

# ASSURANCE INSIGHTS

Volume 2 Issue 1 | April 2016

We are pleased to present the April issue of SKP Assurance Insights – our newsletter that aims at providing insights into company law, accounting and assurance related developments in India.

This month, we will discuss how the employee background screening process is an important tool to find out the genuineness of employees and eliminate fraudulent credentials in job applications. The background screening is an essential exercise for the evaluation and review of elements such as the employee's qualification, involvement in any criminal offence, previous employer and experience, etc. In this article, we broadly cover the components, challenges and risks associated with employee background screening process.

We also discuss the key highlights of Companies (Accounting Standard) Amendment Rules, 2016. Recently, seven accounting standards have been substituted and one accounting standard has been removed i.e. AS 6 – Depreciation Accounting, it has been merged with AS 10 – Property, Plant and Equipment.

Lastly, under Corporate Updates we cover the latest developments in regulatory policy.

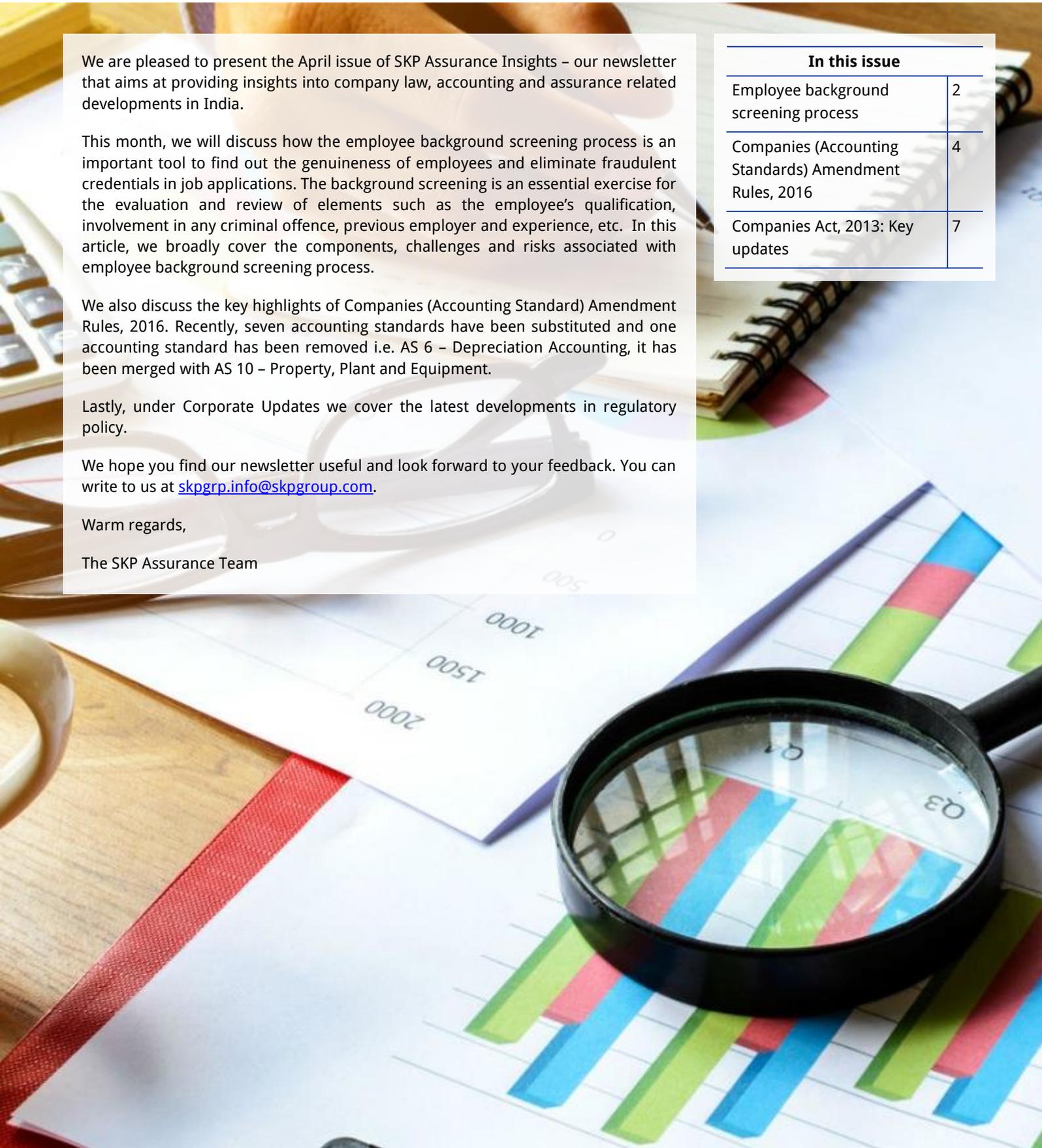
We hope you find our newsletter useful and look forward to your feedback. You can write to us at [skpgrp.info@skpgroup.com](mailto:skpgrp.info@skpgroup.com).

