

# Manubhai & Shah LLP

Chartered Accountants

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## NEWSLETTER

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Covering Updates for the Month of March' 23  
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# DIRECT TAX UPDATES

## I. CIRCULAR & NOTIFICATIONS

### 1. Extension for electronic filing of form 10F till 30.09.2023

(F. No. DGIT(S)/13420 dated 28.03.2023)

CBDT had mandated Non-Residents who are availing benefit of DTAA on payment received from Resident Indian to furnish Form 10F electronically vide Notification No. 03/2022 dated 16.07.2022.

CBDT has extended the date of exemption from electronic filing of form 10F till 30.09.2023 from 31.03.2023.

It is to be noted that the exemption is applicable to those Non-resident taxpayers who do not have PAN and who are not required to get PAN as per relevant provisions of Income Tax Act, 1961 r. w Income Tax Rule 1962.

### 2. Extension of Aadhar – PAN linking due date till 30.06.2023

(CBDT Press Release, Dated 28.03.2023)

CBDT has extended the due date for linking Aadhar card with PAN till 30.06.2023 by paying the due late fees. PAN of an individual will get deactivated if not linked with his/her Aadhar on or before 30.06.2023.

If the Aadhar PAN linking is done after 30.06.2023 by paying prescribed fees, his/her PAN will become operative within 30 days from the date of intimation of Aadhar no.

### 3. Amendment to Rule 114AAA- Consequences of PAN becoming inoperative

(CBDT Notification No. 15/2023 dated 28.03.2023)

CBDT has substituted Rule 114AAA vide this Notification which shall be effective from A.Y. 2023-24 wherein under sub-rule(3) it is provided consequences of inoperative PAN due to non-linking of PAN with Aadhar which are as under:

- Any tax refund due will not be paid during the period in which PAN remains inoperative.
- Interest on Income tax refund U/sec 244A will not be paid for the period during which the PAN remains inoperative.
- TDS/TCS will be deducted/collected against such PAN at higher rate as provided in the Act.

#### 4. Procedure for e-filing of Form 15C and 15D for NIL TDS deduction certificate (CBDT Notification No. 01/2023 dated 29.03.2023)

Rule 29B(3) of the Income-tax Rules, 1962 provides that a banking or insurance company shall make the application in Form No. 15C and any other person who carries on business or profession in India through a branch shall make the application in Form 15D to receive interest or other sum without deduction of tax at source under section 195 of the Income-tax Act, 1961.

CBDT has vide this notification prescribed procedure for filling an application in Form No. 15C/15D for grant of **NIL TDS deduction** certificate under section 195(3) of the Income Tax Act, 1961 through TRACES.

#### 5 Roll out of mobile app - 'AIS for taxpayer' (CBDT Press Release, Dated 22.03.2023)

As a part of digitization initiative, Income Tax Department has launched a Mobile app, namely, 'AIS for Taxpayer' to facilitate taxpayers to view information as available in the Annual Information Statement (AIS) / Taxpayer Information Summary (TIS).

Taxpayers can use the mobile app to view their information related to TDS/TCS, interest, dividends, share transactions, tax payments, Income Tax refunds, Other Information (GST Data, Foreign Remittances, etc.) as available in AIS/TIS. The taxpayer also has the option and the facility to provide feedback on the information displayed in the app.

To access this mobile app, the taxpayer needs to register on the app by providing PAN number, authenticate with the OTP sent on mobile number & e-mail registered on the e-filing portal. Subsequent to the authentication, the taxpayer can set a 4-digit PIN to access the mobile app.

## II. ARTICLE

### ENACTMENT OF FINANCE ACT 2023 WITH AMENDMENTS

The Finance Bill 2023 has been passed without any debate in the Lok Sabha on 24.3.2023 enacting the Finance Act 2023 with more than fifty amendments made in the Finance Bill 2023 which were directly presented before the Lok Sabha which received assent of Hon'ble President of India on 31.03.23. In this Article, we have discussed few significant amendments made to the Finance Bill 2023:

#### 1 New Rules for Taxation of Debt Mutual Funds

The initial Finance Bill 2023, had introduced a new section 50AA, providing that any gain/loss on transfer, redemption or maturity of the Market Linked Debenture (MLD) on or after 1.4.2023, shall be "short-term capital gain" irrespective of its period of holding.

