

# ShineWing India

Internal Controls & SOX 2.0 in the time of COVID 19

Review – Reset - Restart



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# BUSINESS IMPACT - BACKGROUND & AUDITOR'S ROLE

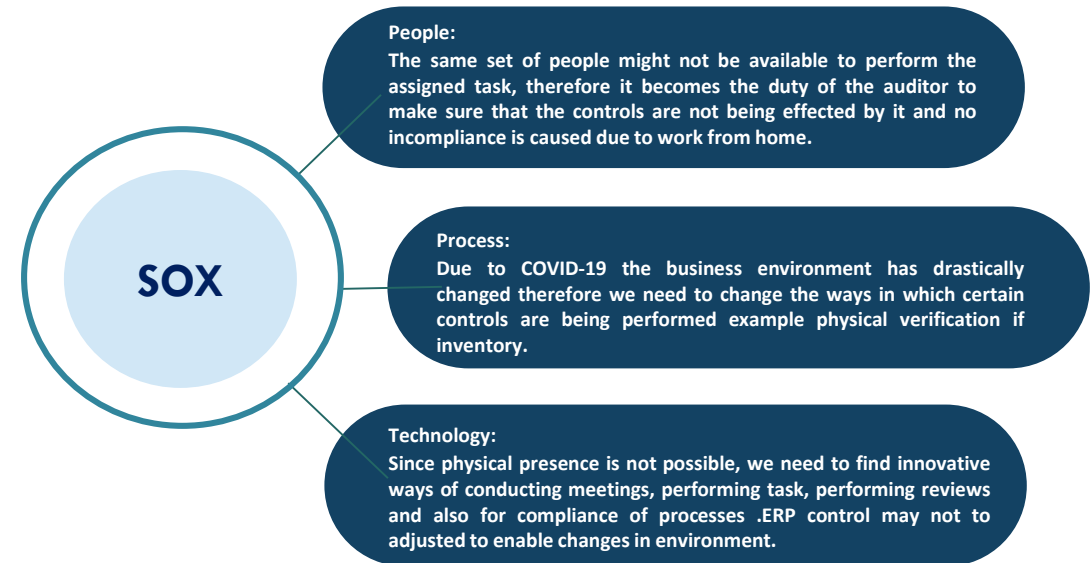
The COVID outbreak has impacted worldwide commerce, sparing no industries, leaving entities to identify new risks, prepare a response plan, implement new controls or augment existing controls, and monitor the effectiveness of internal control over financial reporting – all while employees are working remotely. The following image depicts the estimated negative economic outcomes in all countries/regions on the basis that the coronavirus lowers both output and productivity over a year.

Loss of GDP US\$m



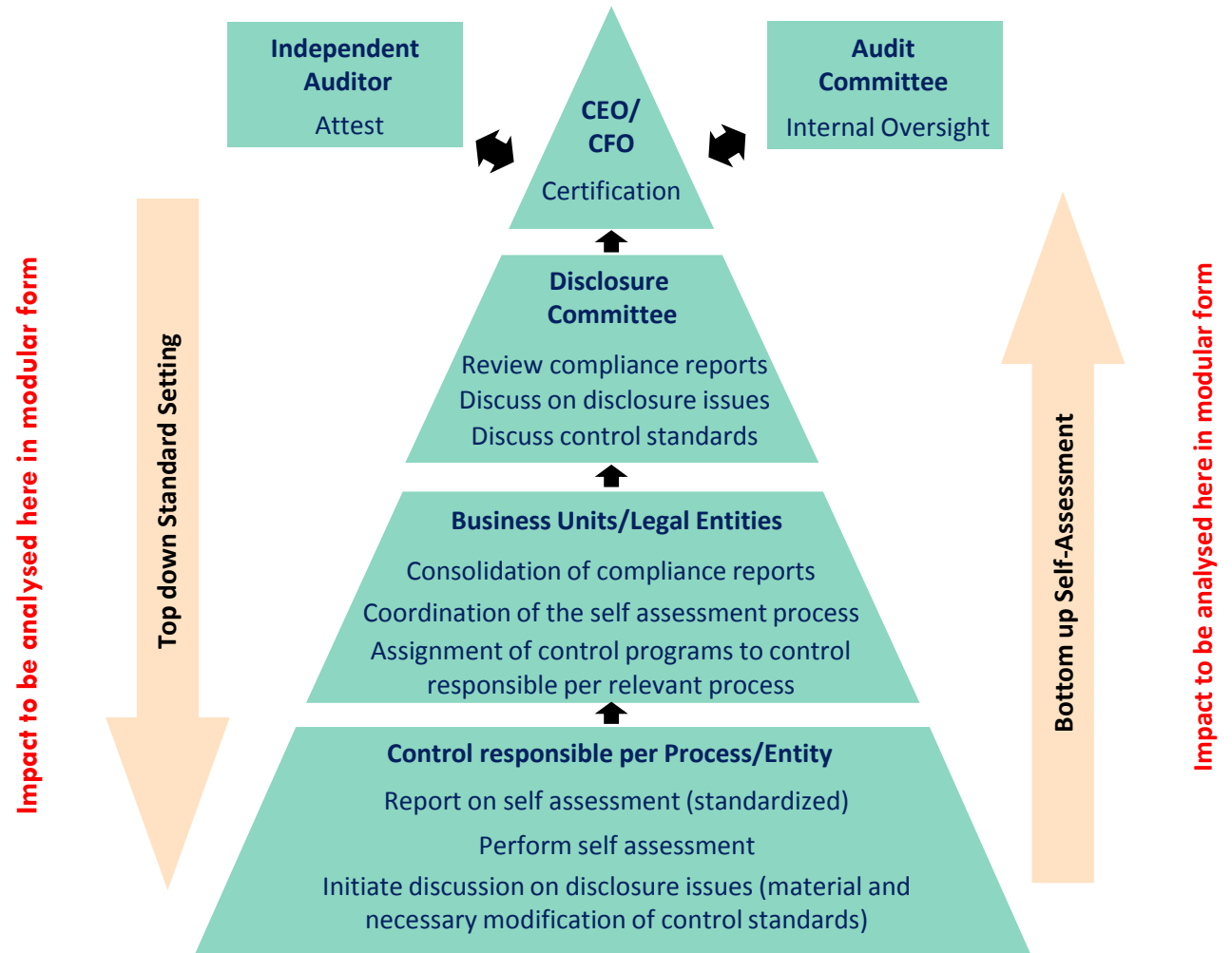
This pandemic crisis and its economic effects mean that investors and other stakeholders need high-quality financial information more than ever. Even in challenging times, the flow of high quality, independently assured information to support the functioning of capital markets is of fundamental importance. Reporting on audit engagements should be driven by the information needs of users of audited financial statements.

