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Financial Reporting Quality Review Report (FRQRR)

Company: KIOCL Limited

CIN: L13100KA1976GOI002974

Financial Reporting for the Accounting Year: 2019-20

Financial Reporting Framework: Indian Accounting Standards (Ind AS)

Report No: NF-20011/47/2021

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List of Abbreviations and Acronyms

AS	Accounting Standards notified under Companies (Accounting Standards) Rules 2006 (re-notified in 2021)
CA, 2013	Companies Act, 2013
Company/ KIOCL	KIOCL Limited -
FRQR	Financial Reporting Quality Review
FRQRR	Financial Reporting Quality Review Report
FY	Financial Year
Ind AS	Indian Accounting Standard notified under Companies (Indian Accounting Standards) Rules 2015
NFRA	National Financial Reporting Authority
Note No.	Notes to the Standalone Financial Statements

1. INTRODUCTION

Financial Reporting Quality Review (FRQR)

1.1 Section 132 (2) (b) of the Companies Act, 2013 states that NFRA shall monitor and enforce the compliance with accounting standards and auditing standards in such manner as may be prescribed. Rule 4(1) of NRA Rules 2018 states that the Authority shall protect the public interest and the interests of investors, creditors and others associated with the companies or bodies corporate governed under rule 3 by establishing high quality standards of accounting and auditing and exercising effective oversight of accounting functions performed by the companies and bodies corporate and auditing functions performed by auditors. Rule 7 of the NFRA Rule 2018 lays down the key aspects to accomplish the above role of NFRA.

1.2 NFRA has prepared this Financial Reporting Quality Review Report (FRQRR) on the basis of examination of the financial statements of the Company for the year ending 2019-2020 and other information sought from the Company during the course of NFRA's review.

1.3 This FRQR focuses on the role of preparers, i.e., those responsible for the preparation of Financial Statements and reports. The primary goal of the FRQR is to assess and evaluate how well the information needs of users of the financial statements has been met. The FRQR also has the objective of assessing the Financial Reporting Quality Control System of the Company and the extent to which the same has been complied with in the preparation and presentation of the Financial Statements. It is important to note the following important provisions of the Companies Act, 2013 (CA, 2013) in this regard.

1.3.1 According to section 129(1) of the CA, 2013, the financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III of CA, 2013.

1.3.2 Section 129(7) of CA, 2013 contains penal provisions for non-compliance with the requirements of Section 129 i.e. if a company contravenes the provisions of the section, the managing director, the whole-time director in charge of finance, the Chief Financial Officer or any other person charged by the Board with the duty of complying with the requirements of the section and in the absence of any of the officers mentioned above, all the directors shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

1.3.3 Section 134(5) of CA, 2013 requires the Directors' Responsibility Statement to state that-

(a) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

(b) the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;

(c) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

(d) the directors had prepared the annual accounts on a going concern basis; and

(e) the directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.

1.4 The FRQR also verifies compliance with the requirement of the Accounting Standards by the Company in the preparation and presentation of the Financial Statements.

1.5 This FRQR is thus designed to bring out insufficiencies in the preparation and presentation of financial statements by the Company, and to identify and highlight non-compliance with the requirements of the Accounting Standards. The FRQR is, therefore, not to be treated as an overall rating tool.

1.6 This FRQR will be published in compliance with Rule 7(3) of NFRA Rules, 2018, which requires NFRA to publish its findings relating to non-compliances on its website.

1.7 The FRQR report will also be sent to the Central Government for appropriate action.

1.8 This FRQR report should be placed before the KIOCL Board of Directors for its information and for taking appropriate action.

Summary of FRQR:

1.9 NFRA's FRQR started with NFRA seeking, vide its email dated April 15, 2021 information / certified copies of documents from KIOCL pertaining to the financial statements. The response of KIOCL was received vide its mail dated July 12, 2021. After preliminary examination of the Financial Statements of KIOCL Limited for the Financial Year 2019-20, NFRA sent a questionnaire to KIOCL dated July 20, 2021. The response to the Questionnaire was received from KIOCL on August 19, 2021. Based on the queries raised by NFRA, the responses received from KIOCL, and the information on record, NFRA has prepared this FRQRR.

1.10 NFRA Observations are divided and presented in three (3) categories viz. High, Moderate and Low Impact. The specific observations along with Company Management Response to NFRA's queries and the NFRA's Conclusions/Recommendations thereof are given in the next part of this Report.

1.11 The following is a summary of the NFRA Conclusions/Recommendations in respect of its observations categorized into 'High' and 'Moderate' Impact.

a) KIOCL's accounting policy for Foreign Exchange (Fx) Forward Contracts is erroneous and it is in non-compliance with the classification and measurement requirements of Ind AS 109, *Financial Instruments* (Ind AS 109). KIOCL has informed NFRA that Fx Forward Contracts are accounted upon realisation, accordingly no unrealized Gain/Loss is accounted as on 31st March 2020, and 31st March 2019. The outstanding amount of Fx Forward Contracts was ₹ 8,382.03 Lakh and as ₹ 4,834.55 Lakh as of March 31, 2020 & March 31, 2019, respectively. KIOCL does not apply Hedge Accounting for these contracts. Fx Forward Contracts meet the definition of Derivative (Refer Appendix A to Ind AS 109) and therefore, fall within the scope of recognition and measurement requirements of Ind AS 109. These financial instruments have to be classified as Fair Value through Profit or Loss (FVTPL) and outstanding Fx Forward Contracts, if any, shall be measured at fair value and unrealised gain or loss recognised in the Statement of Profit and Loss with corresponding balances recognised as financial asset or financial liability in the Balance Sheet.

Therefore, KIOCL should take actions to rectify the erroneous accounting policy applied to Fx Forward Contracts in the financial year 2019-20 and 2018-19 and, also consider the requirements of paragraphs 41 and 42 of Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors for rectification of errors. The action taken in this regard should be reported to NFRA.

b) NFRA observes that the accounting policy stated in respect of a material element of financial statement i.e, Revenue (with corresponding impact on related assets such as Trade Receivables, Inventories etc.) is erroneously stated in its statement of significant accounting policies. Based on KIOCL's response, it is clear that the actual recognition and measurement principles actually applied for accounting of Revenue are different from what is stated in the audited financial statements in many important aspects of recognition and measurement of revenue which has impact on the amount of and timing of revenue recognition by the Company. This kind of erroneous disclosure of accounting policy raises questions over the reliability and accuracy of the financial statements of the Company.

Therefore, KIOCL is advised to undertake comprehensive review of the accounting principles actually followed for the financial year 2019-20 vis-a-vis the requirements of applicable Ind ASs and revise and restate its financial statements for the financial year after complying with the provisions of section 131 of the Companies Act, 2013 and Ind AS 8.

