



Accounting and Auditing Update

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Editorial

The novel coronavirus (COVID-19) continues to affect the companies in India and has created significant financial reporting and auditing challenges for the management, those charged with governance and auditors of companies. The increase in uncertainty caused by the pandemic has affected various inputs to the financial reporting process, for instance, reliable estimates and valuation of assets and also pose significant auditing challenges, such as limited access to information or people. Therefore, there is a need for companies and auditors to engage on a continuous basis for a seamless impact assessment and appropriate financial reporting. In this edition of Accounting and Auditing Update (AAU), we discuss some of the key considerations for management and auditors to continue to focus in the current environment.

To address the accounting and financial reporting impacts of COVID-19, the Financial Accounting Standards Board (FASB) has deferred the effective dates of the leases and revenue recognition standards for certain entities. Also, it has provided a simplified approach that companies may use to account for COVID-19 related rent concessions. Our article on the topic aims to summarise these developments and highlight other relevant considerations for companies under US GAAP during current times.



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The Companies (Auditors' Report) Order, 2020 (CARO 2020) is applicable for audits of companies from financial year 2020-21. CARO 2020 contains significant changes and several new reporting requirements vis-à-vis CARO 2016. Many of the requirements require exercise of judgement rather than application of a purely objective test. To provide guidance on the application of CARO 2020, the Institute of Chartered Accountants of India (ICAI) has issued a guidance note on CARO 2020. Starting this edition, we will cover a series of articles on the key clauses of CARO 2020 along with highlighting related guidance provided by ICAI. In this edition, our article covers the reporting requirements relating to property, plant and equipment/intangible assets, benami property and title deeds of immovable property under CARO 2020 and related guidance provided by ICAI.

As is the case each month, we have also included a regular round-up of some recent regulatory updates in India.

We would be delighted to receive feedback/suggestions from you on the topics we should cover in the forthcoming editions of AAU.

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COVID-19: Management and audit considerations



This article aims to:

Summarise key financial reporting and audit considerations for management and auditors amid COVID-19.



Introduction

As the impact of the novel coronavirus (COVID-19) continues to unfold, it has created significant financial reporting and auditing challenges for the management, those charged with governance and auditors of companies. An increase in uncertainty caused by the pandemic has affected various inputs to the financial reporting process such as future projections including cash flow projections, reliable estimates and related provisioning, recoverability and valuation of assets and many more. These may also pose significant auditing challenges, for instance, limited access to information or people, testing of internal controls due to change in mode of operations, etc. which can affect obtaining sufficient and appropriate audit evidence necessary to form an opinion on the assertions and judgements used to prepare financial statements.

Therefore, it becomes imperative for companies and auditors to engage in a continuous dialogue to ensure seamless impact assessment for financial reporting purposes and transparency in the audit process.

In this article, we aim to discuss some of the key considerations for management and auditors during these unprecedented times.

Preparation of financial statements

Management responsibility

Management is responsible for the preparation of financial statements in accordance with the applicable financial reporting framework. With the pandemic, users of financial statements would be keen to get an insight into how management has assessed the impact on a company's operations, performance and cash flows in medium and long-term along with measures taken to address them. This would require significant judgement and estimation corroborated with adequate disclosures. These disclosures should aim to address the impact of the pandemic such as liquidity concerns, government measures adopted, going concern assessment, steps taken to ensure smooth operations and other identified risks.

Auditor's responsibility

COVID-19 has resulted in significant challenges for auditors in obtaining sufficient appropriate audit evidence. For example, travel restrictions may have impacted physical access (e.g. attending inventory counts), the ability to obtain original documents (e.g. inspection of records for evidence of authorisation as a test of controls) and availability of client staff. This would require consideration of alternative procedures and accordingly, assessment of the sources and reliability of evidences obtained through such alternative procedures.

Accounting estimates

Given the continuous change in the economic landscape, accounting estimates is an area that is going to be certainly challenging and would require significantly more judgement. Management can take following points into consideration:

- **Relevant factors:** Management would need to consider relevant factors while making such estimates, such as adherence to the requirements of accounting standards, judgements to be based on company's specific facts and circumstances, use of consistent approach across financial reporting process and proper documentation for future reference.
- **Adequate disclosures:** Adequate disclosures about the nature of key assumptions, and the sources of estimation uncertainty, sensitivity of the carrying amount to changes in those assumptions and range of reasonably possible measurement outcomes, as well as the key assumptions used to determine that range should be provided.
- **Quality of data:** Use of historical information would be less relevant for making estimates, therefore, management may need to have processes and controls in place to continuously monitor the availability and quality of the data they need.



Estimates would also be a key area of focus for the audit. Auditors may need to consider whether management has assessed the continued use of previous methods, assumptions and data and if not, whether the methods, assumptions and data used remain appropriate. Relevant controls over management's process for making estimates would be evaluated for design and implementation test. There is likely to be an increase in estimation uncertainty, complexity and subjectivity on account of COVID-19 requiring significant auditor judgement. Additionally, auditor also need to assess the potential indicators of management bias. This may cause the auditor to perform robust audit procedures.

