

Auditors seek tweaks to whistle-blower norms

Approach Sebi, NFRA and other authorities

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Audit firms are seeking a rethink of new guidelines that require them to vet each whistle-blower complaint and issue assessments on a company's financials.

According to people in the know, auditors have approached the Securities and Exchange Board of India and the National Financial Reporting Authority, seeking relaxation. They believe some aspects of the disclosure norms require tweaking and fine-tuning.

These new disclosure and assessment norms are a part of the Companies (Auditor's Report) Order (CARO), effective from the current financial year, where auditors are required to report more extensively on many crucial aspects, including frauds, loan defaults, whistle-blower complaints, and benami properties.

According to the auditors, most whistle-blower complaints received by companies are unsubstantiated, frivolous, and anonymous, which even companies are reluctant to share. Further, there has to be segregation in the analysis of complaints and they should be restricted to financial frauds. According to the new provision, the auditor is supposed to verify each complaint received by the company and confirm it.

"The recent reporting requirements under the auditor report have greatly expanded the scope of scrutiny of auditors, particularly in respect of reporting of whistle-blower complaints. There is an overlap between the function of an auditor and a company secretary, considering an analysis of a whistle-blower complaint would have substantial secretarial analysis, which the auditor may not be fully equipped to process," said Atul Pandey, partner, Khaitan & Co.

Under the new rules, auditors are required to comment on 50 such matters in their audit reports, against the earlier 21, which, according to them, puts pressure on those under scrutiny due to various corporate governance lapses. Further, the new rules put the entire onus on the auditor, who largely relies on the infor-

NEW AUDIT REPORTING GUIDELINES

- Disclosures to be made on **unrecorded transactions**
- Stringent reporting of loans and other borrowings
- Reporting on **benami transactions**
- Statements on the **sustainability of company financials**
- Analysis of each **whistle-blower complaint** and its impact on the company's financials

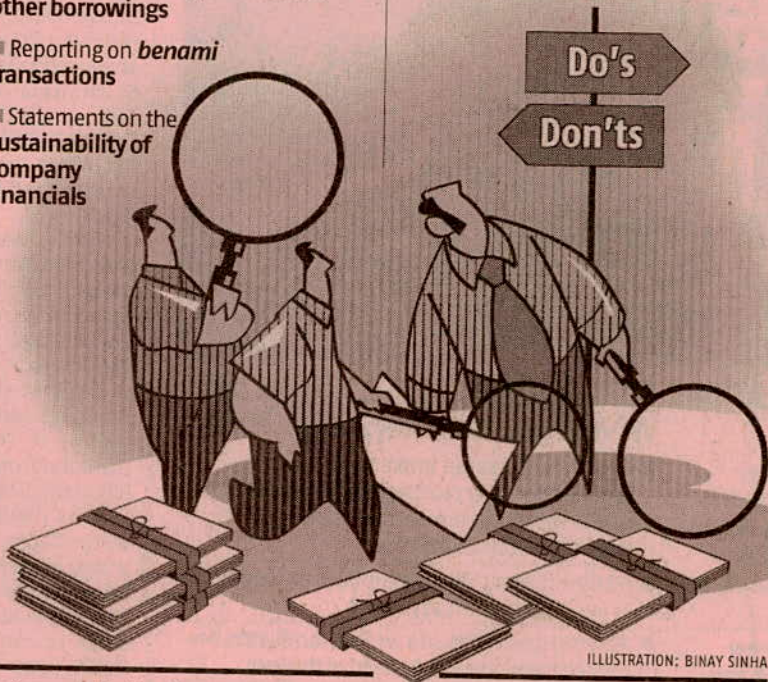


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mation provided by the company.

For instance, auditors have to give their opinion on whether the company would be able to meet its liability in the next one year. Again, an auditor can't judge or predict whether the company would be able to meet its liabilities in a year's time, especially amid extreme uncertainties due to Covid-19.

Madhu Sudan Kankani, partner, Deloitte India, said, "Some of the requirements of the new CARO could be complex and may require detailed implementation guidelines. These may also require auditors to undertake new and additional audit processes to be able to report on those. For example, under the new rules, an auditor is required to opine on, based on all the information and knowledge they have and in their view, whether there are any material uncertainties on the company's ability in meeting its balance-sheet date liabilities, as and when they fall due within a period of one year from the balance sheet date. This requires exercise of significant judgement."

Similarly, an auditor is required to consider, while forming his opinion on the financial statements, all the whistle-blower complaints. The companies will now need to institutionalise a process of collating such data and sharing with auditors. The auditor may need to evaluate each one of them to understand the impact these might have on the financial statements, and some of them may involve significant judgement and will require auditors to carry out our additional audit procedures, to ascertain their impact on financial statements and audit reports, added Kankani.

While experts say it is a great step forward in the wake of recent frauds such as Dewan Housing Finance Corporation and Infrastructure Leasing & Financial Services, certain aspects need to be considered. "Though there could be cases of frivolous complaints, we should recognise that insiders have the best knowledge of frauds. This source needs to be encouraged," said Prithvi Haldea, founder, PRIME Database.