In respect of Impairment of Financial Assets KIOCL has assumed that the Trade Receivables (Financial Assets) have negligible credit risk as those are backed by Bank's Letters of Credit and historically there have been no credit losses. Hence, no impairment loss allowance is measured and recognized under Ind AS 109. This assumption of KIOCL is inappropriate and against the concept of Expected Credit Loss (ECL) underpinning the impairment loss recognition and measurement prescription of Ind AS 109. Secondly, KIOCL has reported substantial amount (₹ 3,514.03 lakh) of its total trade receivables as unsecured. Therefore, KIOCL should have assessed the credit risk in a holistic manner including consideration of forecast future conditions and not just relied on historical loss experience. It should be noted that the paragraph B5.5.35 of Ind AS 109, which permits use of practical expedient to apply provision matrix based on past due period, which approach is reportedly applied by KIOCL, requires adjustment of historical loss factors for changes in the current and future forecast conditions. KIOCL has also not complied with credit risk exposure disclosure of paragraph 35N of Ind AS 107 which requires disclosure of gross carrying amounts based on provision matrix used by the entity.

Accordingly, KIOCL is advised to reassess its impairment loss allowance for the financial year 2019-20 on entire amount of outstanding Trade Receivables (₹ 12,266.77 lakh) keeping in mind the underlying concept and principles of ECL approach of Ind AS 109.

c) In Note 24.20 of financial statements KIOCL has disclosed that the Company had intended to restart BFU Operation during the year 2019-20, however due to un-economic price of Pig Iron, Blast Furnace Unit (BFU) could not be operated during the year. The recoverable amount in each class of assets in BFU and other Units are more than the carrying amount. Hence, there is no impairment loss to be recognized during the year."

NFRA observes that adequate evidence, such as valuation reports, if any, has not been provided by the KIOCL in respect of application of the requirements of Indian Accounting Standard (Ind AS) 36, *Impairment of Assets* (Ind AS 36). 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. Therefore, NFRA concludes that KIOCL has not complied with the requirement of Paragraph 9 & 132 of Ind AS 36 and have not disclosed the information required to be presented for users of the financial statements to take decisions.

d) NFRA observes that KIOCL had investments in liquid mutual funds of ₹4,230.89 lakh as of March 31, 2019 which were disposed of in the financial year 2019- 2020. KIOCL has disclosed these as investments classified and measured at Amortised Cost as per Ind AS 109. However, these financial instruments shall have to be classified and measured as FVTPL as these financial assets do not meet the cash flows characteristics conditions in paragraphs 4.1.2(b) and 4.1.2A(b) of Ind AS 109 for classification and subsequent measurement at Amortised Cost or Fair Value through Other Comprehensive Income. Therefore, KIOCL's classification and measurements of investments in liquid mutual funds as of March 31, 2019 is incorrect and against the prescriptions of Ind AS 109 and this incorrect classification and measurement in the previous financial year will also have an impact on the gain/loss recognised during the financial year 2019-20.

Therefore, is it advised to re-examine the classification and measurement of financial instruments in the form of investment in liquid mutual funds and ensure compliance with the requirements of Ind AS 109. Errors/omissions, if any, found should be corrected in accordance with paragraph 41 and 42 of Ind AS 8 and the same should be informed to NFRA.

e) KIOCL has stated that the fair value measurement technique applied for investment in liquid mutual funds meets the criteria for classification under Level 1 Fair value Measurement Hierarchy as per paragraphs 76 – 80 of Indian Accounting Standard (Ind AS) 113, *Fair Value Measurement* (Ind AS 13). However, these investments have not been disclosed under Level 1 as of March 31, 2019. Therefore, KIOCL is advised to correct the error in disclosures relating to fair value hierarchy.

f) NFRA observes that the KIOCL has done reversal of Inventories (Manganese ore) during the year as mentioned in negative figure in note 24.13 ₹ 0.94 lakh FY 2019-20 (₹ 21.31 lakh FY 2018-19). In this respect disclosure requirement of Paragraph 36 (g) of Indian Accounting Standard (Ind AS) 2, *Inventories* (Ind AS 2) states that:

"36 The financial statements shall disclose:

(g) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34".

NFRA observes that KIOCL has not complied with Paragraph 36(g) of Ind AS 2.

g) In Note 24.6 of Financial Statements, KIOCL has made certain disclosure regarding Plant Property & Equipment (PPE) w.r.t Land in Kudremukh wherein mining operation was suspended w.e.f. 01/01/2006. NFRA observes that the objective behind the disclosure is unclear. Also, there is no disclosure of the impact of this on the financial statements of the Company. Also, there is no disclosure about whether KIOCL has considered the impairment of PPE as per Ind AS 36.

NFRA has examined the response of KIOCL and observes that in the absence of any quantitative information about the carrying amount, fair value of the land, recoverable value or impairment loss, if any, the financial impact of the above on the financial

statements of the KIOCL is not ascertainable. The disclosure is ambiguous and appears to obscure relevant and material information. The information included in Note 24.6 does not help users in making economic decisions. Further KIOCL has not provided any valuation done by the management to support the contention that there is no significant change in estimate and no impairment loss is expected. Paragraph 9 of Indian Accounting Standard (Ind AS) 36, *Impairment of Assets* (Ind AS 36) states that:
"An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset."

NFRA concludes that KIOCL has not adhered to the requirement of Paragraph 9 of Ind AS 36 and have not disclosed the information required to be disclosed.

h) NFRA observes that KIOCL has not complied with the disclosure requirements as per Indian Accounting Standard (Ind AS) 37, *Provisions, Contingent Liabilities and Contingent Assets* (Ind AS 37).

i) NFRA observes that KIOCL has made critical error in disclosing the amounts of lease liabilities as part of liquidity risk disclosures required under Indian Accounting Standard (Ind AS) 107, *Financial Instruments: Disclosures* (Ind AS 107). Instead of disclosing the contractual amounts of lease payables, KIOCL has erroneously disclosed present value of lease payments of ₹ 12,381.42 lakh instead of gross amount of ₹ 28,686.18 lakh.

j) The Company has not disclosed the Direct Tax paid (Net of Refund) of ₹ 1090.08 lakh, in the Statement of Cash Flows, the same has been clubbed under the head Increase/(Decrease) in trade and other payable while calculating cash flow from operating activities. Therefore, the Company has not complied with Paragraph 35 of Indian Accounting Standard (Ind AS) 7, *Statement of Cash Flows* (Ind AS 7).

k) In the Statement of Changes in Equity (SOCIE), the Company has not complied with requirement of Paragraph 10 & 79(b) of Indian Accounting Standard (Ind AS) 1, *Presentation of Financial Statements* (Ind AS 1) along with presentation requirement of Division II of Schedule III to the Companies Act, 2013, and has not presented the Equity Share Capital and Other Equity separately. Further a description of the nature and purpose of each reserve within equity is not disclosed in the Notes as required by para 79 (b) of Ind AS 1.

l) NFRA observes that KIOCL has not complied with the disclosure requirement of Paragraph 36(e) of Ind AS 2 *Inventories* w.r.t disclosure of write down of Finished Goods due to valuation of Finished Goods at Net Realisable Value (NRV).

m) NFRA has observed numerous other errors in disclosures in the Notes to Financial Statements which are not relevant or useful to the users of financial statements and have potential to obscure the material information in the financial statements.

n) In view of the major errors and omissions in the financial statements indicating non-compliances with the certain fundamental aspects of Ind AS principles and requirements, coupled with numerous disclosure errors, it is recommended that KIOCL prepares and publishes revised financial statements including restatements, wherever required as per Ind AS 8 and Section 131 of the CA, 2013.