Going concern

Management is responsible for the assessment of an entity's ability to continue as a going concern and any necessary disclosures required by the applicable financial reporting framework. Given the economic uncertainty created by COVID-19 coupled with significant business disruptions, there is likely to be an increase in events and circumstances which may cast significant doubt on a company's ability to continue as a going concern. Management can take following points into consideration:

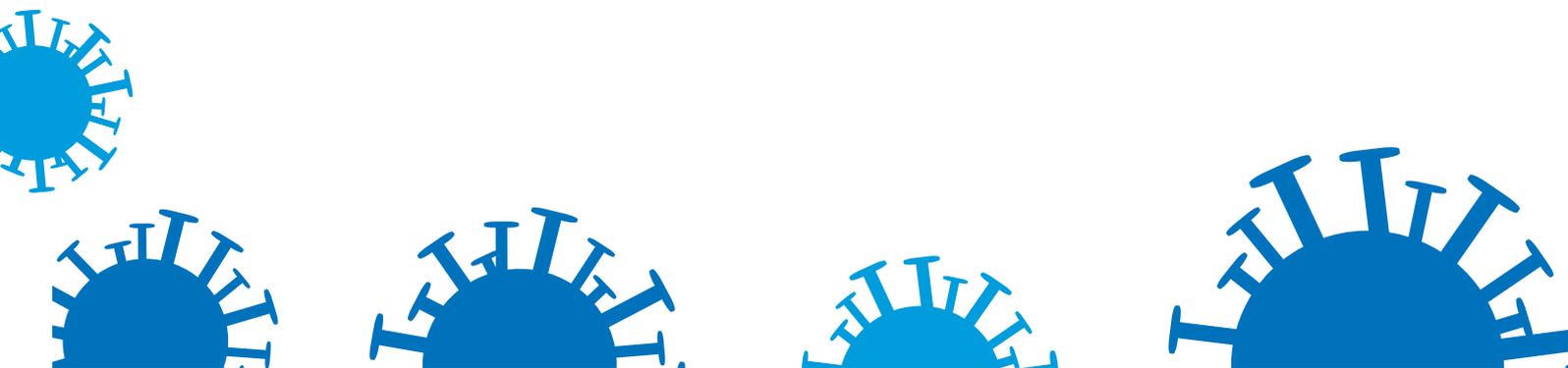
- **Assess current events and conditions:** Management would need to assess what impact the current events and conditions have on an entity's operations and forecasted cash flows, with a focus on whether the entity will have sufficient liquidity to continue to meet its obligations as they fall due. Also, they would need to consider the existing and anticipated effects of the COVID-19 on the assumptions, in particular significant assumptions that are sensitive or susceptible to change or are inconsistent with historical trends.

- **Measure taken in response to COVID-19:**

Matters specific to COVID-19 would require careful assessment such as impact of measures taken by government, general considerations including restructuring of the entity/group (actual or planned) and its business, inability to honour certain terms of contracts leading to penalties by regulators/ counterparties and suitability of invocation of force majeure clauses and operational and funding considerations such as risk relating to receivables.

Auditors are also expected to perform additional audit procedures to evaluate management's assessment around going concern. These would at a minimum involve, evaluation of reliability of cash flow forecast prepared by the management considering change in economic environment, management's plan for future actions and assessing its feasibility in the circumstances. The pace at which events are occurring during current times, maintaining regular and effective communication by auditors with those charged with governance is likely to be more important.

Additionally, auditors might need to critically analyse the 'other information' (forming part of the annual report) which could highlight matters relating to an entity's going concern viability or strategy and compare the same with the information presented in the financial statements. The analysis would enable them to identify whether there is a material inconsistency between the other information and the financial statements or if there is material inconsistency between the other information and auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit, with possible implications on the auditor's report.



Subsequent events

Determination of impact of any subsequent event related to the COVID-19 pandemic on the financial statements would involve significant management judgement. This would include consideration of the date of the financial statements, the facts and circumstances pertaining to the entity and the conditions that existed at, or arose after, that date. Some of the examples of events and conditions that may be affected by, or exist due to COVID-19 and can facilitate identification of subsequent events can include:

- New commitments, borrowings or guarantees
- Invocation of force majeure clause by any party, e.g., supplier or customer
- Relief or economic stimulus payments provided by the government in the form of loans or grants
- Any developments regarding contingencies
- Indications of impairment
- Tax considerations such as recoverability of deferred tax assets.

On the other hand, auditors would need to perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified and appropriately reflected in the financial statements. Significant management judgements owing to uncertainties created by COVID-19 would entail an auditor to exercise professional skepticism in undertaking work on subsequent events.

Exercise of professional judgement and professional skepticism

The assumptions and judgements used by the management in preparation of financial statements, particularly relating to going concern, accounting estimates such as impairment, fair value, etc. would require an auditor to exercise professional judgement and professional skepticism. Documentation of the professional judgement and the exercise of professional skepticism as well discussions with management and those charged with governance would facilitate the auditor's conclusions and reinforce the quality of the opinion on financial statements.

In case the auditor is not able to obtain sufficient appropriate audit evidence necessary for the auditor to form an opinion, it may need to consider the impact on the auditor's report, including whether a modified opinion is needed.

Auditor reporting

COVID-19 is likely to result in increase in modifications to the auditor's opinion on account of material misstatement of the financial statements including inadequate disclosures in financial statements for the impact of pandemic or inability to obtain sufficient appropriate audit evidence.

Auditors may also intend to highlight COVID-19 related disclosures through Emphasis of Matter (EOM) paragraphs, for instance, significant developments owing to COVID-19 or separate disclosures to highlight material uncertainty relating to going concern. In case of listed companies, there could be an impact on Key Audit Matters (KAM) relating to COVID-19 including more areas of the audit that will likely require significant auditor attention or the nature of KAMs previously reported may change.

(Source: Summary of COVID-19 audit considerations, webpage - International Federation of Accountants)



Accounting and financial reporting impacts of COVID-19 under US GAAP



This article aims to:

Summarise the accounting and financial reporting effects of COVID-19 that could potentially affect companies operating under the US GAAP.



As COVID-19 continues to affect the business operations and work environment, some of the key developments that have taken place under the US GAAP amid COVID-19 are highlighted in this article.

Effective dates of leases and revenue standards deferred for certain entities

The Financial Accounting Standards Board (FASB) has deferred the effective dates of the leases and revenue recognition standards by one year for certain entities.

Accordingly, the standard on leases (Accounting Standard Codification (ASC) 842, *Leases*) would be applicable in the following manner:

- a) From 1 January 2022** (earlier 1 January 2021): For private companies being a company that is not:
- i. A public business entity
 - ii. A not-for-profit entity that has issued or is a conduit bond obligor for securities that are traded, listed or quoted on an exchange or an over-the-counter market or

iii. An employee benefit plan that files or furnishes financial statements with or to the Securities Exchange Commission (SEC).

