



Newsletter

# Sharp View

September 2022



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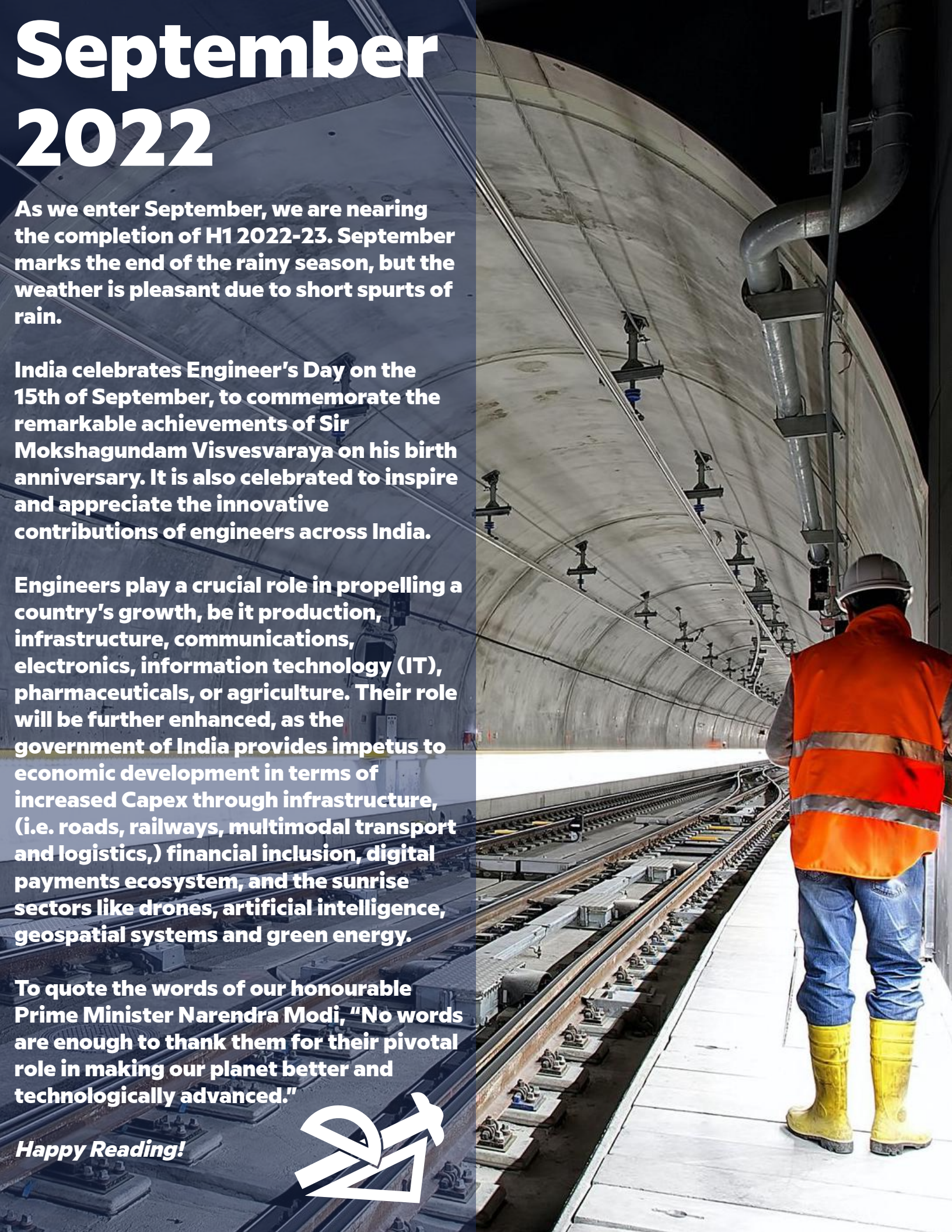
As we enter September, we are nearing the completion of H1 2022-23. September marks the end of the rainy season, but the weather is pleasant due to short spurts of rain.

