



**ENHANCING AUDIT QUALITY &  
ENHANCED REPORTING  
OBLIGATIONS – P R RAMESH  
July 14, 2021**

# Agenda



- The Current Environment
- Audit Quality
- CARO
- Other Emerging Reporting Obligations
- Key Takeaways

# Setting the Context: The Current Environment

- The Mood
- Global Corporate Landscape
- Current Concerns
- Root Cause
- Trust Deficit

## **THE MOOD**

“The earnings game is now so common-place that it can sometimes seem like a collective agreement to believe the unbelievable”

- Harvard Business Review: June 2001

## **THE MOOD**

“ Gatekeepers weren’t keeping the gate, watchdogs weren’t watching”

- Joseph Lieberman

Senate Committee member 2002

# *I swear...*

*that, to the best of my knowledge  
(which is pretty poor and may be revised  
in future), my company's accounts  
are (more or less) accurate.*

*I have checked this with  
my auditors and directors  
who (I pay to) agree  
with me...*



## THE MOOD

“ No one becomes an auditor because the job is adventurous. In recent years, however, the profession has been really rather racy. Auditors have been implicated in fraud after fraud”

- The Economist :November 2004

## **THE MOOD**

“Now the question arises that the temple of democracy i.e. the Parliament of India, which is the voice of 125 crore countrymen, has given you so much authority, then why is it that in the last 11 years, only 25 Chartered Accountants have been prosecuted. Did only 25 people make a mess? And I have heard that more than 1400 cases are still pending for many years now. A single case takes years to settle ”

- Honorable Prime Minister: Narendra Modi, July 2017



## **THE MOOD**

“We must challenge the frauds. Both internal and external auditors need to find innovative methods to catch frauds. We must need to encourage the core values of auditors for the same”

- Honorable Prime Minister: Narendra Modi, Nov 2019

# THE MOOD

“ Audits get noticed only when things go wrong”

– The Expectation gap, What is an audit for

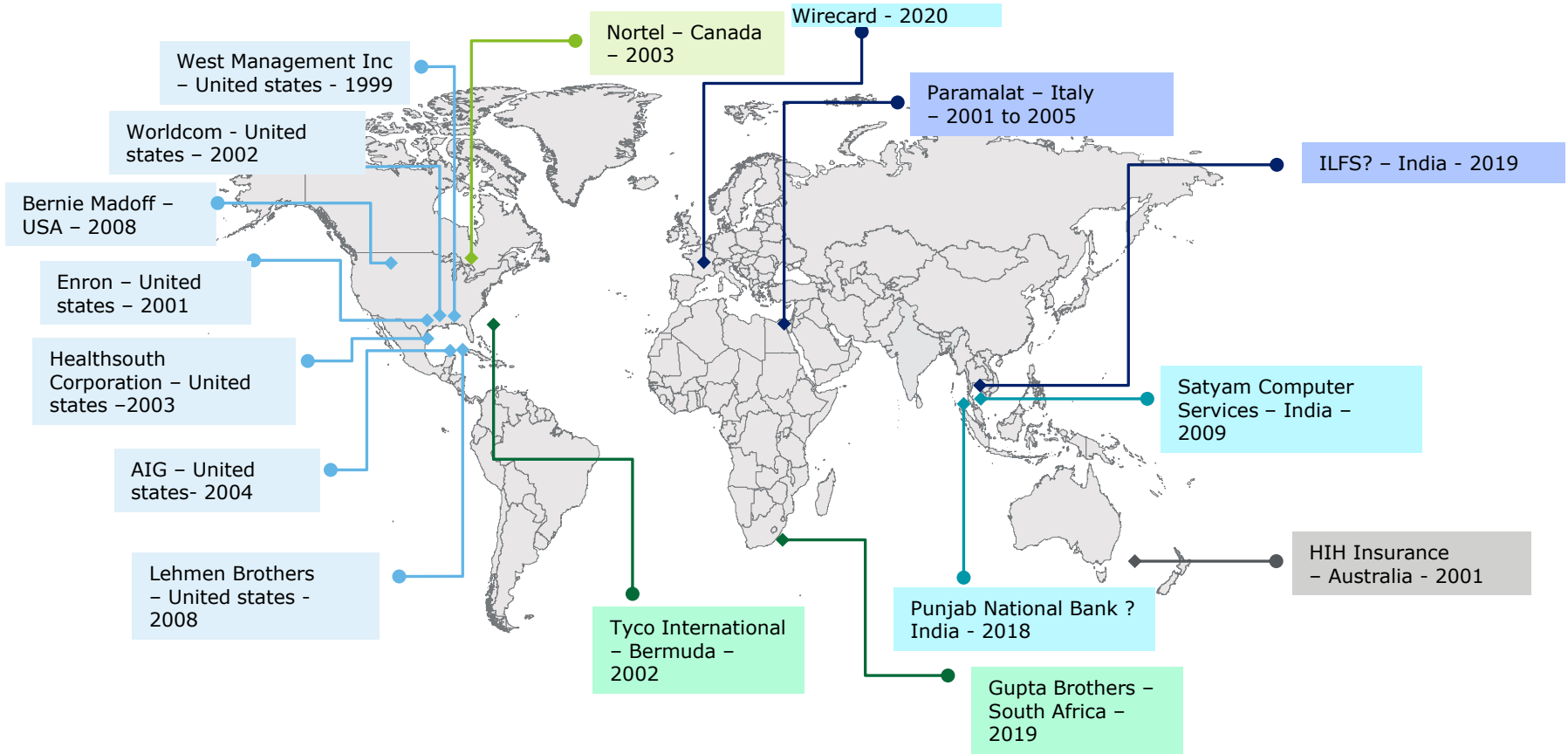
- The Economist :May 2018

**Has the mood changed since 2001?**



# Biggest failures across the globe





# Corporate failures



IMG: Dennis Kozlowski

Suzanne Plunkett / AP

Dennis Kozlowski, former chief executive of Tyco International, leaves the courthouse after being charged with evading more than \$1 million in sales tax on paintings he had purchased.



October 16, 2001

**Issue:** Off-Balance Sheet Accounting and Financial Reporting Fraud

**Impact:** \$3 billion in undisclosed losses



Global Crossing\*

January 31, 2002

**Issue:** Financial Reporting Fraud through improper revenue recognition

**Impact:** \$12.4 billion in overstated earnings



March 28, 2002

**Issue:** Financial Reporting Fraud and embezzlement

**Impact:** \$2.5 billion of hidden debt



June 20, 2002

**Issue:** Financial Reporting Fraud

**Impact:** \$9 billion in unreported expenses

# The Global Roll of Dishonour

1985 - 1995	1995- 2005	2005 – till date
<ul style="list-style-type: none"> <li>• ZZZ Best (1986)</li> <li>• Barlow Clowes (1988)</li> </ul>	<ul style="list-style-type: none"> <li>• Sybase (1997)</li> <li>• Cendant (1998)</li> </ul>	<ul style="list-style-type: none"> <li>• Netbank (2007)</li> <li>• Bernard Madoff</li> </ul>
<ul style="list-style-type: none"> <li>• Polly Peck (1990)</li> <li>• BCCI (1990)</li> <li>• Phar Mor (1992)</li> </ul>	<ul style="list-style-type: none"> <li>• Computer Associates (2000)</li> <li>• Xerox (2000)</li> <li>• One Tel (2001)</li> <li>• Enron (2001)</li> <li>• Adelphia (2002)</li> <li>• AOL (2002)</li> <li>• Freddie Mac (2002)</li> <li>• Global Crossing (2002)</li> <li>• Qwest Communications (2002)</li> <li>• Tyco International (2002)</li> <li>• Worldcom (2002)</li> <li>• Royal Ahlod (2003)</li> <li>• Parmalat (2003)</li> <li>• Nortel Networks (2003)</li> <li>• AIG (2004)</li> </ul>	<ul style="list-style-type: none"> <li>(2008)</li> <li>• Satyam (2009)</li> <li>• Lehman Bros (2010)</li> <li>• Sino Forest Corp (2011)</li> <li>• Olympus Corp (2011)</li> <li>• BHS (2016)</li> <li>• Wells Fargo (2016)</li> <li>• Carillion (2018)</li> <li>• Patisserie Holdings (2018)</li> <li>• Gupta Brothers (2018)</li> <li>• Punjab National Bank (2018)</li> <li>• DHFL (2019)</li> <li>• IL&amp;FS (2019)</li> <li>• Steinhoff (2019)</li> <li>• Luckin Coffee (2020)</li> <li>• Wirecard AG (2020)</li> </ul>

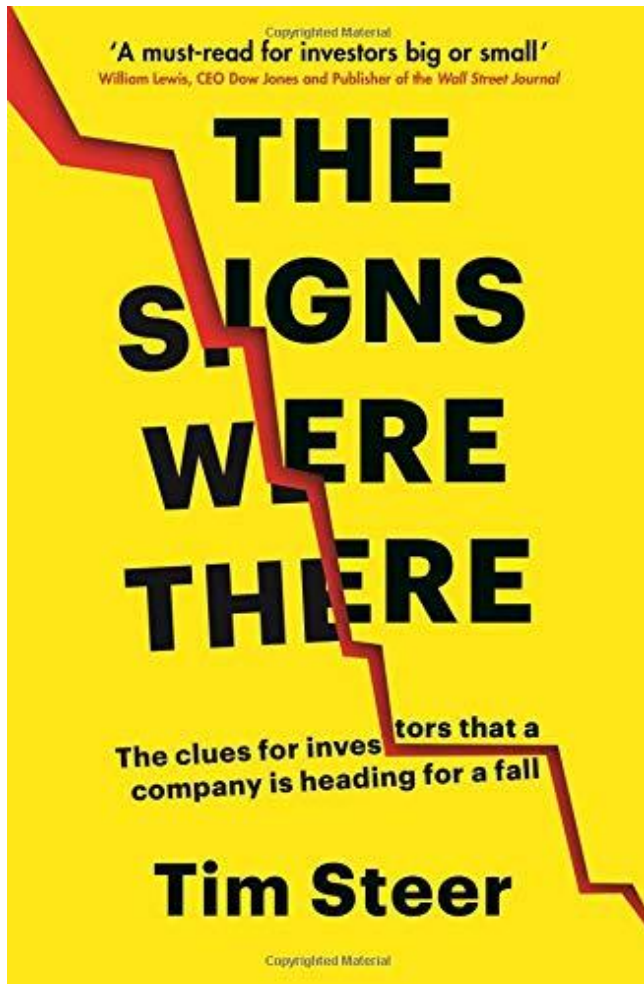
**OF COURSE, NOT ALL FAILURES ARE AUDIT FAILURES**

# Current Concerns

- World's largest companies collapsing under the weight of shoddy accounting and auditing
- Poor corporate governance
- Lack of ethical behaviour
- Savings plans and retirement plans evaporating – in many cases, overnight
- Credibility of oversight and enforcement actions
- **Auditors missing glaring signs**

