

**NATIONAL CONFERENCE ON 'CHANGING
LANDSCAPE OF ACCOUNTING AND REPORTING'**
NAVIGATING GLOBAL STANDARDS AND BEST PRACTICES

OCTOBER 2024

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FOREWORD FROM THE SECRETARY GENERAL, ASSOCHAM

In today's rapidly evolving global economy, the landscape of accounting and reporting is undergoing transformative changes. The convergence of International Financial Reporting Standards (IFRS), the rise of sustainability reporting, and the integration of advanced technologies are reshaping how businesses manage, report, and utilize financial information. As businesses face increasingly complex regulations and stakeholder expectations, the need for transparent, accurate, and timely financial reporting has never been more critical. The harmonization of global accounting standards such as IFRS, alongside regional requirements, ensures that businesses can remain compliant while providing a true and fair view of their operations. Furthermore, the rise of non-financial reporting, particularly in the areas of environmental, social, and governance (ESG) considerations, reflects a broader demand for accountability from both investors and other stakeholders in the society.

The knowledge paper on '**Changing Landscape of Accounting and Reporting: Navigating Global Standards and Best Practices**' provides insights to professionals to navigate the ever-growing expectations; best practices towards meeting compliance; and information that can add strategic value to organizations. I acknowledge the efforts of BDO India and ASSOCHAM in preparing this report that serves as a valuable resource in navigating complexities of the financial reporting landscape and contributes towards the broader perspectives of maintaining transparency, compliance and overall corporate governance.



DEEPAK SOOD
Secretary General
ASSOCHAM

FOREWORD FROM THE DEPUTY MANAGING PARTNER, BDO IN INDIA

As knowledge partners, we are pleased to come together for ASSOCHAM's National Conference on 'Changing Landscape of Accounting and Reporting: Navigating Global Standards and Best Practices' on 17th October, 2024 at New Delhi.

First a big thank you to ASSOCHAM for organising this conference consistently over the years.

The timing couldn't be more opportune, when even IRDAI - India's Insurance sector regulator, has stepped in to facilitate insurance companies implement IND AS 117: Insurance Contracts (based on IFRS 17) and has given a roadmap.

In addition to the accounting and financial reporting landscape evolving continually, influenced by changing global standards, global economic conditions, emerging business trends etc, there is an increased focus of the regulators as well on financial reporting underlining the need for transparent and reliable practices in compliance with auditing and accounting framework. The end-goal is to enhance the integrity and reliability of financial reporting and meeting stakeholders' expectations.

Finally, even environmental, social, and governance (ESG) considerations which have assumed paramount significance in recent years, need to be converged into financial reporting.

This conference provides the perfect platform for professionals, industry, regulators to come together and deep dive into emerging trends, regulatory changes, best practices & global learnings in the sphere of financial reporting and controls. It is an opportunity to share knowledge, experiences, and insights, and to engage in meaningful discussions that can shape the future of financial accounting & reporting.

As the Knowledge Partner, I extend my best wishes for an insightful conference and healthy deliberations and you find our Knowledge Paper handy and helpful in navigating the ever-changing landscape of financial accounting & reporting world.



YOGESH SHARMA

Deputy Managing Partner
BDO IN INDIA

HOW FINANCIAL ACCOUNTING AND REPORTING IS CHANGING GLOBALLY



CHANGING LANDSCAPE IN GLOBAL CONTEXT

The field of financial accounting and reporting has experienced tectonic shifts in the recent years. With an increased focus on sustainability and incorporation of technological innovations, businesses are forced to rethink how they disclose financial information, manage risks, engage with stakeholders and remain compliant.

There is an increase in demand for sustainability practices and disclosures, and standardized reporting frameworks that enhance the reliability and comparability of information. The year 2024 is the first year of applicability of the European Union's (EU's) Corporate Sustainability Reporting Directive (CSRD) on sustainability reporting, which mandates companies to report on their social and environmental activities. It applies to certain non-EU companies as well. Further, in April 2024, the European Parliament approved the Corporate Sustainability Due Diligence Directive (CSDDD), which mandates companies to conduct sustainability due diligence and report on their findings.

Similarly, in March 2024, the US Securities and Exchange Commission (SEC) adopted its climate-related disclosure rules. However, the implementation of these rules has been temporarily stayed on account of certain petitions being filed.

In the Indian context, leaps and bounds have been made in the field of sustainability; be it through the first listing on the social stock exchange in April 2023, or the introduction of the Carbon Credit Trading Scheme, 2023 and the Green Credit Rules, 2023. The Business Responsibility and Sustainability Reporting (BRSR) serves as a beacon in the commitment of our country towards sustainability goals. This reporting is now mandatory for the country's top 1000 listed companies, requiring mandatory assurance in a phased manner.

A conversation on the global landscape would be incomplete without the mention of technology. The improved focus on automation of business processes by companies globally is a testament to their benefits. The integration of Artificial Intelligence (AI) into

accounting software is one such significant development. Although in its nascent stage, generative AI technologies promise to enhance the accuracy and efficiency of financial reporting by automating complex tasks and providing predictive insights. This area holds great potential for future developments.

As businesses become more complex and voluminous, the adoption and use-case of Robotic Process Automation (RPA) and Data Analytics and Visualisation is only accelerating. RPA automates several mechanical jobs in the financial reporting process, such as aiding in performance of a three-way match on purchases or other cross-reference checks, thereby achieving efficiency and saving human efforts that can be utilised on more important tasks. The voluminous nature of transactions in modern businesses has ushered in an era of Big Data Analytics and Visualisation, that not only aids in improving the auditability and accuracy of data, but also provides deeper insights for decision-makers of an organisation.

Regulators and standard-setting bodies across the globe are also taking cognizance of the changing global landscape and striving towards improving the quality of Audit and Assurance in financial reporting. The International Ethics Standards Board for Accountants (IESBA), in their latest handbook released in August 2024, calls on all professional accountants and auditors to uphold the highest level of integrity and independence standards in this era of emerging technologies. The International Auditing and Assurance Standards Board (IAASB) is also working towards improving the quality systems of audit firms with the introduction of new Quality Control Standards in International Standard on Quality Management (ISQM) 1 and ISQM 2. Further, given the complexity involved in large-scale multinational audits, the IAASB has also revised the International Standard on Auditing (ISA) 600 which lays down more stringent requirements for risk identification and assessment by group auditors and thus, enhancing the communication between group and component auditors.

International standard-setting bodies are also in an overdrive mode to achieve the objectives of better transparency and comparability of sustainability information; be it through the adoption of the new International Financial Reporting Standards (IFRS) S1 and S2 standards for the purpose of disclosures, or the introduction of International Standard on Sustainability Assurance (ISSA) 5000 for the purpose of assurance.

As companies navigate this dynamic landscape, they must stay informed and proactive to the threats and opportunities involved and must strive to enhance transparency, build stakeholder trust, and contribute to a more sustainable future.

INCREASING REGULATORS' FOCUS ON FINANCIAL REPORTING

The availability of transparent and reliable Financial Reporting is crucial to serve the information needs of an entity's stakeholders and thereby enable them to make informed decisions. Regulatory bodies such as the National Financial Reporting Authority (NFRA) incorporated under section 132 of the Companies Act, 2013 and rules thereunder, plays a vital role in maintaining the integrity and reliability of Financial Reporting. As India's premier independent regulatory body, NFRA is responsible for evaluation of the quality control systems of auditors, review of audit working papers and to ensure adherence to Standards on Auditing and applicable Accounting Standards.

