

Monthly GAAP Bulletin

March 2020



Introduction

Dear Reader,

Grant Thornton in India is delighted to present 'Monthly GAAP Bulletin', a bulletin that summarises significant accounting, auditing and related updates. This publication has been compiled to meet the needs of dynamic Indian businesses and focuses on key developments in India and across the globe.

To access the source of information and complete details, you can click the hyperlinked text below each update.

We would be pleased to receive your valuable feedback. Please write to us at npsg@in.gt.com with your comments, questions or suggestions.

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a. Accounting updates

1. Educational Material on Indian Accounting Standard (Ind AS) 20, Accounting for Government Grants and Disclosure of Government Assistance

Ind AS Implementation Committee of the Institute of Chartered Accountants of India (ICAI) has issued Educational Material on **Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance**, with the purpose of providing guidance to the stakeholders and to reporting entities in accounting and disclosure of various government grants and assistances received, by way of frequently asked questions and illustrations, explaining the principles enunciated in Ind AS 20.

The Educational Material also includes major differences between Ind AS 20 and AS 12, **Accounting for Government Grants**, and between Ind AS 20 and International Accounting Standard 20, **Accounting for Government Grants and Disclosure of Government Assistance**.

Click [here](#) for announcement.

Click [here](#) for Educational Material.

b. Auditing updates

1. Companies (Auditor's Report) Order (CARO), 2020

The Ministry of Corporate Affairs (MCA) has issued CARO 2020 on 25 February 2020 that supersedes CARO 2016. CARO 2020 comprises 21 clauses as against 16 clauses included in CARO 2016, resulting in substantial increase in the scope of reporting by the auditor.

There is no change in the class of companies covered by the requirements of CARO.

New reporting requirements:

- Where any qualification/adverse remarks are given by the component auditor in CARO reports of such component included in consolidated financial statements; the auditor should include details of such companies and the paragraph numbers of the CARO report containing the qualification/adverse remarks.
- Reporting on whether any transactions not recorded in books of account have been surrendered/disclosed as income during the year in tax assessments under the Income-Tax Act, if so, whether the previously unrecorded income has been properly recorded in the books of account during the year.
- In case of resignation by the previous statutory auditor, reporting on whether the auditor has considered the issues, objections or concerns raised by the outgoing auditor.
- Reporting whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that the company is capable of meeting its liabilities existing at the date of balance sheet, as and when they fall due,

within a period of one year from the balance sheet date.

- In respect of fund towards corporate social responsibility, whether any amount remaining unspent under the Section 135(5) of the Companies Act, 2013 (the Act), pursuant to any ongoing project, has been transferred to special account in compliance with the provision of section 135(6) of the Act. Further, whether, in respect of other than ongoing projects, the company has transferred unspent amount to a fund specified in Schedule VII to the Act within a period of six months of the expiry of the financial year (FY), in compliance with second proviso to section 135(5) of the Act.

Reporting requirements re-introduced from CARO 2015/ CARO 2003:

- Reporting on whether the company has an internal audit function that is appropriate for the size and nature of its business.
- Reporting on cash losses incurred in the FY and the preceding FY.
- Reporting on whether any funds raised on a short-term basis by the company has been used for long-term purposes.

Additional reporting requirements in respect of existing clauses of CARO 2016

- Reporting on details regarding revaluation of property, plant and equipment (including right of use assets) and/or intangible assets and whether the revaluation is based on the valuation by a registered valuer.
- The auditor need to specify the amount of change, if change is 10% or more in the aggregate of the net

carrying value of each class of property, plant and equipment or intangible assets.

- Whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements.
- Reporting on whether the company has been sanctioned working capital limits in excess of INR 5 crore from banks or financial institutions on the basis of security of current assets and if yes, whether the quarterly returns/statements filed by the company with banks or financial institutions are in agreement with the books of accounts.
- In the context of reporting on default in repayment of loans or other borrowings to any lender, additional requirements relating to declaration as a willful defaulter, diversion of funds for purposes other than for which they were obtained, details of funds obtained for meeting the obligations of its subsidiaries, joint ventures or associates and whether the company has raised loan on the pledge of securities held in its subsidiaries, joint ventures or associates.
- In case of fraud reporting, additional disclosure is now required about whether any reporting was done under the Section 143(12) to the central government and whether whistle-blower complaints, if any, received by the company were considered by the auditor.
- Apart from loans given by the company, reporting is

now required for investments made and guarantees and securities extended by the company. Further additional reporting is now required with respect to extensions or renewals of loans that were due during the year, or new loans granted to repay existing loans and loans granted that are either repayable on demand or without specifying any terms or period of repayment. Specific reporting of loans granted to promoters and related parties has also been included. Further, reference for 'parties covered under the Section 189 of the Companies Act' has been removed.

Reporting no longer required:

- Reporting on managerial remuneration under the Section 197 of the Act has been removed.

CARO 2020 has come into force on 29 February 2020 and hence is applicable for audit of financial statements of every company under the Section 143 of the Act, to which this order applies, for the FY commencing on or after 1 April 2019.

Click [here](#) for CARO 2020.

Click [here](#) for detailed alert on CARO 2020.

2. Guidance Note on audit of banks

The ICAI has issued a Guidance Note on Audit of Banks 2020 edition (Guidance Note) for Statutory Audit of Banks/Bank Branches for the year ending 31 March 2020. The Guidance Note is bifurcated into following two sections:

- Section A - Statutory Central Audit
- Section B - Bank Branch Audit

The Guidance Note also contains illustrative formats of engagement letter, auditor's report, management representation letter, and texts of relevant master directions and circulars issued by the Reserve Bank of India (RBI).

Click [here](#) for Guidance Note.

c. Regulatory updates Companies Act updates

1. Companies (Compromises, Arrangements and Amalgamations) Amendment Rules, 2020

The MCA has issued Companies (Compromises, Arrangements and Amalgamations) Rules, 2020, introducing provisions regarding acquisition of minority stockholders by majority shareholders, who together hold not less than three-fourths of the shares in the company.

It further provides that such application to the National Company Law Tribunal (NCLT) can be made for any part of the shares held by the minority stockholders and such application for takeover offer should also contain the following:

- Report of a registered valuer disclosing the details of the valuation of the shares proposed to be acquired by the majority shareholders, after taking into account following factors:
 - the highest price paid by any person or group of persons for acquisition of shares during the last 12 months
 - the fair price of shares of the company to be determined by the registered valuer after taking into account valuation parameters, including return on net worth, book value of shares, earnings per share, price earning multiple vis-à-vis the industry average, such other parameters as are customary for valuation of shares of such companies.

- Details of a bank account (opened separately) by the members, wherein a sum of amount not less than one-half of the total consideration of the takeover offer is deposited.

These amended rules have come into effect on 7 February 2020.

Click [here](#) for amended rules.

2. MCA circular for filing of various forms in the Registry (MCA-21) by Insolvency Professional (IP) appointed under the Insolvency and Bankruptcy Code (IBC)

The MCA vide its circular dated 17 February 2020 has clarified the procedure of filing the documents in the MCA-21 registry where an Interim Resolution Professional/Resolution Professional/Liquidator (IP) has been appointed under the IBC in respect of a company.

It is clarified that following procedures will be followed in such cases:

- The IP will have to first file NCLT order approving him as the IP in form INC-28 on the MCA-21 portal by selecting the option 'others'. After filing the form, the IP while affixing his digital signature certificate, will choose his designation as 'others' in the declaration box.
- Jurisdictional registrar of companies will thereafter examine and approve the form INC-28 so filed, if the same is found to be in order. If the filed form is not in order, he will mark the form under re-submission/rejected category, as applicable. Once the form INC-28 is approved, only the IP will be allowed to file any form on behalf of the company. For all subsequent filings, the IP will choose his designation as the Chief Executive Officer (CEO).
- Master data of the company will, after the approval of form INC-28, clearly display that the said company is under Corporate Insolvency Resolution Process (CIRP) or liquidation, as the case may be, and the name of the IP so

appointed will be displayed in the CEO column.

