

NANGIA & CO LLP
CHARTERED ACCOUNTANTS



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Foreword

India's economy is far better placed today as the country's GDP growth rate and foreign exchange reserves are high. The regulators continue to support the economy by bringing up the necessary amendments for good corporate governance.

To ensure the above said objectives are attained, the Government with the Regulators assure the translucent and fair financial reporting.

We have highlighted the attempts by the regulatory Bodies – SEBI, MCA and ICAI vide its recent guidelines to enhance the transparency, credibility and accountability of the corporate entities through enlargement in applicability of Ind AS to the MFs in the format specified by the Board from time to time, Introduction of special platform for the start-ups looking for listing, Insertion of availability of audit trail in the software used by the corporates and announcement regarding peer review of the Chartered Accountant Firms respectively.

SEBI, with a view to ease of doing business and protecting investor's interest, has been proactive by introducing various reforms including applicability of Ind AS on MFs, clarification on first time adoption of Ind AS, formats to be used while preparing these financial statements etc.

We aim to provide knowledge to the corporates regarding introduction of a special platform for the start-ups looking for a listing which is called Innovators Growth Platform (IGP). This is a platform that has limited liquidity compared to the mainboard where all the blue-chip stock trades.

We attempt to provide an overview in a simplified manner on the availability of audit trail in software used by the companies for maintaining their books of accounts, MCA made it as part of legal compliance. We believe that our publication will be beneficial to you enabling adherence to compliances and ensuring better corporate governance.

Hope you will find it useful and informative. Wishing your health and happiness!!



Table of Contents	Page No.
SEBI mandates Ind AS for Mutual Funds	4
MCA nudges SEBI on start-up listing rules	6
Audit Trail under the Companies Act 2013	8
Peer Review Mandate-Roll Out	10



SEBI mandates Ind AS for Mutual Funds

The Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 (MF Regulations) lay down the regulatory framework for operations and functioning of Mutual Funds (MFs). The Mutual Fund Regulations are amended by SEBI from time to time to enhance transparency and disclosures, to address emerging issues, to protect the interests of investors, and to strengthen the regulatory framework of MFs.

On 25 January 2022, SEBI vide a notification issued the SEBI (Mutual Funds Amendment) Regulations, 2022. As per this notification, the financial statements and accounts of MF schemes will be prepared in accordance with Indian Accounting Standards (Ind AS). Additionally, SEBI vide circular dated 4 February 2022 provided certain guidelines on accounting with respect to Ind AS for MFs. The circular also provides specific formats of the financial statements to be prepared for the MF schemes under Ind AS. The requirements of the circular will become applicable from 1 April 2023.

Accordingly, the following requirements are specified:

I. First time adoption of Ind AS

The circular clearly requires the mandatory application of Ind AS by MFs for preparation of the financial statements from 1 April 2023. Accordingly, the first set of the financial statements under Ind AS by MFs shall be for the annual period ending 31 March 2024. MFs will be required to consider the principles laid down in Ind AS 101, First-time adoption of Indian Accounting Standards, while drawing up the financial statements for the annual period ending 31 March 2024.

Ind AS 101 requires presentation of an opening balance sheet as at the beginning of the comparative period i.e. 1 April 2022. This date is referred to as the date of transition. All necessary adjustments arising from application of Ind AS are required to be identified and adjusted in the opening balance sheet to the respective assets and liabilities with the corresponding impact to opening retained earnings as at 1 April 2022. Accordingly, MFs will be required to maintain two sets of accounting records during the annual period ending 31 March 2023 - one based on Ind AS and another based on the existing MF Regulations.

Also, SEBI has certain tweaked guidelines to align with Ind AS requirement regarding transactions cost of investment to be expensed out (viz. to be charged to Revenue Account instead of Capitalization). As part of the modification, SEBI said brokerage and transaction cost incurred for the purpose of execution will be charged to the schemes up to 12 bps and 5 bps for cash market transactions and derivatives transactions, respectively. Any payment towards brokerage and transaction costs, over and above the said 12 bps and 5 bps for cash market transactions and derivatives transactions, respectively may be charged to the scheme within the maximum limit of total expense ratio (TER).

