

Query No. 34

Subject: *Recognition of liability towards planned expenditure committed for Stage-II Forest Clearance and Environmental Management Plan under Environmental Clearance of Bauxite Mine received from MoEF&CC, under Ind AS framework.*¹

A. Facts of the Case

1. A company (hereinafter referred to as ‘the Company’) is a public sector enterprise under the administrative control of Ministry of Mines, Government of India (GoI) and is engaged in mining of bauxite, manufacturing of alumina and aluminium, generation of power at captive power plant for use in smelter, and selling of alumina and aluminium both in domestic and international markets. Besides, the Company is also engaged in generation of wind power with setting up of wind power plants at distinct locations in the Country. The Company has the following production units:

- (i) Fully mechanised Open Cast Bauxite Mine having excavation capacity of 75 lakh tonnes per annum (p.a.) for production of bauxite
- (ii) Alumina Refinery having production capacity of 22.75 lakh tonnes p.a.
- (iii) Captive Power Plant having power generation capacity of 1200 MW
- (iv) Aluminium Smelter Plant of 4.60 lakh tonnes capacity p.a.
- (v) Coal Mines for supply of coal to Captive Power Plant

In addition, there are 4 Wind Power Plants of 198 MW located in various states.

2. Mines Division, which is located uphill, serves feed-stock to the Alumina Refinery located 16 Km downhill. Apart from domestic and export sale of alumina, Refinery provides alumina through specially designed rail wagons to Smelter Plant which is about 600 Km away. For production of 1 Metric Tonne (MT) of aluminium at Smelter, about 14,000 Kilowatt-hour (KWH) of power is required, which is met by Captive Power Plant situated at 4 Km away from the Smelter Plant. Calcined alumina and thermal power are two important inputs for producing aluminium. The production process starting from Bauxite Mines to Alumina Refinery to Aluminium Smelter and Captive Power Plant is fully integrated. Sale of alumina and aluminium is the main source of revenue for the Company. Its product profile includes hydrate, calcined alumina, ingots, billets, wire rod and rolled products.

3. The querist has informed that the Company has been allotted a new bauxite mine to securitise bauxite for its Alumina Refinery. The Company has obtained statutory clearances e.g. Stage-I and Stage-II forest clearance from Forest Conservation Division of the Ministry of Environment, Forest and Climate Change (MoEF&CC) for operation of new bauxite mine. Environmental Clearance (EC) has also been obtained from the Impact Assessment Division of MoEF&CC with certain conditions to monitor and control the impact of pollution around the mining area. These statutory clearances are mandatory before entering into mining lease agreements. Sequence of various statutory clearances of opening of mine is as under:

¹ Opinion finalised by the Committee on 7.1.2025.

- (i) Forest Clearance -Stage-I
- (ii) Forest Clearance - Stage-II
- (iii) Environmental Clearance
- (iv) Mining Lease Agreement
- (v) Consent to opening of mines
- (vi) Operationalisation of mines

4. *Accounting followed by the Company for planned expenditure committed while obtaining forest clearance of Bauxite Mine:*

The MoEF&CC granted Stage-1 forest clearance on 10.01.23 for non-forestry use of forest land of 697.979 hectare (ha) under the Forest (Conservation) Act, 1980. The clearance by MoEF&CC was subject to fulfilment of certain conditions prior to handing over of forest land to the Company. These conditions are to be complied with prior to grant of Stage-II clearance and approval by the MoEF&CC.

The Company has complied with the conditions like compensatory afforestation, net present value of the forest land being diverted for non-forestry use, gap planting and soil & moisture conservation etc. and deposited the specified amounts (₹ 262.12 crores) as demanded by Forest Department in the respective heads for carrying out those activities. The amount so deposited was recognised by the Company as 'Intangible Assets under development' as per its accounting policy.