- b) From 1 January 2020** (earlier 1 January 2019): For public not-for-profit entities (i.e. not-for-profit entities that have issued or are conduit bond obligors for securities that are traded or quoted on an exchange or an over-the-counter market) that have not yet issued (or made available for issuance) financial statements reflecting the adoption of ASC-842 as of 3 June 2020.

The FASB deferred the mandatory effective date of ASC 606, *Revenue from Contracts with Customers* from 1 January 2019 to 1 January 2020 for private companies (as given in point (a) above) that have not yet issued (or made available for issuance) financial statements reflecting the adoption of ASC 606 as of 3 June 2020.

The FASB also indicated that it will continue to monitor the need to change mandatory effective dates of other new standards, and the 'sunset date' of the reference rate reform standard (ASU 2020-04).

Accounting for COVID-19-related rent concessions

In addition to deferring the mandatory effective date of the leases standard (ASC 842) for private companies and public not-for-profit entities for an additional year, the FASB has provided a simplified approach that companies may use to account for COVID-19 related rent concessions.

The FASB staff issued a Q&A that provides a practical expedient for certain rent concessions granted in response to COVID-19. Discussions with the SEC staff affirmed their support for the FASB staff Q&A.

The practical expedient permits a company (lessees and lessors) to forgo an evaluation of the enforceable rights and obligations of the original lease contract. Instead, the company may account for the rent concessions, regardless of their form (e.g. rent deferral, abatement or other) either:

- As if they were part of the enforceable rights and obligations of the parties under the existing lease contract or
- As a lease modification.



The practical expedient is available to all companies, regardless of whether they account for their leases under ASC 842 or ASC 840, *Leases*.

Eligible concessions are those that are COVID-19-related and do not result in a substantial increase to the rights of the lessor or the obligations of the lessee. As an example, the staff refers to leases for which the total payments required by the contract will be substantially the same as or less than the total payments required by the contract pre-concession as eligible for the practical expedient.

Ineligible concessions remain subject to the general guidance under ASC 842 or ASC 840, under which a company generally determines the accounting for rent concessions based on whether the concession was required by the terms and conditions of the original contract (including the laws and regulations of the jurisdiction governing the lease).

Compensation and benefits - Share-based payment awards

Companies are mitigating the financial reporting effects of COVID-19 by revising or providing new compensation and benefit arrangements. Changes in a company's financial performance and market conditions owing to COVID-19 may have a significant effect on the accounting for share-based payment awards. Some of the key considerations are as follows:

- **Performance conditions:** For awards with performance conditions, compensation cost is recognised when it is probable that the performance condition will be achieved. Due to recent events, the probability assessment of performance-based awards should be reevaluated to determine whether a reversal of compensation expense is required.
- **Market conditions:** Companies may grant awards with a market condition (e.g. the company's shares achieve a specified price). The likelihood that the market condition will be met is captured in the estimate of the grant-date fair value. The related compensation cost is then recognised over an employee's derived service period or a non-employee's vesting period. A change in the likelihood of meeting the market condition (e.g. due to the current uncertainty and volatility in the markets) does not affect the total amount of compensation expense recognised over the service or vesting period.

- **Modifications:** A company that changes the terms or conditions of an existing award must assess whether that change results in a modification of the award. Changes to a service, performance or market condition generally require modification accounting. Modification accounting is applied when the fair value, vesting conditions or the classification of the award are not the same immediately before or after the modification. Further, modifying share-based payment awards may have tax consequences.

Revenue recognition

Price concessions

Companies may offer, or customers may expect, price concessions in response to a decrease in customer demand. These concessions can be explicit or implied from past business practices, published policies or specific statements.

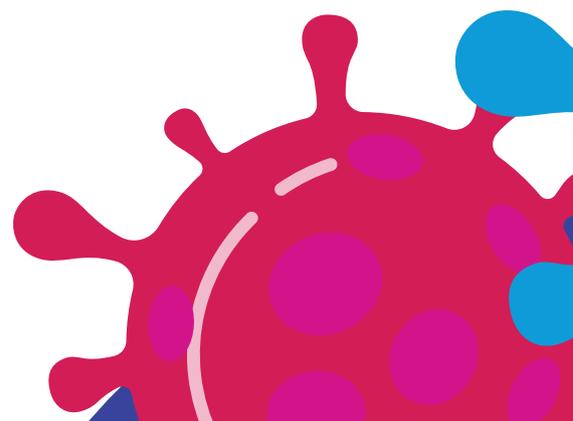
If a company expects to provide a price concession (e.g. because it has established a pattern in the past), then it includes the estimate of the concession in the amount of consideration to which it ultimately expects to be entitled (i.e. the transaction price).

If a company grants a price concession when there is no previous pattern of concessions, then the company accounts for that price concession as a contract modification affecting price only.

If a company has not explicitly granted a price concession, but fails to collect amounts under an existing contract, it must determine whether the amount is an implicit price concession (which reduces revenue) or as a bad debt expense. Making that determination requires judgement.

Customer credit risk

Customer credit risk may continue to increase as sluggish economic activity persists and unemployment and underemployment rises. This will have an effect on receivables and contract assets, and potentially the timing and amount of revenue to be recognised in the future.