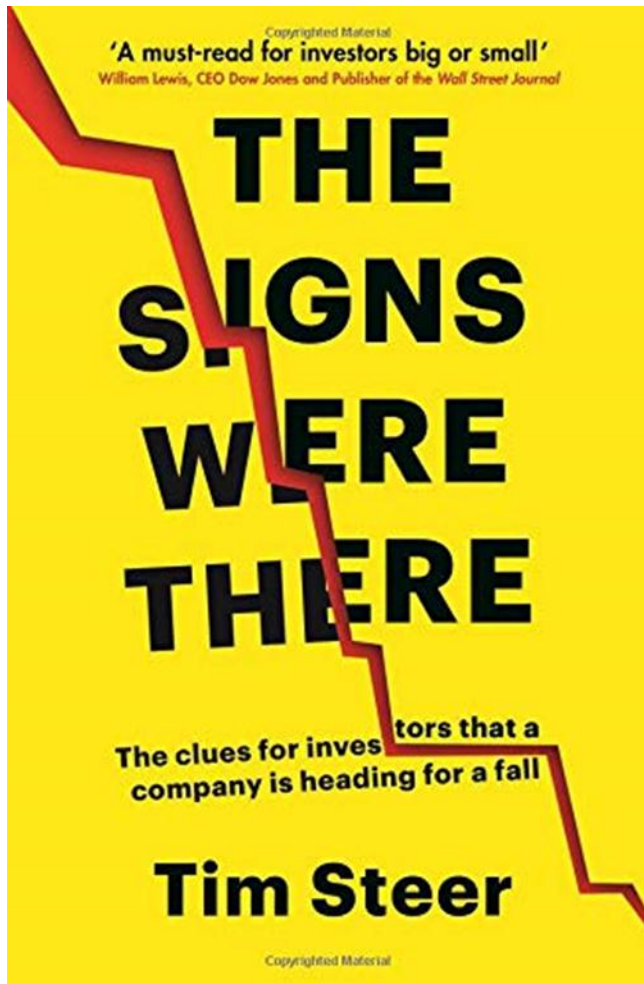


# THE SIGNS WERE THERE



The dives in the share prices and the company disasters that resulted in bankruptcy could have been predicted by little more than a browse through the annual reports or prospectuses if you knew where to look. But it seems that many of the great and good in the world of investing do not bother to look at these important documents, and blame the auditors – and increasingly the regulators – when things go wrong. **But the warning signs are regularly there, in the form of accounting shenanigans or other clear signs that a business is changing direction for the worse, or that excellent results are being reported only because of one-off and non-recurring items. Often these red flags are either not seen or are ignored by investors and other stakeholders.**

# THE SIGNS WERE THERE

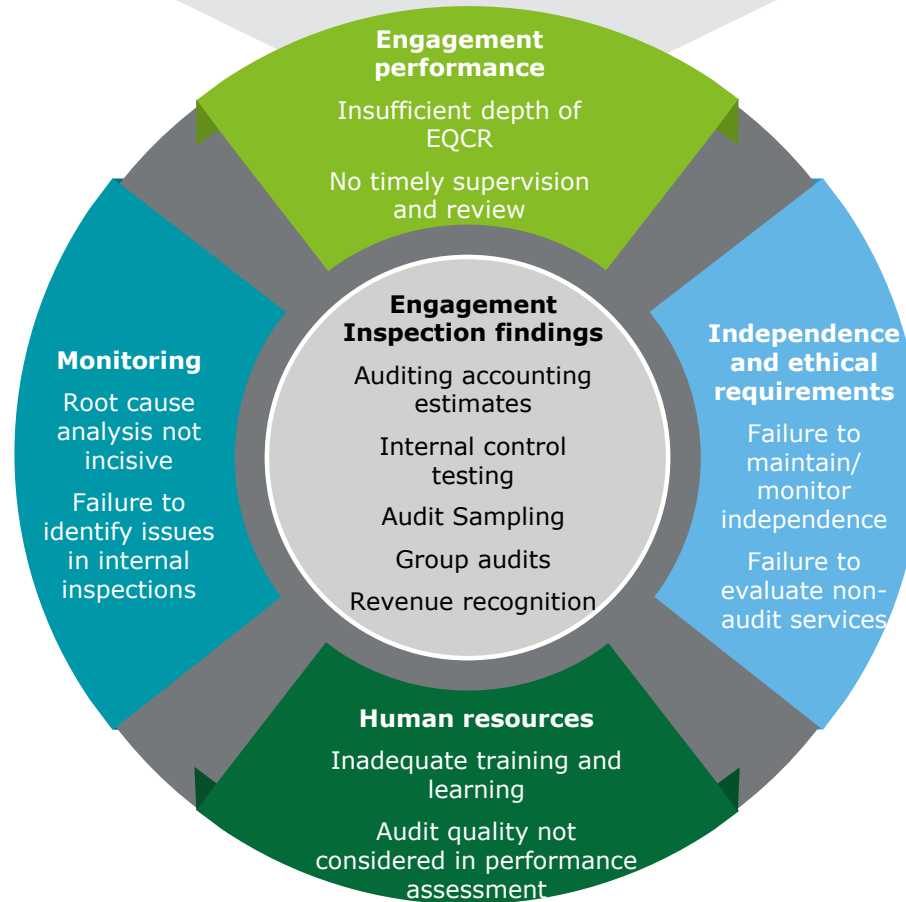


The collapse in January 2018 of Carillion, which had received enormous amounts of public money as one of the UK government's favourite construction and support services companies, is just one in a long line of corporate disasters where even a cursory look at the balance sheet by anyone with a smattering of financial training would have evoked a feeling of déjà vu and the realization that the company was heading for a fall.

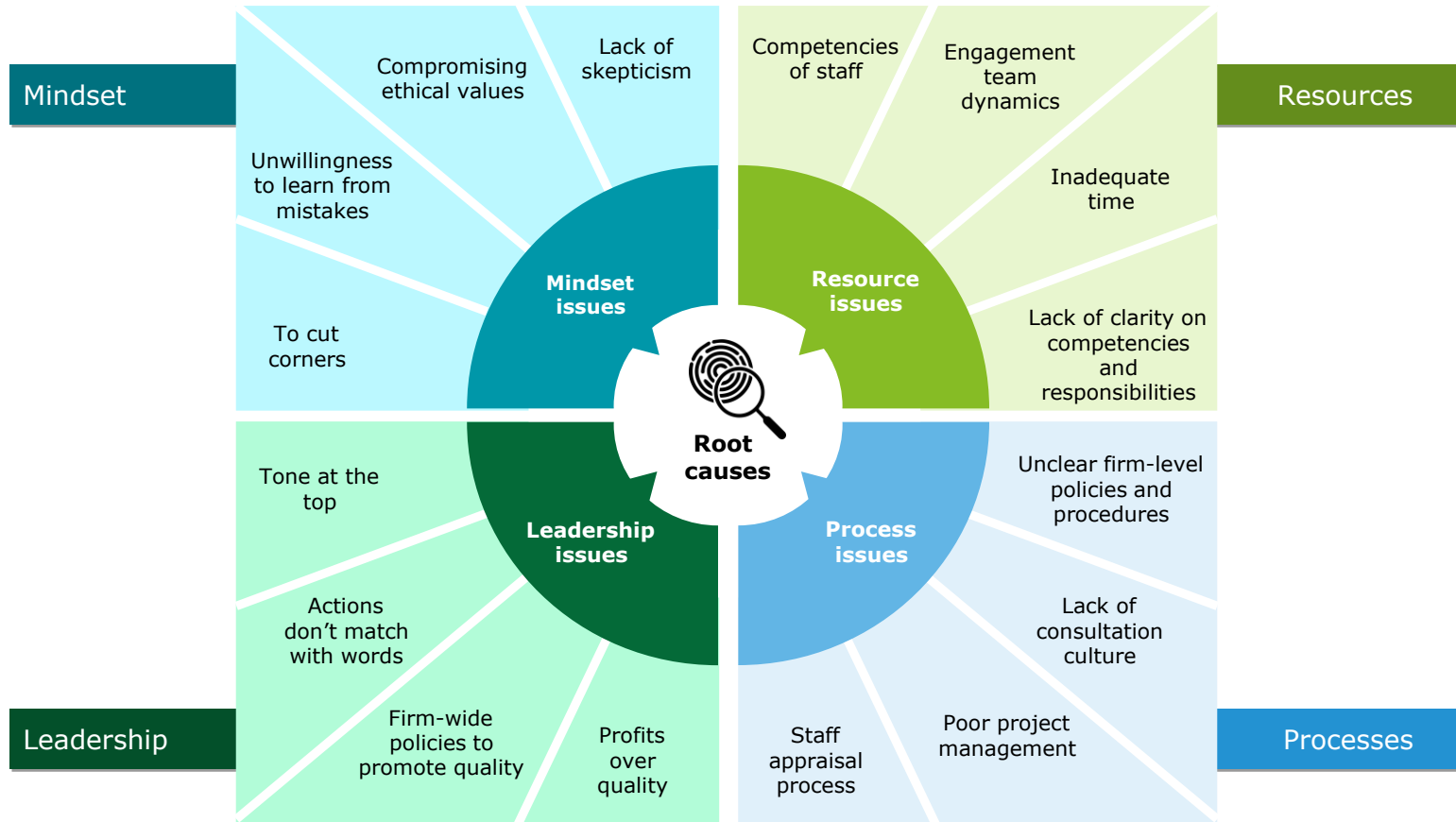
When looking at annual reports, always consider the Iceberg Principle. **An annual report should be seen as an iceberg in terms of the information it contains. It cannot tell you all you need to know about a company, but if there is something in it that makes you feel uneasy, there may well be other even more uncomfortable things lying below the metaphorical water line.**

# The Current Environment - Root causes for poor quality audits

## Key findings from IFIAR Survey



# The Current Environment - Root causes for poor quality audits



# **Chapter 2:**

# **Audit Quality**

## Audit Quality (Contd..)

The entire Audit Quality landscape is predicated on the following two key aspects:

- **Preventive measures**
- **Detective measures**

These two aspects is embedded within the Audit Quality framework at every level.

# Audit Quality (Contd..)

In risk management, statutory audit can be denoted as the 6<sup>th</sup> line of defense, the other five being:

- Tone at the top
- Functional managers and process owners
- Risk management and compliance functions within the entity
- Internal audit
- Board and Audit Committee



# Audit Quality



- Purpose



- Culture



- Perceptions of Audit Quality



- Substance of Audit Quality



# Audit Quality

## **Purpose:**

“The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

In the case of most general purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with SAs and relevant ethical requirements enables the auditor to form that opinion.”

## **Objective:**

“In conducting an audit of financial statements, the overall objectives of the auditor are:

- a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- b) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor’s findings”

**- SA 200:Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with the Standards of Auditing**

# Audit Quality – Macro view

## Purpose of Audit

### Excerpts from Sir Donald Brydon Review Report – December 2019:

**“The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements.”**

Clarity and reinforcement of the need for auditors to provide decision useful information to the users of audit reports. Significantly that information should, on occasion, include original information (that is, to say, information not produced by the audited company for disclosure) that is likely to have a material impact on users’ decisions.”

# Audit Quality – Macro view (Contd..)

## Crisis of Trust

**Excerpts from Building a Culture of Challenge in audit firms – Karthik Ramanna, Professor of Business and Public Policy at the University of Oxford’s Blavatnik School of Government:**

“Auditing today faces a crisis of trust, an especially perverse situation given the audit’s central role in fostering trust in markets.

The depth of public distrust in auditing is connected to the wider public disillusionment in capitalism. To many, the capital market system is no longer seen as enabling economic mobility, but rather as an insiders’ club that enriches wealthy shareholders and their intermediaries — corporate management, bankers, and, worryingly, auditors — at the expense of ordinary savers, employees, and citizens. Whether this perception is entirely or even substantially supported in empirical fact is somewhat irrelevant, because the perception has eroded trust in markets, and trust is, of course, what makes markets work.

**Restoring public faith in auditing will require action from many players, including investors, client boards and management, regulators, the media, and civil society. But above all, it will require action from the audit firms themselves.**

Two broad challenges to the audit industry have emerged in the public debate in recent years.