One keystone for any assurance engagement involves the maintenance of independence- to avoid any conflict of interest between the management of a company and the auditor. Several irregularities have been noted by the regulators in this aspect, the most important area being the provision of non-audit services to audit clients. Section 139(2) of the Companies Act, 2013 on rotation of auditors, Section 144 on restrictions on non-audit services of the Companies Act, 2013 and Code of Ethics issued by The Institute of Chartered Accountants of India (ICAI) aim at upholding and enhancing independence of auditors.

A complex and subjective area in financial reporting is the identification of impairment indicators and the valuation of impairment loss. The foundation to a good audit strategy would therefore involve sufficient procedures on the identification of indicators and the use of appropriate valuation models and methods. Regulators noted that certain entity's recognition & measurement for impairment loss allowance was not in accordance with the Expected Credit Loss (ECL) approach of Ind AS 109. Further, impairment assessment for non-financial assets also involves use of significant assumptions regarding the forward-looking estimates such as business growth rates, expected default rates, discount rates. A thorough evaluation and challenging of these estimates for possible biases is necessary. Further, this also necessitates accounting policies and disclosures to be consistent with reporting frameworks.

Auditing Related Party Transactions (RPTs) may involve several complexities and present numerous challenges, including lack of sufficient and appropriate evidence, inappropriate approvals or non-compliance with the regulatory requirements like Section 185 and 186 of the Companies Act, 2013. Another critical requirement to audit related parties under section 188 of the Act is prior approval of certain classes of transactions unless they are carried out at Arm's Length Price; therefore, verification of whether the transactions with RPTs are carried out at Arm's Length Price becomes another important consideration for auditors. Furthermore, Section 186 of the Act requires disclosure of full particulars of the loans given, investment made or guarantee given or security provided and the purpose for which they would be utilised by the recipient. Thus, it is critical that auditors maintain professional skepticism and appropriate documentation to ensure that RPTs are disclosed as per the requirements of the reporting framework.

Given that revenue is a critical indicator of an entity's financial health and performance, a thorough audit of revenue is essential to ensure the accuracy and reliability of financial statements. This includes understanding the policy on revenue recognition, in-depth testing of all the relevant attributes surrounding the revenue recognition, and its compliance with the disclosure requirements.

Internal financial controls are designed, implemented and maintained by the management to ensure that they are able to achieve the entity objectives and mitigate risks. It is imperative that the auditor is also cognizant of the controls in-place and performs appropriate testing on these controls. This is further complicated by the introduction of Information Technology automation, which adds another layer of complexity and necessitates more rigorous and comprehensive testing.

Maintaining the integrity of Audit Documentation is another critical aspect auditors must consider. The documentation of engagements must be complete, preferably in an electronic format and compliant with the stipulated timeframe for housekeeping. Moreover, any clerical changes made in the house-keeping period, post initial sign-off, must have a footprint of the nature of changes done and must be authorised by the Engagement Partner. These would ensure that Audit Documentation is compliance SQC 1 read with SA 230 Audit Documentation with respect to integrity, accessibility and retrievability of engagement documentation.

As important as designing procedures to detect misstatements is, the evaluation of misstatements noted in the procedures pose an even bigger challenge. An auditor is required to evaluate and conclude on the pervasiveness of the misstatements in a detailed and thoughtful manner before concluding whether they need to issue a 'Qualified' opinion or it requires them to issue 'Adverse' or 'Disclaimer' of Opinion. In certain situations, the auditor may want to draw users' attention to matters that are disclosed in the financial statements through an 'Emphasis of matter' paragraph, although this cannot be subordinate to an auditor's evaluation of misstatements and their potential impact on the overall report.

In conclusion, the increasing focus of regulators on financial reporting denotes the need for transparent and reliable practices in compliance with Standards of Auditing and applicable accounting framework. The end-goal is to enhance the integrity and reliability of financial reporting and meeting the expectations of all the stakeholders.



CONVERGENCE OF ESG REPORTING INTO FINANCIAL REPORTING

Environmental, Social and Governance (“ESG”) considerations have traditionally not been given as much importance in the company’s annual reports as the financial reporting considerations. However, the reporting landscape has changed considerably in recent years with greater emphasis on non-financial measures. The regulators have been demanding additional disclosures in the annual report on various ESG metrics and other related factors.

On 26 June 2023, the International Sustainability Standards Board (“ISSB”) issued its first two sustainability reporting standards - IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures). These two standards are intended to set a global baseline to enable companies to provide information about sustainability-related risks and opportunities that is useful for investors’ decision-making. In India, Securities and Exchange Board of India (“SEBI”), vide Circular dated 12 July 2023, has mandated BRSR Core reasonable assurance for the top 1000 companies by market cap in a phased manner starting 2023-24.

However, incorporating ESG factors into financial reporting is not just a compliance procedure. Instead, it has become a strategic imperative for the companies to demonstrate its social commitments and gain competitive advantage. The investors are paying close attention to the company’s performance not just in terms of financial metrics (such as revenues, profits and cash flows) but also in terms of ESG metrics (such as carbon emissions, employee satisfaction, social initiatives and governance mechanisms). By incorporating ESG performance measures along with the financial performance measures, companies can provide a comprehensive picture of their value creation and the overall impact on society and environment. Companies with more transparent ESG disclosures are expected to generate greater investor confidence, enhanced brand reputation and increased overall stakeholder support.

ESG (specifically climate-related matters) also has an important bearing on the financial statements both in terms of recognition/measurement of certain financial statement line items and disclosures. Companies must consider climate-related issues when preparing their financial statements under Ind AS if those issues have a significant impact on the overall financial statements (e.g., with respect to the most significant judgements and estimates).

Synchronising climate strategy information and financial information gives stakeholders a better idea of both the current and future effects of the entity’s climate transition plan. Some of the examples (not exhaustive) which illustrate when Ind AS may require companies to consider the effects of climate-related matters are as follows:

Ind ASs	Illustrative climate-related considerations
Ind AS 1 Presentation of financial statements	Companies may need to disclose their assumptions about climate-related issues if these create uncertainties that impact estimates, like future cash flows when checking for asset impairment. Disclosure is also required if climate-related matters raise significant doubts about the company's ability to continue operating as a going concern.
Ind AS 2 Inventories	Companies are required to write down inventories to their net realisable value if the cost of inventories is not recoverable. This may arise due to climate related matters resulting in company's inventories to become obsolete, their selling prices to decline or their costs to complete to increase.
Ind AS 12 Income Taxes	Climate-related matters may affect a company's estimate of future taxable profits. This may result in the company being unable to recognise deferred tax assets in respect of unused tax losses and credits, and deductible temporary differences, or being required to derecognise deferred tax assets previously recognised.
Ind AS 16 Property, Plant and Equipment and Ind AS 38 Intangible Assets	Climate-related matters may result in additional expenditure to change or adapt business operations. Ind AS 16 and Ind AS 38 require the review of estimated useful lives/residual values of assets at least annually, and to reflect changes (including those arising from climate-related matters), in the amount of depreciation or amortisation recognised.
Ind AS 36 Impairment of Assets	Climate-related matters may give rise to impairment indicators. For example, a decline in demand for products that emit carbon emissions could indicate a manufacturing plant may be impaired, requiring the asset (or related cash-generating unit) to be tested for impairment.
Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets	Climate-related matters may impact how companies recognise, measure and disclose liabilities. This could include levies imposed by governments for failure to meet climate-related targets or regulatory requirements to remediate environmental damage. Some contracts may also become onerous for example, due to potential loss of revenue or increased costs as a result of climate-related changes in legislation. Climate related risks could also result in an increase in provisions related to decommissioning obligations due to regulatory changes or reduced project lives.
Ind AS 107 Financial Instruments: Disclosures	Climate-related matters may expose a company to certain specific risks in relation to financial instruments. For example, there may be effects on expected credit losses or concentrations of credit risk for lenders. Additionally, some debt instruments might include terms linking contractual cash flows to a company's achievement of climate-related targets, potentially impacting classification and measurement of such instruments.