2. NFRA OBSERVATIONS

2.1 PART A: OBSERVATIONS OF NFRA ON THE FINANCIAL STATEMENTS OF KIOCL LIMITED CLASSIFIED AS HIGH IMPACT

2.1.1 Significant Accounting Policies: Note 1.6 Revenue recognition

Subject Matter of Issue

Company's revenue recognition and measurement policy disclosed as part of significant accounting policies includes the following statements:

a) Revenue is measured at the fair value of the consideration received or receivable. Revenue is recorded at aggregate value of all taxable supplies, exempt supplies, export of goods and/or services and inter-state supplies excluding taxes, if any charged under CGST/SGST/IGST Act and net of Returns, Trade Allowances, Volume and other Rebates.

b) Revenue from sale of goods is recognized, when all the following conditions are met:
The entity has transferred to the buyer the significant risks and rewards of ownership of the goods
- The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- The amount of revenue can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

c) Interest is recognized on accrual basis subject to certainty of realization.

NFRA Observation

NFRA observes that above mentioned accounting policies appear to have serious errors and are not in line with the following the prescriptions of new standard on revenue viz. Ind AS 115

a) Paragraph 46 of Ind AS 115 reproduced below requires measurement of revenue at transaction price.

"When (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 56–58) that is allocated to that performance obligation."

Appendix A of Ind AS 115 defines transaction price as follows

"The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties."

b) Paragraph 31 read with paragraphs 38 to 39 of Ind AS 115 prescribe the criteria to measure the amount of revenue to be recognised when the revenue is to be recognised at a point in time and over a period of time. However, the company's accounting policy seems to be totally different from the prescription of these paragraphs of Ind AS 115.

c) In respect of interest, revenue recognition should be normally on effective interest method as per Ind AS 109. It is unclear which interest income is being recognised on this unusual accounting basis.

Based on the above, there are apparently material errors in the accounting policy of the company relating to a significant area i.e., revenue recognition and its measurement. The accounting policies stated in the notes to accounts appear to be relevant in the era of old Ind AS viz. Ind AS 18.

KIOCL Response

a) It is submitted that the company is recognizing revenue at transaction price. The nomenclature of "fair value" in the accounting policy will be corrected in the subsequent financial statements.

b) The Company recognized revenue on sale of goods when the entity has transferred to the buyer the significant risk and rewards of the ownership of the goods. Dispatch of goods is the point of time for sale of Goods. In respect of Service Contracts, the revenue is recognised when a performance obligation is satisfied over a period of time. In the reporting period, the company doesn't have such performance obligations.

c) Interest income recognized using effective interest rate and which is included in Policy 1.14 Income Recognition.

Review shall be made on Accounting Policy of Revenue Reorganization during the current year to incorporate changes as per Ind AS 115.

NFRA Conclusions/Recommendations

a) NFRA observes that the accounting policy stated in respect of a material element of financial statement i.e., Revenue (with corresponding impact on related assets) is erroneously stated in its significant accounting policy. Based on the KIOCL's response actual accounting is different from what is stated in the audited financial statements in many important aspects of recognition and measurement of revenue which has impact on the amount of and timing of revenue recognition by the Company. This kind of erroneous disclosure of accounting policy raises questions over the reliability of the financial statements of the Company.
Therefore, KIOCL is advised to undertake a comprehensive review of the accounting principles actually followed for the financial year 2019-20 vis-a-vis the requirements of applicable Ind ASs and revise and restate its financial statements for the financial year after complying with the provisions of section 131 of the Companies Act, 2013 and Ind AS 8.

b) Paragraph 5.4.1 of Ind AS 109 states that interest revenue shall be calculated by using the effective interest rate method however KIOCL has the policy of recognition of interest on "accrual basis subject to certainty of realization" which is inconsistent with the recognition requirement of Paragraph 5.4.1 of Ind AS 109. Thus, KIOCL has not complied with the Paragraph 5.4.1 of Ind AS 109.

2.1.2 Significant Accounting Policies: Note 1.14 Impairment of financial assets (Also, refer Observation # 2.1.6 below)

Subject Matter of Issue

Accounting policy in the above referred note states that for trade receivables, the Company applies the simplified approach permitted by Ind AS 109 which required expected lifetime losses to be recognized from initial recognition of the receivables and recognises the Expected Credit Loss (ECL).

In Note 5.4, KIOCL has disclosed Outstanding amount Trade Receivables ₹ 12,266.77 lakh comprising the following

(i) Considered Good Secured (Secured by Letter of Credit) - ₹ 8752.74 lakh

(ii) Considered Good Unsecured – ₹ 3,514.03 lakh

NFRA Observation

a) NFRA observes that there is no impairment loss allowance recognised in respect of the above financial assets as required under Ind AS 109, Financial Instruments.

KIOCL Response

There were no impairment allowances based on ECL recognized for trade receivables and of the practical expedient as most of the sales were effective on advance payment/ Letter of credit. For few Central and State government undertaking credit extended considered good and expected 100% recovery. Disclosure for credit impaired including in Note 5.4 copy attached.

NFRA Conclusions/Recommendations

a) KIOCL assumption that the trade receivables backed by Bank's Letters of Credit is inappropriate. Secondly, KIOCL has reported substantial amount (₹ 3,514.03 lakh) of its total trade receivables as unsecured.

Therefore, KIOCL should have assessed the credit risk in a holistic manner including consideration of forecast future conditions. It should be noted that the paragraph B5.5.35 of Ind AS 109, which permits use of practical expedient to apply provision matrix based on past due period, requires adjustment of historical loss factors for changes in the current and future forecast conditions.

Accordingly, KIOCL is advised to reassess its impairment loss allowance for the financial year 2019-20 keeping in mind the underlying principles of ECL approach of Ind AS 109.

b) KIOCL has also not complied with credit risk exposure disclosure of paragraph 35N of Ind AS 107 which requires disclosure of gross carrying amounts based on provision matrix used by the entity.

2.1.3 Note 2 : Significant Estimates

Subject Matter of Issue

In Note 2 Significant Estimates, under the sub-heading "Net Realizable Value and Client demand", it has been stated as follows:

"The Company reviews the net realizable value of and demand for its inventory on a quarterly basis to ensure recorded inventory is stated at the lower of cost or net realizable value and that obsolete inventory is written off."

NFRA Observation

In this respect, NFRA observes that KIOCL has also valued certain inventories at Net Replacement Cost of ₹ 266.73 lakh as of March 31, 2019 (Please refer Note 24.13). It is observed that the language of Note 24.13 is not clear as to whether the valuation of certain inventories at Net Replacement Cost has resulted in charge to Profit and Loss or reversal of previous charge. Hence KIOCL was asked to explain whether there is any subsequent reversal of such write down in FY 2019-20, and if so, to explain the circumstances or events that lead to a reversal of any write down and disclosure thereof with supporting documents.