- The first is that auditing has lost an element of its professional identity
- The second challenge is that auditors are too cosy with the managers of companies they audit”

# Audit Quality – Macro view (Contd..)

## Quality and Effectiveness of Audit

### Excerpts from Sir Donald Brydon Review Report – December 2019:

**“The quality and effectiveness of audit has become an increasingly contested issue, with the result that this Review has been commissioned. Some consider that audit is good enough but the starting place of this Report is that it is not.**

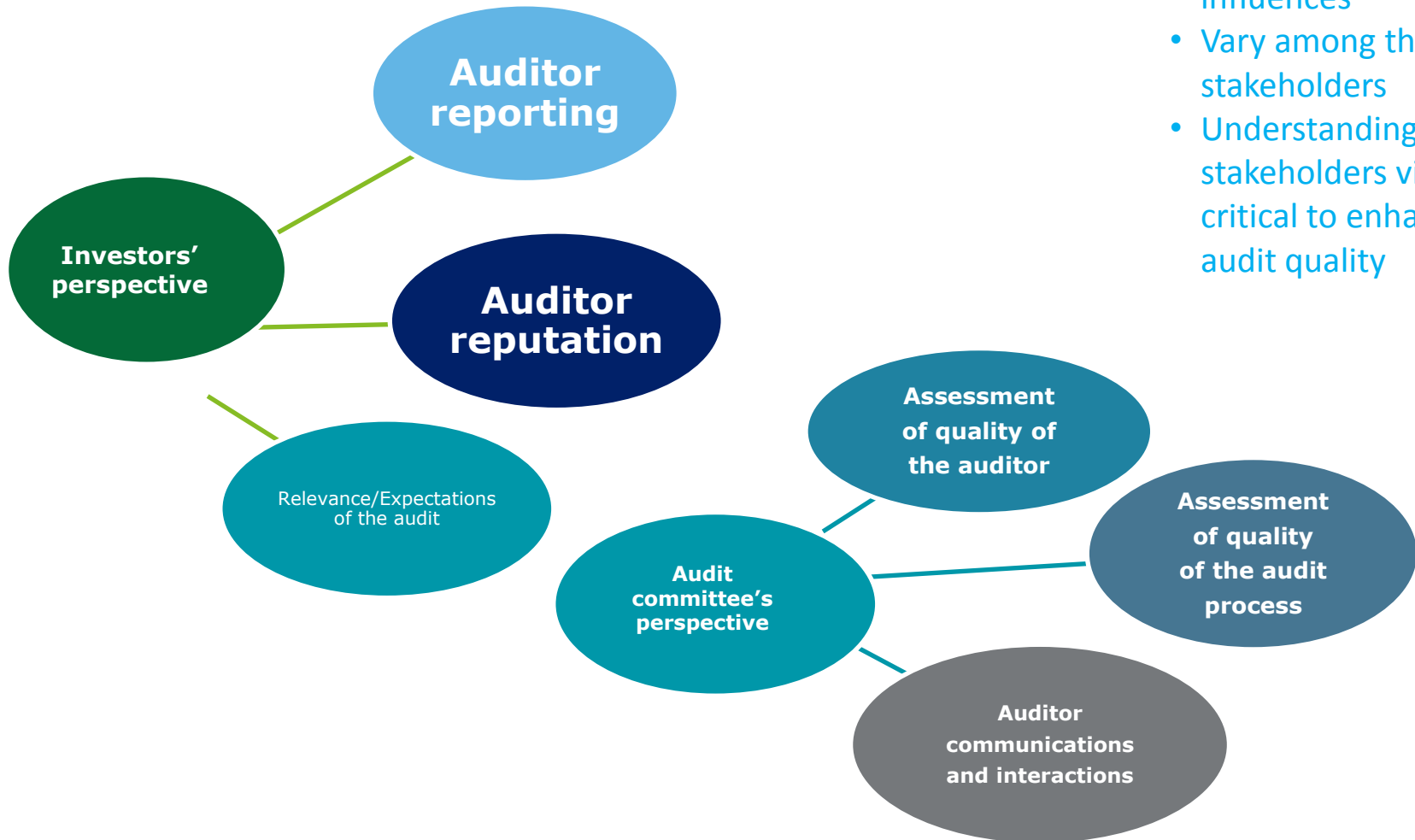
There has been a slow evolution, since the 1970s, in the role of audit from being just a periodic external check on the accuracy of financial reporting towards a value adding function, but this has further to go. **In hiding behind the need only to confirm and verify, many auditors have failed to grasp the opportunity to make their reports more informative.** Many do take this opportunity in private, communicating well beyond the narrow confines of auditing standards when reporting to audit committees, but not to shareholders or other stakeholders

Audit is not broken but it has lost its way and all the actors in the audit process bear some measure of responsibility. It is particularly difficult to analyse because it is a **credence good** – i.e. one where its true quality is unknown at the point of use. It has been stated that “one important implication of viewing auditing as a credence good is that the quality of individual engagements can vary due to idiosyncratic aspects of the client.”

Good audit, however, will respond to such idiosyncrasies and should ultimately lead to a lower cost of capital, and lower costs from unnecessary corporate failures, through increased and deserved confidence in business.”

# Audit Quality – Macro view (Contd..)

## Perceptions of Audit Quality



- 
- Subject to many direct and indirect influences
  - Vary among the stakeholders
  - Understanding stakeholders views critical to enhance audit quality

# Building Blocks of Audit Quality

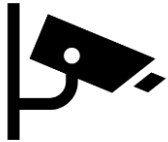
## Substance of Audit Quality

<b>Structural Factors</b>	<b>Environmental Factors</b>	<b>Execution Issues</b>
<ul style="list-style-type: none"><li>• Profile of the Profession</li><li>• Audit Market Profile</li><li>• Choice and Concentration</li><li>• Size of the Firms</li><li>• Auditor Appointment</li><li>• Auditor Compensation</li><li>• Auditor Independence</li><li>• Multi-disciplinary firms</li></ul>	<ul style="list-style-type: none"><li>• Corporate Financial Reporting Eco-system</li><li>• Internal Audit System</li><li>• Independent Directors, Audit Committee, Boards</li><li>• Proxy Advisors, Credit Rating Agencies</li><li>• Regulators and Regulations</li></ul>	<ul style="list-style-type: none"><li>• Responsibility</li><li>• Audit Procedures</li><li>• Tools &amp; Technology used</li><li>• Evaluation of Audit test results</li></ul>
<b>Output Factors</b>	<b>Oversight &amp; Evaluation</b>	<b>Other Factors</b>
<ul style="list-style-type: none"><li>• Mandatory Communication to Audit Committee</li><li>• Audit Report<ul style="list-style-type: none"><li>– Form</li><li>– Type</li><li>– Reporting to Regulator</li><li>– Enhancements</li></ul></li><li>• Management Letter</li><li>• Group Audit</li></ul>	<ul style="list-style-type: none"><li>• EQCR</li><li>• Evaluation of Auditor's performance by Audit Committee</li><li>• Inspection of Audit engagements by Regulators</li><li>• Peer Reviews, Quality Review Board reviews, etc.</li></ul>	<ul style="list-style-type: none"><li>• Frequency</li><li>• Timelines</li><li>• Transparency</li></ul>

# Environmental Factors



- Corporate Financial Reporting Eco-system



- Internal Audit System



- Independent Directors, Audit Committees, Boards



- Proxy Advisors, Credit Rating Agencies



- Regulators and Regulations

## Environmental Factors



Brainstuck.com

The company's books of Accounts are very well-balanced. Our real profits are now equal to the fictitious ones.



# Environmental Factors

## Excerpts from speech of Arthur Levitt, Chairman- SEC (Sep 1998):

- “Increasingly, I have become concerned that the motivation to meet Wall Street earnings expectations may be overriding common sense business practices. Too many corporate managers, auditors, and analysts are participants in a game of nods and winks.
- **If a company fails to provide meaningful disclosure to investors about where it has been, where it is and where it is going, a damaging pattern ensues.** The bond between shareholders and the company is shaken; investors grow anxious; prices fluctuate for no discernible reasons; and the trust that is the bedrock of our capital markets is severely tested.
- Our accounting principles weren't meant to be a straitjacket. Accountants are wise enough to know they cannot anticipate every business structure, or every new and innovative transaction, so they develop principles that allow for flexibility to adapt to changing circumstances. That's why **the highest standards of objectivity, integrity and judgment can't be the exception. They must be the rule.**
- So what are these illusions? Five of the more popular ones I want to discuss today are "big bath" restructuring charges, creative acquisition accounting, "cookie jar reserves," "immaterial" misapplications of accounting principles, and the premature recognition of revenue.”

**Have these aspects changed in today's environment?**

# **Environmental Factors:**



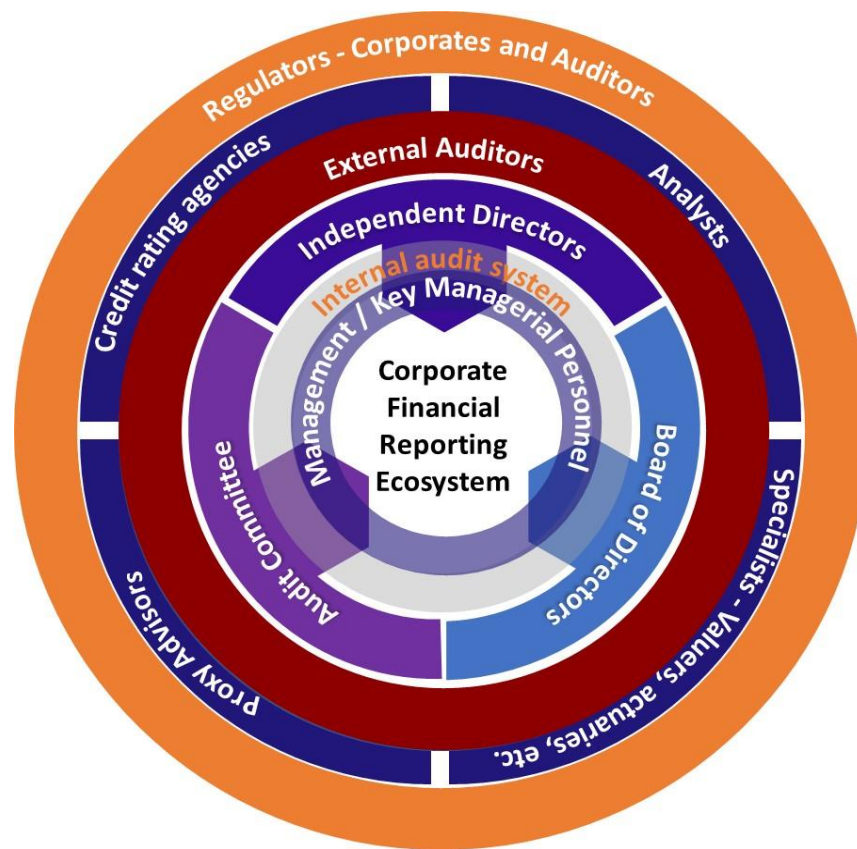
# **Corporate Financial Reporting Eco-system**

# Environmental Factors – The Financial Reporting Eco System

The Financial reporting ecosystem comprises many participants, each having a very distinct role in ensuring the veracity of financial information and ultimately the efficient functioning of the capital markets:

These participants (see graphic below) include:

- Preparers of financial information – Management, including key managerial personnel
- Internal monitoring mechanism – internal auditors
- Corporate governance – audit committee, independent directors, board of directors
- External auditors
- Other stakeholders – credit rating agencies, analysts, proxy advisors, specialists such as valuers and actuaries
- Regulators
- And last, but not the least, the users of financial reports – shareholders, lenders, other stakeholders, potential investors, etc.



