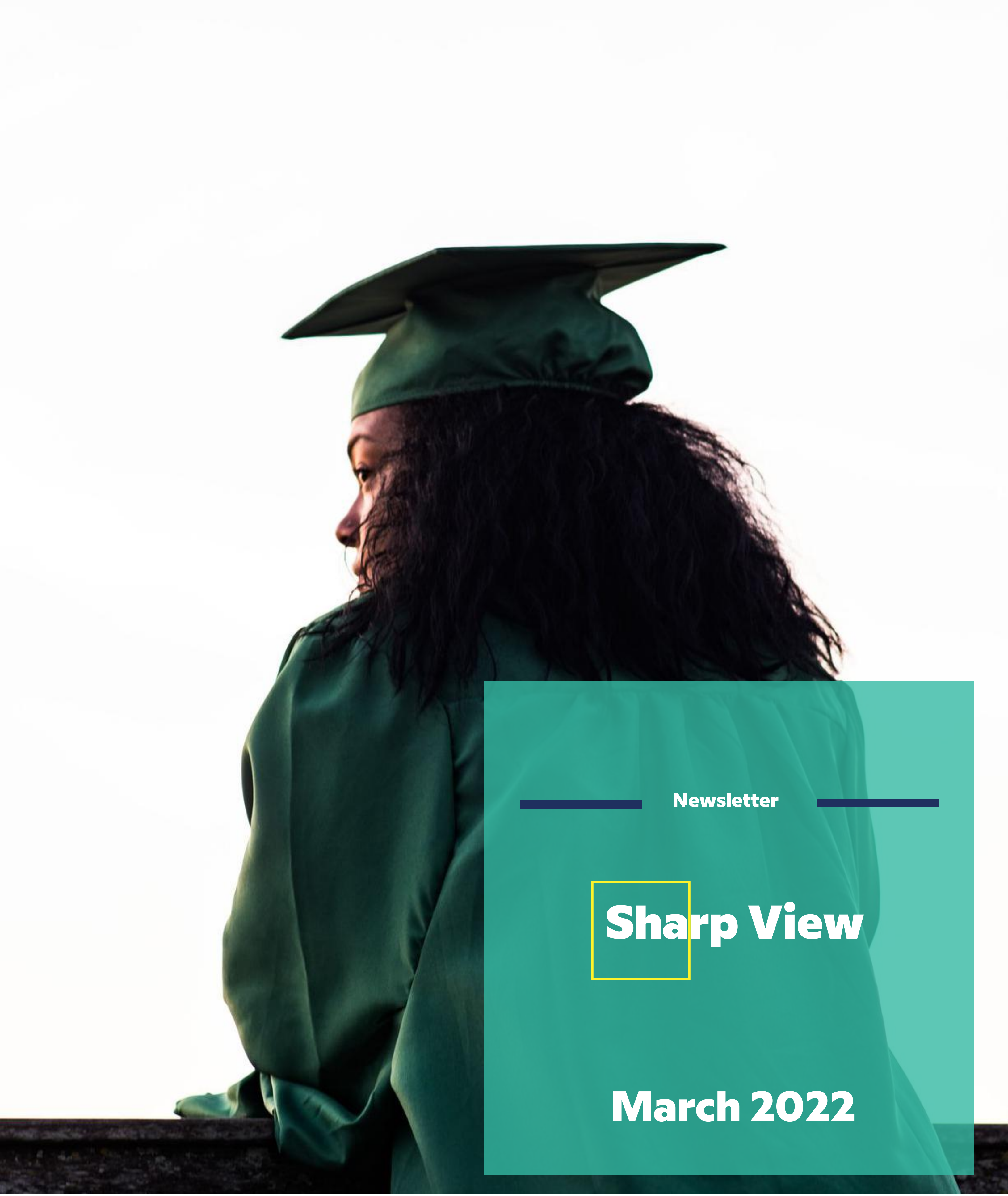

Newsletter

Sharp View

March 2022

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March 2022

In India, March marks the beginning of Summer and the end of the fiscal year. March is celebrated for various events across the world. It marks the beginning of the vernal equinox and the daylight saving time. Globally, March is celebrated for 'International Women's Day.' This year, the Ministry of Women and Child Development is celebrating the International Women's Week from 1 to 8 March 2022. The ministry launched 'Stree Manoraksha project' aimed at psychosocial well-being and improving the mental health of women in India.