KIOCL Response

The company submitted that they had valued inventories on net replacement cost (Net Realization Value) or actual cost whichever is less as on 31st March of respective years. If Cost is more than NRV, the difference is charged to Profit and Loss accounts of respective years due to written down value of the inventories. Once Inventory is valued and written down as stated above there is no subsequent reversal. However, in case of Manganese Ore, due to increase in Net realizable reversal made during the financial year 2018-19 and 2019-20 for Rs. 21.31 lakh and Rs. 0.94 lakh respectively and disclosure to that effect provided at Note no. 24.13.

NFRA Conclusions/Recommendations

NFRA observes that the KIOCL has done reversal of Inventories (Manganese ore) during the year as mentioned in negative figure in Note 24.13 ₹ 0.94 lakh FY 2019-20 (₹ 21.31 lakh FY 2018-19). In this respect, disclosure requirement of Paragraph 36 (g) of Indian Accounting Standard (Ind AS) 2, *Inventories* (Ind AS 2) states that:

"36 The financial statements shall disclose:

(g) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34".

NFRA observes that KIOCL has not complied with Paragraph 36(g) of Ind AS 2.

2.1.4 Note 24.20: Other Notes forming part of Financial Statements: Impairment of Assets

Subject Matter of Issue

In the above referred Note relating to impairment of non-financial assets, KIOCL has disclosed as follows

"The Company had intended to restart BFU Operation during the year 2019-20, however due to un-economic price of Pig Iron, Blast Furnace Unit (BFU) could not be operated during the year. The recoverable amount in each class of assets in BFU and other Units are more than the carrying amount. Hence, there is no impairment loss to be recognized during the year."

NFRA Observation

a) It is not clear from the above disclosures as to how the recoverable amount was measured i.e., higher of fair value less costs of disposal and value in use. Further, there is lack of disclosure of information required by paragraph 30 to 53 of Indian Accounting Standard (Ind AS) 36 "*Impairment of Assets*") (Ind AS 36) such as details of computation of value in use such as estimated of future cash flows, basis of estimation of such cash flows, period over which the future cash flows have been estimated, discount rates used, how the estimated future cash flows that are expected to arise from (a) a future restructuring to which an entity is not yet committed; or (b) improving or enhancing the asset's performance are eliminated etc.
b) Also, it not clear whether the impairment loss computations were considered and reviewed by Audit Committee and the Board of Directors (BoD) of the Company as there was no mention of relevant reports being provided to such authorities.

KIOCL Response

Due to uneconomic price of its finished goods, the BFU could not be operated during the year. As the unit was not in operation, the impairment test has been made considering the recoverable amount in each class of assets by engaging a professional valuer. As per the valuation report the recoverable amount of each class of assets is more than the carrying amount. Suitable disclosure already provided.

The information provided to the Board in the 260th meeting held on 06.08.2019. (Copy of the resolution attached.)

NFRA Conclusions/Recommendations

NFRA has examined the response of KIOCL and observes that it has not provided any suitable and adequate evidence such as valuation done by management expert to support the contention that there the recoverable amount of each class of assets is more than carrying amount and therefore no impairment loss is expected.

Paragraph 9 of Indian Accounting Standard (Ind AS) 36, *Impairment of Assets* (Ind AS 36) states that:

"An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset."

Further no supporting documents provided by KIOCL for observations above. Therefore, NFRA concludes that KIOCL has not complied with the requirement of Paragraph 9 & 132 of Ind AS 36 and have not disclosed the information requirement to be presented which helps to take decision by the users of the financial statement.

2.1.5 Note 24.26: Other Notes forming part of Financial Statements- Financial Risk Management

Subject Matter of Issue

In the above-mentioned note, KIOCL has disclosed that Foreign Currency risk is hedged by way of entering into foreign currency forward contracts (Fx Forward Contracts) and disclosed substantial amount of such contracts for FY 2019-20 ₹ 8,382.02 lakh (FY 2018-19 ₹ 4,834.55 lakh).

As per Note 1.4 of Significant Accounting Policies, KIOCL disclosed that "The Company enters into certain forward contracts to hedge foreign exchange risks which are not designated as hedges. Such contracts are accounted for at fair value through Profit or Loss and are included in other gains/ (losses).

NFRA Observation

It is not clear from the presentation and disclosures in the financial statements as to which line item of Balance Sheet the financial assets (unrealised gains) or financial liabilities (unrealised losses) relating to these outstanding Fx Forward Contracts, which are Derivative Financial Instruments within the scope of Ind AS 109, are presented.

KIOCL Response

Gain and Loss on Foreign currency contract accounted on realization, accordingly no unrealized Gain/Loss considered as on 31st March 2020, and 31st March 2019.

NFRA Conclusions/Recommendations

KIOCL's accounting policy for Fx Forward Contracts is erroneous and it is in non-compliance with the classification and measurement requirements of Ind AS 109. As of Balance Sheet Date, outstanding amount of Fx Forward Contracts were ₹ 8,382.03 lakh and as ₹ 4,834.55 lakh as of March 31, 2020 & March 31, 2019, respectively and the KIOCL does not apply Hedge Accounting for these contracts. Fx Forward Contracts meet the definition of Derivative (Refer Appendix A to Ind AS 109) and are therefore, within the scope of recognition and measurement requirements of Ind AS 109. These financial instruments have to be classified as Fair Value through Profit or Loss (FVTPL) and outstanding Fx Forward Contracts shall be measured at fair value with unrealised gain or loss to be recognised in the Statement of Profit and Loss with corresponding recognised as financial asset or financial liability at each Balance Sheet Date. Fx Forward Contracts are Derivative instruments and do not meet the contractual cash flow characteristics conditions in paragraphs 4.1.2(b) and 4.1.2A(b) of Ind AS 109 and cannot be subsequently measured at amortised cost or fair value through other comprehensive income. Therefore, Fx Forward Contracts have to be classified and subsequently measured as Fair Value through Profit or Loss (FVTPL), unless those are part of hedging relationship. According to paragraph 5.7.1 of Ind AS 109, a gain or loss on financial asset or financial liability measured at fair value shall be recognised in profit or loss unless it is part of a hedging relationship.

Therefore, KIOCL should initiate actions to rectify the erroneous accounting policy applied to Fx Forward Contracts in the financial year 2019-20 and 2018-19 and also consider the requirements of paragraphs 41 & 42 of Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

2.1.6 Note 24.26: Other Notes forming part of Financial Statements- Financial Risk Management

Subject Matter of Issue

In Note 24.26 Financial Risk Management, KIOCL has disclosed as follows:

III. Management of Credit Risk: Credit risk is the risk of financial loss to the Company if a customer or counter-party fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers and other receivables. The Company applies prudent credit acceptance policies, performs ongoing credit portfolio monitoring as well as manages the collection of receivables in order to minimize the credit risk exposure. The maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented in the notes to the Financial Statements. The Company's major classes of financial assets are cash and cash equivalents, term deposits and trade receivables. For banks and financial institutions, only high rated banks / institutions are accepted.