**Source:** The CFO Board Financial Reporting Ecosystem – need for reforms

# Environmental Factors – The Financial Reporting Eco-system: Enhancing Disclosures

- Companies should enhance the disclosures that they provide to the users of financial information, that can significantly enhance the usefulness and relevance of the information on the company's financial health
- These could be a combination of
  - event based disclosures (such as changes in credit rating, defaults in payments of interest/principal, changes in assessment of company's ability to continue as a going concern etc) and
  - periodic disclosures (such as key trends in ratios relating to financial health of the company, non-cash transactions, use of fair values and key assumptions etc)
- Disclosure by the Company on the Controls effective/ deficient controls including the summary of the Risk Controls Matrix
- Enhanced disclosures by Companies to benchmark with their industry peers on key ratios and comment on variance

**Source:** The CFO Board Financial Reporting Ecosystem – need for reforms

# Execution Issues

# Execution Issues



- Responsibility and Focus



- Audit Procedures



- Tools & Technology used



- Evaluation of Audit test results

# Execution Issues



# Execution Issues

## Responsibility and Focus

- Primary responsibility being towards shareholders, audit execution to focus towards providing value addition to shareholders' information
- Higher responsibility to society and users of financial statements.

**Should the responsibility be beyond True and Fair?**

**Should this be defined?**

**Should the standard be modified?**

## Audit Procedures

- Sampling methodology
  - Inadequate sample size (Minimum sample size as a % of aggregate annual Transaction/ Asset balance)
  - Sampling methodology unknown (Disclosure of sampling methodology in the audit report)



# Execution Issues (Contd..)

## Audit Procedures (Contd..)

- Confirmations
  - Validity/accuracy/completeness of confirmations (Mechanism to collate confirmations from banks, financial institutions and investment banks through central mechanism)
- Controls v/s Substantive testing
  - Too much reliance on controls as against substantive testing of transactions
- Use of Specialists
  - Actuary/ Forensic/ Cyber security experts

### **Should we mandate the following?:**

- **Sampling method**
- **Confirmations**
- **Extent of substantive testing**
- **Involvement of specialists**
- **Extent of testing of related party transactions**
- **Extent of testing of Loans given by Companies other than whose principal business is giving loans.**

# Execution Issues (Contd..)

## Tools & Technology used

- Use of Technology in performing the Audit
  - Development of technological tools customized for audit
  - Continuous investment in audit tools and reports
  - Accessibility of audit tools at commercially viable prices
  - Mandatory use of analytics and forensic tools

## Evaluation of audit test results

- Clear and timely communication with Audit Committees and other stake holders
- Significant involvement of partner and other senior audit team members
- Issuance of management letter
- Mandatory reporting of control deficiencies including severity of such deficiencies to the Audit Committee

### **Should we mandate the following?:**

- **Use of analytics and forensic tools**
- **Issuance of Management Letter**
- **Mandatory reporting to Audit Committee on deficiencies**

# Execution Issues (Contd..)

## **Excerpts from Sir Donald Brydon Review Report – December 2019:**

### Recommendations

- Auditors be required to undergo initial and ongoing periodic training in forensic accounting and fraud awareness.
- Auditors explain in the audit report any use of sampling techniques
- Any Alternative Performance Measures reported by a company, and any use of Key Performance Indicators to underpin executive remuneration, should be subject to audit.
- A new reporting duty on directors to set out the actions they have taken each year to prevent and detect material fraud. A corresponding new duty on the auditor to state in their report how they have assured the directors' statement on material fraud, and what additional steps they have taken to assess the effectiveness of the relevant controls and to detect any such fraud

# Output Factors

# Output Factors



- Mandatory communication to Audit Committee



- Audit Report
  - Form
  - Types
  - Reporting to Regulator
  - Enhancements



- Management Letter



- Group Audit

# Output Factors – Mandatory communications to Audit Committee

## Routine Matters

Audit Plan including resources, timings, etc.

Materiality

Audit sampling methodology

Use of specialists and outcomes

Accounting policy choices exercised

## Special Matters

Waived adjustments

Information sought and not obtained

Issues discussed and resolved with management

Suspicious Transactions

Whether Internal audit findings and whistleblower complaints are considered

## Other Matters

Key judgements and estimates and audit procedures carried out

Results of testing of related party transactions

Auditors' analysis and interpretation of key ratios

Status of independent confirmations

Should we mandate the above matters?

# Output Factors –Audit Report

## Form

- Whether can it be a binary report?
- Audit Committee comment on modifications or comments in the Audit report
- Enhancing the threshold limit for issuance of report on Internal Controls over Financial reporting

## Type

- Long form audit report for certain class of companies to be filed with MCA/ SEBI
- Is there a requirement for different types of Audit report for PIE's and Non PIE's

# Output Factors –Audit Report (Contd..)

## Reporting to Regulator

- Should there be any reporting to a regulator in addition to the requirement stated under Section 143 (12) in respect of frauds
- Requirement to report on misstatements above a monetary/ % threshold, apart from reporting to the Audit Committee be also reported to the regulator

## Enhancements

- Need for continuous enhancements in the Audit Report in the following areas (next slide)



# Output Factors – Audit Report Enhancements

## Quantitative Factors

Date of commencement of audit

Date of completion of audit

Audit hours spent

Partners hours

Number of qualified professionals involved in the audit

Number of other persons involved in the audit

## Qualitative Factors

Sections of the audit where digital tools were used

Use of specialists – description of purpose, nature of specialist, internal or external and reliance on their work

Accounting adjustments arising out of audit including waived adjustments

Areas where independent confirmation were sought and their status

## Others

Whether the engagement has been subjected to internal engagement quality control review

Whether written communication was made to Those Charged with Governance

Audit fee

Should we mandate the above matters?

# Output Factors – Audit Report Enhancements (Contd..)

## Excerpts from Sir Donald Brydon Review Report – December 2019:

### Recommendations

- ‘true and fair’ be replaced in UK company law with the term ‘present fairly, in all material respects’.
- To enhance the informative nature of the audit report, I make recommendations about the need for auditors to:
  - Create continuity between successive audit reports.
  - Provide greater transparency over differing estimations, perhaps disclosing graduated findings.
  - Call out inconsistencies in information made public.
  - Reference external negative signals and how they have informed the audit.

**Should the Audit report change from “true and fair” to “present fairly, in all material respects”?**

# Chapter 3: CARO

# History of CARO

## How it evolved

### Manufacturing and Other Companies (Auditor's Report) Order, 1975

- MAOCARO, 1975 was the first Order to include certain specific matters in auditor's report
- When MAOCARO, 1975 was issued, auditing standards had not been formulated in India;
- Auditors simply carried out additional procedures to issue the report

### Manufacturing and Other Companies (Auditor's Report) Order, 1988

- MAOCARO, 1988 superseded MAOCARO, 1975
- This applied to certain class of companies in manufacturing, service, financing, etc.
- Had 20 clauses for manufacturing, 3 additional clauses for service, 1 additional clause for trading and 3 additional clauses for financing companies

### CARO 2003 (amended in 2004)

- Companies (Auditor's Report) Order (CARO), 2003 – this superseded MAOCARO and rationalized various clauses from MAOCARO
- This had 21 clauses

### CARO 2015

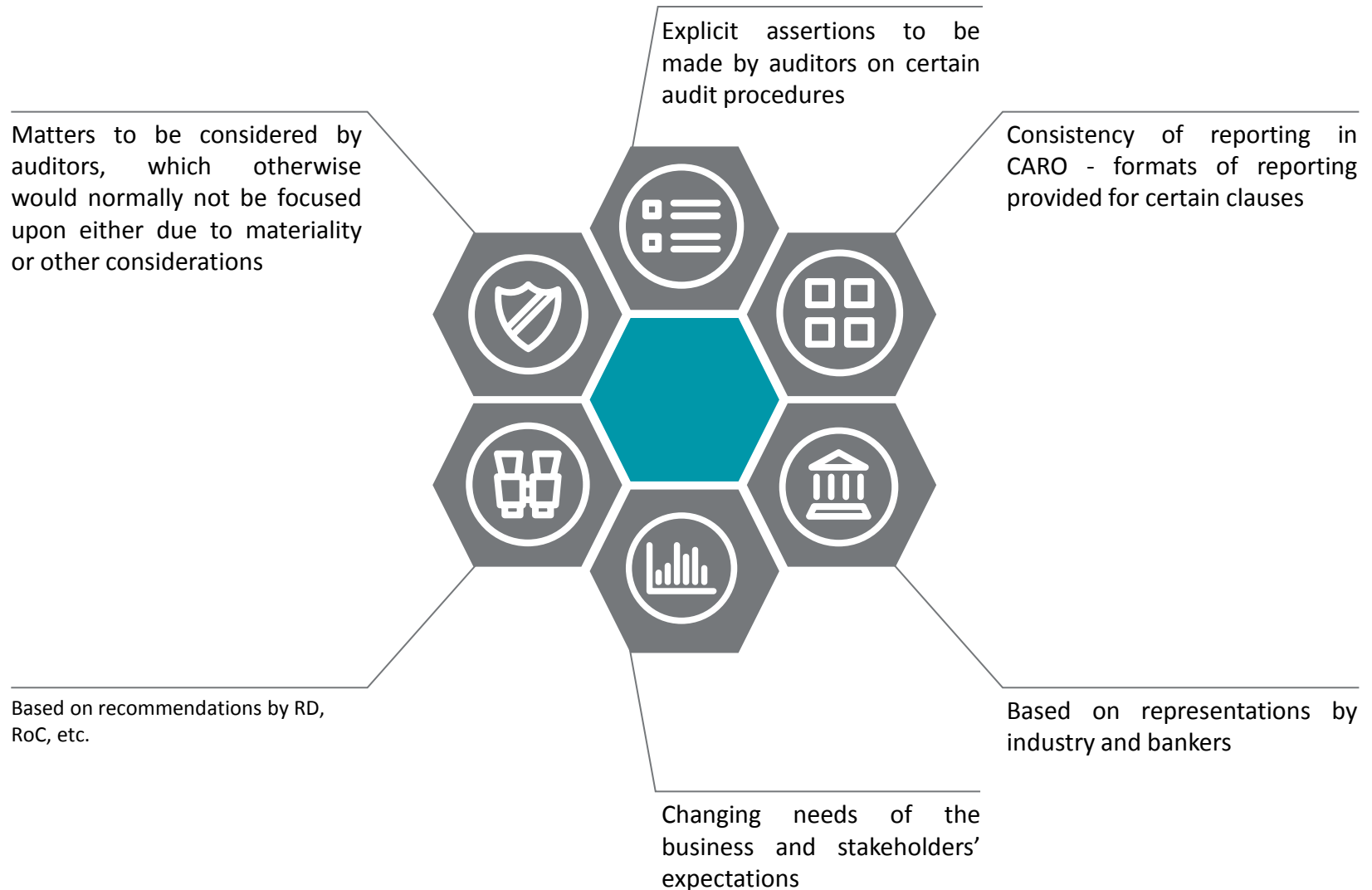
- The first CARO under new Companies Act, 2013
- This version had 12 clauses to report

### CARO 2016

- Was applicable for FY beginning on or after April 1, 2015
- This has 16 clauses presently

# **Guiding principles for changes to CARO 2016**

# Guiding principles for changes to CARO 2016



# **CARO 2020**

## **- select clauses**

Whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements;

**Key Considerations:**

- It may be noted that this clause refers to Prohibition of **Benami Property Transactions (Prohibition) Act, 1988.**
- The Initiating Officer **collects the material** during the investigation of suspicious benami transaction, and based on such material in his possession, if he has reason to believe that any **person is benamidar** in respect of the property, then he has to **record the reasons in writing** and then **issue a show cause notice** to such benamidar asking why the property should not be treated as benami property.

