

MANNER OF DEALING WITH AUDIT REPORTS FILED BY LISTED COMPANIES - AMENDMENT IN EQUITY LISTING AGREEMENT

CIRCULAR NO. CFD/DIL/7/2012, DATED 13-8-2012

1. Clause 31(a) of Equity Listing Agreement, inter-alia, requires listed companies to submit six copies of annual reports containing audited annual financial statements to the stock exchanges.

2. SEBI, in its continuous endeavor to enhance the quality of financial reporting being done by listed companies, has now decided to put in place a system to monitor the audit qualifications contained in the audit report accompanying the audited annual financial statements submitted by listed companies. The exact text of amendments to Equity Listing Agreement in this regard is given in the Annexure to this circular.

3. Accordingly, listed companies shall now be required to submit the following forms, as may be applicable, along with copies of annual reports submitted to stock exchanges:

- Form A: Unqualified/ Matter of Emphasis Report
- Form B: Qualified/ Subject To/ Except For Audit Report

4. The format of Form A and Form B is given in the Annexure to this circular as part of the amendments to Equity Listing Agreement. These forms shall be signed by the a) Chief Executive Officer/Managing Director, b) Chief Financial Officer, c) Auditor and d) Chairman of the Audit Committee. The information submitted as per these forms shall also draw attention to relevant notes in the annual financial statements, management's response to qualifications in the Directors' report and comments of the Board/ Chair of the Audit Committee.

5. Stock exchanges shall adopt the following procedure to process the audit reports accompanying audited annual financial statements submitted by listed companies along with Form B:

- (a) Stock exchanges shall carry out preliminary scrutiny of reports accompanied by *Form B* including seeking necessary explanation from the listed company concerned and consider the same based on materiality of the qualifications. The parameters for ascertaining the materiality of audit qualifications shall be, the impact of these qualifications on the profit and loss, financial position and corporate governance of the listed company. For the purpose of uniformity, stock exchanges shall consult one other for deciding the criteria for preliminary scrutiny. Further, stock exchanges shall also consult one other for distributing the work in case shares of the listed company concerned are listed on more than one stock exchange.
- (b) Upon examining the audit reports based on the above parameters, stock exchanges shall refer those cases, which, in their opinion, need further examination, to SEBI.
- (c) SEBI has constituted the 'Qualified Audit Review Committee' (QARC) with representatives from Institute of Chartered Accountants of India (ICAI), stock

exchanges, etc. The QARC shall review the cases received from the stock exchanges and guide SEBI in processing the qualified annual audit reports referred to by the stock exchanges.

- (d) After analyzing the qualifications in audit reports, QARC may make following recommendations:
- (i) If, prima facie, QARC is of the view that an audit qualification is not significant, it may suggest steps for rectification of such qualification;
 - (ii) If, prima facie, QARC is of the view that an audit qualification is significant and the explanation given by the listed company concerned/its Audit Committee is unsatisfactory, the case may be referred to the Financial Reporting Review Board of ICAI (ICAI-FRRB) for their opinion on whether the qualification is justified or requires restatement of the books of accounts of the listed company;
 - (iii) If an audit qualification is not quantifiable, QARC may suggest rectification of the same within a stipulated period.
- (e) If ICAI-FRRB opines that an audit qualification is justified, SEBI may ask the listed company concerned to restate its books of accounts in compliance with the statutory requirements and inform its shareholders about the same by making an announcement to the stock exchanges. SEBI may also direct the listed company concerned to reflect the effect of these restatement adjustments in the annual report of the subsequent financial year.
- (f) If ICAI-FRRB is of the view that an audit qualification is not justified, ICAI may ask the statutory auditor of the listed company concerned to provide necessary clarifications and may take appropriate action.
- (g) The scrutiny of all audit reports filed as per Form B shall be carried out twice a year based on the reports received up to half year ending on June and December of every year and for this purpose, the following timelines are prescribed:

Activity	To be completed by
Filing of annual audit reports by the listed companies	As per the provisions of the Listing Agreement
Preliminary scrutiny of the reports received during the half year (Jan - Jun and Jul -Dec each year) by stock exchanges and referring applicable cases to SEBI	One month from the end of half year ending on June and December each year.

Review of the cases by QARC	One month from the date of receipt of report from the Stock Exchanges.
Referring applicable cases to ICAI-FRRB	Fifteen days from the date of decision of the QARC
Receipt of reply from ICAI- FRRB	One month from the date of referral by QARC
Communication of decision on the case to the listed company concerned and the stock exchanges. This also includes reports received directly from ICAI-FRRB with a recommendation of restatement.	Fifteen days from the date of receipt of reply from ICAI-FRRB
Publication of restated financial results by the listed company concerned.	Within two months from the date of letter of communication to the concerned entity.

(h) SEBI may, at any stage, in the interest of investors, take necessary action as it deems fit, including mandating restatement of books of accounts.

(i) Stock exchanges shall display the list of companies which have filed their audit reports along with Form B.

6. This circular is issued in exercise of the powers conferred under Section 11 read with Section 11A of the Securities and Exchange Board of India Act, 1992.

7. All stock exchanges are advised to ensure compliance with this circular. This circular is applicable to all annual audited financial results submitted for the period ending on or after December 31, 2012.

8. This circular is available on SEBI website at www.sebi.gov.in under the categories "Legal Framework" and "Issues and Listing".

ANNEXURE

Amendments to Equity Listing Agreement

1. In Clause 31 of Equity Listing Agreement, in sub-clause (a), after the term " Directors' *Annual Reports*", the following shall be inserted, viz.,:-

"along with Form A or Form B, as applicable, the proforma for which shall be as under:-

FORM A

Format of covering letter of the annual audit report to be filed with the stock exchanges

1.	Name of the Company:	XYZ Ltd.
2.	Annual financial statements for the year ended	31st March
3.	Type of Audit observation	Un-qualified/Matter of Emphasis
4.	Frequency of observation	Whether appeared first time /repetitive /since how long period
5.	To be signed by- • CEO/Managing Director • CFO • Auditor of the company • Audit Committee Chairman	

FORM B

Format of covering letter of the annual audit report to be filed with the stock exchanges

1.	Name of the Company:	XYZ Ltd
2.	Annual financial statements for the year ended	31st March
3.	Type of Audit qualification	Qualified..... / Subject to / Except for.....
4.	Frequency of qualification	Whether appeared first time /repetitive /since how long period

5.	Draw attention to relevant notes in the annual financial statements and management response to the qualification in the directors report:	May give gist of qualifications/headings (Refer page numbers in the annual report) and management's response
6.	Additional comments from the board/audit committee chair:	This may relate to nature of the qualification including materiality, agreement/disagreement on the qualification, steps taken to resolve the qualification, etc.
7.	To be signed by- • CEO/Managing Director • CFO • Auditor of the company • Audit Committee Chairman"	

2. After Clause 31, a new Clause 31A shall be inserted, viz., :-

"31A. The issuer agrees to restate its books of accounts on the directions issued by SEBI or by any other statutory authority, as per the provisions of the extant regulatory framework".

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