Trade Receivables:

Concentrations of credit risk with respect to trade receivables are limited, due to the Company's sales are secured against Letter of Credit and/or Bank Guarantee. Accordingly, Company has assessed that the impact of expected credit loss on receivable to be negligible. **[Emphasis Added]**

NFRA Observation

KIOCL's assumption that the trade receivables supported by Letters of Credit and Bank Guarantees as having negligible credit risk is not justifiable and is not in accordance with letter and spirit of principles and concepts of Expected Credit Loss (ECL) approach for impairment loss recognition and measurement under Ind AS 109, *Financial instruments*. There have been many instances of heightened credit risk due to bank failures in India and abroad. It is important to note that Banks and Financial Institutions also have potential to default on their payment/credit obligations, hence, also pose credit risk to their counterparties.

KIOCL Response

Assumption of negligible credit risk is expected based on past experience. As per our past experience, the company has not experienced any credit risk as supplies are against LCs from reputed International/ scheduled banks.

NFRA Conclusions/Recommendations

Following assumption and approach of KIOCL's regarding credit risk assessment for recognising and measuring the impairment loss under ECL concept of Ind AS 109 is erroneous and it is not in compliance with the underlying principles and concepts of Ind AS 109.

(a) Credit risk is assumed to be negligible based on past experience
(b) Credit risk is assumed to be negligible as the exposure is supported by LCs of reputed International/Scheduled Banks.

According to paragraph 5.5.17 of Ind AS 109, an entity shall measure expected credit losses of a financial instrument in a way that reflects:

(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(b) the time value of money; and

(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, **current conditions and forecasts of future economic conditions**. **(Emphasis Added)**

Further paragraph B5.5.52 of Ind AS 109 states as follows.

Historical information is an important anchor or base from which to measure expected credit losses. **However, an entity shall adjust historical data, such as credit loss experience, on the basis of current observable data to reflect the effects of the current conditions and its forecasts of future conditions that did not affect the period on which the historical data is based, and to remove the effects of the conditions in the historical period that are not relevant to the future contractual cash flows. (Emphasis Added)**

Further, paragraph B5,5.16 of Ind AS 109 states that Credit risk analysis is a multifactor and holistic analysis.

In view of the explicit requirements of Ind AS 109 to consider the forecast future conditions in the recognition and measurement of impairment loss allowances, and not just consider historical loss experience, and the fact that the Banks and Financial Institutions are also subject to possibility of defaulting on their obligations, there is a need to assess the credit risk in holistic manner as required by the prescriptions of Ind AS 109.

Therefore, KIOCL is advised to reassess the impairment loss allowance for the financial year 2019-20 in a holistic manner and taking into account various factors including future forecast conditions and shall consider the engagement of credit risk experts for this purpose.

2.1.7 Note 24.28: Other Notes forming part of Financial Statements- Fair Value Measurements

Subject Matter of Issue

In clause (ii) of the above referred note, KIOCL has reported as follows:

"ii) Fair Value Hierarchy

Management considers that the carrying amount of those financial assets and financial liabilities that are not subsequently measured at fair value, in the Financial Statements are approximate to their fair values.

………………………..

The carrying amounts of trade receivables, trade payables, bank deposits with more than 12 months maturity, capital creditors and Cash and Cash Equivalents are considered to be the same as their fair values.

………………"

NFRA Observation

It is not clear which paragraph of Indian Accounting Standard (Ind AS) 113, *Fair Value Measurement* (Ind AS 113) or Indian Accounting Standard (Ind AS) 109, *Financial Instruments* (Ind AS 109) or Indian Accounting Standard (Ind AS) 107, *Financial Instruments: Fair Value Disclosures* (Ind AS 107) prescribes the above as basis for determining fair value.

KIOCL Response

This statement is based on Para 29 of Ind AS-107.

NFRA Conclusions/Recommendations

Following disclosures of KIOCL regarding fair value measurement disclosures are erroneous and misleading to the users of the financial statements.

(a) Management considers that the carrying amount of those financial assets and financial liabilities that are not subsequently measured at fair value, in the Financial Statements are approximate to their fair values.
(b) The carrying amounts of capital creditors are considered to be the same as their fair values.

Paragraph 29 of Ind AS 107 quoted by KIOCL in support of its disclosure does not support the above assertions and bases for determining the fair value.

"29 Disclosures of fair value are not required:

(a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;

(b) [Refer Appendix 1]

(c) for a contract containing a discretionary participation feature (as described in Ind AS 104) if the fair value of that feature cannot be measured reliably; or

(d) for lease liabilities."

KIOCL is advised to review and correct the incorrect disclosures in its financial statements regarding description and bases of fair value measurement.

2.2 PART B: OBSERVATIONS OF NFRA ON THE FINANCIAL STATEMENTS OF KIOCL LIMITED CLASSIFIED AS MODERATE IMPACT

2.2.1 Note 5.4 Trade Receivables

Subject Matter of Issue

Paragraph 119(b) of Indian Accounting Standard (Ind AS) 115, *Revenue from Contracts with Customers* (Ind AS 115) requires the entity to disclose "the significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56–58)'.

NFRA Observation

NFRA observes that in Note 5.4 Trade Receivables, KIOCL has not disclosed whether trade receivables of the company have significant financing component or not and what are the general terms of payment (for example 30 to 90 days etc.). Also, it is not clear how the KIOCL distinguishes between trade receivables with significant financing component and those without significant financing component.

KIOCL Response

Most of the sales were made against advance payment/ Letter of credit (LC), except for few Central and State government undertaking and credit extended were considered good and expected 100% recovery. Disclosure towards credit risk included at Note No. 24.26(iii). Again, review shall be made during the current year for additional disclosure, if any.

NFRA Conclusions/Recommendations

NFRA has examined the response of KIOCL with reference to paragraph 119(b) of Ind AS 115, which requires the entity to disclose "the significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56–58)".

NFRA observes that KIOCL has not complied with the disclosure requirement of Paragraph 119(b) of Ind AS 115.

2.2.2 Note 24.1: Other Notes forming part of Financial Statements- Capital Commitment and Contingent/Disputed Liability

Subject Matter of Issue

In the above referred note, KIOCL has disclosed certain information about the company's Capital Commitment and Contingent/Disputed Liability. In particular, it has disclosed the total amount of ₹ 65,549.29 Lakh as contingent liabilities under the heading Claims against the Company not acknowledged as debt. The break up this amount is as follows.

On Revenue Account ₹ 50,563.14 lakh

On Capital Account ₹ 14,986.15 lakh

It has given brief description of the contingent liabilities for amounts totalling approx. ₹ 42,485.11 lakh (11,057.62+5,848.31+60.77+440.32+192.96+59.82+14,463.93+10,361.38) only.

