voting rights are required to make decisions about the relevant activities. Do A, B, C & D have joint control over the arrangement?

Evaluation – It is implied from such an arrangement that all contracting parties wish to exercise joint control over the arrangement because any key decision cannot be made unless all parties are in unanimous agreement.

The decision flow below can be used as an aid in the application of the most relevant Accounting Standards to each scenario -



“ New markets bear substantial strategic risk associated with rapid technological innovation and disruption, as well as ecosystem uncertainty. These risks are heightened by the capital-intensive nature of some industries. ”

Potential Risk – Joint Arrangements often get into unpleasant decision gridlock with the investors failing to reconcile differences in strategies or operations with no path forward. Also, JV management becomes a de facto third partner expecting its own share in the growth journey. This is when the contractual agreement plays a vital role in defining clear accountability of each stakeholder to make the venture a success, to establish adequate controls, and manage risk.

Deciding the form - Joint Venture or Joint Operations?

The finance leaders must determine where they can create the most value within the ecosystem of an emergent

market and what strategies are suitable depending on the market segment's maturity level.

A convenient form of Joint Arrangement is to conduct the business through a separate vehicle. This vehicle can be incorporated in the form of a JV company or JV LLP.

Though different from wider collaboration of JVs, popular limited versions are the SPV (special purpose vehicles) formed for time-bound singular objectives used by the State and Union Governments mainly for infrastructural developments.

When a separate vehicle is not incorporated, it is implied that all the parties, while exercising joint control over relevant activities, also agree to share the assets and liabilities together. This joint arrangement will be Joint Operations (JO).

Each joint operator accounts for its individual share in the pool of assets, agrees to share liabilities, and recognizes the revenue and expenses proportionately in accordance with contractual terms of the joint operations.

However, incorporating a separate vehicle does not, by default, make the joint arrangement a joint venture. Ind-AS 111 specifies three factors as determining criteria.

In case a separate vehicle is incorporated, we must consider –

- i) The legal form of the separate vehicle.
- ii) The terms of the contractual arrangement, and
- iii) Other relevant facts and circumstances

The finance leader has to carefully examine each of the above three factors to determine if the joint arrangement would be a joint venture or joint operations in the hands of the joint controllers. The accounting considerations for JO and JV are significantly different.

“ The finance leaders must determine where they can create the most value within the ecosystem of an emergent market and what strategies are suitable depending on the market segment's maturity level. ”

Scenario 3 - A, B, C & D are contracting parties to a joint arrangement. They incorporated J Pvt. Ltd. to conduct their joint arrangement primarily in the Technology sector. Would J Pvt. Ltd. be treated as a Joint Operation or Joint Venture by each party?

Evaluation – J Pvt. Ltd., by virtue of the Companies Act, 2013, is an entity separate from its owner. The title to assets and first recourse to liabilities is with J Pvt. Ltd.

If the terms of the contract are such that –

- a) Each party has rights to the net assets of J Pvt. Ltd., then J Pvt. Ltd. is a JV for each of the joint controllers.
- b) The proportions by which each party will have rights and obligations to individual assets and liabilities, then J Pvt. Ltd. will become a JO for each joint controller to the extent of their contractual interests.

For practical purposes, if a joint arrangement is formed by pooling of tangible and intangible assets by joint controllers who want to enjoy the

benefit of a jointly conducted business, yet retain their rights on key assets or intellectual properties, it can be termed as a Joint Operation.

Scenario 4 – In continuation of scenario 3, J Pvt. Ltd. is formed to exclusively provide services to A, B, C, and D. Would J Pvt. Ltd. be treated as a Joint Operation or Joint Venture by each party?

Evaluation – J Pvt. Ltd. is a separate vehicle whose legal form confers separation between the parties and the separate vehicle. A, B, C & D have rights to the net assets of J Pvt. Ltd. Till here, it seems J Pvt. Ltd. can be a Joint Venture.

However, the other relevant facts and circumstances are also of paramount importance in this case.

- i) The activities of the Joint Arrangement are primarily designed for the provision of output to the parties.
- ii) The Joint Arrangement has restrictions on selling the output to third parties in the open market.
- iii) The liabilities incurred by the Joint Arrangement are, in substance, satisfied by the Cash Flows received from Joint Control owners through their purchase of output from J Pvt. Ltd.

This means that the separate vehicle (J Pvt. Ltd.) has no independent demand for its output and also cannot assume its own credit risk. One of the key differentiations between JV and JO is the separate vehicle's ability to create demand for its output, sell to third parties at arm's length, and generate cash flows independently.



These facts and circumstances in scenario 4 indicate that the Joint Arrangement is a Joint Operation and not a Joint Venture within the meaning of Ind-AS 111.

Scenario 5 – In continuation of scenarios 3 and 4, J Pvt. Ltd. also provides services to new customers in various market segments. J Pvt. Ltd. is looking for export services, has approached a few merchant bankers for fundraising, and received a positive credit rating. Would J Pvt. Ltd. be treated as a Joint Operation or Joint Venture by A, B, C, or D?

Evaluation –

- i) J Pvt. Ltd. is a separate vehicle.
- ii) It has demonstrated independent demand for its output.
- iii) J Pvt. Ltd. has the independent ability to discharge its creditors in the normal course of business.
- iv) J Pvt. Ltd. is a growing business and is acquiring assets in its own name. It has a positive credit score.

J Pvt. Ltd. is a Joint Venture and would be accounted in the financial statements of A, B, C, and D in accordance with Ind-AS 28, Equity Method, where the investment in JV is recognized at cost initially and thereafter adjusted for changes in investor's share of net assets.

The minimum Disclosure requirements in accordance with Ind-AS 112 are –

- a) The consolidating entity needs to disclose about its JO or JV the nature, extent, and financial effects of its interests in joint arrangements and associates, including the contractual relation with other investors and the risks associated with this interest.
- b) Where the investing entity is only a participant, it will treat this Joint Arrangement as an unconsolidated structured entity and only disclose the nature and extent of interest and risks associated with this investment.

“Joint Ventures are formed to collaborate and enhance specific business objectives of the investors, and usually for a fixed term.”

Value creation by Indian companies - Call / Put Options in JVA

Once the finance leaders have established the JV or JO model, it is important to assign a value to this growth business. The valuations at various phases of the JV life cycle would be different but let us evaluate a practical yet simple scenario as to how a valuation, derivative-based or otherwise, can be incorporated in the JVA at inception.

Joint Ventures are formed to collaborate and enhance specific business objectives of the investors, and usually for a fixed term. The Indian company brings in local talent, local sales opportunities, and administrative facilities, while the overseas investor usually adds the tech know-how and brand value. The party that has the vision to expand in the local market would want to buy out the other parties at an amicable price after expiry of a specified number of years of operation.

It is common for JV partners to contractually exercise a call / put option at a future agreeable date. One or more investors shall have

the right (the “Call Option”), but not the obligation, at any time on or after Completion Date (“Call Option Exercise Date”), to require the Partner to sell Equity Securities held by the Partner at the Call/Put Option Price.

Scenario 6 – X Ltd. and Y (US) Inc incorporate a JV, XY Pvt. Ltd. on 31 Dec, 2024, on equal equity. The JVA specifies that after 5 years, on 01 Jan, 2030, X Ltd. will have a Put option for all of its shares and Y Inc. will exercise a Call option. The payout of the Call/Put option would be ₹50 crores or share of net worth in XY Ltd. as on 01 Jan, 2030, whichever is higher. The estimated net worth of X Ltd. on the Option exercise date is ₹75 crores.

Does X Ltd. need to account for this Option on 31 Dec, 2024? If yes, how would X Ltd. value this Option?

Evaluation – Since the amount receivable is a contractual right to receive a specified amount from another party, this meets the definition of a financial asset.

The cash flows are variable and dependent on the profits of the entity, so they meet the definition of a derivative. The SPPI (solely payment of payment and interest) test is not met for payments linked to future profits, and therefore, the entire instrument will be classified as Fair Value through Profit or Loss.

Yes, X Ltd. needs to recognize and initially measure the Put Option



receivable. Ind-AS 113 on Fair Value Measurement advises determining the fair value of a business entity using these techniques: net income approach, market value approach, and cost approach. In the initial phase of a JV, the cash flows are unpredictable, resulting in level 3 inputs in the fair valuation hierarchy. The likely valuation of X Ltd. as on 31 Dec, 2024 would be on a discounted cash flow model using the management's prepared business forecast.

Higher of –

- i) strike price ₹50 crores
- ii) stock price 50% of net worth ₹75 crores = ₹37.5 crores.

Assuming an annual discounting rate of 7.5%, the present value factor after 5 years would be 0.697.

Therefore, the present value of the Call Option as on 31 Dec, 2024 is ₹50 crores \times 0.697 = ₹34.83 crores. This amount can be recognized initially as a receivable from the investor and the equivalent credit as deferred income in other liabilities in the Balance Sheet. In subsequent periods, the deferred income can be credited in the straight line method to other non-operating income, as this income is not the primary business objective of X Ltd. Finally, on the exercise date, the receivable from the investor can be knocked off against the amount received on exercise of the call/put option.

Intangible Asset generated during customer project research & development – who owns it?

During technology or research-based projects, it is common that the project team develops a unique solution. Some of the major factors to determine capitalization are –

- i) measurability of probable future economic benefits
- ii) intent, ability, and technical feasibility to complete the development of intangible asset

iii) reliable measure of the cost to completion and the JVC's ability to use or sell this intangible asset

All intangible assets arising out of the joint venture operation should be accounted for applying Ind-AS 38 on Intangible Assets. According to paras 54-56, no intangible asset can be recognized during the research phase. Whether expenses incurred in the development phase meet capitalization criteria is specified in paras 57-64. The costs of internal research & development are generally expensed as incurred.

Usually, the Intellectual Property (IP) right resides with the JVC unless it is specified in the project statement of work that the IP arising out of JV business will be awarded to investors or the client. Since JVC has deployed its resources for the project, it can be a natural conclusion that the intangible assets, if eligible for capitalization, should belong to JVC.

Also, Ind-AS 36 on Impairment of Assets will be applicable for all assets held by the JVC, including intangibles.

Clarity is crucial - Accounting Policies Harmonization

Most JVCs are a result of global collaboration. That means the accounting policies and practices of the special vehicle could be different from its investing corporations. JVCs have to adopt policies and practices that are compatible with the harmonious accounting standards of Ind-AS, IFRS, and IAS. This will enhance the internal reporting and management decision support framework in a global environment.

Conclusion

It did not surprise industry experts when some of the large automakers, like Tesla or Vinfast, recently had been talking with Indian companies for a joint arrangement to manufacture electric cars in India. The BMW Group had been incorporating JVCs in several strategic locations, like NTT Data in

Romania and Tata Tech in India. There is competition in other global cities, namely Shanghai (China), Lisbon (Portugal), and Bucharest (Romania), which are cost-effective. However, cross cross-cultural demography of India is rich for harvesting a diverse talent pool and fostering growth in domestic and export markets. Also, the Central Government has devised several PLIS (Production Linked Incentive Scheme) dual encouragement to unveil output at great speed and reduce imports.

The sunrise segments eg, engineering research & development, are witnessing the US and European giants pursuing large deals through JV operations by setting up GCC (Global Capability Centre) in Bengaluru, Noida, and other Indian cities. Technologies unheard of yesterday are at the forefront of digital FastTrack - IoT investigations, malware forensics, hardware & embedded forensics, and deepfake detection are niche skills chased by industries today.

As there would be more venture opportunities in India, the finance leaders and, in particular, the young members of the Institute must arm themselves in this ecosystem with detailed capabilities that will enable them to champion the chaos. What is seen today as the landscape for large businesses, within a few years of natural evolution, will increasingly engage small and medium enterprises. India is ready to win big.

Reference

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Navigating the New Waters: Understanding Insurance Contracts under Ind AS 117

Ind AS 117, notified by the Ministry of Corporate Affairs (MCA) in August 2024, establishes a consistent and globally recognized framework for the accounting and reporting of insurance contracts. The primary objective of the standard is to enhance the transparency, comparability, and reliability of financial statements,

facilitating better analysis and decision-making by stakeholders. This article aims to provide a comprehensive understanding of the broad scope and applicability of Ind AS 117, with a specific focus on explaining how to assess whether a particular contract qualifies as an insurance or reinsurance contract under the standard. This assessment is the foundational step in determining whether the contract falls within the ambit of Ind AS 117.

On August 12, 2024, the MCA released a notification, G.S.R. 492(E), announcing the Companies (Indian Accounting Standards) Amendment Rules, 2024. This amendment replaces Ind AS 104 with Ind AS 117 - *Insurance Contracts*. While the new standard is effective for all entities from April 1, 2024, a subsequent notification, G.S.R. 602(E), issued on September 28, 2024, allows insurance companies to continue using Ind AS 104 in the consolidated financial statements of their parent, investor, or venturer until the IRDAI formally notifies the adoption of Ind AS 117.

Ind AS 117 is designed to align the accounting practices for insurance contracts issued by Indian companies with international standards. It closely aligns with the International Financial Reporting Standard (IFRS) 17, *Insurance Contracts*, which has already been adopted by more than 140 countries worldwide for annual periods beginning on or after January 01, 2023.

Applicability of Ind AS 117

Ind AS 117 is applicable to:

- **insurance contracts** issued,
- **reinsurance contracts** issued or held, and
- **investment contracts with discretionary participation features** issued, provided the entity also issues insurance contracts.

The Standard provides a definition as well as comprehensive guidance on each type of contract covered in its scope. This article specifically focuses on analyzing the meaning of insurance contracts and reinsurance contracts under Ind AS 117 and understanding the implications of the same for entities.

An insurance contract is a contract in which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

A detailed analysis of the key elements of an insurance contract is as under:

- A **contract** is an agreement between two or more parties that creates enforceable rights and obligations. Contracts can be written, oral, or implied by customary business practices. Contractual terms include all terms in a contract, explicit or implied, but an entity shall disregard terms that have no commercial substance (i.e., no discernible effect on the economics of the transaction).
- **Insurance Risk** is a risk, other than financial risk, transferred from the holder of a contract to the issuer.

The Standard defines financial risk as a risk of a possible future change in one or more of:

- a specified interest rate,
- financial instrument price,
- commodity price,
- currency exchange rate,

- index of prices or rates,
- credit rating or credit index or
- other variable, provided in the case of a non-financial variable, that the variable is not specific to a party to the contract.

Based on the discussion above, we can say that an insurance risk (or a non-financial risk) is a risk other than financial risk and is specific to the parties involved in the contract.

Example 1: X Ltd. has a contract with a supplier that requires payment in a foreign currency. In this case, X Ltd. is exposed to financial risk due to potential future changes in the currency exchange rate. Therefore, the contract falls outside the scope of Ind AS 117.

Example 2: A Ltd. operates multiple ski resorts in different locations across Uttarakhand. The company is concerned about the possibility of below-average snowfall during winters. To mitigate this risk, A Ltd. enters into a contract with B Ltd., as per which A Ltd. will pay a specified premium at the beginning of the contract. If the average snowfall in Kashmir, a region not specific to A Ltd.'s resorts, is less than 10 inches, B Ltd. will provide a fixed amount of compensation to A Ltd.

Here, the payment of compensation by B Ltd. depends on an underlying non-financial variable, which is the average snowfall in Kashmir. However, this non-financial variable is not

specific to A Ltd. since its resorts are in Uttarakhand, not Kashmir. As a result, the contract transfers financial risk and not insurance risk.

Alternatively, if the compensation depended on average snowfall in Uttarakhand instead of Kashmir, the risk being transferred from A Ltd. to B Ltd. would be an insurance risk because the underlying non-financial variable would be specific to A Ltd., as its resorts are in Uttarakhand.

■ **Significant insurance risk:** To be classified as an insurance contract, the policyholder must transfer “significant” insurance risk to the contract issuer. This is determined by two conditions:

Condition A: The insured event must have the potential to result in the issuer paying additional amounts that are significant in any single scenario, excluding scenarios that have no commercial substance.

Condition B: There must be at least one scenario with a commercial substance in which the issuer faces the possibility of incurring a loss on a present value basis.

Analysis of Condition A:

- The term “additional amounts” refers to the difference between the maximum amount the insurer will have to pay if the insured event occurs and the amounts that would be payable if the insured event does not occur.

“For insurance risk to be “accepted” by the insurer from the policyholder, it must first exist with the policyholder, because logically, one cannot transfer something that he doesn’t have in the first place.”

- Even if the scenario (i.e., the insured event) that can require the insurer to pay significant additional amounts is extremely unlikely, but if it has a commercial substance (i.e., is realistically possible), it should still be considered when assessing significant insurance risk.
- Such additional amounts should be calculated on a present-value basis.
- Such additional amounts should be significant for the insurer. But the question is how to decide whether the additional amounts are significant or not. The Standard does not provide any quantitative thresholds to assess this criterion. As a result, entities are left to establish their criteria to determine what constitutes significant additional amounts, which would lead to diversity in practice among entities on this aspect.

Analysis of Condition B:

- Condition B is met when there is at least one scenario with commercial substance where the present value of all the outflows (payments to policyholders) is greater than the present value of all the inflows (premiums or other cash inflows) expected to be received by the issuer over the duration of the contract.
- Unlike Condition A, which requires “significant” additional



amounts to be paid by the issuer, Condition B only requires the possibility of a loss, regardless of its magnitude. This means that even if the potential loss is relatively small, Condition B will still be satisfied.

Example: Z Ltd. issues a contract that covers the risk of theft, fire, and flood for a commercial property. Each of these insured events represents a different scenario. The contract specifies that Z Ltd. will get an upfront premium of ₹45,000 at the beginning of the contract, and it will pay the replacement cost of the property to the policyholder if any of the covered loss occurs within the next 12 months.

In this case, the issuer of the contract would need to identify the scenario that would result in the maximum payment to the policyholder. Let's say the replacement cost of the property in different scenarios, on a present-value basis, is:

Scenario 1: Flood - ₹40,000

Scenario 2: Fire - ₹55,000

Scenario 3: Theft - ₹1,00,000

Here, all three scenarios have different replacement costs. Thus, the scenario with the highest potential payment would be considered, which is Scenario 3 (theft). Even if the issuer estimates this scenario, (theft) is highly unlikely to occur but holds commercial substance, and it must consider this scenario for the assessment of significant insurance risk.

In this case, if the insured event does not occur, Z Ltd. does not have to pay anything to the policyholder. Accordingly, the present value of payments to be made by the insurer if the insured event does not occur is zero. However, if the insured event occurs, the maximum amount it will have to pay to the policyholder is ₹1,00,000. Hence, the additional amount payable by Z Ltd. in this case is ₹1,00,000 (-)



0 = ₹1,00,000. If this amount is considered to be significant from Z Ltd.'s perspective, then Condition A is fulfilled.

Furthermore, since the present value of cash outflows (₹1,00,000) > the present value of cash inflows (₹45,000), the insurer is exposed to a potential loss and thus, Condition B is also fulfilled. Since both conditions are fulfilled, the contract transfers significant insurance risk to the issuer.

Note: An entity shall assess the significance of an insurance risk on a contract-by-contract basis, i.e., for each individual contract [Para B22 read with para BC79]. Once a contract is classified as having significant insurance risk and is deemed to be an insurance contract, it retains this classification regardless of any subsequent changes in the level of insurance risk. The contract will only lose its classification as an insurance contract when:

- i. all rights and obligations under the contract are extinguished (e.g., the contract is discharged, cancelled, or expires) or
 - ii. the terms of contract are modified to such an extent that it qualifies for derecognition.
- The compensation to the policyholder can be either in cash or in kind. For example, if a laptop is stolen, the insurer may replace it for the policyholder instead of providing cash.
 - Insurance risk should be accepted from another party. There are two

key terms here - "accepted" and "another party". The implications of these are discussed below:

- i. For insurance risk to be "accepted" by the insurer from the policyholder, it must first exist with the policyholder, because logically, one cannot transfer something that he doesn't have in the first place. This is relevant because, at times, when the parties enter a contract to transfer a pre-existing risk, that contract itself has certain terms and conditions that may result in the creation of a new risk for the issuer or the policyholder. Such a new risk created by the contract is not an insurance risk because it was not pre-existing with the policyholder before entering the contract.

For example, the contract may have a clause for payment of surrender charges by the policyholder if they cancel the policy before a certain period. As this is a new risk created by the contract, it is not considered an insurance risk because it was not pre-existing with the policyholder.

- ii. The term "another party" implies that for an insurance risk to exist, the insurer and insured should be separate entities. This requirement has important implications, which can be illustrated through the following examples:

Example 1 (Self-insurance): ABC Corp. is a manufacturing company that

owns several factories and warehouses. To protect its properties from potential natural disasters, ABC Corp. decides to set aside a specific amount into a dedicated fund. This fund will be used to cover any losses or damages that might occur to its properties. This is a case of self-insurance, and since there is no agreement with another party, such an arrangement does not qualify to be an insurance contract.

Example 2 (Insurance Contracts within the Group): A Group Co. has two subsidiaries – Subsidiary A and Subsidiary B. Subsidiary A issues an insurance contract to Subsidiary B to cover potential damages to Subsidiary B's assets. In Subsidiary A's separate financial statements, the contract will be recognized as per Ind AS 117 because the contract is between two distinct entities. However, in the Group Co.'s consolidated financial statements, there is no "another party" as both the issuer (Subsidiary A) and the holder (Subsidiary B) are within the same group. Thus, this contract would not be an insurance contract for the purpose of consolidated financial statements.

Example 3 (Mutual Entities): MNO Ltd. is a mutual insurance company, meaning that it is owned by its policyholders. Each policyholder pays premiums to MNO Ltd., and the company collects and pools these premiums to pay out claims for any policyholder who suffers a loss. In this case, even though MNO Ltd. is owned by its policyholders, it operates as a separate legal entity that accepts risk

“ For a contract to qualify as an insurance contract, the uncertain event it covers must negatively impact the policyholder, i.e., the event must result in a loss, damage, or other adverse outcomes for the policyholder. ”

from each policyholder and hence will fall within the scope of Ind AS 117.

- **Uncertain future event (or insured event):** The Standard defines an insured event as an uncertain future event that is covered by an insurance contract and gives rise to insurance risk. For a future event to be uncertain, at least one of the following factors must be uncertain when the contract is initiated:
 - i. **Likelihood of Occurrence**, i.e., whether the insured event will happen or not
 - ii. **Timing of Occurrence**, i.e., the exact time when the insured event will happen
 - iii. **Financial Impact**, i.e., how much the insurer will need to pay if the event occurs
- **Adverse effect on policyholder:** For a contract to qualify as an insurance contract, the uncertain event it covers must negatively impact the policyholder, i.e., the

event must result in a loss, damage, or other adverse outcomes for the policyholder.

Reinsurance Contract

Reinsurance contract is an insurance contract issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more insurance contracts issued by that other entity (underlying contracts).

Analysis: Reinsurance is like insurance for insurers. It helps the original insurer cover some or all of the risks to which it is exposed on the policies it has issued. It is clear from the definition that all reinsurance contracts (whether issued or held) are insurance contracts.

Thus, all the aspects discussed above in relation to insurance contracts are normally applicable to reinsurance contracts as well, except that when assessing "significant" insurance risk for reinsurance contracts, Condition B (which requires at least one scenario in which the issuer faces the possibility of loss) is not relevant as long as the contract transfers substantially all the insurance risk relating to the reinsured portion of underlying contracts.

In other words, even if there is no scenario in which the reinsurer can suffer a loss on the reinsurance contract, such a contract will still be considered to transfer significant insurance risk (from the perspective of both the issuer as well as the holder) if these two conditions are satisfied:

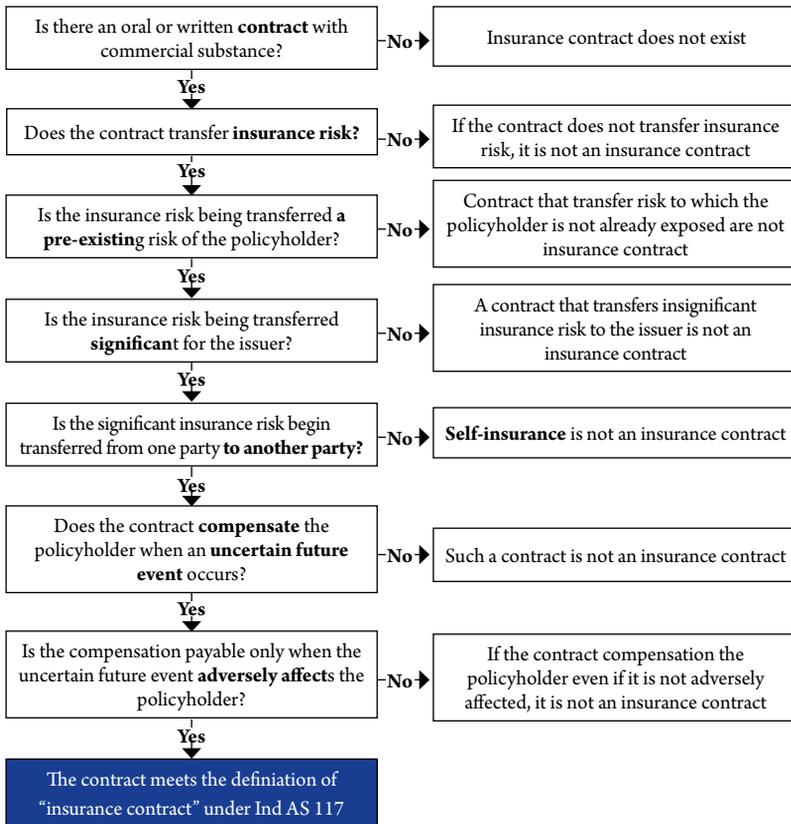
Condition A: The insured event has the potential to result in the reinsurer paying additional amounts to the reinsured that are significant in any single scenario that holds commercial substance; and

Condition B: The reinsurance contract transfers substantially all the insurance risk relating to the reinsured portion of the underlying insurance contract.

