BHUBANESWAR BRANCH OF EASTERN INDIA REGIONAL COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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ICAI

E-NEWSLETTER

Editorial

Dear Esteemed Members,

As we step into **October 2025**, we welcome a new month filled with promise and possibilities. It is an opportune time to reflect on the milestones achieved, realign our goals, and move forward with renewed determination. The unwavering support and proactive engagement of our members continue to serve as the driving force behind ICAI Bhubaneswar's sustained growth and meaningful impact.

With a continued focus on **professional excellence**, ICAI Bhubaneswar remains committed to empowering its members through dynamic knowledge initiatives, the dissemination of best practices, and the promotion of high standards of quality and ethics in the profession.

This month, we are pleased to introduce a **diverse range of programs and activities** aimed at fostering continuous professional development, encouraging collaboration, and advancing the collective expertise of our members. We encourage all members to participate wholeheartedly and stay connected through our official website: **www.bhubaneswar-icai.org.**

Let us move forward together- strengthening the foundations of a **progressive, resilient, and future-ready CA profession**, defined by integrity, innovation, and excellence.

Wishing all our members a **productive and fulfilling month ahead.**

Warm regards,

CA. Mahendra Kumar Sahoo

Chairman, ICAI Bhubaneswar Branch

EDITORIAL BOARD

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Members area of Interest

Observations related to SA 315, Identifying and Assessing the Risks of Material Misstatement through understanding the Entity and its Environment

Observation 1:

SA 315 states that the auditor shall identify and assess the risks of material misstatement at: (a) the financial statement level, and (b) the assertion level for classes of transactions, account balances, and disclosures, to provide a basis for designing and performing further audit procedures. It was observed that the firm had not documented the different (additional/specific) audit procedures performed for identifying and assessing the risks of material misstatement to comply with the requirements of the Standards on Auditing.

What is the issue?	AASB Suggested Guidance	Technical Literature
What are the risk assessment procedures and related activities that should be performed by the auditor for identification and assessment of the risks of material misstatement?	The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement. This will help the auditor to reduce the risk of material misstatement to an acceptably low level. The auditor should obtain an understanding of the following: A. Relevant industry, regulatory, and other external factors including the applicable financial reporting framework. B. The nature of the entity, including: i. its operations; ii. its ownership and governance structures; iii. the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and iv. the way that the entity is structured and how it is financed; to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.	**Para 5 of SA 315:** The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. (Ref: Para. A1-A5) **Para 6 of SA 315:** The risk assessment procedures shall include the following: a) Inquiries of management, of appropriate individuals within the internal audit function (if the function exists), and of others within the entity who in the auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error. (Ref: Para. A6 A12)

	C. The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry. D. The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement. E. The measurement and review of the entity's financial performance.	b) Analytical procedures. (Ref: Para. A13-A16) c) Observation and inspection. (Ref: Para. A17)
How shall the auditor identify and assess the risk of material misstatement at financial statement level and assertion level?	As per SA 315, the auditor is required to identify and assess the risks of material misstatement at: The financial statement level. The assertion level for individual classes of transactions, account balances, and disclosures. For this purpose, the auditor is required to perform the procedures prescribed in SA 315. Information gathered by performing risk assessment procedures, including the audit evidence obtained in evaluating the design of controls and determining whether they have been implemented, is used as audit evidence to support the risk assessment. The risk assessment determines the nature, timing, and extent of further audit procedures to be performed. Appendix 2 of SA 315 provides examples of conditions and events that may indicate the existence of risks of material misstatement. **Relating controls to assertions** In making risk assessments, the auditor may identify the controls that are likely to prevent, or detect and correct, material misstatement in specific assertions. Generally, it is useful to obtain an understanding of controls and relate them to assertions in the context of processes and systems in which they exist because individual control activities often do not in themselves address a risk. Often, only multiple control activities, together with other components of internal control, will be sufficient to address a risk.	**Para 25 of SA 315:** The auditor shall identify and assess the risks of material misstatement at: a) The financial statement level; and (Ref: Para. A117-A120) b) The assertion level for classes of transactions, account balances, and disclosures; (Ref: Para. A121-A125) To provide a basis for designing and performing further audit procedures. **Para 26 of SA 315:** For this purpose, the auditor shall: a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the financial statements; (Ref: Para. A126-A127) b) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;

