



Assurance Gazette

November, 2025

NANGIA & CO LLP

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Foreword

“Welcome to the Assurance Gazette for November 2025 Edition.

The gazette discusses the Expert Advisory Committee’s (EAC) opinion on the accounting treatment of the GST component paid on lease payments under Ind AS 116. The EAC clarifies that GST paid by the lessee to the lessor is a statutory levy and should not be included in the measurement of the lease liability or the Right-of-Use (ROU) asset.

This edition also highlights the landscape of professional ethics continues to evolve rapidly, shaped by global convergence, technological disruption, and increasing regulatory expectations. In this context, the ICAI’s Exposure Draft of the 13th Edition of the Code of Ethics marks an important step toward strengthening the integrity and relevance of the ethical framework governing Chartered Accountants in India. This edition provides a concise yet comprehensive overview of the key revisions proposed across the three volumes, highlighting both the international alignment and India-specific enhancements embedded in the draft.”



EAC Opinion on Accounting treatment for GST component paid on lease payments under Ind **AS 116**, 'Leases'

Introduction:-

Ind AS 116, Leases, provides comprehensive guidance on the recognition, measurement, and presentation of lease arrangements in the financial statements of lessees. A recurring area of discussion is whether statutory levies such as Goods and Services Tax (GST), charged on lease payments, should be included in the measurement of the Right-of-Use (ROU) asset and lease liability. From the standpoint of Ind AS 116 alone, the answer lies in understanding what constitutes lease payments and how government levies are treated under accounting standards. The EAC has recently issued its opinion on this matter.

I. Background

The Company, a power generation public sector undertaking, entered into a three-year lease for its corporate office. As per the lease terms, the rental was subject to 18% GST which the Company paid along with the lease rent. Since, the supply of electricity is exempt from GST, the Company has treated the GST as non-recoverable expense and included the GST component in the lease payments used to compute the present value of future lease liabilities. This effectively increased both the ROU asset and corresponding lease liability.



During the supplementary audit, the CAG team referred to ICAI's Educational Material on Ind AS 116, which clearly states that GST should not be considered a lease payment. The Company, however, argued that excluding GST would distort the financial statements by showing GST separately as an expense which could misleadingly appear as an additional lease arrangement.

Given the significance of the issue and its impact on lease accounting, the matter was referred to the Expert Advisory Committee ('EAC' or 'the Committee') of ICAI for an authoritative view.

II. Key question: Is GST a lease payment under Ind AS 116 ?

At the commencement of lease, Ind AS 116 requires a lessee to recognize ROU and corresponding lease liability. The lease liability is measured at the present value of lease payments which include fixed payments, variable payments tied to an index or rate and certain option-related amounts. The ROU asset is initially measured at cost which includes the lease liability and other directly attributable items.

The Committee explains that GST is a tax charged by the Government on customers when they buy goods and/or services and therefore, is a statutory obligation towards the Government. Thus, the primary obligor for payment of GST is the customer who avails goods or services and the seller only collect GST on behalf of the Government.



In case of leases, the lessor collects GST on behalf of the tax authority and remits the same to the tax authorities. In this context, the Committee notes that the GST payments (irrespective of whether these are recoverable as input credit or not) do not meet the definition of lease payment) as these are not payments to the lessor in exchange for the right to use of the underlying asset.

Rather, as discussed above, GST is in the nature of levies as per paragraph 4 of Appendix C, 'Levies' of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', reproduced as below:

"4. For the purposes of this Appendix, a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- (a) those outflows of resources that are within the scope of other Standards (such as income taxes that are within the scope of Ind AS 12, Income Taxes); and*
- (b) fines or other penalties that are imposed for breaches of the legislation.*

'Government' refers to government, government agencies and similar bodies whether local, national or international."

III. Final EAC Opinion

The EAC concluded that the Company should:

- GST paid on lease rentals should not be included in the measurement of the lease liability;
- ROU should also be measured without including GST.