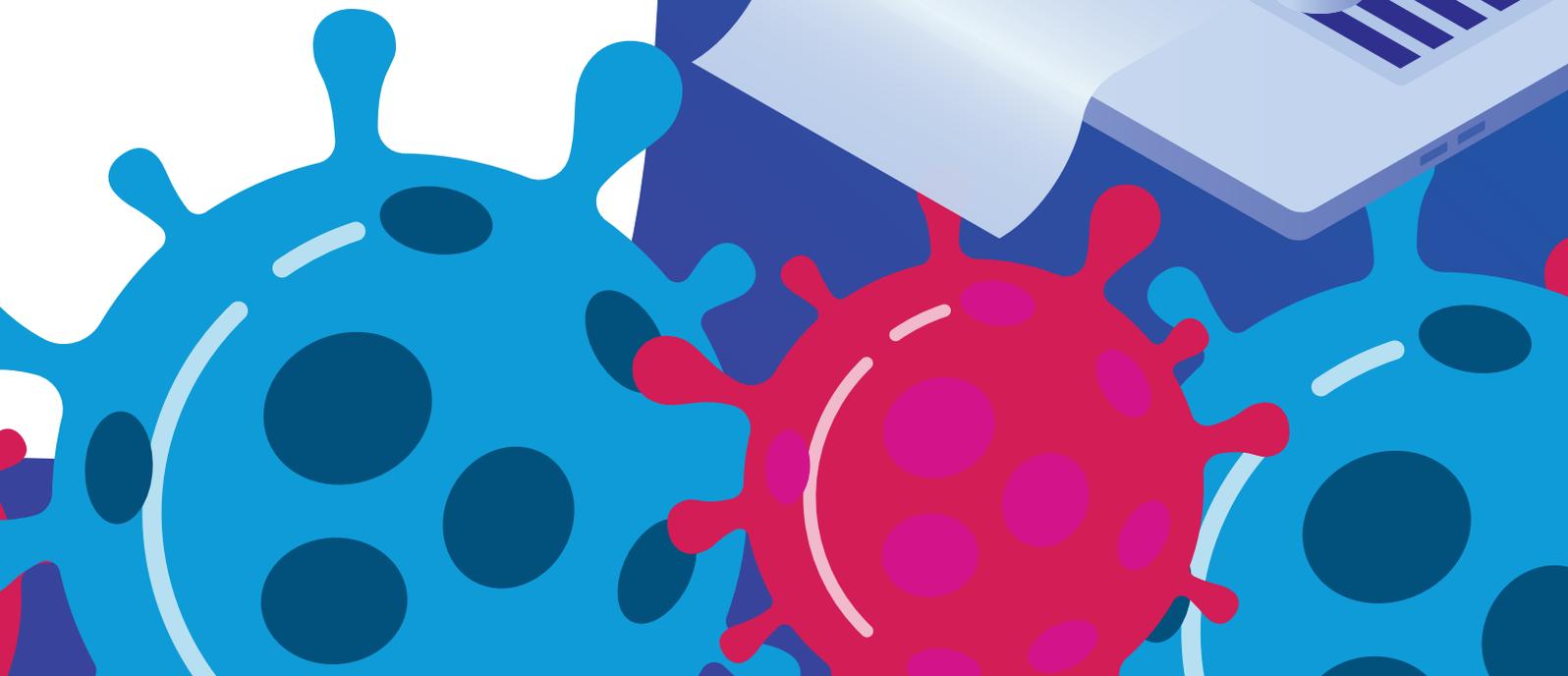


Credit risk is also a factor in determining whether a contract with a customer exists under ASC 606. For a contract to exist, it must be probable that the company will collect substantially all of the consideration to which it expects to be entitled (the collectability criterion). This amount includes an estimate of potential price concessions (see above).

If the collectability criterion is not met at contract inception (or on contract reassessment, see below), then the company applies a deposit model. That model allows for revenue to be recognised only if the company receives non-refundable consideration and if certain events have occurred.

A company does not reassess the collectability criterion for existing contracts unless there is a significant change in facts and circumstances that results in a significant deterioration in the customer's creditworthiness. If a company determines on reassessment that collectability is no longer probable, then it discontinues using the general revenue model and follows the deposit model.

(Source: 'Quarterly Outlook - June 2020 edition' issued by KPMG LLP – a Delaware LLP and the U.S. member firm of KPMG network)



CARO 2020: Revamped and enhanced reporting



This article aims to:

Discuss the applicability of CARO 2020 and the reporting requirement relating to property, plant and equipment/intangible assets, benami property and title deeds of immovable property under CARO 2020 and related guidance provided by ICAI.



Introduction

The Companies Act, 2013 (2013 Act) requires auditors of specified class of companies to include a statement in their reports on specific matters as prescribed in the Companies (Auditors' Report) Order, 2016 (CARO 2016) which has been recently revised and issued as CARO 2020. CARO 2020 was initially made applicable for audits of Financial Year (FY) 2019-20 and onwards. However, it has been deferred by one year on account of the novel coronavirus (COVID-19) and is now applicable for audits of FY2020-21 and onwards.

CARO 2020 contains significant changes and several new reporting requirements vis-à-vis CARO 2016. Many of the requirements require exercise of judgement rather than application of a purely objective test. With a view to provide guidance on application of the CARO 2020, the Institute of Chartered Accountants of India (ICAI) has issued a guidance note on CARO 2020 (GN). The guidance note supersedes the guidance note issued by ICAI in April 2016.

In this article, we aim to provide an overview of the applicability of CARO 2020 and discuss reporting requirement relating to property, plant and equipment/intangible assets and their revaluation, holding of a benami property by a company and title deeds of immovable property. We will also highlight the related guidance provided by ICAI in its guidance note.

Applicability of CARO 2020

Similar to CARO 2016, CARO 2020 is applicable to every company including a foreign company (as defined under the 2013 Act).

It will not apply to banks, insurance companies, companies licensed to operate under Section 8 of the 2013 Act, one person and a small company.

Additionally, it will not apply to a private limited company if it meets all of the following conditions:

1. It is not a subsidiary or holding company of a public company
2. Its paid-up capital and reserves and surplus do not exceed INR1 crore as on the balance sheet date
3. Its total borrowings do not exceed INR1 crore from any bank or financial institution at any point of time during the FY
4. Its total revenue as disclosed in Scheduled III to the 2013 Act (including revenue from discontinuing operations) do not exceed INR10 crore during the FY as per the financial statements.