In this respect, Paragraph 86 of Indian Accounting Standard (Ind AS) 37, *Provisions, Contingent Liabilities and Contingent Assets* (Ind AS 37) requires that "Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:

(a) an estimate of its financial effect, measured under paragraphs 36–52;
(b) an indication of the uncertainties relating to the amount or timing of any outflow; and
(c) the possibility of any reimbursement."

KIOCL Observation

NFRA observes that in Note 24.1, KIOCL has not disclosed the brief description of the nature of contingent liabilities amounts presented as required by paragraph 86 of Ind AS 37 in respect of substantial amount of contingent liabilities.

KIOCL Response

The Company has made disclosure of contingent Liabilities against Income Tax, Excise duty, Service Tax, Outstanding letter of credit and bank guarantee and claims against the company not acknowledge as debts on revenue account and capital account. Item wise debts not acknowledge on revenue account and capital account has not been disclosed due to practical expedient.

NFRA Conclusions/Recommendations

NFRA has examined the response of KIOCL and observes that KIOCL has not adequately complied with the disclosure requirements of Ind AS 37 i.e., it has not disclosed the brief description of the nature of contingent liabilities amounts presented. Only mentioning the major head of liabilities does not suffice, therefore is in non-compliance of Paragraph 86 of Ind AS 37.

2.2.3 Note 24.6: Other Notes forming part of Financial Statements

Subject Matter of Issue

In the above referred note, KIOCL has made certain disclosure regarding Plant Property & Equipment (PPE) as follows.

"Plant Property & Equipment (PPE) includes land measuring 114.31 Hectares located on Kudremukh wherein the Mining operation was w.e.f. 01/01/2006 on the order of Hon'ble Supreme Court. The land neither qualify for Investment Property (Ind AS 40) as it is not being held for capital appreciation and nor qualify for Asset held for sale (Ind AS 105). The decision on land is pending with Central Empowered Committee.

The Company has adopted Indian Accounting Standard (Ind AS) as notified by the Ministry of Corporate Affairs with Effect from April 1, 2016 with transition date of April 1, 2015. As per provision of Ind AS 101, the Company continues with carrying value for all of its "Property, Plant and Equipment" as recognized in the Financial Statements as on the date of transition to Ind As, measured as per the IGAAP and use that as deemed cost as at the date of transition after making necessary adjustments for the commissioning liabilities."

NFRA Observation

It is unclear as to the objective behind this disclosure. Also, there is absence of any quantitative disclosure regarding the impact of this on the financial statements of the Company.

NFRS further observes that the disclosure is not clear in respect of it considering the land as disputed matter, how KIOCL has determined value of land and related plant and machinery as far as depreciation and impairment of PPE are concerned? Is this not a significant estimate required to be disclosed in Note? Also, whether KIOCL has considered the impairment of PPE as per Ind AS 36?

KIOCL Response

Disclosure has been made for more clarity to classify the carrying value under PPE as mining activities stopped in Kudremukh from 01.01.2006 and is relevant only for the understanding of users of the financial statements and there is no non-compliance with the Ind AS requirements.

There is no dispute as to tittle of the company on the lands. In pursuance of the order of Honourable Supreme Court, mining activities were stopped w.e.f. 01.01.2006 at Kudremukh. Company owned land 114.31 Hectares required to be surrendered as per the decision of the Central Empowered Committee (CEC). PPE installed on the above land has been depreciated fully, keeping carrying value at the rate of Rs. 1 each and value of land at the book value as management expects to get the book value at the time of surrendering the land to the Govt. There is no significant change in estimate and no impairment loss expected as per Ind AS 36.

NFRA Conclusions/Recommendations

NFRA has examined the response of KIOCL and observes in the absence of the any quantitative information about the carrying amount, fair value of the land, recoverable value or impairment loss, if any, in respect this PPE in the form of land which is presently idle, financial impact of the above on the financial statements of the KIOCL is not ascertainable. The disclosure is ambiguous and appears to obscure relevant and material information, therefore, the information mentioned in the Note 24.6 does not help the users with such attributes that could reasonably be expected to be influenced in making economic decisions.

Further KIOCL has not provided any valuation done by management to support the contention that there is no significant change in estimate and no impairment loss is expected. Paragraph 9 of Indian Accounting Standard (Ind AS) 36, *Impairment of Assets* (Ind AS 36) states that:

"An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset."

NFRA concludes that KIOCL has not adhered with the requirement of Paragraph 9 of Ind AS 36 and have not disclosed the information requirement to be presented which helps to take decision by the users of the financial statement.

2.2.4 Note 24.26: Other Notes forming part of Financial Statements-Financial Risk Management

Subject Matter of Issue

In the above referred note, as part of the disclosure related to management of liquidity risk, KIOCL has presented a table disclosing maturity analysis of the company's financial liabilities based on contractually agreed undiscounted cash flows as at the Balance Sheet date. This table includes an item in the name of lease liability of amount ₹ 12,381.42 lakh.

Paragraph 39 of Indian Accounting Standard (Ind AS) 107, *Financial Instruments: Disclosures* (Ind AS 107) requires that an entity shall disclose:

(a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.
(b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B).
(c) a description of how it manages the liquidity risk inherent in (a) and (b).

Para B11D of Ind AS 107 explains that "The contractual amounts disclosed in the maturity analyses as required by paragraph 39(a) and (b) are the contractual undiscounted cash flows, for example:

(a) gross finance lease obligations (before deducting finance charges);
(b) prices specified in forward agreements to purchase financial assets for cash;
(c) net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;
(d) contractual amounts to be exchanged in a derivative financial instrument (e.g., a currency swap) for which gross cash flows are exchanged; and
(e) gross loan commitments.

Such undiscounted cash flows differ from the amount included in the balance sheet because the amount in balance sheet is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

NFRA Observation

It is unclear whether the above amount reported in Note 24.26 under the sub-heading Lease Liability is present value of future lease payments or gross value of future lease payments.

KIOCL Response

The amount reported in Note 24.26 under the sub- heading "Lease Liability" is present value of future lease payments.

NFRA Conclusions/Recommendations

KIOCL has accepted the observations of NFRA. Disclosure should be of maturity analysis of the company's financial liabilities based on contractually agreed **undiscounted cash flows** as at the Balance Sheet date. NFRA observes that KIOCL's disclosure is erroneous and is not in accordance with the disclosure requirement Paragraph B11D of Ind AS 107.

2.2.5 Note 5.3: Investment & Note 24.28: Other Notes forming part of Financial Statements - Fair Value Measurements

Subject Matter of Issue

In Note 5.3, KIOCL has disclosed an amount ₹4,230.89 lakh as investments in liquid mutual funds as of March 31, 2019, which qualifies as financial asset within the scope of recognition and measurement requirements of Ind AS 109 *Financial Instruments* and disclosure requirements Ind AS 107 and Ind AS 113. Further, in Note 24.28 the KIOCL has disclosed measurement category-wise carrying amounts of various financial assets and financial liabilities. In this Note 24.28 all the items of financial assets and financial liabilities are reported under Amortised Cost Measurement category including the above-mentioned investments in Liquid Mutual Funds of ₹ 4,230.89 lakh as on March 31, 2019.