Warm regards,

The SKP Assurance Team

## In this issue

Employee background screening process	2
Companies (Accounting Standards) Amendment Rules, 2016	4
Companies Act, 2013: Key updates	7





# Employee background screening process

## Overview

In the present scenario, many organisations emphasise on a background check as the benefits of a pre-employment background screening and of conducting background check cannot be ignored. The threat of hiring and on-boarding employees with bogus/forged education certificates, tinkered salary slips, criminal history, etc. exposes the organisation to considerable risk.

Companies are often compelled to move quickly at the time of hiring due to which each applicant adds to the security and business risk for the organisation. Fortunately, conducting background checks or screening applicants helps reduce the potential business and security risk significantly.

## Elements/components of the background screening process

Some of the major elements/components that must be evaluated while reviewing the employment background screening program are:

- Education verification
- Identity/address validation
- Employment verification
- Employment reference check
- Credit history check
- Drug and health check
- Social media check
- Criminal record verification

## Trends in India

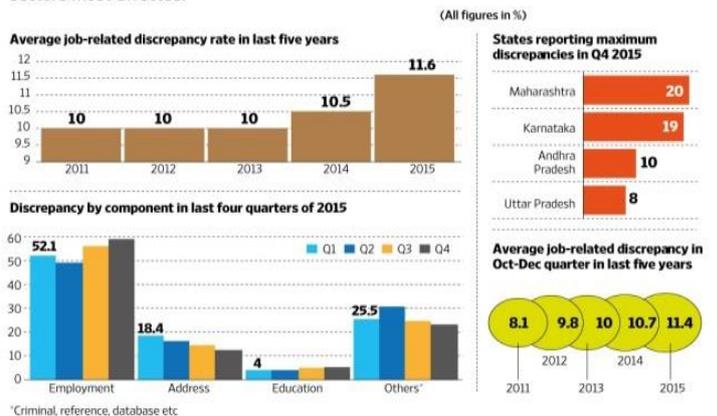
According to a report by First Advantage, the job application fraud rose to 11.60% in 2015 as against 10.5% in 2014, which makes the background check process very crucial.

Discrepancies/forges in employment or educational credentials for job applications in India rose to 11.5% in the last quarter of 2015 (calendar year). Further, it also mentioned that the IT, banking, financial services, insurance and telecom sectors were most liberal in screening their job applications and raising a red flag. In the last quarter of 2015, around 38% of the total frauds were detected by companies in the BFSI sector, followed by 23% in IT and 15% in telecom.

It must be also noted that the discrepancy rate is high among all age groups. 11.30% in the age group of 22-30 years were detected to have falsified their background, the proportion was 16.40% among the 31-40 age group, 17.4% among the 41-50 age group and 20.3% among those aged 51 and above.

## CAUSE FOR CONCERN

Overall job application-related frauds rose to 11.6% in 2015, with IT and BFSI being the sectors most affected.