Ind AS 113 Fair Value Measurement	The fair value of an asset or liability may be affected by market participants' views of potential climate-related matters, including potential legislation or changes thereof.
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As illustrated above, ESG and climate-related considerations and disclosures are important for financial reporting. However, there are certain challenges in effective implementation of ESG considerations across various companies. Availability of required data for identifying, measuring and reporting ESG metrics is a common hurdle for most businesses. The lack of transparency and consistency in applying climate-related matters for financial reporting also makes it difficult for stakeholders to compare and evaluate the company's performance across various parameters. It is imperative for businesses to adopt consistent and appropriate ESG frameworks to obtain synergy of ESG and financial reporting for sustainable growth and stakeholder value creation.

IMPORTANCE OF CONTROLS IN FINANCIAL ACCOUNTING AND REPORTING

WHAT ARE CONTROLS AROUND FINANCIAL STATEMENT CLOSURE PROCESS

Financial Statement Closure Process

The process which converts accounting records (the data) into meaningful information is called Financial Statement Closure Process. This activity includes all the tasks performed to finalise financial records and produce financial statements at the end of a month, quarter, or fiscal year. It is a critical process that ensures accuracy and completeness of financial data. This enables compliance and allows stakeholders to make informed decisions.

As per the definition, we understand that this is the most critical process and hence requires multiple safeguards at all levels, from the first level that is the person who is responsible for data accuracy to the person at the last level who is responsible for the review and presentation of the financial statements to the stakeholders.

Need for Financial Statement Closure Process

The financial statements are used internally to conduct financial analysis, forecast future income and expenditures, establish and adjust budgets and to understand whether the business will be able to meet the objectives or not.

The external stakeholders such as investors and lenders look to financial statements and reports that are generated during a closure process to assess a company's financial performance and see how well their investments are performing and whether the company will be able to meet the future liabilities or not.

Hence there is a need for every company to have robust closure process to ensure that the information which is used by the stakeholders is true and accurate.

Risks associated with Financial Statement Closure Process

Considering the need for closure process, this indicates that accuracy and completeness of data is the biggest risk associated with the closure process. Since the preparers and the presenters may want to show a rosy picture to the stakeholders, the window dressing of the financial statements may be one of the main reasons for having an effective financial statement closure process.

Controls associated with Financial Statement Closure Process

Definition: Controls system includes policies and procedures formulated by the management to ensure efficiency and effectiveness of business and ensuring accuracy of accounting records. The process is designed, implemented and maintained to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations.

As per the definition of Control and the Process, we have various types of Controls which are required to ensure that the Closure Process is not a failure and provides the required results in an efficient manner:

1. Transaction Level Controls - Controls applicable at the preparer level
2. Entity Level Controls - Controls applicable at the reviewer/presenter level

Controls that should be present as part of the closure process are:

- Control over the preparer and reviewer of the financial statements, both should be different in terms of position in the organisation and
- Control with respect to maker and checker; ensuring correct entry of transaction totals into the general ledger
- Control with respect to the selection and application of accounting policies since they directly impact the accounting treatment of transaction and control of tools which can be used to overstate/understate profits
- Control over initiation, authorisation, recording, and process of journal entries in the general ledger and documentation of the proof of all the journal entries
- Control over the year-end recurring and non-recurring adjustments to the annual/ quarterly / interim financial statements
- Control over compliance with the technical literature and ensuring completeness of required disclosures
- Control over the usage of the information technology (IT) involvement in the year -end financial reporting process and ensuring that access to information is given to authorized personnel

The end result of the financial reporting closure process is the complete financial statements which is used by external stakeholders; hence it creates a bigger responsibility on the shoulder of the auditors to ensure that the above controls are working efficiently and effectively.

This draws the requirement of auditors for reporting on internal financial controls over financial reporting.

Therefore, it is important for auditors and the management to ensure that all the controls are designed and implemented effectively.



HOW ROBUST CONTROLS CAN IMPROVE FINANCIAL REPORTING

Internal Control Over Financial Reporting (ICFR) is the set of controls or a control system specifically designed to address risks related to financial reporting. In simple terms, a public company's ICFR consists of controls that are designed to provide reasonable assurance that the company's financial statements are reliable and prepared in accordance with GAAP.

Preparing reliable financial information is a key responsibility of the management of every public company. The ability to effectively manage the company's business requires access to timely and accurate information that aids in decision-making. Moreover, investors must be able to place confidence in a company's financial reports if the company wants to raise capital in the public securities markets. Therefore, CFOs and other finance executives must understand the tactics they can employ to improve the quality of their financial reporting.

A robust system of internal controls translates into more reliable financial reporting and can help companies prevent, detect, and correct financial misstatements. In contrast, weak controls can result in costly errors – and even fraud.

Adequate internal controls are the first line of defence in detecting and preventing material errors or fraud in financial reporting. When internal control deficiencies are left unaddressed, financial reporting quality can suffer. Understanding the importance of internal controls in financial reporting is key to upholding the trust of stakeholders and ensuring the overall health of the organization's financial practices.

Here's how robust controls contribute to better financial reporting:

Preventing Errors and Fraud

Implementing robust internal controls is crucial for preventing errors and fraud in financial reporting. By establishing clear segregation of duties, requiring dual authorization for financial transactions, and conducting regular reconciliations, companies can greatly reduce the risk of manipulation and errors in financial statements.

Segregation of duties ensures that no single individual has control over an entire financial transaction, making it more challenging for fraudulent activities to go undetected. Requiring dual authorization for significant financial transactions adds an extra layer of oversight, reducing the likelihood of unauthorized or erroneous entries.

Regular reconciliations of accounts, ledgers, and financial statements help in detecting irregularities and discrepancies promptly. Implementing automated monitoring systems can also aid in identifying suspicious activities or patterns that may indicate fraud.

Accuracy and Completeness

1. **Prevention of Errors:** Well-designed controls, such as automated reconciliation and data validation, help prevent manual errors, omissions, and inaccuracies in financial statements.
 2. **Consistency in Reporting:** Standardized processes ensure that transactions are recorded consistently across reporting periods, improving comparability and reliability.
 3. **Audit Trails:** Controls ensure there are proper audit trails, making it easier to track changes, correct errors, and justify financial data.
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Safeguarding Organizational Assets

By establishing robust internal controls, companies can formulate asset protection strategies and ensure the integrity and security of their organization's assets.