	Conversely, some control activities may have a specific effect on an individual assertion embodied in a particular class of transactions or account balance, for example, the control activities that an entity established to ensure that its personnel are properly counting and recording the annual physical inventory relate directly to the existence and completeness assertions for the inventory account balance. Controls can be either directly or indirectly related to an assertion. The more indirect the relationship, the less effective that control may be in preventing, or detecting and correcting, misstatements in that assertion, for example, a sales manager's review of a summary of sales activity for specific stores by region ordinarily is only indirectly related to the completeness assertion for sales revenue. Accordingly, it may be less effective in reducing risk for that assertion than controls more directly related to that assertion, such as matching shipping documents with billing documents.	c) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and (Ref: Para. A128-A130) d) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.
Is documentation necessary with respect to identifying and assessing the risks of material misstatement at the financial statement level and at the assertion level?	Para A1 of SA 230 provides that preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalised. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed. The manner in which the requirements of paragraph 32 of SA 315 are documented is for the auditor to determine using professional judgment. For example, in audits of small entities the documentation may be incorporated in the auditor's documentation of the overall strategy and audit plan that is required by SA 300, "Planning an Audit of Financial Statements". Similarly, for example, the results of the risk assessment may be documented separately or may be documented as part of the auditor's documentation of further procedures (see SA 330). The form and extent of the documentation is influenced by the nature, size and complexity of the entity and its internal control, availability of information from the entity and the audit methodology and technology used in the course of the audit.	**Para 32 of SA 315:** The auditor shall document: a) The discussion among the engagement team where required by paragraph 10, and the significant decisions reached; b) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment specified in paragraph 11 and of each of the internal control components specified in paragraphs 14-24; the sources of information from which the understanding was obtained; and the risk assessment procedures performed; c) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level as required by paragraph 25; and d) The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 27-30. (Ref: Para. A143-A146)

Case Laws in Company Law that Induced Changes in the Companies Act, 2013 and Rules

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This article examines select landmark judicial decisions in Indian corporate jurisprudence that materially influenced the drafting, content or subsequent interpretation of the Companies Act, 2013 and the subordinate rules. The analysis is written for experienced chartered accountants, company secretaries and corporate lawyers — practitioners who require a professional, technically rigorous treatment that combines statutory references, corporate case studies, and numerical illustrations that illuminate practical application.

We focus on four categories of judicial influence:

1. Corporate governance and accounting scandals (illustrated by Satyam Computer Services Ltd.)
2. Investor protection and public/deposit mobilisation (illustrated by Sahara)
3. Remedies for oppression and mismanagement — jurisdiction and scope (illustrated by Tata Sons v. Cyrus Mistry)
4. Doctrines that permit courts to look beyond corporate personality (lifting/piercing the corporate veil)

   For each area we (a) summarize the judicial facts and holdings, (b) explain the Companies Act provisions that were introduced or clarified as a direct or proximate legislative response, and (c) provide corporate-level examples and numerical illustrations showing the implications for accountants and auditors.

1. Corporate governance and accounting scandals — the Satyam episode

Background and judicial / regulatory response:

The Satyam Computer Services fraud (publicly revealed in January 2009) exposed deliberate manipulation of revenue, fictitious cash balances and fabricated payroll. The immediate regulatory aftermath involved criminal investigation (CBI), regulatory action by SEBI and intense public policy debate. The Satyam episode is widely considered a proximate cause for many features of the Companies Act, 2013 (and related rules) that strengthened audit independence, board oversight and minority remedies: mandatory independent directors in specified companies (Section 149), audit committees with prescribed duties (Section 177), mandatory rotation of auditors (Section 139 and related rules), and a statutory class action mechanism (Section 245). These changes aimed to reduce single-point failures in governance and provide better legal recourse to dispersed shareholders.

Corporate case study — Satyam: quick facts and a numerical illustration

Quick facts (practitioner summary)

- Date of public disclosure: 7 January 2009 (chairman's confession).
- Approximate scale of recognised fraud (as reported in public filings and investigations): upwards of ₹7,000 crore (various sources reported ranges up to ₹12,000 crore when ancillary claims and adjustments are included).
- Key governance failures: dominant promoter control, weak board oversight, audit collusion and inadequate external checks.