At ShineWing we believe that business are managed by triad of People, Processes, and Technology and the following graphic depicts our take on an auditor's response to the triad in the unprecedented situation:



# INTERNAL CONTROL OVER INTEGRATED REPORTING

All US registrants use the COSO Framework to design, implement, monitor and evaluate the effectiveness of ICFR. The COSO Framework's 5 components of internal control as well as 17 principles that need to be 'present' and 'functioning' and operating together in an integrated manner to provide reasonable assurance that financial statements are free from material misstatement. The necessity of implementing changes to respond to new risks occurring at unprecedented speeds puts pressure on entities to maintain effective internal control over financial reporting. Here we address how components of the COSO Framework are likely to be impacted as a result of the COVID-19 outbreak.



# INTERNAL CONTROL OVER INTEGRATED REPORTING (Contd.)

## COVID-19 ALSO PROMPTS RE-EVALUATION OF THESE INTERNAL CONTROL CONSIDERATIONS:

### CONTROL ENVIRONMENT CHANGES —

1. Materiality - The auditor may also need to consider whether a separate materiality level or levels should be determined and applied to the related classes of transactions, account balances or disclosures.
2. Physical meetings of audit committees may now be impossible.
3. Restriction in movement may result in change in the way the audit evidence which are available for operations of the control, evidence which may be available for the operation of control, the control may be operating however in a different manner, form, type and mechanism.
4. There would be change in the government policy and procedures and relaxations w.r.t date of compliances, norms and ways of compliances, the control environment needs to be adjusted based on the same.
5. Certain elements of the business-like products, facilities, geographies or aspects of the business may get changes and may not be relevant, impairment test needs to be covered with professional skepticism Also review of aspect providing for the going concern of the organisation needs to be rechecked and confirmed.
6. Way of managing liquidity and solvency in the organisation may be different, the treasury control and its operation may need to be revisited considering the relaxations from the bank and regulatory policies and the mode in which the company is operating its treasury functions.
7. Key audit matters, disclosures, and various types of elements for building or taking decisions w.r.t provisions and judgement calls need to be properly understood, documented, and revisited to be incorporated by providing a control environment on managing the same.
8. Many companies may have to provide in case the date of balance sheet and closing is at any time on or after January 20 to look at the subsequent events after the set off date and have specific control in their overall control environment to cover the subsequent event and mechanisms and ways of monitoring and reporting on the subsequent events.

### FINANCIAL REPORTING OPERATING RESILIENCY —

1. Assess the business' capability to prepare financial statements completely, accurately and timely.
2. Pandemic-related risk indicators include subsidiary locations in lockdown, attrition or non – availability of qualified personnel and systems, and temporary closure of facilities due to lockdown or lack of movement within the facilities or financial reporting hubs functioning remotely or going offline.



# IMPACT ASSESSMENT- PLANNING AND SCOPING

The board of directors and management will need to consider the overall impact of changes in business operations to the control environment.

01

02

Risk assessment should be revisited in light of the changes in the external environment.

Materiality assessments may change, affecting overall risk assessment decisions and considerations relevant to the precision of control activities and the organisations may have to change the way in which they are calculating the materiality threshold.

03

04

Relevance and reliability of information used to support the operation of controls should be re-evaluated, especially for new or augmented controls.

Qualitative aspects will be really important and significant besides the Quantitative aspects considering that the quantitative aspects only give us historical information and do not cover the qualitative information which is relevant for the current financial year.

05

06

Scoping of audit may need to be revisited considering that certain geographies may not remain relevant and may not be important from a financial reporting perspective, certain business units selling certain product may not be of value.

New or augmented control may need to be designed and implemented to address new or elevated risks.

07

08

Internal control must be effectively monitored to determine whether controls are operating as designed, because a remote work environment presents a new set of challenges.

The Top-down approach will continue to be the best approach going ahead and the companies need to build and bring some controls rationalizations, and a way of monitoring them on an ongoing basis.

09



# IMPACT ASSESSMENT- RISK AND CONTROL IDENTIFICATION

The businesses, the audit committee, the management, and the control owners must apply proper professional skepticism and judgement in doing the risk assessment and identifying which are the critical and important risk for the organization in operating internal controls over financial reporting.

They may also need to relook at the current fraud assessment programs and anti fraud programs considering the fraud triangle which is there.

The liquidity, Valuation and supply chain challenges and lack of availability of resources to restart and continue operations and to enable growth of the business may change the considerations and the way the business is operating. Additional consideration w.r.t liquidity and supply chain need to be thoroughly risk assessed and considered in preparing the risk controls, entity level controls, procurement and revenue and treasury level controls relevant for financial reporting .

## ASPECTS TO BE THOROUGHLY LOOKED FROM A RISK ASSESSMENT AND DISCLOSURE POINT OF VIEW

### Accounting Estimates and Assumptions -

Previous assumptions used for cash flow models may not hold good in view of the rapidly changing circumstances therefore such assumptions needs to be revisited to include the appropriate impact of COVID-19 for true and fair presentation of the financial statements.

### Business Resilience needs to Reconsidered –

Industries that are likely to have long term impact of COVID-19 like Airlines, Hospitality or Travel & Tourism need to build a fresh business model. A review of existing insurance policies should be performed to find out whether any losses incurred as a result of the outbreak can be covered under existing terms, or whether an adjustment of cover is required to maximize protection.

### Impairment of Assets –

The management needs to consider whether contraction in economic activity due to COVID 19 is an impairment indicator at the reporting date for impairment assessment, the forecasts or budgets for future cash flows prepared by management to be updated.