CARO 2020 would be equally applicable to the audit of branch(es) of a company as to a company and audits of project office/liaison office established outside India.

Consolidated Financial Statements (CFS)

CARO 2020 is not applicable to the auditor's report on CFS. However, an auditor is required to state in its report details of companies included in CFS with qualifications or adverse remarks by their respective auditors. This would include reporting of qualification/adverse remark made by every individual component including the parent.

Period of compliance

ICAI in its GN clarified that compliance with the requirements of CARO 2020 by a company need to be evaluated with reference to the whole accounting year and not merely with reference to the position existing at the balance sheet date or a date at which an auditor makes its report.



Reporting under CARO 2020

Property, Plant and Equipment (PPE)

Currently, an auditor is required to report on maintenance of proper records including quantitative details and situation of fixed assets. In accordance with Indian Accounting Standards (Ind AS), 16, *Property, Plant and Equipment* and Accounting Standard (AS) 10 (Revised), *Property Plant and Equipment*, the term 'fixed assets' has been replaced with PPE.

Accordingly, CARO 2020 requires an auditor to report whether the company is maintaining proper records showing full particulars, including quantitative details and situation of **PPE**. Similar to CARO 2016, it also requires reporting on whether these **PPE** have been physically verified by the management at reasonable intervals. Further, in case of any material discrepancies noticed on such verification, whether the same have been properly dealt with in the books of account.

(Emphasis added to highlight the change)

Guidance by ICAI

The reporting requirement would extend to cover right-of-use assets held by the company as a lessee, an investment property as defined under Ind AS 40, *Investment Property* and non-current assets held for sale.

For the purpose of this clause, companies would be required to maintain 'proper records' of all items of PPE including those which have been fully depreciated, impaired or retired from active use and held for disposal. The GN provides an illustrative list of details that should be part of PPE records e.g. details relating to year of purchase, original cost, useful life, component-wise breakup, adjustment for revaluation or for any increase or decrease in cost and accumulated depreciation.

The aggregate original cost, depreciation to date, and impairment loss, if any, as per these records under individual heads should reconcile with the figures shown in the books of account of the company.

The purpose of showing the situation of PPE is to make verification possible. Companies might have certain classes of PPE whose situation keeps changing, for instance, construction equipment which has to be moved to sites. In such cases, a company should maintain record of movement/custody of the equipment.

With respect to physical verification of PPE by management at reasonable intervals, it has been clarified that an annual verification might be considered a reasonable period, however it could be impracticable in some cases. Therefore, management may decide upon the periodicity of physical verification considering various factors such as number of assets, the nature of assets, the relative value of assets, difficulty in verification, etc. Where an annual verification of entire PPE is not carried out, it should be ensured that verification programme should be such that all assets are verified at least once in every three years. In this situation, an auditor would report the fact that all assets have not been verified during the year. If the auditor is satisfied regarding the frequency of verification then he/she should also make a suitable comment to that effect.

An auditor is required to exercise professional judgement while determining *material* discrepancies in a physical verification of PPE. While making this judgement, an auditor would not only consider the cost of the asset and its relationship to the total cost of all assets but also the nature of the asset, its situation and other relevant factors.

Intangible assets

CARO 2020 introduces a new reporting requirement as per which an auditor is required to comment on whether the company is maintaining proper records showing full particulars of intangible assets. The intangible assets could, *inter alia*, include, customer loyalty, patents, internet domain names, royalty agreements, operating rights and website development.

Guidance by ICAI

For the purpose of reporting under this clause, reasonable and sufficient description of the asset to facilitate identification should be made available by the company. Additional information that need to be recorded include, location of the asset, original cost details, date on which the asset becomes available for use by the company with documentary evidence, rate(s)/basis of amortisation, accumulated amortisation and particulars regarding impairment, etc.

Revaluation of PPE/intangible assets

CARO 2020 introduces a new reporting requirement as to whether a company has revalued its PPE (including right-of-use assets), intangible assets or both during the year. If so, it further requires reporting on whether the revaluation is based on the valuation by a registered valuer and specify the amount of change, if change is 10 per cent or more in aggregate of the net carrying value of each class of PPE or intangible assets.

Guidance by ICAI

Unlike the cost model which allows only downward adjustment in the carrying amount of an asset due to impairment loss, revaluation model allows both an upward and downward adjustment in the carrying amount of an asset as per the provisions of Ind AS 16/AS 10. As per the GN, for the purpose of reporting under this clause, revaluation would not include:

- Fair valuation of PPE upon first-time adoption of Ind AS
- Remeasurements (i.e., changes in value due to interest or foreign exchange rates)
- Changes to right-of-use assets due to lease modification as per Ind AS 116, *Leases*.

An auditor would be required to consider the requirements of Section 247 of the 2013 Act relating to valuation by registered valuers. Various other aspects that can be considered for reporting under this clause would include, date of revaluation carried by the company, methods and significant assumptions applied in estimating fair values and accounting treatment of revaluation surplus.

Benami property

Another new requirement added by CARO 2020 relates to reporting on whether any proceedings have been initiated or are pending against the company for holding any benami property¹ under the Prohibition of Benami Property Transactions Act, 1988 (as amended in 2016)

(Benami Property Act) and rules made thereunder. If so, whether the company has appropriately disclosed the details in its financial statements.

Guidance by ICAI

The reporting under this clause would require ascertainment of whether proceedings have been initiated under the Benami Property Act by the Initiating Officer² 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. The reporting is not applicable where the notice is received by the company as a beneficial owner.

For the purpose of reporting, appropriate disclosures in the financial statements would include nature of property, carrying value of the property in the books of account, status of proceedings before the relevant authority, consequential impact on the financial statements and/or the liability that may arise in case the proceedings are decided against the company. Also, it needs to be evaluated whether the liability is required to be disclosed as 'contingent liabilities' or whether provisions are required to be made.