This has now been extended to transfer or redemption of Specified Mutual fund also. Accordingly, any gain/loss on transfer or redemption of the **Specified Mutual fund acquired on or after 1.4.2023**, shall be "short-term capital gain" irrespective of its period of holding.

**"Specified Mutual Fund" is defined** as a Mutual Fund by whatever name called, **where not more than 35% of its total proceeds is invested in the equity shares of domestic companies. It is also provided that investment in equity shares shall be** computed with reference to its annual average of the daily closing figures. All liquid, debt, ETF, Fund of Fund and Fixed Maturity Funds shall get covered by this provisions.

It is provided that to determine percentage of equity investment held by the Specified Mutual Fund shall be computed with reference to the annual average of the daily closing figure.

By this amendment, **no benefit of indexation shall be available U/sec 48** on redemption of all debt/liquid mutual funds acquired on or after 01.04.2023. Accordingly, any **capital gain shall be taxable at regular income tax slab plus applicable surcharge and cess.**

#### 2. Increase in Tax Rate U/sec 115A in the hands of Non-Resident on income from Royalty and Fees for Technical Services(FTS)

The special tax rate U/sec 115A on Royalty and FTS income earned in India by a non-resident has been increased from 10% to 20%. This amended rate is applicable from 1st April, 2023.

Consequent to this amendment, a Non-resident will have to obtain PAN and file income tax return in India as most of the DTAA provides TDS rate on Royalty & FTS between Nil to 15%. This amendment is against the Government policy of ease of doing business in India as non-residents will get burdened with compliance of filing tax returns in India.

### 3. Exemption from capital gains on transfer of interest in a JV by a Public sector company

A new clause (xx) to Section 47 has been inserted by the amendment to the Finance Bill providing that transferring an interest in a Joint Venture (JV) by a Public sector company in exchange for shares in a foreign company shall not be considered as a transfer and therefore shall be exempted from capital gain.

A new sub-section (2AI) has also been added to Section 49 to provide that the cost of the interest in the joint venture shall be deemed to be the cost of acquisition of shares acquired by the Public Sector Company in exchange for shares in a foreign company.

### 4. Benefit of Marginal Tax relief under new tax regime

A proviso to section 87A has been inserted giving benefit of marginal tax Relief to resident individual taxpayer opting for new regime of taxation under sec 115BAC. However, such benefit is applicable from assessment year 2024-25 and onwards. **Therefore, the tax payable in such cases shall not exceed the amount by which the income exceeds RS. 7 Lakhs.**

### 5. Expansion of Scope of Section 10(4G) - exemption of the income received by a non-resident from specified activities carried out by a specified person

Section 10(4G) provides an exemption to income earned by a non-resident from its portfolio subject to the fulfilment of specified conditions.

The scope of this exemption has been expanded to income received by a non-resident from the specified activity carried out by the specified person as notified by the Central Government. However, the other conditions mentioned earlier shall continue to apply.

### 6. Exemption to income of Credit Guarantee Trusts/Funds -Sec 10(46B)

A new clause (46B) has been inserted to Section 10, which exempts the income of the following specified credit guarantee trusts and funds:

- i. National Credit Guarantee Trustee Company Limited (NCGTC).
- ii. Credit guarantee funds established and wholly financed by the Central Government and managed by NCGTC
- iii. Credit Guarantee Fund Trust for MSMEs (CGTMSE) created by CG and SIDBI

### 7. Amendment relating to TDS/TCS provisions:

Sr No	Section	Narration	Rate	Amendment
1	194BA	TDS on payment of <b>online games winning</b>	30%	This provision shall be effective from 01.04.2023 as against from 01.07.2023 .
2	194LC	TDS on interest payment on a long-term or rupee-denominated bond issued outside India on or after 01.07.2023 and such bonds are listed on a recognised stock exchange located in an International Financial Services Centre(IFSC)	9%	This provision shall be effective from 01.07.2023
3	206C(1G)	TCS on remittance made under LRS and on the sale of Tour Packages TCS on remittance made on the sale of Tour Packages	5% 20%	Under Clause (a) to section 206C(1G), the word "remittance made under LRS, out of India" has been omitted. Accordingly, any remittance made within India using Credit Card or to the GIFT city is also liable for TCS under this section . The First Proviso to this sub-section has been amended to provide that the exemption limit of Rs. 7 lakhs from TCS will be allowed only when the remittance is made for the purpose of education or medical treatment. This provision shall be effective from 01.07.2023