India celebrates Engineer's Day on the 15th of September, to commemorate the remarkable achievements of Sir Mokshagundam Visvesvaraya on his birth anniversary. It is also celebrated to inspire and appreciate the innovative contributions of engineers across India.

Engineers play a crucial role in propelling a country's growth, be it production, infrastructure, communications, electronics, information technology (IT), pharmaceuticals, or agriculture. Their role will be further enhanced, as the government of India provides impetus to economic development in terms of increased Capex through infrastructure, (i.e. roads, railways, multimodal transport and logistics,) financial inclusion, digital payments ecosystem, and the sunrise sectors like drones, artificial intelligence, geospatial systems and green energy.

To quote the words of our honourable Prime Minister Narendra Modi, "No words are enough to thank them for their pivotal role in making our planet better and technologically advanced."

*Happy Reading!*





# GRC



## Scrap industry: internal audit perspective

Audit of scrap management process plays a vital role for any manufacturing company.

Measuring the scrap generated during the manufacturing process and its documentation can help organisations pre-determine a scrap rate and benchmark the effectiveness of the production process.

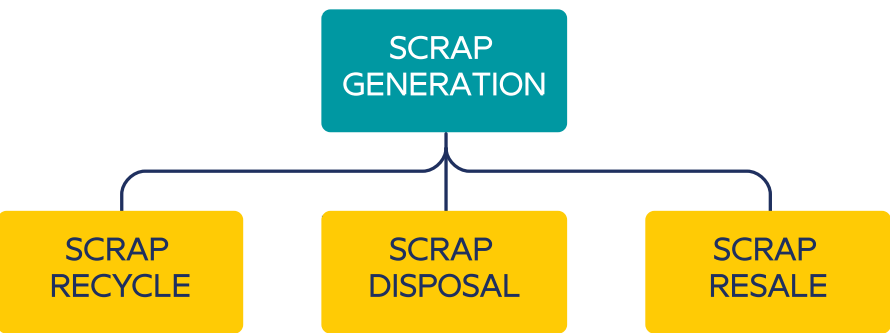
Mr. Sarang Ghodke (Pune office) brings out the key controls and the significant audit areas to be considered while conducting a scrap audit.

1.0 Introduction

Have you ever thought of how much waste is being generated in the world? The world roughly generates 2,010 million tonnes of Municipal Solid Waste (MSW) annually. Only about 55-60% of the municipal waste gets collected and out of this only 15 - 20% gets processed and recycled. As per global statistics, the waste recycling market was valued at US\$57.69 billion in 2021 and is projected to grow by 4.8 % CAGR during 2021-2030. India generates about 62 million tonnes of municipal waste along with various types of waste such as E-waste, chemical waste, industrial waste, bio-medical waste, agricultural waste, bio-degradable waste, and non-bio degradable waste, etc.

2.0 What is scrap management and why is it needed?

In general parlance, scrap is a waste that either has no economic value or only the value of its basic material content recoverable through recycling. Effective Scrap Management ensures optimum utilisation of the scrap materials which would otherwise be discarded. However, a major concern of the scrap industry is that most of the business in the scrap market, especially in the steel market, is carried out by firms in the unorganised sector, where dealings are mostly in cash, and hence keeping a track of transactions is difficult. The scrap management process can be elaborated as below:



Especially all the manufacturing companies pay close attention to their scrap rate, as this affects their profits. Although they do not intend or plan to generate scrap but depending on the industry and the product, scrap is produced. Generally, manufacturers consider excess scrap generated during production as part of the cost of carrying business. As a result, many of them fail to implement a proper process that can minimise the amount of scrap generated. Measuring the amount of scrap generated in the form of discarded materials and reworks will help to benchmark the effectiveness of the production process.