Numerical illustration (how audit rotation and independent directors change the risk profile)

Assume a listed company ABC Ltd. showing reported cash & bank balance of ₹2,500 crore and yearly net profit of ₹800 crore. If a similar-scale accounting fabrication (say 30% overstatement of cash balances and 20% of revenue) were present, the misstatement amounts would be:

- Inflated cash: 30% of ₹2,500 crore = ₹750 crore.
- Inflated revenue (assume revenue ₹6,000 crore): 20% of ₹6,000 crore = ₹1,200 crore.

Total material misstatement in the balance sheet/income statement magnitude = ₹1,950 crore.

Governance mechanics — role of independent directors and audit committees:

With mandatory independent directors (one-third of board for listed companies), audit committee oversight and mandatory disclosures by the auditor, the chances of prolonged concealment fall because (a) independent directors are required to meet and examine records, (b) audit committee receives detailed information from management and external auditors, and (c) rotation of audit firm/partner reduces the long-term cozy relations that can facilitate collusion.

2. Class action and minority investor protection — statutory insertion (Section 245)

Why the change was needed:

Before the Companies Act, 2013, Indian shareholders injured by corporate fraud often lacked an efficient collective remedy. In contrast, foreign investors in the Satyam litigation filed securities class actions abroad. The new Act introduced Section 245 (Class Action) and Section 246 (Procedure), permitting members or depositors who meet the threshold to approach the Tribunal collectively seeking specific reliefs: injunctions, restitution, damages and orders against auditors and directors.

Practical implication for practitioners:

- Thresholds and lead applicant rules make Tribunal procedures streamlined but require careful case management.
- For auditors and statutory professionals, the inclusion of auditors and audit firms as potential defendants in class actions increased professional liability exposure, motivating firms to strengthen documentation and internal quality control systems.

3. Investor protection and deemed public issue — Sahara (SEBI v Sahara)

Judicial facts and consequence:

The Sahara litigation (Sahara India Real Estate Corporation Ltd. v. SEBI and related cases) concerned mobilization of money via optionally fully convertible debentures (OFCDs) sold to millions of small investors. The Supreme Court (and earlier tribunals) treated such mobilisations as 'public' in substance despite private placement labels, directing refunds and strict oversight. The Sahara controversy highlighted gaps where corporate forms and private placement devices were used to access public savings beyond statutory thresholds.

Statutory and regulatory response:

The Companies Act 2013 and subordinate rules clarified and strengthened provisions on private placements (Section 42), acceptance of deposits (Sections 73–76), and strengthened disclosure obligations. While SEBI's regulation of securities falls under SEBI Act, the Sahara case led to greater coordination between SEBI and the Ministry of Corporate Affairs, and to rule-making that tightened the ambit of private placements and penalties for mislabelling public subscriptions.

Practical note for compliance officers:

A company planning any fundraising must test any offer against the economic substance test: number of offerees, degree of retail distribution, communication modes used, and the pricing/terms. Failure to classify correctly may convert a 'private' activity into a 'deemed public issue' with severe compliance consequences and refund liabilities.

4. Oppression, mismanagement and the scope of remedies — Tata Sons v Cyrus Mistry

Case facts and judicial holding:

The Tata Sons - Cyrus Mistry litigation (company petitions under Sections 241–244) was an extended corporate governance dispute that reached the Supreme Court and provoked deep analysis of the powers of tribunals, meaning of 'oppression and mismanagement' and the scope of remedies under the Act. The Supreme Court ultimately held (March 26, 2021) that NCLAT had limited powers to reinstate a removed chairman and that the powers conferred by Sections 241/242 do not ipso facto permit reinstatement where the company's internal governance actions had reasonable justification.

How that affected practice and the Act's interpretation:

- The case clarified that removal of a person as chairman or director by board processes will not be lightly converted into an 'oppression' remedy unless the act is shown to be prejudicial and disproportionate.
- Practitioners must therefore draft board resolutions, minutes and processes with utmost care - documentary evidence of 'due process' in removal and appointments is the key line of defence.