**Top 4 cities reporting maximum employment related discrepancies in Q4 2015**



**Top 4 cities reporting maximum education related discrepancies in Q4 2015**



Source: First Advantage Background Screening report

## Challenges

A comprehensive background check process faces practical difficulties in India. Some of the key problems are mentioned below:

- The lack of updated information on criminal matters, case histories and violation of law.
- Lack of available information/data in a centralised manner for background verification.
- Universities/educational institutions do not maintain academic records of their ex-students.
- Companies often do not disclose compensation figures or reasons for employment termination.
- Most employers believe background checks take too much time to complete and the turnaround time is a challenge.
- There are legal risks associated with conducting background checks. Such risks include risks related to negligent hiring and failure to warn should an employee turn violent on the job.

## Risks associated with background screening processes

Companies across all industries and sectors need to obtain requisite information about the employee to understand his past employment, character, etc. A background check is indispensable as the new hire may have an access to company financial and other data and computer systems. A negligent hiring process may cost companies millions of rupees and could also result in bad publicity i.e. reputation loss for the company. In fact, in some countries companies are held liable for negligent hiring and retention if the organisation fails to conduct a comprehensive background check on employees. Negligent lawsuits are on the rise as employers are liable for their employee's actions. This threat of liability gives companies reason to be cautious in checking applications past of conducting background check.

According to the [ISO Review article](#), "*Negligent Hiring: Employer Risk*": *Companies could dispute that the cost of conducting background checks is prohibitive. But the cost of not performing due diligence resulting in negligent hiring can be far greater. Violence, theft, and drug use are reasons alone to pre-screen applicants. Even if an applicant is a referral, it doesn't mean he or she is a quality employee.*

## Case study

A professional background screening company, once ran a check for a prospective employee for one of their clients in which the documents furnished by the candidate were fraudulent.

The prospective employee had claimed eight years of experience in two major infrastructure companies.

One of which is currently involved in Metro rail projects in two metros. On verifying the prospect's employment antecedents they found that all the documents furnished by him were forged. He was even dismissed, from one of the companies on grounds of unethical practices.

The report from the other company said that the service letter was a fake and the signature did not belong to the HR person. Furthermore, the institution where he had presumably done his diploma in civil engineering, did not have any record of a student by that name. The certificate too was fraudulent.

[Source: Dcode Research Services Pvt Ltd](#)

## Defining controls for a background screening process – role of an internal auditor

- The management should draft and implement a background screening policy, which should form an integral part of the recruitment procedures. This must include the overall scope, methodology and approach of the process.
- Obtain proper authorisation from the applicant/employee for conducting background checks, as it requires accessing personal information.
- Identify gaps in the current employment background screening programme.
- Protect employee background check results and maintain confidentiality of the information and documentation on a strict need-to-know basis.
- If the background verification process is outsourced to a third party, then:
  - Signing of structured service agreements, non-disclosure agreements having penalty and other relevant clauses with these vendors is very important.
  - Statutory documents like service tax number, PAN, TAN, VAT/CST registration, shop and establishment license must be obtained;
  - The employer must conduct a due diligence on the vendor before entering an agreement. In addition, conduct an annual inspection on the vendor to check their data security, staff training practices and process quality controls;
  - Employing practices of calling back to verify or to check the genuineness of the verification.
- Ongoing monitoring of employees that have been hired by the organisation to improve their screening programs and prevent negative retention. This is a proactive approach to risk mitigation. For e.g. Screening current employees in accordance with State and local laws.



## Companies (Accounting Standards) Amendment Rules, 2016

Recently, the Central government, in consultation with the National Advisory Committee on Accounting Standards, has notified The Companies (Accounting Standards) Amendment Rules, 2016. As per the said notification and clarifications given by the Ministry of Corporate Affairs (MCA), these rules shall take effect for accounting periods commencing on or after 30 March 2016.

These rules have substituted the existing Accounting Standard (AS) 6: Depreciation Accounting and AS 10: Accounting for Fixed Assets with AS 10: Property, Plant and Equipment. Furthermore, there have been changes in the following standards:

### **The following Accounting Standards have been amended and substituted:**

- AS 2: Valuation of Inventories
- AS 4: Contingencies and events occurring after the Balance Sheet Date
- AS 13: Accounting for Investments
- AS 14: Accounting for Amalgamation
- AS 21: Consolidated Financial Statements
- AS 29: Provisions, Contingent Liabilities and Contingent Assets

We have provided the key changes brought out by these amendment rules:

### **AS 2: Valuation of Inventories**

As per the pre-revised AS 2, machinery spares that can be used in connection with fixed assets and whose use is expected to be infrequent were required to be accounted in accordance with AS 10.

