

Improve Financial Communications with better Reporting Practices

Management of business organisations is a complex activity affected by interaction of myriad internal and external forces. Quality financial reporting practices is one such factor that has significant positive relationship with better growth of business. Improved financial reporting is quintessential part of broader competence of management in financial matters of business organisations which, in conjunction with other functional capabilities, is likely to lead to more effective and efficient management of companies and considerably improve their prospects. Quality financial reporting brings credibility to the business in the eyes of

stakeholders and lead it to grow. Financial Reporting Review Board (FRRB) of Institute of Chartered Accountants of India takes a number of initiatives to create an ecosystem for improvement in financial reporting practices in the Country and improve the quality of audit by the Chartered Accountants and thus work in overall accomplishment of public interest. Read on...

Financial Statements are important objective source of information in hands of the stakeholders to understand the financial well-being and future prospects of an organisation. The users of financial information heavily rely on the information provided in the financial statements and therefore the preparers of financial statements need to ensure that the details presented in the financial statement are correct, complete, relevant and have been created in accordance of the regulatory requirements. FRRB, constituted in July 2002, is an important wing of ICAI that works to bring improvements in financial reporting practices and thereby promote investors' confidence in audited financial statements. FRRB works independently for the overall improvement in



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financial reporting practices. It comprises of members of the Central Council of the ICAI including Government of India nominee with representations from the office of the Securities and Exchange Board of India (SEBI), Comptroller and Auditor General of India (C&AG), Insurance Regulatory and Development Authority (IRDA), Central Board of Direct Taxes (CBDT) from time to time. The Council always endeavors to provide independence to the Board and keep it separate from the disciplinary mechanism of the Institute. FRRB neither has co-opted members or ex-officio members including the President and Vice-president of the ICAI nor has any member of Disciplinary Committee on the Board. The members with significant expertise in the field work under confidentiality covenants.

Supporting Regulators

As a part of achieving public interest and overall ICAI ethos of being partner in nation building, FRRB supports government and other regulatory bodies. In case FRRB finds any material or significant non-compliance affecting true and fair view of the financial statements (selected as suo motto or as special case), it refers the case to concerned regulators, i.e., MCA, RBI, IRDA, CAG, Director (Discipline) ICAI. Thus, it is acting as an agency for all concerned regulators, that endeavors to improve transparency in financial reporting. ICAI's alliance with regulators like MCA, ECI, C&AG, IRDA would continue

to be instrumental in improving the financial reporting practices in India. Considering it as an effective mechanism, various regulators (viz., MCA, SEBI, C&AG, ECI) refer cases relating to review of financial statements.

Holistic review of the financial statements

After functioning for more than 18 years, the FRRB has become an established mechanism for monitoring compliance by reporting enterprises. ICAI FRRB conducts holistic review of the financial statements with a view to determine compliance with:

- Accounting standards (IGAAP/ Ind AS)
- Standards on Auditing
- Guidance Notes on Schedule II and III to the Companies Act, 2013
- Various Guidance Notes on Accounting and Auditing
- Industry Specific Guidance Notes viz Rate Regulated Industry, Coal Industry, Telecom etc.
- Expert Advisory Opinion
- ITFG Bulletins (clarification on issues related to implementation of Ind AS)
- Master Circulars issued by RBI from time to time
- Implementation Guide/ Educational Material on Ind AS and Standards on Auditing

Cases Reviewed by the Board

FRRB is playing a paramount role in improving the financial reporting practices prevailing in India. It is functioning quiet effectively and independently

to the entire satisfaction of the stakeholders' especially regulatory bodies. Till date, FRRB has reviewed:

- **956 Financial Statements** of various enterprises selected on suo moto basis (76 %) or as special cases (24%).
- Out of these, the Board referred 17% **cases to Director (Discipline)** for further action, of which 96% cases were sent to concerned Regulators such as MCA, SEBI.
- In 63% cases, advisories have been issued to the auditor of the enterprise to exercise greater care in future while discharging professional duties.

The Board restricts its reviews to the published financial statements only and do not carry out re-audit or review how audit has been conducted by auditors concerned. The Board doesn't carry out a detailed scrutiny. Further, the review conducted by the Board is neither a judicial proceeding nor the quasi-judicial proceeding. It is just a review- not under any statute.

Improving Financial Reporting Practices

It is envisaged that the activities carried out are not only helping in regulating the profession but are also aimed at achieving better quality financial reporting practices:

- **By Referring the cases to Regulators:** FRRB has been playing vital role in strengthening of best accounting and auditing practices

Public Interest

amongst the members and other stakeholders. The Board reviews financial statements from compliance perspective, and wherever required, refers its finding not only to Director (Discipline) of ICAI but also to other regulators viz MCA, RBI, C&AG, IRDA and other regulators for taking appropriate action.

- **By Sending advisories to auditors:** The Board also sends advisories to the members of the Institute on non-compliances observed by it in the financial statement audited by the member, in the cases where non-compliances are not material and does not affect true and fair view of the financial statements. These advisories have been of great help to the member in performing quality services in their subsequent engagements. To make

regulatory mechanism of the Institute more effective, the Board share relevant details with Peer Review Board of ICAI so that it may accordingly be considered during the peer review.

- **Enriching Knowledge:** To enhance the knowledge of members with the changes made in financial reporting framework as well as to apprise them about the common non-compliances observed by the Board, FRRB organises webcasts, awareness programmes, publicise articles in journal and update 'Did You Know' series on social media on commonly found non-compliances observed in the financial statements on regular basis. The board also releases publications to enhance the knowledge of preparers and auditors of the financial statements. The Board compiles the

non-compliances observed by it during the course of the review and releases them in the form of publications for the benefit of members and other stakeholders.

Endnote

The Institute has been doing tremendous work towards strengthening the best financial reporting practices and continue its journey in pursuit of excellence, independence and integrity. To make review process robust, FRRB is gearing up to imbibe technology in a big way by way of utilising Artificial Intelligence to systematically identify the non-compliances in financial statements. The system will have capability of Artificial Intelligence/ Analytics so that common non-compliance can be flagged using system AI on the basis of XBRL financial statements of the enterprise.

