

NFRA issues Financial Reporting Quality Review Report of KIOCL Ltd. for FY 2019-20

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The National Financial Reporting Authority (NFRA) has issued a Financial Reporting Quality Review Report (FRQRR) in respect of KIOCL Ltd. for the financial year 2019-20.

The FRQRR is one of the two components of the Inspection Programme of the NFRA. The other component is the Audit Quality Review Report (AQR).

The FRQRR focuses on the role of preparers, i.e., those responsible for the preparation of financial statements and reports in accordance with the applicable accounting standards. Therefore, the FRQRR evaluates how well the Chief Financial Officer, and the rest of the Management, and the Audit Committee, as well as the Board of Directors of the Company, have performed in preparing financial statements that show a true and fair view as required under the Companies Act, and in accordance with the applicable accounting standards.

The FRQRR concludes with an advisory to the preparers, highlighting the matters that need improvement. In case there are violations of accounting standards and the law that require action to be taken under the law, the matter is reported to the authorities who can take action.

The FRQRR in respect of KIOCL Ltd. is the first FRQRR issued by the NFRA. .

NFRA has prepared this FRQRR on the basis of examination of the financial statements of the Company for the Financial Year 2019-2020 and other information sought from the Company during the course of NFRA's review.

NFRA Conclusions/Recommendations in respect of its observations have been categorized into 'High' and 'Moderate' Impact. Some of the main High Impact Non compliances w.r.t. to Accounting Standards on part of KIOCL are as follows:

- a. KIOCL's accounting policy for Foreign Exchange (Fx) Forward Contracts is erroneous and it is non-compliant with the classification and measurement requirements of Ind AS 109, *Financial Instruments* (Ind AS 109).
- b. The accounting policy for a material element i.e. Revenue (with corresponding impact on related assets such as Trade Receivables, Inventories etc.) as stated in its statement of significant accounting policies is erroneous. This erroneous accounting policy raises questions over the reliability and accuracy of the financial statements of the Company.
- c. Adequate evidence, such as valuation reports, if any, have not been provided by KIOCL in respect of application of Indian Accounting Standard (Ind AS) 36, *Impairment of Assets* (Ind AS 36) in the case of the Blast Furnace Unit that was non-operational. Also, there is no evidence that impairment loss computations were considered/reviewed/ presented to Audit Committee and the Board of Directors (BoD) of the Company.

Many other errors have been noticed in disclosures in the Notes to Financial Statements. These disclosures are either not relevant or useful to the users of financial statements, and have the potential to obscure the material

information in the financial statements.

NFRA has recommended that KIOCL examine if it is necessary to prepare and publish restated financial statements as per Ind AS 8 and Section 131 of the Companies Act, 2013.

The FRQRR can be seen on NFRA website on the URL:

https://nfra.gov.in/sites/default/files/FRQR%20Report%20KIOCL_1.pdf

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