II. Perspective historical per unit statistics

The MF Regulations require disclosure of scheme wise per unit statistics for the past three years. In this regard, the circular provides that the MF schemes may not be mandatorily required to restate the previous years published perspective historical per unit statistics as per requirement of Ind AS for the first two years from first-time adoption of Ind AS.

However, MF schemes should furnish following additional information in perspective historical per unit statistics:

- Label the previous Generally Accepted Accounting Principles (GAAP) information prominently as not being prepared in accordance with Ind AS, and
- Disclose the nature of the adjustments that would be required to make it comply with Ind AS. MF Schemes need not quantify those adjustments.

For the Financial Year 2023-24 following could be the manner of disclosures for perspective historical per unit statistics:

Financial Year	31 March 2021	31 March 2022	31 March 2023	31 March 2014
GAAP	Previous GAAP	Previous GAAP	Previous GAAP	Ind AS numbers available as this would be the year of adoption of Ind AS

III. Financial Statements of the Mutual Fund Schemes shall be prepared in the specified formats.

Nangia's Take

- SEBI's move of mandating Ind AS for Mutual Funds seems like a measure to fill the gap. These steps are majorly inspired by the need for more transparency and promptness of information. MFs have limited time to gear up for the transition with the date of transition being 1 April 2022. MFs will, therefore, need to invest time and plan the transition to Ind AS. In addition to the financial reporting impacts, MFs will also have to assess impact on other stakeholders such as investors and analysts. MFs should immediately undertake a holistic assessment and gear up with a robust implementation plan to deal with a change of this magnitude within the fairly short timelines.

“MCA nudges SEBI on start-up listing rules”

SEBI has introduced a special platform for the start-ups looking for a listing, which is called Innovators Growth Platform (IGP). This is a platform that has limited liquidity compared to the mainboard where all the blue-chip stocks trade.

A start up that has listed on the IGP platform can migrate to the mainboard provided the company meets several general and specific conditions. The **general conditions** are as follows:

- The company should have been listed on the Innovators Growth Platform for a minimum period of one year.
- At the time of making the application for trading under regular category of main board, the number of shareholders should be minimum 200.
- The company, any of its promoters, promoter group or directors are not debarred from accessing the capital market by the Board
- None of the promoters or directors of the company is a promoter or director of any other company which is debarred from accessing the capital market by the Board.
- The company or any of its promoters or directors is not a wilful defaulter.
- None of the promoters or directors of the Company is a fugitive economic offender.

Subject to fulfilment of the general conditions, the following conditions also have to be fulfilled by the companies listed on IGP desirous of shifting to trade under regular category of main board of stock exchanges which are as follows:

- The Company has net tangible assets of at least three crore rupees, calculated on a consolidated basis, in each of the preceding three full years (of twelve months each), of which not more than fifty percent are held in monetary assets.

- The Company has an average operating profit of at least fifteen crore rupees, calculated on a consolidated basis, during the preceding three years (of twelve months each), with operating profit in each of these preceding three years.
- The Company has a net worth of at least one crore rupees in each of the preceding three full years (of twelve months each), calculated on a consolidated basis.
- If the Company has changed its name within the last one year, at least fifty percent of the revenue, calculated on a consolidated basis, for the preceding one full year has been earned by it from the activity indicated by its new name.
- A company not fulfilling the conditions stipulated (a)-(d) above, shall, at the time of applying to trade under the regular category, have seventy five percent of its capital, as on date of application for migration, held by Qualified Institutional Buyers (QIB).
- The requirement related to restated accounts shall not apply to companies desirous of trading under regular category of main board of Stock Exchanges.



Recent Changes suggested by SEBI in the above specific conditions:

The start-up listed on IGP platform can migrate to the mainboard on fulfilment of certain conditions of thresholds covered in point (a) to (d). However, point (e) provides relaxation that it can still migrate to the mainboard provided 75% of the shareholders of the company are institutional investors. Several start-ups and Venture Capital firms made representations to SEBI seeking a relaxation to this rule since it was difficult to achieve 75% institutional holding.

Considering the representations made, SEBI proposed this stipulation of 75% of capital with QIB's to 40%. However, The Ministry of Corporate Affairs (MCA) has nudged the market regulator SEBI to partially rollback a relaxation proposed for listing of start-ups in India. MCA opposed this relaxation saying the limit was too lenient and instead recommended that the threshold should be 50%. MCA has commented that the 40% dilution is too low and must be reviewed so that the Company does not take unfair advantage of having first listing with IGP and then getting moved to Mainboard," said minutes of SEBI board meeting dated March 25, 2021. In view of the comments from MCA, SEBI eventually agreed that, 'we may reduce this stipulation of 75% of capital with QIB's to 50% instead of 40%'.