- The IP will be responsible and able to file all necessary documents/disclosures/returns for the purposes of compliances under the Act.
- For filing e-forms SH-8 and SH-9 and iXBRL, the IP will be allowed to file the same as a CEO instead of the form being signed by two Directors.
- In respect of e-form MGT-7, the IP will sign the form instead of a Director, and thereafter the form will have to be certified by a company secretary in practice.
- It has been further clarified that in case the order of admission of a company (corporate debtor) into CIRP or into liquidation is stayed or set aside by the NCLT or National Company Law Appellate Tribunal or other courts, such order is required to be filed in form INC-28 by the concerned IP, and the status of the company and the authorisation for filing of forms on behalf of company will then change accordingly.

Click [here](#) for the circular.



Other regulatory updates

1. Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Projects under Implementation

The RBI on 6 April 2015 had issued **Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances** - projects under implementation - change in ownership.

Click [here](#) for notification dated 6 April 2015.

In order to harmonise the guidelines for deferment of date of commencement of commercial operations (DCCO) for projects in non-infrastructure and commercial real estate (CRE) sectors, the RBI has issued a notification dated 7 February 2020, making various revisions, including the following:

- Revision of DCCO and consequential shift in repayment schedule for equal or shorter duration will not be treated as restructuring, provided that the revision meets the conditions specified in the notification;
- In case of CRE, the projects delayed for reasons beyond the control of promoter(s), banks may restructure them by way of revision of DCCO up to another one year and retain the 'standard' asset classification, if the account continues to be serviced as per the revised terms and conditions under the restructuring.

Click [here](#) for notification.

2. Micro, small and medium enterprises (MSME) sector - restructuring of advances

The RBI vide its notification dated 1 January 2019 had decided to permit a one-time restructuring of existing loans to MSMEs, classified as 'standard', without a downgrade in the asset classification, subject to specified conditions. Such restructuring was allowed on or before **31 March 2020**.

Click [here](#) for circular.

The RBI has now issued a notification on 11 February 2020, extending the one-time restructuring of existing loans to MSMEs classified as 'Standard' without a downgrade in the asset classification, subject to the following conditions:

- The aggregate exposure, including non-fund based facilities of banks and non-banking financial companies (NBFCs) to the borrower, does not exceed INR 25 crore as on 1 January 2020.
- The borrower's account was in default but was a standard asset as on 1 January 2020 and continues to be classified as a standard asset till the date of implementation of the restructuring.
- The restructuring of the borrower account is implemented on or before 31 December 2020.
- The borrowing entity is Goods and Services Tax (GST)-

registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This will be determined on the basis of exemption limit applicable as on 1 January 2020.

Further, it has been clarified that, accounts that have already been restructured in terms of the circular dated 1 January 2019 are ineligible for restructuring under this amended circular.

Click [here](#) for circular dated 11 February 2020.



B. India updates - Proposed

a. Regulatory updates

a. Regulatory updates Companies Act updates

1. Consultation paper to examine existing provisions of law and to make suitable amendments to enhance audit independence and accountability

The MCA vide its notice dated 6 February 2020 has invited comments on the consultation paper to examine the existing provisions of law and make suitable amendments therein to enhance audit independence and accountability.

Comments are invited on, inter alia, the following suggestions to overcome the situations, which have worsened the independency of the auditors:

- To remove the self-interest threat
 - Prohibition of providing non-audit services
 - Fee based on reasonable estimates of time and expertise required
 - Stringent independence guidelines and monitoring by firms
- To remove the self-review threat
 - Stringent quality review procedures within firms
 - Prohibition of retired partners joining clients within cooling period
 - Prohibition of providing certain assurance engagements for client

- To remove the advocacy threat
 - Prohibition of business relationships
 - Strict rules on promoting clients
 - Rotation of audit partners
- To remove the familiarity threat
 - Restriction of personal relationships
 - Rotation of audit partners and possibly senior auditors
 - Disclosure of commission and other relationships
- To remove the intimidation threat
 - Appointment of auditors by external authorities like Comptroller and Auditor General

In addition to the above mentioned points, following are certain other important points on which suggestions have been invited:

- Economic concentration of audit - beneficent and maleficent effect on economy:
 - What are the way outs to remove such economic concentration of audit?
 - Whether number of audits under one audit firm be reduced or fixed?
 - Whether the number of partners under one audit firm can be reduced or fixed?