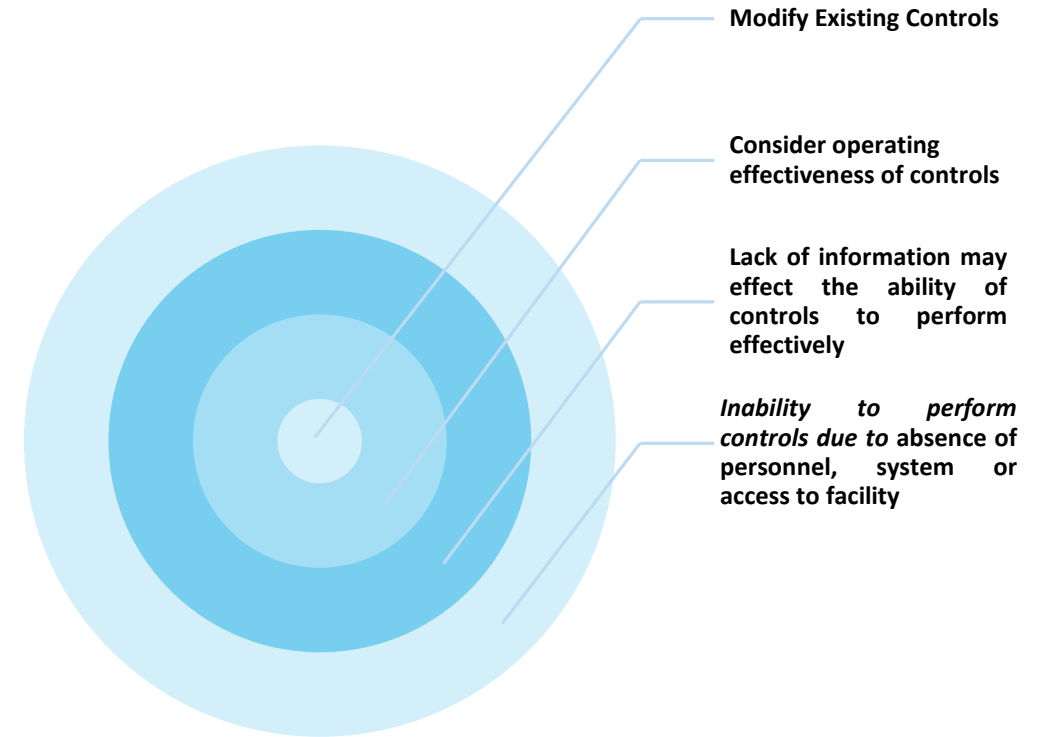
### Third Party Risk assessment –

A third party risk assessment will evaluate all the considerations in outsourcing a product or service to a third party. Companies must fully understand the risks associated with these outsourcing decisions. The risk of using an unreliable file sharing application might result in leaking of confidential information to employees, clients or even business rivals.

**Going Concern - Management of the entity should assess the impact of COVID-19 and the measures to take on its ability to continue as a going concern. The impact of COVID-19 after the balance sheet date needs to be considered in assessing whether going concern assumption is appropriate or not. Events occurring after the balance sheet date may indicate that the enterprise ceases to be a going concern. Management should evaluate whether it is proper to use the fundamental accounting assumption of going concern in the preparation of the financial statements.**

# IMPACT ASSESSMENT- CONTROL DESIGN AND IMPLEMENTATION TESTING

- If an existing control cannot be performed, management may need to identify alternative appropriately designed controls to compensate for the lack of information.
- Set up a virtual command center to manage communications between relevant stakeholders, including a dedicated or semi-dedicated systems support resource to enable rapid response to connectivity issues.
- Ensure VPN capacity, system access and align with InfoSec to enable remote access.
- Re-sequence your close calendar to consider likely delays in normal close activities. Some activities include closing accounts prior to period-end, performing workday assessments to identify potential bottlenecks.
- Consider opportunities to shorten close activities. Example, shifting non-key accounts into non-quarter end months, simplifying allocation methodology and approach, implementing new materiality thresholds for non-key account reconciliations,
- Risk rank accounts likely to require additional analysis given the current economic environment and resource appropriately.
- Continued ability of remote centers to support the close through backup and sustainability planning for offshore support centers.
- Standardize templates and enforce procedures to ensure consistency and streamline review cycles.
- Re-think ways of working to be remote-friendly (collaboration tools, set hours, check-in expectations, etc.).
- Pursue additional automation opportunities. Some examples include automating interfaces, allocations, implementing workflow tools (e.g. Black Line).
- Ensure that you have properly designed and implemented controls related to the selection and application of GAAP for the accounting and disclosure issues arising from COVID-19.





Internal Controls & SOX 2.0 in the time of COVID 19, review – reset  
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Some Illustrative Control & Professional judgement, Disclosure &  
presentation aspects consideration

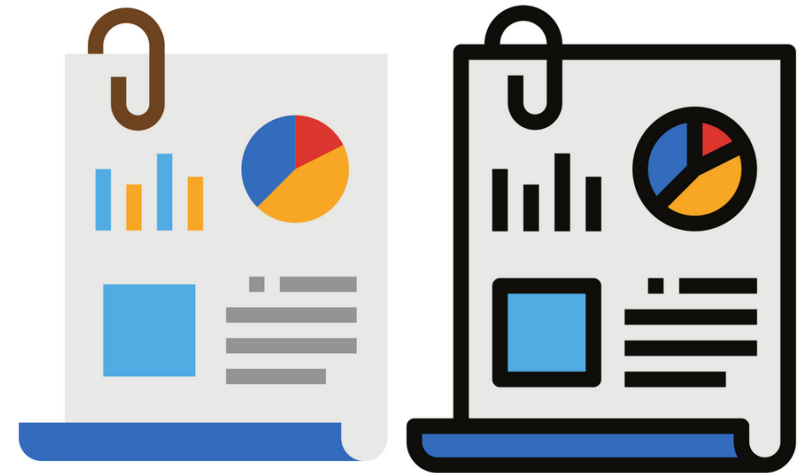
# IMPACT ASSESSMENT- CONTROL OPERATING AND EFFECTIVENESS TESTING

- Sign NDA agree on new way of evidence collection and basis same capture support information through screen shots or phone pictures and email to retain evidence for this period (including computer time stamp to prove timeliness of review).
- Use a manual journal review risk ranking to focus on high-risk journal entries.
- Create a SharePoint or intranet folder with restricted access and allow posting to that site to signify approval for this period.
- Grant a temporary extension or scope out certain low-risk or low-activity accounts.
- Validate with a follow-up email to the preparer noting approval and no required follow-up procedures.
- Use SharePoint or a shared drive with secured folders to store checklists and online signature tools such as DocuSign to evidence completion of tasks with a digital record of timeliness.
- Utilize Adobe Acrobat to capture tie-out electronically.
- Capture hand-written tie-out via a tool such as Genius Scan and save.
- Create a network folder that only the reviewer has access to and allow transfer into this file to serve as evidence of review.
- Create a centralized SOX documentation email box to be copied on email approvals.
- Utilize video share to locate and view sample selections to validate quantity and quality where needed for higher-risk locations or deploy inbuilding/outside drones.
- Have a third party certify or confirm count for lower risk locations.
- Roll back or roll forward inventory balance to alternate date.