### 3.0 Key controls to be checked while doing scrap audit

To ensure better scrap management, the following controls need to be strengthened:

1. Ensure that a separate space/scrap yard is reserved for keeping the scrap material. The scrap yard should be properly enclosed and secured.
2. Ensure that scrap should be segregated as per its type.
3. Ensure that proper weighing/measurement of scrap at the scrap generation point(s) is done.
4. Ensure that a proper record of receipts, issues, opening, and closing balances quantity of each item of scrap is kept in the scrap yard. It should be ensured that the entries in respect of receipts and issues in the Scrap Register are made based on generation slips.
5. Periodic physical verification of scrap stock in the scrap yard should take place and ensure that the physical quantity is tallied with the book quantity. The discrepancies, if any, should be reported.

### 4.0 Significant audit areas

#### a. Mechanism for scrap generation

For proper management of scrap, an appropriate policy should be drafted for scrap generation and disposal. The policy should be approved and authorised by designated personnel. Periodic inspection should be conducted by authorised officers to ensure adherence to prescribed policy. Scrap is generally availed during or at the end of the manufacturing process. The causes for scrap generation may include order mistakes, poor quality of raw materials, machinery or operational issues, inefficient procedures, errors in communication, etc. Organisations shall adhere to the prescribed percentage for scrap generation as per industry standards to ensure the effectiveness of the production process.

Scrap should be segregated from a normal inventory which is held for sale in the scrap yards. Scrap yards, being the most crucial aspect of scrap management, need to be properly verified. Scrap yards should be able to accommodate the amount of scrap generated. Scrapped material should be properly labeled and stored in secured premises to prevent theft risk. Access to only authorised personnel in the scrap yard needs to be ensured.

#### b. Mechanism for scrap recycling, disposal and resale

An organisation should define Standard Operating Procedure (SOP) for scrap recycling and disposal as it has multifold effects on the organisation and the environment. From the recycling industry's point of view, crushing of scrap is a process that needs to be focused on wherein the machinery being used for this purpose should be

of optimal capacity to crush the scrap put in the machinery to serve its ultimate purpose. Similarly, the steel industry needs recycled scrap to produce new steel. The steel manufacturers ensure that all steel products contain anywhere between 25% to 100% recycled content. It is also cheaper to recycle steel than to mine virgin ore to manufacture new steel. However, new ore is still mined to supplement the production of steel and steel products.

The primary responsibility of scrap disposal rests with purchase department followed by the operations and stores department. Scrap sale is considered a secondary source of revenue in various industries such as construction and demolition, shipbuilding, automobile, etc. Waste to be disposed of should be properly segregated from recyclable waste to avoid leakage of potential revenue. Proper approval and authorisation for the selection of scrap recyclers or scrap disposal vendors by designated personnel should be verified.

Apart from scrap recycling and disposal, scrap resale should be equally emphasised as most companies prefer to sell their scrap by way of an auction/bidding process. Bidding plays a major role in deciding the demand and price of a particular item to be sold out. It is a process of buying and selling goods by allowing people to bid and the item will be sold to the highest bidder.

### c. Mechanism for weighment of scrap

In every industry, weighbridges have become indispensable tools for the process of waste management and the recycling industry. Outdated weighing systems do not provide businesses with accurate and precise weight per unit of waste products. Weighing scales for waste management helps vehicle drivers by ensuring that they are operating the vehicle under an authorised limit of loads. Any situation which involves overloading can turn dangerous and can potentially harm the public.

Weighing slips or scrap scale tickets should be verified to ensure accurate measurement of the weight of scrap material. To get the weight of the scrap, the tare weight of the vehicle itself should be subtracted from the total weight of the vehicle. Scrap sale invoices should be reconciled with weighment slips to verify the weight of scrap. The scrap rates should be in line with industry standards.

### d. Compliance with laws, regulations, and prescribed norms

Nowadays, the rules and regulations regarding waste management and environmental protection have become more stringent. Any non-compliance of the same would attract rigorous consequences. According to the Environment (Protection) Act, 1986 and The Plastic Waste Management Rules, 2016, the waste generators shall have to segregate plastic waste at the source and hand it over to registered waste collection agencies, recyclers, or urban local bodies. The Bio-Medical Waste (Management and Handling) Rules, 2016 assert that no untreated bio-medical waste shall be kept stored beyond a period of 48 hours. Non-compliance with the same attracts imprisonment for a term extending up to 5 years or a fine upto INR 1,00,000 or both.

