The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

Bengaluru Branch (SIRC) e-Newsletter

English Monthly
For Private circulation only

Volume 13 | Issue 7 | February 2025 | Pages : 18

UNION BUDGET 2025

JNANA PRAVARTANAM
Navigating this Journey with Compass of Knowledge

CPE MEETINGS

- Awareness programme
  Analysis of Union Budget 2025
  3rd February 2025
- Half a Day Seminar on
  Direct & In-Direct Taxes
  at Tumkur
  8th February 2025
- Clause by Clause Discussion
  Direct Taxes
  14th February 2025
- Half a Day Seminar on
  Direct Tax
  at Tumkur
  22nd February 2025
- Study Circle Meeting
  Global Taxation of Individuals: Residency, Foreign Income & Cross-Border Taxation
  5th February 2025
- Study Circle Meeting
  GST – Few Case Studies
  12th February 2025
- Study Circle Meeting
  19th February 2025
- Study Circle Meeting
  26th February 2025

Dear Professional Colleagues,

As I prepare to conclude my tenure as Chairman of the ICAI Bengaluru Branch (SIRC), I am filled with immense pride and gratitude. This journey has been nothing short of transformative, marked by significant milestones that reflect the collective excellence of our professional community.

The crowning achievement of our branch this year is the **First Best Branch SICASA Award in the Mega Category at the All India Level**, which was presented at the prestigious recognition during the World Forum of Accountants (WOFA) is a testament to the exceptional dedication and collaborative spirit of our entire team.

Our branch has been a beacon of professional development, conducting an impressive more than **9**0 CPE Programs from 19th February 2024 to 31st January 2025. These programs was benefited by 17,000 participants across various formats. Also, we have covered 148 Career Counselling Programs in various schools and colleges, 25,284 number of students motivated in the Career Counselling to join the course.

The breadth and depth of these programs reflect our commitment to continuous learning, particularly in navigating the complex landscape of technological transformation in our profession. We have consistently focused on keeping our Members abreast of critical amendments, technological advancements, and the revolutionary impact of AI in professional services.

As I transition to my newer role within the Southern India Regional Council (SIRC), I want to assure all Members that my commitment to our professional community remains steadfast. While my official capacity as Branch Chairman concludes, I remain accessible and eager to support our Members. I encourage you to continue reaching out to me, and I will endeavor to provide guidance, support, and assistance to the best of my abilities. Our professional journey is a collaborative path, and my dedication to our shared growth transcends organizational boundaries.

The branch elections held on 25th January 2025 for the term 2025-2029 mark another significant milestone. I congratulate the Newly elected Managing Committee and look forward to the fresh perspectives and innovative strategies they will bring to our professional ecosystem.

As one among the youngest Chairman of this vibrant branch, I have been privileged to serve during a pivotal moment in our profession's evolution. This journey has been a profound learning experience, shaped by the wisdom of my predecessors, the support of my colleagues, and the dynamic spirit of our Members.

I extend my deepest gratitude to:

- CA. Ranjeet Kumar Agarwal & CA. Charanjot Singh Nanda, President & Vice-President of ICAI.
- CA. B.P. Rao & CA. K. Raghu, Past President's of ICAI, CA. Cotha S Srinivas, Central Council Member & CA. Geetha A B, Chairperson, SIRC of ICAI, Regional Council Member, Past Central Council Members & Regional Council Members and Past Chairmen of Bengaluru Branch (SIRC).
- My Dear Fellow Managing Committee Members – CA. Hallur Manjunath Mahanthappa, Vice Chairman, CA. Kavitha Paramesh, Secretary, CA. Tuppad Virupaksahappa Muppanna, Treasurer, CA. Shripad Hulgol Narayan, SICASA Chairman, CA. Chandra Prakash Jain T, Member, CA. Rejo J Johnson, CA. Srinivasa T, Past Chairman and CA. Divya S, Immediate Past Chairperson.
- All Speakers, Guest faculty, and Resource persons who enriched our professional discourse
- The dedicated Staff of our branch

While I step down from this official role, my commitment to our profession remains unwavering. As I always believe, this is not a 'goodbye', but a 'see you later' – a transition that celebrates continuity, growth, and collective achievement.

With humility, dedication, and profound respect,

CA. Pramod R Hegde
Chairman
ICAI - Bengaluru Branch (SIRC)