**Changes made to Schedule III – applicable from 1st day of April, 2021:**

- Where any proceedings have been initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and the rules made thereunder, the **company** shall disclose the following:-
  - (a) Details of such property, including year of acquisition, (b) Amount thereof, (c) Details of Beneficiaries, (d) If property is in the books, then reference to the item in the Balance Sheet, (e) If property is not in the books, then the fact shall be stated with reasons, (f) Where there are proceedings against the company under this law as an abetter of the transaction or as the transferor then the details shall be provided, (g) Nature of proceedings, status of same and company's view on same.



Whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements;

**Key Audit Procedures:**

- For reporting under this clause, the auditor is required to **examine** whether **proceedings have been initiated under section 24(1) of the Act** by the Initiating Officer **during the year** and/ or any **proceedings are pending** against the company before the Initiating Officer/ Adjudicating Authority/ Appellate Tribunal/ High Court/ Supreme Court during any of the **preceding financial years**.
- In case any proceedings are initiated or pending, the auditor is required to examine whether **appropriate disclosures** are made in the financial statements.
- Where the proceedings are **initiated post balance sheet** date but before the signing of the auditor's report, the auditor should consider the requirements of SA 560, "**Subsequent Events**" for the purpose of reporting under this clause.
- Auditor should make **necessary enquiries**, obtain **management representation**, review legal expenses, **review minutes** of the board and audit committee meetings and other secretarial records.
- The auditor shall **ensure compliance with the requirements of SA 250**, "Consideration of Laws and Regulations in an Audit of Financial Statements" and the requirements relating to litigation and claims given in SA 501, "Audit Evidence- Specific Considerations for Selected Items".
- Reporting under this clause is limited to the adequacy of disclosure in the financial statements and to cases where proceedings are initiated with the company being treated as a benamidar. The reporting is **not applicable where the notice is received by the company as a beneficial owner**.

Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details;

**Key Considerations:**

- It may be noted that for the purpose of reporting under this clause, the auditor is required to **check the working capital sanctioned limit and not its utilisation.**
- The auditor should determine the **sanctioned limit with reference to the sanction letter issued by banks** or financial institutions and relevant agreements executed with them.
- The **utilization may be less than the sanctioned limit of five crore rupees** but such cases will also be covered for the purpose of reporting.
- This clause **does not require reporting where such limits are unsecured or sanctioned on the basis of assets other than current assets.**

# Companies (Auditor's Report) Order, 2020

Clause	Description
<p data-bbox="98 211 606 334"><b>Details of investments, any guarantee or security or advances or loans given</b></p> <p data-bbox="98 386 282 422"><b>Clause 3(iii)</b></p>	<p data-bbox="641 211 1814 379">Whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, If so,</p> <p data-bbox="641 432 1814 601">a) whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate <b>[Paragraph 3(iii)(a)]</b></p> <p data-bbox="738 701 1814 869">A. the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates;</p> <p data-bbox="738 922 1814 1090">B. the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates;</p> <p data-bbox="641 1143 1814 1312">b) whether the investments made, guarantees provided , security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest; <b>[Paragraph 3(iii)(b)]</b></p>

## Companies (Auditor's Report) Order, 2020

Clause	Description
<b>Details of investments, any guarantee or security or advances or loans given</b>	c) in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular; <b>[Paragraph 3(iii)(c)]</b>
<b>Clause 3(iii)</b>	d) if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest; <b>[Paragraph 3(iii)(d)]</b>
	e) whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the over dues of existing loans given to the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans]; <b>[Paragraph 3(iii)(e)]</b>
	f) whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013; <b>[Paragraph 3(iii)(f)]</b>

**Details of investments, any guarantee or security or advances or loans are not prejudicial to the company's interest.**

**Key Considerations:**

- This clause covers **determination of terms and conditions** at the time of the grant of the loans and advances in nature of loans or investment made or provided a guarantee or given a security.

**Key Audit Procedures:**

- The auditor should **determine whether, in his opinion**, the terms and conditions of the investments, guarantee, security, loans/advances in nature of loans granted during the year are **prejudicial to the interest of the company**.
- Terms and conditions would primarily relate to “rate of interest, security, terms and period of repayment and restrictive covenants etc. Company's ability to lend/make investment also to be factored.
- For guarantees, **process of issuance of guarantees** may be examined. Considerations to include the financial standing of the party, party's ability to borrow nature of security etc.
- It should be noted that reporting requirement under this clause is **applicable to all companies including** those which are engaged in the **financing business** and thus sector specific legal requirements would need to be considered by the auditor.

## Companies (Auditor's Report) Order, 2020

Whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (43 of 1961), if so, whether the previously unrecorded income has been properly recorded in the books of account during the year [Clause 3(viii)]

### Key Audit Procedures :

- The auditor should also **obtain a copy of the statements made in the course of search and survey** to verify the nature of income so surrendered or disclosed.
- The auditor is required to **review all the tax assessments completed** during the year under audit.
- The auditor is also required to review **the tax assessments completed subsequent to the balance sheet date** but prior to signing of the auditor's report if the surrendered or disclosed income relates to the year under audit or prior years.
- The auditor should obtain **a representation letter from the management that all the assessments completed during the year** have been duly informed to the auditor.
- The auditor needs to **evaluate whether the surrendered or disclosed income is required to be classified as extraordinary items** keeping in view of requirement of AS 5, "Net Profit or loss for the period, prior period items and changes in accounting policies" and under IND AS 8, "Accounting policies, changes in accounting estimates and errors".
- The **nature of disclosure** shall depend on the **nature of undisclosed income and the treatment** thereof if the same was duly disclosed and reported in the books of accounts in the year to which the undisclosed income relates to.

## Companies (Auditor's Report) Order, 2020

Clause	Description
<b>Clause 3(ix)</b> <b>Default in Repayment of Borrowings</b>	<p>a. Whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported <b>[paragraph 3(ix)(a)]</b></p> <p>b. Whether the company is a declared wilful defaulter by any bank or financial institution or other lender <b>[paragraph 3(ix)(b)]</b></p> <p>c. Whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported; <b>[paragraph 3(ix)(c)]</b></p> <p>d. Whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated; <b>[paragraph 3(ix)(d)]</b></p> <p>e. Has the company raised any money from any person or entity for the account of or to pay the obligations of its associates, subsidiaries or joint ventures. The details of the money raised with the description of the transactions and the amounts in each case. <b>[paragraph 3(ix)(e)]</b></p> <p>f. Has the company raised any loans during the year by pledging securities held in their subsidiaries, joint ventures or associate companies. The details of such loans and also the default in the repayment of the loans has to be reported <b>[paragraph 3(ix)(f)]</b></p>

**Whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported**

**Key Considerations:**

- Term loans normally have a fixed or pre-determined repayment schedule. In the common parlance of the expression, loans with repayment period beyond 36 months are usually known as term loans. Cash credit, overdraft and call money accounts/deposits are therefore not covered by the expression “Term Loans”.
- RBI vide its master circular defined Diversions of funds as:
  - a. utilisation of short-term working capital funds for long term purposes not in conformity with the terms of sanction;
  - b. deploying borrowed funds for purposes / activities or creation of assets other than those for which the loan was sanctioned.
  - c. transferring borrowed funds to the subsidiaries / Group companies or other corporates by whatever modality and so on.

**Changes made to Schedule III – applicable from 1st day of April, 2021:**

- Where the company has not used the borrowings from banks and financial institutions for the specific purpose for which it was taken at the balance sheet date, the company shall disclose the details of where they have been used.



## Whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported

### Key Audit Procedure :

- The auditor should ascertain the purpose for which term loans were sanctioned.
- The auditor is required to examine the proposal for grant of loan made to the lender and whether term loans were applied for the purpose for which these loans were obtained. He should obtain **sufficient appropriate audit evidence regarding the utilization**
- The term loan obtained from entities/persons **other than banks/financial institutions would also have to be examined by the auditor** for the purpose of reporting under this clause.
- The auditor should also **compare the purpose for which term loans were sanctioned** with the actual utilization of the loans.
- If the auditor finds that the funds have **not been utilized for the purpose** for which they were obtained, the auditor's report should state the fact.
- The auditor should mention in his report the amount of term loan as well as the fact the **term loan was not** its diverted and purpose for which

Nature of the fund raised	Name of the lender	Amount diverted (Rs.)	Purpose for which amount was sanctioned	Purpose for which amount was utilised	Remarks

**Whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;**

**Key Considerations:**

- The auditor should determine the **long-term sources and the long-term application of funds** by a company using the data contained in the financial statements. If the quantum of long term funds of a company is not significantly different from the long-term application of funds, it is an indication that the long-term assets of the company are financed from the long term sources.

**Key Audit Procedures:**

- This clause also requires the auditor to state the **nature of application of funds** if the company has financed long-term assets out of short-term funds.
- The nature of application of funds can be determined only if the funds raised can be **directly identified with an asset.**
- The auditor should determine the long-term sources and the long-term application of funds by a company **using the data contained in the financial statements.**
- The auditor uses the data contained in the financial statements to **ascertain whether the funds** raised on **short term basis have been used for long-term purposes.**

## Companies (Auditor's Report) Order, 2020

Clause	Description
<b>Clause 3(xi)</b> <b>Fraud</b>	<ul style="list-style-type: none"><li>▪ Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated; <b>[Paragraph 3 (xi)(a)]</b></li><li>▪ Whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government; <b>[Paragraph 3 (xi)(b)]</b></li><li>▪ Whether the auditor has considered whistle-blower complaints, if any, received during the year by the company; <b>[Paragraph 3 (xi)(c)]</b></li></ul>

### Overview of change:

- Removed words “by its officers or employees” primarily to widen the scope of the clause which now covers any frauds on the Company.
- For example, a fraud against the company by a customer / vendor also would be required to be reported under this clause.
- Auditors now need to explicitly report on whether the whistle-blower complaints were considered during the audit

## Companies (Auditor's Report) Order, 2020

**Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated**

### **Key Considerations:**

- The responsibilities of the auditor have been widened by removing the words “officers or employees”.
- This clause requires the auditor to report whether **any fraud has been noticed or reported either on the company or by the company during the year** and is not limited to frauds by the officers or employees of the company.
- The auditor is required to state the amount involved and the nature of fraud.
- This clause does not require the auditor to discover such frauds **on the company and by the company**.
- The scope of auditor’s inquiry under this clause is restricted to frauds **‘noticed or reported’ during the year**.
- The auditor is required to report separately on the nature and amount involved for
  - (i) fraud on the company
  - (ii) fraud by the company.

# Companies (Auditor's Report) Order, 2020

## Whether the auditor has considered whistle-blower complaints, if any, received during the year by the company

### Key Considerations :

- This is a **new reporting requirement** in the Order and requires the auditor to consider whistle blower complaints, If any, received by the company **during the year** (emphasis applied) under audit.
- The **auditor is not required to consider whistle-blower complains pertaining to earlier years**
- The establishment of whistle blower mechanism is not mandatory for all companies and therefore the auditor should consider the requirements prescribed in the Act and in SEBI LODR Regulations in this regard.
- In case of a listed company, the auditor should also examine whether vigil mechanism has been established in accordance with the requirements of section 177 of the Act and Regulation 4(2)(d) of SEBI LODR Regulations.