As per the revised AS 2, inventories do not include spare parts, servicing equipment and standby equipment which meet the definition of property, plant and

equipment as per AS 10. In addition to the existing disclosures about the classification of inventory, the revised AS 2 requires stock-in-trade (with respect to goods acquired for trading) to be disclosed separately.

### **AS 4: Contingencies and Events occurring after the Balance Sheet date**

As per paragraph 14 of the pre-revised AS 4, dividends stated to be with respect to the period covered by the financial statements, which are proposed or declared by the enterprise after the balance sheet date but before the approval of the financial statements, should be adjusted.

As per the revised AS 4, if an enterprise declares dividends to shareholders after the balance sheet date, the enterprise should not recognise those dividends as a liability at the balance sheet date unless a statute requires otherwise. Such dividends should be disclosed in the notes.

### **AS 13: Accounting for Investments**

As per paragraph 30 of the pre-revised AS 13, an enterprise holding investment property should account for them as long-term investments. Furthermore, investments classified as long-term investments should be carried in the financial statements at cost. However, provisions for diminutions shall be made to recognise a decline, other than temporary, in the value of the investments.

As per the revised AS 10, an investment property is accounted for in accordance with the cost model as prescribed in this standard

## AS 14: Accounting for Amalgamation

As per the pre-revised AS 14, amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.

As per the revised AS 14, amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes merger.

Furthermore, a footnote is added which states that the paragraph dealing with the treatment of reserves specified in a scheme of amalgamation shall not apply to the scheme of amalgamations approved under the Companies Act, 2013.

Paragraph 23 and 39 shall not apply to any scheme of amalgamation approved under the Companies Act, 2013.

## AS 21: Consolidated Financial Statements

As per the pre-revised AS 21, a parent which presents consolidated financial statements should consolidate all subsidiaries, domestic as well as foreign, other than the subsidiary where control is intended to be temporary or where the subsidiary operates under severe long-term restrictions.

As per the revised AS 21, when an enterprise does not have a subsidiary but has an associate and/or joint venture, such an enterprise should also prepare consolidated financial statements in accordance with AS 23: Accounting for Associates in Consolidated Financial Statements and AS 27: Financial Reporting of Interests in Joint Ventures.

## AS 29: Provisions, Contingent Liabilities and Contingent Assets

As per the pre-revised AS 29, the amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The amount of a provision should not be discounted to its present value.

As per the revised AS 29, the amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The amount of a provision should not be discounted to its present value except in the case of decommissioning, restoration and similar liabilities that are recognised as a cost of property, plant and equipment. The discount rate(s) should be a pre-tax rate(s) that reflect current market assessments of the time value of money and the risks specific to the liability.

The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted. Periodic unwinding of discounts should be recognised in the statement of profit and loss.

## AS 10: Property, Plant and Equipment

### A few key updates on AS 10 are:

The term 'Fixed Assets' has been replaced by Property, Plant and Equipment (PPE). PPE is defined as: Tangible items that are:

- a) held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- b) expected to be used during a period of more than twelve months.

### Component accounting

The pre-revised AS 10 recommends but does not mandate component accounting.

As per revised AS 10, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately. Furthermore, the Companies Act, 2013 requires companies to apply component accounting for financial years commencing on or after 1 April 2015.

### Subsequent cost

As per the pre-revised AS 10, only the expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value (e.g. an increase in capacity).

As per the revised AS 10, the major overhaul or inspection expenditure needs to be recognised as PPE. Any cost of previous major inspections, the balance of which reflects in the carrying value of the asset, should be derecognised by expensing out.

### Asset retirement obligation

As per the pre-revised AS 29, a provision is required to be created for asset retirement obligations. No specific guidance exists as to how the corresponding amount needs to be treated. However, the guidance note on accounting for oil and gas producing activities states that the companies involved in the aforementioned activities should capitalise the dismantling and site restoration cost.