Mitigation of Risk

1. **Risk Assessment:** Strong controls require ongoing risk assessments to identify areas where financial reporting could be compromised. This proactive approach helps address risks before they materialize.
2. **Reduction of Restatements:** With robust controls in place, the likelihood of material errors or omissions that require restatement of financials is minimized; preserving the company's credibility.

Compliance with Regulations

Control implementation is a vital aspect of a compliance framework. It involves putting in place policies, procedures, and mechanisms to make certain that all employees are aware of and follow the established compliance standards. Regular **monitoring and evaluation** of these controls are essential to verify their effectiveness and make necessary adjustments.

Adherence to Standards: Controls ensure compliance with accounting standards (like Ind AS, IFRS, or GAAP) and regulatory requirements (such as SOX in the U.S.), reducing the risk of penalties and restatements.

Timely Financial Disclosures: Effective controls promote the timely preparation and submission of financial reports, ensuring compliance with filing deadlines set by regulators.

Improved Efficiency

- a. **Automation of Processes:** Controls often involve the automation of routine tasks like data entry, reconciliations, and reporting. This not only reduces the chance of human error but also speeds up the reporting process.
- b. **Streamlined Workflows:** Efficient controls can improve workflow management, enabling financial teams to focus on analysis and decision-making rather than troubleshooting data integrity issues.

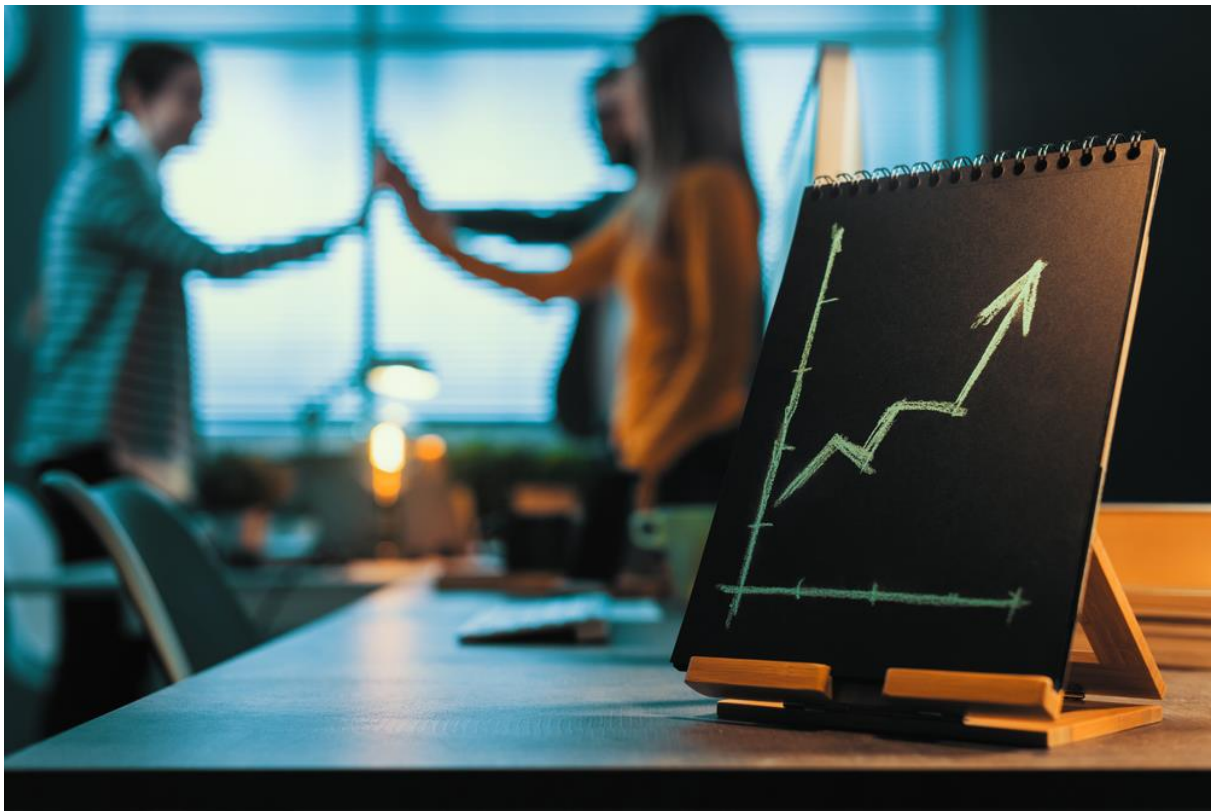
Enhanced Audits

- a. **External Audits:** Auditors rely on the strength of internal controls to assess the accuracy of financial reporting. When controls are robust, audits are more efficient and less costly.
 - b. **Internal Audits:** Effective internal controls improve the efficiency of internal audits, which helps identify and resolve issues proactively before they are flagged by external auditors.
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Conclusion:

Management's ability to fulfil its financial reporting responsibilities depends on the design and operating effectiveness of the controls and safeguards it has put in place over accounting and financial reporting. Without such controls, it would be challenging for most business organizations—especially those with numerous locations, operations, and processes—to prepare timely and reliable financial reports for management, investors, lenders, and other users.

Robust controls create a foundation for accurate and reliable financial reporting, which builds stakeholder trust, ensures compliance with regulations, and supports effective business decision-making. Implementing and continuously improving these controls can significantly enhance the quality of a company's financial information and its overall governance framework.



RECENT CHANGES ON FINANCIAL ACCOUNTING AND REPORTING IN INDIA

BDO INSIGHTS WITH RESPECT TO BELOW MENTIONED UPCOMING AMENDMENTS

<u>Key Ind AS Amendments</u>	Effective From
<u>Ind AS 117 “Insurance Contract” impact on Non - Insurance Companies</u>	1 April 2024
<u>Ind AS 116: ‘Leases’: lease liability in a sale and lease back</u>	
<u>Ind AS 1: Classification of liabilities as current or non-current (Exposure Draft)</u>	
<u>IND AS 7 and Ind AS 107: Supplier finance arrangements (Exposure Draft)</u>	
<u>IND AS 21: Lack of Exchangeability (Exposure Draft)</u>	1 April 2025

New Ind AS 117 replaced Ind AS 104:

On August 12, 2024, the Ministry of Corporate Affairs (MCA) announced the Companies (Indian Accounting Standards) Amendment Rules, 2024. The amendment introduces Ind AS 117 ‘Insurance Contracts,’ replacing the previous Ind AS 104. Ind AS 117 sets out the principles for recognizing, measuring, presenting, and disclosing insurance contracts. These changes will be effective starting April 1, 2024, marking the beginning of the Financial Year 2024-25.

Practical Examples of Contracts Affected by IND AS 117

1. Fixed-Fee Service Contracts

A common example is a car breakdown service contract where a provider agrees to offer roadside assistance for a fixed annual fee. Under IND AS 117, this contract might be considered an insurance contract because it involves compensating the customer for a specified uncertain event (the car breaking down), which adversely affects the policyholder. However, if the fee is fixed and does not vary based on Individual customer risk, the entity might choose to account for this contract under IND AS 115 instead, provided it meets certain criteria.

2. Performance Bonds

Performance bonds issued by non-insurers can also fall under the scope of IND AS 117. These contracts typically compensate the holder if another party fails to perform a contractual obligation. For example, if a construction company fails to complete a building on time, the performance bond compensates the property owner. Such a bond involves significant insurance risk as it compensates for a loss caused by an uncertain future event (delays in construction).