Para 4.1.2 of Ind AS 109 *Financial Instruments* requires that "A financial asset shall be measured at amortised cost if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding."

NFRA Observation

NFRA observes that based on the KIOCL's disclosures, it has erroneously classified and measured investments in liquid mutual funds at Amortised Cost. However, these investments do not meet the cash flows characteristics conditions in paragraphs 4.1.2(b) and 4.1.2A(b) of Ind AS 109 and cannot be subsequently measured at amortised cost or fair value through other comprehensive income. Therefore, investments in liquid mutual funds have to be classified and subsequently measured as Fair Value through Profit or Loss (FVTPL). Accordingly, the classification and measurement for investments in liquid mutual funds at amortised cost is not compliance with the requirements of Ind AS 109 for the financial year March 31, 2019. Although, there were no such investments as of March 31, 2020 and these were sold during the financial year 2019-20, the erroneous measurement of investments as of previous financial year end will have impact on the gain/loss recognised during the financial year 2019-20 on account of sale of these investments.

KIOCL Response

As on 31st March 2020, there was no investment. The previous year balance alone has been regrouped from cash and cash equivalent to Current Investments. Being Liquid Mutual Funds are traded at Active Market for which NAVs available. Hence, it has been categorized as Level-1 in the Fair Value measurement hierarchy. As already explained, it was only a reclassification during the year and since the balance outstanding at the reporting date was nil, the fair value measurement disclosure was not made.

NFRA Conclusions/Recommendations

NFRA examines the response of KIOCL and is it advised to re-examine the classification and measurement of financial instruments in the form of investment in liquid mutual funds and ensure compliance with the requirements of Ind AS 109. Errors/omissions, if any, found should be corrected in accordance with paragraph 41 & 42 of Ind AS 8 and the same shall be informed to NFRA.

In response to classification of investment in Level I/II/ III category, KIOCL has submitted that it has been categorized as Level 1 in the Fair Value. In this respect, NFRA observes that the disclosure made in Note No. 24.28 that "During the year there are no financial instruments which are measured at Level 1 and Level 2 category." Does not support the KIOCL view. Note is silent for Previous Year disclosure. Therefore, KIOCL is advised to correct the error in its disclosures relating to fair value hierarchy of financial instrument.

2.2.6 Note 24.36: Other Notes forming part of Financial Statements

Subject Matter of Issue

In the above referred Note regarding the going concern assessment, KIOCL has mentioned that "The Company has made detailed assessment of impact of COVID-19 on its liquidity position for a period of at least one year from the Balance Sheet date…..".

NFRA Observation

Paragraph 25 of Ind AS 1 requires that the Company's management shall make an assessment of an entity's ability to continue as a going concern. Paragraph 26 of Ind AS 1 provides guidance on assessment of going concern and requires the Companies', in some cases, to consider range of factors apart consideration of history of profitable operations, to satisfy itself that the preparation of financial statements on going concern assumption is appropriate. NFRA observes certain adverse factors which indicated a need for detailed assessment by KIOCL's assessment about its ability to continue as going concern. The adverse factors observed were Negative net cash flows from operating activities in last 3 years of ₹2,175.92 lakh negative (FY 2018-19 ₹12,626.89 lakh negative, and FY 2017-18 ₹9957.74 lakh negative), reduction of Net worth in FY 2019-20 as compared to FY 2018-19 and Write-down of inventories to Net Realisable Value (NRV) as of March 31 March, 2020 & 31 March, 2019. While the above referred note states that a detailed assessment was made in the context of COVID-19 with regard to liquidity position, the disclosure did not provide adequate details of the Company's going concern assessment and also whether the assessment was subjected to a review by the Audit Committee or Board of Directors.

KIOCL Response

Detail assessment has been made for COVID -19 impact on assets and liabilities as on the balance sheet date. As there was no material impact or adjustment in the financial statement, the matter has not been presented to the Audit Committee or Board. A disclosure to that effect has been made at Note No. 24.36 as part of annual accounts for the year presented before the Audit committee for the recommendation to the Board. During the year the Company has paid Dividend for the year 2018-19 including DDT there on for Rs. 9,971.92 lakh which has resulted in reduction in Net Worth and has no Impact on the going concern.

The Company had an increase in cash from operating activities during the year 2019-20 by Rs. 10,450.97 as compared to previous year. The company's product is highly volatile and the price is fixed on the international market. The valuation of inventories made based on the net realizable value or cost. Due to the volatility in the price of our finished goods as at the closing date of the financial year valued at NRV instead of Cost which is temporary in nature. In the past four years (2017-18 to 2020-21) during the year 2019-20 valued at NRV and balance three years at the cost.

In view of the above Negative cash flow from the operative activities and Valuation of Inventories at NRV has no adverse on-going concern as per our assessment. The company has a comfortable liquidity position and has been consistently making profits due to the income earned from the investments. The company had brought back it shares during the year 2018-19 for a sum of Rs.21,400 lakh and has been consistently paying dividend. The company's further plans are described in the Board of Directors report.

NFRA Conclusions/Recommendations

NFRA has examined the response of the KIOCL with reference to the requirements of Paragraph 25 & 26 of Ind AS 1 and observes that KIOCL has not provided any document to NFRA to enable NFRA to examine whether sufficient assessment was carried out by the Company of its ability to continue as going concern and appropriateness of the preparation of the financial statements on going concern in the context of adverse indicator including the likely effect of unexpected global pandemic viz. COVID 19. Further, the Company has not presented any evidence such as presentation or other specific and adequate information provided to Audit Committee or Board of Directors to make an informed and well considered decision by such governing bodies. Therefore, there is no evidence that the company has assessed suitability of preparation of financial statements on going concern basis as required under Paragraph 25 & 26 of Ind AS 1 and has not been complied with.

2.2.7 Note 24.39: Other Notes forming part of Financial Statements

Subject Matter of Issue

Above referred note states that Previous Year's figures have been regrouped/reclassified/re-casted wherever necessary to confirm to current year's presentation.

NFRA Observation

NFRA observes that there are no details of the regroupings/ reclassification/ re-casting made to enable the users of the financial statements to understand the impact of the above reclassifications and regroupings. Also, it is not clear whether these reclassifications and regroupings were due to correction of prior period errors as defined in Indian Accounting Standard (Ind AS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors* (Ind AS 8) and whether these errors needed any restatement of amounts as required by Paragraph 42 of Ind AS 8 or the reclassifications due to changes in the presentation/classification of items under paragraph 41 of Ind AS 1.

KIOCL Response

The details are as below

Balance Sheet:

(₹ in lakh)

Particulars	2018-19 (Reclassified)	2018-19
Investment	4,230.90	-
Cash and Cash Equivalents	51,519.44	55,750.33

Profit and Loss:

(₹ in lakh)

Particulars	2018-19 (Regrouped)	2018-19
Consumable Stores Spares & Additives	8,807.40	-
Direct Cost towards Service Contracts	192.94	-
Other Expenses	6,578.85	15,579.19

This regrouping/reclassification made as stated above were not account of prior period errors but regrouping made for better presentation.