Nangia's Take

The eligibility criteria for companies desirous of listing on mainboard is stringent in order to ensure a certain degree of credibility. If companies listed on IGP are allowed to be traded in regular category of main board without following a stringent criteria, same may be misused to bypass the rigorous route of coming up with a main board IPO. Hence, the MCA's suggestion is welcomed by SEBI.



Audit Trail under the Companies Act 2013

Audit trails are the process of recording the user transactions either manually or electronically. However, audit trails are more effective if they are electronic and real-time as it provides a “baseline” for analysis or an audit when initiating an investigation. These transactions are recorded chronologically with the proper edit log of any modifications made in the books. In the absence of logging and monitoring of user activities, vulnerabilities occur if the critical risk events are not logged off properly and the systems are not under monitoring.

The Ministry of Corporate Affairs understands importance of such logs and the vulnerabilities it cause and therefore, has directed companies to implement the audit trail. The new rule mandates the use of accounting software that has an audit trail (edit log) feature to record all transactions and track any changes made to the same. This requires all software companies to gear up and introduce such functionality otherwise the companies will have to move to other accounting software. Considering the operational difficulties and efforts involved, MCA has given a year’s timeline to companies to implement the requirement of audit trail.

According to the recent notification dated 31st March 2022, the new audit trail rule in accounting software will now be implemented from 1st April, 2023. This was originally planned for 2021 but later the effective date has been moved to 1st April 2022 and now further postponed to 2023.

This new rule would enable businesses to track all financial activities while helping to maintain transparency and detecting fraud. It would maintain an edit log of any changes made pertaining to various financial transactions, thereby improving business accuracy.

This move will help curb back-dating of transactions and will position the auditors in a much stronger role with the responsibility to review and report the controls.

The amendment was brought to existence for the following reasons:

- **System Transparency:** The audit trail will bring transparency in transactions and will create a surge in tax revenue collection. This will boost the economy and significantly plugs out the possibilities of the parallel black economy.
- **User Accountability:** Appropriate user behaviour can be expected after implementing audit trails as the user knows that their actions are automatically recorded and tied to their unique identity.
- **Intrusion Detection:** Unauthorized access is a serious problem for most systems and audit trails aid in identifying suspicious behaviour or actions.
- **Minimizing Fraud:** With the launch of GST e-invoicing for businesses and this new rule about accounting software having an audit trail, the government has shown it is serious about minimizing fraud. This will also mitigate the risks arising from unverifiable transactions and help the government protect its own revenues.





Challenges in implementation of audit trail:

Many companies are considering this change as the impact on their compliance cost. Others are worried about how they can address this. While the audit trail aims to track, penalise, and discourage fraudulent changes in accounting entries, it is important to note that there is an aspect of 'human error' involved. The accounts team and management will be cautious and unintentional error corrections at times may become a concern or subject matter of discussion with the auditor.

Nangia's Take

It seems that the intention of the government to make mandatory the requirement of audit trail in accounting software used by the client is to reduce the possibility of frauds committed by the management while preparing the financial statements. This step would caution the client from passing spurious/ bogus transactions to alter the financials. Maintaining the audit trail would also help in detecting the frauds by reaching the source person of the fraud. In addition, government has increased the reporting requirement of auditor by mandating the auditor to comment on the audit trail maintained by the client. Auditor is also required to comment whether the audit trail feature has not been tampered with. The management should take it seriously and should initiate checking such functionality in the accounting software they use and a capable team that understands this feature and its impact.