The flowchart below summarizes the discussion on the definition of insurance contracts under Ind AS 117:



The flowchart below summarizes the discussion on the definition of insurance contracts under Ind AS 117:



Scope Exceptions

The following are excluded from the scope of Ind AS 117:

- i. Warranties provided by a manufacturer, dealer, or retailer in connection with the sale of its goods or services;
- ii. Employers' assets and liabilities from employee benefit plans and retirement benefit obligations reported by defined benefit retirement plans;
- iii. Contractual rights or contractual obligations contingent on the future use of, or the right to use, a non-financial item;
- iv. Residual value guarantees provided by manufacturers, dealers, or retailers;
- v. Lessee's residual value guarantees embedded in leases;

- vi. Financial guarantee contracts, unless the insurer has previously asserted explicitly to treat and account for such contracts as insurance contracts;
- vii. Contingent consideration in business combinations;
- viii. Insurance contracts in which the entity is the policyholder, unless those contracts are reinsurance contracts held;
- ix. Credit card contracts, or similar contracts that provide credit or payment arrangements, that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. However, if, and only if, Ind AS 109 requires an entity

to separate an insurance coverage component that is embedded in such a contract, the entity shall apply Ind AS 117 to that component.

Further, entities have an option to irrevocably choose whether to apply Ind AS 117 or another relevant Ind AS in respect of:

- i. **Fixed-fee contracts** if the conditions specified under para 8 of Ind AS 117 are satisfied.
- ii. **Loan contracts** that meet the definition of insurance contracts but have restrictions on compensation for insured events limited to the amount required to settle the policyholder's obligation (e.g., loan contracts with full outstanding balance being waived upon death of the debtor).
- iii. **Financial guarantee contracts** where the entity has previously asserted explicitly to treat and account for such contracts as insurance contracts.

Conclusion

Ind AS 117 requires detailed data requirements, sophisticated actuarial calculations, extensive transition efforts, upgraded IT systems, and enhanced financial disclosures. The Standard can be applicable to any entity, including non-insurers, if they issue insurance contracts. Consequently, entities must diligently evaluate the requirements of the Standard to determine if they are within its scope.

References

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The Evolution and Challenges of AIFs in India: Real Estate Sector Insights

Alternative Investment Funds (AIFs) in India have emerged as critical investment vehicles for raising funds from sophisticated investors, both domestic and international. These funds are categorized into three main types based on their investment objectives, risk levels, and target sectors. Category-I AIFs focus on socially beneficial sectors such as infrastructure and SMEs, Category-II AIFs cater to private equity and debt investments, and Category-III AIFs are high-risk funds utilizing complex trading strategies.

AIFs in India are regulated by the Securities and Exchange Board of India (SEBI) under the SEBI (Alternative Investment Funds) Regulations, 2012. This regulatory framework ensures proper registration, governance, and transparency. Legal structures for AIFs include trusts, companies, and limited liability partnerships (LLPs), each offering distinct advantages in terms of flexibility, governance, and taxation. Notably, Category-I and II AIFs enjoy pass-through taxation, whereas Category-III funds are taxed at the fund level.

For investor protection, SEBI mandates comprehensive disclosure and reporting requirements, including independent valuations, risk management practices, and the appointment of custodians for Category-III funds. This system aims to safeguard investor interests while ensuring the integrity of the investment process. Additionally, AIFs are subject to rigorous audit and valuation mandates, which help in ensuring transparency and adherence to financial reporting standards.

Valuation plays a critical role in AIFs, especially in sectors like real estate, where assets often face complex legal,

regulatory, and market challenges. Common issues in real estate-focused AIFs include inflated valuations based on speculative agreements and development rights. To address these, best practices such as independent valuations, scenario analysis, and regular impairment tests are recommended to ensure accuracy and mitigate risks.

Basics of AIFs and Their Necessity

An Alternative Investment Fund (AIF) is a privately pooled investment vehicle in India, incorporated for the purpose of raising funds from sophisticated investors, whether Indian or foreign, for investing in accordance with a defined investment policy for the benefit of its investors.

AIFs are regulated by the Securities and Exchange Board of India (SEBI) under the SEBI (Alternative Investment Funds) Regulations, 2012. Based on their investment objectives and focus areas, AIFs are broadly categorized into three types:

1. Category-I AIFs: These funds focus on sectors or areas that are considered socially desirable and promote economic growth. Investments by these funds are typically in early-stage companies, infrastructure, and projects with significant growth potential.

Type of Category-I AIFs:

- **Venture Capital Funds (VCFs):** Focus on startups and early-stage ventures.
- **Infrastructure Funds:** Target investments in infrastructure projects, such as roads, power, and urban development.
- **Social Venture Funds:** Aim at achieving social impact through investments in areas like healthcare, education, and sanitation.
- **SME Funds:** Focus on small and medium enterprises that require capital to expand.

2. Category-II AIFs: These funds cater to a broader investment strategy and are not subject to specific investment restrictions like Category-I. They typically include private equity funds, debt funds, or hybrid funds.

Types of Category-II AIFs:

- **Private Equity Funds:** Invest in unlisted companies or buy stakes in established businesses for long-term capital growth.
- **Debt Funds:** Focus on providing debt or structured debt products to businesses.
- **Hybrid Funds:** A mix of equity and debt investments, depending on the strategy.

Comparison of AIF Categories

Feature	Category I	Category II	Category III
Investment Focus	Early-stage, socially beneficial sectors	Private equity and debt	Hedge funds, complex strategies
Risk Level	Moderate to Low	Moderate	High
Leverage	Not permitted	Limited	Permitted with restrictions
Investor Type	Moderate-risk investors	Medium to high-risk investors	High-risk investors
Tax Benefits	Often available	Limited	Not available

3. Category-III AIFs

Objective: These are high-risk, high-return funds designed for sophisticated investors. The strategies often involve active trading in listed and unlisted securities. Focus on generating returns using diverse, complex trading strategies, including leverage, derivatives, and short selling.

Types of Category-III AIFs:

- **Hedge Funds:** Use advanced investment techniques to maximize returns, such as arbitrage, derivatives trading, and leverage.
- **Quant Funds:** Employ algorithms and quantitative models for trading.

Legal and Regulatory Framework in India

AIFs in India are primarily regulated by SEBI under the SEBI (Alternative Investment Funds) Regulations, 2012. These regulations mandate the registration, categorization, and governance of AIFs, ensuring transparency and protecting investor interests. Key aspects of the regulatory framework include:

1. Registration Requirements:

AIFs must register under one of the three categories. Entities set up in India can register as AIFs and must be registered in India as trusts, companies, or LLPs.

2. Investment Conditions: AIFs cannot accept investments of less

than ₹1 crore from an investor (₹25 lakh for employees or directors of the AIF or fund manager). These funds cannot issue publicly traded units as they are private placement vehicles. There are general restrictions on investment in associates unless approved by investors.

“AIFs must register under one of the three categories. Entities set up in India can register as AIFs and must be registered in India as trusts, companies, or LLPs.”

3. Key Prohibitions:

- AIFs are not allowed to invest in publicly listed securities, except for Category-III funds.
- They must not engage in speculative transactions.

4. Structure of AIFs

An AIF can be set up in India in one of the following legal structures:

- **Trust:** This is the most commonly used structure for AIFs. In this structure, the Sponsor sets up the trust and provides initial capital, while the Trustee holds the AIF's assets for the benefit of investors and ensures regulatory compliance. The Fund Manager is responsible for managing investments according to the trust deed, Private Placement Memorandum (PPM).
- **Company:** Under this structure, AIFs are governed by the Companies Act, 2013, and require adherence to corporate governance norms. In this structure, the Board of Directors (BOD) oversees the fund's operations and governance, while the Fund Manager, typically an external appointee, executes the investment strategy.
- **Limited Liability Partnership (LLP):** Under this structure, AIFs are registered under the Limited Liability Partnership Act, 2008, offering the flexibility of a partnership combined with limited liability protection. In this structure, Designated Partners manage the LLP and ensure legal compliance, while the Fund Manager, appointed by the partners, executes the investment strategy.



5. Key SEBI Guidelines and Compliance Requirements

- **Disclosure Norms:** AIFs must disclose investment strategy, risk management practices, fees, conflicts of interest, and other relevant information to investors.
- **Reporting Requirements:** Quarterly and annual reports must be submitted to SEBI, covering financial performance, investments, and compliance.
- **Valuation:** Independent valuation is mandatory for fair and transparent reporting.
- **Custodial Services:** Category-III AIFs are required to appoint a SEBI-registered custodian for assets.

6. Taxation Framework:

Category-I and II AIFs enjoy pass-through status, meaning income is taxed in the hands of investors. Income of the Category-III AIFs is taxed at the fund level, and the fund pays corporate tax.

7. **Other regulatory authorities** that oversee and ensure adherence to laws governing AIFs in India, while safeguarding investor interests, include the Reserve Bank of India (RBI), the Income Tax Department, and the Registrar of Companies (RoC).

8. **Investor protection and oversight mechanisms** in AIFs are integral to ensuring

“SEBI regulations require that AIF investments be valued based on methodologies specified in the fund documents or as determined by an independent valuer.”

transparency, accountability, and trust in the system. SEBI has established a robust framework to safeguard investor interests and maintain market integrity. Some key measures are:

- **Risk Management:** Category-III AIFs, which employ leverage and complex strategies, are subject to stringent risk management norms.
- **Conflict of Interest Mitigation:** Fund managers must disclose and manage any potential conflicts of interest to ensure fair treatment of all investors.
- **Investor Grievance Redressal:** AIFs must have a defined mechanism for addressing investor complaints and disputes.
- **Penalties for Non-compliance:** SEBI imposes fines, suspensions, or cancellations of registration for breaches of regulations or unethical practices.

Audit and Valuation Mandates for AIFs

AIFs are subject to stringent audit and valuation requirements to ensure transparency and protect investor interests.

- **Statutory Audit:** AIFs are required to undergo an annual statutory audit by a Chartered Accountant holding a COP to verify compliance with applicable laws and financial reporting standards.
- **Internal Audit:** Some AIFs may also conduct internal audits to monitor ongoing operations and adherence to fund objectives.
- **SEBI Guidelines on AIF Valuation:** SEBI regulations require that AIF investments be valued based on methodologies specified in the fund documents or as determined by an independent valuer.
- **Frequency of Valuations:** Valuations must be conducted at least annually, with higher frequencies recommended for certain asset classes.

Authorized Valuers in India for AIFs

Valuation for AIFs can only be performed by professionals authorized under Indian regulations. Types of authorized valuers in India are:

- **Registered Valuers:** Registered with the Insolvency and Bankruptcy Board of India (IBBI) under the Companies (Registered Valuers and Valuation) Rules, 2017. They specialize in asset classes like securities and financial assets.
- **Chartered Accountants (CAs):** With relevant expertise, they can perform statutory audits and valuations for certain fund categories.
- **Merchant Bankers:** SEBI-registered merchant bankers with valuation expertise are authorized for valuation tasks in capital market transactions.





By adhering to these mandates and leveraging the expertise of qualified professionals, AIFs ensure credibility, transparency, and compliance with regulatory standards.

Key Observation for AIFs related to the Real Estate Sector

Over the years, experience in auditing real estate-focused AIFs has highlighted recurring issues:

- **Rising Valuations Despite Losses:** A common trend is the consistent rise in valuations of companies reporting low or negative profitability. For instance, a real estate company may project higher valuations based on potential revenue from unsold properties in a growing city. However, such projections often ignore critical factors like regulatory approvals and market absorption capacity. For example, a real estate company might claim higher valuations based on potential revenue from unsold properties in a growing city. However, the company may not have the required approvals yet, and the market's ability to absorb these properties is still unclear.
- **Over-Reliance on Agreements and Rights:** Valuations often depend heavily on speculative agreements, such as land development rights or joint ventures. These agreements, while promising, frequently fall short of their optimistic valuation estimates. For example, a company may base its valuation on a 10-acre joint

development project, only to reveal that 80% of the land is entangled in zoning or legal disputes. For example, a real estate company may increase its valuation based on a 10-acre joint development project. But on closer review, only 20% of the land may be ready for development, with the rest caught up in zoning or legal issues.

- **Risk of Manipulation:** Speculative agreements can lead to inflated valuations, eroding investor trust and jeopardizing the fund's financial health. A hypothetical example involves a company valuing its assets at INR 100 crore based on a single land agreement, which, upon review, has an enforceable value of only INR 40 crore. For example, a real estate company values its assets at INR 100 crore based on one land agreement. Upon review, the agreement's actual enforceable value might be only INR 40 crore.

Addressing these Challenges

To ensure accurate and credible valuations, it is essential to adopt

robust practices. Recommended measures include:

- **Use Independent and Transparent Valuations:** Engaging experienced valuers can provide an unbiased perspective. For example, valuers should evaluate land agreements based on realistic factors like market comparability, enforceability, and timelines for development.
- **Apply Realistic Valuation Multiples:** Instead of focusing only on speculative future rights, use practical measures like adjusted net asset value (NAV), liquidation value, or discounted cash flow (DCF) with realistic growth assumptions.
- **Adopt Scenario Analysis:** Performing scenario analysis helps assess how valuations might change under various circumstances, such as regulatory delays or adverse market conditions. This approach provides a more comprehensive risk assessment.
- **Conduct Regular Impairment Tests:** Regularly check whether the value of investments has declined, especially if they are relying heavily on intangible assets like agreements.
- **Enhanced Oversight and Auditor Review:** Auditors should rigorously verify valuation reports, challenge key assumptions, cross-check benchmarks, and ensure compliance with regulations.



Best Practices in AIF Valuation

To enhance the credibility and accuracy of valuations in Alternative Investment Funds (AIFs), adopting key best practices is essential. These practices ensure transparency, investor confidence, and regulatory compliance. The AIFs should adopt the following best practices:

- Integrate Qualitative and Quantitative Data:** A comprehensive evaluation process should combine financial metrics with qualitative insights.

Quantitative data includes key financial indicators like cash flows, profitability, and debt levels, which help assess the asset's financial health. Qualitative data involves factors such as legal considerations, market sentiment, and management quality. This combined approach ensures that valuations reflect not only financial figures but also non-financial influences like legal risks or business strategies.

- Implement Technology Solutions:** Advanced technology plays a vital role in improving valuation accuracy. Valuation software and analytical tools help automate processes, reduce human errors, and increase consistency. The use of technology ensures real-time data integration and more precise valuations, benefiting both AIF managers and investors.

- Foster Stakeholder Collaboration:** Effective valuation requires collaboration between key stakeholders: fund managers, valuers, and auditors. Fund managers provide insights into investment strategies, while valuers, being independent professionals, apply appropriate methodologies and ensure unbiased valuations. Auditors verify that valuation processes adhere to regulatory standards. Open communication between these parties ensures the valuation is accurate, transparent, and reflects all relevant information.

- Promote Investor Awareness:** AIFs should educate investors about the valuation process, methodologies, and risks involved. Transparency about valuation assumptions (e.g., growth rates, discount rates) and inputs (market conditions, asset performance) is crucial for investor understanding. AIFs should also provide sensitivity analysis to highlight how changes in key assumptions can affect asset values. This education helps investors make informed decisions and prepares them for potential fluctuations in valuations.

By adopting these best practices, AIFs can ensure that valuations are both credible and accurate, fostering trust among investors and maintaining regulatory compliance. This holistic approach supports informed decision-making and contributes to the overall stability and growth of the AIF sector.

Conclusion

The growth of AIFs in India has significantly contributed to the diversification of the investment landscape, offering sophisticated investors access to a broad array of investment opportunities. However, the evolving nature of these funds requires stringent regulatory oversight and robust internal practices to maintain investor confidence and market integrity. The SEBI regulations and guidelines play a crucial role in establishing a transparent framework for AIFs, addressing key concerns such as investor protection, valuation credibility, and governance.

In sectors like real estate, where speculative agreements and legal uncertainties often influence valuations, AIFs must adopt best practices that prioritize realistic and independent assessments. Engaging independent valuers, applying conservative valuation multiples, and conducting regular impairment tests are essential steps for safeguarding the interests of investors.

Additionally, fostering collaboration between fund managers, valuers,

“ In sectors like real estate, where speculative agreements and legal uncertainties often influence valuations, AIFs must adopt best practices that prioritize realistic and independent assessments. ”



and auditors, along with promoting investor education on the valuation process, is critical to ensuring that valuations are accurate and transparent.

By following these practices, AIFs can enhance their credibility, ensure regulatory compliance, and maintain the trust of investors, thereby contributing to the sustainable growth of the alternative investment sector in India.

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Member of the Institute

From Code to Capital: How Quant Strategies Drive Long-Term Alpha

'Can an algorithm outperform human intuition in the long run? In today's dynamic capital markets, quantitative models are no longer a luxury; they're a necessity.'

In today's ever-evolving financial markets, everyone dreams of owning the future giants, those companies poised to lead the world in the years to come. Yet, in this relentless pursuit, many investors find themselves stuck with "dead bulls", stocks that promised growth but delivered disappointment.

But what if there were a smarter, more assured way to own the top companies of tomorrow, even those that might not exist today? Sounds impossible? It's not. If you're wondering how any strategy could guarantee you a stake in the market leaders of 2035, stick around; this article reveals the secret to staying ahead of the curve.

The quest for wealth multipliers:

Throughout history, one of the most consistent wealth-generating assets has been real estate. Two of the key reasons that drive this are mentioned below:

1. The assurance that property value will never fall to zero, and
2. The near certainty that sooner or later, its price will appreciate.

However, real estate comes with a major drawback: liquidity. You can't sell a portion of your property when you need cash, nor can you liquidate it instantly at your convenience. This limitation became painfully clear during liquidity crises, most notably during the COVID-19 pandemic. Many found themselves owning property worth crores but struggled to access even ₹ 1-2 lakhs in cash when they needed it most.

This challenge shifted the attention of modern investors toward more liquid assets, particularly the equity markets. While equities offer easy liquidity, they present a different set of risks. The promise of steady growth is far

from guaranteed; stocks can either plummet to zero or stagnate despite ample time to rise.

In response, a new breed of investors emerged, those seeking a more systematic and reliable approach through quantitative models. Unlike traditional investing, where decisions often hinge on a fund manager's instincts or biases, quantitative models rely on data-driven algorithms to add or remove stocks. This approach brings a powerful advantage: predictability.

And predictability breeds confidence, the kind of confidence that helps investors stay the course through market ups and downs. With time and patience, this disciplined, long-term approach has the potential to unlock exponential wealth growth.

In the quest for a reliable investment strategy, one of the simplest and most effective models stands out: index investing. This approach ensures that your portfolio always holds the top-performing companies while automatically removing those that decline and adding those on the rise. Yes, you guessed it right, investing in indexes like the Nifty.

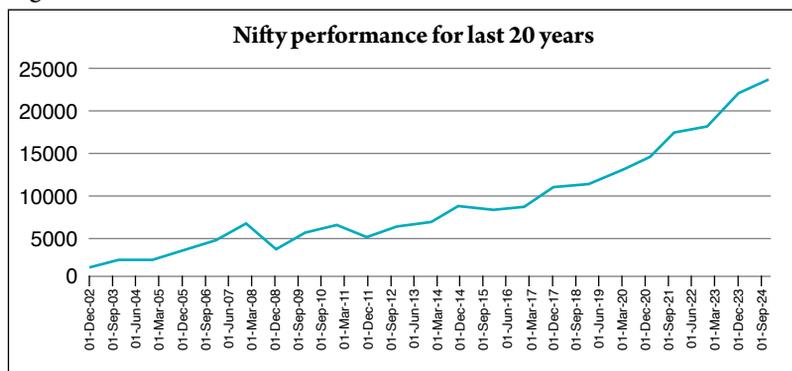
The beauty of index investing lies in its design. Benchmarks like the Nifty are structured to reflect the top companies in India at any given time. Through regular rebalancing at predetermined intervals, these indexes adjust to include emerging market leaders while discarding underperformers.

The result? Your portfolio evolves with the economy, ensuring that you not only hold today's giants but also the rising stars of tomorrow. Whether it's 2035 or beyond, index investing offers a hassle-free and future-proof way to stay invested in India's best companies.

But does the search for a true wealth-multiplying portfolio end with index investing? Not quite. After all, index investing isn't a new concept. It's widely known that indexes like the Nifty have delivered returns of around 14% y-o-y over the past two decades as depicted in figure 1.

If the formula is so simple, why don't we see more investors holding index portfolios for 20-25 years? The answer lies in a surprising insight from recent research. Investors were asked a simple question:

Figure 1



(Source: <https://www.niftyindices.com>)

Which scenario disturbs your sleep more? A. When the stock in your portfolio is up by 10% or B. When all your stocks are down by 30-40% or more?

Pause for a moment, and think what would your answer be?

Interestingly, most respondents revealed that profits trigger more anxiety than losses. The nagging thought, “What if this profit disappears?”- leads many to sell their holdings at the first sign of gain. At the slightest market tremor, these investors abandon their long-term plans, cashing out investments they intended to hold for 20 years in just 20 days.¹

This emotional tug-of-war between fear and greed is why many fail to stay invested, even in simple, proven strategies like index funds. Successful investing isn’t just about picking the right portfolio but also about having the patience and discipline to stick with it through market ups and downs.

This realization gave birth to a new community of investors, those who acknowledged that index investing is a solid strategy but saw the need to refine it with quantitative tools to withstand the brutality of market swings.

They asked themselves a fundamental question: Why can’t I keep my investments for 20 years? The answer lay hidden in investor psychology. As highlighted earlier, fear takes over

when markets decline, whether it’s the fear of losing capital or the anxiety of watching hard-earned profits vanish.

The solution? A safeguard that allows investors to stay committed for the long run.

This breakthrough was inspired by a real-world analogy: cars and car insurance. You can buy a Ferrari capable of hitting 200+ km/h, but without insurance, would you ever feel confident driving it at top speed? Probably not. The same applies to investing.

Indexes like the Nifty have historically delivered ~14% annual returns over the past 20 years, but without some form of protection, most investors panic and exit too soon. Enter quantitative investing with built-in protection—Nifty Puts.

By integrating long-term protective puts (essentially an insurance policy for your portfolio) at an annual cost of around 5%, quant created a model that allows investors to stay invested without fear of catastrophic loss. This simple yet powerful addition helps investors hold their positions through market turbulence, unlocking the true wealth-multiplying potential of index investing.

Optimizing Cost

The strategy now became elegantly simple, consisting of just two components:

1. Buy the Index

“Benchmarks like the Nifty are structured to reflect the top companies in India at any given time. Through regular rebalancing at predetermined intervals, these indexes adjust to include emerging market leaders while discarding underperformers.”

2. Add Protection (at ~5% annually through Nifty Puts)

Think of it like running a business. You can’t control when customers will walk through the door, but you can control your expenses like how much rent you pay or the salaries you commit to. Similarly, while no one can predict when the index will deliver returns, managing costs is within our control.

As any smart entrepreneur knows, cutting costs without compromising on quality is the key to maximizing profits. The same principle applies to this strategy—the focus shifted to reducing the cost of protection from 5% to 3% or even 2%.

By optimizing this cost, the goal is clear:

- i. Capture the returns of the Nifty when markets rise
- ii. Protect your capital when markets fall
- iii. Do both at the lowest possible cost

Over time, this balance of growth and protection creates a resilient, wealth-compounding machine, allowing investors to stay in the game longer and reap the full potential of index investing.

To optimize costs, the key lies in adding components that reduce

¹ (Creative explanation based is on <https://www.sciencedirect.com/science/article/abs/pii/S0167268197000899>)

expenses without compromising returns, or better yet, enhancing them. This idea aligns closely with the concept of arbitrage, capturing small, risk-free gains by exploiting market inefficiencies.

While true arbitrage is rare in perfectly efficient markets, certain opportunities arise under specific conditions, especially when you adopt a long-term investment horizon like the 10-15 years typical for this strategy.

One such opportunity mirrors a classic banking approach: borrow at lower interest rates and lend at higher ones. This works because in most economies, including ours, long-term interest rates tend to be higher than short-term rates, a concept known as the upward-sloping yield curve.

Here’s how we capitalize on this:

- 1. Short-term rates via Futures:**
The index futures market typically trades at a 5% premium annually, allowing us to gain exposure to the index without actually holding the physical stocks.
- 2. Long-term rates via G-Secs:**
Simultaneously, government securities (G-Secs) with a 10-year maturity often yield 7.5-8%, offering a stable, risk-free return.

“ While true arbitrage is rare in perfectly efficient markets, certain opportunities arise under specific conditions, especially when you adopt a long-term investment horizon like the 10-15 years typical for this strategy. ”

The Strategy in Action

Instead of directly buying the index, we sell the index and invest through Futures. This keeps our index exposure intact but now, the capital we would have spent buying the index becomes available to invest in higher-yielding G-Secs.

- **Cost of Futures Exposure:** ~5% annually
- **Return from G-Secs:** ~7.5% annually
- **Net Arbitrage Benefit:** ~2.5% annually

Can this arbitrage be scaled infinitely?

Not quite, it depends on the risk appetite of the investor. However, a

balanced approach involves applying this strategy to 50% of the index position, striking the right mix of safety and enhanced returns.

By employing this method, the strategy effectively reduces the cost of protection while maintaining full exposure to market gains, transforming a simple index-investing model into a smarter, more efficient wealth-multiplying machine.

Does this financial jugglery improve our strategy returns?