5. There are some other conditions to undertake various activities of revenue nature in the mining lease area. Details of such conditions are as follows:

SI No.	Condition No.	Details of conditions	Amount estimated by the Authority (₹ Cr)
1	4(i)	Mitigative measures to minimise soil erosion and choking of streams	0.32
2	4(ii)	Planting of drought hardy species and sowing seeds	0.80
3	4(iii)	Construction of check dams, retention/toe walls to arrest sliding down of the excavated materials	0.96
4	4(iv)	Stabilise the overburden dumps by appropriate grading and benching	3.37
5	4(v)	Top soil management plan	1.26
6	6	Desilting of village tanks and water bodies	0.06
7	7(iii)	Development of green belt and dense canopy in safety zone area	3.12
		Total	9.89

The Company has provided an undertaking to carry out those activities of revenue nature in due course of operation of mine. Based on such compliances, the Company obtained Stage-II forest clearances of the Bauxite Mines on 26.07.23 for non-forestry use of the land. Since the execution of mining lease agreement and mine opening permission was not obtained, the Company has not recognised these commitments as liability towards such expenditure on

reporting date. The Company is of the view that *obligating event for recognising such liability and corresponding asset is the execution of mining lease which was not completed till the approval of financial statements of the Company for financial year (F.Y.) 2023-24 and accordingly, liability has not been recognised for such commitment of ₹ 9.89 crores on 31-03-24. (Emphasis supplied by the querist.)*

6. *Accounting followed by the Company for Committed Expenditure on Environmental Management Plan (EMP) for Operation of Bauxite Mine:*

The MoEF&CC has granted Environment Clearance (EC) on 30.06.23 for operation of bauxite mine under the provision of Environment Impact Assessment (EIA) notification 2006.

The said EC has been granted subject to compliance of some specific conditions mentioned at ‘Clause xvii of EC: Details of EMP’

The proposed plan for procuring equipment and execution of related works for efficient control and monitoring of pollution under EMP are:

SI No.	Activities	Details	Amount in ₹/Cr
1	Air Pollution Control	Water Sprayer - Stationary and Mobile	10
2	Water Pollution Control	Sewerage Treatment Plant, Garland Drains, Retaining Wall, Check Dams, Storm Water Drains, Rain Water Harvesting	30
3	Noise Pollution Control	Acoustics Enclosure, etc.	5
4	Pollution Monitoring	Laboratory Testing Equipment, High Volume Air Sampler, Respirable Dust Sampler, Micrometeorological Station, etc.	20
5	Safety & Health	Fire Fighting Equipment (Portable and Fixed), Personal Protective Equipment, etc.	15
6	Greenbelt	Afforestation and Reclamation, lawns	30
7	Miscellaneous Items	Street Lighting etc.	10
	Total		120

Clause xix of EC states that “The Project Proponent should adopt the proper mitigation measures as proposed under Environmental Management Plan (EMP) with budgetary provision of ₹120.0 Cr. The adoption of mitigation measures and monitoring of the same as proposed in the EMP shall be done under the supervision of the qualified environmental personnel. The implementation status of the same shall be submitted to the Ministry’s Integrated Regional Office.”

All the above-mentioned equipments/works are to be procured and installed / executed (with budgetary provision of ₹ 120 crores) during the operation of mine around the project areas to control and monitor the pollution as per the condition of EC. The Company is also required to incur recurring expenditure of around ₹ 12 crores every year for maintenance of these equipments for efficient control and monitoring of pollution.

The Company has not recognised any liability towards commitment for such planned capital expenditure of ₹ 120 crores in the books as on 31-03-24 as obligation for carrying out such activities has not occurred on the reporting date. It may be noted that such activities can only be implemented after due commencement of operation of mine. Hence, the Company shall recognise corresponding assets and liabilities on implementation of EMP as and when procurement of equipment/execution of works starts during the operation of mine.

The Company is of the view that obligating event for recognising such liability and corresponding asset is the implementation of EMP upon procurement of equipment/execution of works.

Auditor's observation:

7. During supplementary audit of accounts for the financial year (F.Y.) 2023-24 by the office of the Comptroller and Auditor General of India, audit had issued the following observations for not recognising the liabilities and its corresponding assets on the reporting date:

(i) *Accounting of Expenditure on Statutory Clearance (required for Stage II forest clearance)*

The undertaking given by the Company to MoEF&CC to undertake certain activities which were preconditions for obtaining Stage-II clearance of the mining area constitutes a present obligation resulting from a past event (the Stage-I and Stage-II forest clearances) as per Indian Accounting Standard (Ind AS) 37, 'Provisions, Contingent Liabilities and Contingent Assets'. It is also probable that an outflow of resources will be required to settle this obligation, and a reliable estimate of ₹ 9.89 crores is available. Non-provision of the same has resulted in understatement of other current liabilities as well as capital work-in-progress (CWIP) by ₹ 9.89 crores.