Further, the auditor should consider the frauds noticed or reported while performing audit.

- In case of a listed company, the auditor should also examine whether vigil mechanism has been established in accordance with the requirements of section 177 of the Act and Regulation 4(2)(d) of SEBI LODR Regulations
- The auditor should enquire from the management about investigation of all **whistle blower complaints received and the findings**, if any.
- The auditor shall review the minutes of audit committee and board meetings to identify whistle blower complaints, if any.
- Although fraud is a broad legal concept, the auditor is concerned with fraudulent acts that cause a **material misstatement in the financial statements**.

## Companies (Auditor's Report) Order, 2020

Clause	Description
<b>Clause 3(xix)</b>  <b>Material Uncertainty</b>	On the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date;

### Overview of change:

- The text of the clause captures some of the elements of **Standard on Auditing 570 - Going Concern**
- Auditor to examine the Liabilities that fall due within a period of one year from Balance sheet date.
- Need to consider current assets, current liabilities ratio, budget for the coming year approved by board, etc. in assessment
- Discuss with the Management to identify the subsequent events and whether it has any material impact.

# Companies (Auditor's Report) Order, 2020

## Existence of any material uncertainty on the date of the audit report

### Key Considerations :

- Required to report whether the auditor is of the opinion that **no material uncertainty exists as on the date of the audit report** about the company's capability of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date.
- As per SA 570(Revised), Going Concern, **the auditor's responsibilities are to obtain sufficient appropriate audit evidence** regarding, and to conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude.
- Based on the audit evidence obtained, whether a **material uncertainty exists** about the entity's ability to continue as a going concern.
- If the **main audit report** contains a paragraph on "**material uncertainty** related to going concern or key audit matter on going concern indicators", it should be **duly considered while making comment** under this clause.
- The test of existence of material uncertainty is to be done as on the **date of audit report for the position of liabilities existing at the date of balance Sheet.**

# Companies (Auditor's Report) Order, 2020

## Existence of any material uncertainty on the date of the audit report

### Changes made to Schedule III – applicable from 1st day of April, 2021:

- Following Ratios to be disclosed in Notes to Accounts:
  - a) Current Ratio
  - b) Debt-Equity Ratio
  - c) Debt Service Coverage Ratio
  - d) Return on Equity Ratio
  - e) Inventory turnover Ratio
  - f) Trade Receivables Turnover Ratio
  - g) Trade Payables Turnover Ratio
  - h) Net Capital Turnover Ratio
  - i) Net Profit Ratio
  - j) Return on Capital Employed
  - k) Return on Investment
  
- Explanation shall be provided for any change in the ratio by more than 25% as compared to the preceding year.



# Schedule III – Amendment

## Amendments to Schedule III of the Companies Act, 2013 - MCA

These amendments have been presented broadly under the following categories:

- Additional disclosures in the financial statements to align with CARO 2020
- Other key disclosures
- Regrouping in the financial statements



### Applicable for the financial years beginning on or after April 1, 2021 #

Additional disclosures in the financial statements to align with CARO 2020	Division I	Division II	Division III
Title deeds of immovable property not held in the name of the Company	✓	✓	✓
Whether revaluation, if any, of property, plant and equipment is based on the report of registered valuer	✓	✓	✓
Proceedings over holding any benami property	✓	✓	✓
For borrowings on the basis of security of current assets: Whether quarterly returns or statements filed with banks or financial institutions are in agreement with the books of accounts. If not, summary of reconciliation and reasons of material discrepancies, if any.	✓	✓	✓
Loans or Advances in the nature of loans, granted to promoters, directors, KMPs and the related parties which are either repayable on demand or without specifying any terms or period of repayment.	✓	✓	✓
Utilisation of borrowings for the purposes other than for which it was taken	✓	✓	✓
If a Company is declared willful defaulter, date of such declaration and details of defaults	✓	✓	✓
Ratios *, explanation if change is more than 25%	✓	✓	✓
Details of any undisclosed income	✓	✓	✓

# Pursuant to harmonious reading of Section 467(1) and (2) of the Companies Act, 2013, subject to clarification that may be issued by the MCA / ICAI.

\* For Division I and II: (a) Current Ratio, (b) Debt-Equity Ratio, (c) Debt Service Coverage Ratio, (d) Return on Equity Ratio, (e) Inventory turnover ratio, (f) Trade Receivables turnover ratio, (g) Trade payables turnover ratio, (h) Net capital turnover ratio, (i) Net profit ratio, (j) Return on Capital employed, (k) Return on investment

For Division III: (a) Capital to risk-weighted assets ratio (CRAR), (b) Tier I CRAR, (c) Tier II CRAR, (d) Liquidity Coverage Ratio

## Amendments to Schedule III of the Companies Act, 2013 - MCA

Other key disclosures	Division I	Division II	Division III
Prior period errors, if any: Statement of changes in equity to separately disclose the effect thereof and restated balance	X	✓	✓
Shareholding of promoters	✓	✓	✓
Trade Payables ageing schedule (from due date of payment), payable to MSME and others, disputed and others	✓	✓	✓
Trade receivables ageing schedule (from due date of payment), disputed and undisputed	✓	✓	✓
Ageing schedule for Capital work-in progress, intangible assets under development	✓	✓	✓
For CWIP and Intangible assets under development whose completion is overdue or has exceeded its cost compared to its original plan, completion schedule to be given. Any projects suspended to be disclosed separately.	✓	✓	✓
Fair valuation of investment property for disclosure purpose to be based on the valuation by a registered valuer	X	✓	✓
Relationship with Struck off Companies	✓	✓	✓
Delay in registration of charges or satisfaction with Registrar of Companies - details and reasons	✓	✓	✓
Compliance with number of layers of companies	✓	✓	✓
Compliance with approved Scheme(s) of Arrangements "in accordance with the Scheme" and "in accordance with accounting standards"	✓	✓	✓
Details of funds, guarantee, security etc given to / taken from Intermediaries for onward utilisation by Ultimate Beneficiaries	✓	✓	✓
Details of trading or investment in Crypto Currency or Virtual Currency	✓	✓	✓
Rounding off amounts in the financial statements	✓	Already mandatory	
Unit of measurement for rounding off to be selected depending on the total income of the Company	✓	✓	✓

## Amendments to Schedule III of the Companies Act, 2013 - MCA

Regroupings	Division I	Division II	Division III
Current maturities of long-term debt: from other current liabilities to short-term borrowings	✓		
Current maturities of long-term debt: from other financial liabilities to borrowings		✓	
Security deposits: from Long-term loans and advances to Other non-current assets	✓		

**Division I:** Financial Statements for a company whose Financial Statements are required to comply with the Companies (Accounting Standards) Rules, 2006.

**Division II:** Financial Statements for a company whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015.

**Division III:** Financial Statements for a Non-Banking Financial Company (NBFC) whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015.

It will do companies well to start preparing early, since the aforesaid information for FY 20-21 will be required to be used as comparative information for FY 21-22

## Regulatory updates - MCA



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### **Amendments to Companies (Accounts) Rules, 2014**

Companies  
(Accounts)  
Amendment Rules,  
2021

(notifications dated  
24 March 2021 and 1  
April 2021)

Additional matters to be included in the Report of the Board of Directors effective from April 1, 2021:

- Details of application made or any proceeding pending under the Insolvency and Bankruptcy Code, 2016 (31 of 2016) during the year, along with their status as at the end of the financial year.
- Details of difference between amount of the valuation done at the time of one-time settlement and the valuation done while taking loan from the Banks or Financial Institutions along with the reasons thereof.

## Regulatory updates - MCA



### **Amendments to Companies (Audit and Auditors) Rules, 2014**

Companies (Audit and Auditors) Amendment Rules, 2021

(notifications dated 24 March 2021 and 1 April 2021)

Additional matters to be included in the Auditor's Report:

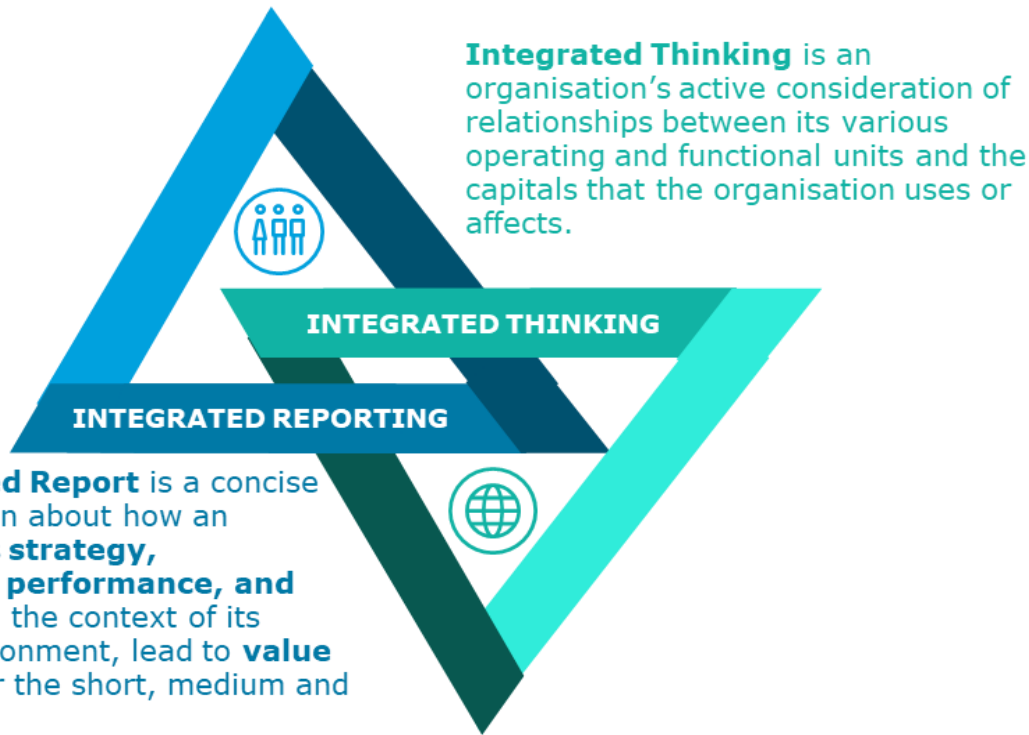
- Applicable for the financial year beginning on or after April 1, 2021:
  - Reasonable and appropriate audit procedures over disclosure of funds, guarantee, security etc given to / taken from Intermediaries for onward utilisation by Ultimate Beneficiaries.
  - Whether the dividend declared or paid during the year by the company is in compliance with section 123 of the Companies Act, 2013.
- Applicable for the financial year beginning on or after April 1, 2022
  - Whether the accounting software used for maintaining books of account 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.

Although the accounting software requirement stated above is applicable for financial years commencing on or after April 1, 2022, managements must start evaluating their current accounting software immediately. Robust controls to ensure integrity and reliability of information in IT systems is very critical for effective internal financial controls.