Components from Step 1:

- Nifty (Index Exposure)
- Protection (Nifty Puts @ ~5% annually)

Components from Step 2:

- Short Nifty (Sell Index)
- Long Nifty via Futures (~5% annual cost)
- G-Secs (~7.5-8% annual yield on 50% of index exposure)

By combining these steps, we maintain our index exposure with protection while leveraging an interest rate differential to offset the cost of hedging.

Understanding the Net Cost Impact

The table below breaks down how these components interact and shows how the strategy reduces the overall cost by capturing the spread between short-term and long-term rates as depicted in table 1.

Net Effect

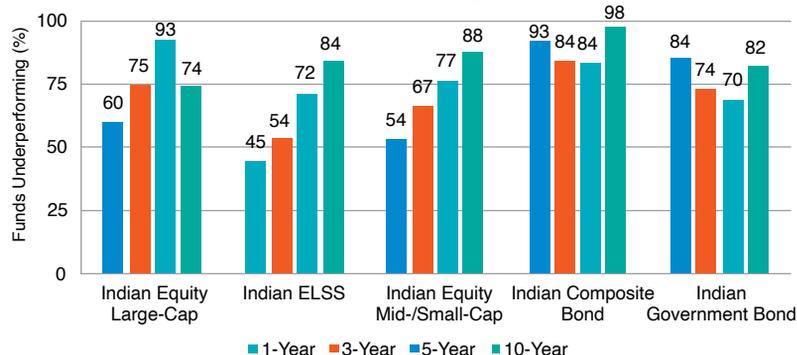
By implementing Step 2 for 50% of the index, we reduce the effective protection cost from ~5% to ~3-3.5% without losing market exposure.



Table 1

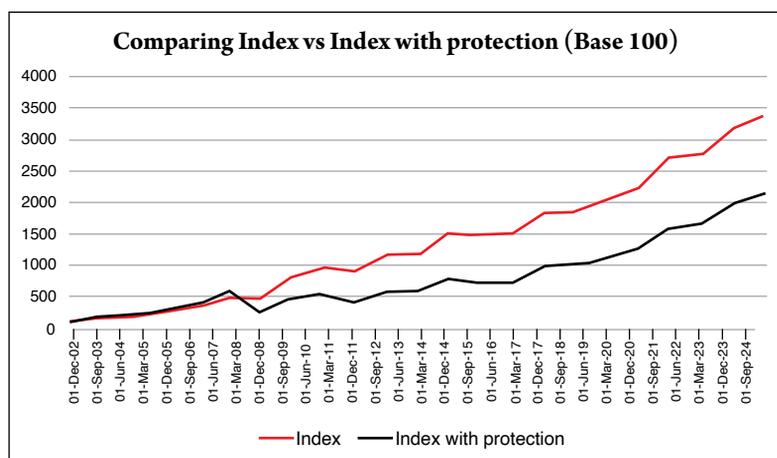
Component	Position	Cost/Return	Impact on Net Cost
Step 1: Nifty + Protection	Long Nifty + Nifty Puts	~ -5% annually	Base cost for downside protection
Step 2: -Nifty + Future	Short Nifty + Long Future	~ +5% annually	Neutralizes direct index holding
Step 2: G-Secs (50% exposure)	Invest the freed-up cash	~ +7.5-8% annually	Reduces net cost by ~2.5-3%

Exhibit 1: Percent of Underperforming India Active Funds



(Source: <https://www.spglobal.com/spdji/en/spiva/article/spiva-india>)

Figure 2



This optimization allows investors to enjoy:

- Nifty's long-term growth
- Downside protection
- Lower net costs through arbitrage

Looks good, but what to expect out of these kinds of products:

Two Paths of Quant Investing:

- Index Investing
- Index Investing with Protection

Let's break down both approaches and their potential outcomes:

1. Returns from Index Investing

Empirical evidence suggests that most actively managed portfolios work tirelessly to outperform the index, yet approximately 80% fail to beat it over the long term. Unless you possess a rare ability to perfectly time market tops and

bottoms, consistently outperforming the index is a monumental challenge.

To set a realistic benchmark:

- Fixed Deposits (FDs) yield 7-8% annually over a decade.
- Given the higher risk in equity markets, a logical equity premium (or alpha) of 4-5% should apply.

Thus, the ideal long-term return from index investing should range between 11-13% annually, provided you have the patience to hold for 10 years or more refer exhibit 1.

2. Returns from Index Investing with Protection

While the index offers promising long-term returns, it doesn't move in a straight line—market volatility is inevitable. History shows us this clearly:

- COVID-19 (2020) – A sudden 30%+ crash.
- Geopolitical Crises – From Russia to U.S. policy shifts, there's always something shaking the markets.

These 20-25% corrections occur periodically and test the investor's resolve. Without protection, such dips often trigger panic selling, cutting investments short of their full potential.

By adding protective strategies (Nifty Puts) to safeguard your downside, you create a framework where:

- If markets rise, you capture index returns.
- If markets fall – Your value is protected, avoiding large drawdowns.

The Outcome?

If we assume a pessimistic return of the index of around 11-13% over a decade with 2-3 major market shocks, this protected approach might add an additional return of 2-3% over and above the index return with downside protection as depicted in figure 2.

Why Does This Work?

Because the ability to stay invested is the key to compounding wealth. By reducing fear during market crashes, you remove emotional decision-making, allowing you to stay the course and maximize long-term gains.

Understanding the Risks Involved

Every strategy, no matter how robust, comes with its share of risks. Let's break down the potential pitfalls of the Index + Protection approach and how to navigate them:

1. Risk of Protection: Paying for Peace of Mind

Protection isn't free; it comes at a cost. If markets stay sideways or consistently rise, this cost can lead to underperformance compared to those investing without protection.

“Quants provide clear, quantifiable risk parameters. You can evaluate these and match them to what your clients can tolerate, ensuring investments are aligned with their long-term capacity for risk.”

It's similar to paying for health insurance every year when you remain healthy, it may feel like a waste. In pre-COVID times, people who skipped insurance might have laughed at those paying premiums. But when a crisis hits, those with coverage sleep soundly, while others scramble for safety.

Takeaway: The cost of protection is an investment in peace of mind small price to pay to shield your wealth during unforeseen market crashes.

2. Risk of Using Futures: The Double-Edged Sword

Futures are often called “Weapons of Mass Wealth Destruction.” Why? Because you only pay a 10-12% margin to control a large position.

- When markets rise, you amplify your gains.
- When markets fall, you face rapid losses, potentially wiping out your margin.

However, in the Index + Protection model, the downside is cushioned by long-term protection (Nifty Puts). So:

- i. If the market rises – You capture the full upside.
- ii. If the market falls – Your protection kicks in, limiting losses and ensuring you still earn from interest arbitrage.

Takeaway: In isolation, futures are risky. But paired with protection, they become a tool to enhance returns while limiting losses.



3. Risk of Execution: From Idea to Reality

A brilliant strategy is only as good as its execution. Poor execution can lead to unexpected outcomes, often resulting in underperformance.

One key factor to watch? Trade frequency.

- High-frequency strategies introduce more room for error and are harder to execute flawlessly.
- The Index + Protection strategy involves long-term positions, meaning fewer trades and greater consistency.

Takeaway: The simplicity of this strategy allows investors to either:

1. Execute it themselves with basic monitoring.
2. Outsource to a specialized AIF (Alternative Investment Fund) that handles the complexities.

4. Risk of Discipline: Staying the Course

It's often said:

“Every person has their day.”

In investing, it's:

“Every strategy has its day.”

The biggest challenge isn't building a strategy, it's sticking to it. Market noise, emotional reactions, and short-term distractions often derail even the best-laid plans.

Most well-designed strategies work over time, but only if followed with patience and discipline.

Takeaway: If you choose a strategy that makes logical sense, commit to it for the long haul. If staying disciplined is difficult, engage an advisor to keep you focused and on track.

Conclusion

While the Index+Protection approach offers a balanced and sustainable way to grow wealth, understanding and managing these four risks- Protection Cost, Futures Leverage, Execution Precision, and Discipline is crucial to long-term success.

Are you ready to embrace the strategy and stay the course for long-term wealth creation?

Why CAs Should Care About Quant Models

As Chartered Accountants, we hold a unique position of trust. Our clients don't just rely on us for accounting, audit, or tax matters—they seek our





guidance on life's financial decisions, including investments.

This trust comes with a responsibility—to offer advice that secures their long-term financial well-being.

However, investment advice is a double-edged sword:

- If we advise risky assets, clients could face losses, damaging both their wealth and our reputation.
- If we stay silent, clients often invest anyway, chasing trends and risking poor decisions that may still reflect back on us.

This is where Quant Models i.e., investment strategies driven by data and algorithms offer a balanced, objective solution.

Why Quant Models Make Sense for Your Clients

Quant models bring several advantages that align with the principles of responsible financial advice:

1. **Drawdown Management:** These models typically prioritize risk control, ensuring clients never

face catastrophic losses. This means your clients' capital is better protected, even during volatile markets.

2. Risk-Reward Transparency:

Quants provide clear, quantifiable risk parameters. You can evaluate these and match them to what your clients can tolerate, ensuring investments are aligned with their long-term capacity for risk.

3. **Automation & Focus:** Since quant strategies are systematically executed, your clients can focus on their core business while their money works for them without the stress of daily market movements.

How to Get Started with Quant Models

Getting started doesn't require you to become a quant expert overnight. Here's a step-by-step approach:

1. Explore and Compare:
 - Several platforms now offer comparisons of algorithm-driven strategies.

- Use these resources to identify strategies that align with your client's goals and risk appetite.
2. Partner with the Right Advisors:
 - Collaborate with specialized quant advisors who understand both the technical and emotional side of investing.
 - Ensure their investment philosophy aligns with your client's temperament and financial objectives.
 3. Understand the Strategy's Core Theme:
 - Not all "quant models" are created equally, as simple as discretionary buying with a fancy name.
 - Ensure that at least 70-80% of the process is systematic, with minimal manual intervention.

The Future Is Automated But Discipline Wins

Since algorithmic investing arrived in India, its adoption has skyrocketed. Yet, the term "quant model" is often misused—sometimes, even manual, view-based strategies are disguised as automated models.

The key differentiator? Consistency.

In a world where AI enables decisions at nanosecond speeds, the only reliable way to outlast the machines is through discipline traits that CAs inherently possess.

In the battle between humans and machines, the most powerful edge isn't speed, it's the discipline to stay the course.

By adopting quant models and maintaining long-term discipline, you empower your clients to build lasting wealth while protecting your professional integrity.



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CA. (Dr.) Kishore Kumar Pahuja
Member of the Institute

The Need for ADR in India

India's judicial system is burdened with a staggering backlog of cases. With millions of cases pending across different levels of courts, the traditional court system generally does not offer timely justice. ADR offers a means of reducing this burden by providing alternative mechanisms that can resolve disputes more efficiently. These mechanisms promote collaborative problem-solving, often preserving relationships between parties and avoiding the adversarial nature of litigation.

Forms of ADR in India

India's ADR framework includes several primary methods:

- **Arbitration:** Arbitration is a procedure in which a dispute is submitted, by agreement of the parties, to one or more arbitrators who make a binding decision on the dispute. In choosing arbitration, the parties opt for a private dispute resolution procedure instead of going to the courts.

This is a legally binding process where a neutral third party, known as an arbitrator, hears both parties' arguments and renders a decision. Arbitration in India is governed by the Arbitration and Conciliation Act, 1996,

Alternative Dispute Resolution in India: A Comprehensive Overview

Alternative Dispute Resolution (ADR) refers to a variety of methods designed to resolve disputes outside of traditional courtroom litigation. India's overloaded judicial system makes ADR an attractive alternative, offering faster, cost-effective, and efficient mechanisms for resolving disputes. ADR methods in India primarily include Arbitration, Mediation, Conciliation, and Negotiation.

aligning with the United Nations Commission on International Trade Law (UNCITRAL) Model Law on International Commercial Arbitration. Arbitration is widely used in commercial disputes.

- **Mediation:** Mediation involves the intervention of a third person, or mediator, into a dispute to assist the parties in negotiating jointly acceptable resolution of issues in conflict. The mediator meets with the parties at a neutral location where the parties can discuss the dispute and explore a variety of solutions.

This is a voluntary, non-binding process involving a neutral mediator who assists the parties in reaching a mutually acceptable solution. The mediator facilitates communication but does not impose a decision. Mediation is particularly effective in family, business, and community disputes.

- **Conciliation:** Conciliation is a process where an independent third party, the conciliator, helps people in a dispute to identify the disputed issues, develop options, consider alternatives and try to reach an agreement.

Conciliation, while similar to mediation, often involves a conciliator working individually

with each party to identify issues and propose solutions. This process is also governed by the Arbitration and Conciliation Act, 1996.

- **Negotiation:** Negotiation is another form of Alternative Dispute Resolution. It involves parties attempting to reach agreement on matters in dispute directly or through solicitors. Negotiation is an informal process of ADR used by private individuals involved in a legal dispute.

Negotiation helps the parties to settle and resolve their dispute themselves without a third-party facilitator. Sometimes, a mediator may be involved to facilitate the process. Negotiation is common in business settings and personal disputes.

- **Lok Adalats:** Lok Adalats (or Public Courts) offer an informal setting for dispute resolution. Governed by the Legal Services Authorities Act, 1987, Lok Adalats provide final, binding resolutions. They are especially effective in resolving small disputes and cases involving public utility services.

Legal Framework for ADR in India

The Indian ADR framework is built on multiple laws:



- **Arbitration and Conciliation Act, 1996:** This law, amended in 2015 and 2019, is the cornerstone of ADR in India. It covers both domestic and international arbitration and conciliation, including specific guidelines for appointment, powers, and conduct of arbitrators. The amendments aim to make arbitration proceedings more efficient and transparent, mandating that cases be resolved within a 12-month timeframe, extendable by six months.

The key objectives of the Arbitration and Conciliation Act, 1996 are:

- a. Reducing Court intervention.
- b. Providing for speedy disposal of disputes.
- c. Amicable, swift and cost-efficient settlement of disputes.
- d. Ensuring that arbitration proceedings are conducted in a just, fair and effective manner.
- e. Comprehensively dealing with international commercial arbitration and conciliation, as well as domestic arbitration and conciliation.
- f. Facilitating arbitrator to resort to mediation, conciliation or other procedure during the arbitral proceedings to encourage settlement of disputes.
- g. Provide that every arbitral award is enforced in the same

manner as if it were a decree of the court.

The Arbitration and Conciliation Act, 1996 is divided into four parts. Part I is titled as *Arbitration*, Part II is *Enforcement of Certain Foreign Awards*, Part III is *Conciliation* and Part IV is *Supplementary Provisions*. Besides these parts, there are Seven Schedules to the Act.

Kinds of Arbitration

■ **Ad-hoc Arbitration**

When a dispute or difference arises between the parties in the course of commercial transaction and the same could not be resolved either through negotiation or mediation, Ad-hoc Arbitration may be sought by the conflicting parties in such cases. It is not administered by an institution and therefore, the parties are required to identify all aspects of arbitration. Ad-hoc proceedings can be faster, cheaper and more flexible than an administered proceeding.

■ **Institutional Arbitration**

When there is a prior agreement between the parties that any differences or conflicts in the future will be resolved through arbitration, and the matter will be referred to the designated institution of which one or more of them are members, it is known as Institutional Arbitration.

“When a dispute or difference arises between the parties in the course of commercial transaction and the same could not be resolved either through negotiation or mediation, Ad-hoc Arbitration may be sought by the conflicting parties in such cases.”

■ **Contractual Arbitration**

Due to the growth of commercial activities in modern times, there are frequent differences and disputes between parties which are required to be settled amicably. Thus, to seek early settlement of differences and disputes without taking recourse to the court of law, the parties involved choose to incorporate an arbitration clause as a part of the agreement to refer their future or existing differences to a particular arbitrator appointed by a designated authority. This is known as Contractual Arbitration.

■ **Statutory Arbitration**

When a law specifies that if a dispute arises in a particular case, it has to be referred to arbitration, the arbitration proceedings are called Statutory Arbitration.

■ **Fast-track Arbitration**

Fast-track Arbitration is a time bound arbitration with stricter rules of procedure, that do not allow any laxity for extension of time and resultant delays. The reduced span of time makes it more cost-effective.

- **Civil Procedure Code (CPC), 1908 (Amendment of 2002):** Section 89 of the CPC provides for court-referred mediation, arbitration, and conciliation. This amendment allows courts to direct parties to explore ADR before proceeding with traditional litigation, particularly for non-compoundable offenses.

- **Mediation Act 2023:** An Act to promote and facilitate mediation, especially institutional mediation, for resolution of disputes, commercial or otherwise, enforce mediated settlement agreements, provide for a body for registration of mediators, to encourage community mediation and to make online mediation as an acceptable and cost-effective process and for matters connected therewith or incidental thereto.

Types of Mediation

- 1. Court-Referred Mediation:** Cases pending in court may be directed to mediation under Section 89 of the Code of Civil Procedure, 1908.
- 2. Private Mediation:** This involves qualified mediators providing their expertise to individuals in the commercial sector, the general

“When a law specifies that if a dispute arises in a particular case, it has to be referred to arbitration, the arbitration proceedings are called Statutory Arbitration.”

public, and government entities to resolve disputes.

Process of Mediation

- 1. Understanding the Issue:** Gaining insight into the parties' interests and needs.
- 2. Defining the Problem:** Clarifying the specific dispute at hand.
- 3. Creating Options:** Brainstorming potential solutions.
- 4. Evaluating Options:** Assessing the proposed solutions for viability.
- 5. Settlement / Non-Settlement:** Reaching an agreement or deciding not to settle.

Stages of Mediation

- 1. Introduction and Opening Statement:** The mediator establishes neutrality, explains the process, builds rapport, and fosters trust while encouraging amicable settlement.

- 2. Joint Session:** The mediator invites parties to discuss their dispute, facilitating communication, asking probing questions, and identifying areas of agreement and contention.

- 3. Separate Session:** The mediator may hold private discussions (caucus) to delve deeper into each party's interests and help generate possible solutions, ensuring an understanding of each party's position.

- 4. Closing Statement:** Upon reaching an agreement, the mediator confirms the settlement terms, which are then documented and signed by all parties and their respective counsel, including the mediator's signature.

Advantages of Mediation

- Informal procedure
- Flexibility
- Cost-effective
- Impartiality
- Swift resolution
- Confidential
- Focus on the parties' needs
- Promotes mutual agreement
- Helps preserve relationships
- Offers the potential to address future issues

Mandatory mediation through court has become legally recognized, with courts beginning to refer cases to mediation centers. Mediation not only aims for the satisfaction of the parties involved but also ensures that their counsel feels content with the outcome.

- **Legal Services Authorities Act, 1987:** This Act provides for Lok Adalats as a form of ADR to offer an informal platform for resolving cases. Lok Adalats have jurisdiction over cases involving marital disputes, property disputes, and family issues.



- **Commercial Courts Act, 2015:** This act mandates pre-institution mediation for commercial disputes, helping to address commercial conflicts without burdening the courts.

Advantages of ADR

- **Efficiency:** ADR often resolves cases more quickly than traditional litigation, saving time for both parties.
- **Cost-Effective:** ADR processes are economical as compared to a full court trial, making justice more accessible.
- **Confidentiality:** ADR proceedings are private, which is beneficial in sensitive matters where confidentiality is a priority.
- **Preservation of Relationships:** The collaborative nature of ADR helps preserve relationships, which is especially important in family and business disputes.
- **Flexibility:** ADR methods are more flexible and adaptable to the needs and schedules of the parties involved.

Challenges to ADR in India

- **Lack of Awareness:** Many people, especially in rural areas, remain unaware of ADR options, leading to continued reliance on traditional litigation.
- **Quality of Arbitrators and Mediators:** There are concerns about the availability of trained, qualified mediators and arbitrators, affecting the quality and impartiality of ADR proceedings.
- **Enforcement Issues:** While arbitration awards are legally binding, enforcing ADR outcomes can sometimes be challenging, particularly if one party is unwilling to comply.
- **Judicial Intervention:** Judicial intervention, while aimed at ensuring fairness, has occasionally resulted in delays, undermining ADR's efficiency.

- **Cultural Resistance:** In some regions, ADR is seen as less authoritative than court judgments, leading to hesitancy in opting for ADR methods.

Recent Developments and Initiatives

- **Arbitration and Conciliation (Amendment) Act, 2019:** This amendment introduced the Arbitration Council of India (ACI) to promote and regulate ADR in India, establish an institutional framework for arbitration, and improve the quality of ADR services.
- **Online Dispute Resolution (ODR):** With advancements in technology, online dispute resolution has gained popularity in India. The COVID-19 pandemic accelerated the adoption of ODR, especially for commercial and consumer disputes, making ADR more accessible and cost-effective.
- **Mediation Act, 2023:** This Act seeks to institutionalize mediation as a separate, formal dispute resolution mechanism. If passed, it would provide a legal framework for pre-litigation mediation and enforce mediated settlements as binding.

Future of ADR in India

The future of ADR in India looks promising. As more people become aware of ADR's benefits and the legal system introduces further reforms, ADR is expected to play an increasingly significant role in India's judicial ecosystem. Institutions like the Arbitration Council of India aim to regulate and enhance the quality of ADR services, while advancements in ODR have the potential to extend ADR's reach to all corners of India.

The judiciary, in partnership with the government and private organizations, is focusing on initiatives to educate citizens about ADR and train qualified professionals in the field. Furthermore, the

“Institutions like the Arbitration Council of India aim to regulate and enhance the quality of ADR services, while advancements in ODR have the potential to extend ADR's reach to all corners of India.”

inclusion of ADR in law school curricula across India is shaping the next generation of legal professionals to be adept in both litigation and ADR techniques.

The government is also proposing to bring in new amendments in the Insolvency and Bankruptcy Code, 2016 to bring in mediation as a compulsory process before Insolvency. This is aimed at expediting resolution of insolvency cases and would best operate as a self-contained blueprint within IBC, with independent infrastructure to ensure that the objectives of IBC are met without compromising or diluting its basic structure.

Conclusion

ADR in India has proven to be an effective complement to traditional court systems, offering speed, efficiency, and preserving relationships. With robust laws, recent reforms, and the integration of technology, ADR is gradually becoming an integral part of India's justice system. However, challenges remain, and continued efforts are needed to address issues like enforcement and quality of services. Overall, ADR holds great potential to help India's judicial system meet the demands of its population, delivering justice that is fair, swift, and accessible to all.

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Market Readiness for Tokenized Real Assets in India

In order to facilitate fractional ownership and increased liquidity, tokenized real assets entail transforming tangible assets such as real estate, precious metals, and artwork into digital tokens on a blockchain. India is still in the early stages of tokenization, despite its widespread popularity. Democratic investments, increased openness, and liquidity are important motivators; obstacles, including legal complications, regulatory uncertainties, and ignorance, still exist. There is potential for tokenization in industries including agriculture, real estate, and precious metals. India's market readiness depends on infrastructural development,

awareness campaigns, pilot projects, and clear regulations. By increasing investment opportunities and democratizing wealth generation, tokenization has the potential to completely transform India's financial system.

Tokenized real assets are an emerging category of assets that came into existence because of the financial markets' digital revolution. Turning title rights of a physical item, such as real estate, precious metals, or artwork, into digital tokens on a blockchain is known as tokenization. Enhanced transparency, split ownership, and more liquidity are all anticipated benefits of this invention. Still, it's unclear if the Indian market is prepared to accept tokenized real assets. This article explores tokenization's present state, difficulties, and possible future in India.

The Concept of Tokenized Real Assets

By dividing a physical asset into smaller digital pieces, tokenization makes it possible for investors to buy fractional ownership. Tokenization, for instance, allows several investors to own a portion of a valuable real estate asset without having to buy the whole thing. Because they can be exchanged on online marketplaces, these tokens offer liquidity that conventional real assets frequently do not. Tokenization has become popular in international markets. Assets have been effectively tokenized via platforms like

eZERO, RealT, and Securitize, opening them up to a wider range of investors. Nonetheless, India is still in the early phases of its tokenization journey.

Current Regulatory Landscape in India

The Indian government has taken a cautious approach to digital assets, namely cryptocurrency. In 2020, the Supreme Court overturned the Reserve Bank of India's (RBI) 2018 ban on cryptocurrency. The government has continued to develop a framework for regulating digital assets ever since. One of the most important regulators of the securities markets is the Securities and Exchange Board of India (SEBI). SEBI must specify precise rules for the issuance, exchange, and custody of digital tokens that represent actual assets for tokenized assets to acquire legitimacy. Furthermore, the required legal framework to facilitate tokenization might be provided by the creation of a Digital India Act.

Current Tokenized Assets in India

Although the market for tokenized assets in India is still young, several creative initiatives are opening the door for expansion. Real estate and

agricultural assets have been tokenized by tokenization platforms like Lattice and Brú Finance. Tokenizing artwork to allow fractional ownership of valuable items is being investigated by some startups. Tokenized bonds and debt instruments have undergone testing in financial institutions to increase liquidity and accessibility. However, for wider use, regulatory understanding and transparency are essential. Tokenized assets offer a great chance to improve financial inclusion and democratize investment in India, notwithstanding these obstacles.

India is seeing a surge in real asset tokenization, with a number of businesses leading the way in a number of industries. Notable instances consist of:

- **Real Estate Tokenization:** In the International Financial Services Centers Authority (IFSCA) regulatory sandbox at GIFT City, Gujarat, the country's first regulated tokenized real estate project was launched, named Terazo and Tokeny. Oryx is a greenfield real estate development project with an estimated USD 50 million in valuation. A \$100,000 threshold investment enables investors to get partial ownership

of real estate assets. This program is an important step in closing the gap between Indian individual investors and high-value real estate. This is establishing a standard for the secure and open adoption of real estate tokenization in the nation by abiding by regulatory requirements.