4	206CC(1)	Rate of TCS under Section 206C shall not exceed 20% if the collectee does not furnish his PAN	20%	This provision shall be effective from 01.07.2023
	206CCA(1)	Rate of TCS under Section 206C shall not exceed 20% if the collectee is a non-filer of income tax return	20%	

# ACCOUNTING UPDATES

## A. Ind AS Updates

Ministry of Corporate Affairs has amended Indian Accounting Standards by issuing the Companies (Indian Accounting Standards) Amendment Rules 2023. The amendment is applicable for annual reporting period beginning on or after April 01, 2023. Major amendments are detailed hereunder:

### **Amendment in Ind AS 101 and Ind AS 12: Exemption on Creation of Deferred tax related to leases and decommissioning, restoration and similar liabilities**

Old Provision of Ind AS 12 – Para 15	New Provision of Ind AS 12 - Para 15	Remarks
<p>A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:</p> <p>(a) the initial recognition of goodwill; or</p> <p>(b) the initial recognition of an asset or liability in a transaction which:</p> <p>(i) is not a business combination; and</p> <p>(ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).</p>	<p>A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:</p> <p>(a) the initial recognition of goodwill; or</p> <p>(b) the initial recognition of an asset or liability in a transaction which:</p> <p>(i) is not a business combination; and</p> <p>(ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss); and</p> <p>(iii) at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.</p>	<p>Even if initial recognition of an asset or liability affects neither accounting profit nor taxable profit, and results into equal taxable and deductible temporary differences, DTA and DTL both are required to be created in respect of that transaction.</p> <p>For example, at the commencement date of a lease, a lessee typically recognises a lease liability and the corresponding amount as part of the cost of a right-of-use asset. The exemption provided by paragraphs 15 and 24 does not apply to such temporary differences. Entity shall recognise resulting deferred tax liability and asset.</p>

### Corresponding Amendment made in Ind AS 101 which says:

Paragraphs 15 and 24 of Ind AS 12, Income Taxes exempt an entity from recognising a deferred tax asset or liability in particular circumstances. Despite this exemption, at the date of transition to Ind ASs, a first-time adopter shall recognise a deferred tax asset—to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised—and a deferred tax liability for all deductible and taxable temporary differences associated with:

- (a) right-of-use assets and lease liabilities; and
- (b) decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.”

### Amendment in Ind AS 1

The Word “**Significant Accounting Policies**” is now replaced with “**Material Accounting Policy Information**”.

Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

Corresponding changes have been made wherever applicable in other Ind Ass.

### Amendment in Ind AS 8

Earlier Ind AS 8 defines “Change in Accounting Estimates” which is now replaced with the definition of “Accounting Estimates”.

Old Provision of Ind AS 8 – Para 5	New Provision of Ind AS 8 - Para 5	Remarks
A “change in accounting estimate” is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.	“Accounting Estimates” are monetary amounts in financial statements that are subject to measurement uncertainty.	This definition segregates (i) measurement techniques and (ii) inputs to develop an accounting estimate from an accounting estimate. For example, Useful life of an asset is input, Straight line Method of Depreciation is measurement technique and Depreciation expense is an accounting estimate.

### B. EAC Opinion:

Expert Advisory Committee (EAC) of ICAI has provided an Opinion on Classification of Rail Corridor Asset in the books of account of the Company as tangible / intangible asset and its depreciation / amortisation

The relevant text of the Opinion is reproduced below:

“In the extant case, as per Concession Agreement, MoR (grantor) shall pay to the Company, 50% of the revenue apportionment from freight operations on the Rail System. Thus, the Company’s cash flows are dependent on usage of the system and the grantor neither contractually guarantees to pay the operator (the Company), specified or determinable amounts nor any shortfall between amounts received from users of the public service and specified or determinable amount. Therefore, in the extant case, the Company does not have an unconditional right to receive cash or other financial asset and, accordingly, the Concession Agreement does not result in a financial asset for the Company; rather, it would result in an intangible asset for the Company.

