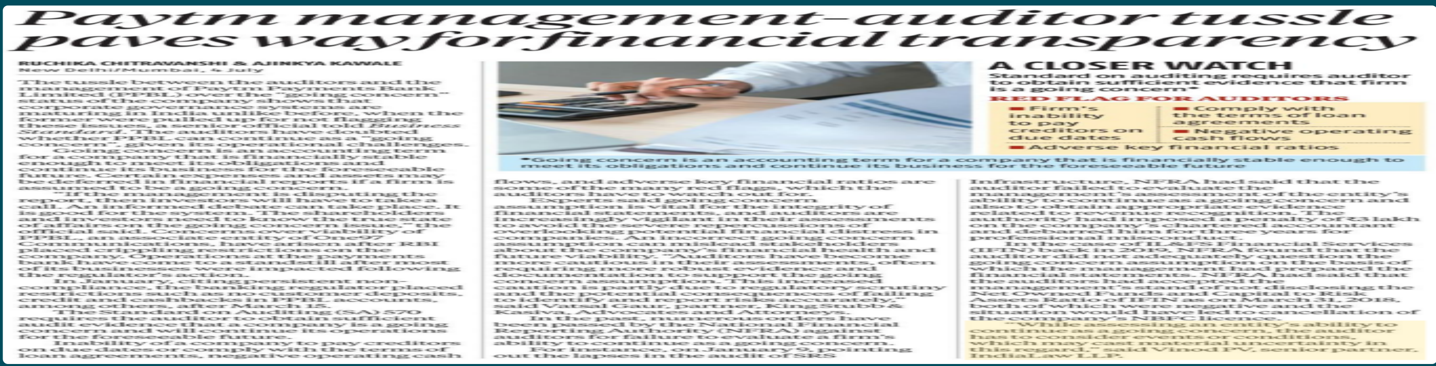

# Paytm management-auditor tussle paves way for financial transparency

RUCHIKA CHITRAVANSHI & AJINKYA KAWALE
New Delhi/Mumbai, 4 July

The tussle between the auditors and the management of Paytm Payments Bank Limited (PPBL) over the "going concern" status of the company shows that corporate governance systems are maturing in India unlike before, when the former were pulled up for not flagging these issues, a senior official told *Business Standard*. The auditors have doubted whether PPBL can continue as a "going concern", given its operational challenges.

Going concern is an accounting term for a company that is financially stable enough to meet its obligations and continue its business for the foreseeable future. Certain expenses and assets may be deferred in financial reports if a firm is assumed to be a going concern.

"If the management is disputing the report, then investors will have to take a call. An informed debate can take place. It is good for the system. The shareholders and investors need to know the true state of affairs on the going concern issue," the official said. Concerns over viability of PPBL, an associate entity of One97 Communications, have arisen after RBI placed crippling restrictions on the company. Operations at the payments bank have come to a standstill after most of its businesses were impacted following the regulator's action.

In January, citing persistent non-compliance, the banking regulator placed restrictions such as no customer deposits, credit and cashbacks in PPBL accounts, among others, after March 15.

The Standard on Auditing (SA) 570 requires the auditor to obtain sufficient audit evidence that a company is a going concern and will continue its operations for the foreseeable future.

Inability of a company to pay creditors on due dates or comply with the terms of loan agreements, negative operating cash flows, and adverse key financial ratios are some of the many red flags, which the auditors have to watch out for.

Experts said going concern assumption is vital for the integrity of financial statements, and auditors are increasingly vigilant in their assessments to avoid the severe repercussions of overlooking potential financial distress in companies. An incorrect going concern assumption can mislead stakeholders about the company's financial health and future viability. "Auditors have become more cautious in their assessments, often requiring more robust evidence and documentation to support the going concern assumption. This increased caution is partly due to regulatory scrutiny and the potential consequences of failing to identify and report risks accurately," said Vatsal Gaur, partner, King Stubb & Kasiva, Advocates and Attorneys.

In the past, numerous orders have been passed by the National Financial Reporting Authority (NFRA) against auditors for failure to evaluate a firm's ability to continue as a going concern.

For instance, on January 9, pointing out the lapses in the audit of SRS Infrastructure, NFRA had said that the auditor failed to evaluate the management's assessment of the entity's ability to continue as a going concern and also to obtain appropriate evidence related to revenue recognition. The authority had imposed a penalty of ₹3 lakh on the company's chartered accountant and debarred him for three years for professional misconduct.