- **Agricultural Asset Tokenization:** Tokenization is increasingly being applied in the agriculture sector by converting farm loans and produce into digital tokens through companies like Brú Finance. Such initiatives allow farmers to access funding through decentralized finance solutions, reducing dependence on traditional financial institutions that often impose strict borrowing conditions. By enabling better access to capital and improving liquidity for agricultural assets, tokenization is fostering greater financial inclusion and supporting rural development in India.
- **Precious Metals & Alternative Investments:** Tokenization solutions are making high-value investments such as precious metals and real estate more accessible by enabling fractional ownership through companies like Lattice. Through blockchain technology, investors can securely acquire digital shares or tokens backed by real-world assets, ensuring transparency and safety in transactions. By lowering entry barriers and improving liquidity, these initiatives are helping democratize investment opportunities, especially for smaller investors across tier-2 and tier-3 cities, thereby bridging the gap between traditional investment hurdles and modern digital finance.

Blockchain Infrastructure & Solutions: For businesses seeking to tokenize tangible assets such as real estate, precious metals, or collectibles, specialized solution providers are offering end-to-end support through companies like Nadcab Labs. These include

“Tokenization is supported by blockchain technology, which provides high levels of security and transparency in asset ownership and transactions.”

blockchain infrastructure, smart contract development, and compliance frameworks to ensure secure and seamless tokenization. By enabling industries to transition into digital asset ecosystems, such solutions are fostering innovation and contributing to the wider adoption of real-world asset tokenization in India's financial markets.

- **Regulatory Sandbox at GIFT City:** The first smart city in India with an approved platform for tokenizing real-world assets is called GIFT City (Gujarat International Finance Tec-City). Fintech companies can test and execute tokenization initiatives in a controlled environment inside a legal framework thanks to the city's regulatory sandbox, which was established under IFSCA. The goal of GIFT City's project is to get fintech companies and foreign investors to join the tokenized economy. GIFT City is poised to develop into a center for tokenized

bonds, real estate, and other assets by fostering innovation, investor protection, and legal clarity. This will help the expansion of India's digital asset ecosystem.

Key Drivers for Tokenization in India

- **Democratization of Investments:** Because tokenization makes high-value assets more accessible, it is completely changing the way investments are made. Because of their high prices, assets like real estate, precious metals, and fine art have historically only been accessible to institutional investors or affluent individuals. Tokenization, on the other hand, allows for ownership participation by transforming these tangible assets into digital tokens. Fractional shares of pricey assets are now accessible to even people with limited financial resources, expanding the investment base and increasing the inclusivity and equity of wealth creation chances.
- **Improved Liquidity:** The fact that tokenization adds liquidity to assets that were previously illiquid is one among its many noteworthy benefits. Physical assets, such as collectibles, real estate, and precious metals, are difficult to frequently turn into cash because they usually involve drawn-out procedures to sell. Tokenization, on the other hand, makes it easier for investors



“A financial revolution is imminent in India. Although tokenized real assets have tremendous potential, overcoming technological, legislative, and awareness obstacles is necessary to become market-ready.”

to purchase or sell their tokenized shares by digitizing these assets and trading them on secondary markets based on blockchain. In addition to improving market efficiency, this increased liquidity allows investors more freedom to manage their portfolios and withdraw money when necessary, something that was not feasible with conventional investment methods.

- **Transparency and Security:** Tokenization is supported by blockchain technology, which provides high levels of security and transparency in asset ownership and transactions. Every token is a distinct, unchangeable ownership record that is kept on a distributed ledger. This lowers the possibility of fraud or manipulation by guaranteeing that every transaction is forever documented and unchangeable. Furthermore, because blockchain technology is decentralized, it eliminates the need for middlemen, which increases process efficiency and reliability. By having complete control over the ownership trail, investors may reduce disagreements and make sure that every transaction is carried out safely and openly.
- **Fractional Ownership:** By allowing investors to buy portions of valuable assets, tokenization lowers the cost and increases accessibility of investing in pricey assets. For example, investors can use digital tokens to acquire small shares of a property rather than having to pay a huge price to purchase it entirely.



For individual investors, the idea of fractional ownership reduces the barrier to entry and enables portfolio diversification across several asset types. Tokenization reduces risks and improves financial inclusion in areas that were previously unaffordable for the majority of people by dividing the asset into smaller components that facilitate investors' allocation of capital across various assets.

Challenges to Market Readiness

The broad use of tokenized real assets in India is hampered by a number of issues, despite its potential.

- **Regulatory Uncertainty:** The lack of a clear legislative framework is one of the main obstacles to India's adoption of tokenized real assets. Now, there are no particular regulations controlling the issuance, exchange, or storage of digital tokens that stand in for tangible assets. Due to their uncertainty regarding legal observance and possible regulatory consequences, issuers and investors are both wary of this ambiguity. Uncertainty will keep parties from fully adopting tokenization unless regulatory bodies like the RBI or SEBI create explicit norms.
- **Lack of Awareness:** Since tokenization is a relatively new idea in the Indian industry, low awareness stands in the way of its broad implementation. Tokenized assets and their differences from other digital assets, such as cryptocurrency, are not well understood by many investors and enterprises. The hesitancy is further increased by the false belief that tokenization is equivalent to working with extremely risky cryptocurrencies. To assist people in comprehending the advantages, dangers, and applications of tokenized assets, educational initiatives are crucial. This novel investing strategy will find it difficult to take off in the Indian market without greater awareness.
- **Technological Infrastructure:** Large-scale tokenization implementation calls for robust digital infrastructure, such as digital wallets, smart contracts, and safe blockchain networks. However, the smooth implementation of tokenization is hampered by flaws in India's current technology infrastructure. Businesses frequently encounter technological difficulties while developing scalable and secure blockchain platforms, and many investors do not have access to safe storage options for their digital assets. Building trust in the system requires dependable smart contracts and cybersecurity. Building a secure and effective tokenization ecosystem involves strengthening the nation's IT infrastructure.
- **Legal and Tax Implications:** Before the market develops, new legal and tax issues brought up by tokenization must be resolved. When actual assets are divided into digital tokens, issues like ownership rights, asset transfer, and dispute resolution become more complicated. Additionally, businesses and investors are concerned about tax uncertainty, particularly capital gains, stamp duty, and indirect taxes. Tokenized assets could result in unanticipated

tax expenses and legal hazards in the absence of a thorough legal framework that handles these issues. Building investor trust and guaranteeing adherence to current legislation requires providing clear guidance on the legal and tax handling of these assets.

Potential Sectors for Tokenization

- 1. Real Estate:** Real estate tokenization can bring liquidity to a historically illiquid industry and distribute property ownership.
- 2. Precious Metals:** Investors can trade gold and other precious metals online by tokenizing them.
- 3. Art and Collectibles:** By part-ownership, tokenization can make expensive works of art available to a wider audience.
- 4. Agriculture:** It is possible to tokenize agricultural produce and lands, giving farmers access to fresh funding sources.

Roadmap to Market Readiness

The following actions are necessary to get the Indian market ready for digitized real assets

Regulatory Clarity

A clear and thorough regulatory framework is necessary to support the deployment of tokenized real assets in India. To maintain investor safety and legal compliance, regulatory organizations such as SEBI must specify precise rules for the issuance, trading, and administration of tokenized assets. A clear regulatory framework will eliminate uncertainty, increase investor confidence, and give this new asset class respectability.

Global Tokenization Success Stories

RealT (USA)	tZERO (USA)	Securitize (Global)
Through the tokenization of real estate, RealT enables investors to buy a portion of rental properties.	Tokenized securities can now be traded on the tZERO platform, giving previously illiquid assets liquidity.	Securitize facilitates the tokenization process by allowing companies to issue digital assets on blockchain.

Infrastructure Development

Tokenization cannot be implemented successfully without a strong technological foundation. In order to facilitate the creation, storing, and trading of digital tokens that reflect actual assets, it is imperative to develop scalable and secure blockchain networks. The potential for fraud, inefficiencies, and security breaches could impede the expansion of tokenization in the Indian market in the absence of a robust technological base.

Awareness Campaigns

For tokenization to be widely used, it is essential to inform important stakeholders about its advantages and disadvantages. The idea and its potential to transform asset ownership are still unknown to many Indian companies, investors, and legislators. Tokenization can be supported by awareness efforts that help debunk myths, highlight successful worldwide use examples, and encourage well-informed decision-making.

Pilot Projects

Pilot projects in industries like precious metals and real estate can demonstrate the useful benefits of tokenization. These initiatives can act as proof of concept, showing how tokenization facilitates fractional ownership, lowers obstacles to investment, and increases liquidity. If pilot projects are successful, other industries will be inspired to investigate tokenization, which will hasten its adoption in the Indian market.

Conclusion

A financial revolution is imminent in India. Although tokenized real

assets have tremendous potential, overcoming technological, legislative, and awareness obstacles is necessary to become market-ready. India can democratize wealth creation through tokenization and open new investment options with the correct infrastructure, education, and policies.

It is inevitable that real assets will eventually be tokenized. The pertinent question is not whether India will adopt this transformative shift in asset ownership and investment, but rather when it will be ready to do so.

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Introduction: Spirituality and Contemporary Management

“When disappointment stares me in the face, and all alone, I see not one ray of light, I go back to the Bhagavad Geeta, I find a verse here and a verse there and I immediately begin to smile in the midst of overwhelming tragedies – and my life has been full of external tragedies – and if they have left, no visible, no indelible scar on me, I owe it all to the teachings of Bhagavad Geeta.”
– Mahatma Gandhi

In the realm of business management, Indian spiritual literature offers a profound yet underutilized resource, contrasting with the predominant

Embracing Indian Spiritual Wisdom for Sustainable Business in Turbulent Times

India remains a proponent of sustainability, as the idea is deeply rooted in our way of life (Sai, 2023). Realising this fundamental relationship we have with sustainability, the article tries to demonstrate how the teachings in ancient Indian wisdom strengthen modern management practices. This article advocates for a holistic business strategy that integrates economic activity with social and environmental duties, promoting sustainable operations while respecting environmental boundaries and balancing interests. It is only through spiritual congruity that we can identify ourselves as being a “global citizen” (Bhattacharjee A., 2011). The researchers selected six key fundamental management concepts and analysed their references to Indian scriptures through content analysis (Matkar, 2024). Our approach comprised a methodical and analytical analysis of the text, with an emphasis on the management and leadership strategies advocated by Lord Krishna and their applicability to contemporary management.

reliance on western literature by Indian researchers (Bhal, 2006) and management thinkers. The contemporary corporate environment is marked by recurrent corporate failures, financial scandals, inadequate financial reporting, employee discontent, and heightened employer stress (Solomon, 2020). This backdrop has spurred increasing interest among western scholars in the spiritual dimensions of Indian literature as applied to business management.

These spiritual approaches carry significant implications for both short-term operational strategies and long-term organizational sustainability within business entities and the broader economy (Miska, 2018). While overseas, substantial scholarly attention has been directed towards exploring spiritual methodologies in business management, in India, spiritual leaders and management thinkers have consistently underscored the importance of spiritual leadership and workplace spirituality in their

writings (Shankar Pawar, 2009). Due to this, practical implementation remains constrained. This paper aims to analytically examine the integration of spiritual leadership with organizational management practices rooted in ancient Indian wisdom, offering a holistic approach to administration and leadership that emphasizes ethical behaviour, compassion, and self-awareness (Panda, 2007). It seeks to bridge the gap between theoretical insights and practical applications.

Sanatan Dharma

Indians recognized from the Vedic era that every human being, irrespective of their social or economic status, embodies divinity (Sharma A. &, 2013). Unlike Aristotle’s view of humans as ‘political beings,’ Benjamin Franklin’s conception of humans as ‘tool-making beings,’ or Alvin Toffler’s perspective of humans as ‘economic beings,’ Indians fundamentally perceive humans as manifestations of God (Dave, 2002). This philosophical

standpoint asserts that any service rendered to a human being should aim to unveil and nurture their boundless excellence and potential. The essence of human existence is thus a transformative journey from 'Manava' (human) to 'Madhava' (God) (Sathyannarayanan, 2012).

The Indian work ethos is fundamentally rooted in the vision of "Lok Samast Sukhino Bhavantu," which translates to the aspiration that all beings may be happy and well (Kumar, 2022). This principle implies that all forms of work, whether physical, mental, managerial, or administrative, should be directed towards a singular purpose: manifesting the inherent divinity within humans by striving for the welfare and happiness of others (Ghosh, 2020).

Contemporary management practices such as morning prayers (akin to Japanese management), Management by Objectives (MBO), involving employees in goal-setting, and showing interest in their personal lives (Cheng, 1997), can all trace their conceptual origins back to the Vedas (Sur, 2017). Implementing these Vedic principles within organizations can potentially minimize conflicts and maximize productivity (Maheshwari, 2018). This can be achieved by fostering values such as sharing, tolerance, love, trust, and faith among employees and between employers and employees (Bhattacharjee, 2011). These values underpin the concept of workplace spirituality (Milliman, 2003).

“ The tactical solution employed by Lord Krishna reflects an understanding of the situational context, emphasizing the relevance of context-aware decision-making in contemporary critical management. ”

An in-depth analysis of the ancient Indian scriptures reveals that many modern business management practices have their roots in these ancient texts (Sinha J. B., 2000). By integrating Vedic principles into contemporary management, organizations can enhance their effectiveness and create a more harmonious work environment (Muniapan, 2013). This perspective aligns with the growing interest in workplace spirituality, suggesting that ancient wisdom can offer valuable insights for modern management challenges (Sharma S. &, 2007). Therefore, revisiting Vedic teachings can provide a profound foundation for developing sustainable and holistic management practices in today's organizational context.

Bhagavad Gita and Management Thoughts

There is sufficient evidence that substantial work is available already that offers a 'Bharatiya' view, and that there is an opportunity for further research about management practices

unique to the region. Curating earlier work in the area and creating indigenous content will establish Bharatiya management in the future (Sudhakar, 2021). Universities worldwide are becoming more and more interested in the ancient Indian literary work known as the Shrimad Bhagavad Gita. Recognising the developments and effects of knowledge on the Shrimad Bhagavad Gita requires an understanding of the academic trends and topics (Dubey, 2024). The Bhagavad Gita instructs us concerning every managerial strategy in a way that leads us to a peaceful and happy state of affairs instead of conflict, tensions, low productivity, lack of motivation, and other issues that are prevalent in the majority of Indian businesses nowadays and most likely in businesses across many other nations. Here, we're re-examining certain management and leadership philosophies in the context of the Bhagavad Gita and Mahabharata, which serve as an introduction to management by values and discuss its implications for the corporate and social environments of today.

Research Methodology

The researchers are trying to build a relationship among the implications from the Bhagavad Gita, and incidents of the Mahabharata, and the contemporary corporate concepts. The aim of the study is to demonstrate that impactful management ideas are present in our ancient literature and that our educational system has ignored them in favour of using British teaching methods (Sharma S.). The management and administrative techniques from the Bhagavad Gita and Mahabharata, through teachings and incidents detailed in these ancient scriptures, were analysed to upgrade and flourish the current management and corporate teachings (Rajak, 2014). In order to highlight commonalities and original discoveries, we conducted a thorough content analysis of the Bhagavad Gita in order to find and link its lessons with modern management concepts. Our approach comprised a methodical and analytical analysis of the text, with an emphasis on the



management and leadership strategies advocated by Lord Krishna and their applicability to contemporary business and social environments. To find similarities and expansions, we carried out a thorough assessment of the literature, looking at academic interpretations and management ideas that have already been developed.

Discussion and Analysis

1. Sangha Sambandha – Improvisation of the principle Esprit de corps

Sangha in Sanskrit means unity and collective effort, while Sambandha signifies a bond or connection, emphasizing the cohesive relationship and mutual respect among team members. Krishna's approach emphasizes psychological resilience, ethical leadership, and motivational strategies in managing teams and achieving organizational goals. He guides Arjuna's charioteer and mentors him in overcoming internal conflicts and focusing on duty amidst adversity. Krishna's counsel emphasizes the mastery of one's mind and emotions as foundational to effective leadership, echoed in contemporary leadership theories. This interdisciplinary approach enhances both theoretical understanding and practical application in organizational settings, bridging the gap between historical wisdom and contemporary management challenges. The Vedic chant "Om Sahanavatu" invokes divine protection and mutual nourishment between individuals, emphasizing cooperation and shared effort in achieving common objectives. This resonates with modern management's emphasis on building cohesive teams and nurturing positive interpersonal dynamics.

2. Viveka Yuktika - Contemporary Tactical Management

"Viveka Yuktika" is a Sanskrit term that signifies discernment, wisdom, and the ability to distinguish

“ In the context of the Mahabharata, Krishna assessed the utility or importance of each resource, Arjuna and Ghatotkacha, in achieving the overarching goal of victory against the Kauravas. This aligns with contemporary management principles that emphasize the effective allocation of critical resources. ”

between right and wrong. It reflects the critical evaluation and strategic prioritization aspects of the narrative. The term translates to "Strategic Wisdom" or "Tactical Wisdom", encapsulating Krishna's approach in the Mahabharata. This timeless wisdom from ancient Indian scriptures is applied to modern management practices. Contemporary tactical management often faces challenges where traditional approaches may not be sufficient. The story of Bhishma, Shikhandi, and Lord Krishna can be connected to contemporary critical management through various parallels that reflect modern organizational

challenges, strategic decision-making, and leadership dynamics. In the Kurukshetra War, Bhishma Pitamah, leading the Kauravas' army, poses a formidable threat to the Pandavas. Krishna orchestrates a pivotal assault using Shikhandi, born female but raised male, to weaken Bhishma's defences. Arjuna shields Shikhandi, positioning him strategically to breach the Kauravas' army's center, a move critical in Bhishma's defeat.

The strategic positioning of Shikhandi on the battlefield underscores the need for adaptive and innovative approaches in contemporary management. Contemporary critical management faces analogous challenges, necessitating strategic thinking, creative problem-solving, and ethical leadership. The tactical solution employed by Lord Krishna reflects an understanding of the situational context, emphasizing the relevance of context-aware decision-making in contemporary critical management. The concept of exploiting weaknesses ethically, as seen in Krishna's strategic use of Shikhandi's effeminate qualities, prompts discussions about ethics in modern management. The story provides a lens through which contemporary leaders can reflect on the ethical dimensions of their choices and actions.



3. Yukti Prabandhan - Yuktikrama - Decision Science and Management / Strategic Prioritization:

The concept of strategic resource allocation from ancient Indian scriptures can be reframed as “Yukti Prabandhan,” which translates to strategic or tactical management or arrangement. This approach is reflected in the strategic decision made by Lord Krishna in the Mahabharata, where he sacrificed Ghatotkacha to preserve Arjuna. This decision aligns with contemporary management principles that emphasize the effective allocation of critical resources.

The utility theory, which suggests individuals make decisions based on maximizing their overall satisfaction or utility, is applied in this context. In the context of the Mahabharata, Krishna assessed the utility or importance of each resource, Arjuna and Ghatotkacha, in achieving the overarching goal of victory against the Kauravas. This aligns with contemporary management principles that emphasize the effective allocation of critical resources. The concept of opportunity cost, fundamental in economic theory, plays a crucial role in this decision. Krishna’s decision to sacrifice Ghatotkacha represented an opportunity cost, giving up one resource for the benefit of the long-term goal. The utility gained from Arjuna’s continued effectiveness in the battle outweighed the utility of Ghatotkacha’s contribution.

This Mahabharata incident offers insights applicable to contemporary critical management, emphasizing the importance of strategic allocation, adaptive leadership, critical evaluation, and ethical decision-making in addressing complex challenges within organizations. It serves as a timeless narrative that prompts reflection on effective management practices

“ Krishna's strategy to defeat Dronacharya through a carefully orchestrated plan showcases the complexities of leadership in crisis situations, emphasizing the need for effective communication, ethical decision-making, and emotional intelligence. ”

in the face of adversity. The rational assessment of the utility, opportunity cost, and comparative advantage of each resource contributes to a strategic allocation that aims to optimize the overall chances of success in the broader context of the Kurukshetra War.

4. Kshipra Niti - Leadership in Crisis Situations

For managerial decision-making strategy in crisis and crucial situations (Kobus, 2001), a suitable strategy from ancient Indian scriptures could be “Kshipra Niti.” (Ballal, 2022). This term combines “Kshipra,” meaning swift or quick, and “Niti,” meaning

policy or strategy (Charan, 2015), reflecting the importance of rapid and strategic decision-making (Vanlommel, 2019) in high-stakes scenarios (Alison, 2015).

In the Mahabharata, Lord Krishna uses a tactical strategy to end the Great War by exploiting Dronacharya’s love for his son, Ashwatthama. Dronacharya, a respected guru and commander of the Kauravas’ army, fights fiercely to protect his son. Krishna advises Yudhishtira, known for his adherence to truth and righteousness, to announce that Ashwatthama has been killed. Krishna intervenes to ensure the success of the plan, orchestrating a scheme where the Pandavas eliminate an elephant named Ashwatthama. Krishna’s strategic use of communication parallels modern management practices, emphasizing effective communication strategies. In today’s corporate environment, leaders often employ similar strategies to manage perceptions, mitigate conflicts, and achieve organizational objectives. The orchestration of information to influence decision-making processes is crucial, particularly in high-stakes situations where clarity and precision are imperative.



Krishna's actions bring forth ethical considerations relevant to contemporary management, such as the morality of deception for strategic gain. This ethical dilemma resonates with the challenges faced by modern leaders who must balance strategic objectives with ethical responsibilities. The incident prompts a critical examination of the boundaries between strategic communication and ethical integrity, emphasizing the importance of maintaining ethical standards even in difficult situations. Krishna's immediate intervention and guidance underscore the necessity of proactive leadership during crises. Contemporary management literature emphasizes the importance of leaders who can navigate uncertainty, make rapid decisions, and instil confidence within their teams. Krishna's ability to foresee the implications of Dronacharya's potential response and his subsequent actions to ensure the plan's success reflect the qualities of an effective crisis leader.

The psychological impact on Dronacharya, who abandons his weapons and life, highlights the human dynamics of leadership. Understanding the emotional and psychological states of team members and stakeholders is crucial for effective leadership. Krishna's tactical strategy to defeat Dronacharya offers a profound illustration of the complexities involved in leadership during crises, bridging ancient wisdom with modern management theories. Leaders today can draw upon these lessons to enhance their strategic acumen, ethical awareness, and emotional intelligence, thereby improving their ability to lead effectively in dynamic and challenging environments (Singh, 2010).

5. Nishkama Karma-Work commitment- Focus on one's duty:

The Bhagavad Gita verse states: "Karmanye vadhikaraste ma

phaleshu kadachana, Ma karma phala hetur bhurmatey sangostva akarmani." ("You have a right to perform your prescribed duties, but you are not entitled to the fruits of your actions. Never consider yourself to be the cause of the results of your activities, nor be attached to inaction.")

Work commitment is pivotal (Ashta, 2021) in organizational behaviour and management, influencing productivity, job satisfaction, and overall success (Bhadeshiya, 2024). The Bhagavad Gita, specifically Chapter 2, Verse 47, introduces the concept of Nishkama Karma, emphasizing performing one's duty without attachment to outcomes (Pillai, 2022). This principle offers profound insights that can be scientifically and creatively connected to contemporary theories in psychology (Shankar Pawar, 2009), motivation, and leadership (Nayak, 2018). Krishna's guidance aligns with Self-Determination Theory (SDT), where intrinsic motivation arises from engaging in activities for their inherent satisfaction (Udahemuka, 2023) rather than external rewards (Jain, 2013).

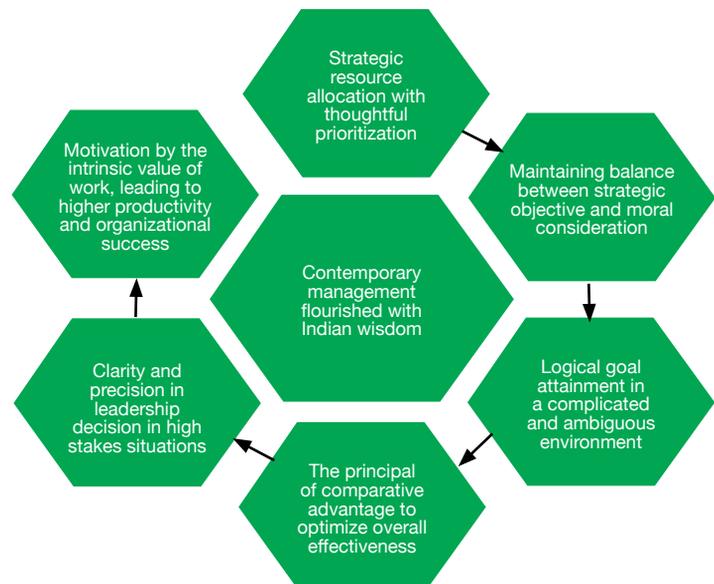
Leaders prioritizing followers' welfare cultivate a positive organizational culture and enhance commitment (Liden et al., 2008), mirroring Krishna's emphasis on ethical conduct in duty (Ryan, 2009). Integrating these principles fosters intrinsic motivation, promotes prosocial behaviour, cultivates mindfulness, and encourages ethical leadership. By embracing "Nishkama Karma," organizations can nurture a dedicated, motivated, and fulfilled workforce (Srivastava, 2022).

Managerial Implications

Strategic resource allocation with thoughtful prioritization: Analyzing Lord Krishna's decision to sacrifice Ghatotkacha to preserve Arjuna through principles from decision theory, resource allocation, and strategic prioritization, we see a strategic approach to ensure success in contemporary management.