ICAI Code of Ethics Update: Exposure Draft for the 13th

Edition Released on 27 October 2025

The Institute of Chartered Accountants of India (ICAI) has issued the Exposure Draft for the 13th Edition of the Code of Ethics on 27 October 2025, inviting comments from members and the public to refine this vital framework. This edition builds on the 12th Edition (effective from 1 July 2020) by incorporating global convergence, technological advancements, and domestic regulatory updates. The draft aims to enhance ethical standards, promote integrity in professional practice, and address emerging challenges like sustainability assurance and bias in reporting.

ICAI Code of Ethics

The ICAI Code of Ethics is a comprehensive set of principles, rules, and guidelines that govern the professional conduct, integrity, and independence of Chartered Accountants (CAs) in India. It ensures high-quality audits, ethical decision-making, and public trust by outlining fundamental principles such as integrity, objectivity, professional competence, confidentiality, and professional behavior, while providing practical guidance on threats, safeguards, and compliance.

Overview of the Three Volumes

Volume I: Represents the core ethical framework aligned with the International Ethics Standards Board for Accountants (IESBA) Code, focusing on global principles for professional accountants.



Volume II: Includes ICAI-specific provisions derived from domestic laws, regulations, Council guidelines, and opinions to address India-centric ethical scenarios.

Volume III: Serves as a reference for case laws and ethical guidelines issued by the Council, now restructured as a standalone publication for quick reference.



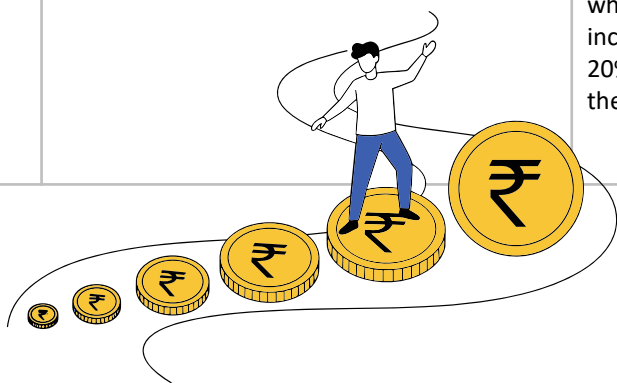
The following are the key differences in 12th Edition v. 13th Edition exposure draft:

Volume I

S.No	12th Edition	13th Edition
1	Original terminology: a. professional accountant” b. professional accountant in public practice c. professional accountant in service	Terminology changed to : a. “Chartered Accountant b. Chartered Accountant in practice c. “Chartered Accountant in service
2	New addition	Identifying Threats: Identifying Threats Associated with the Use of Technology.
3	New addition	Section 220 : Preparation And Presentation Of Information using the Output of Technology
4	New addition	Objectivity Of An Engagement Quality Reviewer And Other Appropriate Reviewers



5	Earlier definition did not include deposits.	Change in definition of Public Interest Entity (PIE) to include entity one of whose main functions is to take deposits from the public.
6	New addition	Insertion of new independence provisions like Non acceptance of Audit of PIE where Non-Assurance Service of same entity was done prior etc.
7	New addition	<p><u>Audit Fees-</u></p> <p>When Audit Client is Non PIE :</p> <p>Where an audit client is not a public interest entity and for five consecutive years, the total gross annual professional fees (“total fees”) from the client and its related entities represent more than 40% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall: Disclose to the Institute the fact that for five consecutive years, the total of such fees represents more than 40% of the total fees received by the firm.</p> <p>If the fees described continue to exceed 40%after five years, the firm shall each year disclose to the Institute.</p> <p>Audit Client is PIE :</p> <p>Where an audit client is a public interest entity and for two consecutive years, the total gross annual professional fees (“total fees”) from the client and its related entities represent more than 20% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall disclose to the Institute the fact that for two consecutive years, the total of such fees represents more than 20% of the total fees received by the firm. Provided that no such ceiling on the total fees of the firm would be applicable where total fees of the firm does not exceed 20L including other services. If the fees continue to exceed 20% after two years, the firm shall each year disclose to the Institute the matters.</p>