Corporate case-study illustration:

Suppose a promoter group with 18% stake is removed from executive office under a board resolution passed by a majority representing 65% of voting rights recorded in the minutes. If the removed executive alleges oppression, the Tribunal will examine whether the removal was a bona fide business decision or a sham to oust minority influence. The Tata judgment emphasises requirement of cogent evidence of prejudice beyond mere strategic loss of position.

5. Piercing or lifting the corporate veil - judicial trends and statutory cross-references

Doctrinal background:

The Salomon principle (UK) - that a company has a separate legal personality - remains the starting point; however Indian courts have developed a robust set of exceptions permitting the courts to look beyond the company in cases of fraud, sham, agency, or evasion of statute. The Companies Act, 2013 contains express and implied hooks (e.g., provisions that allow for attaching personal liability in offences where directors are responsible) and the Insolvency & Bankruptcy Code (2016) and other statutes interact with companies law to limit abusive use of limited liability.

Case examples and practitioner implications:

Courts will examine whether the company acted as a façade to conceal the true facts, whether persons in control siphoned funds, or whether corporate form was used to avoid statutory duties. For compliance and auditing teams, this means enhanced procedures where related-party transactions, promoter guarantees, intra-group loans and off-balance sheet arrangements are concerned.

Numerical illustration - related party transaction that triggers veil-lifting risk:

Suppose Group Co A lends ₹200 crore to Group Co B (100% subsidiary) on commercial terms. Group Co B then transfers ₹180 crore to promoter-controlled entity for “consulting services” with limited supporting documentation. Over time, creditors of Co B suffer losses and seek relief. If evidentiary records show the flow was a promoter siphon disguised as intra-group transaction, courts may pierce the veil and hold promoters/directors personally liable for ₹180 crore plus penalties and interest.

6. Practitioner checklist - what Chartered Accountants should strengthen

- Board minutes and resolution hygiene: precise recording of discussions, dissent, attendance, and independent director observations.
- Audit working papers: contemporaneous evidence for confirmations, bank reconciliations, revenue cut-off tests, and substantive sampling.
- Related-party transaction (RPT) documentation: valuation reports, independent quotations, approvals and audit committee clearances.
- Private placement and deposit compliance: maintain investor lists, cut-off limits, and proof of offerees to rebut any 'deemed public issue' claim.
- Training and quality control: rotation of partners, robust engagement letters, 'tone at the top' checks and whistleblower mechanisms.

Annexure - selected statutory references & landmark judgments

- Companies Act, 2013: Sections 139 (Audit & Auditors - rotation), 149 (Board - independent directors), 177 (Audit Committee), 245–246 (Class Action), 42 (Private Placement), 73-76 (Deposits).
- Satyam Computer Services Ltd. (public disclosure January 2009) - regulatory aftermath included strengthened audit & board provisions in Companies Act, 2013 and SEBI reforms.
- Sahara India Real Estate Corporation Ltd. v. SEBI - litigation on 'deemed public issue' and refunds.
- Tata Sons v. Cyrus Mistry (Supreme Court judgment March 26, 2021) - interpretation of Sections 241–242 and limits on reinstatement remedies.

Bibliography / Suggested reading (select)

1. Alvarez & Marsal, 'Seven years after the Satyam Computers Fraud' (analysis).
2. Supreme Court of India judgment: Tata Sons v. Cyrus Mistry, Judgment dated March 26, 2021 (available on official Supreme Court site).
3. Various practitioner notes on Class Action under Companies Act, 2013 (Section 245) — Taxmann, Vinod Kothari, Ipleaders.
4. Articles and working papers on auditor rotation and independence (IIMB working papers, ICAI technical notes). (Select URLs and judgments were consulted during the research and should be retained in working bibliography for formal citation in professional submissions.)

For professional use. This document summarises case law trends and practitioner implications and is not legal advice.

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ON THE LIGHTER SIDE OF LIFE

Now have a laugh at our expense...

“Deadline is the only line we never cross (because we’re too busy extending it).”

Source: Anonymous

Glimpses of Events

"SEMINAR ON GST 2.0 "

"SEMINAR ON AURA"