With regard to the method of amortisation used by the Company, the Committee is of the view that since the concession arrangement in the extant case results into an intangible asset for the Company, the requirements of Ind AS 38, 'Intangible Assets' in respect of amortisation shall be applicable in the extant case.

The Committee notes that, the option in Schedule II to the Companies Act, 2013 permitting use of revenue-based amortisation method for BOT road projects does not apply in case of Ind AS compliant companies. This exception only applies to companies following Companies (Accounting Standards) Rules, 2021. However, paragraph 7AA of Ind AS 38 read with paragraph D22 of Ind AS 101 provides an exemption to a first-time adopter of Ind AS to continue with the policy adopted for amortisation of intangible assets arising from service concession arrangements related to toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP. The Committee is of the view that such option under Schedule II as well as under Ind AS 101 are only applicable in case of intangible assets arising from toll road projects and not for any other projects. Accordingly, these options cannot be extended to railway infrastructure in the extant case.

The Committee notes that the Company is following depreciation policy based on the Agreed Targeted Traffic based on the Concession Agreement. The Committee notes that as per the requirement of Ind AS 38, the amortisation method is to be selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset over its useful life. Further, the useful life is influenced by both the economic and legal factors and it cannot exceed the period of contractual or legal rights. In the extant case, if the Company achieves the Target Traffic before/after the originally stated concession period of 30 years, the concession period is reduced/increased as per clause 24.1 of the Concession Agreement. The Committee notes that even though, to some extent, the length of concession period depends upon achievement of target traffic mentioned in the Agreement, the concession period or the period for the use of intangible asset is not solely or primarily dependent on the traffic as the concession period (as mentioned in clause 24.2.1 and 24.2.2 of the Concession Agreement) cannot be more or less than 5 years of the total originally stated concession period of 30 years. Although the target traffic may extend or shorten the concession period by a maximum period of 5 years, concession period is still fixed in terms of a range of period and the consumption of economic benefits from the intangible asset by the Company is uniform throughout such period. For instance, if the target traffic is achieved in say over 20 years, still the Company has the right over the intangible asset for another 5 years. Similarly, if the target traffic is not achieved even after 35 years, the right over intangible asset shall not be carried beyond 35 years. Thus, although target traffic may be used as one of the factors while determining (estimating) the useful life initially and for the annual review of the remaining useful life of the intangible asset (as per paragraph 104 of Ind AS 38) in the extant case, the same cannot be considered as the sole basis of amortisation of the intangible asset.

Therefore, the Committee is of the view that the Company's current depreciation/amortisation method, which appears to be based solely on targeted traffic, is not in compliance with the requirements of Ind AS or Schedule II for the reasons mentioned above. The Company should determine and follow an appropriate amortisation method in accordance with the requirements of Ind AS 38 based on the estimated useful life of the intangible asset falling within the range of the term of the concession agreement and should be reviewed annually for any change in the useful life."

EAC Opinion can be accessed at:

<https://resource.cdn.icai.org/73473cajournal-april2023-8.pdf>



# FOREIGN TRADE POLICY

## FOREIGN TRADE POLICY 2023

### Foreign Trade Policy 2015-20:

FTP 2015-20 which was to end on 31.3.2020 was extended due to COVID pandemic and volatile geo-political scenario till March 31, 2023

### New Foreign Trade Policy 2023:

The new Foreign Trade Policy 2023 was announced on March 31, 2023. FTP 2023 is dynamic and adaptable to the evolving trade landscape.

### New Approach:

From Incentives to Tax Remission: The FTP 2023 has shifted to tax remission and entitlement-based regime, compared with the incentives-based regime earlier.

Greater Trade facilitation through technology, automation, and continuous process re-engineering.

Focus on digitization and expeditious approvals, globalization of rupee, extending benefits to e-commerce industry.

Export promotion through collaboration: Exporters, States, Districts

Broke the tradition of a policy lasting for five years and will instead adopt a 'long-term' focus. Subsequent revision(s) in the FTP shall be done as and when required and shall not linked to any date.