3. Product Warranties

Product warranties, especially those not linked to the sale of goods, may also fall under IND AS 117. For instance, a third-party warranty provider who offers extended warranties on electronic devices might issue contracts that qualify as insurance contracts under IND AS 117. This is particularly true if the warranty covers significant risks like accidental damage or theft, which are uncertain future events that could adversely affect the policyholder.

4. Loan Contracts with Death Waivers

A loan contract that includes a waiver on death, such as a mortgage where the outstanding balance is forgiven upon the borrower's death, could be considered an insurance contract under IND AS 117. The significant insurance risk here is the possibility of the borrower's death, which would trigger the waiver. Entities issuing such contracts may need to decide whether to apply IND AS 117 or opt for IND AS 109.

5. Intra-group financial guarantee contracts

For a financial guarantee contract issued by a parent over the liability of its subsidiary to a third party, if no consideration from the subsidiary or holder to the parent is agreed, then it appears that the parent has provided the guarantee in its capacity as a shareholder. Therefore, the parent accounts for the contract in its separate financial statements as a capital contribution to the subsidiary. This represents the deemed premium for the guarantee.

Measuring the deemed premium may differ between IND AS 117 and IND AS 109, as set out below.

Measurement of deemed premium by parent company (issuer):

- Under Ind AS 104, the financial guarantees issued by the Company on behalf of group companies if designated as 'insurance contracts'; the Company shall assess at the end of each reporting period whether it should recognise insurance liabilities (if any) are adequate, using current estimates of future cashflows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in profit or loss.
- Under, IND AS 117, the deemed premium measured either at **fair value** of the guarantee or at an equal amount to **the guarantee's fulfilment cash flows**.
- Under IND AS 109, The deemed premium is measured at **fair value** on initial recognition.

In the group financial statements, the issued guarantee is usually included in the measurement of the guaranteed financial liability - i.e., it is not accounted for separately.

Challenges in Implementing IND AS 117

1. Complexity in Classification

One of the primary challenges non-insurers face is the complexity of identifying which contracts fall within the scope of IND AS 117. The standard's broad definition of an insurance contract means that contracts traditionally not viewed as insurance could now be classified as such. This requires a detailed review of all contracts to determine the extent of insurance risk involved.

2. Impact on Financial Reporting

The transition from IND AS 104 to IND AS 117 introduces new measurement models that emphasize current estimates of future cash flows, adjusted for the time value of money and risk. This shift could significantly impact profit and loss reporting for entities, particularly those that had previously accounted for these contracts under less stringent standards like IND AS 104.

For example, under IND AS 117, the profit from an insurance contract might be spread over the contract's duration rather than recognized upfront, affecting revenue recognition patterns and key financial metrics.

Strategic Responses for Non-Insurers

1. Conducting a Contract Review

Non-insurers should begin by conducting a comprehensive review of all existing contracts to identify those that might fall within the scope of IND AS 117. This includes applying the four-step process outlined in the standard: determining if there is a contract, identifying whether it compensates for a specified uncertain event, assessing if the event adversely affects the counterparty, and evaluating the significance of the insurance risk.

2. Evaluating the Financial Impact

It is crucial to assess how the application of IND AS 117 will impact financial statements, particularly regarding revenue recognition, profit patterns, and financial ratios. This analysis will help entities prepare for potential changes in their financial performance and communicate these changes to stakeholders.

Conclusion

IND AS 117 represents a significant shift in accounting for insurance contracts, with implications that extend far beyond traditional insurers. For non-insurers, this standard requires a careful review of contracts, a deep understanding of the new requirements, and potentially significant changes to financial reporting and systems. By proactively addressing these challenges, non-insurers can ensure they are fully compliant with IND AS 117 and well-prepared for the new financial reporting landscape.

Ind AS amendment "IND AS 116: lease liability in a sale and lease back" notified by MCA on September 09, 2024 which is applicable from April 01, 2024

The MCA has issued narrow-scope amendments to the requirements for sale and leaseback transactions in Ind AS 116 explaining how a seller-lessee accounts for a sale and leaseback after the date of the transaction.

The amendment clarifies the accounting treatment for sale and leaseback transactions in which some or all lease payments are variable, especially when the variability is not tied to an index or rate. For instance, if all lease payments in the leaseback depend entirely on the seller-lessee's future sales (meaning they are fully variable), it allows the lessee to measure the right-of-use asset and lease liability as zero, thereby recognizing a full gain or loss on the sale at the transaction date

To address the same now seller-lessee shall on initial measurement:

Determine the proportion of the right-of-use asset retained at the sale and leaseback transaction date by comparing, for example:

- The present value of anticipated lease payments (including variable payments, regardless of whether they are linked to an index or rate) compared to the asset's fair value at the transaction date;
- The expected duration of the asset's use by the seller-lessee under the leaseback in relation to the asset's remaining economic life; or
- The fair value of the asset at the transaction date minus the present value of the expected residual value at the end of the leaseback, compared to the asset's fair value at the transaction date.

The seller-lessee determines the right-of-use asset from the leaseback based on the portion of the previous carrying amount of the asset corresponding to the retained right of use. The gain (or loss) recognized by the seller-lessee is confined to the share of the total gain (or loss) attributable to the rights transferred to the buyer-lessor.

Ind AS 116 does not prescribe any particular method for determining the portion of ROU above mentioned are illustrative.

Determine the lease liability at the sale and leaseback transaction date at the sale and leaseback transaction date:

- The initial measurement of the lease liability is calculated as a balancing figure after determining the right-of-use asset and the gain (or loss). This indicates that the seller-lessee must always recognize a lease liability at the transaction date, even if all lease payments are variable (regardless of whether they are linked to an index or rate).

Subsequent recognition

After initial recognition, the seller-lessee follows the general requirements for the subsequent accounting of the lease liability, ensuring that no gain or loss is recognized related to the retained right of use. Therefore, adjusting the carrying amount of the lease liability involves several steps: first, it is increased to reflect interest on the lease liability, using either the interest rate implicit in the lease or the incremental borrowing rate if the implicit rate is not easily determinable. Next, the carrying amount is reduced by the lease payments specified at the lease's commencement date. Lastly, any difference between the actual lease payments made and those reducing the carrying amount of the lease liability is recognized in profit or loss as a variable lease payment.

Conclusion

According to Ind AS 8 on Accounting Policies, Changes in Accounting Estimates and Errors, a seller-lessee must apply the amendments retrospectively to sale-and-leaseback transactions entered into on or after the initial application date of Ind AS 116. This entails identifying and re-evaluating sale-and-leaseback transactions conducted since the implementation of Ind AS 116 and potentially restating those that involved variable lease payments.

Ind AS 1 'Presentation of Financial Statements': [Classification of liabilities as current or non-current amendments](#)

The amendments are as follows:

An entity shall classify a liability as current when:

(d) it does not have the unconditional right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period

An entity shall classify all other liabilities as non-current.

The amendments have substituted the requirement of “unconditional right” with the “right to defer settlement” must exist at the reporting date for at least twelve months and the “right must have substance” as per para 72A of Ind AS -1. For e.g. If an entity has the right, at the end of the reporting period to roll over an obligation for at least twelve months after the reporting under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. The classification of liabilities is unaffected by management’s intentions or expectations about whether the company will exercise its right to defer settlement or will choose to settle early.