Some interesting facts!

- Indian National Women's Day is observed every year on 13 February to commemorate the birth anniversary of Sarojini Naidu
- Doctor Anandibai Gopalrao Joshi and Kadambini Ganguly were the first Indian female doctors with a graduate degree in western medicine in the United States.
- The ICC Cricket Women's World Cup started on 4 March 2022 in New Zealand
- Kalpana Chawla (NASA astronaut) was born on 17 March 1962
- Sarla Thukral was the first Indian female pilot flying solo securing her license at the age of 21
- Dr. Seema Rao, is India's first woman commando trainer, having trained over 15,000 Special Forces of India
- Padmavathy Bandopadhyay is the first woman to be promoted to the rank of Air Marshal in the Indian Air Force

Important geopolitical issues to watch out for

The month of March is named after the Roman God of war, Mars. The current state of 'war' has created major turbulence across the nations. The geopolitical tensions due to the Russia-Ukraine war and the possible risk to the nuclear power plant in Ukraine has threatened the world. The sharp rise in crude prices may set the world inflation at its peak when the central bankers across the globe are trying to curb it. The Reserve Bank of India's measures to curb the current inflation may have to be revisited, and India might be required to take a side in the upcoming war situation. This may have a significant impact on the Q1 2022-23 performance.

Assurance

Related party transactions (RPTs) have assumed significant importance in the last couple of decades. Based on the corporate behavioural patterns in India, the Indian regulators have gradually evolved a reporting framework for all the related party disclosures in a systematic manner. Also, RPTs are widely regulated globally. Mr. Karuppiah Lakshmanan (Coimbatore Office) and Mr. Santhana Raman (Chennai Office) provide a brief analysis of various RPTs across a few geographies.

A. Introduction

Related party transactions have assumed significant importance in the last couple of decades. Based on the corporate behavioural patterns in India, the Indian regulators have gradually evolved a reporting framework for all the related party disclosures in a systematic manner. To date, we have Accounting Standards, Ind AS, Standards on Auditing (SA) and SEBI framework where all the material RPT and deviations from the disclosures are reported. Although most of the RPTs may be legal, transactions with related parties render a possibility of distorting financial information in financial statements and hiding the economic substance of transactions or fraud in companies. In order to protect the interest of stakeholders and maintain transparency in business, such kinds of transactions with Related Parties are being regulated.

B. Regulatory framework in India

In India, RPTs are widely regulated under the Companies Act, AS, Ind-AS, Standards on Auditing (SA), and SEBI under the LODR regulations. (Diagram 1)

Diagram 1:

RPT - Regulatory framework in India

Companies Act, 2013

Section 177: requires prior approval of Audit Committee for all the RPT

Section 188: transactions requiring Board approval

a. sale, purchase or supply of any goods or materials;
b. selling or otherwise disposing of or buying, property of any kind;
c. leasing of property of any kind;
d. availing or rendering of any services;
e. appointment of any agent for purchase or sale of goods, materials, services or property;
f. such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
g. underwriting the subscription of any securities or derivatives thereof, of the company.

SEBI (LODR) Regulations

With effect from 1 April 2022, RPT is material, if such transaction individually or with earlier RTPs taken together exceeds:

a. INR 1,000 crore OR
b. 10% of the annual consolidated turnover of the listed entity as per the last audited financial statements

(whichever is lower)

Approval of audit committee is required for all material RPTs

Approval of shareholders:

a. Prior approval required for all RPTs
b. Not required if RPT entered into by the listed subsidiary having paid up equity capital upto INR 10 crore and net worth upto INR 25 crore as on the last day of the previous FY and to whom the corporate governance provisions of the LODR do not apply.

Ind AS 24 & AS 18

IND AS 24: Relationships between a parent and its subsidiaries shal be disclosed irrespective of whether there have been transactions between them.

If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.

AS 18: Name of the related party and nature of the related party relationship where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties.

Standards on Auditing (SA) 550

Standards on Auditing (SA) 550 'Related parties' deals with the auditor's responsibilities regarding related party relationships and transactions when performing an audit of financial statements. Specifically, it expands on how SA 315, SA 330 and SA 240 are to be applied in relation to risks of material misstatement associated with related party relationships and transactions.