In the case of IL&FS Financial Services (IFIN) back in 2019, NFRA found that the auditor did not adequately question the going concern assumption on the basis of which the management had prepared the financial statements. NFRA had said that the auditors had accepted the management's stand of not disclosing the Net Owned Funds and Capital to Risk Assets Ratio of IFIN as on March 31, 2018, both of which were negative and the situation would have led to cancellation of the company's NBFC licence.

"While assessing an entity's ability to continue as a going concern, the auditor has to consider events or conditions, which may cast material uncertainty in this regard," said Vinod PV, senior partner, IndiaLaw LLP.

**A CLOSER WATCH**

Standard on auditing requires auditor to obtain sufficient evidence that firm is a going concern*

**RED FLAG FOR AUDITORS**

- Firm's inability to pay creditors on due dates
- Comply with the terms of loan agreements
- Negative operating cash flows
- Adverse key financial ratios

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IL NEWS

# Our Senior Partner Vinod P Veettil quoted in Business Standard


**AUTHOR** IndiaLaw LLP

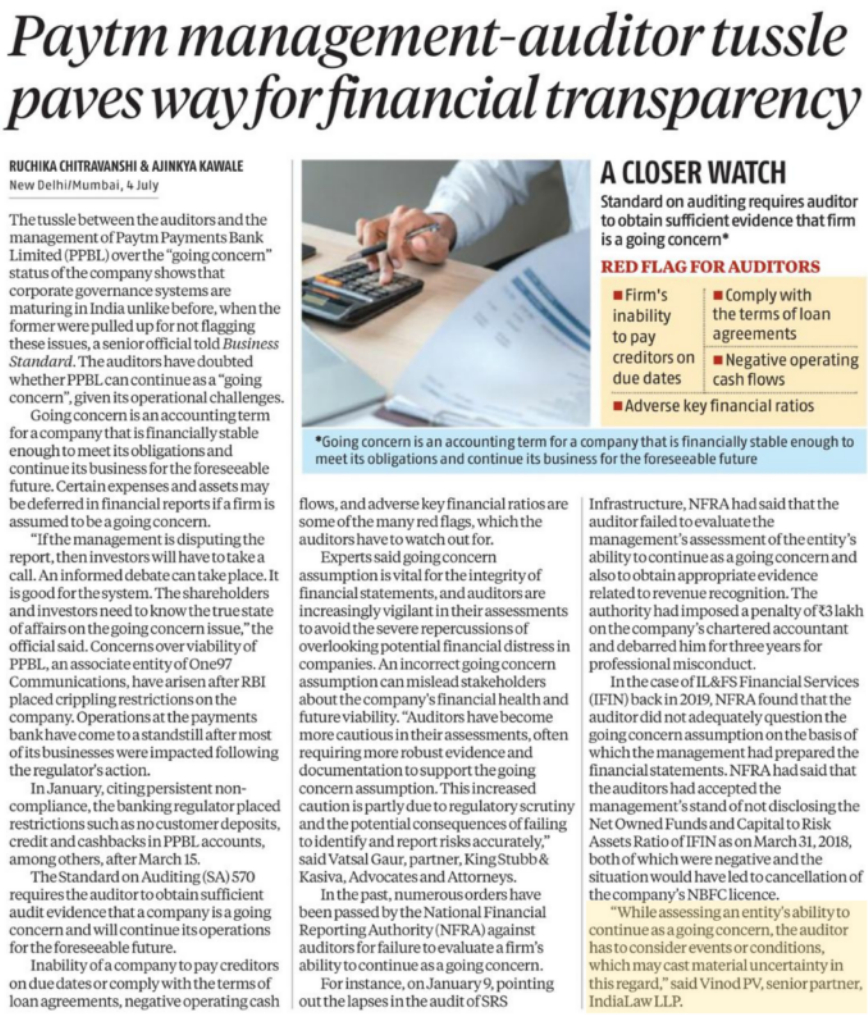


**PUBLISHED** 5 July 2024

In a recent article published by Business Standard titled "Paytm management-auditor tussle paves way for financial transparency", Our Senior Partner Vinod P Veettil shares his expert insights.

Vinod Opined "While assessing an entity's abilityto continue as a going concern, the auditor has to consider events or conditions, which may cast material uncertainty in this regard,"

Read full coverage here: https://www.business-standard.com/amp/companies/news/now-auditors-more-vigilant-on-going-concern-status-of-companies-124070400784_1.html



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