If a company is required to comply with covenants on or before the end of the reporting period, these covenants will affect whether such a right exists at the end of the reporting period and may affect the classification of liabilities. For e.g. if an entity breaches a material covenant provision of a long term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach. It shall continue to classify as current if grace period of at least 12 months from reporting date given by the lender or within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

Covenants with which the company must comply after the reporting date (i.e. future covenants) do not affect a liability’s classification at that date. For example, a covenant based on the entity’s balance sheet six months after the end of the reporting period.

However, when non-current liabilities are subject to future covenants, companies will now need to disclose information to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date including information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities and facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants.

Ind AS 7 ‘Statement of Cash Flows’: Supplier finance arrangements

An entity shall disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity’s liabilities and cash flows and on the entity’s exposure to liquidity risk.

An entity shall disclose in aggregate for its supplier finance arrangements:

- (a) the terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an entity shall disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions.
 - (b) as at the beginning and end of the reporting period:
-

- i. the carrying amounts, and associated line items presented in the entity's balance sheet, of the financial liabilities that are part of a supplier finance arrangement.
 - ii. the carrying amounts, and associated line items, of the financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers.
 - iii. The range of payment due dates for both the financial liabilities disclosed under (i) and comparable trade payables that are not part of a supplier finance arrangement. Comparable trade payables are, for example, trade payables of the entity within the same line of business or jurisdiction as the financial liabilities disclosed under (i). If ranges of payment due dates are wide, an entity shall disclose explanatory information about those ranges or disclose additional ranges.
- (c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under (b)(i).

In applying Supplier Finance Arrangements, an entity is not required to disclose:

- (a) comparative information for any reporting periods presented before the beginning of the annual reporting period in which the entity first applies those amendments.

Presentation in balance sheet

Ind AS 1 requires the separate presentation of trade and other payables distinct from financial liabilities, with additional specifications based on size, nature, and function. The Schedule III format mandates that borrowings, trade payables, and other financial liabilities be presented separately on the balance sheet. Ind AS 109 outlines when to derecognize an old liability and recognize a new one, stating that a financial liability should be removed only when it is extinguished.

Given these requirements, an entity must carefully assess whether liabilities from a supplier finance arrangement should be classified as trade payables, borrowings, other financial liabilities, or as a separate line item. This assessment involves exercising judgment based on critical terms of the arrangement, such as the roles of the parties and any benefits received, to determine the appropriate presentation of these payables.

Presentation in cashflow

Entities must assess how to present cash flows related to supplier finance arrangements in their statement of cash flows, deciding whether to classify these as operating or financing activities. If the liability is considered a trade or other payable, cash outflows to settle it should be classified as operating activities. Conversely, if the liability represents borrowings, cash outflows to settle it should be classified as financing activities

Ind AS 21 'The Effects of Changes in Foreign Exchange Rates': Lack of Exchangeability

The ISAB has issued amendments addressing the lack of guidance on assessing currency exchangeability and determining spot exchange rates when exchangeability is absent. It also mandates disclosures to help users of financial statements understand the implications of a non-exchangeable currency. The ICAI has released an exposure draft titled "Exposure Draft of Lack of Exchangeability - Amendments to Ind AS 21."

The amendment defines a currency as exchangeable if an entity can obtain another currency within a normal administrative delay through a market or exchange mechanism

that creates enforceable rights and obligations. Assessment of exchangeability must be based on the entity's actual ability to obtain the currency, rather than its intentions.

When a currency is not exchangeable, the entity must estimate the spot exchange rate at the measurement date to reflect the rate for an orderly exchange transaction under current economic conditions. The amendment does not dictate a specific method for estimating this rate; entities may use an observable exchange rate or other estimation techniques as needed.

Disclosure requirements

When an entity estimates a spot exchange rate for a non-exchangeable currency, it must disclose information that helps users of its financial statements understand the impact of this non-exchangeability on the entity's financial performance, financial position, and cash flows. To achieve this objective, some of the key disclosure requirements are as follows:

- the nature and financial effects of the currency not being exchangeable into the other currency;
- the spot exchange rate(s) used;
- the estimation process;
- the risks to which the entity is exposed because of the currency not being exchangeable into the other currency.
- the currency and a description of the restrictions that result in that currency not being exchangeable into the other currency;
- a description of affected transactions;
- the carrying amount of affected assets and liabilities;

IND AS 117: TRANSFORMING INSURANCE REPORTING FOR A KNOWLEDGE-LED GLOBAL ECONOMY

As India transitions into the adoption of Ind AS 117, a standard converged with IFRS 17, the insurance industry stands on the brink of a significant transformation. The convergence of these two standards represents a critical step in enhancing transparency, consistency, and comparability in insurance accounting globally. The 15-month gap between the global IFRS 17 implementation and the Ind AS 117 rollout is relatively short, considering the complexities involved in transitioning to a new standard. Historically, India has adopted IFRS-aligned standards with a larger time lag, often allowing companies more time to observe global challenges and prepare accordingly unlike Ind AS 117. The timing of Ind AS 117 suggests an intention by Indian regulators to align more closely with global standards, reducing discrepancies in financial reporting between Indian insurers and their global counterparts. This regulatory transformation is a gateway to global Investment and Innovation for Indian insurer.

Core Principles of Ind AS 117

It mandates insurers to measure insurance contract liabilities using current, unbiased estimates of future cash flows, adjusted for the **time value of money** and an explicit **risk adjustment**. Ind AS 117 introduces three main **measurement models** based on the nature of the contract: the General Measurement Model, the Premium Allocation Approach, and the Variable Fee Approach. Each model addresses different types of contracts, ensuring a more tailored approach to liability measurement. The standard also requires insurers to provide extensive **disclosures**, giving users detailed insights into the assumptions, risks, and profitability of the insurance business.

Recognition of the loss on **Onerous** group of Insurance Contracts upfront. And others in the form of **Contractual Service Margin (CSM)** representing the unearned profit of insurance contracts ensuring that profits are recognized in line with the provision of services of risk cover. The **Risk Adjustment** requires insurers to measure the financial effects of uncertainty in their cash flows, adding an extra layer of prudence.

The main mechanisms controlling the profit recognition pattern are the CSM, Measurement models and Coverage unit i.e. the CSM is recognised over the contract's coverage period based on the pattern of coverage units.

Challenges and Opportunities for Indian Insurers

While the benefits of Ind AS 117 are clear, Indian insurers are likely to face several challenges during implementation:

Data Requirements: The need for detailed actuarial and accounting data to comply with the new standard could pose a significant challenge, particularly for insurers who lack robust data management systems.

Operational Complexity: Implementing the standard involves a fundamental overhaul of systems, processes, and controls. Insurers must invest in technology and training to ensure compliance with the new requirements.

Disclosure Requirements: Ind AS 117 demands a higher level of transparency, with detailed disclosures about the profitability and risk profile of insurance contracts. This will enhance market confidence but may require additional resources for compliance.

On the flip side, these challenges also present opportunities for Indian insurers to streamline their operations, adopt better risk management practices, and align their financial reporting with global best practices. For investors, the enhanced comparability and transparency will enable more informed decision-making.

Impact on Financial Statements

The most immediate impact of Ind AS 117 will be seen in the financial statements of insurers. Key areas include:

Profit and Loss Recognition: The timing of profit recognition will shift, as profits are spread over the duration of the insurance contracts rather than being recognized upfront.