CALENDAR OF EVENTS
CPE MEETINGS FOR THE MONTH OF FEBRUARY 2025

DATE AND DAY	TOPIC / SPEAKER	TIME	STRUCTURED CPE CREDIT
03.02.2025 Monday	Awareness programme - **Analysis of Union Budget 2025** *Organized by :* Bengaluru Branch (SIRC) Delegate Fees: **Members – Rs.100/-** Plus GST **Moderators:** **CA. T. V. Mohandas Pai** *Chairman, Manipal Global Education Services Pvt. Ltd* **CA. H. Padamchand Khincha** *A leading Direct Taxes Consultant, Bangalore* **Panelists:** **Dr. M. Govinda Rao** *Chairman, Karnataka Regional Imbalances Redressal Committee* **Mr. S. S. Naganand** *Senior Advocate* **Mr. Saurabh Mukherjea** *Founder and Chief Investment Officer of Marcellus*	Dr. B.R. Ambedkar Bhawan, Vasanthnagar, Bangalore 5.00 pm to 8.00 pm	3 hrs
05.02.2025 Wednesday	Study Circle Meeting **Global Taxation of Individuals: Residency, Foreign Income & Cross-Border Taxation** **Key Coverage Areas:** ❖ Tax residency rules under FEMA & Income Tax Act ❖ Foreign income taxation for Indian residents & NRIs ❖ DTAA benefits and foreign tax credit (FTC) ❖ Taxation of remote work & digital nomads **CA. S. Krishnan** Delegate Fees: **Members – Rs.200/-** Plus GST	ICAI Bhawan, Vasanthnagar, Bengaluru 6.00 pm to 8.00 pm	2 hrs
08.02.2025 Saturday	Half a Day Seminar on **Direct & In-Direct Taxes** - A discussion on considerations in Direct Tax and Indirect Taxes for valuation of related party transactions **CA. Tharun Kothari & CA. Manju K** Delegate Fees: **Members – Rs.500/-** Plus GST	Tumkur District Chartered Accountants Association 10.00 am to 2.30 pm	3 hrs

CALENDAR OF EVENTS
CPE MEETINGS FOR THE MONTH OF FEBRUARY 2025

DATE AND DAY	TOPIC / SPEAKER	TIME	STRUCTURED CPE CREDIT
12.02.2025 Wednesday	Study Circle Meeting GST – Few Case Studies CA. R. Mahadev Delegate Fees: **Members – Rs.200/-** Plus GST	ICAI Bhawan, Vasanthnagar, Bengaluru 6.00 pm to 8.00 pm	2 hrs
14.02.2025 Friday	Clause by Clause Discussion – Direct Taxes CA. H. Padamchand Khincha CA. K.K. Chythanya *Organized by* : Bengaluru Branch (SIRC) Delegate Fees: **Members – Rs.1,250/-** Plus GST	Jnana Jyothi Auditorium, Palace Road, Ambedkar Veedhi, Gandhinagar, Bengaluru – 560 009. 10.00 am to 6.00 pm	6 hrs
19.02.2025 Wednesday	Study Circle Meeting To be finalized CA. Deepak Chopra Delegate Fees: **Members – Rs.200/-** Plus GST	ICAI Bhawan, Vasanthnagar, Bengaluru 6.00 pm to 8.00 pm	2 hrs
22.02.2025 Saturday	Half a Day Seminar on Direct Tax Topic - Tracing Your Way to Simplified TDS Compliance: A Practical Session on TDS Returns and Traces CA Kaushik Raj K Delegate Fees: **Members – Rs.500/-** Plus GST	Tumkur District Chartered Accountants Association 10.00 am to 2.30 pm	3 hrs
26.02.2025 Wednesday	Study Circle Meeting To be Finalized Delegate Fees: **Members – Rs.200/-** Plus GST	ICAI Bhawan, Vasanthnagar, Bengaluru 6.00 pm to 8.00 pm	2 hrs

EDITOR :
CA. PRAMOD R HEGDE

SUB EDITOR :
CA. KAVITHA PARAMESH

WHETHER A CAPITAL REDUCTION BE CONSTRUED TO BE "TRANSFER"?

CA. Neha Devendra Shah

Reduction of share capital is often resorted to by companies for internal restructuring in order to alter their capital structure. It entails reduction of issued, subscribed and paid up share capital (either equity shares or preference shares or both) of a company.

Capital reduction can be carried out in many ways. The following are the more likely situations of capital reduction:

- Capital reduction with payout, either by way of monetary consideration or consideration in kind;
- Capital reduction without payout, by setting off accumulated losses against paid up share capital; and
- Selective capital reduction for a certain class of shares, with or without payout, as above.

Companies often resorts to capital reduction in order to achieve various commercial objectives. Following are few of such scenarios:

- A company may have surplus funds and it may propose to repatriate such surplus funds to the shareholders by reducing capital, either by reducing the face value or by cancelling some shares;
- A heavily funded company may have incurred losses in the past years due to operational inefficiencies. Over a period, losses in the balance sheet gets accumulated. In such scenario, while balance in share capital and share premium account remains same, increase in accumulated losses over a period suggests erosion in the net-worth of such company. To provide a 'true and fair-picture' of the company, it becomes imperative to give effect of such erosion in net-worth of the company by way of entering into capital reduction arrangements. This can further aide in providing relief to companies in relation to statutory compliance whereby a certain threshold in share capital requires additional compliance;
- A certain class of the shareholders who have agreed to relinquish their interest in the company for a consideration (either in monetory terms or in kind) or without consideration, can take an exit in the company by way of capital reduction;
- A company proposing to provide an exit to minority shareholders in order to improve decision making efficiencies at the shareholders level may resort to capital reduction arrangement with such minority shareholders;
- A company having share capital above certain threshold may be required to carry out additional compliance. In order to reduce such compliance burden, capital reduction can turned out to be an efficient tool;
- A company planning to enter into restructuring as a part of larger group of companies or proposing to raise funds, can enter into a capital reduction arrangement to provide fair view of financial position prior to entering into such restructuring arrangements.

In order to achieve commercial objectives as above, regulatory and tax planning landscape plays a major role.