As per E-Waste (Management and Handling) Rules, 2011, the e-waste generators need to ensure that the

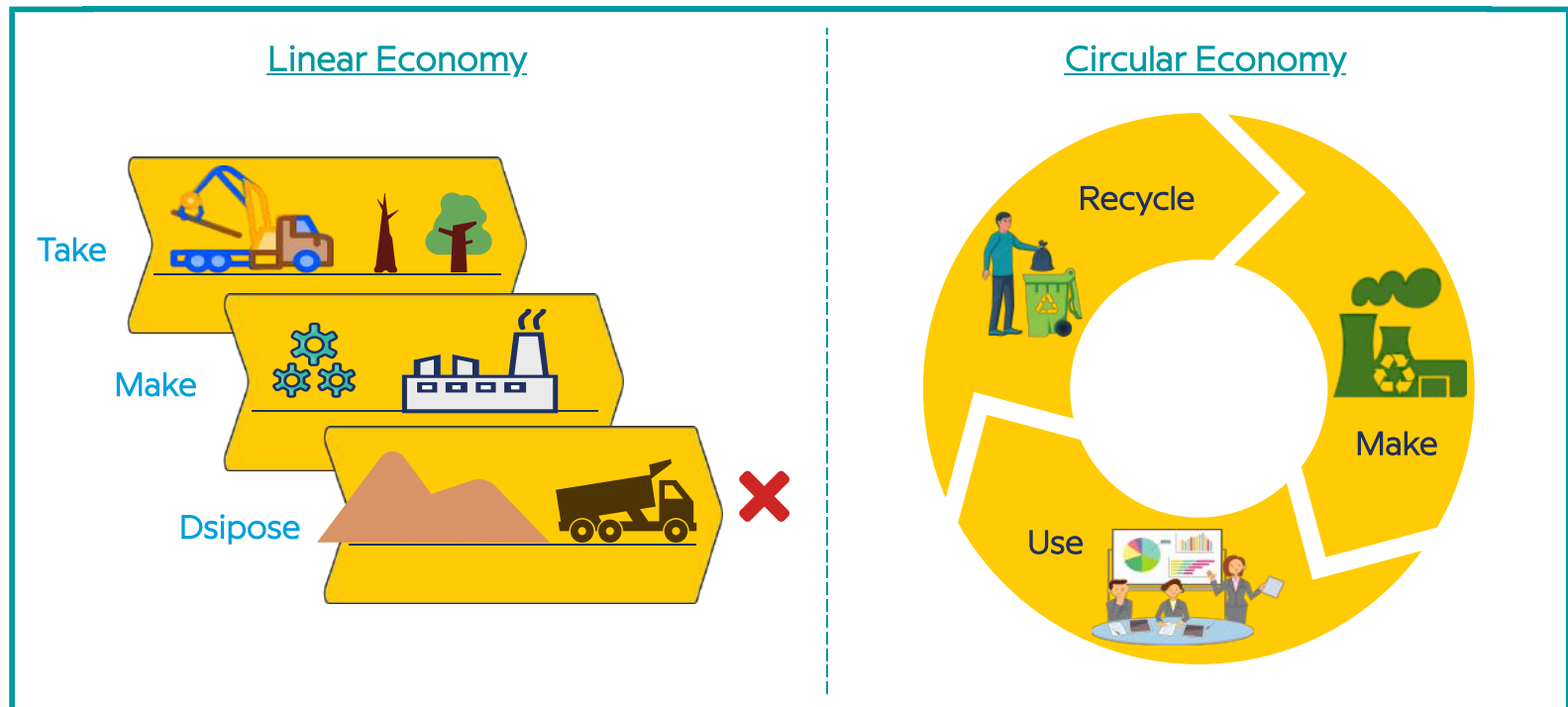
# GRC | Scrap industry: internal audit perspective

e-waste generated is channelised to authorised collection centers or registered dismantlers. As per Batteries (Management and Handling) Rules, 2001, every establishment that uses or recycles batteries must ensure that such batteries are not disposed of in any manner other than by depositing with the dealer / manufacturer / registered recycler / re-conditioner. Any non-compliance with the same leads to imprisonment for a term extending up to 5 years or a fine upto INR 1,00,000 or both.