Balance Sheet Volatility: The requirement to revalue insurance contracts periodically may introduce more volatility into insurers' financial statements. However, this is expected to provide a more accurate reflection of their financial position.

India's Path Forward

The introduction of Ind AS 117 comes at a time when the Indian insurance industry is poised for rapid growth. With the government's push toward greater insurance penetration with **"Insurance for All" by 2047** and the rising demand for more sophisticated insurance products, the adoption of this standard is a timely move. Also, the regulator's effort on transitioning from Factor-based capital to **Risk-based Capital framework** which will act as a catalyst for insurers in optimizing capital utilization and effective risk management. It aligns with India's vision of becoming a key player in the global insurance market.

The convergence with IFRS 17 underscores India's commitment to adhering to global financial reporting standards and ensuring that its insurance sector operates with greater transparency, consistency, and accountability.

Conclusion

Ind AS 117 marks a pivotal moment for the Indian insurance industry. It not only aligns India with global accounting standards but also enhances the credibility of financial reporting in the sector. As insurers, regulators, and policymakers come together, the focus should be on creating a more resilient, transparent, and globally integrated insurance sector that can serve the needs of an evolving market.

COMPLEXITY AROUND KEY DISCLOSURES IN FINANCIAL STATEMENTS

All listed companies (other than banks and insurance companies) and certain other entities are required to prepare their financial statements under Ind AS, as per the notification issued by the Ministry of Corporate Affairs under the Companies (Indian Accounting Standards (IND AS)) Rules 2015. The presentation and disclosure requirements under Ind AS are significantly more comprehensive than those required under the erstwhile previous GAAP i.e. "Indian GAAP". It is generally said that the number of pages of an Ind AS financial statements would easily be 2-3 times that of an Indian GAAP financial statements. Not only are the disclosures required under Ind AS more voluminous, some of the disclosures are also more complex, which will require entities to have good management information reporting systems in place along with staff who are intricately aware of the disclosure requirements of Ind AS, so as to be able to produce high quality financial statements, which are comparable to international practices. Some of the areas where disclosures tend to be complex are summarised below:

1. Segment disclosures:

Ind AS 108 "Operating Segments" requires extensive disclosures relating to operating segments. Segment reporting is intended to give information to investors and stakeholders regarding the financial results and financial position of the entity that are used by the entity's Chief Operating Decision Maker (CODM). Ind AS 108's 'management approach' has the effect that reportable segments and segment information will vary according to the information used by the CODM. Some of the important and complex disclosure requirements of Ind AS 108 are summarised below:

- Disclosure of the factors used to identify segments.
- Quantitative information about profit or loss, assets and liabilities.
- Measure of segment profit or loss.
- Measure of segment assets and liabilities.
- Other specified segment measures like revenue from external customers, revenue from other operating segments, interest revenue and expense, depreciation and amortisation, income tax expenses etc.
- Reconciliation of information reviewed by CODM to Ind AS financial statements.

A robust management internal reporting system will be key to enable entities provide such disclosures.

2. Key judgements and estimates disclosures:

Making judgements, assumptions and estimates is a fundamental part of preparing robust financial statements. When these are explained, investors can understand useful context behind the decisions that management has made, and also better understand connections to the financial statements. Some of the areas where disclosures relating to key judgements and estimation uncertainty are usually given are assessment of control over a subsidiary, revenue recognition, determination of expected credit losses, etc. Within the notes to the financial statements, entities are required to disclose both:

- I. The judgments that management has made in the process of applying its accounting policies that have the most significant effect on the amounts recognised in those financial statements.

- II. Information about the key assumptions concerning the future—and other key sources of estimation uncertainty at the balance sheet date—that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

A proper understanding of the underlying transactions and requirements of the standard will be key to provide tailor made and entity specific disclosures relating to key judgements and estimation disclosures.

3. Financial instruments disclosures:

Ind AS 107 “Financial Instruments: Disclosures” requires entities to provide disclosures in their financial statements that enable users to evaluate:

- the significance of financial instruments for the entity’s financial position and performance.
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

Ind AS 107 applies to all entities, including entities that have few financial instruments (for example, a manufacturer whose only financial instruments are cash, accounts receivable and accounts payable) and those that have many financial instruments (for example, a financial institution most of whose assets and liabilities are financial instruments).

Ind AS 107 requires qualitative and quantitative disclosures to be given.

The qualitative disclosures describe management’s objectives, policies and processes for managing those risks.

An entity is also required to provide quantitative disclosures about the potential impact of market risk, credit risk and liquidity risk that it is exposed to. Within market risk, an entity is required to provide disclosures relating to currency, interest rate and other price risk, as applicable.

Together, these disclosures provide an overview of the entity’s use of financial instruments, the exposures to risks they create and how these are managed.

The industry in which the entity operates, the financial risk it is exposed to and how it manages these risks are critical in providing these disclosures. Boiler plate templates should be avoided, and disclosures should actually reflect the financial risk that an entity is exposed to and how it manages these risks.

4. Fair value disclosures:

Ind AS 113 “Fair value measurement” requires disclosures about fair value measurements and provides a framework for measuring fair value. The framework helps users of financial statements understand the valuation techniques and inputs used to develop fair value measurements.

The disclosure requirements of Ind AS 113 are intended to provide users of financial statements with information about the valuation techniques and inputs used to develop fair value measurements and how fair value measurements using significant unobservable inputs impacted performance for the period. Ind AS 113 requires extensive complex disclosures about fair value measurements, some of which has been summarised below:

- Qualitative disclosure requirements for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy that

include a description of the valuation technique(s) and the inputs used in the fair value measurement.

- Quantitative and qualitative disclosures based on Level 3 fair value hierarchy for financial and non-financial assets when they are measured at fair value.

Understanding of the financial instruments and other items that required to be measured at fair value or where fair value needs to be disclosed and the valuation techniques used are critical in providing the relevant disclosures.

5. Hedge accounting:

The disclosure requirements relating to hedge accounting are set out in Ind AS 107 “Financial Instruments: Disclosures”. The required hedge accounting disclosures apply where the entity elects to adopt hedge accounting and require information to be provided in three broad categories:

- I. the entity’s risk management strategy and how it is applied to manage risk
- II. how the entity’s hedging activities may affect the amount, timing and uncertainty of its future cash flows, and
- III. the effect that hedge accounting has had on the entity’s statement of financial position, statement of comprehensive income and statement of changes in equity.

Similar to other disclosures, an understanding of the risk that an entity is exposed to and how it hedges/manages such risk are critical in ensuring appropriate disclosures are provided.

In addition to some of the above, there are some new disclosures like those relating to climate-related matters that are gaining prominence in recent times. Further, there are various one-off disclosures which become important on specific events/transactions e.g., business combinations, employee share-based payments. non-current assets held for sale/discontinued operations, etc. Entities when preparing their annual financial statements should ensure that the impact of such transactions are appropriately disclosed, as per the requirements of the relevant accounting standard.

Disclosure Concept is an accounting principle that discloses all material information, safeguarding investor interests and upholding financial market integrity. Beyond the balance sheet, full disclosure boosts investor confidence and market efficiency, emphasising its critical role in informed decision-making. Therefore, it is critical that entities provide all the disclosures clearly and concisely, as per the requirements of the relevant accounting standards and those that are specific to the entity, to enable users of financial statements to make appropriate investing and business decisions, based on review of these financial statements.