C. RPT under different GAAP

Sr. No	Category	IFRS, Ind AS, Singapore SB FRS	US GAAP
1	Standard	IAS 24/ Ind AS 24/ SB FRS 24	ASC 850
2	Relationship	Companies that are under significant influence of the same third party are not related parties. E.g., Company A exercises significant influence on Company B and C. Here, Companies B and C are not related parties.	They are considered related parties in the following circumstances. 1. they transact with each other, and 2. either B or C (collectively, the transacting parties) controls or can significantly influence the management or operating policies of each other to the extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.
3	Compensation to managerial person	Mandatory to disclose KMP compensation in total and segregated into short term, post-employment, other long term and termination benefits.	No such requirement under US GAAP.
4	Control relationships	Mandatory to disclose parent and subsidiary relationships regardless of whether there have been any transactions between the parties.	If the reporting entity and other entity is under common ownership, and such control results in significant impact to financial statements, then disclosure is required when there are no transactions between entities.
5	Categorized disclosures for each group of related party	Mandatory to disclose related party transactions by aggregating the transactions for each category of related party relationship such as parent, joint ventures, subsidiaries, associates, KMP and other related parties.	No such requirement to aggregate transactions based on group. However, aggregation to be done for a class of transactions as a whole. E.g., Sales to subsidiaries and joint ventures to be aggregated.
6	Disclosure on consolidation	If neither the reporting entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, then a reporting entity discloses the name of the next most senior parent to the reporting entity's parent that produces financial statements available for public use.	There is no specific requirement to disclose the name of the parent, ultimate parent or next most senior parent that produces consolidated financial statements.
7	Disclosure of allowances for doubtful debts	Mandatory to disclose any allowance for doubtful debts and any amounts written off during the period.	No such requirement under US GAAP. However, SEC Regulations require disclosure on the same.
8	Disclosure of related party transactions on the face of the financial statements	Not mandatory to provide on the face of the financial statements. Such disclosure is typically provided in the notes to the financial statements.	Not mandatory as per US GAAP. However, SEC regulations require disclosure on the face of financial statements.
9	Tax disclosures on related party transactions	No requirement to disclosure tax for an entity that issues separate financial statements and is a member of a group that files a consolidated tax return.	Mandatory to disclose the aggregate current and deferred tax expense, tax-related balances due to or from affiliates, the method by which the expense is allocated, and the nature and effect of any changes in that method.

D. Conclusion

Transactions with related parties render a possibility of distorting financial information in financial statements and hiding the economic substance of transactions which may result in misrepresentation or fraud. In order to protect the interest of stakeholders not involved in the day to day operations and decision making and for maintaining transparency in business, transactions with Related Parties shall continue to be under scrutiny and regulation in future as well.

Both management and auditors have to treat RPT as critical areas for reporting. The governance standard in an organisation will also be tested by the manner in which RPT are treated for approval and disclosure.

While RPTs in a company are unavoidable, the management and auditor must ensure that the financial statements must be, in substance and form, beyond any suspicion.

GRC

Information technology has become the backbone of every business. The entire business resources, functions and operations run on the IT platform and are driven by digitalisation. However, in a volatile environment, businesses are prone to both, natural and IT/cyber-disasters. Business continuity and disaster recovery (BCDR) planning assumes utmost importance in this scenario. Mr. Arnob Choudhuri (Pune Office) discusses the importance of BCDR, its implementation through risk assessment and business impact analysis and the role of internal audit in the entire BCDR process.

BC is more proactive and refers to the processes and procedures that a company must put in place to ensure that mission-critical services can continue during and after a disaster. This section entails more in-depth planning aimed at addressing long-term obstacles to an organisation's growth.

DR is more reactive, and it consists of precise measures that an organisation must perform in order to continue operations after an incident. After a disaster, disaster recovery measures are carried out, with response times ranging from a few seconds to days.

The trend of integrating business continuity and disaster recovery into a single phrase, BCDR, is the result of a growing realisation that, rather than building schemes in isolation, business and technology executives need to interact closely when planning for crisis responses.

Risk analysis, business impact analysis and BCDR

Internal and external risks must be identified as part of the BCDR process. The risk analysis determines the prevailing dangers and how likely they will materialise. Business Impact Analysis (BIA), which helps quantify the possible repercussions of disruption, works in combination with this risk assessment. A BIA includes not just financial analysis, but also non-financial costs associated with unanticipated outages. The BIA also defines the mission-critical functions that must be maintained or restored after an incident, as well as the resources required to support those services.