As per the revised AS 10, the cost of an item of PPE consists of the initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located. These are referred to as 'decommissioning, restoration and similar liabilities'. This obligation is incurred by an enterprise when the item is acquired or as a consequence of having used the

item during a particular period for purposes other than to produce inventories during that period.

### Finance cost

As per the pre-revised AS 10, except in the case of an asset acquired on hire-purchase, entities are not required to separate the finance element even if an asset is purchased on a deferred payment basis.

As per the revised AS 10, the cost of an item of PPE is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with AS 16.

### Revaluation

The pre-revised AS 10 recognises the revaluation of fixed assets. However, it does not require the adoption of a fair value basis as its accounting policy.

As per the revised AS 10, an enterprise should choose either the cost model or the revaluation model as its accounting policy and should apply that policy to an entire class of PPE.

### Component depreciation

Schedule II to the Companies Act, 2013 prescribes the useful life for various items of PPE. It also states that the residual value can be up to 5% of the original cost and provides for component depreciation.

As per the revised AS 10, the depreciable amount of an asset should be allocated on a systematic basis over its useful life. Depreciation should be charged as per the component depreciation approach.

### Change in method of depreciation

As per the pre-revised AS 10, a change in the depreciation method is to be treated as an accounting policy change and applied retrospectively. When such a change in the method of depreciation is made, depreciation is recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective re-computation of depreciation in accordance with the new method is adjusted in the accounts in the year in which the method of depreciation is changed.

In accordance with AS 5, an enterprise discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in the subsequent periods. For PPE, such disclosures may arise from changes in estimates with respect to:

- a) Residual values;

- b) The estimated costs of dismantling, removing or restoring items of PPE;
- c) Useful lives; and
- d) Depreciation methods.

### Agricultural accounting

There is no separate standard on agriculture accounting under the Indian Generally Accepted Accounting Principles (GAAP). Producers' inventories of livestock, agriculture and forest products, mineral oils, ores and gases are excluded from the scope of AS 2: Valuation of Inventories. It states that when agricultural crops have been harvested or mineral oils, ores and gases have been extracted and sale is assured under a forward contract or a government guarantee, or when a homogenous market exists and there is a negligible risk of failure to sell, these inventories should be excluded from the scope of this standard.

As per the pre-revised AS 10, agricultural produce is the harvested product of biological assets of the enterprise.

A bearer plant is a plant that:

- a) is used in the production or supply of agricultural produce;
- b) is expected to bear produce for more than a period of twelve months; and
- c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

Certain exemptions are given to bearer plants and bearer plants are accounted for in the same way as self-constructed items of PPE before they are in the location and condition necessary to be capable of operating in the manner intended by the management.

When bearer plants are no longer used to bear produce, they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.

### Review of residual value and useful life

As per the pre-revised AS 10, an annual review of the depreciation method, residual values and useful lives is not mandated but a periodic review of useful lives is recommended.

As per the revised AS 10, the residual value and the useful life of an asset should be reviewed at least at the end of each financial year, and, if expectations differ from previous estimates, the change(s) should be accounted for as a change in the accounting estimate in accordance with AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.



## Companies Act, 2013: Key updates

### The Companies (Share Capital and Debentures) Second Amendment Rules, 2016

The Ministry of Corporate Affairs (MCA) has issued the Companies (Share Capital and Debentures) Second Amendment Rules, 2016. These rules shall amend the Companies (Share Capital and Debentures) Rules, 2014.

Sub-rule (5) of rule 17 of the Companies (Share Capital and Debentures) Rules, 2014 states:

“The offer for buy-back shall remain open for a period of not less than fifteen days and not exceeding thirty days from the date of dispatch of the letter of offer”.

As per the amendment, a proviso has been inserted after sub-rule (5) which states:

“Provided that where all members of a company agree, the offer for buy-back may remain open for a period less than fifteen days”.

