



Voices on Reporting

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Speaker for the webinar



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Agenda

- 01** Implementation of audit trail
- 02** Ind AS amendments
- 03** Reviews by National Financial Reporting Authority (NFRA)
- 04** SEBI updates
- 05** Year-end reminders

Implementation of audit trail

Implementation of audit trail

Regulatory requirement¹

The Companies (Accounts) Rules, 2014

For Companies {Rule 3(1)}: Every company which uses an accounting software for maintaining its books of account, should use only such an accounting software which has the following features:

- Which records an audit trail of each and every transaction
- Creates an edit log of each change made in the books of account along with the date when such changes were made
- Companies would need to ensure that the audit trail is not disabled.

The Companies (Audit and Auditors) Rules, 2014

For Auditors {Rule 11(g)}: An auditor is required to provide his/her comments in the auditor's report that the company has used such an accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility. Further, an auditor should also comment on whether:

- The audit trail feature has been in operation throughout the year for all the transactions recorded in the software
- The audit trail feature has not been tampered with
- The audit trail has been preserved by the company as per the statutory requirements for record retention.

Applicability

- All class of companies including Section 8 companies and foreign companies
- Auditor's reporting on audit trail required in case of standalone financial statements and consolidated financial statements.

ICAI's implementation guide²

Accounting software

Accounting software that is relevant for maintaining books of account and includes:

- Computer programme or system that enables recording, maintenance and reporting of books of account and relevant ecosystem applicable to business requirements
- Multiple softwares and peripheral softwares.

Audit trail definition

- Record of the changes that have been made to the data.
- Includes any change to data including creating new data, updating or deleting data that must be recorded
- Records maintained as audit trail would include following:
 - when changes were made i.e., date and time (timestamp)
 - who made the change i.e., User ID
 - what data was changed i.e., data/transaction reference.
- To be enabled at accounting software/database level, where applicable.

Key considerations

- Applicable from 1 April 2023
 - Deliberation on what constitutes 'books of account' as per definition in the 2013 Act
 - Identify the accounting software for creation and maintenance of books of account
 - Effective controls
 - over maintenance and monitoring of audit trail in respect of books of account
 - operating effectively throughout the period of reporting
 - periodic backups of the audit trails are taken and archived as per the statutory period specified
 - Extended audit procedures to be performed by auditor including involvement of specialists such as IT auditors.
 - IFC reporting implications and impact on auditor reporting.
- Retention of audit trail similar to the books of account retention requirement of eight years under Section 128 of the 2013 Act.

Ind AS amendments

Ind AS amendments – An overview³

On 31 March 2023, MCA issued amendments to the Indian Accounting Standards (Ind AS). Following are few key amendments:

Effective from 1 April 2023

Ind AS1, Presentation of Financial Statements

- Companies should now disclose **material accounting policies** rather than their significant accounting policies
- Accounting policy information, together with other information, is material when it can reasonably be expected to influence decisions of primary users of general purpose financial statements.

Ind AS 8, Accounting policies, Change in Accounting Estimates and Errors

- Definition of ‘**change in account estimate**’ has been **replaced by** revised definition of ‘**accounting estimate**’.
- As per revised definition, accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty.
- A company develops an accounting estimate to achieve the objective set out by an accounting policy.
- Accounting estimates include:
 - a) Selection of a measurement technique (estimation or valuation technique)
 - b) Selecting the inputs to be used when applying the chosen measurement technique.

Ind AS12, Income Taxes

- Narrowed the scope of the Initial Recognition Exemption (IRE) (with regard to leases and decommissioning obligations).
- Now **IRE does not apply to transactions that give rise to equal and offsetting temporary differences.**
- Accordingly, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on transactions such as initial recognition of a lease and a decommissioning provision.

Consider appropriate disclosures in the financial statements for the year ended 31 March 2023 of the amendments issued but not yet effective including assessment of possible impact in the period of initial application [Ind AS 8.30].

Reviews by NFRA

Reviews by NFRA - Revenue recognition and measurement⁴

- The National Financial Reporting Authority (NFRA) monitors the compliance with accounting standards and auditing standards and has the power to conduct investigations.
- Recently, NFRA has issued a circular dated 29 March 2023 with respect to identified non-compliance of provisions of Ind AS 115, *Revenue from Contracts with Customers* and Ind AS 109, *Financial Instruments*.
- Following are the key takeaways from the circular:

Revenue - Recognition and measurement

- ❖ Significant accounting policies disclosed by many companies incorrectly state that revenue is recognised and measured at fair value of the consideration received or receivable.
- ❖ Ind AS 115 requires an entity measure revenue at the transaction price excluding estimates of variable consideration that is allocated to that performance obligations.



Reviews by NFRA (cont.)