The Companies Act 2013 ('the Cos Act') provides a mechanism for a company proposing the capital reduction in 'any manner' as discussed above. As per section 66 of the Cos Act, capital reduction is required to be carried out by filling a scheme of capital reduction ('the Scheme') with the Hon'ble National Company Law Tribunal ('NCLT'). The Scheme is required to comply with section 66 of Cos Act, NCLT Rules and directives of Securities Exchange Board of India for listed companies, including that the approval from audit committee, the Board of Directors and the shareholders (by special resolution) are pre-requisites.

On the taxation front, provisions of Income Tax Act 1961 ('the ITA') provides for taxation in the hands of shareholders. The treatment for capital reduction is broadly as under:

1. The reduction of capital would first need to be examined from the perspective of deemed dividend taxation in the hands of shareholders. Amount distributed by the company on capital reduction to the extent of its "accumulated profits" is considered as deemed dividend under section 2(22)(d) of the IT Act. Thus, in a scenario where there are accumulated losses, there are no adverse dividend tax implications. The word "accumulated profits" has been referred to include all profits of the company up to the date of distribution or payment.

2. Any distribution over and above the accumulated profits, in excess of original cost of acquisition of shares is chargeable to capital gains tax in the hands of shareholders.

In this context, a question that arises is that after giving effect to the capital reduction, in a scenario where there is loss in the hands of shareholders, (either (i) a scenario where consideration provided to shareholders is less than the original cost of acquisition of shares or (ii) in a scenario where no consideration), whether such loss would be considered as capital loss, eligible to be set off against the capital gains generated from sale of any capital asset?

An illustration in this regard is as under:

Illustration 1: Company A has received INR 100 Crores (including securities premium) from various shareholders for subscription to the equity shares of Company A. Over a period of 10 years, Company A has incurred losses and accumulated losses in the balance sheet of the company is INR 90 Crores. In order to provide fair view of the balance sheet, Company A has sought to file a scheme of capital reduction with NCLT, whereby balance in accumulated losses would be set off first against balance in securities premium account and balance against paid up equity share capital account.

In this case, the tax treatment in the hands of shareholders shall be as under:

1. Dividend tax implication: There shall be no adverse dividend tax implications since there are no accumulated profits in the balance sheet of Company A.

2. Capital gains tax implications: In the absence of any distribution of consideration, there shall be no capital gains tax in the hands of shareholders. However, a question arises as to whether the reduction in fair value of shares amounting to INR 90 crores, held by shareholders in Company A will be eligible to be claimed as long term capital loss in the hands of shareholders?

In order to answer the above question, it is important to determine whether capital reduction arrangement amounts to transfer for a shareholder?

The eligibility of capital loss arising in hands of shareholder on capital reduction has been a subject matter of judicial litigations. In the past many such rulings and decisions have been passed whereby the question in relation to claim of capital loss upon capital reduction was subject matter of discussion. Summary of few of such decisions is as under:

- Mumbai Tribunal in case of Tata Sons Ltd[1] allowed capital loss arising on reduction of the share capital of a company by way of the cancellation of shares as it constitutes transfer under provisions of the IT Act. It held that such loss is not notional loss and accordingly concluded that the capital gains tax provisions will apply even if no consideration is actually payable by the company.
- Mumbai Tribunal in case of Carestream Health Inc[2] have allowed capital loss suffered by the taxpayer as a result of capital reduction undertaken by the subsidiary company.
- Mumbai Tribunal special bench in case of Bennett Coleman Co Ltd[3] disallowed the claim of capital loss arising in the event of capital reduction citing that the shareholder's percentage of shareholding immediately prior to capital reduction and post, remained unchanged. In the absence of any consideration flowing to the shareholder, Tribunal termed loss arising in the hands of shareholders as

1 Tata Sons Ltd. vs. CIT (ITA No. 3468/Mum/2016)

2 Carestream Health Inc vs DCIT (ITA No. 826/Mum/2016)

3 Bennett Coleman & Co Ltd vs ACIT [2011] 133 ITD 1

notional loss and disallowed the claim of capital loss.

Recently, one such litigation was concluded in favour of tax payer by Hon'ble Supreme Court by dismissing special leave petition filed by the tax authority. The Hon'ble Supreme Court ("SC") in the case of Jupiter Capital Pvt. Ltd.[4] ('Taxpayer') passed a judgement allowing the claim of capital loss arising in the hands of shareholders upon cancellation of equity shares held in the subsidiary company pursuant to scheme of capital reduction filed by such subsidiary company. The question of whether capital reduction by a company amounts to "transfer" in the hands of shareholders under the provisions of IT Act, was answered in affirmative. Accordingly, it was concluded that the loss arising on reduction of capital of an investee company would be eligible to be set off as capital loss.

Taxpayer is engaged in the business of investing in shares, leasing, financing and money lending. Assessee had invested 99.88% of the shareholding of Asianet News Network Pvt. Ltd ('the Subsidiary'), which is engaged in the business of telecasting news. Over the years, the Subsidiary had incurred losses, resulting in erosion of its net worth. A scheme of capital reduction for reduction of its share capital against set off of accumulated losses, was filed before the Bombay HC.