The policy envisages online and automatic approvals of various permissions under Foreign Trade Policy-based on process simplification and technology implementation.

### Key Highlights:

1. **Amnesty Scheme for Default In Export Obligations:** Amnesty scheme to be proposed for earlier default in export obligations.
2. **Export Promotion Initiatives:**
  - a. Promotes trade in Indian Rupee
  - b. Introduces provisions for merchanting trade.
  - c. Export performance threshold for Recognition of Exporters as Status Holders rationalized.
  - d. Focus on engaging with states & districts through Districts as Export Hubs initiative.

### 3. Manufacturing Boost:

- a. The Prime Minister Mega Integrated Textile Region and Apparel Parks (PM-MITRA) scheme has been added as an additional scheme eligible to claim benefits under CSP (Common Service Provider) Scheme of Export Promotion Capital Goods Scheme (EPCG).
  - b. The dairy sector has been exempted from maintaining average export obligation.
  - c. Battery Electric Vehicles (BEV) of all types, Vertical Farming equipment, Wastewater Treatment and Recycling, Rainwater harvesting system and Rainwater Filters, and Green Hydrogen are added to Green Technology products – will now be eligible for reduced Export Obligation requirement under EPCG Scheme.
4. Under the new policy, Faridabad, Moradabad, Mirzapur and Varanasi have been declared as towns of export excellence.
  5. A special advance authorisation scheme has been extended to apparel, and clothing.
  6. Value limit for exports through courier service increased from Rs 5 lakh to Rs 10 lakh per consignment.
  7. Restructuring of Department of Commerce on the anvil to make it future-ready.
  8. Extends all FTP benefits to e-commerce exports.
  9. Aims at streamlining export of dual use items under SCOMET policy.



## RBI UPDATES

RBI has introduced FAQ on Legal Entity Identifier (LEI) for Cross-border Transactions pursuant to guidelines issued vide A.P. (DIR Series) Circular No. 20 dated December 10, 2021.

[https://rbi.org.in/scripts/FS\\_FAQs.aspx?Id=154&fn=5](https://rbi.org.in/scripts/FS_FAQs.aspx?Id=154&fn=5)



# ARTICLE ON BSR

## ARTICLE ON BSR {Business Responsibility and Sustainability Reporting}

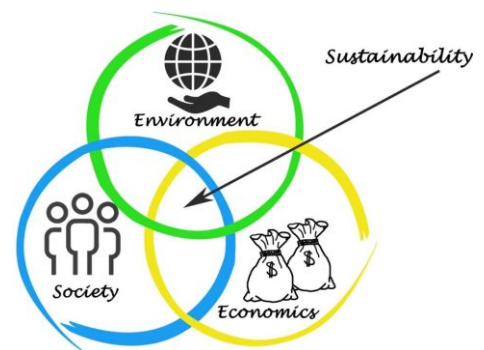
The SEBI, through a notification dated 5 May 2021, mandated for the top 1,000 listed companies in India to use a new reporting template called Business Responsibility and Sustainability Report (BRSR). The BRSR will replace the existing Business Responsibility Reporting format w.e.f. FY 2022-23.

It is important to know what sustainability is, before we understand BRSR.

Sustainability means Meeting the needs of the present without compromising the ability of future generations to meet their own needs, as resources are finite it should be used conservatively and wisely so as to balance environment, society and economy.

Under BRSR reporting is to be made in line with nine principles prescribed by MCA under National Guidelines on Responsible Business Conduct, 2018.

These principles are categorized into three components i.e. Environment, Social and Governance (referred to as ESG) with two in Environment, three in social and four in Governance.