# IMPACT ASSESSMENT- REPORTING AND REMEDIATION

- Given the current uncertainty and volatility, more companies and auditors need to consider reporting on material uncertainties. Where they do so, they should draw on the available facts and circumstances. Auditors should not generically report on material uncertainties.
- Where the auditors are of the opinion that the going concern principle is not valid for an organization then it requires a more structured and rigorous auditor risk assessment and expanded reporting.
- Where the impact of Covid-19 is, in the auditor's professional judgment is one of the most significant matters having an impact on the audit of the financial statements, including those which had the greatest effect on, the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team, then the auditor should consider reporting this as a key audit matter.
- The auditor should not use boilerplate language but should report in a way that informs users of the auditor's report and the financial statements in a way that will support effective decision making by those users. This will require careful case-by-case consideration of the applicable facts and circumstances.
- Reporting might also provide context for users about the circumstances in which the audit has been carried out, and the impact of those circumstances on the way the auditor has concluded on significant judgments.
- Where an auditor cannot obtain sufficient appropriate audit evidence, then the auditor is required to modify their opinion in that respect. Where the possible impact on the financial statements could be both material and pervasive, then the auditor is required to disclaim their opinion or if it is material but not pervasive, to express a qualified opinion.
- When an auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements are material, the auditor is also required to modify their opinion in that respect.
- When the effect of such misstatements is both material and pervasive, the auditor is required to express an adverse opinion. Auditors should remain alert to the possibility that, in the current circumstances, misstatements may occur.
- Auditors are required to report promptly to the regulator any information concerning public interest entity of which they have become aware while carrying out the audit.



# IMPACT ASSESSMENT- SELF ASSESSMENT AND MONITORING

- Entities may consider reevaluating their monitoring activities to determine whether controls have become less effective or are no longer operating in the manner for which they were designed and implemented.
- Existing monitoring activities may need to be modified to operate effectively in a remote working environment.
- Entities should implement specific monitoring activities over newly designed or implemented controls to make sure such controls achieve their desired outcomes.
- The nature and extent of monitoring activities should be commensurate with the risks associated with the new controls.
- If entities use service organizations that are relevant to their internal control and rely on SOC reports to obtain an understanding and evaluate those internal controls, entities may need to increase their monitoring of service organizations to understand whether SOC reports will be available on a timely basis to support their internal control evaluations.
- The potential global and economic impacts of the coronavirus continue to evolve rapidly, and entities should monitor the situation. Entities are encouraged to maintain close communications with their board of directors, external auditors, legal counsel and other service providers as the circumstances progress.



# ILLUSTRATIVE CONTROL ACTIVITY

Information Technology (IT) General Controls: Organization may need to reevaluate professionally

Area	Control
<b>IT General Controls</b>	<ul style="list-style-type: none"><li>• Emergency changes need to be considered.</li><li>• Control with respect to VPN access will become a key risk.</li><li>• Cyber incident management control may become a key risk.</li><li>• Problem and incident management control need to be added.</li><li>• Control with respect to segregation of duty for changes in ERP may get changed.</li><li>• Access approval and change approval process may become offline, so additional control needs to be added.</li><li>• Super user access may be available remotely and with additional resources.</li><li>• BCP control will become a key risk.</li><li>• Control on access to shared folders may become a key control as access may be available and shared with many.</li></ul>

# ILLUSTRATIVE CONTROL ACTIVITY

Manual Controls: Organization may need to reevaluate professionally

Area	Control
<p><b>Borrowing Costs</b></p>	<p><b>Ind AS 23, Borrowing Costs, and AS 16 Borrowing Costs</b>  <b>Impact of COVID-19:</b></p> <ul style="list-style-type: none"> <li>Ind AS 23 and AS 16 require that the capitalization of interest is suspended when development of an asset is suspended. The management may consider this aspect while evaluating the impact of COVID-19.</li> </ul>
<p><b>Post Balance Sheet Events</b></p>	<p><b>Ind AS 10, Events After the Reporting Period, and AS 4, Contingencies and Events Occurring After Balance Sheet Date</b>  <b>Disclosure:</b></p> <ul style="list-style-type: none"> <li>Entities must disclose significant recognition and measurement uncertainties created by the out break of the COVID-19 in measuring various assets and liabilities. Entities to disclose how they have dealt with the impact of COVID-19.</li> </ul>
<p><b>Leases</b></p>	<p><b>AS 19, Leases &amp; AS 29, Provisions, Contingent Liabilities and Contingent Assets</b>  <b>Impact of COVID – 19:</b></p> <ul style="list-style-type: none"> <li>Compensation by the Government to the lessor for providing concession to the lessee, to be accounted for appropriately as per AS 19 and to determine whether any assistance from government are government grants under AS 12.</li> </ul>
<p><b>Revenue</b></p>	<p><b>Ind AS 115, Revenue from Contracts with Customers</b>  <b>Impact of COVID – 19:</b></p> <ul style="list-style-type: none"> <li>Due to COVID-19, there could be likely increase in sales returns, decrease in volume discounts, higher price discounts etc. Risk rating could change.</li> <li>Entities to consider disclosure about the impact of COVID-19 on entities revenue.</li> </ul>
<p><b>Impact on Internal Controls Framework</b></p>	<p><b>Impact of COVID – 19:</b></p> <ul style="list-style-type: none"> <li>Entities should assess any breakdown in review-type controls or the inability of individuals to perform control duties because of absences.</li> <li>Entities should also consider how a lack of information may affect management’s ability to effectively operate controls.</li> <li>Entities will need to ensure that they have properly designed and implemented controls related to the selection and application of GAAP for the accounting and disclosure issues arising from COVID-19.</li> <li>Vendor ageing control could become key control.</li> <li>HR attendance tracking and monitoring control may not change.</li> <li>Purchase order may be issued on mail approval , control need to be revisited.</li> </ul>