Risk analysis and BIA data are used by an organisation to define business continuity and disaster recovery strategies, as well as the relevant responses. Data replication, failover to a cloud-based service, activating alternate network routes, and working remotely are all examples of strategies that are turned into a set of steps that will aid in operational recovery.

Role of Internal Audit in BCDR

After any form of crisis, the process of an organisation recovering and returning to normalcy is very challenging. Being a part of the team developing and implementing a strong BCDR plan, the internal auditor is at the heart of these efforts.

An organisation's internal auditor needs to determine whether the management has an effective BCDR plan and whether the same is properly. Wherever necessary, the internal auditor must communicate the lapses in the BCDR plan to the management. The effectiveness of the BCDR plan must be periodically reviewed.

The internal auditor is well aware of the one and only aspect of BCDR that cannot be compromised on, i.e. 'planning.'

Introduction

In the case of a crisis, business continuity (BC) and disaster recovery (DR) are two closely related practices that enable a company to stay operational.

From natural disasters to the newest round of cyber attacks, resilience has become the watchword for enterprises confronting a variety of challenges.

In this volatile environment, business continuity and disaster recovery (BCDR) are more vital than ever. Every business, from tiny businesses to multinational corporations, is becoming increasingly reliant on digital technology to generate income, deliver services, and support customers who demand applications and data to be available at all times.

Customers aren't the only ones that suffer from disruption. A fire, flood, ransomware attack, or other calamity can result in significant financial losses, damage to a company's brand, and, in the worst-case situation, the permanent closure of a corporation as we have seen with the recent COVID-19 crisis.

Importance

BCDR's job is to reduce the impact of outages and other disturbances on business operations. BCDR policies allow a company to quickly recover from a disaster, lower the risk of data loss and reputational damage, and improve operations while reducing the likelihood of an emergency.

When it comes to BCDR, some businesses may have an advantage over others. In case of individual systems, DR is a well-established function in several IT departments. BCDR, on the other hand, is larger than IT, embracing a variety of factors such as crisis management, employee safety, and alternative work sites.

Employee contact lists, emergency contact lists, vendor lists, instructions for performing tests, equipment lists, and technical diagrams of systems and networks are all included in planning papers, which are the foundation of an effective BCDR strategy.

BCDR Vs BC & DR

BC and DR are two closely connected techniques that help a company stay functioning during a disaster. The purpose of BCDR is to reduce risk and get an organisation back up and running as quickly as possible following a disruption. These procedures help a company get back on its feet after a setback, limit the danger of data loss and reputational damage, and improve operations while reducing the likelihood of an emergency.

A business is significantly more likely to quickly resume operations and return to normal operating circumstances with minimal effort if it has a good strategy in place, brimming with readiness tactics and guided by a qualified internal auditor.

The internal auditor must do a few critical duties as part of the constantly updated, comprehensive BCDR plan, which include:

- During the planning and development stages, assisting with risk analysis
- Critically assessing the plan after it has been written
- Regular audits provide assurance to the business that the plan is up to date.

Importance of regular audits of BCDR paln

For good assurance, the internal auditor should create an audit program on a regular basis to completely analyse and reinforce the effectiveness of the disaster recovery plan.

The primary goal of the audit is to ensure that the plan is adequate to support the quick restoration of business operations and processes in the event of a disaster or other adversity, while also reflecting the company's present operating environment.

Some of the following activities and components may be included in the BCDR audit:

- Review the disaster recovery plan to ensure that it is up to date and maintained in order to achieve maximum completeness, accuracy, and timeliness.
- Review and evaluation of supporting papers, such as procedure manuals, guidelines, and training materials. Interviews with management and stakeholders to learn about their roles in disaster preparedness and business continuity.
- Examine the disaster recovery plan's effectiveness by analysing test findings or the outcomes of any actual disasters.

Key audit considerations

- Is the disaster recovery plan completely current?
- Has the BCDR strategy considered all important systems, business operations, and internal controls?
- Are the risks and potential repercussions of business interruptions considered in the plans?
- Is the BCDR strategy well-documented?
- Are all the key responsibilities assigned?
- Is the organisation capable and prepared to carry out the BCDR plans?
- Is there a risk assessment behind the catastrophe recovery plan?