### Structure of BRSR is as under:

- General Disclosures
- Management and process disclosures
- Principle wise performance disclosures in which
  - > Essential Indicators and;
  - > Leadership Indicators

### Nine Principles of BRSR are as under:

- Principle 1: Businesses should conduct and govern themselves with integrity, and in a manner that is ethical, transparent and accountable.
- Principle 2: Businesses should provide goods and services in a manner that is sustainable and safe.
- Principle 3: Businesses should respect and promote well-being of all employees, including those in their value chains.
- Principle 4: Businesses should respect interests and be responsive to all its stakeholders

- Principle 5: Businesses should respect and promote human rights
- Principle 6: Businesses should respect and make efforts to protect and restore the environment
- Principle 7: Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.
- Principle 8: Businesses should promote inclusive growth and equitable development
- Principle 9: Businesses should engage with and provide value to their consumers in a responsible manner

**Principle wise disclosure requirement under BRSR is tabulated hereunder :**

Principle	Essential Indicators	Leadership Indicators
Principle 1	7	2
Principle 2	4	5
Principle 3	16	6
Principle 4	2	3
Principle 5	10	5
Principle 6	15	9
Principle 7	3	1
Principle 8	5	7
Principle 9	7	5

**Conclusion:**

BRSR is going to get significance in years to come and entities shall have to be aware, develop policies, put it into practices, set goals and align business.



## **ARTICLE on Audit Trail Creation, Maintenance and Reporting:**

### **A. Introduction:**

Ministry of Corporate Affairs (MCA) has added Proviso to Rule 3(1) of Companies (Accounts) Rules, 2014 vide notification No. GSR 205(E) dated March 24, 2021 which states that:

For the financial year commencing on or after the 1st day of April, 2021, every company which uses accounting software for maintaining its books of account, shall use only such accounting software which has a feature of:

1. recording audit trail of each and every transaction,
2. creating an edit log of each change made in books of account along with the date when such changes were made and
3. ensuring that the audit trail cannot be disabled.

Corresponding amendment was made in Companies (Audit and Auditor) Rules, 2014, vide notification No. GSR 206(E) dated March 24, 2021 whereby auditor of the Company is required to report on:

1. 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
2. Whether the same has been operated throughout the year for all transactions recorded in the software
3. The audit trail feature has not been tampered with and
4. The audit trail has been preserved by the company as per the statutory requirements for record retention.

The Applicability of both the notifications were deferred by two more years and now both the provisions are applicable w.e.f. financial year commencing on or after April 1, 2023.

### **B. Applicability:**

The aforesaid provisions are applicable to all companies including small companies, section 8 companies as well as foreign companies. There is no threshold or exemption specified with respect to applicability of this provisions.

### **C. Audit Trail:**

The first and foremost question arises on reading of this requirement is what do we mean by Audit Trail and what is to be captured while recording Audit Trail.

The Implementation Guide issued by Institute of Chartered Accountants of India (ICAI Guidance Note) clarifies that Audit Trail (or Edit Log) is a visible trail of evidence enabling one to trace information contained in statements or reports back to the original input source.

Audit trails are a chronological record of the changes that have been made to the data. Any change to data including creating new data, updating or deleting data that must be recorded.

Records maintained as audit trail may include following information:

- 1) WHEN changes were made i.e., date and time (timestamp)
- 2) WHO made the change i.e., User Id
- 3) WHAT data was changed i.e., data / transaction reference; success/failure

Audit trails may be enabled at the accounting software level depending on the features available in such software or same may be captured directly in the database underlying such accounting software.

#### **D. Coverage:**

The question now arises in WHICH TYPE OF SOFTWARE and for WHICH KIND OF TRANSACTIONS, audit trail shall be maintained.

#### **Software**

The ICAI Guidance Note clarifies that for the purpose of audit trail, only those accounting software which are relevant for maintaining books of account should be considered.

"Books of Account" as per Section 2(13) of the Companies Act, 2013 includes records maintained in respect of:

- all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
- all sales and purchases of goods and services by the company;
- the assets and liabilities of the company; and
- the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section.

This means any software used to maintain books of account will be covered within the ambit of this Rule. For e.g., if sales are recorded in a standalone software and only consolidated entries are recorded monthly into the software used to maintain the general ledger, the sales software should also have the audit trail feature since sales invoices would be covered under Books of Account as defined under section 2(13) of the Act.

#### **Transactions**

By reading of the Account Rules, it may be noted that companies are required to maintain audit trail (edit log) for each change made in the books of account. Accordingly, the term 'all transactions recorded in the software' would refer to all transactions that result in change to the books of account.

For example, creation of a user in the accounting software may be construed as a transaction in the software. However, creating a user account in the accounting software would not change the records of books of account as defined in Section 2(13) of the Act whereas adding a new journal entry or changing an existing journal entry will be construed as a change made in books of account.