Upon Bombay HC approving the aforesaid scheme, the share of the Taxpayer were reduced to 9,988 shares from 15,33,40,900 shares. The High Court also directed the Subsidiary to pay INR 3,17,83,474 to the Taxpayer as a consideration. Pursuant to the capital reduction (set off of losses against paid up equity capital) a claim of LTCL was made by the Taxpayer.

During the assessment proceedings, the tax officer rejected such claim by holding that reduction did not result in the transfer as per section 2(47) of the IT Act. Further, it was opined that although the number of shares got reduced, yet face value as well as shareholding pattern remained the same. Consequently, the claim of LTCL was disallowed. CIT(A) upheld the order passed by tax officer. ITAT reversed the order passed by CIT(A) and on appeals before HC by revenue, HC dismissed the appeal filed by the revenue and upheld the order passed by ITAT.

SLP filed by the tax authorities before SC was dismissed and it was held that reduction of share capital shall be covered within "sale, exchange or relinquishment of the asset" in Section 2(47) the IT Act. It was held that capital loss arising on proportionate reduction in share capital of the Subsidiary company is eligible as capital loss even if the overall shareholding of the Taxpayer in the Subsidiary company remains unchanged post reduction.

Following are the key observations made by Hon'ble SC at the time of passing the above judgements:

- Section 2(47) is an inclusive definition which provides for relinquishment of an asset or extinguishment of any right therein. While, it is no doubt true that the appellant continues to remain a shareholder of the company even with the reduction of share capital but it is not possible to accept the contention that there has been no extinguishment of any part of his right as a shareholder qua the company. It is not necessary that for a capital gain to arise there must be sale of a capital asset. Sale is only one of the modes of transfer envisaged by Section 2(47) of the Act. Relinquishment of the asset or the extinguishment of any right in it, which may not amount to sale, can also be considered as a transfer and any profit or gain which arises from the transfer of a capital asset is liable to be taxed under Section 45 of the Act.
- Reference was also made to various judicial pronouncements, summary of which is as under:
    - In the case of Vania Silk Mills[5], it was observed that the expression "extinguishment of any right therein" covered every possible transaction which results in the destruction, annihilation, extinction, termination, cessation or cancellation of all or any of the bundle of rights. Assessee had extinguished its right of 15,33,40,900 shares, and in lieu thereof, received 9988 shares at Rs. 10 each along with an amount of INR 3,17,83,474.

4 PCIT vs. Jupiter Capital Pvt. Ltd. (TS-09-SC-2025) dated 2 January 2025

5 Commissioner of Income Tax v. Vania Silk Mills (P.) Ltd. reported in (1977) 107 ITR 300 (Guj)

- A Division Bench of the Gujarat High Court in the case of Jaykrishna Harivallabhdas[6] further clarified that receipt of some consideration in lieu of the extinguishment of rights is not a condition precedent for the computation of capital gains as envisaged under Section 48 of the IT Act. Mere non receipt of consideration would not lead to failure of capital gain/loss computation.

- In the case of Kartikeya V. Sarabhai[7], SC had observed that reduction of right in a capital asset would amount to 'transfer' under section 2(47) of the Act. The definition of "transfer" under the IT Act is inclusive and *inter alia*, covers relinquishment of an asset or extinguishment of any rights in capital asset. While the taxpayer continues to remain a shareholder of the company, even with the reduction of share capital, it could not be accepted that there was no extinguishment of any part of shareholder's right as a shareholder qua the company.

- Further, in the case of Anarkali Sarabhai[8], SC had held that that the reduction of share capital involves purchase of its own shares by the company, hence would amount to 'transfer' under section 2(47) of the IT Act. Similarly, upon reduction of share capital by a company, the right of the shareholder to the dividend or shareholder's share in the capital and the right to share in the distribution of the net assets upon liquidation is extinguished proportionately to the extent of reduction in the capital and such reduction clearly amounts to transfer under the IT Act.

The above landmark judgement of Supreme Court is clarificatory in nature and brings in relief to various litigation surrounding claim of capital loss in the case of capital reduction. It is a positive move towards welcoming restructurings in the form of capital reduction, whereby shareholders are not adversely affected. The Capital reduction can be considered to be an efficient tool for not only tax planning, but also for providing fair view of the net-worth of the company, especially during large group restructuring arrangements. It can also aide in reduction in compliance for companies that are turned SMEs. Further, repatriation in kind and minority exits can be facilitated through such arrangement of reduction of capital with an efficient tax planning.

[The above views are personal views of author]

The author can be reached at
nehashah0709@gmail.com

6 Commissioner of Income-Tax v. Jaykrishna Harivallabhdas (1998) 231 ITR 108 (Guj)

7 Kartikeya V. Sarabhai v. Commissioner of Income Tax (1997) 7 SCC 524 (SC)

8 Anarkali Sarabhai v. CIT (1997) 3 SCC 238 (SC)

BASICS OF AUDIT : FRAUDS AND ERRORS (SA 240)

CA. Rahul Sharma, *B.Com, FCA, MBA (Fin.), Ll.b., CAIIB*

Frauds and Errors explained – Misstatements in the financial Statements can arise from either fraud or error. Fraud is defined in SA 240 as follows :

Fraud - An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

Although fraud is also a legal concept but in accounting we are concerned with misrepresentation in financial statements. Frauds are generally committed in form of either misappropriation of assets which is called "Employee Fraud" and fraud committed by manipulation of accounts that may be referred as "Management Fraud". The term 'fraud' refers to intentional misrepresentation of financial information by one or more individuals among management, employees or third parties.

