

Ind-AS May Pose Challenge for New IL&FS Management

IL&FS' audit panel closely monitoring preparation of financial statements of 3 group companies

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Mumbai: Amid regulatory scrutiny and resignation of one of its statutory auditors, the audit committee of the Uday Kotak-led board at Infrastructure Leasing & Financial Services (IL&FS) is closely monitoring the preparation of the financial statements of three group companies.

The three companies — IL&FS, IL&FS Financial Services (IFIN) and IL&FS Transportation Network (ITNL) — will be taking the last audited results as the base to prepare these statements.

Getting the accounts ready according to the Indian Accounting Standards (Ind-AS) principles will entail making multiple changes in the way financial statements are reported compared for fiscal 2018.

The group would be adopting the Ind-AS standards for the first time. A company spokesperson said this would require preparation of an opening balance sheet as on April 1, 2017, a comparative statement of March 31, 2018, a statement of changes in equity and profit and loss statement and balance sheet for March 31, 2019.

Sharad Goel, the spokesperson, said: "The company is making all efforts to complete and adopt its accounts (under IndAS) within the stipulated statutory timeline of September 30, 2019, as per the Companies Act, 2013."

One of the technical issues before the audit committee and the finance department of the companies was around the opening balance for the current financial statements, given that investigative agencies have raised questions over the authenticity of certain figures in the previous audited financial statements.

"The opening balances for April 1, 2018 will be taken as per past audited accounts. The opening balances will be subject to the outcome of reopening and recasting of accounts which is presently under process," said Goel.

The National Company Law Tribunal (NCLT) had ordered reopening and recasting of the accounts for IL&FS, IFIN and ITNL from fiscal 2013 to fiscal 2018, a move that was subsequently challenged in the Supreme Court by Hari Sankaran, a former director at IL&FS. On June 5, the top court allowed the reopening and recasting of the past five years' accounts.

This exercise is expected to begin soon under the supervision of the new audit committee.

The Serious Fraud Investigation Office, the investigation arm of the Ministry of Corporate Affairs, had alleged that there was evergreening of loans. It has also raised question mark over the authenticity of some figures stated in earlier financial statements.

Stumbling Blocks

Why the difficulty?

SFIO has alleged that financial statements don't represent true picture of companies' health

Restatement

If it's found that last 5 yrs' accounts don't represent true picture of co, this year's financial statements will have to be changed too



Current auditors claim that anyone doing the restatement will have the advantage of hindsight

Calculating the opening balance for FY2018 is the main challenge that the management is facing as they try and close books for the financial year 2018-2019, said people in the know.

Under the Companies Act, there are two situations when a company can reopen accounts: one, when the board believes there is negligence in preparing accounts or a fraud has been committed; and two, when the government believes the statement of accounts is incorrect. In both cases, the NCLT has to be approached.

Experts said it would be difficult to reopen the accounts, because a lot of documents and people involved in preparing those would be unavailable.

In IL&FS, most of the key decision-makers and senior management have quit, or are in jail. So, piecing together the accounts will be a nightmare for the firm tasked with preparing the new sets of accounts, as site reports, working notes, collaterals and valuations would require deep consultations with old employees and a deep dive into old records. Also complicating the matter would be the fact that the auditors who had signed on the reporters earlier would defend their positions against the new auditors.

A complete restatement of accounts has never been done in India. In the Satyam Computer case, the restatement was done by Deloitte and KPMG using the prior-period statement method.

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