#### **E. Management Responsibilities:**

Management is primarily responsible for identifying the records and transactions that constitute books of account. Management is also responsible for selection of the appropriate accounting software for ensuring compliance with applicable laws and regulations. In order to demonstrate that the audit trail feature was functional, operated and was not disabled, a company would have to design and implement specific internal controls (predominantly IT controls) which in turn, would be evaluated by the auditors for the purpose of Reporting.

#### **F. Other Considerations:**

Sr No	Questions	Answers
1	Whether reporting with respect to financial year 2022-23 or any preceding financial year is required?	<p>The reporting requirement is prospective and will be applicable for reporting w.r.t financial year 2023-24.</p> <p>In respect of financial year 2022-23, where management has not been mandated to use the accounting software with requisite audit trail facility, the reporting against this clause can be as illustrated below:</p> <p>As proviso to rule 3(1) of the Companies (Accounts) Rules, 2014 is applicable for the company only w.e.f. April 1, 2023, reporting under this clause is not applicable.</p>

2	Whether reporting requirement will be applicable for Consolidated Financial Statements as well? What if there are certain components which are consolidated but are not covered under Companies Act (For example: Partnership Firm consolidated as Subsidiary)?	The auditor is required to comment on the above matters both in case of standalone financial statements and consolidated financial statements. However, while reporting on consolidated financial statements, the auditor may observe that certain components included in the consolidated financial statements are (a) either not companies under the Act, or (b) some components are incorporated outside India. In such case, auditor shall adopt the approach taken in case of reporting on various clauses of section 143(3) of the Companies Act. Reporting on compliance with Rule 11(g) would be done on the basis of the reports of the statutory auditors of subsidiaries, associates and joint ventures that are companies defined under the Act.
3	For how many years Audit Trail shall be preserved?	Eight Years as required by Section 128 of the Companies Act, 2013.
4	Whether this Rules are applicable if Company maintains its books of Accounts manually?	No, the rules are applicable only when Company uses accounting software for maintaining books of accounts.
5	Whether Auditor can take assistance of external specialist to evaluate the compliance of Audit trail related provisions?	Yes, Auditor can involve external specialists or experts in the field of Information Technology to assist in evaluation of management controls and configurations in the accounting software with regard to audit trail.
6	Whether audit trail related provisions are applicable when Accounting Software is hosted on Cloud or subscribed as Software as a Service (SaaS)?	Yes, It is applicable even when software is hosted on a cloud or at a place outside India or is subscribes as SaaS.
7	How to ensure the Compliance when Company has outsourced its book-keeping to a service provider who maintains software at its premises?	In case of accounting software supported by service providers, the company's management and the auditor may consider using independent auditor's report of service organization for compliance with audit trail requirements. The independent auditor's report should specifically cover the maintenance of audit trail in line with the requirements of the Act.
8	Whether Non-availability of Audit Trail implies that Auditor shall modify his/her opinion on financial statements and on IFCoFR?	It should be noted that mere non-availability of audit trail does not necessarily imply failure or material weakness in the operating effectiveness of internal financial controls over financial reporting (IFCoFR). Auditor shall assess the impact of non-availability of audit trail on his/her audit opinion and accordingly take decision based on professional judgement.

## G. Reporting:

Following are likely scenarios of Auditor's Reporting:

- 1) Management may maintain adequate audit trail as required by the Account Rules.
- 2) Management may not have identified all records/transactions for which audit trail should be maintained.
- 3) The accounting software does not have the feature to maintain audit trail, or it was not enabled throughout the audit period.
- 4) Audit trail feature was disabled for one of the books of account / records or for an accounting software (e.g., fixed asset software did not have audit trail).
- 5) Accounting software is maintained by third party and auditor is unable to assess whether audit trail feature can be disabled during the reporting period.
- 6) Audit Trail feature is not operating effectively during the reporting period.
- 7) The audit trail has not been preserved by the company as per the statutory requirements for record retention.
- 8) Migration from one software to the other happened during the year and company is in process of establishing necessary controls and documentations regarding audit trail.