However error is not defined anywhere but in common parlance term error refers to un intentional mistake in financial information i.e. mathematical or clerical mistake, oversight or misinterpretation of facts, or unintentional misapplication of accounting policies.

Frauds Vs. Error

Errors	Frauds
Reason of occurrence is ignorance	It is made deliberately
Unplanned Activity	Planned Activity
Generally not considered an offence under law	Considered an offence under law
Can cause undue profit, loss or even no impact	These always result in loss
Very easy to detect	Difficult to identify

Fraud risk factors - Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Fraud risk factors are also defined under SA 240. The auditor shall evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present. While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud.

Examples of fraud risk factors :

- The need to meet expectations of third parties to obtain additional equity - financing may create pressure to commit fraud;
- The granting of significant bonuses if unrealistic profit targets are met may create an incentive to commit fraud; and
- A control environment that is not effective may create an opportunity to commit fraud.
- Weakness in the design of internal control system and non compliance with prescribed identified control procedures.
- Doubts regarding integrity or competence of management : If management is dominated by one person, unwanted complex corporate structure, continues failures to correct internal controls, high turnover of accounting and finance professional, not adequate staffing in accounts department, changes in legal counsel or auditors.
- Unusual pressure within an entity (e.g. need for a rising profit trend due to an ensuing public issue): Industry is declining and failures are increasing, inadequate working capital, quality of revenue is declining (Cash sales is reducing and credit sales is increasing), desperate need of book profit for survival, dependency on single product and customers and pressure to make financial statement in short time.

- Unusual transactions : Specially near the year end, transactions with related party and excessive payment for services
- Problem faced while obtaining sufficient appropriate audit evidence: inadequate record, inadequate documentation of transactions and events, difference from third party confirmation and evasive or unreasonable response to third party inquiry.

Examples of fraud risk factors in EDP environment: Inability to extract information from computer files due to lack of, or noncurrent, documentation of record contents and programs. Large number of program changes which are not documented, approved or tested. Inadequate overall balancing of computer transactions and data bases to financial record.

Responsibility of Prevention and detection of fraud: The responsibility of prevention and detection of frauds and errors rests with the management. However an auditors has to obtain a reasonable assurance that financial information is properly stated in all material respects. This implies that auditor seek reasonable assurance that auditor seek reasonable assurance that fraud and error which have a material effect on financial statements have not occurred or if, they have occurred, the effect of fraud is properly reflected in the financial information or the error is corrected. This responsibility includes the responsibility to create a culture of honest and ethical behavior.

Inherent Limitation of Audit : Since the objective of audit is to establish the true and fair view of the financial statements and not detection of frauds and errors. Further, auditor seeks to obtain persuasive rather than conclusive audit evidence and relies on selective verification (e.g. test checks), there is a possibility that some material misstatement resulting from frauds and errors may not be detected by him. The risk of non detection of misstatements for frauds is greater than risk of non detection of errors. This is because fraud usually involves acts designed to conceal it. An auditor is entitled to accept representation as truthful and records as genuine unless his examination reveals evidence to the contrary. The auditor's ability to detect frauds depends on : 1. Skillfulness of fraudster, 2. Frequency and extent of manipulation involved, degree of collusion involved, the relative size of individual amount manipulated and seniority of person involved. Non detection of management fraud is more likely than non detection of employee fraud.

What is Required from Auditor in respect of frauds (Requirements):

Professional Skepticism: He must recognize the possibility throughout the audit that a material misstatement fraud could exist. This is notwithstanding his prior experience of honesty and integrity about entity's management. Unless the auditor has "**reason to believe**" to the contrary he may accept records, documents and representations as genuine. Reason to suspect is subordinate to reason to believe and cannot be equated with reason to believe. The information received is at best allegations only which can raise suspicion in the mind of the auditors. Based on the information and evidence, an enquiry can be triggered to find out whether there is any material leading to formation of reason to believe. The auditor needs to undertake independent inquiry, due diligence to convert the information, allegation or reason to suspect in to reason to believe. The inquiry necessitates analysis of information as well as collection of additional evidences that would make him believe that the information in his possession can lead to reason to believe.

Discussion among management team: Discussion shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud. This discussion shall be notwithstanding the integrity and honesty of management.

Risk Assessment Procedure: Auditor shall make inquiries from management regarding : their assessment of risk, their process of identifying and responding to risk, management's communication in this respect to person charged with governance and employees. Similarly auditor shall also inquire internal auditors about their assessment of risk of current and probable frauds. Those in charge of governance shall also be inquired about their view on risk related with frauds.