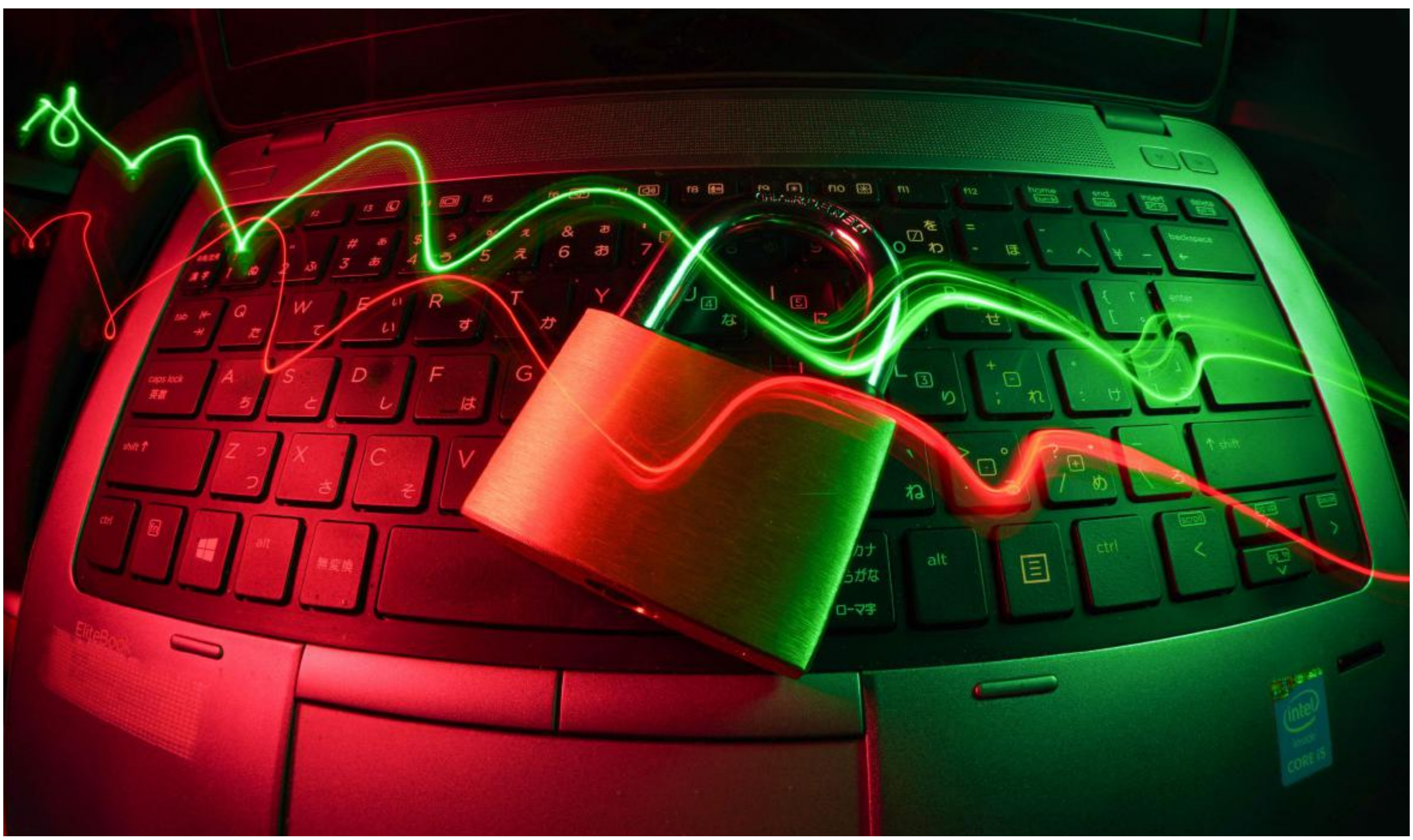
- Has the plan been put to the test and subsequently amended?
- What is the back-up location of the BCDR plan? Is it kept in a secured location and is accessible to authorised personnel?
- Are the steps in the plan the same as those taken by local emergency services?
- Are there any other data centre locations, such as the cloud, and are they known to all parties involved?