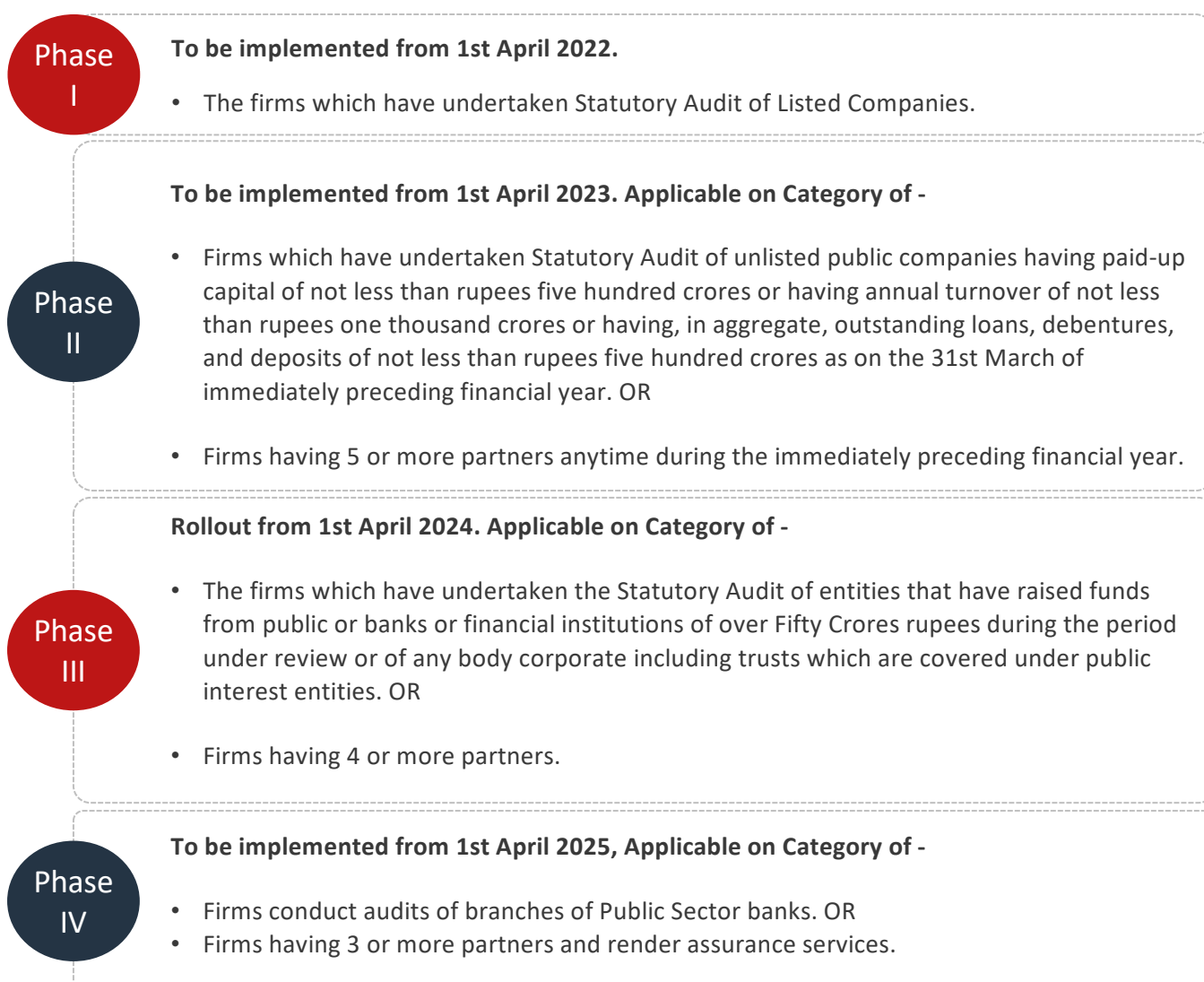
Peer Review Mandate - Roll Out

The term "peer review" would mean review of work done by a professional by another professional of similar standing.

In the era of increasing cases of corporate frauds, the Regulator highlighted the role of auditor over the quality of audit work. The ICAI has taken a forward step to mandate peer review for improving the quality of audit and this will enhance reliance of Regulator and Stakeholder on Financial Statements audited by peer reviewed firms.

Considering the importance of Peer review at the 407th Meeting of the Council held from 7th - 9th January 2022 decision to mandate the Peer Review process for coverage of more firms under Peer Review process was notified by ICAI.

The roll out shall be made in four following stages:



Nangia's Take

The peer review norm is a step towards boosting stakeholders' confidence along with enhancing the Quality of services rendered by the members of the profession. It is a proactive measure towards better governance. Compliance of the Peer Review Guidelines will ensure proper systems including documentation thereof, to amply demonstrate the quality of the Assurance services.

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