# ILLUSTRATIVE CONTROL ACTIVITY

Automated Controls: Organization may need to reevaluate professionally

Area	Control
<p><b>Inventory Measurement</b></p>	<p><b>Ind AS 2, Inventories, and AS 2, Valuation of Inventories</b>  <b>Impact of COVID-19:</b></p> <ul style="list-style-type: none"> <li>• The management may consider written down of inventories to NRV item by item , configuration change may be required in ERP.</li> <li>• Under Ind AS 2 and AS 2 allocation of fixed production overheads to the costs of conversion is based on the normal production capacity. Configuration change may be required in ERP.</li> </ul>
<p><b>Property, Plant &amp; Equipment</b></p>	<p><b>Impact of COVID-19:</b></p> <ul style="list-style-type: none"> <li>• COVID-19 impact may have affected the expected useful life and residual life of PPE. The management may review the residual value and the useful life of an asset. Configuration may require some changes.</li> </ul>
<p><b>Revenue</b></p>	<p><b>AS9, Revenue Recognition</b>  <b>Impact of COVID – 19:</b></p> <ul style="list-style-type: none"> <li>• Credit limit related automated control may change.</li> <li>• Bad debt and provisioning in system automated control may need to be revisited.</li> </ul>
<p><b>Impact on Internal Controls Framework</b></p>	<p><b>Impact of COVID – 19:</b></p> <ul style="list-style-type: none"> <li>• Chart of account for additional disclosure may need to created, hence it may become key control.</li> <li>• Period open and close control may not work as planned and need to be revisited.</li> </ul>

# ILLUSTRATIVE CONTROL ACTIVITY

Automated Controls: Organization may need to reevaluate professionally

Area	Control
<b>Inventory Measurement</b>	<b>Ind AS 2, Inventories, and AS 2, Valuation of Inventories</b> <b>Impact of COVID-19:</b> <ul style="list-style-type: none"><li>• The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant.</li><li>• Unallocated overheads are recognized as an expense in the period in which they are incurred.</li><li>• Unlikely to review normal production capacity for allocating fixed production overheads for the year 2019-2020, because of adverse impact on the utilization of the production capacity due to the impact of coronavirus.</li></ul>



# ILLUSTRATIVE CONTROL ACTIVITY

## Automated Controls: Organization may need to reevaluate professionally

Area	Control
<p style="text-align: center;"><b>Provisions, Contingent Liabilities &amp; Contingent Assets</b></p>	<p><b>Onerous Contracts :</b></p> <ul style="list-style-type: none"> <li>• As a result of COVID -19, some contracts may become onerous for reasons such as increase in cost of material/labor, etc.</li> <li>• Ind AS 37 requires assets dedicated to a contract to be tested for impairment before a liability for an onerous contract is recognized.</li> <li>• Additionally, there could be losses from imposition of penalty due to delay in supply of goods, which may need to be considered under the guidance of Ind AS 115.</li> <li>• Management to disclose that it has assessed whether executory contracts are onerous due to the adverse impact of COVID-19.</li> <li>• If the management is unable to assess whether some of the executory contracts are onerous due to inadequacy of information, the same should be disclosed.</li> <li>• Ind AS 37 does not permit provisions for future operating costs or future business recovery costs. However, Ind AS 37 requires that an entity should disclose the nature of the obligation and the expected timing of the out flow of economic benefits.</li> </ul> <p><b>Insurance Claims:</b></p> <ul style="list-style-type: none"> <li>• Entities may have insurance policies that cover loss of profits due to business disruptions due to events like COVID-19.</li> <li>• Entities claims on insurance companies can be recognized in accordance with Ind AS 37 only if the recovery is virtually certain .</li> </ul> <p><b>Restricting Costs:</b></p> <ul style="list-style-type: none"> <li>• The Standard provides that a provision for restructuring costs is recognized only when the general recognition criteria for provisions are met and there is detailed formal plan for there structuring with evidence that the entity has started to implement are structuring plan.</li> <li>• As a result of COVID -19, some contracts may become onerous for reasons such as the imposition of penalty due to delay in supply of goods or increase in cost of material, labor, etc.</li> <li>• Management should consider whether any of its contracts have become onerous.</li> <li>• Management should disclose that it has assessed whether executory contracts are onerous due to adverse impact of COVID-19.</li> <li>• If, the management is unable to assess whether some of the executory contracts have become onerous due to the inadequacy of information, the same should be disclosed.</li> </ul> <p><b>Impact of COVID-19 on AS 29:</b></p> <ul style="list-style-type: none"> <li>• As a result of COVID -19, some contracts may become onerous for reasons such as the imposition of penalty due to delay in supply of goods or increase in cost of material, labor, etc.</li> <li>• Management should consider whether any of its contracts have become onerous.</li> <li>• Management should disclose that it has assessed whether executory contracts are onerous due to adverse impact of COVID-19.</li> <li>• If, the management is unable to assess whether some of the executory contracts have become onerous due to the inadequacy of information, the same should be disclosed.</li> </ul>

# ILLUSTRATIVE CONTROL ACTIVITY

Manual Controls: Organization may need to reevaluate professionally

Area	Control
<b>Inventory Measurement</b>	<p><b>Ind AS 2, Inventories, and AS 2, Valuation of Inventories</b>  <b>Impact of COVID-19:</b></p> <ul style="list-style-type: none"> <li>• It might be necessary to write down inventories to net realizable value due to reduced movement in inventory, decline in selling prices, or inventory obsolescence due to lower than expected sales. Control w.r.t inventory valuation need to be made High risk.</li> <li>• Entities to assess the significance of any write-downs and need to make disclosure in accordance with Ind AS 2/AS 2 as well as paragraph 98 (a) of Ind AS 1 or paragraph 14(a) of AS 5.</li> </ul>
<b>Impairment of Non-Financial Assets</b>	<p><b>Ind AS 36, Impairment of Assets, and AS 28, Impairment of Assets</b>  <b>Critical Factors to Consider:</b></p> <ul style="list-style-type: none"> <li>• Assumptions used for impairment testing and determining recoverable amounts before the outbreak of COVID 19 require any change.</li> <li>• The assumptions used to determine discount rate to measure the recoverable amount require any adjustments.</li> <li>• The forecasts or budgets for future cash flows prepared by management to be updated to reflect the impact of COVID 19.</li> <li>• Market assumptions used to determine fair value for recoverable amounts need reconsideration.</li> <li>• Reasonable assumptions are taken in estimating the value-in-use and fair value less costs of disposal and ensuring that the impairment loss is estimated reliably.</li> </ul>
<b>Going Concern Assessment</b>	<p><b>AS 1 Disclosure of Accounting Policies &amp; AS 4 Contingencies and Events Occurring After the Balance Sheet Date(revised2016)</b>  <b>Impact of COVID-19:</b></p> <ul style="list-style-type: none"> <li>• Management to evaluate whether it is proper to use the fundamental accounting assumption of going concern in the preparation of the financial statements.</li> </ul>
<b>Property, Plant &amp; Equipment</b>	<p><b>Impact of COVID-19:</b></p> <ul style="list-style-type: none"> <li>• Ind AS 16 and AS 10 require that useful life and residual life of PPE needs revision on annual basis.</li> <li>• Due to COVID-19,PPE can remain under - utilized or not utilized for a period of time.</li> <li>• The Standards require depreciation charge even if the PPE remains idle.</li> </ul>
<b>Presentation of Financial Statements</b>	<p><b>Ind AS 1 Presentation of Financial Statements</b>  <b>Sources of Estimation uncertainty under Ind AS 1:</b></p> <ul style="list-style-type: none"> <li>• COVID-19 may have created many uncertainties about the likely future scenarios which may affect the estimations of amounts recognized in the balance sheet.</li> </ul>