Looking ahead

With the evolving nature of threats, BCDR planning and implementation will continue to evolve. Here are a few recent developments to keep in mind:

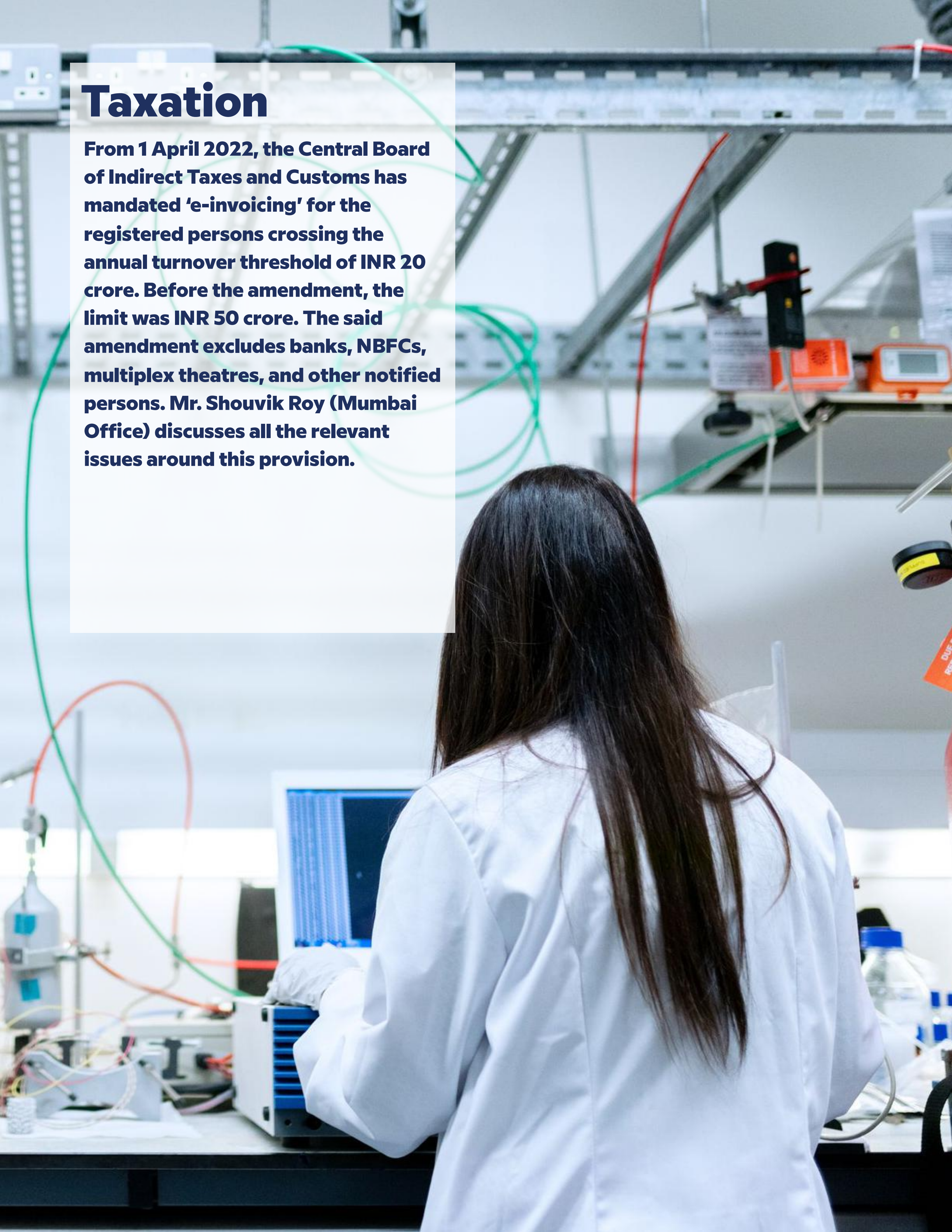
Cybersecurity and business continuity are intertwined. Cyberattacks, such as ransomware, are expected to continue, if not increase, their impact on company's operations. In most organisations, cybersecurity and business continuity are two different and distinct roles. This needs to change with time. Going forward, the management must understand and ensure that cyber-security is intrinsically connected with business continuity.

The impact of artificial intelligence (AI) on BCDR planning: AI and its cognitive functions could aid BCDR teams in making judgments about how to organise their plans, as well as completing BIAs and risk assessments. AI could potentially aid crisis response by advising activities based on the specifics of disaster scenarios as they evolve.



Taxation

From 1 April 2022, the Central Board of Indirect Taxes and Customs has mandated 'e-invoicing' for the registered persons crossing the annual turnover threshold of INR 20 crore. Before the amendment, the limit was INR 50 crore. The said amendment excludes banks, NBFCs, multiplex theatres, and other notified persons. Mr. Shouvik Roy (Mumbai Office) discusses all the relevant issues around this provision.