Other requirements: Unusual or unexpected relationships identified out of analytical procedures employed – auditor shall further evaluate it may indicate fraud or error. **Evaluation of fraud risk factor (Discussed at length earlier).**

Responses to the assessed risk :

A. To the Risk of Material Misstatement due to fraud

Response to the Assessed Risk of Material Misstatement Due to Fraud Per SA 330, the auditor to determine overall responses to address the assessed risk through:

1. Assign and supervise personnel taking significant engagement responsibilities
2. Evaluate accounting policies to be indicative of fraudulent financial reporting
3. Incorporate audit procedures to be executed to include an element of unpredictability
4. Presume fraud risk in revenue recognition and management override of controls

B. To the Risk related to Management Overrides of Control

Audit Procedure Responsive to Risk Related to Management Overrides of Control : In order to mitigate the risk of management override of controls, auditor to design and perform the following Audit procedures:

Evaluation of Audit Evidence, **Auditor to follow these with respect to audit evidence:**

1. Analytical procedure performed indicates a previously unrecognised risk of material misstatement due to fraud
2. On identification of a misstatement, auditor to evaluate whether it is indicative of fraud
3. In case of fraudulent misstatement where auditor believes management is involved, then re-evaluate the response to the assessed risk
4. If unable to conclude if the financials are fraudulently misstated, then the auditor to evaluate the implications for the audit

If the fraudulent misstatement encounters auditor from continuing the audit, then the auditor shall withdraw from the audit if appropriate and report to the person who made audit appointment.

Management Representation : Shall reconsider all the representations made by the management

Communication

1. On identification of fraud or suspecting of fraud existence, then auditor has to communicate to the appropriate level of management on timely basis
2. Communicate as appropriate to those charged with governance if the suspected fraud involves management, employee performing internal control or any others.
3. Determine if the information about the fraud has to be communicated to a party outside the entity. Here the auditor's legal responsibility overrides the duty of confidentiality

Documentation

1. Significant decisions taken w.r.t susceptibility of material misstatement in financial due to fraud
2. Identified and assessed risk of material misstatement due to fraud at the financial statements level and at the assertion level
3. Overall responses to the addressed risk mentioned above
4. Audit procedures conclusion including those designed for management override of controls
5. To document communications made about the fraud to the management and others

IMPORTANCE OF ARTIFICIAL INTELLIGENCE IN THE FIELD OF DIRECT TAXATION FOR CA'S INTO PRACTICE

CA. Sunil N

Once there was a time, I was going to my grandmother house via palace ground, I was so much surprised to see a huge crowd gathered in the palace ground seems like some fair is going on, I started to have an imaginary visual treat & asked my uncle I want to see what is going on there expecting to have some shopping, snacks & play. He told me, my dear they are filing there income tax returns, there's a crowd since the due date for filing ITR has approached, I was little sad listening to my uncle and being a kid I did not understand what was that my uncle told, later I realized the importance of tax remittance to government, how tax is levied & discharged when I started my journey as a CA student.

Tax returns were filed manually before the invention of the computer, infact not only the income tax returns but all the communications were done manually in the traditional way of CA Practice, a lot of man power & time was required for filing income tax returns including drafting any responses to department. I have not experienced that era of practice without the use of computer; I started my training as an article student working in the artificial intelligence era, where in all the returns were filed online, I have witnessed a lot of changes in the style of working from the time of an article student till today as a practicing chartered accountant including as below,

> sending signed ITR verification form by speed post to income tax department replaced with E-Verification by Aadhaar OTP.

> From depositing income tax refund cheque in the bank replaced with direct credit to bank account of the assessee.

> More easy way of income tax return filing in the income tax portal itself, by logging into tax payer account.

> Faceless Assessment.

> Integrated single income tax website for easy tax remittance through UPI & multiple online payment option which saves a lot of time & energy visiting the bank.

> Easy way of TDS returns submission.

> Easy way of submitting other income tax forms and,

> Communication with clients are easier & effective in getting quick response on a real time basis with the help of mobile applications.

There is a lot of time saving, less man power requirement & more accuracy is expected with the use of artificial intelligence.

In this regard,

Artificial intelligence (AI) is a set of technologies that enable computers to perform tasks that normally require human intelligence. AI can analyze data, understand language, and make recommendation.

There are lot of applications available in the market, where only limited information needs to be filled, and it prepares ready statement of total income with more accuracy than the same is prepared manually and prepares JSON file for filing income tax return, we just need to have some good understanding of the options available in the application, we do not need to learn how the configuration of that particular application is working.

Generative artificial intelligence (generative AI, GenAI, or GAI) is a subset of artificial intelligence that uses generative models to any forms of data that are useful for chartered accountants, these includes **ChatGPT**, etc.,

It is very easy to use ChatGPT, and it is a modern GURU of chartered accountants who are new to CA practice, as it gives answers to all the questions in a simple & easily understandable language, further it saves a lot of time referring to bare act & rules.

For example to say, if we refer to section 154 of the income tax act it only has relevant provisions for rectification of the income tax return, and if we refer to section 119(2)(b) it has only relevant provision for filing condonation request for certain forms, we do not have more clear user friendly clarification in detail in the income tax act if someone has a question including as below,

> can we file rectification and file a request for section 119(2)(b) if rectification does not work,

> How many times we can file a rectification request,

It is much easier to run a CA practice with the help of GenAI than a traditional way of CA practice.

Training article students in the AI era it is easier and challenging at the same way I can say, the chances of picking for assessment in the older time was very less when manual returns were filed compared with the present AI time, as most of the assessment cases are identified as per the High Risk Case CRIU/VRU formulated by the Central Board of Direct Taxation as per Information of Insight portal as per the insight instruction No.70 dated: 16-11-2023 of the Directorate of Income Tax (System).