An illustrative reporting formats are given by ICAI which can be accessed at

<https://resource.cdn.icaai.org/73438aasb59254.pdf>

#### **H. Representation and Documentation:**

The auditor shall obtain written representations from management on the aspects such as acknowledging management's responsibility, outcome of management's evaluation ensuring the adequacy and effectiveness of the company's procedures for complying to the requirements prescribed for audit trails.

The auditor may document the work performed on audit trail such that it provides:

1. A sufficient and appropriate record of the basis for the auditor's reporting under Rule 11(g); and
2. Evidence that the audit was planned and performed in accordance with this Implementation Guide, applicable Standards on Auditing and applicable legal and regulatory requirements.

#### **I. Conclusion:**

This is the unique reporting requirement introduced by Ministry of Corporate Affairs (MCA) of India. Globally, no similar reporting obligation exists for the auditors in any country. Further, as far as the management of the Company is concerned, since the primary responsibility for establishing and maintaining audit trails is that of the management and the board of directors of the company, the management should ensure that the board of directors approving the financial statements of the company also takes on record the policies and procedures as laid down by the management in respect of assertion and conclusion on the adequacy and operating effectiveness of audit trails. Additionally, the board should also take on record the deficiencies, significant deficiencies and material weaknesses identified by the management, internal auditors, and the auditor.



## DUE DATES

### Due dates of various compliances falling in the month of April 2023

S.No	Due Date	Act/Authority	Compliance Description
1	01-04-2023	Companies Act, 2013	Every company is required to maintain audit trail in their Accounting Software from April 1, 2023.
2	07-04-2023	Income tax	Deposit of Tax Collected at source (TCS) during the month of March-2023
3	07-04-2023	RERA	Filing of Quarterly Progress Report for the financial quarter ended on March-2023
4	10-04-2023	GST	GSTR-7 for the month of March-2023 for persons required to deduct TDS under GST Regime
5	10-04-2023	GST	GSTR-8 for the month of March-2023 for e-commerce operators required to Collect TCS
6	11-04-2023	GST	GSTR-1 for the month of March-2023 for taxpayers having turnover more than Rs. 5 crores or opted to file Monthly Return
7	13-04-2023	GST	GSTR-1 for the quarter ended March-2023 for taxpayers who opted for Quarterly Return Monthly payment (QRMP) Option
8	13-04-2023	GST	GSTR-5 by Non-resident taxable person carrying out business in India for the month of March-2023
9	13-04-2023	GST	GSTR-6 for the month of March-2023 for Input Service Distributor (ISD)
10	15-04-2023	PF/ESIC	Payment of PF / ESIC for the month of March-2023
11	18-04-2023	GST	CMP-08- Statement cum Challan for the quarter ended on March-2023 for composition Dealer
12	20-04-2023	GST	Payment of GST & Filing of GSTR-3B for the month of March -2023, for taxpayers having turnover of more than Rs.5 Crore in preceding financial Year or who have opted to file Monthly Return
13	20-04-2023	GST	GSTR- 5A by Non-resident taxable OIDAR service provider for the month of March-2023
14	22-04-2023	GST	Payment of GST & Filing of GSTR-3B for the Quarter ended March-2023 for taxpayers who opted for Quarterly Return Monthly payment (QRMP) Option depending on place of business (State)
	24-04-2023		Payment of GST & Filing of GSTR-3B for the Quarter ended March-2023 for taxpayers who opted for Quarterly Return Monthly payment (QRMP) Option depending Upon place of business (State)
15	30-04-2023	GST	Filing of Annual Return in GSTR- 4 for the year ended on March-2023 for composition Dealer
16	30-04-2023	GST	Opting in/out of Quarterly Return Monthly Payment (QRMP) option for financial year 2023-2024
17	30-04-2023	Income tax	Furnishing of challan-cum statement of tax deducted under 194-IA, 194-IB , 194M and 194S in the month of March-2023
18	30-04-2023	Income tax	Deposit of Tax Deducted at Source (TDS) for the month of March-2023
19	30-04-2023	Companies Act, 2013	Filing of MSME-1 in respect of outstanding payment by company to Micro and Small Enterprise as of March 31, 2023

# LIFE IS UNPREDICTABLE. DON'T CLOSE YOUR MINDS TO POSSIBILITIES.

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