As per section 206C of the Income-tax Act, 1961, the seller (originator) of scrap shall collect 1% tax at source on scrap or waste arising from the manufacture or mechanical working of materials which is not usable because of breakage, cutting up, wear and tear or other reasons. Seller of scrap should collect tax at source when he sells scrap or receives any payment towards sale for such scrap, whichever is earlier.

## 5.0 The way forward

Scrap management, being a vital process in every industry, need to be given prime importance as it can be a differentiating factor over the competitors for the availability of quality raw material. Streamlining the processes that generate the most scrap will reduce the overall cost of production.



As global material consumption is expected to rise substantially in the coming years, recycling offers a viable and sustainable domestic option for meeting the country’s growing material demand. Thus, a transition is imminent to raise the quality of economic growth from the depletive ‘take-make-dispose’ led linear economy to a ‘make-use-recycle’ led circular economy which is more promising.



# Taxation

## **GST implications of rented residential house property**

Before 18 July 2022, a person renting out a residential house property for residential purposes was exempted from GST. With effect from 18 July 2022, any residential dwelling rented out to a registered person attracts GST. Mr. Shouvik Roy (Mumbai office) explains the taxability under the present GST provisions emerging from this amendment.





# Taxation | GST implications of rented residential house property

## 1.0 Background

The Goods and Services Tax council ('GST'), in its 47th meeting on 28th & 29th June 2022 recommended the Government to impose GST on renting out a residential dwelling to a GST registered person ('RTP'). Accordingly, the Finance Ministry passed notification to that effect, making such services taxable from 18 July 2022.

Before 18 July 2022, a person renting out a residential house property for residential purposes was exempted from GST as per notification No 12/2017-C.T. dated 28 June 2017. This exemption was removed as per the recommendations of the 47th GST Council meeting. Accordingly, the Central Board of Indirect Taxes and Customs ('CBIC') issued notification no. 4/2022-Central Tax (Rate), dated 13 July 2022 to withdraw the exemption with effect from 18 July 2022.

## 2.0 Summary of the taxability under old vs. new provisions

Taxability upto 17 July 2022	Services by way of renting of residential dwelling for use as residence.
Taxability from 18 July 2022	Services by way of renting of residential dwelling for use as residence <i>except where the residential dwelling is rented to a registered person.</i>

Further, the new notification dated 18 July 2022 provides that, if a residential property owner (landlord) is unregistered under the GST law, but has given such residential property to an RTP for residential accommodation, the tenant/licensee (service recipient) is liable to pay GST @18% under reverse charge mechanism (RCM). RCM means the service recipient is responsible for paying the GST, and not the service provider.

## 3.0 New tax implications in common situations

Sr. No	Situation	Taxability
1.	Landlord is an unregistered person (URP). Licensee/tenant who uses the rented property for his residence is also a URP.	No GST is applicable. The earlier exemption is still valid as the service recipient/tenant is URP.
2.	Landlord is an URP Licensee/tenant is an RTP	Licensee/tenant pays GST @18% under RCM.  However, if the tenant is using the property for his personal use, then he cannot claim input tax credit (ITC) for the GST paid, as the same is blocked credit as 'personal expenditure' under section 17(5)(g) of the CGST Act.