We have to keep monitoring & review work done by the students before final submission of any forms including income tax returns in order to deliver quality services to clients and to avoid unnecessary scrutiny or assessments due to revising of ITR multiple times to correct mistakes in the original return or forms or many other reasons.

At the same time sitting next to all the students are practically not possible and it is difficult for small firms to have department wise teams and manager, in this cases artificial intelligence or GenAI place an important role in eliminating nonproductive hours in correction and review of the work done multiple times, and in drafting ready responses or letters to department quickly.

Challenges for CA's in practice who are more dependent on AI.

There are multiple options available for filing income tax returns including filling forms online by logging into tax payer account in the income tax portal or it can be done through offline mode with the help of utilities.

It is a big challenge if utilities are not updated at the time of filing income tax return or we cannot generate JSON file if any error persists in the utility or it may not calculate section 234F penalty in some cases for an updated income tax return filed under section 139(8A) or many other situations where in we end up getting tax demand notices, so in all these cases trusting technology is doubtful, at the same time we should be careful enough to prepare separate statement of total income and calculate tax as per the law applicable to avoid unnecessary litigations which involves 2 steps verification of data which may cost us lot of time & patience.

Online filing of ITR also involves its own complications; data will not be validated or saved when website is down, or it might not calculate tax properly when configuration of an application is not compliant with the law, when it is not able to recognize, differentiate, process data properly or do not calculate tax properly under many circumstances for example to say when AOP would have been taxed under slab rate basis when income tax return was filed online but ended up getting intimation under section 143(1) with tax demand as tax is calculated under maximum marginal rate.

Further, we would not be able to download tax remittance challan in some cases when UPI payment is not done within the time given and it would be one more task approaching department to resolve the issue. In some cases it would take one working day time to clear online payments with certain banks and many more challenges that my fellow CA fraternities would have experienced.

Threats for CA's in practice where AI plays dominant role in the execution of work.

At the first tax payer approaches CA more particularly in certain cases for the trusted valuable advise we give, CA role might be replaced when someone is able to get the same advice in ChatGPT.

Chartered accountants have monopoly over certain work, where other professionals are also competing with us for the common work that could be done by anybody who has adequate knowledge, in all such cases we would be barely negotiating for a negligible quotation, it is a serious issue that most CA's would have experienced who are new to practice.

Finance ministry has been giving more emphasis on making Income tax portal more user friendly from availability of all the transaction details in insight portal, filing income tax return form with ready data reflecting in the form with automated tax calculating facility with clear instructions about how to file income tax returns are more simple that anyone can file income tax return themselves.

Further we may lose clients if there is a delay in execution of work due to website issues, or takes more time to process returns or forms due to technical glitches.

Conclusion

It is time to forecast in advance to seize all the opportunities available by recognizing and measuring the changing political environment and more responsible to act quickly with the changes in technologies in acquiring skills sets and CA's should consider deeper-dive training on scrutinizing internal approaches in resolving the issues with more passion.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)
BENGALURU BRANCH (SIRC)

ICAI BENGALURU BRANCH IS ORGANISING COACHING CLASSES FOR CA FOUNDATION & CA INTERMEDIATE STUDENTS

CA Coaching Classes For New Syllabus

ADMISSIONS OPEN FOR SUBJECTWISE COACHING

In pursuance of our objective to provide fruitful and quality teaching to our students, we are pleased to inform you that PHYSICAL coaching classes for CA FOUNDATION & CA INTERMEDIATE students & will commence as follows

Online Registration Now open!

Why you Should Choose ICAI – Bengaluru Branch

Salient features

- Experienced, Expert and Dedicated faculty members
- Methodology – Concept Oriented Teaching
- Affordable Coaching Fee, Library Facility, Reading Room Facility
- Mock Tests, Revision Classes, Crash Course, Quiz Programme & Classroom presentations.
- The journey of CA student with bengaluru branch will be filled with Innumerable knowledge oriented activities coupled with motivational sessions & orientation classes, guided by our senior members, renowned faculty & resource persons to make student life productive and fruitful.
- It is a golden opportunity to be part of the bengaluru branch by enrolling as a student to become a prestigious member of this glorious profession.

Course	Fees	Starting Dates	Timings
CA Foundation	Rs. 14,000/- (Including Mock Test and Crash Course)	**Starting from 3rd April 2025 for September 2025 exams.**	04.30pm to 07.30pm (Monday to Saturday) 8.00am to 2.00pm (Sunday) (Evening batch)
CA Intermediate	Rs. 22,000/- for Both Groups Rs. 13,500/- for Single Group (Including Mock Test and Crash Course) Rs. 5000/- for Single Subject	**Starting from March 6th, 2025 for September 2025 exams.**	07.00am to 1.30pm (Monday to Sunday)

Registration Fees - Mode of payment: Cash / Online www.bangaloreicai.org

Email: blrstudentevents@icai.org | Website: www.bangaloreicai.org

Venue: ICAI Bhawan", 16/O, Miller's Tank, Bed Area, Vasanthanagar, Bengaluru -52

For further details /Queries
Pls call 080 - 4394 4868 /4876
Mob: 9880007904

Please Note: 1) Fees once paid will not be refunded.

2) Tentative scheduled faculty may change due to non availability at that point of time.