## About Integrated Reporting

# Essence of <IR> - Setting Perspective



## A Few Perspectives

Not everything that counts can be counted and not everything that can be counted counts

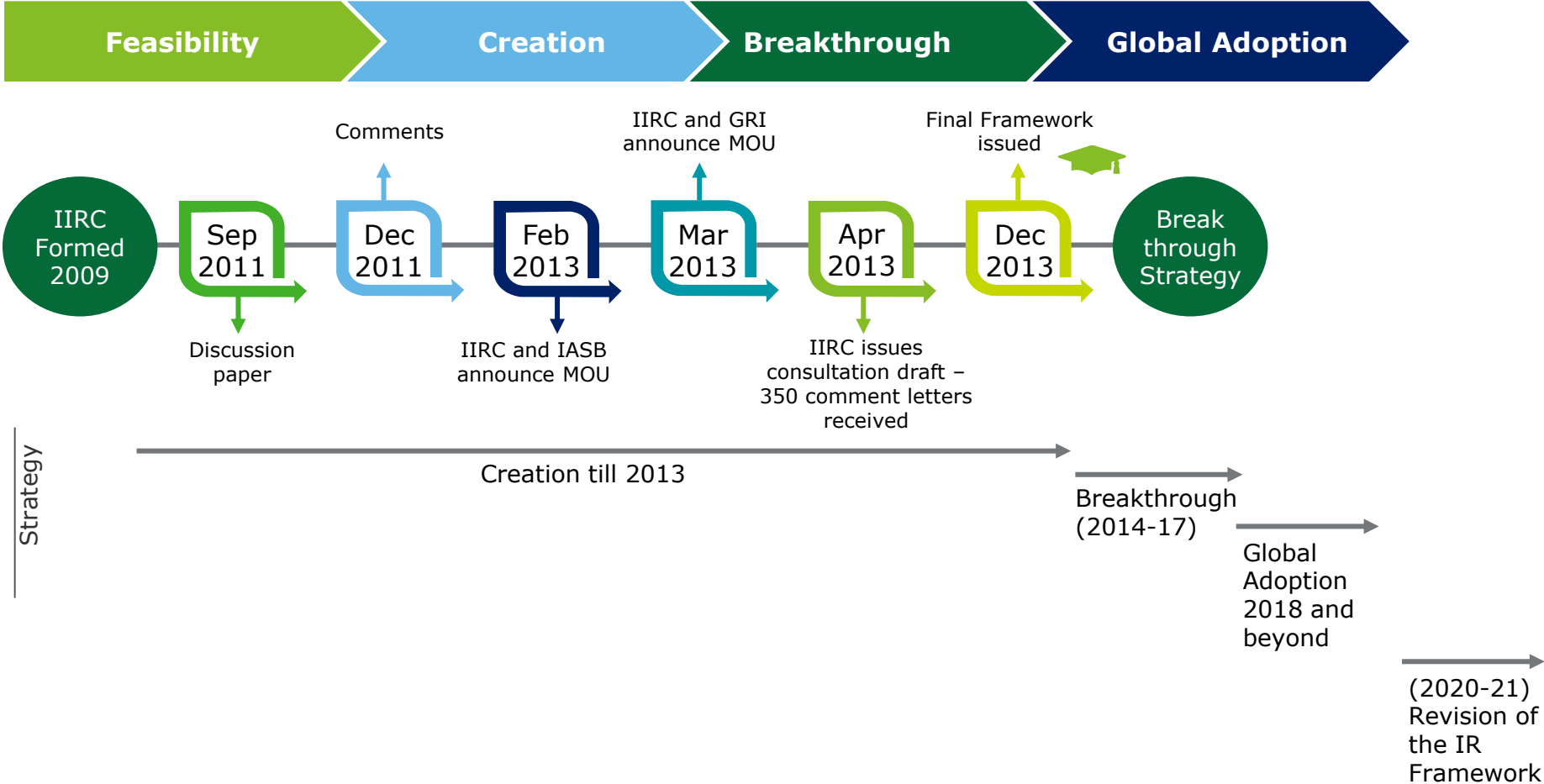
Integrated Reporting or <IR> is about integrated thinking, responsible business behavior and innovation – much more than just corporate communication.

## Why do organisations turn to Integrated Reporting?

- To present a complete picture of the organisation and its value
- To convey its position and outlook in the changing business dynamics
- To evaluate and scale KPIs across functions in the organization



# Evolution of the <IR> Framework



# IR Adoption – India and Global

## GLOBAL

### **December 2013**

IR framework issued for global adoption by IIRC

May 2020

IIRC Public Consultation Draft for Revision of IR framework

## INDIA

### **February 2017**

SEBI Notification for top 500 companies by market capitalisation may voluntarily adopt IR

### **November 2019**

SEBI mandates Business Responsibility Report to top 1000 companies

### **August 2020**

MCA BRR Committee report releases BRSR formats for listed and unlisted companies based on National Guidelines for Responsible Business Conduct

## IR / IR Framework Adoption

### **Since 2013**

Mandatory in South Africa, UK in some form (strategic Report, King Code etc.)

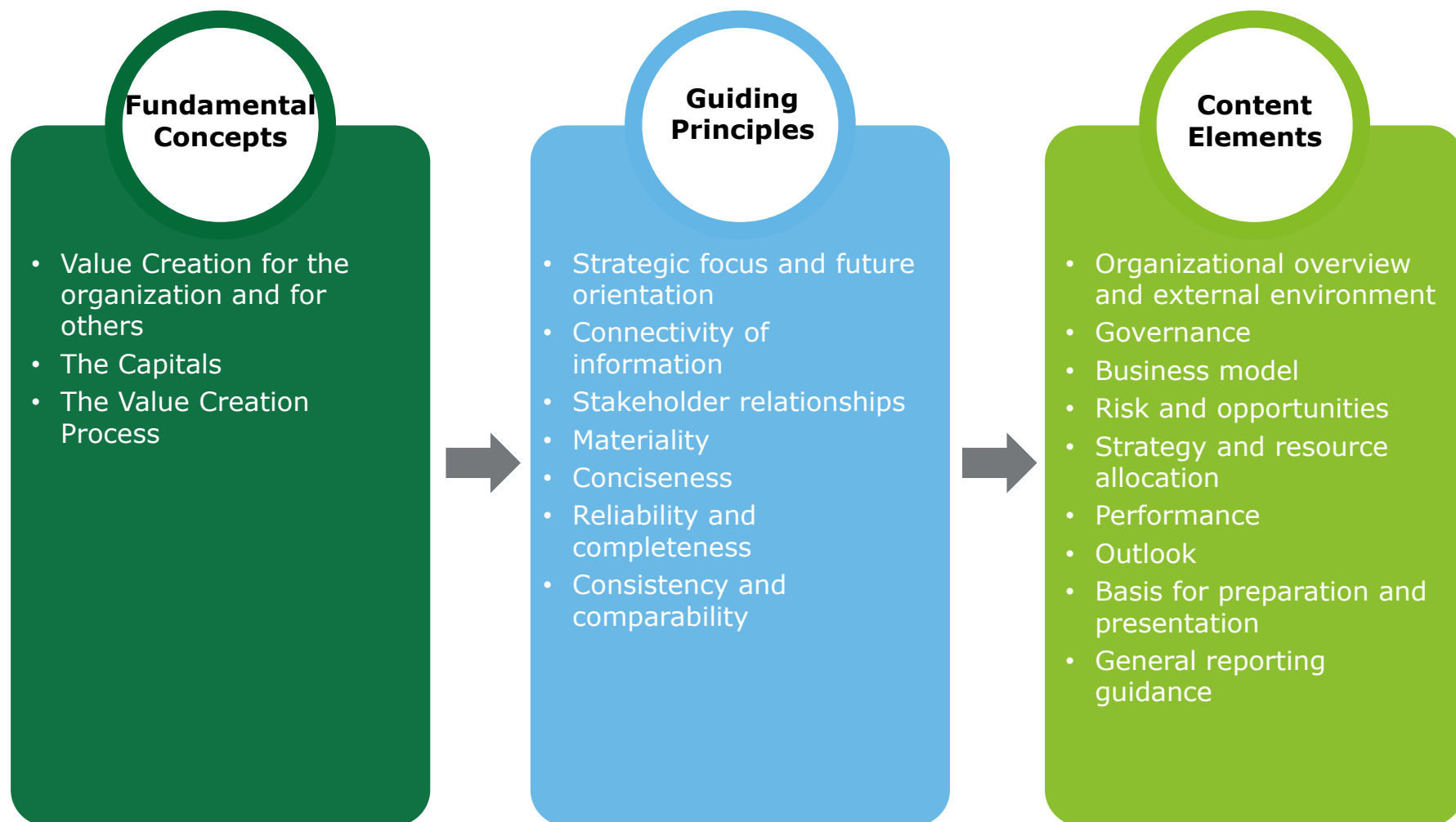
### **Since 2013**

South Africa, Netherlands, Japan, Brazil leading IR adoption

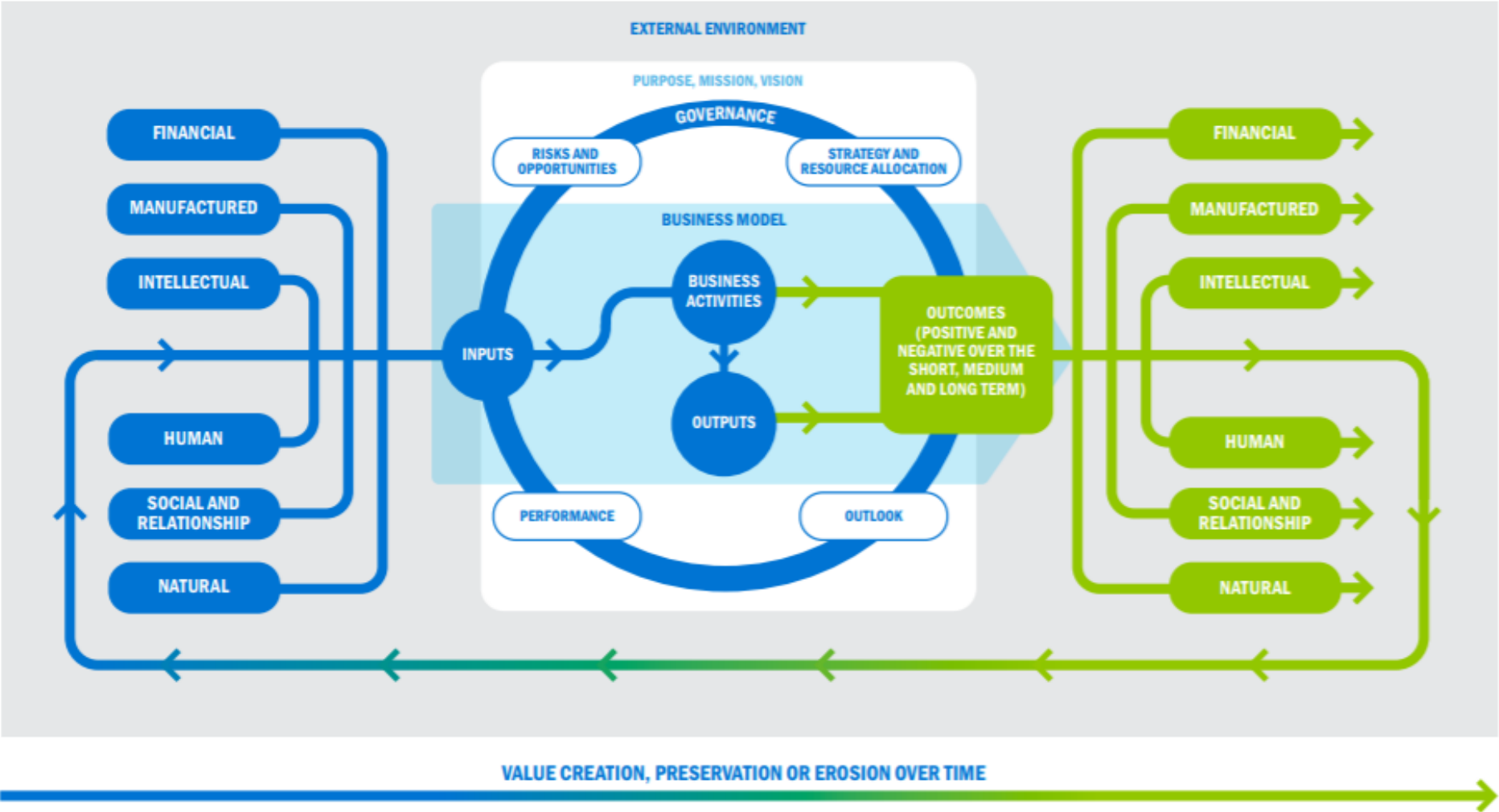
### **2020**

Other countries including US are awaiting IIRC framework acceptance by their respective regulators