## Taxation | GST implications of rented residential house property

Sr. No	Situation	Taxability
3.	When a company (RTP) takes a residential house property on rent, in its name for use of residence of its employees it will be considered as an item of business expenditure.	GST will be paid @18% under RCM by the company and it will be eligible to claim ITC being business expenditure (and not personal expenditure; hence not Blocked Credit under section 17(5)(g) of CGST Act).
4.	Person having GST registration under the Composition Scheme, i.e., (section 10) of CGST Act takes on rent a residential house property for residence.	GST will be paid under RCM but the licensee/tenant is not eligible to claim ITC. However, the rent will be considered as an item of business expenditure.
5.	An individual/proprietary concern being an RTP takes on rent, a residential house property for his/her residence or the family.	GST will be paid under RCM but the ITC of the GST tax paid under RCM cannot be claimed by the licensee/tenant (blocked credit as discussed above). The rent will be considered as personal expenditure and not the business expenditure of the individual/proprietary concern.
6.	When a company, being an RTP takes a residential property on rent in its name to be used by its director/(s) for their residential purpose.	The company is liable to pay GST @18% under RCM, vide notification no. 4/2022 and 5/2022, but it can also claim ITC on the GST paid under RCM, as taking residential accommodation for its directors, is a business expenditure for the company.

### 4.0 Property given on rent for commercial use/commercial property

It may be noted that no exemption was ever available for property given on rent for commercial purposes or commercial use. In such cases, as in the past, the landlord or service provider has to pay GST @18% on forward charge basis, if he is otherwise liable to take GST registration under section 22, as having crossed the threshold limit (INR 20 lakh of aggregate turnover for intra-state supplies, and any amount for inter-state supplies).