# PROFESSIONAL JUDGEMENT, DISCLOSURE & PRESENTATION ASPECTS

Professional judgement, Disclosure & presentation aspects: Organization may need to reevaluate professionally

Area	Control
<p><b>Going Concern Assessment</b></p>	<p><b>Ind AS 1, Presentation of Financial Statements &amp; Ind AS 10, Events after the Reporting Period</b>  <b>Impact of COVID-19:</b></p> <ul style="list-style-type: none"> <li>• Management of the entity should assess the impact of COVID-19 and the measures taken on its ability to continue as a going concern.</li> <li>• The impact of COVID-19 after the reporting date to be considered on Going Concern.</li> <li>• If, management after the reporting date either intends to liquidate or to cease trading, or has no realistic alternative but to do so, the financial statements should not be prepared on going concern basis.</li> <li>• Necessary disclosures as per Ind AS 1 shall also be made, such as material uncertainties that might cast significant doubt upon an entity's ability to continue as a going concern.</li> </ul> <p><b>AS 1 Disclosure of Accounting Policies &amp; AS 4 Contingencies and Events Occurring After the Balance Sheet Date (revised2016)</b>  <b>Impact of COVID-19:</b></p> <ul style="list-style-type: none"> <li>• Management of the entity should assess the impact of COVID-19 and the measures take on its ability to continue as a going concern.</li> <li>• The impact of COVID-19 after the balance sheet date to be considered in assessing whether going concern assumption is appropriate or not.</li> <li>• Events occurring after the balance sheet date may indicate that the enterprise ceases be a going concern.</li> </ul>
<p><b>Consolidated Financial Statements</b></p>	<p><b>Ind AS 110, Consolidated Financial Statements</b>  <b>Definition:</b></p> <ul style="list-style-type: none"> <li>• Ind AS 110 prescribes that the financial statements of parent and subsidiaries used in the preparation of the consolidated financial statements are usually drawn up to the same date.</li> <li>• In any case, the difference between the reporting dates should not be more than three months.</li> </ul> <p><b>AS 21, Consolidated Financial Statements (revised2016)</b>  <b>Definition:</b></p> <ul style="list-style-type: none"> <li>• AS 21 prescribes that the financial statements of parent and subsidiaries used in preparation of the consolidated financial statements are usually drawn up to the same date.</li> <li>• In any case, difference between the reporting dates should not be more than six months.</li> </ul>

# PROFESSIONAL JUDGEMENT, DISCLOSURE & PRESENTATION ASPECTS

Professional judgement, Disclosure & presentation aspects: Organization may need to reevaluate professionally

Area	Control
<p><b>Property Plant Equipment</b></p>	<p><b>Impact of COVID-19:</b></p> <ul style="list-style-type: none"> <li>If expectations differ from previous estimates, to account for the change(s) as an accounting estimate.</li> </ul>
<p><b>Presentation of Financial Statements</b></p>	<p><b>Ind AS 1 Presentation of Financial Statements</b></p> <p><b>Breach of Loan Covenants:</b></p> <ul style="list-style-type: none"> <li>Due to COVID-19 there may be instances of breach of loan covenants which may trigger the liability becoming due for payment and liability becoming current.</li> <li>As per paragraph 74 of Ind AS 1, such a liability shall not be classified as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.</li> </ul> <p><b>Sources of Estimation uncertainty under Ind AS 1:</b></p> <ul style="list-style-type: none"> <li>Paragraph 125 of Ind AS 1, Presentation of Financial Statements, requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation of uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.</li> <li>Entities shall be guided by the prescriptions in paragraphs 125 to 133 of Ind AS 1.</li> </ul> <p><b>Comparative Information:</b></p> <ul style="list-style-type: none"> <li>Ind AS 1 requires presentation of minimum comparative information.</li> <li>Framework for the preparation and presentation of financial statements under Ind AS considers comparability as an important qualitative characteristic of financial statements.</li> <li>Framework requires that users must be able to compare the financial statements of an entity through time in order to identify trends in its financial position and performance and also compare it with financial statements of other entities.</li> <li>COVID-19 may have affected the financial performance and financial position of entities. Therefore, preparers may consider making adequate disclosures and explanatory notes.</li> </ul>

# PROFESSIONAL JUDGEMENT, DISCLOSURE & PRESENTATION ASPECTS

Professional judgement, Disclosure & presentation aspects: Organization may need to reevaluate professionally

