KNAV & CO. LLP

Chartered Accountants

ACCOUNTING & ASSURANCE NEWSLETTER
INDIA

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1. **Audit trail in accounting software- applicability deferred to FY 2022-23**

- Ministry of Corporate Affairs (MCA) vide its notification dated 24th March 2021, had mandated all companies to use such accounting software which has a feature of recording audit trail creating log of each change made in the books of account. This provision was earlier effective from 1st April 2021.

- MCA has now clarified that this requirement is applicable for the financial year beginning from 1st April 2022. Consequently, the companies will get sufficient time to add these features into their accounting software and comply with the requirements. In view of the above change, reporting requirement for the auditors also has been deferred to next financial year.

2. **New clauses added in audit report**

MCA vide its notification dated 24th March 2021 has added following additional matters in the Auditor's Report, w.e.f. 01st April 2021.

a. In respect of funds advanced, loaned or invested
   - whether the management has represented that, to the best of it's knowledge and belief, other than as disclosed in the notes to the accounts,
   - no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the company to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"),
   - with the understanding, whether recorded in writing or otherwise,
   - that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;

b. In respect of funds received
   - Whether the management has represented, that, to the best of it's knowledge and belief, other than as disclosed in the notes to the accounts,
   - no funds have been received by the company from any person(s) or entity(ies), including foreign entities ("Funding Parties"),
   - with the understanding, whether recorded in writing or otherwise,
   - that the company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;

c. Based on such audit procedures that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the representations under sub-clause (a) and (b) above, contain any material mis-statement.

d. Whether the dividend declared or paid during the year by the company is in compliance with section 123 of the Companies Act, 2013.

e. Whether the company has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention. (now applicable from FY 2022-23).

3. Expert advisory opinion

Background:

Expert advisory committee of Institute of Chartered of Accountants of India (ICAI) has recently issued opinion in case of a mining company in respect of following accounting issues:

- Whether the total payment including differential amount (i.e. actual payment minus estimated amount) of stamp duty and registration charges (renewal cost) for past period can be amortised over the future remaining useful life of lease period. Stamp duty and registration charges were payable in connection with renewal/extension of lease period in respect of the mines.

- Where the gross block is estimated and amortised, whether the differential gross carrying amount for the past period based on revised estimate, is to be charged fully in the year of revision(s).

Opinion is based on the following Ind AS:

- Ind AS 106 ‘Exploration for and Evaluation of Mineral Reserves’ wherein mining lease is initially recognised at cost and subsequently in accordance with Ind AS 38- Intangible Assets, considering that the mining lease is intangible in nature.
- Ind AS 37, ‘Provisions, Contingent Liabilities and Contingent Assets’.
- Ind AS 8, ‘Accounting Policies, Changes in Accounting Estimates and Errors’

Key principles applied & conclusion:

- As per Ind AS 38, in case the cost of renewal is significant when compared with the future economic benefits expected to flow to the entity from renewal, the renewal cost represents, in substance, the cost to acquire a new intangible asset at the renewal date.

- Since there was uncertainty with regard to amount of cost to be incurred at the time of renewal of lease, provision should be made for the renewal cost as per the requirements of Ind AS 37. The provision should be made on the basis of best estimate of the expenditure required to settle the present obligation of renewal cost. This provision should also be reviewed at each reporting date and adjusted to reflect the current best estimate.

- Further, the provision is in respect of the intangible asset (mining lease), it should be capitalised as a new intangible asset as referred above and should be amortised over its useful life (renewal period) or any other shorter period depending upon expected utilisation.

- In respect of difference between the actual expenditure incurred and provision made for renewal cost, the same should be considered as change in estimates as per the requirements of Ind AS 8.

- In case the remaining useful life viz., the remaining period of renewal for which such costs were estimated; has already expired, the change in estimates of the amount of renewal cost should be recognised as an expense in the period of such change.

- However, if there is any remaining useful life of the intangible asset at the time of change in estimates, the renewal cost should be amortised over the remaining renewal period of the lease.

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