Trade receivables – Initial measurement

- ❖ As per Ind AS 109, all financial assets are required to be initially measured at fair value plus or minus the transaction costs and financial assets classified as FVTPL are required to be measured at fair value.
- ❖ However, an exception to this principle is financial assets in the form of trade receivables, that would be initially measured at transaction price (as defined in Ind AS 115) unless that contain a significant financing component determined in accordance with Ind AS 115 (or when an entity applies the practical expedient).
- ❖ Consistency should be maintained between the accounting policy for initial measurement of trade receivables and the accounting policy for measurement of corresponding revenue.



SEBI updates

SEBI board meeting⁵

With an aim to strengthen the securities market, on 29 March 2023, SEBI approved a slew of amendments to SEBI Regulations.

Some of the key decisions taken pertain to the following areas:

Introduction of ESG regulatory framework

Other amendments to LODR Regulations

Extension of timeline for compliance



ESG regulatory framework

BRSR Core

SEBI introduced a limited set of Key Performance Indicators (KPIs) under BRSR Core on which reasonable assurance is required

Applicability: Following glide path is prescribed:

- Top 150 listed entities (by market capitalisation) from FY 2023-24 and
- Gradually, applicability will be extended to the top 1,000 listed entities by FY 2026-27.

ESG disclosures for value chain

Introduction of ESG disclosures and assurance for the supply chain of companies.

Applicability:

- Disclosure requirement - Top 250 listed entities, on a comply-or-explain basis from FY 2024-25 and
- Assurance requirement - Top 250 listed entities, on a comply-or-explain basis from FY 2025-26.

ESG rating

- ESG Rating Providers (ERPs) are required to consider India/emerging market parameters in ESG ratings
- ERPs to offer a separate category of ESG rating called as 'Core ESG Rating', based on the assured parameters under BRSR Core.

Establishing a regulatory framework for ERPs: SEBI to introduce a regulatory framework for ERPs in securities market by introducing a new chapter in the SEBI (Credit Rating Agencies) Regulations, 1999.

ESG investing

- ESG schemes to invest at least 65 per cent of Asset Under Management (AUM) in listed entities, where assurance on BRSR Core is undertaken
- Mandatory third-party assurance and certification would be required by Board of Asset Management Company (AMCs) on compliance with objective of the ESG scheme
- Enhanced disclosures on voting decisions with specific focus on ESG factors
- Mandating disclosure of fund manager commentary and case studies to highlight application of ESG strategy is on the fund/investments.
- Introduction of a new scheme category, enabling the launch of multiple schemes on ESG related factors.

Amendments to LODR Regulations

Disclosure of material events

- Quantitative threshold for determining “materiality” of events/information
- **Disclosure of material events/information:**
 - a) Outcome of meetings of board of directors: within 30 minutes from the closure of the meeting (*currently 24 hours*)
 - b) Emanating from within the listed entity: within 12 hours from the closure of the meeting (*currently 24 hours*).
- **Verification of market rumours:** Entities would mandatorily be required to confirm or deny or clarify market rumours. Applicable to:
 - a) Top 100 listed entities with effect from 1 October 2023 and
 - b) Top 250 listed entities with effect from 1 April 2024.
- Disclosure for certain types of agreements binding listed entities.

Strengthening corporate governance

- Periodic approval by shareholders for any special right granted to a shareholder of a listed entity to address the issue of perpetuity of special rights.
- The extant mechanism of sale, lease or disposal of an undertaking of a listed entity outside the ‘scheme of arrangement’ framework to be strengthened.
- Approval of shareholders on a periodic basis made mandatory for directors serving on the board of a listed entity.

Amendments to LODR Regulations (cont.)

Corporate governance norms for HVDLEs

- Extended the applicability of corporate governance norms (i.e. Regulation 16 to 27 of LODR Regulations) on 'comply or explain' basis till 31 March 2024 (*earlier 31 March 2023*).

Compliance by Large Corporates (LCs)

- Currently large corporates are required to raise minimum 25 per cent of their incremental borrowings in a financial year through issuance of debt securities over a contiguous block of two years from FY 2021-22 onwards.
- SEBI through its circular dated 31 March 2023, extended the compliance period to a contiguous block of three years from FY 2021-22 onwards.

Other key reminders under SEBI LODR⁶

Shareholders' approval requirement for re-appointment of a person on the board of directors or a manager (Regulation 17)



Disclosure of details of material subsidiaries under corporate governance in the annual report for financial year 2022-23 and onwards. (Schedule V)



- **Expansion in the definition of 'senior management' to include functional heads also (Regulation 16)**
- Revised definition now aligned with the 2013 Act requirements. It would now comprise of members of management one level below the chief executive officer/managing director/whole time director/manager (including chief executive officer/manager, in case they are not part of the board), functional heads, company secretary and chief financial officer.