Area	Control
<p><b>Financial Instruments- Expected Credit Loss (ECL)</b></p>	<p><b>Ind AS 109, Financial Instruments</b>  <b>Impairment Losses</b>  <b>Recognition and measurement is based on ECL Model:</b></p> <ul style="list-style-type: none"> <li>• Recognition of 12 months ECL versus Lifetime ECL -based on segregation of credit exposures into 3 buckets:</li> <li>• This segregation of credit exposures into 3 buckets is not required certain financial assets, such as, trade receivables ,where simplified approach is applicable.</li> <li>• Measurement of ECL-Adverse impact on the business of borrowers or debtors may impact the following credit risk parameters:</li> <li>• Risk of default (probability of default) i.e. the likelihood of default by the borrower may have increased significantly due to reduced economic activity;</li> <li>• Estimated amount of the loss itself in the event of default (loss given default) - value of collaterals and business cash flows may be affected adversely affecting the expected amount of loss;</li> <li>• In this period of substantial business dislocation, borrowers may tend to fully utilize undrawn limits and loan commitments, which in turn would impact another credit risk parameter i.e. exposure at default.</li> </ul> <p><b>Critical factors to be considered by prepares:</b></p> <ul style="list-style-type: none"> <li>• Measurement of ECL.</li> <li>• Entities expected to consider current as well as forecasted macro-economic conditions and more than one scenario.</li> <li>• Entities may need to develop one or more scenarios considering the potential impact of COVID-19.</li> <li>• Impact of any Prudential Regulatory actions to sustain the economy such as loan repayment holidays, reduction in interest rates etc., to be considered.</li> <li>• Appendix A Ind AS 109 - Evidence that a financial asset is credit-impaired includes observable data about various events, for example,</li> <li>• The lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider</li> <li>• Disclosures -Ind AS 107,Financial Instruments : Disclosures,</li> <li>• Entities may need to disclose the impact of COVID-19 on various credit related aspects such as methods, assumptions and information used in estimating ECL, policies and procedures for valuing collaterals etc.</li> <li>• If the entity is unable to assess the impact of COVID-19 in estimating the impairment loss due to the inadequacy of information, the same should be disclosed appropriately.</li> <li>• NBFCs and ARCs - should carefully consider the recent guidance provided by RBI on implementation of Ind AS (RBI/2019-20/170 DOR (NBFC).CC.PD.No.109/22.10.106/2019-20 - Implementation of Indian Accounting Standards).</li> </ul>

# PROFESSIONAL JUDGEMENT, DISCLOSURE & PRESENTATION ASPECTS

Professional judgement, Disclosure & presentation aspects: Organization may need to reevaluate professionally

Area	Control
<p><b>Financial Instruments- Expected Credit Loss (ECL)</b></p>	<p><b>Entities to whom AS is applicable:</b></p> <ul style="list-style-type: none"> <li>• Financial assets.</li> <li>• Entities shall consider the requirements of AS 4, Contingencies and Events Occurring After the Balance Sheet Date.</li> <li>• AS 13, Accounting for Investments - entities may have to carefully consider the requirements of making provisions for decline in the value of investments, which is other than temporary.</li> <li>• Banks and Insurance Entities - Preparers need to consider.</li> <li>• Impact of COVID-19 on classification of Loans and Advances into Standard, Substandard, Doubtful and Loss categories .</li> <li>• The Prudential Regulatory requirements of RBI and The Insurance Regulatory and Development Authority of India (IRDAI).</li> </ul> <p><b>Fair Value Measurement</b>  <b>IndAS 113, Fair Value Measurement</b>  <b>Critical Factors to be considered by the preparers:</b></p> <ul style="list-style-type: none"> <li>• Ind AS 113- Different ways in which fair value is determined i.e. it can be based on observable market price (quoted price in an active market – Level 1) or application of valuation techniques (Level 2 and Level 3) as of the reporting date.</li> <li>• Following features require adequate management consideration and professional judgment to determine whether the quoted prices are based on transactions in an orderly market: <ul style="list-style-type: none"> <li>• Significant volatility or indications of the significant decline in market prices of financial instruments like equity, bonds and derivatives.</li> <li>• Significant decrease in volume or level of activity.</li> <li>• Valuation techniques on various assumptions including discount rates, credit spread/counter - party credit risk etc.</li> </ul> </li> </ul> <p><b>AS 13 Accounting for Investments</b>  <b>Critical Factors to be considered by the prepares:</b></p> <ul style="list-style-type: none"> <li>• Determination of fair value for valuation of investments classified as Current Investments.</li> <li>• Following features require adequate management consideration and professional judgment to determine whether the quoted prices are based on transactions in an orderly market: <ul style="list-style-type: none"> <li>• Significant volatility or indications of the significant decline in market prices of financial instruments like equity, bonds and derivatives.</li> <li>• Significant decrease in volume or level of activity.</li> <li>• Valuation techniques on various assumptions including discount rates, credit spread/counter - party credit risk etc.</li> </ul> </li> </ul>

# PROFESSIONAL JUDGEMENT, DISCLOSURE & PRESENTATION ASPECTS

Professional judgement, Disclosure & presentation aspects: Organization may need to reevaluate professionally

Area	Control
<p><b>Financial Instruments- Expected Credit Loss (ECL)</b></p>	<p><b>Hedge Accounting</b>  <b>IndAS 109, Financial Instruments</b>  <b>Critical Factors to be considered by the preparers:</b></p> <ul style="list-style-type: none"> <li>• If entities have adopted cash-flow hedge accounting for certain forecasted transactions, should assess whether the transaction still qualifies as a highly probable forecast transaction considering their business environment.</li> <li>• Entities will need to assess any hedge ineffectiveness and record the impact of that in profit and loss.</li> <li>• Estimate the fair value of derivatives, including paying special attention to underlying assumptions of derivatives, e.g., forward curve of interest rate, foreign currency, commodity etc.</li> </ul> <p>Entities to whom AS is applicable :</p> <ul style="list-style-type: none"> <li>• For recognition and measurement of derivatives within the scope of Guidance Note:</li> <li>• Entities may need to consider the impact on key inputs/assumptions such as foreign currency rate, interest rate, etc. used in their valuation techniques, including the potential impact on hedge accounting.</li> </ul>
<p><b>Leases</b></p>	<p><b>Ind AS 116, Leases</b>  <b>Impact of COVID – 19:</b></p> <ul style="list-style-type: none"> <li>• Due to COVID-19, there can be changes in the terms of lease arrangements or lessor may give some concession to the lessee with respect to lease payments, rent free holidays etc.</li> <li>• Such revised terms or concessions may lead to the application of accounting relating to the modification of leases.</li> <li>• Variable lease payments may be significantly impacted, especially those linked to revenues from the use of underlying asset.</li> <li>• Discount rate used to determine the present value of new lease liabilities may need to incorporate any risk associated with COVID-19.</li> <li>• Compensation by the Government to the lessor for providing concession to the lessee, to be considered to determine whether to account for as lease modification as per Ind AS 116 or whether to be accounted as government grants under Ind AS 20.</li> </ul> <p><b>AS 19, Leases &amp; AS 29, Provisions, Contingent Liabilities and Contingent Assets</b>  <b>Impact of COVID – 19:</b></p> <ul style="list-style-type: none"> <li>• Any change in the terms of lease arrangements or concession given by lessor to be considered while accounting for leases.</li> <li>• Discount rate used to determine present value of minimum lease payments of new leases may need to incorporate any risk associated with COVID-19.</li> <li>• Entities will need to determine whether as a result of COVID -19, any lease arrangement has become onerous. The same should be accounted for as per AS 29.</li> </ul>