Taxation | GST - Revision in aggregate turnover limit for e-invoice w.e.f. 1 April 2022

Presently, registered persons whose aggregate turnover in a financial year (FY) exceeds INR 50 crore are mandatorily required to prepare an e-invoice as mentioned in rule 48(4) of the Central Goods and Service tax Rules, 2017 (Rules). With effect from 1 April 2022, the Central Board of Indirect Taxes and Customs (CBIC) has made the applicability of e-invoice mandatory for registered persons having aggregate turnover exceeding INR 20 crore in any of the previous years, i.e., from 2017-18 to 2021-22.

Thus, the present turnover threshold of aggregate turnover for the purpose of applicability of e-invoicing provisions is reduced from INR 50 crore to INR 20 crore.

Consequently, a registered person (other than a government department, a local authority, a Special Economic Zone unit and those referred to in sub-rules (2), (3), (4) and (4A) of rule 54, i.e. a bank, NBFC, goods transport agency (GTA) for carriage of goods by road, passenger transport service, and services of exhibiting cinematograph films in a multiplex) having aggregate **turnover exceeding INR 20 crore in any preceding financial year from 2017-18 onwards**, shall mandatorily prepare invoices and other prescribed documents, in terms of **Rule 48(4)** in respect of supply of goods or services or both to a registered person or for exports.

The said amendment shall come into force w.e.f. 1 April 2022.

Summarized Salient Points of the Amendment

- **Who is required to generate an e-invoice**: Registered Persons whose aggregate turnover (PAN India basis) crosses INR 20 crore *in any of preceding FYs since FY 2017-18*.

- **Required for supplies** such as: B2B Supplies, Debit Notes/Credit Notes and Export Invoices.

- **Not required for**: Receipt Voucher, Refund Voucher, Payment Voucher, Self-Invoice (RCM), Bill of Supply, ISD Invoice

- **Who are exempted**: SEZ Unit excluding Developer, Insurance/Banking/ NBFC, GTA, Passenger Transportation Services, admission to exhibition of cinematograph film in multiplex theatres.

Conclusion

As evidenced from Government data, the GST collections been on a rise with a record GST collection of 1.4 lakh crore in January 2022. One of the stated government objectives was to further raise the collections through e-invoicing, which will bring smaller businesses within the tax ambit. While it will increase the compliance burden for small businesses, it will ultimately lead to more digitization and plugging of tax leakages through fake invoicing.

Reference:
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Ahmedabad

A2-807, "Palladium", Near Vodafone House,
Corporate Road, Prahalad Nagar,
Ahmedabad - 380015.
Phone: (91) (079) 2970 2082.

Bengaluru

103, Midford House, 1, Midford Gardens
Bengaluru 560 001.
Phone: (91) (80) 2555 0987.

Chennai

Parsn Manere, A Wing Third Floor,
602 Anna Salai, Chennai 600 006.
Phone: (91) (44) 2827 4368, 2822 9534.

Coimbatore

09, Verivada Street, Redfields,
Race Course, Coimbatore 641 045 .
Phone: (91) (422) 427 4500.

Goa

SF-9 , 2nd Floor , Block A Palmer Premises
Holders Co-op Soc Journalist Colony Road
Bardez Goa 403 521.
Phone: (91) 9820284854.

Mumbai - 1

Ravindra Annexe 194, Churchgate
Reclamation Dinshaw Vachha Road,
Mumbai 400 020.
Phone: (91) (22) 66338343 to 8347.

Mumbai - 2

87, Nariman Bhavan, 227 Nariman Point
Mumbai 400 021.
Phone: (91) (22) 6153 7500 / 2202 2224 / 8857.

New Delhi

205-207 Ansal Tower 38,
Nehru Place, New Delhi 110 019.
Phone: (91) (11) 4103 2506, 4103 3506.

Pune

802 Lloyds Chambers , Dr. Ambedkar Road
Opp. Ambedkar Bhavan, Pune 411 011.
Phone: (91) (20) 605 0802.

Vadodara

8th Floor, West Wing Aurum,
Behind Vasna HP Petrol Pump, Makrand
Desai Road, Vadodara - 390.007.
Phone: (91) 97268 95000 / 97278 95000.

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