Title deed of immovable property

CARO 2020 has modified the requirement relating to holding title of immovable properties by the company vis-a-vis CARO 2016. As per the modified requirement, an auditor is required to report on whether the title deeds of **all** the immovable properties (**other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee disclosed in the financial statements**) are held in the name of the company. If they are not held in the name of the company, then following details (as given in the table below) are required to be provided.

(Emphasis added to highlight the change)

Description of property	Gross carrying value	Held in name of	Whether promoter, director or their relative or employee	Period held – indicate range, where appropriate	Reason for not being held in name of company* (*also indicate if in dispute)
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1. Benami property means any property which is the subject matter of a benami transaction and also includes the proceeds from such property.

2. An authority who initiates the proceedings under the Benami Property Act.

Guidance by ICAI

The reporting under this clause would be only in respect of those immovable properties which form part of PPE and would cover an investment property as defined under Ind AS 40 and non-current assets held for sale.

The term 'immovable property' has not been defined under the 2013 Act. However, as per General Clauses Act, 1897, immovable property would include land, benefits to arise out of land, and things attached to the earth, or permanently fastened to anything attached to the earth. Accordingly, Transfer Development Rights (TDRs), plant and machinery embedded in land, etc., will not be considered as an immovable property.

It is important to note that the management is responsible for legal determination of the validity of title deeds. Title deeds in general mean a legal deed or document constituting evidence of a right, especially to the legal ownership of the immovable property. For instance, documents that constitute title deed of an immovable property include registered sale deed,

conveyance deed of land or land and building together, etc. transferred by any person including government to the company. An auditor would verify the title deeds available and reconcile the same with the PPE register.

Specific disclosure would be required in case the immovable property is being held by the promoter, director or their relative. The term 'relative' has not been defined under CARO 2020.

Though reporting in cases where immovable property is held by a company as a lessee and lease agreements are duly executed has not been covered under this clause, however, with respect to cases where there are discrepancies in lease agreements or it is not duly executed, it would be prudent to include in the report, facts of such case.

Support of a legal expert could be sought in case there is any dispute or litigation as to the title of the immovable property or where the auditor seeks clarity in matters related to the reporting under this clause.



Conclusion

CARO 2020 enhances the scope of matters to be provided in an auditor's report. While auditors would need to implement robust audit procedures along the requirements, companies on the other hand, would also need to ensure that they maintain proper and adequate records of the underlying information. Additionally, companies would need to start putting in place systems and processes to capture the new reporting requirements as envisaged by CARO 2020, such as:

- Maintenance of adequate records with respect to right-of-use assets and intangible assets held by the company including details of physical verification of right-of-use assets.
- Details of revaluation of PPE including right-of-use assets and intangible assets during the year along with maintaining records of registered valuers and the valuation reports issued by them.
- Details of proceedings initiated or pending against the company as the holder of a benami property including status of proceedings before the relevant authority.
- Maintenance of title deeds of all immovable properties held by the company along with details of immovable properties not in the name of the company (with specific distinction of those held by promoter, director or their relative or employee) and the reason for the same.



4

Regulatory updates

Chapter



MCA clarification on extension of AGM for the financial year ended 31 March 2020

Background

The Ministry of Corporate Affairs (MCA) through a circular (no. 20/2020) dated 5 May 2020 allowed companies to conduct their Annual General Meetings (AGMs) through Video Conferencing (VC) or Other Audio-Visual Means (OAVM) during the calendar year 2020 subject to fulfilment of prescribed conditions. Further, in case companies are unable to hold their AGMs, they were advised to file an application for extension of AGM before the Registrar of Companies (ROC) under Section 96 of the Companies Act, 2013 (2013 Act).

New development

On 17 August 2020, MCA through its circular further clarified that the companies that are unable to hold their AGMs for the financial year ended 31 March 2020 (despite the above-mentioned relaxations) should file an application in Form No. GNL -1 to seek an extension of time to hold AGMs. The application should be made to the concerned ROC on or before 29 September 2020.

ROCs are advised to consider all such applications (filed in Form No. GNL -1) liberally in view of the hardships faced by the stakeholders and to grant extension for the period as applied for (up to three months) in such applications.

(Source: MCA general circular no. 28/2020 dated 17 August 2020)

Amendments to the provisions relating to CSR

The MCA through a notification dated 24 August 2020 has issued amendments to the Companies (Corporate Social Responsibility Policy) Rules, 2014 (CSR Rules). As per the amendments, any company engaged in research and development activity of new vaccine, drugs and medical devices in their normal course of business may undertake research and development activity related to COVID-19 for financial years 2020-21, 2021-22 and 2022-23 subject to the following conditions:

- a. Such research and development activities should be carried out in collaboration with any of the institutes or organisations mentioned in item (ix) of Schedule VII to the 2013 Act.
- b. Details of such activity should be disclosed separately in the annual report on CSR included in the board's report.

Additionally, effective 24 August 2020, contribution to incubators or research and development projects in the field of science, technology, engineering and medicine, funded by the central government or state government, public sector undertaking or any agency of the central government or state government will be considered as an eligible CSR activity.

(Source: MCA notification no. G.S.R. 526(E) and notification no. G.S.R. 525(E) dated 24 August 2020)

Relaxation from sending physical copy of notice of offer for rights issue by listed companies

Currently, Section 62(2) of the 2013 Act requires an issuer to send physical copy of notice of offer for rights issue through a registered/speed post or through electronic mode with proof of delivery to all the existing shareholders at least three days before the opening of the issue.

Relaxation

MCA through a circular dated 3 August 2020 has clarified that the inability to dispatch the relevant notice to shareholders by listed companies through registered/speed post or courier would not be viewed as violation of Section 62(2) of the 2013 Act for rights issues opening up to 31 December 2020.

(Source: MCA general circular no. 27/2020 dated 3 August 2020)

Proposed framework of business responsibility and sustainability reporting in India

Background

Currently, top 1,000 listed companies¹ in India are required to furnish a Business Responsibility Report (BRR) to the stock exchanges as a part of their annual reports. The BRR should describe the initiatives taken by them from an environmental, social and governance perspective, in the format as specified by SEBI. Other listed companies can submit the BRR voluntarily².