# PROFESSIONAL JUDGEMENT, DISCLOSURE & PRESENTATION ASPECTS

Professional judgement, Disclosure & presentation aspects: Organization may need to reevaluate professionally

Area	Control
<p><b>Revenue</b></p>	<p><b>Ind AS 115, Revenue from Contracts with Customers</b>  <b>Impact of COVID – 19:</b></p> <ul style="list-style-type: none"> <li>• Under Ind AS 115, these factors need to be considered in estimating the amount of revenue to recognized, i.e., measurement of variable consideration.</li> <li>• Ind AS 115 requires disclosure of information that allows users to understand the nature, amount, timing and uncertainty of cash flows arising from revenue.</li> </ul> <p><b>AS9, Revenue Recognition</b>  <b>Impact of COVID – 19:</b></p> <ul style="list-style-type: none"> <li>• Entities may have postponed recognition of revenue due to significant uncertainty of collection in view of the impact of COVID-19. AS 9 requires entities to disclose the circumstances in which revenue recognition has been postponed pending there solution of significant uncertainties.</li> </ul>
<p><b>Income Tax</b></p>	<p><b>Ind AS 12, Income Taxes</b>  <b>Impact of COVID – 19:</b></p> <ul style="list-style-type: none"> <li>• The COVID-19 could affect future profits and/or may also reduce the amount of deferred tax liabilities and/or create additional deductible temporary differences due to various factors (e.g., asset impairment).</li> <li>• Entities with deferred tax assets should reassess forecasted profits and the recoverability of deferred tax assets in accordance with Ind AS 12 considering the additional uncertainty arising from the COVID-19 and the steps being taken by the management to control it.</li> <li>• Management might also consider whether the impact of the COVID-19 affects its plans to distribute profits from subsidiaries and whether it needs to reconsider the recognition of any deferred tax liability in connection with undistributed profits.</li> <li>• Management should disclose any significant judgements and estimates made in assessing the recoverability of deferred tax assets, in accordance with Ind AS1.</li> </ul> <p><b>AS 22, Accounting for Taxes on Income</b>  <b>Impact of COVID – 19:</b></p> <ul style="list-style-type: none"> <li>• COVID-19 could affect future profits and/or may also reduce the amount of deferred tax liabilities and/or create additional timing differences due to various factors.</li> <li>• Entities with deferred tax assets should reassess forecast profits and the recoverability of deferred tax assets in accordance with AS 22 considering the additional uncertainty arising from the COVID-19 and the steps being taken by the management to control it.</li> </ul>



# PROFESSIONAL JUDGEMENT, DISCLOSURE & PRESENTATION ASPECTS

Professional judgement, Disclosure & presentation aspects: Organization may need to reevaluate professionally

Area	Control
<b>Modifications or Termination of Contracts or Arrangements</b>	<p><b>Certain contracts within the scope of other Ind ASs or ASs or Guidance notes highlighted below may need to be modified or terminated.</b></p> <p><b>Entities to Whom Ind AS is applicable :</b></p> <ul style="list-style-type: none"><li>• Ind AS 19, Employee benefits.</li><li>• Ind AS 102, Share-based Payments.</li><li>• Ind AS 109, Financial Instruments and Ind AS 32, Financial Instruments Presentation.</li><li>• Ind AS 104, Insurance Contracts For insurance companies this is routine; events like earthquake, huge floods, war situations, etc.</li><li>• Ind AS 115, Revenue from Contracts with Customers.</li></ul> <p><b>Entities to Whom AS is applicable:</b></p> <ul style="list-style-type: none"><li>• AS 15 Employee benefits (revised 2005).</li><li>• Guidance Note on Accounting for Employee Share based payments.</li><li>• Guidance Note on Accounting for Derivative Contracts (Issued 2015).</li><li>• AS 7 Construction Contracts (revised 2002) AS 9 (Revenue Recognition) Guidance Note on Accounting for Real Estate Transactions (revised 2012).</li></ul>

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**Expert knowledge:** IT and Risk Management Leader with Internal Audit, Consulting, Enterprise Risk Management, ERP System Consulting, Security, System Audit, Internal Audit and Internal Controls expertise built upon Risk Consulting and Auditing strengths

**Project handled :**

- Food Processing Industry
  - Nestle India Limited
  - Jubilant Foodworks Limited
- Automobile
  - Maruti Suzuki India Limited
  - Honda Siel India Private Limited
  - Hero MotoCorp Limited
  - AG Industries Private Limited
- Hospitality
  - ITC
  - East India Hotel
  - Park Hotel
  - Urogynecology and Pelvic Health
  - Escorts & Fortis Healthcare
- E commerce
  - Yatra Online Private Limited
  - Indiamart Intermesh Limited
  - Zomato Media Pvt Limited
  - Nearbuy India Pvt Limited
- Banking & Insurance
  - American Express
  - ICICI Bank
  - Union Bank of India
  - Bank of Baroda
- Information Technology
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**Project handled :**

- Banking & NBFC's ((List is illustrative)
  - American Express
- E-commerce & market place internet companies
  - IndiaMart Intermesh Limited
  - Zomato Media Pvt Limited
  - Nearbuy India Pvt Limited
- Hospitality & Healthcare
  - Park Hotel
  - Urogynecology and Pelvic Health
  - Escorts & Fortis Healthcare
- Technology and telecommunications
  - Mcarbon tech innovations Pvt Ltd
  - Telenor (India) Communications Private Limited
  - Tower Vision Private Limited
- Start ups
  - LifCare
  - LocoNav
- Diversified & manufacturing
  - William Grants & Sons
  - SkipperSeil Limited
- Automobile & Auto ancillary
  - AG Industries
  - Hero MotorCorp
- Newspaper, Electronic & Print media
  - The Statesman
- Government & NGO
  - National Skill Development Council (NSDC)
  - UP State Governments projects
  - Khushii NGO
- Others
  - Organic India Private Limited
  - UP State governments

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