Maintaining balance between strategic objectives and moral considerations: Krishna's strategy to defeat Dronacharya through a carefully orchestrated plan showcases the complexities of leadership in crisis

Figure 1: Contemporary management flourished with Indian wisdom





situations, emphasizing the need for effective communication, ethical decision-making, and emotional intelligence.

Logical goal attainment in a complicated and ambiguous environment: Krishna's actions, especially his skilful utilisation of Shikhandi's special abilities, reveal a thoughtful and methodical approach to optimising the likelihood of success in a challenging situation. Krishna demonstrates the value of emotional intelligence in crisis management by his ability to identify and take advantage of these dynamics.

Optimize overall efficiency by comparative advantage: Krishna's management skills in his strategic analysis of Bhishma's weaknesses and utilization of Shikhandi's unique talents to defeat and win the day can be a strategy in modern management to enhance overall efficiency even in critical situations.

Clarity and precision in leadership decisions in high stakes situations: This incident of killing Dronacharya highlights the importance of effective communication strategies in high-stakes situations, emphasizing the need

for clarity and precision in leadership decisions.

Motivation by the intrinsic value of work, leading to higher productivity and organizational success: Incorporating the concept of *Nishkama Karma* into modern management practices can foster a culture of dedication, resilience, and ethical integrity within organizations. It encourages individuals to focus on their responsibilities, leading to greater job satisfaction and a more harmonious work environment, ultimately contributing to organizational success.

Conclusion

Indian literature offers profound insights into spiritual approaches to business management (Chattopadhyay, 2012). While Western literature often emphasizes conventional management principles, Indian spiritual texts and teachings (Mishra, 2022) advocate for a holistic approach that integrates spiritual leadership and workplace spirituality (Low, 2018). The academicians and corporate thinkers in India have enumerated the importance of these approaches, yet their practical application remains limited. The Bhagavad Gita, a significant source of knowledge (Rabindranath, 2024), is a key factor in contemporary management philosophies. It emphasizes the importance of coordinated efforts (Prastacos G. P., 2013) and the value of completing one's labour without expecting anything in return. This teaching holds worldwide value (Morton, 2022) as it provides guidelines for current business practices. It's time for modern management thinkers to recognize the value of this ancient Indian ethos (Goparaj, 2018) in addressing current management framework issues.

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Sustainable Development through Board Committees: A Strategic Approach to Corporate Governance

In Corporate Governance, Board Committees are crucial as they provide focused supervision on specific areas, such as audit, risk management, and remuneration. These committees allow board members to dive deeper into particular subjects, providing guidance and making recommendations to the board of directors. By forming a dedicated sustainability or ESG committee, organizations can more effectively address challenges related to sustainable development. This article explores how board committees can drive sustainable development and why it is crucial for today's organizations.

Businesses throughout the world are realizing that they need to implement sustainable development methods in response to growing environmental concerns, social inequality, and governance issues. The idea of sustainable development places a strong emphasis on addressing current demands without sacrificing the capacity of future generations to address theirs. It has become a guiding principle for organizations striving for long-term viability and positive societal impact. The concept of sustainable development has moved from being a speciality to a mainstream corporate approach, driven by climate change, resource scarcity, and increasing stakeholder awareness. Governments, international organizations, and regulatory bodies are placing greater pressure on companies to act responsibly in their environmental, social, and governance practices. Consequently, companies are held responsible for their impact on society and the environment in addition to their financial performance, which compelled them to look beyond the profit maximization motives only.

The most evident driving factor to accelerate sustainability in industry's

governance policy is the United Nations' Sustainable Development Goals (SDGs) adopted in 2015, derived between the journey of COP-1, 1995, to COP-29, 2024, with the motive to reduce poverty, protect the planet, and safeguard prosperity for all by 2030. In this regard, to promote long-term sustainability, various mandatory or non-mandatory regulations are being incorporated into the vital governance guidelines that may prove implementable and effective concerning the current environmental, social, and governance crises. Pioneering first in Asia, Singapore recently mandated the compulsory provision of ESG reporting in its regulation to align with IFRS's International Sustainability Standards (ISS), which is ready to be implemented phase-wise from 2025, considering the listed, non-listed, and size of the companies. Moreover, under this regulation, sustainability training for the board of directors of listed companies has become obligatory. Similarly, in India, SEBI has approved the regulation of mandatory disclosure of ESG metrics for the top 1000 listed companies under the Business Responsibility and Sustainability Report (BRSR Core), which is a fragment of the comprehensive strategy of India to



attain Net Zero by 2070 and fulfill 50% of its electricity demands through renewable energy sources by 2030. The stipulated timeline for mandatory compliance under SEBI's BRSR Core regulations is 2026-2027, in which pertinent companies must file BRSR reports with their annual reports.

While these commendable steps are crucial for countries' efforts to combat climate change, they are likely to contribute to mobilize capital from the public and private sectors to support their green financing initiatives for sustainable development. Some questions that arise are: Are companies fully ready to deal with these rigorous regulatory compliances in order to shape our sustainably developed future? or Is mere compliance with ESG regulations and disclosures sufficient to achieve sustainability targets? In this line, this article explores the critical role of a board-level committee in promoting sustainable development, its specific functions, the challenges it faces, and the opportunities it creates for modern businesses.

Board Committee focused on Sustainable Development

One of the most effective governance mechanisms to ensure sustainable growth within the corporate structure is forming a board committee dedicated to sustainability and ESG (Environmental, Social, and Governance) issues, as the Board committees, composed of

“ The CSRC focuses on a positive social image by enhancing ethical practices, fostering community relationships, and incorporating philanthropic initiatives for social equity, healthcare, education, diversity, and inclusion, which is itself a rigorous area to handle by any company. ”

selected directors, are established to focus on specific areas of governance that require intense expertise and experience to deal with. The most common types of committees in global corporations include the Audit Committee, Nomination & Remuneration Committee, and Risk Management Committee. In India, along with the abovementioned committees, the Stakeholder Relationship Committee and Corporate Social Responsibility Committee (CSRC) are also mandatory under the Companies Act, 2013, and SEBI (LODR) Regulations, 2015. None of them deals with embedding sustainability into the core business model for long-term success by integrating environmental protection, resource efficiency, lasting resilience, and achieving climate and sustainability goals (e.g., net zero-emission, renewable energy transitions) with ESG Compliance.

Where, businesses now recognize that their success depends on sustainable growth, reducing environmental impacts, fostering innovation, and creating value for society considering the welfare of future generations; the presence of a CSR Committee doesn't seem to be sufficient to ensure enduring environmental, social, and economic impact of a company's operation as it is only dealing with one aspect of ESG that is 'Social' and is accountable for ethics based responsibility of corporates towards the society in which they are presently functioning.

The CSRC focuses on a positive social image by enhancing ethical practices, fostering community relationships, and incorporating philanthropic initiatives for social equity, healthcare, education, diversity, and inclusion, which is itself a rigorous area to handle by any company. In such a situation, an ESG Committee or Sustainability committee constituted at the board level with members having expertise in ESG background will complement the CSR Committee and help to maintain the focus by segregating the broad spectrum of purview to deal with.

As the companies must balance economic growth with the protection of the environment, social equity, and ethical governance, gradually, many organizations have begun to prioritize sustainability either by creating dedicated board committees that drive ESG-related initiatives and oversee the associated compliance or expanding the scope of existing committees to include ESG-related responsibilities. Establishing a sustainability concentrated committee/s (regardless of the nomenclature) is instrumental in ensuring that sustainability has become a strategic priority for any corporation, rather than a reactive or compliance-driven effort (Hamad et al., 2024). By embedding sustainable practices into the core decision-making processes,





“ **Businesses that integrate sustainability into their core operations are better positioned to mitigate risks, foster innovation, and capture new market opportunities.** ”

this committee serves as a critical bench in aligning corporate governance with the comprehensive goals for sustainable development. The role of such a committee extends beyond traditional governance duties, focusing on the integration of sustainability into corporate strategies, risk management frameworks, and operational practices. Through its work, this committee ensures that sustainability is not treated as a peripheral concern but as a core component of commercial operations (Orazalin & Mahmood, 2021). A sustainability-focused board committee is increasingly essential because of growing regulatory requirements, stakeholder expectations, and the long-term benefits of adopting sustainable practices. It will help to monitor and evaluate the company's progress toward carbon footprint reduction initiatives, tracking ESG metrics, ensuring compliance with sustainability regulations, and aligning the company's strategic objectives with global sustainability standards (Abdullah et al., 2024) Environmental, Social & Governance (ESG). The major reasons to have a sustainability committee

in present governance models are as follows:

■ **Strategic Alignment with Sustainable Development Goals (SDGs)**

Bringing the company's operations into line with global frameworks like the Sustainable Development Goals (SDGs) of the United Nations is one of the core responsibilities of sustainability-focused board committees. Concerning climate change, environmental degradation, poverty, inequality, peace, and justice, among other global issues, the SDGs offer a roadmap for tackling these issues. By aligning corporate strategy with these goals, the committee ensures that the company contributes positively to global development while also benefiting from the opportunities created by sustainable growth (Sekarlangit & Wardhani, 2021).

■ **Ensuring Long-Term Value Creation**

Sustainable development is intrinsically linked to long-term value creation. Businesses that integrate sustainability into their core operations are better positioned to mitigate risks, foster innovation, and capture new market opportunities. A Board committee focused on sustainability helps to ensure that the company adopts a long-term perspective, balancing short-term financial performance with investments in sustainable growth. This approach not only protects the company from risks associated with climate change, resource exhaustion, and regulatory changes, but also enhances its reputation, brand value, and stakeholder trust.

■ **Tracking Carbon Footprint**

Carbon footprint tracking is one of the major responsibilities of a sustainability committee that encompasses the process of estimating, measuring, recording, and reporting the quantity of greenhouse gas emissions caused by

an organization. Additionally, the evaluation of projects and initiatives taken by the company to reduce them is also done under the supervision of the sustainability committee.

■ **Risk Management and Resilience**

One of the primary duties of this committee is to identify, assess, and manage risks that could damage the company's sustainability efforts. Risks associated with climate change, including severe weather, limited resources, and altered regulations, can seriously jeopardize company continuity. These risks will be integrated into the company's entire risk management framework by a well-organized sustainability committee. It will guarantee that the business is ready to handle a quickly evolving environment. Committees on sustainability deal with social hazards such as labor abuses, human rights breaches, and community interactions in addition to environmental risks. Businesses may steer clear of expensive legal battles, harm to their reputation, and interruptions to operations by proactively controlling these risks (Sekarlangit & Wardhani, 2021).

■ **Fostering Stakeholder Engagement and ESG Report**

Cooperation and interaction with a broad spectrum of





stakeholders, such as regulators, employees, consumers, suppliers, shareholders, and communities at large, are necessary for sustainable development. The committee facilitates this engagement by ensuring that stakeholder concerns are heard and addressed. It oversees the development of strategies for engaging with stakeholders on ESG issues and ensuring that their perspectives are incorporated into decision-making processes.

Moreover, such a committee is responsible for ensuring the transparency of sustainability efforts made by the corporations. This often involves overseeing the production of sustainability reports that detail the company's ESG performance, including environmental impact metrics, societal accountability, and governance practices. A company's commitment to sustainable development is demonstrated through transparent reporting, which also fosters trust among stakeholders (Gennari, 2019) social and environmental aspects of a firm's responsibility are managed according to the triple bottom line approach. For this purpose, the board of directors can establish devoted corporate social responsibility (CSR).

■ Innovation and Policy Development

The sustainability committee is also instrumental in fostering

innovation within the company. By encouraging investments in sustainable technologies, products, and business models, the committee helps companies adapt to evolving market demands and regulatory requirements. For example, companies that develop energy-efficient technologies, adopt circular economy practices, or implement ethical sourcing standards can reduce costs, enhance competitiveness, and open new revenue streams.

In addition to nurturing innovation, the committee contributes to the development of company policies that promote sustainable practices. These policies may address a wide range of issues, from carbon reduction and renewable energy use to diversity and inclusion, supply chain transparency, and ethical labor practices. By establishing clear policies, the committee ensures that sustainability goals are embedded in the company's culture and operational processes (Valls Martínez et al., 2019) especially promoted by the European Commission to reach gender equality in the processes of decision making. On the other hand, in the last decades, sustainable development problems caused by economic progress have enhanced the interest in environmental policies. Using the data from top Spanish listed companies, from 2003 to 2017, we test if the higher number of women on their board influences CSR.

Successful Integration of Sustainability through Board Committees

Several leading companies have demonstrated the positive impact of board committees on their sustainability efforts. These companies illustrate how effective governance structures can drive significant progress toward sustainable development.

“Cooperation and interaction with a broad spectrum of stakeholders, such as regulators, employees, consumers, suppliers, shareholders, and communities at large, are necessary for sustainable development.”

- **Corporate Leadership in Sustainability:** A global consumer goods company, Unilever has been widely recognized for its leadership in sustainable development. The company has a dedicated Corporate Responsibility and Sustainability Committee that oversees its sustainability initiatives. This committee is responsible for monitoring progress toward the Sustainable Living Plan of the company, and this committee seeks to increase the company's beneficial social impact while serving the company's growth from its environmental impact.

The committee works closely with senior management to ensure that every facet of the company operates with sustainability in mind, from marketing and customer interaction



“One of the most significant challenges faced by sustainability committees is striking a balance between long-term sustainability goals and immediate financial objectives.”

to supply chain management and product creation. Through its sustainability initiatives, the global company, has not only improved the perception of its brand but also reduced costs risk, and opened up new business prospects.

■ **Sustainability Integration in Corporate Governance** One of the largest food and beverage companies in the world, Nestle, has also made a major move toward incorporating sustainability into corporate governance. ‘Creating Shared Value’ (CSV) Council, a board-level committee, oversees the sustainability strategy. The committee is responsible for aligning its operations with its commitment to nutrition, water conservation, and rural development.

Through the work of the CSV Council, the company has implemented policies that promote sustainable agriculture, reduce water usage, and support the livelihoods of small-scale

farmers. The sustainability efforts of the corporation have enhanced not only its environmental impact but also its ties to important stakeholders such as customers, governments, and non-governmental organizations.

■ **Driving ESG Excellence**

A global leader in industrial automation and digitalization, Siemens has established a Sustainability Committee to oversee its ESG performance. The committee plays a crucial role in ensuring that the company, meets its sustainability targets, including its commitment to becoming carbon neutral by 2030. The Sustainability Committee works closely with company’s Risk and Compliance Committee to tackle climate-associated risks and guarantee that sustainability is cohesive into the company’s risk management framework.

Company’s sustainability efforts have helped the company reduce its carbon emissions, enhance energy efficiency, and create cutting-edge technology to aid in the shift to a low-carbon economy.

Challenges and Opportunities in Board-Led Sustainable Development

While the formation of sustainability-focused board committees has become a key trend in corporate governance, there are challenges associated with

integrating sustainable development into corporate strategies. However, these challenges also present opportunities for companies to differentiate themselves and build long-term resilience.

■ **Balancing Short-Term and Long-Term Goals**

One of the most significant challenges faced by sustainability committees is striking a balance between long-term sustainability goals and immediate financial objectives. In many cases, investments in sustainable development require upfront costs that may not yield immediate financial returns. This can create tension between the board’s fiduciary responsibility to shareholders and its commitment to sustainable development.

To address this challenge, the sustainability committee must work closely with senior management to develop strategies that manage long-standing value creation along with short-term financial performance. This may involve adopting a phased approach to sustainability investments, where initial costs are offset by long-term benefits, such as reduced operational risks, enhanced brand reputation, and improved stakeholder relationships (Aydoğmuş et al., 2022).

■ **Navigating Regulatory Complexity**

As governments and international organizations introduce new regulations and standards related to ESG performance, companies must navigate an increasingly complex regulatory environment. Board committees play a critical role in ensuring that the company remains compliant with these regulations while also positioning itself as a leader in sustainability.

Sustainability committees must stay informed about evolving regulations, industry best practices, and stakeholder expectations. By





proactively addressing regulatory requirements and staying ahead of emerging trends, companies can turn compliance into a competitive advantage (Friede et al., 2015; Pucheta-Martínez et al., 2021).

■ Measuring and Reporting ESG Performance

Measuring the impact of sustainability initiatives can be challenging, particularly when it comes to social and environmental performance. While financial metrics are well-established, ESG metrics are often less standardized, making it difficult to compare performance across companies and industries. Sustainability committees must work to establish clear, measurable ESG goals and track progress toward those goals.

In addition, transparent reporting is essential for building trust with stakeholders. Sustainability committees oversee the development of sustainability reports, which include comprehensive details on the ESG performance of the organization. These reports demonstrate a commitment of the company to sustainability and provide valuable insights for stakeholders (Daugaard & Ding, 2022).

Conclusion

As sustainability becomes a core business imperative, the role of sustainability committees in driving sustainable development will continue

to grow. These committees provide the strategic oversight, risk management, stakeholder engagement, and policy development necessary to make sure that companies include sustainability in their processes. Companies can establish a leadership position in sustainable development by creating a separate sustainability committee or broadening the purview of current committees to encompass ESG duties. This approach can enhance long-term value creation and strengthen the company's resilience towards the risks associated with environmental, social, and governance issues.

In the years ahead, businesses that successfully integrate sustainable development into their governance structures will possess enhanced abilities to effectively handle the obstacles and prospects presented by a swiftly evolving planet. Through effective board committees, companies can build an even more sustainable, equitable, and prosperous future for all stakeholders.

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The financial sector coupled with technology adoption has undergone a profound revolution over the decades. The introduction of credit card terminals by Visa in 1979 marked a pivotal moment in payment system evolution. India's digital payments space has witnessed explosive growth, with a compound annual growth rate (CAGR) of 30%. India's UPI revolutionized digital transactions, enabling seamless peer-to-peer payments. Unified Payments Interface (UPI) apps made digital payments accessible to the masses. However, it's

The Evolution of Digital Payments in India: Trends, Challenges, and the Future

The domain of financial transactions has witnessed a remarkable metamorphosis over the course of history. From ancient barter systems to the contemporary digital era, payment methodologies have undergone substantial evolution. In this article, we endeavour to elucidate the changing trends in payment mechanisms that are not only assisting nations to curb black economy but also rapidly modifying consumer behaviour. Additionally, we delve into the historical trajectory of payment systems, scrutinize the challenges posed by fraudulent activities, and analyze the regulatory framework governing payments in the Indian context.

not that only India is making heads turn with its financial innovations. Nations like China have almost entire businesses being operated digitally.

At the outset of 2025, the United States boasted over 13,100 FinTech startups, with global figures hovering around 29,955. In 2023, the Fintech industry in the United States generated a total revenue of \$65.51 billion. Similarly, revenue figures for the Europe, Middle East, and Africa (EMEA) and Asia Pacific (APAC) regions amounted to \$30.7 billion and \$91.29 billion, respectively. Asia hosts some of the world's most advanced FinTech markets including China, Japan and Korea, Advanced fintech systems are rapidly penetrating the Asia Pacific markets, challenging traditional market systems. Consumer usage of FinTech has tripled in the region over the past two years¹.

But what is driving this paradigm shift in how people deal with and through money? With a multitude of opportunities for enhancement and innovation in the field, two out of three Americans now express a preference

for AI-integrated financial services. The rapid adoption of FinTech solutions has profoundly reshaped consumer purchasing behaviour. The emphasis on convenience, consumer-centricity, and improved UI/UX compared to traditional financial services has provided substantial impetus to this transformation.

Digital Payments: Forms, Growth, and their Distinct Characteristics

Increasingly, consumers recognize FinTech as a tool to gain insight into their spending habits, achieve personal financial goals, and consequently alleviate stress levels. While there are new inventions everyday globally in the payment system industry, we have covered the ones which have been launched and gained ground in India in recent years.

■ Peer-to-Peer (P2P) Transfers

Despite potential downsides, FinTech continues to address challenges faced by individuals

¹ Leading the global charge in fintech adoption rates are China and India, both at 87%, with other countries such as Russia (82%), South Africa (82%), Colombia (76%), Peru (75%), Netherlands (73%), Mexico (72%), and Ireland (71%) also making significant strides. Currently, fintech systems account for 75% of global transactions, driving consistent revenue growth and an anticipated climb to \$201.91 billion by the close of 2024.

The below diagram shows how the payment systems have evolved over the decades providing more ease, options, as well as reliability to consumers.

Changes in the payments ecosystem have ushered in four eras of payments business models.

Timeline

	1960	1970	1980	1990	2000	2010	2020
	– Paper Era: Pre-1960s		– Plastic Era: 1960-90s		– Account Era: 1990-2020s		– Decoupled Era: 2020s
Transaction	Cash, checks, and wire transfers		Cash, checks, and wire transfers, and physical cards		Instant transfers, A2A, and virtual cards		Interoperable and open, platform, and decentralized
Source of economic differentiation	Balance and deposits		Transaction fees		Relationship and transfer fees		Convenience, security, and low fraud incidence
Distribution channels	Physical (eg, branches)		Physical and ATMs		Physical, ATMs, online, mobile, and digital wallets		Physical, ATMs, online, mobile, embedded, and metaverse
Technology	Telegram		Automatic Clearing house (ACH)		Applications and instant payments		Platform as a service (PaaS), tokenization, generative AI, and open/API banking

Source: McKinsey & Company

and Small and Medium Enterprises (SMEs) in accessing credit from traditional financial institutions. By leveraging data algorithms and AI, FinTech simplifies credit access by offering efficient means to assess creditworthiness. Additionally, financial markets have become more accessible to the general population, largely due to the simplification of investment processes through investment apps, which have attracted an entire generation to the market. FinTech technologies like peer-to-peer (P2P) lending streamline investment by eliminating the need for intermediaries and providing superior investment advice.

P2P payments involve transferring money from one person's bank account to another person's account using digital platforms such as the internet or a mobile device. The Unified Payments Interface (UPI) revolutionized P2P transfers in India since its launch in 2016 and

are projected to exceed 160 billion by 2025–26. While the ease of use without any additional cost of transacting has led to it becoming the most preferred payment option for users, the dependency on internet connectivity as well as security risks of phishing and unauthorized transactions are still keeping people away from it. Projected to reach a size of \$10.5 billion by 2026, P2P lending is expected to experience a compound annual growth rate (CAGR) of approximately 21.6% from 2021. Regulatory measures by the Reserve Bank of India (RBI) have played a crucial role in establishing P2P lending as a robust component within the country's financial ecosystem.

Moreover, India's higher gross domestic savings rate compared to the US and UK has created a favourable environment for P2P lending, resulting in more favourable rates and terms on P2P platforms due to increased saving rates. With

“ By leveraging data algorithms and AI, FinTech simplifies credit access by offering efficient means to assess creditworthiness. ”

lower operational costs and minimal regulatory overheads, P2P platforms are poised to offer low-interest rates, making them attractive to small merchants seeking short-term loans. India has several notable P2P platforms, many of which have seen a significant proportion of its loans originating from tier two and tier three locations, effectively replacing local moneylenders who charge high rates. A survey by Prosper Insights & Analytics in 2022 highlighted the increasing use of crypto-based P2P payments among Gen-Z (11%) and Millennials (13%). Despite merchant concerns regarding crypto market volatility, it is expected to grow by 2% in the current decade,

leading to a shift in transaction volume from 8% to 10%.

■ Biometric Authentication

Biometric authentication has emerged as a cornerstone of digital payment solutions. By utilizing facial scans, fingerprints, iris scans, etc. this payment mechanism ensures secure identification and verification of customers accessing payment platforms on their mobile or other devices. Apart from the secure way transactions happen through biometric confirmation, the method is being preferred by consumers for its convenience. Users don't need to remember complex passwords. However, apps storing biometric data of users raises privacy concerns. Also, the method faces lot of technical challenges when apps stop working and require to be updated periodically. Goode Intelligence projects that by 2026, there will be more than 3 billion biometric users worldwide and \$5.8 trillion in biometric payments, thanks to the convenience and secure way of authenticating users. India, specifically, had a market size of INR 21,541 Crores in 2023, according to Imarc, with a projection to reach INR 65,858 Crores by 2032, and a CAGR of 12.8% during 2024-2032.

“ The convenience offered by BNPL may result in overborrowing or overspending, especially among those lacking financial literacy and budgeting education. ”

Moreover, the lending institutions are pushing for biometric cards as they offer a higher level of security compared to traditional cards. According to the research firm Mordor Intelligence, the global biometric card market is predicted to increase at a CAGR of about 118% from \$370 million in revenue in 2024 to \$18.4 billion in 2029, with the largest market in North America and the fastest-growing region in Asia-Pacific. Supportive regulations and initiatives by various governments and financial institutions are also promoting the adoption of biometric cards.