BRR is based on the business responsibility and sustainability indicators contained in the *National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business* (NVGs) issued in 2011 by MCA. These guidelines were updated as the *National Guidelines for Responsible Business Conduct* (NGRBC) in 2019.

1. Based on market capitalisation calculated as on 31 March of every financial year.

2. Regulation 34 of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulation, 2015 (Listing Regulations).



In 2018, while the NVGs were being updated, it was decided that the SEBI-BRR framework should also be revised to reflect the changes made in the base document. Accordingly, MCA constituted a committee³ for finalising revised BRR formats for listed and unlisted companies.

New development

On 11 August 2020, MCA has issued the report of the committee on BRR. Key recommendations made by the committee in its report are as follows:

- **Business responsibility and sustainability formats:**

The committee recommended that the format of reporting should be called the Business Responsibility and Sustainability Report (BRSR) (instead of BRR) to better reflect the intent and scope of the reporting requirement. It proposes two new formats for disclosures:

- A comprehensive format and
- A Lite version.

The information sought in the formats is a mix of quantitative and qualitative data.

- **BRSR Lite:** In order to ease the sustainability reporting requirements, the committee has proposed a lite version of the BRSR format for companies reporting first time on sustainability reporting related issues such as unlisted companies.

- **Scope of reporting to cover unlisted companies:**

The committee recommended that the reporting requirement may be extended by MCA to unlisted companies above specified thresholds of turnover and/or paid-up capital. Further, it recommended that smaller unlisted companies below this threshold can adopt a lite version of the format, on a voluntary basis.

- **Integration with the MCA21 portal:** The committee recommended that the BRSR be integrated with the MCA21 portal.

Effective date: The committee recommended to implement the disclosures under BRSR effective from financial year 2021-22 in a phased manner over a period of five years.

SEBI consultation paper on format of BRSR

In accordance with the above, recently, the Securities and Exchange Board of India (SEBI) has also issued a consultation paper on the 'Format for BRSR' and

proposed that the format for BRSR, as recommended by the committee, should be made applicable to top 1,000 listed companies by market capitalisation.

To begin with, it proposed that the new format should be adopted by top 1,000 listed companies on a voluntary basis for the financial year 2020-21 and mandatorily from the financial year 2021-22. Existing format of BRR will continue to apply in case a company choose not to adopt the new format in financial year 2020-21.

Comments on the proposed format have been invited up to 18 September 2020.

For a detailed read, please refer to KPMG in India's First Notes on 'Proposal for top 1,000 listed companies to adopt BRSR voluntarily for FY20-21' dated 26 August 2020.

(Source: MCA Report of the Committee on BRR dated 11 August 2020 and SEBI 'Consultation paper on the format of BRSR' dated 18 August 2020)

Relaxation in timelines for use of digital signature certifications

SEBI through a circular dated 31 July 2020 has extended the permission to listed companies to use digital signature certifications for authentication/certification of filings/submissions made to the stock exchanges under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) up to 31 December 2020 (earlier it was permitted till 30 June 2020).

The relaxation is applicable for filings/submissions made to stock exchanges from 1 July 2020 onwards.

(Source: SEBI circular no. SEBI/HO/CFD/CMD1/CIR/P/2020/145 dated 31 July 2020)

Clarification on open offers, buybacks and delisting of securities of listed companies

Currently, as per Regulation 40(1) of the Listing Regulations, request for transfer of securities is permitted to be processed only when the securities are held in dematerialised form with a depository (except in case of transmission or transposition of securities).

Clarification

SEBI through a circular dated 31 July 2020 has allowed shareholders holding securities in physical form to tender shares in open offers, buy-backs through tender offer route and exit offers in case of voluntary or compulsory delisting. However, such tendering would be as per provisions of respective regulations.

3. The committee was formed under the Chairmanship of Mr. Gyaneshwar Kumar Singh, Joint Secretary, MCA. The committee comprised of SEBI, MCA, three professional institutes and two eminent professionals who had worked on developing the NGRBC.

The provisions of the circular are effective from 31 July 2020.

(Source: SEBI circular no. SEBI/HO/CFD/CMD1/CIR/P/2020/144 dated 31 July 2020)

Amendments to the Listing Regulations

Currently, Regulation 42(1) of the Listing Regulations requires a listed entity to intimate the record date to all the stock exchanges where it is listed, *inter alia*, for the purpose of declaration of dividend or issue of right or bonus shares.

Amendment

SEBI through a notification dated 5 August 2020 has amended Regulation 42(1) of the Listing Regulations. As per the amendment, a listed entity is required to intimate the record date to all the stock exchange(s) where it is listed, **where stock derivatives are available on the stock of the listed entity, or where listed entity's stock form part of an index on which derivatives are available.**

(Emphasis added to highlight the change)

The amendment is effective from 5 August 2020.

(Source: SEBI notification no. SEBI/LAD-NRO/GN/2020/25 dated 5 August 2020)

Resolution framework for COVID-19-related stress

The Reserve Bank of India (RBI) through a notification dated 6 August 2020 introduced a 'Resolution Framework for COVID-19-related Stress' (the framework) with an aim to mitigate the impact of the COVID-19 pandemic on the ultimate borrowers. The framework would enable lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership and personal loans, while classifying such exposures as standard, subject to specified conditions.

Key features of the framework are as follows:

- The lending institutions should frame board approved policies pertaining to implementation of viable resolution plans for eligible borrowers under the framework, ensuring that the resolution under this facility is provided only to the borrowers experiencing stress on account of COVID-19.
- The reference date for the outstanding amount of debt that may be considered for resolution should be 1 March 2020.