Year-end reminders

Maintenance of daily backups of electronic records⁷

Regulatory requirement



MCA amended certain provisions of the Companies (Accounts) Rules, 2014 relating to the manner in which books of accounts are to be kept in an electronic form. The amendments are given below:

- **Availability of books of account (Rule (3)(1)):** Books of account and other relevant books and papers maintained in an electronic mode should be accessible in India, **at all times.**
- **Maintaining of backups (Rule (3)(5)):** Back-up of books of account and other books and papers of a company should be maintained on **servers physically located in India on a daily basis.**
- **Service provider (Rule (3)(6)):** Additional disclosure to the Registrar of Companies (ROC) on an annual basis where the service provider is located outside India. These include name and address of the person in control of the books of account and other books and papers in India.

Key considerations



- Applicable since 11 August 2022, relevant to FY 22-23
- No bright lines as to what should be construed as 'books of account' and 'other relevant books and papers'
- Communication to the ROC with details of the service provider hosting books of accounts including name, IP address of physical servers and location of servers.
- Auditors to perform extended procedures to ensure compliance
- Non-compliance will impact reporting under Section 143(3)(b) of the Companies Act, 2013

Related party amendments⁸

In November 2021, SEBI issued amendments with respect to related parties and related party transactions, implemented in phased manner – few amendments applicable from 1 April 2022 and remaining 1 April 2023.

The key amendments are as follows:

Definition of Related Party

- As defined in Section 2(76) of the 2013 Act and the applicable AS or Ind AS
- Any person or entity forming part of the ‘promoter’ or promoter group’ of the listed entity (effective from 1 April 2022)
- Any person or any entity, holding equity shares directly or on beneficial interest basis at any time during the immediately preceding financial year: :
 - i. 20 per cent or more (applicable from 1 April 2022)
 - ii. **10 per cent or more (applicable from 1 April 2023)**

Definition of Related Party Transactions (RPTs):

- Listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand (applicable from 1 April 2022)
- **Listed entity or any of its subsidiaries on one hand and any other person or entity on the other hand, purpose and effect of which is to benefit the related party of the listed entity or any of its subsidiaries (applicable from 1 April 2023)**

Regardless of whether a price has been charged.

Related party amendments (contd.)

Modified from 1 April 2023

Audit committee approval:

- All RPTs and subsequent material modifications (applicable from 1 April 2022)
- A RPT to which a subsidiary of a listed entity is a party but the listed entity is not a party, if the value of such transaction whether entered into individually or taken together with previous transaction during the financial year exceeds threshold of:
 - i) 10 per cent of the annual consolidated turnover as per last audited financial statements of listed entity (applicable from 1 April 2022)
 - ii) **10 per cent of annual standalone turnover in as per last audited financial statements of subsidiary (applicable from 1 April 2023).**

Submission of half yearly RPT disclosure

- **From 1 April 2023, on the date of publication of the standalone and consolidated financial results** (*Within 15 days from date of publication till 31 March 2023*).

Provisions currently effective

Shareholder approval

- All material RPTs and subsequent material modifications of such transactions require prior approval of the shareholders of a listed entity
- No related party can vote to approve such transactions subject to certain exceptions.

Materiality Threshold

A RPT would be considered material, if the transaction entered individually or taken together with previous transactions during a financial year:

- Exceeds INR1,000 crore or
 - 10 per cent of the consolidated annual turnover of the listed entity as per last audited financial statements
- whichever is lower.

Q&A

Sources

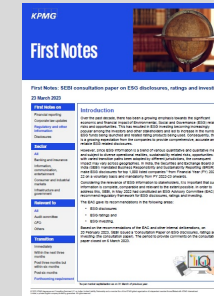
1. Companies (Accounts) Amendment Rules, 2021 and Companies (Audit and Auditors) Amendment Rules, 2021 dated 24 March 2021 and MCA notification no. G.S.R. 235(E) dated 31 March 2022
2. ICAI issued the 'Implementation Guide on Reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014', March 2023.
3. Companies (Indian Accounting Standards) Amendment Rules, 2023 dated 31 March 2023.
4. NFRA circular dated 29 March 2023.
5. SEBI board meeting press release PR No.6/2023 dated 29 March 2023.
6. SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2023 dated 17 January 2023.
7. Companies (Accounts) Fourth Amendment Rules, 2022 dated 5 August 2022.
8. SEBI LODR (Sixth Amendment) Regulations, 2021 dated 9 November 2021, SEBI circular SEBI/HO/CFD/CMD1/CIR/P/2022/40 dated 30 March 2022 and SEBI/HO/CFD/CMD1/CIR/P/2022/47 dated 8 April 2022.

Our publications

Accounting and Auditing Update



First Notes



Voices on Reporting – Quarterly updates publication



Coming up next

New issue of:

- Accounting and Auditing Update
- First Notes
- Voices on Reporting - publication

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