■ Contactless Payments

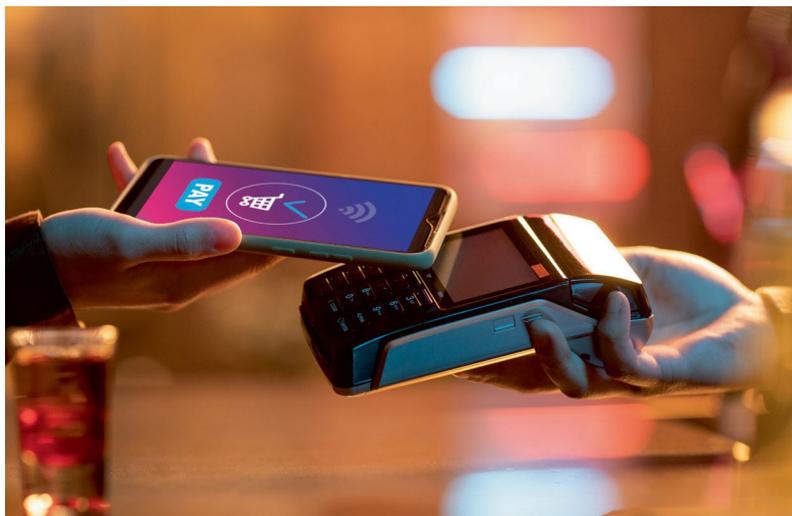
According to the research firm Precedence Research, the global Contactless Payment market size was valued at USD 41.7 billion in 2023 and will reach USD 213.39 billion in 2034². The growth is

primarily backed by convenience offered by contactless payments. The emergence of contactless payment technologies, like digital wallets, contactless cards, Tap to Pay, and QR codes, has increased payment security and ease of use. These eliminate the need for swiping physical cards. There have been lacs of reported frauds where illegitimate copies of cards (clone cards) have been made while swiping. To eliminate this risk and make transactions even more secure, contactless payments were introduced by banks. In this mechanism, the transactions happen using technologies like radio-frequency identification (RFID). Customers can use their mobile devices or payment cards equipped with near-field communication (NFC) technology to make purchases swiftly and securely. Despite these benefits, the limited acceptance at merchant establishments and risks of unauthorized transactions if the card is lost or stolen are major bottlenecks.

■ Buy Now Pay Later (BNPL) Services

BNPL services are gaining popularity among urban consumers with various players expanding their merchant networks and targeting smaller cities, allowing consumers to make purchases and pay later. Benefits over credit cards include quicker approvals, lower interest rates, no requirement of credit history, longer credit period, etc.

A significant portion of consumers, approximately 80% as per a McKinsey survey, initiates their purchasing journey with the Buy Now Pay Later (BNPL) services. This, combined with the rise of e-wallets, has led to a substantial surge in BNPL adoption rates. Gen Z (10%) and Millennials (14%) have spearheaded this accelerated adoption, surpassing Gen X (6%)



² <https://www.precedenceresearch.com/contactless-payment-market#:~:text=The%20global%20contactless%20payment%20market,16%25%20from%202024%20to%202034>

and Baby Boomers (1%). Notably, 84.14% of in-person customers without credit cards now have access to e-wallet credit, with 43.54% of merchants who do not accept credit cards showing receptiveness to e-wallet credit. According to this report, 29% of consumers express a preference for Buy Now, Pay Later (BNPL) services over traditional debit/credit cards and cash, with 12% acknowledging BNPL for enabling their purchasing capability. This suggests that BNPL provides consumers with an increased sense of purchasing power, potentially boosting sales in income-linked product categories such as electronics, apparel, jewellery, and home improvement. However, there is a concerning trend emerging where consumers in disadvantaged regions or with limited repayment capabilities are increasingly turning to BNPL, which could have negative ripple effects. Termed as the 'liquidity flypaper effect,' BNPL access may lead to higher total spending compared to a relative increase in income.

The convenience offered by BNPL may result in overborrowing or overspending, especially among those lacking financial literacy and budgeting education. The National Bureau of Statistics of China reported a 4.78% increase in average monthly spending, indicating the consumption-boosting

effects of BNPL. While there is a growing inclination towards BNPL as a payment mechanism, it remains to be seen whether it may encourage non-essential purchases or impulsive buying decisions.

■ Voice Payments

Majority of the population in India speaks their local dialects and not a common language. This has led to various issues that people face while making transactions. In order to resolve the issue by 'expanding payment accessibility to the majority of Indians who are conversant with their mother tongue language,' the National Payments Corporation of India (NPCI) introduced Hello! UPI, a voice payment mechanism. This represents a novel trend in the payment industry. According to Insight Partners, Voice-Based Payments Market is expected to reach US\$ 14.37 billion by 2030. Major challenges for voice payments include accuracy issues as voice recognition technology may misinterpret commands and increase vulnerability to hacking.

■ Digital Rupee

The Central Bank Digital Currency (CBDC) is an electronic version of a currency which can be used for all digital transactions. As the world embraces digital currencies, the digital rupee could play a significant

“ In Phishing, fraudsters impersonate reputable sources (banks, social media platforms) to steal personal information. Automated bots are used to deceive victims via spoofed websites, links, and SMS. ”

role in India's financial landscape. With roll out of interoperability with UPI, the CBDC users are now enabled to make transactions at any UPI QR (merchants or individuals) across the country. People can purchase government and other securities using digital rupee. As a step further, last year, RBI had a pilot program for the wholesale segment of CBDC in the interbank call money market. However, there is still low acceptance among people on the concept.

The Success Story

The utilization of fintech services by consumers has been steadily increasing, with several factors contributing to this heightened usage. The diverse range of functionalities offered, along with the ease of setup and round-the-clock availability provided by fintech companies, are reported to be the primary drivers behind this surge in adoption. The prevalence of digital payment systems is evident, with nearly nine out of ten consumers utilizing some form of digital payment, showcasing a substantial surge in digital adoption. The onset of the Covid pandemic accelerated the digitization of financial transactions, particularly evident in the widespread adoption of contactless payments. Globally, the number of e-wallet users is projected to reach 5.2 billion by 2026, up from 3.4 billion in 2022, underscoring the increasing indispensability of digital wallets for financial transactions.

The manner in which businesses accept and process payments plays a crucial role in their ability to adapt to evolving consumer habits. As payment



methods undergo continuous innovation, firms face the challenge of enhancing customer experiences based on these advancements. Several nations are at the forefront of innovating and embracing fintech solutions. For instance, Sweden is swiftly transitioning towards a cashless society, with the lowest ratio of banknotes in circulation compared to its GDP. Similarly, India's fintech ecosystem is poised to reach a valuation of \$1.5 trillion by 2025, positioning it as the third-highest funded country for fintech globally, following the United States and the United Kingdom. This underscores India's commitment to fostering a thriving environment for fintech startups. Developing and low-income countries are rapidly adopting digital technologies, leading to a significant decline in cash transactions. For example, Brazil's cash-reliant economy experienced a 7-10% reduction in cash transactions as digital payments gained prominence. Nigeria has also witnessed a fourfold increase in the share of instant payments between 2019 and 2022, fuelled by the adoption of instant payment capabilities in point-of-sale devices.

Caveat Emptor!

The rapid adoption of digital payment systems has transformed the way we conduct financial transactions. From mobile wallets to Unified Payments Interface (UPI), these advanced payment methods offer convenience, speed, and efficiency. However, alongside this growth, there has been an alarming increase in frauds targeting digital payment systems. Take this, in 2022-23, digital frauds nearly doubled to 6,659 amounting to Rs. 276 crore from 3,596 instances resulting in a loss of Rs. 155 crore, as per the Reserve Bank of India's annual report. According to the Standing Committee on Communications and IT's 54th report tabled in the Parliament, there were digital frauds that caused a loss of Rs. 5574 crore during April to September 2023. Digital frauds not only result in financial loss, but

“The first thing every consumer needs to do is regularly monitor their accounts for fraudulent or fishy transactions. Set up alerts for withdrawals, use strong passwords, enable two-factor authentication for added security, etc.”

also lead to the erosion of consumer trust and a considerable increase in operational costs to safeguard systems.

The proliferation of payment innovations also expands the array of opportunities for fraudsters to exploit. Yet, proactive measures are being taken by merchants and companies through the adoption of fraud management solutions rooted in adaptive machine learning technologies. Frauds can be executed in various forms – phishing, identity frauds, malware attacks, and so on. Let's take a sneak peak into these fraud types to safeguard ourselves from any loss.

- i. In Phishing, fraudsters impersonate reputable sources (banks, social media platforms) to steal personal information. Automated bots are used to deceive victims via spoofed websites, links, and SMS.
- ii. To create a fake identity, AI technology is leveraged to impersonate individuals' voices and faces. Compromised data is then used for authentication, creating new profiles with forged documents, voice cloning, or facial images.
- iii. Under malware attacks, fraudsters trick users into installing malware through fake customer support, cashback links, or emails. Compromised devices are then used to access financial information and conduct unauthorized transactions.

Gear-Up

While the data of digital frauds is frightening, one can't really abstain

from new payment mechanisms for long. Consider the Covid pandemic which made it compulsory for everyone to use digital payments. The wise thing would be to equip ourselves with the knowledge of safety measures, rather than acting primitive. The first thing every consumer needs to do is regularly monitor their accounts for fraudulent or fishy transactions. Set up alerts for withdrawals, use strong passwords, enable two-factor authentication for added security, etc. On an institutional level, the payments infrastructure should be continuously updated, and real-time analysis systems and encryption should be implemented with extensive data collection. Analysis of patterns and red flags using AI is indispensable.

The Reserve Bank of India (RBI) has been making consistent efforts to promote digital payments in the country while maintaining their safety and security. It has implemented several measures to ensure the safety and security of these transactions. Here are a few key initiatives:

- **Updated KYC Norms:** The RBI has mandated Know Your Customer (KYC) norms for all digital payment providers. This helps in verifying the identity of customers and reducing fraud.
- **Two-Factor Authentication:** The RBI has introduced two-factor authentication for digital transactions to enhance security. This means that customers need to provide two different types of identification to authenticate a transaction.
- **Transaction Limits:** The RBI has set limits on the amount that can be transacted digitally in a day or a month. This is to limit the damage in case of fraudulent transactions.
- **Security Standards:** The RBI has set strict security standards that digital payment providers must adhere to. These include data security standards, secure communication protocols, audits, and fraud detection cells.

■ **Dispute Resolution Mechanism:**

The RBI has also set up a robust dispute resolution mechanism for digital payments. This ensures that any issues or disputes related to digital transactions are resolved in a timely and efficient manner.

What we see as the way forward

The societal landscape is continually shifting, presenting increasingly intricate demands. Thus, the Fintech industry must adapt by providing solutions that align with these changes. This directly intersects with one of the industry's paramount challenges: safeguarding data and fostering consumer trust. Financial institutions are harnessing advanced algorithms to streamline consumer onboarding, rendering it efficient and customer-centric. Merchants are embracing new technologies to enhance the overall consumer experience, particularly in payment technologies. Moreover, consumer appetite for instant gratification has hastened the adoption of novel and innovative payment mechanisms by companies.

In 2022, global cash usage experienced a 4% decline, while online transactions saw a threefold increase in overall payment revenues. By 2027, economies heavily reliant on cash will undergo a notable shift towards instant payments. In this evolving and dynamic landscape, the absence of regulatory interventions

“ In 2022, global cash usage experienced a 4% decline, while online transactions saw a threefold increase in overall payment revenues. By 2027, economies heavily reliant on cash will undergo a notable shift towards instant payments. ”

can significantly influence the diffusion of payment mechanism innovations. However, as payment mechanisms proliferate, users will inevitably gain a stronger voice as they prioritize convenience, affordability, and security. The competition for customer balances and deposits will intensify, driving a greater emphasis on fostering customer relationships. The seamless integration of payments into customer lifestyles and behaviours will herald a new era in the payment mechanism systems.

The Fintech Feedback Loop will continue to fuel innovations in this space, with increased adoption driving further innovation. This will escalate competitive forces within the financial ecosystem as tech companies vie for market share. Market leaders and forward-thinking players must recognize that sustained success and competitive advantage hinge on their ability to disrupt their own

businesses before competitors do. Blockchain remains central to the fintech revolution currently underway globally. Furthermore, AI integration will revolutionize the credit assessment process, leading to substantial changes in the Peer-to-Peer (P2P) lending space. Disruptions in the open banking sector may empower P2P lending platforms to access financial data directly from bank accounts, enabling lenders to make informed lending decisions promptly.

As with any consumer-facing technology, the future of fintech will focus more on personalization. Emphasizing personalized experiences aims to seamlessly integrate payments with consumer purchases while enhancing privacy and operational efficiency. Web 3.0 can act as a catalyst for this personalization process, enabling more secure and transparent payments. Additionally, Account-to-Account (A2A) payments will continue to gain traction, particularly in emerging economies like Brazil, India, and China. Though still in their early stages of development, these technologies are poised to have a significant impact.

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The Bernie Madoff case is one of the most notorious cases of financial crime, which shook the world with its devastating consequences. Targeting approximately \$ 65 billion through Ponzi scheme, Madoff perpetrated one of the largest financial frauds in history, while being showered with accolades, and ultimately came to a halt in December 2008. It has spread so much all over the world that it cannot be treated as a one-time affair. In accordance with the Association of Certified Fraud Examiners, businesses lose approximately 5% of their revenues every year to fraud, a statement that is shocking enough to support the fact that early detection and prevention mechanisms of the fraud should be in place.

Beyond the Balance Sheet: Exploring the Crucial Role of Chartered Accountants in Forensic Investigations

The global demand for forensic accounting services is rising, mainly due to the increasing complexity of financial crimes and the growing responsibilities involved. Chartered Accountants (CAs) play a crucial role in managing and mitigating these risks. CAs are well trained to critically examine financial data and identify deviations from expected values and trends that signal fraudulent activities, by means of their knowledge of GAAP, IFRS, FAIS issued by ICAI, and other relevant standards, thus enabling them to detect creative accounting, earnings management and other financial misstatements. This expertise ensures adherence to ethical standards and helps maintain overall financial integrity.

By analyzing financial records, quantifying economic damages, and providing expert witness testimony, CAs play a significant role as supporters of the legal team by ensuring transparent litigation procedures. In addition, CAs significantly contribute to investigations such as money laundering, terrorist financing, insider trading, white collar/occupational frauds, etc. among others. This highlights the importance of continuous professional development, enabling CAs to adapt to evolving challenges as well as maintain ethical standards amidst moral dilemmas and potential conflicts of interest.

Forensic accounting professionals are at the forefront of this fight, focusing on detecting dishonesty in accounting reports, auditing procedures, and other possible forms of misconduct or malpractice while keeping their traditional roles intact. This article will elaborate on how these dedicated professionals safeguard our financial systems through various means, the challenges they encounter in the process, and the significant impact they make in preserving financial trustworthiness during recovery from financially ill-conceived actions. With high-profile corporate failures and far-reaching fraud cases on the rise, the demand for forensic accounting expertise has grown significantly, reaffirming its

indispensable role in preserving trust in global financial systems.

Chartered Accountants, having great education and professional qualifications elbowed with code of ethical principles, have done much in the area of safeguarding financial integrity and uncovering financial misconduct. From mastering the intricacies of financial reporting to becoming stalwarts in forensic investigations, their journey is one of excellence and dedication to standards of accountability of the highest order. This article will help us to understand the multidimensional role of a Chartered Accountants in forensic investigations, considering their qualifications,

methodologies, and contributions that essentially become required in the governance of organizations and legal justice. With their expertise, such professionals not only decode financial complexities but also serve as guards of transparency and trust in the global financial landscape.

Chartered Accountants occupy an important position in upholding financial integrity and transparency within contemporary finance and corporate governance. This article takes a detailed look at the emerging role of Chartered Accountants in forensic investigations, highlighting the distinctive skills and qualifications that set them apart in uncovering financial misfeasance and fraud. It also examines their diverse responsibilities in forensic accounting, including expert witnessing in legal proceedings.

CAs face significant challenges while navigating complex financial transactions under stringent legal and ethical provisions. In this context, the article underscores the critical role CAs play in promoting financial probity and strengthening corporate governance, both of which are essential for fostering a transparent and trustworthy business environment.

The CA Skillset: A Powerful Arsenal for Forensic Investigations

■ Analytical Acumen

The CAs are also trained intensively to scrutinize every shred of financial information for anomalies and patterns that could lead them to fraud. In fact, their training starts right from the basic accounting principles, standards of financial reporting, and auditing techniques, taught through a closely controlled system of academic education and qualification. This educational background means that a CA will have the right analytical and technical skills to interpret the often complex financial statements

and records of transactions. Specialized forensic accounting training develops further develops the skill of finding probable inconsistencies or irregularities, which could point to fraud.

Aggressive use of sophisticated tools and advanced technologies for analytics, forensic software can provide CAs with an in-depth view of financial records to identify suspicious patterns and inconsistencies. They have been trained to notice ordinary fraud schemes and indicators, such as unusual transactions, inconsistencies within the financial records, or anomalies with financial performance metrics. This training not only sharpens their ability to detect fraudulent behavior but also prepares them to compile evidence and present their findings in court or in other investigative reports.

One strong analytical tool in work surrounding CAs is Benford's Law, which states that the distribution of the first digit in naturally occurring numerical data sets follows a predictable pattern. Applying Benford's Law against the financial data, CAs check for anomalies by comparing the distribution of the first digits in the real financial records against

“Chartered Accountants, having great education and professional qualifications elbowed with a code of ethical principles, have done much in the area of safeguarding financial integrity and uncovering financial misconduct.”

that expected by the Law. Here, a few examples of financial records and context where Benford's First Digit Law can be applied:

1. Financial audit fraud detection involves analyzing financial data such as financial ratios, balances, or numeric data for anomalies. This law is used to detect unusual patterns in financial records that could show fraudulent activity. In numeric data, Benford's Law can be applied in financial audit fraud detection, for example, in invoice amounts or in financial ratios. According to Benford's Law, in most physical hand-collected data, the first digit of numbers will more often be small. For example, 1 as a first



digit should occur about 30% of the time, while higher digits, such as 9, should occur much less often, around 4.6%. Now, in a real audit setting, extract a large sample of invoice amounts or financial transactions. Extract the first digits of each amount and compare those observed frequencies to the expected distribution under Benford's Law. For example, if you found that 1 as a first digit occurred in 45 percent of the invoices, where 30 percent might have been expected, such a large deviation could indicate irregularities. Again, if the number 9 recurs way out of proportion, it may indicate manipulation or errors. Such deviations from the expected distribution could give a red flag for potential fraud or errors that need further investigation to ensure the integrity of financial reporting.

2. Analyzing the first digits of the amount listed on invoices received from suppliers and sent to customers reveals infrequent patterns and errors. This can be done using Benford's Law, which states that, for many data sets, smaller digits will occur more frequently as the leading significant digit. Take a proper sample of the invoice amounts. Extract the first digit from each of the amounts and tabulate the count of digits 1 through 9. If Benford's Law is applied, then the first digit would be 1 in approximately 30.1% of the cases, with frequencies decreasing for higher digits like 9, which should only be about 4.6% of the time. Compare these expected frequencies with the observed relative frequencies of the first digits in the data set. Large deviations from these expected values might indicate anomalies, errors, or even fraud. For example, if there is far more digit 1 than expected, or if digit

“Aggressive use of sophisticated tools and advanced analytical technologies for analytics, forensic software can provide CAs with an in-depth view of financial records to identify suspicious patterns and inconsistencies.”

8 is much less represented than expected, then both would raise suspicion. This type of analysis is useful in highlighting anomalies in billing practices and creating better records of information related to one's financial matters.

Major deviations from this expected pattern may indicate data manipulation or irregularity and hence require further investigation. For these reasons, CAs offer a powerful combination of analytical tools with expertise in forensic accounting and investigative skills. This makes them crucial in preserving financial integrity and combating fraud across organizations in various sectors.

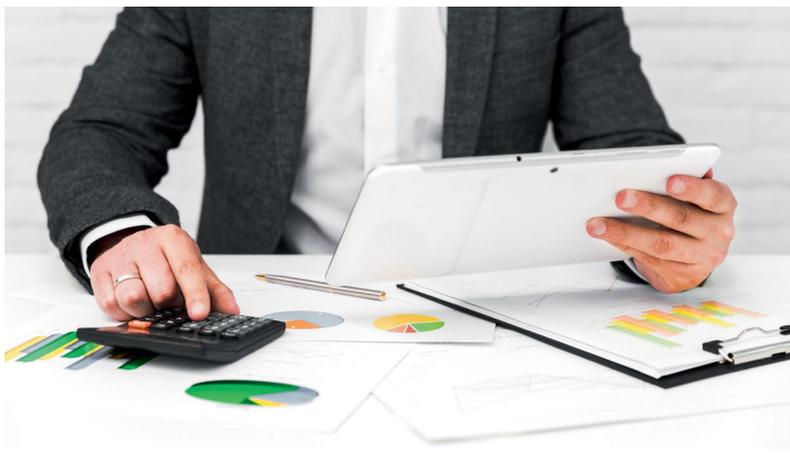
■ **Mastery of Accounting Standards and Regulations**

GAAP and IFRS are standardized approaches toward financial reporting that ensure

consistency, transparency, and comparability across industries and jurisdictions. Through these, CAs can interpret financial statements, find deviations from set norms, and analyze the compliance of financial transactions with regulatory requirements. In this regard, the FAIS (Forensic Accounting and Investigation Standards) issued by ICAI are very important in forensic investigations where one has to trace transactions, verify the accuracy of reported financial information, and uncover discrepancies indicating fraudulent activities. Moreover, this helps CAs to serve appropriately in the court of law or regulatory investigations, which preserves the integrity of financial reporting and enhances stakeholder trust. At the last stage, GAAP and IFRS, among other accounting standards, significantly enhance the rigor and reliability of forensic accounting practices hence reaffirming Chartered Accountants as guardians of financial integrity in the international business environment.

■ **Investigative Mindset and Due Diligence**

In forensic accounting, askeptical mindset, attention to detail, and the ability to 'follow the money' are essential arsenal of the CA. These skills are vital for uncovering



financial misfeasance, such as include revenue recognition manipulation or stepping up fictitious transactions. CAs very keenly look at any flow of money, identify abnormal trends, and correlate fragmented information to reconstruct the chronology of events and to track the illicit activities. These qualities underpin the credibility of forensic investigations and further consolidate the position of CAs as trusted advisors and custodians of financial good governance in preserving organizational integrity and investors' confidence.

Forensic accountants are huge participants in the discovery of financial misfeasance through forensic gathering of evidence derived from huge financial records, including bank statements and invoices. They apply analytical approaches and forensic tools in detecting irregularities and inconsistencies in the financial information that may be symptomatic of fraud. They write detailed reports after doing all the analysis, whether by interviewing or some other method which may be deemed necessary, and explain their investigation procedures, forensic findings, and any irregularity or fraudulence noted. Carefully prepared and professionally sound legal and statutory reports that provide lucid insights are critical in litigation, regulatory compliance, and enabling stakeholders to make informed decisions. Therefore, in adherence to the principles of objectivity, integrity, and professionalism, forensic accountants retain important roles in unravelling financial misdeeds, promoting transparency, and maintaining financial systems and corporate governance practices.

■ Technological Proficiency

Today, CAs leverage data analytics, forensic accounting tools, and the latest technologies to significantly

“ the FAIS (Forensic Accounting and Investigation Standards) issued by ICAI are very important in forensic investigations where one has to trace transactions, verify the accuracy of reported financial information, and uncover discrepancies indicating fraudulent activities. ”

enhance their investigative skills. significantly towards forensic investigations. Key tools like ACL, IDEA, and EnCase, help in making fast analyses of large financial data volumes and discovering complex trends—detection of fraud or financial misstatement. These software applications assist CAs use these tools to extract and sample required data with high accuracy and speed. This allows for statistical analysis that enhances their ability to track variances and irregularities that manual techniques might miss.

These are the technologies that will enable CAs to streamline their investigation processes and make them less subject to potential human error while discovering vital insights that will support the findings and conclusions. Data analytics software and forensic tools not only improve efficiency and effectiveness of forensic investigations, but also help the CAs provide comprehensive reports and give expert testimony that can survive strong legal or regulatory scrutiny. In a world in which financial misconduct is becoming ever more sophisticated and widespread, the enablement of advanced technologies for forensic accounting underlines the key role of the CAs in entrenching financial integrity and upholding stakeholder trust in the global business environment.

The Diverse Landscape of Forensic Investigations: Where CAs Excel?

■ Fraud Investigations

CAs stand on the front line in investigating several forms of financial fraud, most of which pose unique challenges and require some specialized knowledge. Embezzlement is defined as the theft or misappropriation of a company's assets by workforces or insiders, details of which may also be referred to as a scam, including pilfering, payroll fraud, or inventory theft. On the other hand, financial statement fraud is related to misleading operational performance by manipulation of accounting records, revenue recognition policies, and overvaluation of assets. Corruption refers to the acts of bribes, kickbacks, or any other corrupt practices that result in distorting business transactions for personal benefits.

One such highly notable case, in which CAs really made their way to the top, is the Bernie Madoff Ponzi Scheme. Madoff, actually an upstanding financier, ran an enormous scheme that cost investors billions of dollars over a period of several decades. In this regard, Chartered Accountants played a very significant role in the unravelling of this scheme by applying forensic investigative skills to financial records, noticing inconsistencies, and revealing that Madoff's investment business was money laundering. Another example is the Enron case, in which CAs unearthed a nationwide comprehensive financial statement fraud ring, masterminded by executives to inflate corporate earnings and mask escalating debt. Investigations brought out sophisticated accounting manoeuvres and off-balance-sheet transactions that misled investors and regulators, resulting in the bankruptcy of the company and major regulatory reforms.

“CA forensic accountants use modern data analytical and state-of-the-art forensic investigative techniques in tracing money through complex structures, central to building a case with incriminating evidence against perpetrators.”

■ Litigation Support and Dispute Resolution

CAs are very instrumental in legal teams through applying their knowledge of economic damage quantification, financial record analysis for litigation, and expert witness. Therefore, if the disputes or legal claims have some bases of a financial nature, CAs must estimate and report such economic damages. They carefully analyze financial data, including items such as revenue projections, expenses, and financial statements, to estimate the financial impact of the alleged wrongdoing or breach of contract. CAs can, through forensic accounting and modelling, quantify losses and examine the financial implications of potential settlements, and present clear, evidence-supported judgments of economic damage in support of legal arguments.