- Resolution plans in respect of accounts where the aggregate exposure of the lending institutions at the time of invocation of the resolution process is INR100 crore and above, would require an Independent Credit Evaluation (ICE) by any one Credit Rating Agency (CRA) authorised by RBI under the Prudential Framework.
- Lending institutions publishing quarterly statements should, at the minimum, make disclosures as per the specified format in their financial statements for the quarters ending 31 March 2021, 30 June 2021 and 30 September 2021.

The lending institutions are also required to make half-yearly disclosures in the financial statements as on 30 September and 31 March starting from the half-year ending 30 September 2021 till all exposures on which resolution plan was implemented are either fully extinguished or completely slips into Non-Performing Asset (NPA), whichever is earlier.

(Source: RBI notification no. RBI/2020-21/16 dated 6 August 2020)

Restructuring of advances for MSMEs

Background

RBI through a circular dated 11 February 2020 had permitted a one-time restructuring of existing loans to Micro, Small and Medium Enterprises (MSMEs) which were classified as 'standard' as on 1 January 2020 without a downgrade in the asset classification subject to the specified conditions.

New development

To provide more support to MSMEs during COVID-19, RBI through a circular dated 6 August 2020 has extended the above mentioned scheme and allowed restructuring of existing loans to MSMEs classified as 'standard' as on 1 March 2020 without a downgrade in the asset classification subject to compliance with the following conditions:

- The aggregate exposure, including non-fund based facilities of banks and Non-Banking Financial Companies (NBFCs) to the borrower should not exceed INR25 crore as on 1 March 2020.
- The borrower's account was a 'standard asset' as on 1 March 2020 and the restructuring of the borrower account is implemented by 31 March 2021.
- The borrowing entity is GST-registered on the date of implementation of the restructuring except those which are specifically exempt from GST-registration.



- Asset classification of borrowers classified as standard may be retained. The accounts which may have as slipped into NPA category between 2 March 2020 and date of implementation may be upgraded as 'standard asset'.
- Banks should maintain an additional provision of five per cent over and above the provision already held by them for accounts restructured under these guidelines.

(Source: RBI notification no. RBI/2020-21/17 dated 6 August 2020)

Exposure draft of guidance note on revenue from operations in case of contractors

Recently, the Institute of Chartered Accountants of India (ICAI) issued an Exposure Draft of 'Guidance note on revenue from operations in case of contractor' (ED). The ED deals with the issue as to whether the revenue recognised in the financial statements of contractors as per Accounting Standard (AS) 7, *Construction Contracts* (Revised 2002) and Indian Accounting Standard (Ind AS) 115, *Revenue from Contracts with Customers* can be considered as 'revenue from operations' for presentation in Schedule III to the 2013 Act.

As per the guidance note, the term 'revenue from operations' is used in relation to the source of revenue that arises from the principal revenue generating activity of an enterprise. In case of a contractor, the construction activity is its principal revenue generating activity. Accordingly, the revenue recognised in the statement of profit and loss of a contractor in accordance with the principles laid down in AS 7 (Revised 2002) and Ind AS 115, by whatever nomenclature described in the financial statements, is considered as 'revenue from operations'.

The ED is open for comments up to 31 August 2020.

(Source: ED of the 'Guidance note on revenue from operations in case of contractor' issued by ICAI on 1 August 2020)

ICAI publications on COVID-19

Review engagements on interim financial information in the current evolving environment due to COVID-19

On 7 August 2020, ICAI has issued a guidance on '*Review engagements on interim financial information in the current evolving environment due to COVID-19*'. The guidance highlights key areas of focus during COVID-19 when undertaking a review of interim financial information in accordance with Standard on Review Engagements (SRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

(Source: ICAI publication 'Review engagements on interim financial information in the current evolving environment due to COVID-19' issued on 7 August 2020)

Relaxations from regulatory compliances due to outbreak of COVID-19 pandemic

On 10 August 2020, ICAI has issued a publication '*Relaxations from regulatory compliances due to outbreak of COVID-19 pandemic*' which summarises key relaxations and measures introduced by MCA and SEBI in response to the COVID-19 pandemic.

(Source: ICAI publication 'Relaxation from regulatory compliances due to outbreak of Covid-19 pandemic' issued on 10 August 2020)

MSME business continuity checklist

Recently, ICAI has issued a business continuity checklist for MSMEs '*Rebooting MSMEs in the COVID-19 era*'. The checklist focusses on a number of factors that require special attention by the management of MSMEs during the pandemic. Those factors, *inter alia*, include, managing finances and working capital, liquidity, digitisation, internal controls and risk management.

(Source: ICAI-MSME business continuity checklist issued in July 2020)

FAQs pertaining to Form NFRA-2

Recently, the National Financial Reporting Authority (NFRA) has issued clarifications on issues relating to applicability/filing/uploading of Form NFRA-2 (Annual return to be filed by the auditor) in the form of Frequently Asked Questions (FAQs).

(Source: FAQs pertaining to NFRA-2 Form issued by NFRA)



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First Notes

Proposal for top 1,000 listed companies to adopt BRSR voluntarily for FY20-21



26 August 2020

On 11 August 2020, MCA has issued the report of the committee on Business Responsibility Report (BRR). In this report, the committee has prescribed new format for Business Responsibility and Sustainability Report (BRSR) and made recommendations relating to its implementation.

Basis recommendations of the committee, on 18 August 2020, SEBI has also issued a consultation paper and proposed that the BRSR format, as recommended by the

committee, should be made applicable to top 1,000 listed companies by market capitalisation.

This issue of First Notes aims to provide an overview of the recommendations made by the MCA committee in its report and proposals made by SEBI in its consultation paper.



Voices on Reporting (VOR)

KPMG in India is pleased to present Voices on Reporting (VOR) - a series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

KPMG in India is organising a two-part webinar series to discuss the key implementation issues relating to Companies (Auditor's Report) Order, 2020 (CARO 2020) on 2 September 2020 and 11 September 2020, respectively.

For registration details, please click [here](#).



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