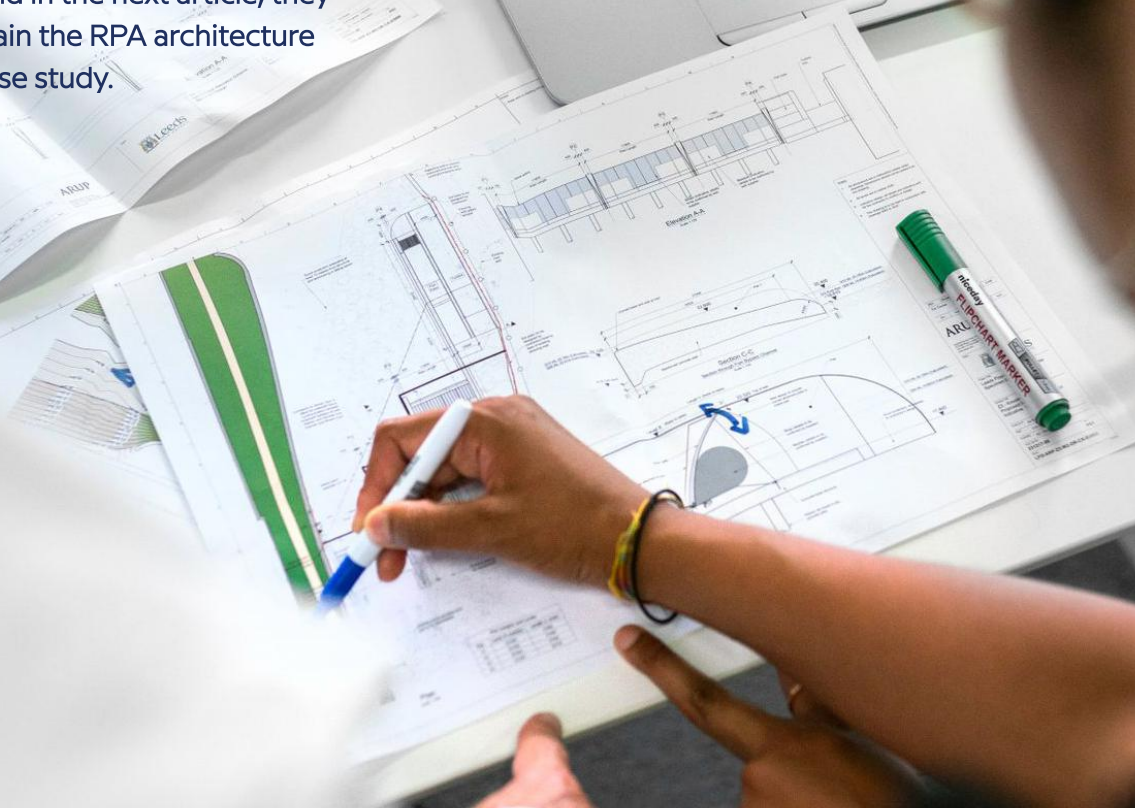




# Consulting

## What is robotic process automation?

Robotics process automation (RPA) is an application of technology that aims at automating business processes using business logic and structured inputs with RPA tools. Mr. Khushal Makani, Mr. Shivam Chaturvedi and Mr. Prajot Chandekar (Baroda office) bring out to you the basics of RPA. This will be a series and in the next article, they will explain the RPA architecture and a case study.



## 1.0 What is robotic process automation?

Robotics process automation (RPA) is an application of technology that aims at automating the business processes using business logic and structured inputs with RPA tools. With RPA, organisations can develop software or “robot”, to capture and interpret applications for transaction processing, triggering responses, manipulating data or communicating with other digital systems. Be it generating an automatic response to an email or deploying thousands of bots, each automation program can be achieved through RPA.

In simple terms, RPA helps to relieve humans from their monotonous, repetitive actions by introducing a digital workforce to perform the same set of steps without human intervention.

## 2.0 Evolution of RPA

The term RPA was coined in 2012. It gained popularity in 2018 when companies undertook digital transformation and RPA platform capabilities improved, resulting in the fastest growing categories in enterprise application automation.

## 3.0 Where is RPA commonly used?

Below given are some of the top applications of RPA:

- **Financial services:** Account opening and closures, processing insurance claims, managing audit requests and foreign exchange payments.
- **Healthcare:** Insurance claims, customer support, handling patient records, accounts management, billing, reporting and analytics.
- **Supply chain management:** Automating order processing and payments, tracking inventory levels and shipments.
- **Accounting:** General accounting, operational accounting, budgeting and transactional reporting.
- **Customer service:** Automating contact centre operations, including verifying e-signatures, uploading documents and verifying information for automatic approvals or rejections.
- **Telecommunication:** First call resolution, customer onboarding/offboarding, data transformation or manipulation, sales order processing.

RPA bots are majorly low-cost and easy to deploy without any deep systems integration. These qualities are essential as organisations pursue growth without increasing major costs or friction.

### Few use cases of RPA in the finance and accounting sector

- Pricing comparisons from digital marketing platform.
- Sales and purchase order processing based on ‘Requester’ and ‘Approver’ mechanism.
- Collections reminders to customers and other financial debtors using e-mail.
- Journal postings for various transactions like material receipt postings, invoice booking, payment posting based on confirmations, etc.



# Consulting | What is robotic process automation?

- Incentive claims - Calculation of incentives based on predefined logic and formulae.

## 4.0 Future scope of RPA

Currently, RPA is a rule-based technology requiring development and decision-making to be incorporated, but in near future, it is set to incorporate artificial intelligence (AI) for advanced decision-making and inferencing. When RPA and AI are used and case repetitions are significant, it is possible to automate deeper cognitive thinking and decision-making.

## 5.0 Conclusion

RPA is not only growing rapidly but it is evolving. Market trends indicate how much easier it will be for businesses to expand and adapt to the RPA. RPA adoption has become simpler in the current economic state. Rapid advancements in machine learning and artificial intelligence imply that adoption of RPA tools will make process automation simple and that RPA will eventually become a key component of businesses. Consequently, the adoption of RPA by organisations becomes even simpler.



## Ahmedabad

A1/01, Safal Profitaire,  
Corporate Road, Prahalad Nagar,  
Ahmedabad 380015.  
Phone: (91) (079) 2970 2082.

## Bengaluru

103, Midford House, 1, Midford  
Gardens, M.G. road, 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. Goa  
Phone: (91) 9820284854.

## Mumbai - 1

Ravindra Annexe 194, Churchgate  
Reclamation Dinshaw Vachha Road,  
Mumbai 400 020.  
Phone: (91) (22) 2286 9900-48 / 2204 7722.

## 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) 2605 0802.

## Vadodara

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

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