Business Valuations

Chartered Accountants play a very significant role in determining the current market value of businesses in various scenarios, from merger and acquisition to divorce settlement and estate planning. In mergers and acquisitions, this would involve the assessment of values for the businesses entering transactions. Business valuations, therefore, make use of methods that scrutinize financial statements, current market conditions, and project future inflows of cash. Through such detailed analyses, CAs help stakeholders make informed

decisions on purchase prices, equity stakes, and strategic negotiations. For example, in divorce settlements, these professionals assist in deciding the fair division of marital assets by providing requisite appraisals on businesses owned by the spouses. Their evaluations ensure fairness and precision in the division of property, as courts require that marital assets be distributed equitably based on their current market value.

■ Money Laundering and Financial Crime Investigations

Forensically oriented CAs play a vital role in the battle against money laundering and other serious crimes associated with terrorist financing by bringing their skills into the tightly regulated Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) framework. This basically involves analyzing financial transactions to detect anomalies indicating illicit activities, such as, unusual cash flows or complex ownership structures. CA forensic accountants use modern data analytical and state-of-the-art forensic investigative techniques in tracing money through complex structures, central to building a case with incriminating evidence against perpetrators. Their role typically encompasses developing and implementing

strong AML compliance programs, conducting risk assessments, and ensuring strict adherence to KYC procedures therefore mitigating such risks, while keeping pace with changing regulatory standards in this respect. It is in this regard that the CAs, through the preservation of the integrity of the financial system and the strengthening of international efforts against financial crimes, immensely help in maintaining the trust and preventing any reputational harm towards businesses.

Challenges and Opportunities for CAs in Forensic Investigations

■ Challenges

The increasing sophistication of financial crimes calls for continuous professional development of the CAs, equipping them to address complex challenges ranging from cyber fraud and money laundering to digital currencies and complex corporate structures that veil wrongdoing. It will continue to arm them with sophisticated forensic accounting techniques, multiple tools of data analytics, and in-depth knowledge of regulatory frameworks developed, thereby, empowering them to effectively investigate financial crimes and mitigate risks for clients and organizations. Their practice is also





full of ethical dilemmas that have to be navigated very carefully in keeping with ethical frameworks and codes of conduct, ensuring transparency and trustworthiness. Upholding integrity and accountability in such situations enhances credibility of CAs and entrenches their commitment to serving the public interest in the fight against financial crime.

■ Opportunities

Forensic accounting services have gathered momentum in the recent past, with rising incidents of financial misfeasance across sectors like banking, health, and insurance. Forensic CAs excel in fraud detection and sustenance of institutional integrity besides ensuring compliance. These experts specialize in areas such as cybercrime and environment-related fraud cases that deal with advanced data analysis and digital forensic techniques while working in conjunction with environmental regulators and law enforcement. They would play vital roles in the discovery of several digital fraud schemes and prosecution of environmental violations to enhance corporate governance and protection of financial integrity in view of emerging challenges.

Conclusion

Forensic accounting has benefited from unprecedented growth in its field due to the increased sophistication of

financial crimes around the world. In view of this, there will be an enhanced requirement for forensic accounting specialists, the CAs, to unravel fraud, reduce related risks, and ensure the integrity of financial systems intrinsic in various sectors. This scope keeps expanding as organizations increasingly recognize the importance of proactive measures against fraud and regulatory non-compliance, especially in a growing economy. In today's changing economy, it is important for any Chartered Accountant to continuously update his knowledge to be abreast of new technologies, regulatory changes, and emerging strategies in fraud. In emphasizing learning and ethical conduct, Forensic Accountants demonstrate their commitment to honesty, responsibility, and consistency while adhering to standards set for the profession. Forensic Accountants are trusted advisers and key players in processes undertaken to uphold integrity that helps organizations worldwide in fighting financial misconduct. Improvements in methodology are being driven by Forensic Accountants themselves. By contributing significantly to the future of global financial transparency and accountability, their unmatched expertise and unwavering dedication ultimately provide businesses, governments, and stakeholders with a strong sense of trust and integrity when navigating complex financial landscapes.

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How the Trade War will Unlock Opportunities for Finance Professionals

The trade war presents significant opportunities for finance professionals to navigate volatility and capitalize on shifting market dynamics. For instance, during the U.S.-China trade war, companies like Qualcomm made strategic acquisitions to reduce reliance on Chinese suppliers. Similarly, tax arbitrage, such as Apple's use of Ireland's low-tax jurisdiction, enables firms to mitigate the financial impact of

tariffs. Hedge funds thrive in volatile markets, identifying profitable contrarian investments. As companies restructure their global supply chains, finance professionals will guide cost-benefit analyses and advise on the integration of technologies like AI and blockchain to enhance resilience, making this a pivotal moment for finance professionals globally.

The Great Pendulum of Global Trade

History has shown that global trade, like a pendulum, swings between periods of cooperation and conflict. The world has witnessed these cycles over centuries, from the mercantile struggles of the 16th century to the global trade wars of the early 20th century. Now, as we stand on the precipice of a new era marked by rising geopolitical tensions, tariff wars, and protectionist policies, it becomes apparent that the next swing of the pendulum will present both challenges and opportunities.

For finance professionals, this coming trade war is not just a period of instability but a pivotal moment to harness economic volatility for strategic gains. This article will dive deep into the myriad ways in which finance professionals, equipped with the right skills, can capitalize on this transformative phase, unlocking new avenues in risk management, investment, mergers and acquisitions (M&A), regulatory advisory, and more.

Risk Management: Navigating Chaos with Foresight

One of the most immediate and profound impacts of a trade war is the introduction of uncertainty, something businesses despise, but finance professionals thrive on. Trade wars trigger fluctuations in currency markets, commodity prices, and global supply chains. This chaotic environment demands financial acumen to manage not only immediate risks but also long-term strategic positioning.

■ Real-Time Risk Analytics:

An American multinational investment bank and financial service company, named Consider Goldman Sachs, which has long prided itself on its cutting-edge financial modeling. During past periods of economic volatility, the company leveraged AI and machine learning tools to process vast amounts of data in real-time. As the current trade war looms, firms will need to provide their

clients with highly adaptive risk models that account for sudden tariff changes, trade sanctions, or even full-on embargoes. Finance professionals within firms like these will not only be tasked with quantifying risk but also with advising clients on mitigating it, whether through diversified portfolios, derivative instruments, or hedging strategies.

■ Commodity Volatility: Learning from 2014's Oil Crash:

Another key lesson for finance professionals comes from the oil price crash of 2014. Global energy markets witnessed a stunning drop in oil prices due to a variety of factors, including oversupply and geopolitical tension. But those with foresight, like hedge funds and energy traders, used the price collapse as an opportunity to invest in futures, taking advantage of long-term price rebounds.

Similarly, a trade war could significantly disrupt commodity markets. For example, China's dominant position

in rare earth elements and the U.S.'s position in agricultural products could lead to price volatility. Finance professionals at multinational corporations will need to leverage data analytics to navigate these price fluctuations, secure alternative suppliers, or even invest in future markets to hedge against commodity price swings.

Advisory Services for Mergers and Acquisitions: Seizing Opportunities in a Shifting Landscape

Trade wars have historically led to a restructuring of global industries. Companies are unable to cope with new tariffs and barriers and seek refuge in consolidation. Meanwhile, well-capitalized firms view trade wars as opportunities to acquire weakened competitors or access new markets by merging with or acquiring local firms.

- **The U.S.-China Trade War and M&A Surge in Technology:** During the ongoing U.S.-China trade war, one industry that witnessed a surge in M&A activity was technology. For example, when the U.S. imposed strict export controls on Chinese tech companies like Huawei, American tech firms responded by diversifying their supply chains. Companies have made strategic acquisitions to reduce reliance on Chinese manufacturing.

Moreover, private equity firms and investment banks stepped in to advise on these deals, creating immense opportunities for finance professionals. Financial Services firms have played a critical role in advising on deals in the semiconductor sector, as trade tensions pushed firms to realign their strategies. This situation allowed finance professionals with M&A expertise to step into advisory roles that required not just technical proficiency but also geopolitical insight.

- **Latin American Expansion: A Silver Lining:** Interestingly, as trade tensions escalate between

“The strategic use of tax arbitrage, taking advantage of differing tax rates across countries, will become crucial for businesses seeking to offset the financial impact of tariffs.”

major players like the U.S. and China, Latin American countries like Mexico and Brazil have emerged as potential winners. The disruption of global supply chains has prompted companies to look for alternative manufacturing hubs. Mexico is already benefiting from the USMCA (United States-Mexico-Canada Agreement)—has seen increased interest from firms looking to relocate production to avoid U.S.-China tariffs.

For finance professionals, this means playing a pivotal role in advising clients on cross-border M&A deals. These professionals will need to assess regulatory risks, tax implications, and the political stability of emerging markets. Investment banks are likely to see increased demand for their advisory services as companies explore new M&A opportunities in Latin America.

Tax and Regulatory Advisory: Guiding Through Complexity

Taxation and regulatory compliance are two of the most complex aspects of a trade war. Governments often respond to tariffs by adjusting tax policies, creating intricate webs of compliance for businesses operating across borders.

- **Tax Arbitrage in the Midst of Tariff Battles:** Finance professionals with expertise in tax planning can find new avenues for growth as companies look for ways to minimize their tax burdens. The strategic use of tax arbitrage, taking advantage of differing tax

rates across countries, will become crucial for businesses seeking to offset the financial impact of tariffs. For example, when tariffs were imposed on Chinese imports, Apple was compelled to reassess its supply chain and tax strategy, strategically leveraging its operations in low-tax jurisdictions such as Ireland to mitigate the financial impact.

For finance professionals specializing in tax advisory, this period will offer opportunities to guide companies in restructuring their operations. Many global firms specialized in services like auditing, accounting, and consulting have already seen an uptick in demand for tax-related advisory services, particularly from multinational corporations with complex global operations.

- **Regulatory Arbitrage: The Next Frontier:** Beyond tax arbitrage, the concept of regulatory arbitrage is likely to gain prominence as companies look to exploit gaps in international trade regulations. For instance, a U.S. company that manufactures in China may consider shifting production to Southeast Asia, where regulatory frameworks are more favorable.

In this environment, finance professionals with deep knowledge of international trade laws and regulations will be invaluable. Firms that can guide clients through the maze of regulatory compliance while helping them exploit favorable jurisdictions will find themselves in high demand. Regulatory advisory firms that specialize in geopolitical risk could see significant growth as companies seek expert guidance.

Investment Opportunities: Thriving Amid Volatility

While trade wars can create widespread economic turbulence, they also present unique investment opportunities. Savvy investors and finance professionals can capitalize on market inefficiencies and identify undervalued assets.

- **Hedge Funds: Masters of Market Volatility:** Hedge funds have historically thrived during periods of volatility. During the 2008 financial crisis, many firms outperformed the market by taking contrarian positions and betting against overleveraged financial institutions. In a similar vein, the coming trade war will create opportunities for hedge funds to profit from market dislocations.

Finance professionals working at hedge funds will need to adopt a multi-disciplinary approach, combining geopolitical analysis with financial modeling to identify lucrative investment opportunities. For example, they may look to short companies heavily reliant on Chinese imports or invest in sectors poised to benefit from a trade war, such as domestic manufacturing or alternative supply chain technologies.

- **Sectoral Shifts: Tech, Agriculture, and Renewable Energy:** Trade wars do not impact all industries equally. As tariffs on technology products from China increase, domestic tech companies could benefit from government incentives to boost local manufacturing. Similarly, the agriculture sector may see significant shifts, as countries like Brazil step in to supply soybeans and other commodities previously sourced from the U.S.

In this scenario, finance professionals will play a critical role in advising clients on sector-specific investment strategies. An American multinational investment company with its vast array of Exchange-Traded Funds ETFs and index funds has been adjusting its portfolio allocations to account for trade-related risks. Finance professionals working in investment management will need to adopt a forward-thinking approach, guiding their clients through the complexities of a shifting global economy.

Restructuring Global Supply Chains: A Strategic Imperative

Perhaps the most significant long-term impact of a trade war is the restructuring of global supply chains.

Companies will no longer be able to rely on the traditional hub-and-spoke model, where manufacturing is concentrated in a single country like China. Instead, firms will need to adopt more diversified and resilient supply chain strategies.

- **Apple's Supply Chain Diversification:** Apple, a company heavily reliant on Chinese manufacturing, offers a case study in supply chain restructuring. Faced with tariffs and rising labor costs in China, Apple has already begun shifting part of its production to countries like Vietnam and India. This shift requires significant capital investment and financial planning, as well as the restructuring of contracts with suppliers.

Finance professionals will be at the forefront of these supply chain restructurings, conducting cost-benefit analyses, securing financing for new manufacturing facilities, and advising on tax implications. Global consultancy firms like McKinsey and Boston Consulting Group (BCG) are already working with multinational corporations to assess the financial impact of supply chain diversification.

- **The Role of Blockchain and AI in Supply Chain Optimization**
As companies seek to make their supply chains more resilient, technology will play a crucial role. Blockchain technology, for instance, offers the potential to improve transparency and traceability in global supply chains, reducing the risk of fraud or disruptions caused by trade conflicts. Similarly, AI-driven predictive analytics can help companies optimize their supply chains by identifying the most cost-effective sourcing options in real-time.

Finance professionals with expertise in blockchain and AI will be in high demand as companies look to integrate these technologies into their supply chains. Firms that can offer strategic guidance on the financial implications of these investments

“Firms that can guide clients through the maze of regulatory compliance while helping them exploit favorable jurisdictions will find themselves in high demand. Regulatory advisory firms that specialize in geopolitical risk could see significant growth as companies seek expert guidance.”

will have a competitive edge in the marketplace.

Conclusion: The Strategic Role of Finance in Times of Conflict

The upcoming trade war is not merely a period of economic instability—it is a crucible in which new opportunities for finance professionals are forged. From managing risk and guiding M&A deals to optimizing tax strategies and restructuring global supply chains, finance professionals have an unprecedented opportunity to play a strategic role in shaping the future of global business.

Just as Einstein viewed every crisis as an opportunity for discovery, finance professionals must approach the coming trade war with a mindset of innovation and adaptability. Those who can think strategically, act decisively, and adapt to the evolving economic landscape will not only survive but thrive in this new era of global trade.

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Q What is Independence?

As per Paragraph 120.12 A1 of Volume-I of Code of Ethics, professional accountants in public practice are required by Independence Standards to be independent when performing audits, reviews, or other assurance engagements.

Independence comprises:

Independence of Mind - The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

Independence in appearance - The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit or assurance team member's, integrity, objectivity or professional skepticism has been compromised

Q What is the Conceptual Framework to Independence?

The professional accountants are required to apply the Conceptual Framework while performing Audit and Review or Assurance engagements other than Audit and Review. The Code requires firms to comply with the fundamental principles and be independent. Parts 4A & 4B of Volume-I of Code of Ethics sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110.

Q What course of action shall be taken by a Firm when it identifies a Breach of independence in Audit and Review Engagements?

As per requirement under paragraph R400.80 of Volume-I of Code of Ethics, subject to the eligibility requirements of the auditor mentioned under Section 141 of the Companies Act, 2013, if a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
 - (i) Comply with those requirements; and
- (c) Promptly communicate the breach in accordance with its policies and procedures to:
 - (i) The engagement partner;
 - (ii) Those with responsibility for the policies and procedures relating to independence;
 - (iii) Other relevant personnel in the firm and, where appropriate, the network; and
 - (iv) Those subject to the independence requirements in Part 4A who need to take appropriate action;
- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit report; and
- (e) Depending on the significance of the breach, determine:
 - (i) Whether to end the audit engagement; or
 - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an audit report.

Q What is Engagement Period for Audit and Review Engagements during which an independence shall be maintained?

As per Paragraph 400.30 A1 of Volume-I of Code of Ethics, the engagement period starts when the audit team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report. Where the audit client is a statutory audit client under Companies Act, 2013, the engagement period shall be determined in accordance with the provisions contained in the Companies Act, 2013.

Q Is it permissible for an Auditor to sign the Audit Report of any assessee if there is any audit fee pending for previous years on the date of signing audit report?

As per paragraph 410.7 A1 of the Volume-I of Code of Ethics, a self-interest threat might be created if a significant part of fees is not paid before the audit report for the following year is issued. It is generally expected

that the firm will require payment of such fees before such audit report is issued. The requirements and application material set out in Section 511 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

As per paragraph 410.7 A2 of the Code, examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the audit engagement review the work performed.

As per paragraph R410.8 of the Code, when a significant part of fees due from an audit client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement.

There is, however, no bar in signing the financial statements in these circumstances.

Q Can a member in practice express his opinion on financial statements of any business or enterprises in which he, his relative, his firm or a partner in his firm has a substantial interest?

No, as per Clause (4) of Part I of the Second Schedule to the Act, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he expresses his opinion on financial statements of any business or any enterprise in which he, his firm or a partner in his firm has substantial interest. 'Substantial interest' here has the same meaning as contained in the resolution passed by the Council in pursuance to Regulation 190A of the CA Regulations.

However, in case of a company, under Section 141(3)(d)(i) of the Companies Act, 2013, a member cannot accept audit even if he or his partner holds a single share.

Further, in case of a company, under Section 141(3)(d)(i) of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014, the relative of an auditor cannot hold security or interest in the company of face value in excess of one lac rupees.

In case of entities other than companies, the criteria laid down for relatives in Regulation 190A of the CA Regulations may be referred.

If the opinions of auditors are to command respect and confidence of the public, it is essential that it must be free of any interest which is likely to affect their independence. Since financial interest in the business can be a substantial interest and one of the important factors which may disturb independence,

the existence of such an interest, direct or indirect, affects the opinion of the auditors.

The Council wishes to emphasize that the aforesaid requirement of Clause (4) are equally applicable while performing all types of attest functions by the members.

Q Whether a statutory auditor can accept the system audit of same entity?

Yes, the statutory auditor can accept the assignment of a system audit of the same entity, provided it did not involve any scrutiny/review of financial data and information.

Q Whether "indebtedness" for the purposes of Chapter -X of Council General Guidelines, 2008 include loan taken by the member against a Fixed Deposit?

Yes, "indebtedness" for the purposes of Chapter -X of Council General Guidelines, 2008 includes loan taken by a member against Fixed Deposit. Accordingly, it is not permissible for him to accept audit assignment of a bank in case he has taken loan against a Fixed Deposit held by him in that bank.

Q Whether a member in practice who is the statutory auditor of a bank can accept Stock audit/Inspection Audit of the same bank?

No, it is not permissible since stock audit/inspection audit is kind of management function, which cannot be done simultaneously with the statutory audit.

Q Whether a Statutory Auditor can engage in assignment of compilation of financial statements (conducted under SRS-4410) of the same Company for the same financial year?

No, it is not permissible for Statutory auditor of an entity to engage in assignment of compilation engagement, of that entity as per SRS 4410.

Q Whether Auditor of a Provident Fund and Pension Fund Trust can provide investment advisory services to the trust?

No, the Auditor of a Provident Fund and Pension Fund Trust should not provide investment advisory services to the said trust since the Audit of trust requires the auditor to comment on how funds have been utilized/invested by the trust.

Accounting for GST component paid on lease payment under Ind AS 116, 'Leases'.

A. Facts of the Case

1. A company (hereinafter referred to as 'the Company') was incorporated on 27.09.2004 as a joint venture of O Ltd. (50%), I Ltd. (49.50%) and Government of Tripura (GoT) (0.50%). The Company is a deemed public sector undertaking (PSU) having 726.63 MW of gas based power plant in the State of Tripura and having corporate office at Delhi.

2. The first block (363.3 MW) of the power plant was declared under commercial operation from 4th January 2014 and the second block (363.3 MW) of the two blocks was declared under commercial operation from 24th March 2015.

3. B Ltd. was the Engineering, Procurement, and Construction (EPC) contractor for setting up of the power plant. Subsequently, in April 2015, I Fund (managed by GP LLP*, which is a wholly owned subsidiary of GM LLC (USA)) became an investor in the Company by acquiring 23.5% of the equity stake.

(*Status converted to GP Pvt. Ltd. w.e.f. 3rd January 2022.)

4. GI Ltd., a public sector undertaking (PSU) under the Ministry of Petroleum and Natural Gas (MoPNG) has acquired the 26% equity stake in the Company on 04th January 2022 from I Ltd. group companies. Accordingly, w.e.f. 04.01.2022, GI Ltd. has become shareholder of the Company replacing I Ltd. group companies.

5. The setting up of the power plant has helped in transforming the power scenario of the entire North-Eastern

region of the country and has assisted in catalysing rapid economic development of the region. The generation project combined with linked transmission project and upstream gas supply project has brought in investments to the tune of Rs. 10,000 crores in the region.

6. The Company has taken corporate office premises at Delhi on lease from O Ltd. (the lessor) at a monthly rent of Rs. 17.80 lakhs plus Goods and Services Tax (GST) at the rate of 18% thereon for a period of 01st November 2023 to 31st October 2026 with 5% annual escalation in rent. The said premises (Scope Minar) is maintained by Maintenance Management Organisation (MMO) of the Scope Minar (Standing Conference of Public Enterprises (SCOPE)).

7. In addition to monthly rent, the Company is also required to pay electricity and maintenance charges including ground rent payable to SCOPE at actuals on pro rata basis to the lessor. Further, the Company has also paid interest-free security deposit amount of Rs. 53.40 lakhs for corporate office taken on lease and such security deposit amount will be refunded after completion of lease term. The lease agreement could be further renewed after 3 years (i.e. after 31st October 2026) on the terms and conditions agreed upon between lessor and lessee.

8. As per paragraph 22 of Indian Accounting Standard (Ind AS) 116, 'Leases', the Company has recognised right of use (RoU) asset and lease liability in its books of account

against lease amount of Rs. 17.80 lakhs per month plus GST component thereon. The right of use (RoU) asset recognised for the same is being amortised as per depreciation policy of the Company for same class of assets and monthly lease repayments are bifurcated between lease liability and interest payment on lease payments.

9. The Company is subject to annual audit by the Comptroller and Auditor General of India (CAG) with effect from financial year (F.Y.) 2022-23 after acquisition of 26% share capital by GI Ltd. in addition to statutory audit as per the provisions of the Companies Act, 2013.

During supplementary audit for F.Y. 2023-24, CAG team has made observation on the measurement of right of use (RoU) asset as per lease provisions of Ind AS 116 in the books of account of the Company. The Company has considered the monthly lease rent payable including GST to calculate present value of minimum lease payments to recognise the right of use (RoU) asset and corresponding lease liability.

CAG team referred the Educational Material on Ind AS 116 issued in January 2020 by the erstwhile Ind AS Implementation Committee of the Institute of Chartered Accountants of India (ICAI) on the treatment of goods and service tax (GST) which states that GST should not be considered as lease payment.

The relevant question is mentioned below:

“Entity X (lessee) enters into an agreement with Entity Y to lease an entire floor of a building for a period of 10 years. The annual lease payments are fixed at INR 30,00,000 and are required to be paid in advance. In addition, Entity X shall pay Goods and Services Tax (GST) at 18% to Entity Y, who will remit the tax to the applicable government. GST is non-refundable and Entity X cannot claim the input tax credit for the GST payment.

Whether the payment of GST is considered as a part of consideration paid by Entity X? How will Entity X account for the GST payments?

Response

Paragraph 17 of Ind AS 116 states as follows:

“17 For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying paragraphs 73–90 of Ind AS 115.”

Section 9(1) of the Central Goods and Services Tax Act, 2017 provides that, “*Subject to the provisions of sub-section (2), there shall be levied a tax called the central goods and services tax (CGST) on all intra-state supplies of goods or services or both, except on the supply of alcoholic liquor for human*

consumption, on the value determined and collected in such manner as may be prescribed and shall be paid by the taxable person”. Similar provisions are also included for State Goods and Services Tax Act (SGST), Integrated Goods and Services Tax Act (IGST) and Union Territory Goods and Services Tax Act (UGST).”

In accordance with the above, the incidence of GST (i.e. CGST/SGST/IGST/ UGST) is on supply of goods or services and it is recovered from the customer.

Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity. Therefore, they are excluded from revenue.

On the similar guidance, GST is a consumption based tax which is the liability of the lessee towards the Government. Although the same is paid by the lessee to the lessor, it cannot be considered as ‘lease payment’ since it is paid to the government and the lessor is merely acting as a collection agent. Therefore, GST, whether or not refundable, would not be included in the measurement of the lease liability or right-of-use asset.

Accordingly, Entity X will calculate lease liability based on the lease payments amounting to INR 30,00,000 per annum, i.e., excluding GST.

GST would be charged to the profit or loss when the underlying transaction occurs if input credit is not available. However, if GST is refundable/input credit is available, then GST is recognised as an asset.”

Company's point of view:

10. As per paragraph 22 of Ind AS 116, ‘Leases’, the Company has classified Delhi office premises lease agreement as lease under the provisions of Ind AS 116 and recognised ‘Right of Use asset (RoU)’ and ‘Lease liability’. The Company has considered GST of 18% payable on monthly lease payment as part of lease payment amount and discounted the gross amount while calculating the right of use asset (RoU) and lease liability on effective date.

11. The Company is an electricity generation company and sale of electrical energy is exempted from the purview of GST. The Company does not recognise GST inputs credit in its books of account related to electricity related transactions.

12. The Company has considered GST on lease payment as expense and discounted the gross lease payment including GST component thereon while calculating the right of use (RoU) asset and lease liability because such GST component is not recoverable as the Company’s output services are exempt under GST. Further, in case, if only lease payment excluding GST amount of 18% thereon is

discounted and GST of 18% will be debited to Statement of Profit and Loss (P&L) under the head lease expense, it would give the wrong picture to the investor regarding existence of additional leases, whereas the accounting standard provides that only short-term and low value leases are to be expensed in the P&L.

13. According to the querist, the Educational Material referred by CAG team is recommendatory in nature and such accounting treatment mentioned in the FAQ of Educational Material cannot be taken as the basis.