HOW INDIAN REGULATORS LOOKING AT FINANCIAL STATEMENTS

Financial statements are the backbone of any company's financial health, offering crucial insights into its operations, liquidity, solvency, and overall performance. They serve as a vital communication tool between the company and its stakeholders, including regulators. In India, these statements are scrutinised by various regulatory bodies to ensure accuracy, transparency, and adherence to laws. Recently, this regulatory review has not only increased in number but also grown increasingly thorough, with a stricter, by the book approach. Globally, regulators have responded to corporate scandals and financial crises by tightening oversight of financial reporting, offering valuable lessons for Indian regulators as they continue evolving their oversight mechanisms.

In India, financial statements, such as the balance sheet, income statement, cash flow statement, and disclosures, are critical for multiple reasons. Regulators use them to verify compliance with accounting standards, detect financial irregularities like fraud and misreporting, assess tax compliance, and protect stakeholders from deceptive practices. Indian regulatory bodies, including securities exchange board of India (SEBI), ministry of corporate affairs (MCA), reserve bank of India (RBI), and national financial reporting authority (NFRA), focus on ensuring the transparency and integrity of financial disclosures.

Several regulatory bodies play a key role in scrutinising financial statements. SEBI, as the primary regulator for listed companies, ensures that firms comply with the Listing Obligations and Disclosure Requirements. It focuses heavily on transparency, especially regarding corporate governance and related-party transactions. For instance, SEBI recently fined companies for inadequate disclosure of related-party deals, underscoring its commitment to investor protection.

The MCA, through its oversight of the Companies Act, 2013, mandates the preparation and filing of financial statements, which could be scrutinised by the Serious Fraud Investigation Office (SFIO) in cases of discrepancies. The NFRA focuses on enforcing auditing standards and inspecting the quality of financial reporting. For example, NFRA has been involved in investigating auditor failures in high-profile cases, such as the IL&FS financial collapse.

The Reserve Bank of India scrutinises the financial statements of banks and financial institutions. It closely monitors indicators like non-performing assets and capital adequacy ratios. Recently, RBI flagged discrepancies in asset classification by some public sector banks, forcing them to reclassify assets and make higher provisions, which impacted their financials. This step was crucial in ensuring that the reported financial health of banks accurately reflected their true risk exposure.

The Income Tax Department also plays a vital role, using financial statements to determine tax liability and flagging potential discrepancies for further investigation. Meanwhile, the Institute of Chartered Accountants of India ensures that chartered accountants follow ethical standards in auditing practices and there could be quality reviews by the ICAI.

Regulators focus on several key areas when reviewing financial statements. The accuracy of financial disclosures is paramount, as they ensure companies correctly report revenue, expenses, impairment testing, related party disclosures, going concern assessment and profits/ losses. Non-compliance with laws of the land including compliances with accounting standards often leads to penalties. Fraud detection is a high priority for bodies like the SFIO and NFRA, which focus on identifying financial manipulation, such as inflated asset values or

falsified revenue. Corporate governance is also under scrutiny, with SEBI ensuring transparency.

Auditors play a critical role in maintaining the integrity of financial statements, but their role is increasingly under scrutiny. Regulators have raised concerns over auditors' independence and professional skepticism, especially following high-profile corporate failures in recent times. Stricter oversight has been the order of the day over companies involved in cross-border transactions, which ensures that Indian investors are protected from risks arising from opaque overseas operations. Similarly, NFRA's enforcement of auditing standards has led to enhanced audit quality in India, with increased focus on professional skepticism during audits, particularly in areas involving complex financial instruments. NFRA has taken steps to strengthen auditor oversight by inspecting audits of public interest entities like banks and insurance companies, pushing for stricter adherence to auditing standards.

However, Indian regulators too face several challenges. Group audits, where the financial statements of parent companies and subsidiaries are consolidated, pose significant difficulties. Indian regulators have placed increased emphasis on ensuring the reliability of these consolidated statements, especially when component auditors, those auditing subsidiaries, are involved. The NFRA has suggested that the rules be tightened to ensure that group auditors take full responsibility for the overall audit and assess the competence of component auditors.

By adapting their oversight mechanisms and learning from global regulatory trends, Indian regulators can foster a more robust financial reporting environment that safeguards the interests of investors and maintains trust in India's financial markets.

ABOUT ASSOCHAM

The Associated Chambers of Commerce & Industry of India (ASSOCHAM) is the country's oldest apex chamber. It brings in actionable insights to strengthen the Indian ecosystem, leveraging its network of more than 4,50,000 members, of which MSMEs represent a large segment. With a strong presence in states, and key cities globally, ASSOCHAM also has more than 400 associations, federations and regional chambers in its fold.

Aligned with the vision of creating a New India, ASSOCHAM works as a conduit between the industry and the Government. The Chamber is an agile and forward-looking institution, leading various initiatives to enhance the global competitiveness of the Indian industry, while strengthening the domestic ecosystem.

With more than 100 national and regional sector councils, ASSOCHAM is an impactful representative of the Indian industry. These Councils are led by well-known industry leaders, academicians, economists and independent professionals. The Chamber focuses on aligning critical needs and interests of the industry with the growth aspirations of the nation.

ASSOCHAM is driving four strategic priorities - Sustainability, Empowerment, Entrepreneurship and Digitisation. The Chamber believes that affirmative action in these areas would help drive an inclusive and sustainable socio-economic growth for the country.

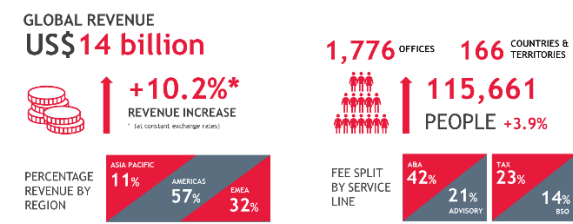
ASSOCHAM is working hand in hand with the government, regulators and national and international think tanks to contribute to the policy making process and share vital feedback on implementation of decisions of far-reaching consequences. In line with its focus on being future-ready, the Chamber is building a strong network of knowledge architects. Thus, ASSOCHAM is all set to redefine the dynamics of growth and development in the technology-driven 'Knowledge-Based Economy'. The Chamber aims to empower stakeholders in the Indian economy by inculcating knowledge that will be the catalyst of growth in the dynamic global environment.

The Chamber also supports civil society through citizenship programmes, to drive inclusive development. ASSOCHAM's member network leads initiatives in various segments such as empowerment, healthcare, education and skilling, hygiene, affirmative action, road safety, livelihood, life skills, sustainability, to name a few.

ABOUT BDO

ABOUT BDO GLOBAL

BDO is the fifth largest professional services organisation globally, operating in more than 165 countries and employing over 115,600 professionals globally. We endeavor to deliver an exceptional client experience through a tailored solutions approach, while partnering with our employees and clients globally.



*Note: Financial results as of 30 September 2022

ABOUT BDO IN INDIA

Combining the broad experience and technical expertise of their professionals, BDO India offers businesses across industries bespoke advice and solutions across a range of services including Assurance, Tax, Advisory, Managed Services and Digital Transformation. The team in India consists of over 9500 professionals led by more than 300 partners and directors operating out of 18 offices across 12 key cities.



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