(ii) *Accounting of Expenditure on Environmental Management Plan (required for Environment Clearance)*

The requirement to adopt mitigation measures as proposed under Environmental Management Plan with a budgetary provision of ₹ 120 crores constitutes a present obligation resulting from the Environmental Clearance granted by the MoEF&CC as the Company has to incur expenditure of ₹ 120 crores on procuring the equipment for efficient control and monitoring of pollution. It is probable that an outflow of resources (₹ 120 crores) will be required to settle this obligation. Hence, a suitable liability is required to be recorded in the accounts on the reporting date. Non-provision of the same has resulted in understatement of other current liabilities as well as CWIP by ₹ 120 crores.

8. *Views of the Management:*

(i) *Accounting of Expenditure on Statutory Clearance (required for Stage II forest clearance)*

Though the Company has provided an undertaking to carry out the specified activities for ₹ 9.89 crores for obtaining Stage-II forest clearances of the mine, the obligating event for recognising such liabilities and its corresponding asset is the execution of mining lease with the local authority for use of the land for mining operation. Accordingly, liabilities towards such activities will be recognised on execution of mining lease which was not executed on the reporting date.

(ii) *Accounting of Expenditure on Environmental Management Plan (required for Environment Clearance)*

Implementation of EMP as per the environmental clearance received from MoEF&CC will start after commencement of mining operation. For implementation of EMP, the Company has to procure and install various equipments and undertake certain works as mentioned in EC for efficient control and monitoring of pollution caused due to excavation of bauxite from the mine. All such expenditures shall be capitalised under the respective Tangible Assets under PPE depending upon their nature. Therefore, obligating event in the extant case is the procurement of pollution control equipment and execution of various works under implementation of EMP which is yet to be started. Accordingly, such commitment given by the Company while obtaining EC is in the nature of capital commitment (that will result into tangible assets in future i.e. upon operationalisation of mine) which requires disclosure till its execution. Hence, the Company has not recognised any liability towards such expenditure in the books of account on the reporting date.

(Emphasis supplied by the querist.)

B. Query

9. On the basis of above, the querist has sought the opinion of the Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) in respect of the following:

- (i) Whether the approach followed by the Company to recognise liabilities and corresponding assets arising out of the undertaking given to MoEF&CC for specified activities while obtaining Stage-II forest clearances of the mine is correct and in line with applicable Ind AS.
 - a. If answer to the above is affirmative, the Company would practice the same for all mines in future.
 - b. Else, what will be the timing of recognising such commitment in the books?
- (ii) Whether the practice followed by the Company of recognising the liability on procurement of pollution control equipment or on execution of works approved under Environmental Management Plan is in line with the applicable Ind AS.
 - a. If answer to the above is affirmative, the Company would practice the same for all mines in future.

- b. Else, what will be timing of recognising such commitment in the books of account?
- c. Will it be appropriate to recognise liability for such commitment on the date of receipt of EC with corresponding asset without any physical possession/progress of the work?

C. Points considered by the Committee

10. The Committee notes that the basic issue raised by the querist relates to timing of recognition of provision/liability towards planned expenditure committed for obtaining Stage-II Forest Clearance and towards Environmental Management Plan for obtaining Environmental Clearance (EC) of Bauxite Mines allotted by the MoEF&CC, under Ind AS framework. The Committee has therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, accounting for specified amounts deposited with Forest Department for Stage I forest clearance and its recognition as 'Intangible Assets under development', measurement of provision (if any), accounting for recurring expenditure of around ₹ 12 crores required to be incurred every year for maintenance of the equipment for efficient control and monitoring of pollution, revenue recognition for domestic and export sale of alumina, accounting for captive consumption of alumina and thermal power, accounting for expenses to be undertaken during the operationalisation of mine, classification of asset under which EMP and other expenses are to be capitalised, disclosure requirements under Schedule III to the Companies Act 2013, etc. Further, the Committee has expressed its opinion purely from the accounting perspective and not from the perspective of legal interpretation of mining lease agreements, the Forest (Conservation) Act, 1980, EIA notification 2006, various orders/communications from State forest headquarters/MoEF&CC, etc. Further, the Accounting Standards referred hereinafter are Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015, as amended/revised from time to time.