3) In case of less registration, it may be changed or cancelled.

Chairman **Secretary**

REGISTRATION OPEN FOR CA INTERMEDIATE COACHING CLASSES FOR MAY 2025 EXAMS - NEW SYLLABUS GROUP – II, Timings 07am to 1.30pm

Subject and dates	Faculty name
Paper-4: Cost and Management Accounting **Dates: 06.02.2025 to 26.02.2025**	**CA. PUNITH KUMAR N**  **CA. NARENDRA KUMAR B** 
Paper-6: Financial Management And Strategic Management **Dates: 27.02.2025 to 13.03.2025**	**CA TRILOK CHANDRA**  **CA. RAKSHA KUTHNIKAR** 
Paper-5: Auditing and Ethics **Dates: 14.03.2025 to 28.03.2025**	**CA. VIKAS OSWAL** 

Course	Fees	Timings
CA Intermediate	Rs. 22,000/- for Both Groups Rs. 13,500/- for Single Group (Including Mock Test and Crash Course) Rs. 5000/- for Single Subject	For Group - I 07.00am to 10.00am (Monday to Saturday) 8.00am to 2.00pm (Sunday) For Group – II 07am to 1.30pm (Monday to Sunday)

Registration Fees - Mode of payment: Cash / Online
www.bangaloreicai.org

Note: 1) Fees once paid will not be refunded.

For further details /Queries Pls call 080 - 4394 4868 /4876
Mob: 9880007904 Email: blrstudentevents@icai.org

Venue: Bengaluru Branch of SIRC of ICAI
'ICAI BHAWAN' #, 16/O, Millers Tank Bed Area,
Vasanth Nagar, Bangalore - 52.

Chairman Secretary

One Day Training Program on GST, Companies Act 2013 and Financials & Income Tax Act, 1961 to the Officers of Finance Department, Government of Karnataka


CA. Shym Ramadhyani


CA. Annapurna D Kabra


Dr. Gopal Krishna, IAS
Deputy Secretary -3
Finance Dept.,
Government of Karnataka


CA. Sandesh Kumar H

Half Day Seminar on Accounting Standards for Non – Corporate Entities


CA. Pramod R Hegde
Chairman
Bengaluru Branch (SIRC)


CA. Cotha S Srinivas
Central Council Member
ICAI


CA. Pramod Jain
Chairman
Accounting Standards
Board – ICAI

Half a Day Seminar on Export incentives available under GST law, Customs Duty law and Foreign Trade Policy & Practical issues in e-waybill and detention of vehicles


CA. Nithin Hebbar


CA. Pradeep Reddy

Half a Day Seminar on AI & IT


CA. Jatin Suresh Bhatt


CA. Shreyas Kumar

Half a Day Seminar on Direct & In-Direct Taxes


CS. Bharath
Lakshminarayana


CA Badrinath N R

Half a Day Seminar on Group Audit Engagements


CA. Jaideep Trasi


CA. Rajesh R

Valedictory – 23rd Batch Course on Finance for Non Finance Executive (FNFE)


CA. Ganesh Shetty


Valedictory session

Study Circle Meetings


Ms. Tanmayee Rajkumar
Advocate

61st Campus Placement Programme for Newly Qualified Chartered Accountants

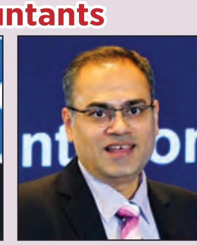
Inauguration of Programme by lighting the lamp


CA. Pramod R Hegde
Chairman
Bengaluru Branch (SIRC)


CA. Cotha S Srinivas
Central Council Member
ICAI


CA. Geetha A B.
Chairperson
SIRC OF ICAI


CA. M. Ram


CA. Govind Bhimjiyani

Certification Course on AI for CA's


CA. Anand Prakash
Jangid


CA. Karthikeya
Dinesh Shenoy


Participants

Batch 118 - Certification Course on AI for CA's - Level 1


CA. Anand Prakash
Jangid


CA. Akhil Pachori


Participants

Few Snapshots of Career Counselling Programs


Karnataka Educational and Cultural Society

Government PU College - T Dasarhalli - Bengaluru

76th Republic Day Celebrations

Flag Hoisting

Inauguration of Programme by Lighting the Lamp

CA. Pramod R Hegde
Chairman
Bengaluru Branch (SIRC)

CA. Cotha S Srinivas
Central Council Member
ICAI

Felicitation to Senior Members aged 75 years and above

Distribution of Scholarship to Students

Bengaluru Branch (SIRC) News Letter English Monthly Printed, Published & Edited by **Editor CA. Pramod R Hegde**, Chairman, on behalf of **Bengaluru Branch (SIRC)**, No.16/O, 'ICAI Bhawan', Millers Tank Bed Area, Vasantnagar, Bengaluru-560052, Karnataka
Tel: 080 - 4394 4868 / 876, Mob: 96069 13003 / 004, www.bangaloreicai.org e-mail : bangalore@icai.org
Printed at: **Jwalamukhi Mudranalaya Pvt. Ltd.,** No.14, Industrial Town, West of Chord Road, Rajajinagar, Bangalore-560010, Ph: 080 29911971, e-mail : info@jwalamukhipress.com