B. Query

14. In view of the above, the opinion of the Expert Advisory Committee is sought as to whether GST component paid on lease payment can be a part of right of use (RoU) asset and lease liability from the lessee's perspective while calculating the present value of right of use (RoU) asset and lease liability in cases where the Company's output services are exempt from GST provisions.

C. Points considered by the Committee

15. The Committee notes that the basic issue raised in the query relates to whether GST component on lease payment should be included in the value of right of use (RoU) asset and lease liability recognised for office premises taken on lease. Therefore, the Committee has examined this issue only and has not examined any other issue that may arise from the Facts of the Case, such as, accounting for annual escalation in the lease rent, accounting for ground rent, electricity charges, maintenance charges etc. being paid by the Company, accounting for interest-free security deposit submitted by the Company, accounting in the books of lessor, amortisation of RoU asset, computation of lease term, accounting for monthly lease payments and its bifurcation between lease liability and interest payment, related party disclosures as per Ind AS 24, 'Related Party Disclosures', disclosures under Ind AS 116, etc. The Committee has examined the issue only from an accounting perspective and has not examined the regulatory or legal classification and implications, including those arising under Goods and Services Tax Act and Income-tax Act. The Committee also wishes to mention that the opinion expressed hereinafter is in the context of Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015 as amended or revised from time to time.

At the outset, the Committee notes that the Company obtained office premises on lease from O Ltd., who is one of the investors in the Company. In this regard, the Committee presumes that in the extant case, lease terms are at market terms and therefore, the Committee has not analysed the impact of any off-market terms on lease accounting.

16. In the context of the issue raised, the Committee notes the following paragraphs from the Ind AS 116, 'Leases':

“23 At the commencement date, a lessee shall measure the right-of-use asset at cost.

24 The cost of the right-of-use asset shall comprise:

- (a) the amount of the initial measurement of the lease liability, as described in paragraph 26;
- (b) any lease payments made at or before the commencement date, less any *lease incentives* received;
- (c) any *initial direct costs* incurred by the lessee; and
- (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.”

“26 At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the *interest rate implicit in the lease*, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the *lessee's incremental borrowing rate*.”

“Lease payments Payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following:

- (a) **fixed payments** (including in-substance fixed payments), less any **lease incentives**;
- (b) **variable lease payments** that depend on an index or a rate;
- (c) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- (d) payments of penalties for terminating the **lease**, if the lease term reflects the lessee exercising an option to terminate the lease

...”

From the above, the Committee notes that at the commencement date, the Company (as lessee) should recognise a right-of-use asset in respect of the underlying asset and a lease liability. At the commencement date, the Company should measure right-of-use asset at cost, which shall comprise the initial measurement of lease liability, *lease payments* made at or before the commencement date (less any lease incentives received), any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling/removing and restoring the asset/site as per the terms and conditions of the lease (if any). The Company should also recognise a lease liability at the commencement date at the present value of the *lease payments* that are not paid at that date.

The Committee now examines the nature of GST in Indian context. The Committee notes that GST is a consumption based tax which is levied by the Government on the customer for consumption of services and therefore, is a statutory obligation towards the Government. Thus, the primary obligor for payment of GST is the customer who avails goods or services, though it is collected by the seller/vendor (who provides goods or services) on behalf of the Government. In case of leases, the lessor charges or collects GST on behalf of the tax authority and remits the same to the tax authorities (viz., acting only as collection agent for the government).

In this context, the Committee notes that the GST payments (irrespective of whether these are recoverable as input credit or not) do not meet the definition of lease payment (as reproduced above) as these are not payments to the lessor in exchange for the right to use of the underlying asset. Rather, as discussed above, GST payments are payments involving outflow of resources embodying economic benefits, imposed by the government on

the lessee and are therefore, in the nature of *levies* as per paragraph 4 of Appendix C, 'Levies' of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', reproduced as below:

- “4. For the purposes of this Appendix, a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (ie laws and/or regulations), other than:
- (a) those outflows of resources that are within the scope of other Standards (such as income taxes that are within the scope of Ind AS 12, *Income Taxes*); and
 - (b) fines or other penalties that are imposed for breaches of the legislation.

'Government' refers to government, government agencies and similar bodies whether local, national or international.”

Accordingly, the Committee is of the view that GST payments made by the Company as lessee in the extant case cannot be included in the measurement of the lease liability or right-of-use asset.

D. Opinion

17. On the basis of the above and subject to paragraph 15 above, the Committee is of the opinion that the GST payments made by the Company as lessee in the extant case cannot be included in the measurement of the lease liability or right-of-use asset, as discussed in paragraph 16 above.

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 28 th April, 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-three volumes. These volumes are available for sale and can be procured online through CDS Portal at https://icai-cds.org/ .
4.	Opinions of the Committee may be accessed at the following link: https://eacopinion.icai.org/ .
5.	Opinions can be obtained from EAC as per its Advisory Service Rules which are available on the website of the ICAI, under the head 'Resources'. For further information, write to eac@icai.in .

Accountant's Browser



PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE

Index of some useful articles taken from Periodicals received during August - September 2025 for the reference of Faculty/Students & Members of the Institute.

1. Accountancy

Continuous Accounting: CFO's Secret Weapon by Manish Shah. *BCAJ, August 2025, pp. 19-22*

The Impact of IFRS 15 on Revenue and Earnings Quality: Evidence from China by Jerry Chen. *Asian Review of Accounting, vol. 33, no. 3, 2025, pp. 523-546*

2. Audit

Auditor Independence: SMP Perspective by Himesh D. Gajjar. *BCAJ, August 2025, pp. 35-40*

How do Auditors Price Financial Secrecy Culture? An International Study by Xuan Sean Sun, Muhammad Nurul Houqe, Md. Borthan Uddin Bhuiyan and Mahbub Zaman. *Asian Review of Accounting, vol. 33, no. 3, 2025, pp. 580-606*

3. Economics

Development of the General Insurance Industry in India by Amitava Banik. *Insurance Times, August 2025, pp. 24-26*

Smart Cities Mission in India: An Assessment and a Case Study by Hastimal G Sagara, Keshab Das and Sonal Jain. *Economic & Political Weekly, August 30, 2025, pp. 41-48*

Trump, Tariffs, and Talent Migration: A Turning Point for India by Ganapati D Yadav. *University News, August 25-31, 2025, pp. 6-10*

4. Investment

Role of Credit Scoring and Alternative Lending in India's Financial Inclusion by Harsh M Sankhala. *Banking Finance, August 2025, pp. 34-37*

5. Management

Founder's Final Act: How to Hand Over Ownership – and Burnish Your Legacy by Josh Baron, Ben Francois, Tony Guidotti and Nien-he Hsieh. *Harvard Business Review, September-October 2025, pp. 86-94*

6. Taxation and Finance

Correlation Between Indirect Taxes and Contractual Clauses by Naresh Thacker. *BCAJ, August 2025, pp. 11-18*

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.

CLASSIFIEDS

6124 A 45-year-old firm having HO in Kolkata, near Aaykar Bhawan Main Building, with branches in Mumbai, New Delhi, and Bengaluru, invites proposals for merger from sole proprietorship or partnership firms. Mail with a brief profile to banbhattachal@gmail.com

6125 We are a CA firm, just opened our new branch in Mumbai. We are looking for young, practising CAs (Max 40yrs with practising experience) as partners on full-time basis, purely on revenue-sharing model, for Mumbai and its suburbs. Contact: vinayak030167@gmail.com

6126 We are an Ahmedabad-based Firm with 10 partners, inviting proposals for merger from sole-proprietorship or partnership firms across India – preferred locations: Hyderabad, Bangalore, and Delhi. (No fixed remuneration) Email: firms@shahteelani.com

6127 A 28-year-old, Delhi-headquartered CA firm with branches at Bangalore and Pune invites proposals for merger from sole proprietorship or partnership firms based out of Delhi NCR, Lucknow, Mumbai, Chennai, Hyderabad, Indore, and Kolkata. We are seeking firms led by professionals who share a vision of significant growth. Mail with a brief profile to sapna.d5424@gmail.com

6128 57-year-old Mumbai-based CA firm wants to open branch offices at Bangalore, Hyderabad, Lucknow, Jammu, Kochi, Punjab & Ranchi by inducting full-time practicing CAs (DISA/FAFD qualification will be preferred) as Partner purely on revenue sharing basis (No fixed remuneration). CAs having COP and wishing to start their own practice can also be considered. write: admin@rdevendra.com



LEGAL Decisions



INCOME TAX

LD/74/32 High Court of Chhattisgarh: Taxc No 8 of 2024 Nanakchand Agrawal Vs. The Income-tax Officer 29th August 2025

High Court (HC) overruled ITAT decision and deleted addition u/s 69A; Source of cash deposits made during the demonetization pertained to and had its immediate inextricable nexus with cash withdrawals made by the Assessee from regular bank account in AY 2015-16; As per HC, explanation of nature and source of cash and invocation of deeming fiction engrafted u/s 69A, could only have been undertaken in AY 2016-17 and not in AY 2017-18 by the AO; Also, factum of refund of short term loans and advances and its consequential accumulation as cash-in-hand as on 31-3-2016 could have been examined in the assessment year 2016-17 only; Suspicion, however strong, cannot take the place of proof beyond reasonable doubt.

LD/74/33 ITAT Delhi: ITA No.2312/Del/2023 Deepak Batra Vs. The Deputy Commissioner of Income Tax 22nd August 2025

ITAT confirmed the addition made towards commission income of the assessee, a CA, for providing accommodation entries of bogus LTCG; Search conducted u/s 132 on the assessee wherein it was found that assessee was involved in arranging accommodation entries for commission at 4%; CIT(A) confirmed the addition by relying on depositions of various parties recorded during the course of investigation; ITAT noted that the assessee did not avail the cross examination opportunity offered by the Revenue; ITAT upheld the addition in principle, however, considered the possibility of some expenditure which might be

incurred and therefore directed that a lumpsum deduction towards expenditure of Rs. 1 lakh may be given.

LD/74/34 ITAT Chennai: ITA No. 822/Chny/2025 The Income Tax Officer Vs. Narayanaswamy 20th August 2025

ITAT deleted penalty u/s 271D levied on the basis of an unregistered sale deed alleging receipt of consideration in cash without any corroborative evidence to substantiate violation of Section 269SS; There was no corroborative evidence such as DVO report to substantiate claim about the fair market value or the alleged cash component; ITAT rejected Revenue's contention that Assessee's failure to file appeal against assessment order amounted to acceptance of AO's finding; ITAT opined that requirement to file an appeal was not warranted as no addition was made to the returned income in the assessment order.

LD/74/35 ITAT Delhi: ITA No. 600/Del/2020 The Assistant Commissioner of Income Tax Vs. Subramaniam Hariharan 20th August 2025

ITAT held that payments made by Assessee to non-resident foreign law firms were purely for professional services and did not partake the character of FTS u/s 9(1)(vii); Reliance placed on co-ordinate bench decision in Chander Mohan Lall, wherein the disallowance u/s 40(a)(i) in respect of legal fee paid to foreign attorneys without TDS was deleted, holding that there is a clear distinction between FTS and fee for professional services. "Professional Service" is a separate category of service, distinct from Fee for Technical Services (FTS) that is primarily "managerial, technical or consultancy" services; While FTS is defined in Explanation 2 to Section 9(1)(vii), fee for professional services draws its meaning from Explanation (a) to Section 194J.

LD/74/36 ITAT Chennai: ITA No. 1431/Chny/2025 Venkatachalam Venkatraman Vs. Income Tax Officer 20th August 2025

ITAT allowed assessee's claim of rebate u/s 87A holding that the rebate under the said section is available to all incomes and does not provide for any special rate income exclusion, i.e., with respect to exclude any Long term capital gains; ITAT observed that the first proviso to Section 87A included an exemption qua total income falling under Section 115BAC(1A), however, the

impugned amendment was brought by Finance Act 2024 w.e.f April 01, 2025 and the present AY 2024-25 was not hit by the same; ITAT set aside the orders of lower authorities and directed the AO to allow the Assessee its claim of rebate under Section 87A.

LD/74/37 ITAT Delhi: ITA No. 5472/DEL/2024 Saroj Rani Vs. The Income Tax Officer 19th August 2025

ITAT allowed assessee's claim of exemption u/s 54 for AY 2016-17 on investments made in seven residential units on the same floor; Reliance placed on Delhi HC in ruling in Lata Goel wherein it was held that multiple residential units may be construed as a single residential house for the purposes of exemption u/s 54F of the Act and that the term 'a residential house' can be construed as 'one residential house'; ITAT held that "one residential house" in Section 54/54F can encompass within its fold seven residential units on the same floor and therefore deleted the addition made by the AO.

LD/74/38 ITAT Mumbai: ITA No. 673/MUM/2025 Manisha Kiran Temkar Vs. The Assistant Commissioner of Income Tax 18th August 2025

ITAT deleted addition u/s 40(a)(i) for not deducting tax at source on foreign remittances made by the Assessee u/s 195; Since the recipient was non-resident and provided services outside India, there would be no tax liability in India and no TDS was required to be deducted on such payment; When any non-resident agent of the assessee rendered certain services outside India and commission was paid to them, same could not be said to be income which had accrued in India and the said recipient was not liable to pay tax in India; Also the commission paid to non-resident Indian could not be treated as FTS as per ITAT.

LD/74/39 ITAT Mumbai: ITA No. 3647/MUM/2025 Payal Kishore Kulchandani Vs. Income Tax Officer 18th August 2025

ITAT held that date of possession is relevant for determining eligibility under Section 54, and not the date of agreement or payment; Assessee purchased an under construction flat in 2009 for which part payments were made and final possession was taken on 06.04.2011; Assessee also sold an old flat on 21.07.2011 and claimed exemption u/s 54; AO denied the claim u/s 54 noting that almost the entire payment was made

before 14.12.2009 which was more than 'one year prior to the date of sale' of the old property; Since possession date was within prescribed period of less than one year before the sale of old flat, claim u/s 54 could not be denied.

LD/74/40 Bombay High Court: Income Tax Appeal No. 2245 of 2018 Principal Commissioner of Income Tax-2, Mumbai Vs. Morgan Stanley India Capital Pvt. Ltd. 14th August 2025

High Court (HC) directed deletion of disallowance noting that second proviso to Section 40(a)(ia) applies retrospectively from April 1, 2005; It was undisputed that the persons to whom the payments were made by the assessee had already paid the requisite taxes; If an assessee has not been declared as an assessee in default u/s 201(1), and the payee has paid the tax, then it shall be deemed that the assessee has deducted and paid the TDS; Reliance placed on jurisdictional HC ruling in Perfect Circle India.

LD/74/41 Delhi High Court: ITA No. 295/2025 Pr. Commissioner of Income Tax (Central) Vs. Pancham Realcon Pvt. Ltd. 12th August 2025

An addition u/s 68 was made for unexplained cash deposits made post-demonetization, which was deleted by the ITAT; High Court held that no substantial question of law arose and issue was a pure question of fact; ITAT had noted that time gap of a few months between cash withdrawal and cash deposits was similarly observed in preceding AY also, which establishes a pattern; Assessee had satisfactorily proved the deposits by placing on record main as well as site cash books which AO had failed to consider.

LD/74/42 ITAT Mumbai: ITA No. 1587/MUM/2025 Creative Ashtech Power Projects Private Limited Vs. Deputy Commissioner of Income Tax 23rd July 2025

Penalty u/s 270A upheld by ITAT for non-disclosure of foreign exchange gains in the original return; Forex gains of Rs. 69.79 lakh were failed to be reported; Reliance placed on SC ruling in Mak Data P. Ltd. wherein it was held that voluntary disclosure or revised computation of income does not release the Assessee from the mischief of penal proceedings; Assessee's argument that wrong section of 270A(9)(e) was applied, was rejected by ITAT by noting that the CIT(A) had rectified the AO's mistake and invoked correct provision of 270A(9)(a).

DISCIPLINARY CASE

Failure to detect short deduction of TDS and stock mismatch - Non-verification of TDS on the portal and improper representation before tax authorities - Discrepancy in opening and closing stock figures leading to scrutiny - Respondent held guilty of professional misconduct under Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

Held:

In this case, the Respondent was held guilty of professional misconduct for failing to exercise due diligence while conducting tax audit and representing the Company before the Income Tax Department. During Assessment Year 2012-13, the Complainant Company had deducted TDS at 1% instead of 2% on certain payments. The Respondent, despite being the tax auditor, failed to verify TDS data from the TDS-CPC portal and did not report the irregularity under Clause 20 of Form 3CD. This lapse resulted in disallowance of expenses under Section 40(a)(ia) and raised a tax demand of ₹29 lakhs. Furthermore, during the assessment proceedings, the Respondent failed to clarify that Section 40(a)(ia) was applicable only for non-deduction, not short deduction. He also initially advised the Company to pay the demand amount instead of opting for appeal, which he later agreed to submit only after the Company approached another Chartered Accountant.

Additionally, the Respondent was found negligent in preparing the Income Tax Returns, where the closing stock figures in AY 2012-13 did not match with the opening stock in AY 2013-14. The Respondent claimed that the return was filed by the Company's accountant; however, this was contradicted by the Complainant. The Committee observed that the mismatch arose due to exclusion of packing material stock, which led to scrutiny by the Income Tax Department. The Respondent failed to provide sufficient documentary evidence to demonstrate due care in this regard. The Committee, after considering the facts and lack of appropriate explanation or supporting evidence, concluded that the Respondent failed to discharge his professional duties with due diligence. Accordingly, he was held guilty of professional misconduct under Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

[PR-21/2017-DD/59/17/DC/1266/2020]

Acting as Internal Accountant while Statutory Auditor of the Company - Conflict of interest - Respondent should have desisted from accepting the dual assignment - Guilty of professional misconduct under Clause (4) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

Held:

The Respondent, while functioning as the Statutory Auditor, was found guilty of professional misconduct for simultaneously acting in the capacity of internal accountant of the same company. The Committee noted that although the Respondent claimed that the amounts received from the company were reimbursements for outsourced staff deputed on the company's request, the documents produced failed to establish any independent control or employment of the said staff by the company. The accountant was paid through the Respondent; no appointment letter or direct payment by the company existed, and the accountant appeared to be under the direct control of the Respondent. This dual association created a clear conflict of interest and compromised the Respondent's professional independence, violating Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949. However, other charges regarding alleged misstatements, diversion of funds, fictitious expenses, and personal expenses charged to the company could not be substantiated due to lack of sufficient evidence and the complainant's failure to pursue the matter. Accordingly, these charges were dropped, and the Respondent was held guilty solely under Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

[PR-268/13-DD/259/2013/DC/546/2017]

ANNOUNCEMENT

The details of the forthcoming Batches/Webinars/VCMs to be organized by ICAI are as follows:

Internal Audit Standards Board (IASB)

Details	Date(s), Time & Month		Place
	Date	Time	
Certificate Course on Concurrent Audit of Banks	October 27, 28, 29, 30, 31 and November 1, 2025	10:00 AM to 5:30 PM	ICAI Centre of Excellence, Hyderabad
	November 8, 9, 15, 16, 22 & 23, 2025		Gurugram branch of NIRC of ICAI

Professional Skills Enrichment Committee (PSEC) (Virtually)

Details	Date(s), Time & Month	
	Date	Time
Certificate Course on Skills Enrichment	October 18, 19, 25, 26, 2025 November 1, 2, 8, 9, 15 & 16, 2025	11:00 AM to 2:00 PM
Certificate Course on Business Consulting Skills	November 22, 23, 29 & 30, 2025 December 6, 7, 13, 14, 20 & 21, 2025	11:00 AM to 2:00 PM
Daily Yoga Session	October 1 to 3, 6 to 10, 13 to 17, 20 to 24 & 27 to 31, 2025	7:00 AM to 7.45 AM
Weekly Yoga Session	October 4, 5, 11, 12, 18, 19, 25 & 26, 2025	9.00 AM to 9.45 AM

EXPOSURE DRAFTS OF REVISED STANDARDS ON INTERNAL AUDIT (SIAs) FOR PUBLIC COMMENTS

The Internal Audit Standards Board (IASB) of the Institute of Chartered Accountants of India (ICAI) has released Exposure Drafts of Standards on Internal Audit (SIAs) for public consultation.

The SIAs are pronouncements that establish a robust framework for the planning, execution, and reporting of internal audits. They aim to improve the quality, consistency, and reliability of internal audit practices.

We invite members, professionals, and all stakeholders to review the Draft SIAs and offer comments and suggestions to the Board.

- Last date for submission of comments: October 23, 2025
- Access the Exposure Drafts here: <https://www.icai.org/post/exposure-drafts-issued-by-the-internal-audit-standards-board>

Share your comments at an early date. In order to expeditiously address various suggestions, it is requested to send the suggestions on the above mentioned link.

Your feedback is valuable in strengthening the internal audit ecosystem in India.

Internal Audit Standards Board, ICAI



Research Committee
The Institute of Chartered Accountants of India
 (Set up by an Act of Parliament)



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PROCEDURE FOR PARTICIPATION

- There is no fee for participation in the competition.
- Annual Report relating to the financial year ending on any day between April 1, 2024 and March 31, 2025 (both days inclusive) is eligible for participation in this competition.
- Decisions of the Panel of Judges in all the matters relating to the Competition will be final.
- ICAI reserves the right to withdraw any award at any time without giving any reasons
- Fill in the Entry Form and submit requisite documents at <https://bit.ly/eifricai2025> on or before **15th October, 2025** with an intimation by research@icai.in regarding submission of entry form.
- Send the two hardcopies of the enclosures to Secretary, Research Committee



Link to apply:
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AWARD CATEGORIES FOR THE YEAR 2024-25

Category I	Public Sector Banks
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Category III	Life Insurance
Category IV	Non-Life Insurance
Category V	Financial Services Sector (including NBFC Other than Banking and Insurance)
Category VI	Manufacturing and Trading Sector (including entities engaged in processing, mining, plantations, oil and gas enterprises) (Turnover equal to 5000 crores or more)
Category VII	Manufacturing and Trading Sector (including entities engaged in processing, mining, plantations, oil and gas enterprises) (Turnover less than 5000 crores)
Category VIII	Service Sector (other than financial services sector)
Category IX	Infrastructure and Construction Sector
Category X	Not-for-Profit Sector
Category XI	Public Sector Entities
Category XII	Co-operative Banks

Note: The documents submitted by the entities for the competition will not be utilized for any other purpose.

ICAI reserves the right to withdraw any award at any time without giving any reasons.

For further information please write to:
 Secretary, Research Committee
 The Institute of Chartered Accountants of India
 ICAI Bhawan, Post Box No. 7100
 Indraprastha Marg, New Delhi – 110 002
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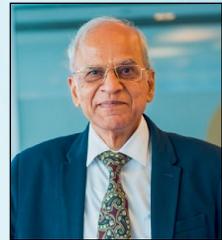
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Voluntary Contribution to the Chartered Accountants' Benevolent Fund (CABF)



CA. Khandhar Amish Jashvantlal

Membership No.: 114027
Amount: ₹12,50,000
Place: Ahmedabad



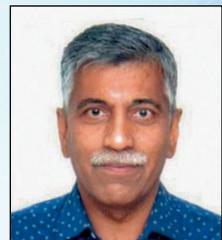
CA. Mohanlal Bhandari

Membership No.: 12912
Amount: ₹11,00,000
Place: Mumbai



CA. Pipara Gyan Chand

Membership No.: 034289
Amount: ₹11,00,000
Place: Ahmedabad



CA. Chhajed Mahesh Shantilal

Membership No.: 042049
Amount: ₹10,00,000
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CA. Ashwani Kumar

Membership No.: 080711
Amount: ₹5,00,000
Place: Ludhiana



CA. Choudhary Ramchandra

Membership No.: 043979
Amount: ₹5,00,000
Place: Ahmedabad



CA. Jay Rajkumar Duseja

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Member	Membership No.	Amount ₹	Place
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CA. Rajagopal Naidu M	24819	1,01,116	Tirupati
CA. Jayashree Ullal	206998	1,00,001	Bengaluru
CA. S Balachander	19333	1,00,000	Salem
CA. K Manohar Naidu	219126	1,00,000	Tirupati
CA. D Harikrishna	229272	1,00,000	Tirupati
CA. Sureka Shashikant	074287	1,00,000	Noida
CA. Gangavarapu Venkata Ramana	202420	1,00,000	Vijayawada
CA. Priti Paras Savla	108502	1,00,000	Mumbai
CA. Lakshmi Narayanan S	026852	1,00,000	Chennai
CA. Shah Parimal Sumantlal	038507	1,00,000	Ahmedabad

Firm/Other	Firm No.	Amount ₹	Place
Chandramohan Foundation		5,00,000	Mumbai
J B Nagar CPE Study Circle of WIRC of ICAI		2,00,001	Mumbai
J R C H and CO LLP	W101113	1,53,000	Mumbai
Navendu Khanna and Co.	013671N	1,00,000	Amritsar



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Today, as the world navigates rapid change driven by technology, artificial intelligence, and sustainability, the profession is expanding its role on a global stage. Chartered Accountants are not only guardians of financial integrity but also catalysts for innovation, inclusion, and responsible growth.

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THEMATIC ISSUES

- Ethics, Integrity & Global Trust in the Digital Era
- Sustainability, Climate Action & Social Impact
- Digital Transformation, AI & Innovation Leadership
- Resilient Leadership, Wellness & Work-Life Balance
- Global Collaboration & Cross-Border Partnerships
- Youth & Women-led Development for Global Leadership
- Public Financial Management & Nation-First Governance
- Entrepreneurship & Economic Growth through SMEs and Startups
- MSMEs & Startups: Engines of Inclusive Development
- Next-Gen Skills for a Future-Ready Profession



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