# The Framework: Fundamental concepts, Guiding Principles and Content Elements



# The Value Creation Model



# What changed for organisations that implemented IR

Notes from IR implementation journeys of CXOs

"IR HAS THE POWER TO MOVE INVESTOR VIEW TO LONG TERM VALUE AND REMOVE THE UNPRODUCTIVE PRESSURE ON QUARTER BY QUARTER RESULTS

"CREATING AN IR RESULTED UNDERSTANDING THE NEED FOR DATA-OWNERSHIP AND CERTIFICATION OF THE PUBLICLY REPORTED INFORMATION "

"WE WERE ABLE TO ESTABLISH NEW KPIs AND MEASURES FORMALLY MAINLY BECAUSE OF THE MULTI-CAPITAL BASE PROVIDED BY IR"

"A MATURE IR IMPLEMENTATION CAN LEAD TO A DASHBOARD FOR INTEGRATED THINKING AND DECISION MAKING FOR THE MANAGEMENT

"FOR THE FIRST TIME WE WERE ABLE TO CONSOLIDATE OUR STRATEGIC PRIORITIES AND CONSISTENTLY COMMUNICATE COMMON STRATEGY INTERNALLY AND EXTERNALLY"

"IR HELPED US FORMALIZE AND WEAVE OUR ESG ENDEAVORS INTO POLICY, FRAMEWORK, RISK, STRATEGY, PERFORMANCE AND ACTIVITIES

"OUR INVESTORS AND ANALYSTS FOUND ANSWERS TO KEY QUESTIONS IN OUR IR AND WERE HAPPY TO NOTE THAT TO US"

# Why is Sustainability important?

**Because our future depends on it...**

**Businesses today operate in an environment plagued by enormous global challenges.**



Climate change



Resource  
Scarcity



Growing  
population



Inequality

These mega-trend form a growing network of interconnected challenges which are creating an imbalance in our global systems

# Examples of Climate Risks:

An entity's exposure to climate-related risks could be an indicator that an asset or a group of assets is impaired, and also affect future estimated cash inflows and outflows used for the recoverable amount calculations.

An entity may need to explain its judgement that it was not necessary to factor climate change into the impairment assumptions, or how estimates of expected future cash flows, risk adjustments to discount rates or useful lives have, or have not, been affected by climate change.

Financial sector entities may consider disclosing to what extent their investment or loan portfolios are exposed to climate risk and how this risk has been factored into the valuation of these assets.

If an entity has significant exposure to fossil-fuel intensive projects, it should identify the extent of this exposure and how climate-related risks could affect the amounts recognised in their financial statements.

The potential financial implications arising from climate-related and other emerging risks may include:

- asset impairment;
- changes in the useful life of assets;
- changes in the fair valuation of assets due to climate-related and emerging risks;
- increased costs and/or reduced demand for products and services affecting impairment calculations and/or requiring recognition of provisions for onerous contracts;
- potential provisions and contingent liabilities arising from fines and penalties; and
- changes in expected credit losses for loans and other financial assets.

## Where are we?

- ❖ The **Securities and Exchange Board of India (SEBI)** through its 'Listing Regulations' in 2012 mandated the top 100 listed entities by market capitalization to file **Business Responsibility Reports (BRRs)** from an environmental, social and governance perspective.
- ❖ Applicability of **BRR** extended to top 500 listed companies in the year 2016.
- ❖ Applicability of **BRR** extended to top 1000 listed companies from the financial year 2019-20.
- ❖ The existing format of BRR is based on 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' ("**NVGs**") issued by the Ministry of Corporate Affairs ("**MCA**"), Government of India.



## Business Responsibility and Sustainability Report

- ❖ The existing format of **BRR** is based on 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' ("**NVGs**") issued by the Ministry of Corporate Affairs ("**MCA**"), Government of India.
- ❖ In keeping with global developments and domestic changes, these NVGs were revised and released as the National Guidelines on Responsible Business Conduct ("**NGRBCs**") in March 2019.
- ❖ A committee was formed by MCA to align the existing **BRR** formats in line with the NGRBCs and provide new formats.
- ❖ The Committee had prescribed a revised format in its report dated 8<sup>th</sup> May 2020 and **to** reflect the intent and scope of reporting requirement, the Committee recommended that the BRR be called the **Business Responsibility and Sustainability Report ("BRSR")**.

## Business Responsibility and Sustainability Report (Contd.)

- ❖ On 25<sup>th</sup> March 2021, SEBI decides to make the BRSR applicable to top 1000 listed entities (by market capitalization), for reporting on a voluntary basis for FY 2021-22 and on a mandatory basis from FY 2022-23.
- ❖ The BRSR is a notable departure from the existing Business Responsibility Report ("BRR") and a significant step towards bringing sustainability reporting at par with financial reporting.
- ❖ The reporting requirements were finalized based on feedback received from public consultation and extensive deliberations with stakeholders including corporates, institutional investors.
- ❖ Further, a benchmarking exercise with internationally accepted disclosure frameworks was also undertaken.

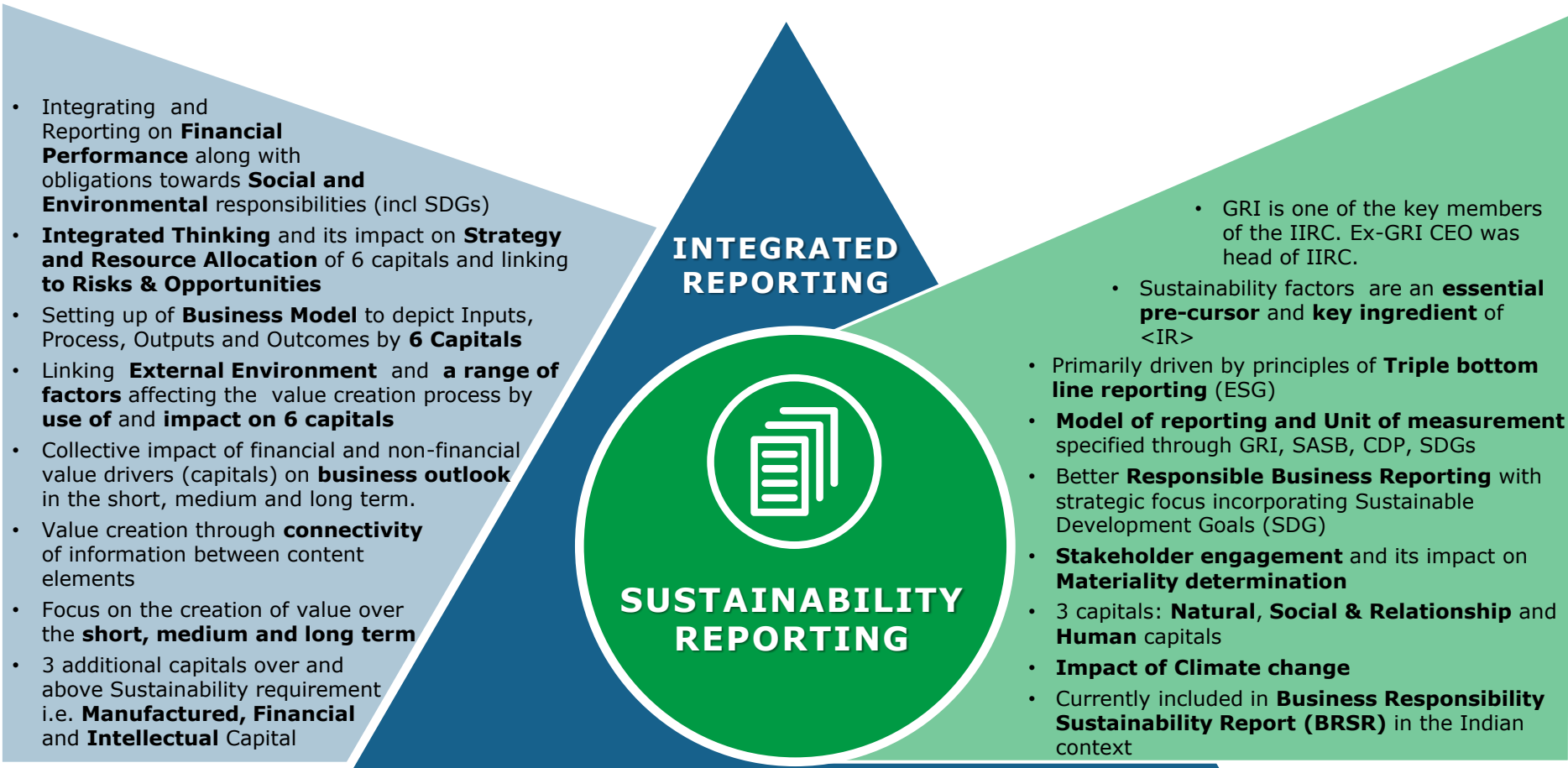




# **IR and Sustainability**

**- The Deep Nexus**

# <IR> and Sustainability - A comparative perspective



# ....and they Quote

The KPI and disclosure elements of the sustainability reporting form a very important building block of an Integrated Report.

- CMA A.N. Raman,  
Sustainability Advisory Group,  
IFAC

Sustainability reporting relates to one important aspect of a company's performance, without which an integrated report would be incomplete. So sustainability reporting is an essential part of an integrated report

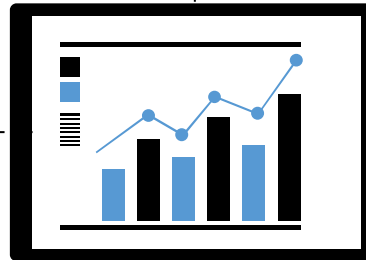
- Ian Ball, ex-CEO, IFAC

Integrated reporting is for investors and for stakeholders who want a holistic view of a company's performance. Sustainability reporting is for stakeholders who want detailed information on issues of importance to them and for investors who want a glimpse of issues that might become material to them in the future. I don't think integrated reporting makes sustainability reporting go away.

- Robert Eccles, Professor of  
Management Practice,  
Harvard Business School

The information within an integrated reporting will, of its very nature, be highly aggregated, and will therefore be heavily underpinned by both financial and sustainability reporting.

- Alex Malley, former Chief Executive, CPA Australia



# Key Takeaways

## Key Takeaways

- Increased disclosures in financial statements with respect to clauses contained in CARO 2020 with an aim of increased compliance for the matters contained therein.
- Increased role of CFO with a focus on compliances with certain laws and regulations, sanity of financial information furnished to banks and to take note of adverse financial position and corrective measures.
- Increased data sharing with auditors and coordination required for concluding prior to sign off.
- Expected to increase the overall quality of reporting by the auditors on the financial statements of the Company and thereby lead to greater transparency.
- Responsibility on the management on additional disclosures in the financial statements on various aspects relating to financial discipline, ageing, end use of funds, etc.



THANK YOU!