[Source: Notification of the Companies \(Share Capital and Debentures\) Second Amendment Rules, 2016](#)

### Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Amendment Rules, 2016

The MCA has issued the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Amendment Rules, 2016. A proviso has been substituted within these rules.

In the earlier rule, the proviso stated the following:

“Provided that the companies in banking, insurance, power sector and non-banking financial companies are exempted from XBRL filing”.

Now after the amendment, the proviso states the following:

“Provided that the companies in banking, insurance, power sector, non-banking financial companies and housing finance companies need not file financial statements under this rule”.

[Source: Notification of the Companies \(Filing of Documents and Forms in Extensible Business Reporting Language\) Amendment Rules, 2016](#)

**Note: These Rules shall come into force from the date of their publication in the Official Gazette.**

## About SKP

SKP is a long established and rapidly growing professional services group located in seven major cities across India. We specialise in providing sound business and tax guidance and accounting services to international companies that are currently conducting or initiating business in India as well as those expanding overseas. We serve over 1,200 clients including multinational companies, companies listed on exchanges, privately held firms and family-owned businesses from more than 45 countries.

From consulting on entry strategies to implementing business set-up and M&A transactional support, the SKP team assists clients with assurance, domestic and international tax, transfer pricing, corporate services, and finance and accounting outsourcing matters, all under one roof. Our team is dedicated to ensuring clients receive continuity of support, right across the business lifecycle.

## Contact Us

### Mumbai

19, Adi Marzban Path  
Ballard Estate, Fort  
Mumbai 400 001  
T: +91 22 6730 9000

### New Delhi

B-376  
Nirman Vihar  
New Delhi 110 092  
T: +91 11 4252 8800

### Bengaluru

Office No. 312/313, Barton Centre  
Mahatma Gandhi Road  
Bengaluru 560 001  
T: +91 80 4277 7800

### Pune

VEN Business Centre  
Baner-Pashan Link Road  
Pune 411 021  
T: +91 20 6720 3800

### Gurgaon

German Centre for Industry and Trade  
Building No. 9, Tower B  
Level 12, DLF Cyber City Phase III  
Gurgaon 122 002  
T: +91 124 463 6000

### Toronto

269 The East Mall  
Toronto  
ON M9B 3Z1  
Canada  
T: +1 647 707 5066

### Hyderabad

6-3-249/3/1, SSK Building  
Ranga Raju Lane  
Road No. 1, Banjara Hills  
Hyderabad 500 034  
T: +91 40 2325 1800

### Chennai

Office No. 3, Crown Court  
128 Cathedral Road  
Chennai 600 086  
T: +91 44 4208 0337

[www.skpgroup.com](http://www.skpgroup.com)



## Connect with us



[skpgrp.info@skpgroup.com](mailto:skpgrp.info@skpgroup.com)



[www.linkedin.com/company/skp-group](http://www.linkedin.com/company/skp-group)



[www.twitter.com/SKPGroup](http://www.twitter.com/SKPGroup)



[www.facebook.com/SKPGroupIndia](http://www.facebook.com/SKPGroupIndia)



[plus.google.com/+SKPGroup](https://plus.google.com/+SKPGroup)

## Subscribe to our alerts



### DISCLAIMER

This newsletter contains general information which is provided on an "as is" basis without warranties of any kind, express or implied and is not intended to address any particular situation. The information contained herein may not be comprehensive and should not be construed as specific advice or opinion. This newsletter should not be substituted for any professional advice or service, and it should not be acted or relied upon or used as a basis for any decision or action that may affect you or your business. It is also expressly clarified that this newsletter is not intended to be a form of solicitation or invitation or advertisement to create any adviser-client relationship.

Whilst every effort has been made to ensure the accuracy of the information contained in this newsletter, the same cannot be guaranteed. We accept no liability or responsibility to any person for any loss or damage incurred by relying on the information contained in this newsletter.

SKP Business Consulting LLP is a member firm of the "Nexia International" network. Nexia International Limited does not deliver services in its own name or otherwise. Nexia International Limited and the member firms of the Nexia International network (including those members which trade under a name which includes the word NEXIA) are not part of a worldwide partnership. For the full Nexia International disclaimer, please [click here](#).