- Have the auditors in listed companies been appointed from a separate panel of auditors prepared by National Financial Reporting Authority?
- Whether the home-grown Indian audit firms are equipped with the audit procedures, audit tools, manpower capacity to handle the audit of large organisations?
- Non-audit services not to be taken by an auditor:
 - Suggestions are invited as to what more non-audit services can be included in the list.
- Joint audit - should it be made mandatory for bigger companies?
- Mandatory comment of holding company's auditor on account of subsidiary company:
 - Considering the fact that layering of subsidiaries has been lessened, whether the holding company's auditor must also review the working papers of auditor of subsidiary and make mandatory comment on the account of subsidiary companies.
- Will an unlisted company whose parent company is a listed company also be required to submit quarterly returns to Securities and Exchange Board of India (SEBI)?
- Development of a 'Composite Audit Quality Index' to improve accountability of auditors and audit firm:

- In order to increase the quality of audit and have an objective mechanism to ascertain the quality, suggestions are invited on what qualitative and quantitative parameters should be included in such an index, how they should be measured, and which all companies should this be mandated for.
- Resignation of auditors:
 - Suggestions are invited as to whether the conditions as laid down by the ICAI and the SEBI for auditors of listed companies should also be made mandatory for the auditors of other companies/bigger companies.

Last date for submission of comments/suggestions was earlier 28 February 2020. In response to requests received from various stakeholders, the MCA extended the last date for submission of public comments on the consultation paper to 15 March 2020.

Click [here](#) for notice and consultation paper.

SEBI updates

1. Consultation paper on Review of the Regulatory Framework for Corporate Bonds and Debenture Trustees

The SEBI has issued consultation paper on Review of the Regulatory Framework for Corporate Bonds and Debenture Trustee (DT) with the proposals in respect of the following topics, which are expected to strengthen the regulatory framework for corporate bonds, secure the interest of the debenture holders, enhance the role of the DTs and empower them to effectively discharge their responsibilities towards the debenture holders of listed debt issues/proposed to be listed debt issues:

- Creation of identified charge by the non-banking financial company (NBFCs)
- Enhanced due diligence of identified assets and granular asset cover certificate
- Calling of Event of Default at International Securities Identification Number level
- Mechanism/conditions of joining Inter-Creditor Agreement
- Voting mechanism
- Creation of a recovery fund
- Minimum disclosures on the website by DTs
- Disclosures regarding performance of DTs

- Public disclosure of all covenants by the issuer in Investment Memorandum
- Standardisation of Debenture Trust Deed
- Enhanced disclosures
- A framework for imposing fines and Standard Operating Procedure for the same

Last date for submission of suggestions is 17 March 2020.

Click [here](#) for consultation paper.



C. International updates – Proposed

a. IFRS updates

a. IFRS updates

1. Global Public Policy Committee (GPPC) issues implementation considerations for International Financial Reporting Standards (IFRS) 17

The GPPC has issued two papers to assist those charged with governance to fulfil their responsibilities with respect to an effective implementation of IFRS 17, Insurance Contracts.

- The **first paper, Implementation of IFRS 17 Insurance Contracts: Considerations for those charged with governance**, can help those charged with governance to evaluate management's progress towards implementation and assess their external auditors' general readiness to audit the context of IFRS 17.
- The **second paper, Implementation of IFRS 17 Insurance Contracts: Companion document on key judgements and accounting policy choices**, is a companion document to the first paper and should be read in conjunction with that paper. This paper focuses on key judgements and accounting policy choices faced by insurers related to the adoption of IFRS 17.

Click [here](#) for first paper.

Click [here](#) for second paper.



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