Volume II

S.No	12th Edition	13th Edition
1	New addition	<p><u>Newly Inserted:</u></p> <p>Clause (4) of Part I of the First Schedule for permission for CAs in practice: A Chartered Accountant in practice can become partner in an Insolvency Professional Entity or a Registered Valuer Entity, being a firm registered with the Insolvency and Bankruptcy Board of India, consisting of professionals mentioned in Regulation 53B of Chartered Accountants Regulations, 1988.</p>
2	New addition	<p>Changes in commentary on Clause (7) of Part I of the First Schedule of the Chartered Accountants Act 1949 with regard to event sponsorship and permission to conduct of Webcast by members/CA firm , etc.</p>
3	<p>Members should therefore communicate with a retiring auditor in such a manner as to retain in their hands positive evidence of the delivery of the communication to the addressee. In the opinion of the Council, the following would in the normal course provide such evidence:-</p> <p>a) Communication by a letter sent through “Registered Acknowledgement due”, or</p>	<p>Clause (8) of Part I of the First Schedule of the Chartered Accountants Act, 1949 to include speed post with acknowledgment due, under Clause 2.14.1.18(x) Positive Evidence of Delivery required</p>
4	New addition	<p><u>Newly inserted :</u></p> <p>Additional commentary in Clause (9) of Part I of the First Schedule to the Act, and newly inserted Clause (5) of Part II of the Second Schedule to the Act.</p> <p>2.14.1.9(xxx) The auditor of the Company shall ascertain whether any industry/sector specific legal provisions or regulatory frameworks are applicable to the appointments of auditor. Accordingly, the auditor shall ensure compliance with the relevant law, including the statute, Ordinance, order, bye-law, rule, regulation, notification, etc. governing the appointments. For example, where the appointment of auditors is with respect to listed companies, Auditor shall ensure compliance with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and other provisions regarding qualification and rotation etc.</p>

5	New addition	<p><u>New addition :</u></p> <p>Clause (10) of Part I of the First Schedule of the Chartered Accountants Act, 1949</p> <p>2.14.1.10 (iii) The members may quote or accept Audit fees based on range of turnover or on percentage of turnover of the Auditee.</p>
6	New addition	<p>Changes in Council Guidelines for Advertisement, 2008 to make them more contemporary, including inclusion of “Contemporary form,” “Directories,” in the definition of “Write-up.”, removal of limit of font size and the requirement to mention membership number/FRN.</p>
7	The Chartered Accountants and/or Chartered Accountants’ Firms would ensure that their Websites are run on a “pull” model and not a “push” model of the technology to ensure that any person who wishes to locate the Chartered Accountants or Chartered Accountants’ firms would only have access to the information and the information should be provided only on the basis of specific “pull” request.	<p><u>Website Guidelines :</u></p> <p>The websites of Chartered Accountants and/or Chartered Accountants’ Firms or Network/Alliance of firms registered with ICAI may run on Pull as well Push technology. However, for services which are exclusively reserved for Chartered Accountants, only pull model will be permitted to ensure that any person who wishes to locate the exclusive services of Chartered Accountants or Chartered Accountants’ firms would only have access to the information and the information should be provided only on the basis of specific “pull” request.</p>

Volume III

S.No	12th Edition	13th Edition
1	New Addition	<p>Addition of two new chapters under the Guidelines on Ethical Issues, 2025:</p> <p>Minimum fees in respect of professional fees; Non-payment of undisputed audit fees.</p>
2	New Addition	<p>Amendments to the Guidelines for Practice in Corporate Form to include services such as forensic accounting, administrative services, research analysis recognized by a regulator, social impact assessment and evaluation, CSR impact, business responsibility and sustainability reporting, and artificial intelligence and permitting the development of websites, subject to requisite amendments.</p>



nangia's Take

Overall, the exposure draft of the 13th Edition represents a significant evolution of the ICAI's ethical framework - strengthening alignment with global standards while addressing India - specific advancements in regulation, technology, and professional practice. The proposed changes aim to offer greater clarity, reinforce auditor independence, and equip professionals to navigate emerging ethical risks.

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