11. At the outset, the Committee notes from the facts supplied that the Company has already made a deposit of Rs. 262.12 crores prior to handing over the forest land as part of Stage I forest clearance and has made certain commitments for fulfilment of certain other conditions for obtaining Stage II clearance, which as per the querist require certain activities to be undertaken in the mining lease area and the financial impact of these activities is estimated to be of Rs. 9.89 crores. Similarly, the Company has obtained EC from the MoEF&CC for operation of bauxite mines subject to certain conditions to be complied by the Company requiring procurement/installation of certain equipments and execution of certain works during operations of mines, financial impact of which is estimated to be of Rs. 120 crores. The issue that has been raised is whether a provision is required to be recognised for these conditions to be fulfilled, viz., activities/works to be undertaken or equipments to be procured/installed for which the Company has already given an undertaking or commitment to the MoEF&CC as part of obtaining clearances. The Committee also notes from the orders/communications of these clearances that if these conditions are not fulfilled, it will result in withdrawal of these clearances; and will amount to violation of Forest (Conservation) Act and Environment (Protection) Act and attract actions thereunder. In the above context, the Committee wishes to point out that the Committee while expressing its opinion has laid down the general principles to be followed while recognising the provision/liability for these conditions and has not examined the creation of provision in respect of expenditure to be incurred for each of the individual conditions to be fulfilled or activities to be undertaken in this regard or any other

conditions that may be made subject to while granting the permissions/clearances for bauxite mining. The general principles laid down in this opinion may have to be considered separately for each of these conditions. Further, the Committee also wishes to mention that the Committee's opinion is based on the specific facts provided to it considering the specific terms contained in the various orders/communications from State forest headquarters/MoEF&CC and thus should not be generalised to other facts and situations (other mines).

12. With regard to the issue raised, the Committee notes the following requirements of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', notified under the Companies (Indian Accounting Standards) Rules, 2015 and Accompanying Guidance for International Accounting Standard (IAS) 37 (corresponding to Ind AS 37), issued by the International Accounting Standards Board (IASB):

Ind AS 37

"A *provision* is a liability of uncertain timing or amount.

A *liability* is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

An *obligating event* is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

A *legal obligation* is an obligation that derives from:

- (a) a contract (through its explicit or implicit terms);**
- (b) legislation; or**
- (c) other operation of law."**

"14 A *provision* shall be recognised when:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;**
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and**
- (c) a reliable estimate can be made of the amount of the obligation.**

If these conditions are not met, no provision shall be recognised.

Present obligation

15 In rare cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period."

"Past event

- 17 A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:
- (a) where the settlement of the obligation can be enforced by law; or
 - (b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.
- 18 Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to operate in the future. The only liabilities recognised in an entity's balance sheet are those that exist at the end of the reporting period.
- 19 It is only those obligations arising from past events existing independently of an entity's future actions (ie the future conduct of its business) that are recognised as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage, both of which would lead to an outflow of resources embodying economic benefits in settlement regardless of the future actions of the entity. Similarly, an entity recognises a provision for the decommissioning costs of an oil installation or a nuclear power station to the extent that the entity is obliged to rectify damage already caused. In contrast, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a certain type of factory). Because the entity can avoid the future expenditure by its future actions, for example by changing its method of operation, it has no present obligation for that future expenditure and no provision is recognised.”
- “23 For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this Standard, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, ie the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86).”

Accompanying Guidance for IAS 37

“Example 2B Contaminated land and constructive obligation

An entity in the oil industry causes contamination and operates in a country where there is no environmental legislation. However, the entity has a widely published environmental policy in which it undertakes to clean up all contamination that it causes. The entity has a record of honouring this published policy.

Present obligation as a result of a past obligating event – The obligating event is the contamination of the land, which gives rise to a constructive obligation because the

conduct of the entity has created a valid expectation on the part of those affected by it that the entity will clean up contamination.

An outflow of resources embodying economic benefits in settlement – Probable.

Conclusion – A provision is recognised for the best estimate of the costs of clean-up (see paragraphs 10 (the definition of a constructive obligation), 14 and 17).”

The Committee notes from the above that in the extant case, the obligation towards fulfilling conditions for getting forest and environment clearance emanates from the relevant orders of the forest department/MoEF&CC under the relevant Forest (Conservation) Act and Environment (Protection) Act and therefore, the obligation can be considered as a legal obligation. The next question to consider is whether that obligation satisfies the criteria for recognising a provision. In this regard, the Committee notes that paragraph 14 of Ind AS 37 requires an entity to recognise a provision only when all of the following three conditions are met:

- (i) the entity has a present obligation (legal or constructive) as a result of a past event;
- (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (iii) a reliable estimate can be made of the amount of the obligation.

One of the essential criteria for recognising a provision is that the entity has a present obligation as a result of a past event. The Committee notes that the enactment of a law is not sufficient to give rise to an entity’s present legal obligation; an entity has a present obligation only when the event to which the law applies has occurred. For example, as illustrated in Illustrative Example 2B of IAS 37, an entity with a widely published environmental policy of cleaning up land it contaminates incurs a present obligation only when it contaminates land—publishing the policy is necessary but not sufficient to give the entity a present obligation.

The Committee further notes that while explaining the requirement for a present obligation, paragraph 18 of Ind AS 37 inter alia states that “no provision is recognised for costs that need to be incurred to operate in the future” and paragraph 19 of Ind AS 37 inter alia states that “it is only those obligations arising from past events existing independently of an entity’s future actions (ie the future conduct of its business) that are recognised as provisions”.

13. Applying these paragraphs in the extant case, the Committee is of the view that:

- (a) an obligation is not a present obligation as a result of a past event when the entity makes commitments prior to or as part of obtaining clearances. Making a commitment is not the event that creates a present obligation. The events that create a present obligation are the events to which these commitments apply and those events have not occurred at the time the Company makes its commitments. The costs that the Company will incur to fulfil these commitments in subsequent years are costs that it will need to incur to operate in the future—the obligations for those costs do not exist independently of the Company’s future actions.

- (b) the Company will, at some future date, have a liability to pay for resources it buys to carry out those future operations—for example, to pay for new plant or equipment—but only when it receives those resources in an exchange transaction.
- (c) only when the Company has undertaken the activities, such as, contaminating soil or forest land or disturbing wild life or flora and fauna or causing air or water pollution through entering the forest land and commencement of mining operations that the Company has committed to rectify/mitigate or prevent though fulfilling the specified conditions, it will have a present obligation to fulfil these conditions. The Company will have that present obligation only if and when it has undertaken these activities of entering the forest land and commencement of mining operations in subsequent years.

Thus, the Committee is of the view that the date or point when the Company will incur a present obligation is a matter of judgement, which the Company should exercise itself in its specific facts and circumstances, and considering various factors, including, specific condition(s) which the Company has to fulfil and the mitigating/controlling measure(s) which the Company has to undertake, etc., as discussed above.

Further, with regard to other conditions of recognising provisions, the Committee notes that settling the aforesaid obligation will require an outflow of resources embodying economic benefits and a reliable estimate of the amount of the obligation can be made in the extant case; and therefore, the Company should recognise a provision for such obligation as and when it incurs the present obligation, as discussed above.

D. Opinion

14. On the basis of above and subject to paragraphs 10 and 11 above, the Committee is of the following opinion on the issues raised in paragraph 9 above:

- (i) and (ii) The Company should not recognise a provision when it makes the commitment as part of the undertaking given by the Company to undertake certain activities which were pre-conditions for / prior to obtaining the clearances (Stage II forest and environment clearances). At that time, there is no present obligation as a result of a past event and therefore, apparently there is no requirement of recognising any corresponding asset. The date or point when the Company will incur a present obligation is a matter of judgement, which the Company should exercise itself in its specific facts and circumstances, and considering various factors, including, specific condition(s) which the Company has to fulfil and the mitigating/controlling measure(s) which the Company has to undertake, etc., as discussed in paragraph 13 above. The Company should recognise a provision only when it incurs/has the present obligation, as discussed above.