NFRA Conclusions/Recommendations

NFRA has examined the response of the KIOCL in context of paragraph 41 of Ind AS 1 which is mentioned below:

Paragraph 41 requires that:

"If an entity changes the presentation or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is impracticable. When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period):

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification."

Therefore, KIOCL has not made disclosure as per the requirement of Paragraph 41 of Ind AS 1.

2.2.8 Significant Accounting Policies- Note 1.7: Income Tax

Subject Matter of Issue

Above referred accounting policy (Note 1.7) contains the following policy regarding deferred income tax:

"Deferred Income Tax is provided in full using the **liability method**, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements…..". **[Emphasis Added]**

NFRA Observation

KIOCL's use of 'Liability Method' for accounting deferred tax assets and deferred tax liabilities is unclear, ambiguous and appears inconsistent with the accounting required under Indian Accounting Standard (Ind AS) 12, *Income Taxes* (Ind AS 12).

KIOCL Response

The Company follows deferred Income tax using balance sheet method. Inadvertently mentioned as "Liability Method" in the policy. The same shall be rectified during current FY 2021-22.

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the error in disclosure in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of error along with the corrected financial statements for the FY 2021-22.

2.2.9 Significant Accounting Policies- Note 1.11. Trade Receivables

Subject Matter of Issue

The above referred note states the company's accounting policy for initial measurement of trade receivables as follows.

"Trade Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment."

NFRA Observation

NFRA observes that the accounting policy for initial measurement of financial asset in the form of Trade Receivables is incorrect and contrary initial measurement requirements of paragraph 5.1.3 read with paragraph 5.1.1 of Indian Accounting Standard (Ind AS) 109, *Financial Instruments* for Trade Receivables.

Paragraph 5.1.1 "Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability."

Paragraph 5.1.3 "Despite the requirement in paragraph 5.1.1, at initial recognition, an entity shall measure trade receivables at their transaction price (as defined in Ind AS 115) if the trade receivables do not contain a significant financing component in accordance with Ind AS 115 (or when the entity applies the practical expedient in accordance with paragraph 63 of Ind AS 115)."

KIOCL Response

It is submitted that the company is recognizing trade receivables at transaction price. The nomenclature of "fair value" in the accounting policy will be corrected in the subsequent financial statements Review shall be made during the current year for suitable changes in line with Accounting Standards.

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the error in disclosure in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of error along with the corrected financial statements for the FY 2021-22.

KIOCL is also advised to refer observation in Part A of FRQR regarding comprehensive re-examination of its accounting policy for revenue recognition and revision/restatement of the financial statements.

2.2.10 Note 16: Other Income

Subject Matter of Issue

In the above referred Note, KIOCL has disclosed Interest income on 'others valued at amortised cost' of ₹403.06 lakh (FY 2018-19 ₹331.77 lakh). In this amount, interest on income tax refund has been included, which does not relate to an asset that is not within the scope amortised cost measurement under Ind AS 109.

NFRA Observation

NFRA observes that there is incorrect presentation and grouping of interest income on assets not subject to amortised cost measurement.

KIOCL Response

KIOCL has provided breakup of Interest income in which Interest against income tax refund was ₹ 298.07 lakh.

NFRA Conclusions/Recommendations

KIOCL is advised to rectify the incorrect presentation or grouping of interest income on tax refunds.

2.2.11 Note 24.34: Other Notes forming part of Financial Statements

Subject Matter of Issue

In the above referred Note, it is stated as follows:

"During the year certain items of income and expenditure pertaining to earlier years which do not have any materiality, has been considered as current year Income and expenditure and classified under respective head of accounts."

NFRA Observation

Explanatory notes and disclosures regarding items/aspects that are not material should be avoided otherwise, it may obscure the importance of other material information which will be against the underlying principles of Ind AS.

It is not clear which line or sub-line items in the financial statements are impacted by the above disclosure. As a result, it is incomplete and ambiguous disclosure to the users of the financial statements.

KIOCL Response

Income and expenditure pertaining to earlier years has not been considered for prior period due to materiality and considered as the current year Income and Expenditure respectively, accordingly suitable disclosure made. While calculating the materiality, the combination of both size and nature has been considered.

NFRA Conclusions/Recommendations

NFRA observes that presentation and disclosures in the financial statements shall neither give potential for obscuring the material information nor should they contain disclosures that are incomplete or ambiguous. Therefore, KIOCL is advised to avoid the inclusion of explanatory notes about items/aspects that are immaterial and my give rise to ambiguity.

2.2.12 Significant Accounting Policies: Note 1.14 (iii) Fair Value through Profit or Loss:

Subject Matter of Issue

Accounting policy in the above referred note mentions only about debt instruments. It is silent in respect of other type of financial instruments.

NFRA Observation

Please explain the classification and measurement policy for derivatives. Since the company has substantial amounts of derivatives ₹ 8,382.09 lakh (FY 2018-19 ₹ 4,834.55 lakh) in the form of FC Forward Contracts, it is not clear and apparent as to the accounting policy applied for Fx Forward Contracts.

KIOCL Response

Accounting policy towards the derivatives disclosed at Note No 1.4(b) transaction and balances as follows …..

"Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognized in Profit or Loss.

The Company enters into certain forward contracts to hedge foreign exchange risks which are not designated as hedges. Such contracts are accounted for at fair value through Profit or Loss and are included in other gains/(losses)."

NFRA Conclusions/Recommendations

NFRA observes that the KIOCL has incorrectly included the accounting policy for Fx Forward Contracts in Note 1.4.(b) relating to Foreign Currency Translation which is the subject matter of Ind AS 21, *The Effects of Changes in Foreign Exchange Rates* (Ind AS 21).

Fx Forward Contracts are derivative financial instruments within the scope of Ind AS 109, Financial Instruments, therefore, accounting policy relevant to these financial instruments should have been included in Note 1.14 where the accounting policies relating to various items within the scope of Ind AS 109 have been included.

Current practice of KIOCL on disclosure of accounting policy for Fx Forward Contracts is misleading to users of the financial statements as the scope and prescriptions of Ind AS 21 are different from that of Ind AS 109 applicable to financial instruments of various types.

KIOCL is advised to correct the inappropriate location of disclosure of accounting policy for Fx Forward Contracts.

2.2.13 Cash Flow Statement: Cash flow from Operating Activities

Subject Matter of Issue

Paragraph 35 of Indian Accounting Standard (Ind AS) 7, *Statement of Cash Flows* (Ind AS 7) requires that "Cash flows arising from **taxes on income** shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. **[Emphasis Added]**

NFRA Observation

NFRA observes that KIOCL has not disclosed "Taxes Paid (net of refunds)" as a separate line item within cash flows from operating activities.

KIOCL Response

During the year 2019-20 Direct Tax paid (Net of Refund) was ₹ 1,090.08 lakh, the same has been clubbed under the head Increase/(Decrease) in trade and other payable (₹ 1,419.02 lakh) while calculating cash flow from operating activities.

However, Taxes paid (net of refund) has been disclosed as separate line item within Cash flows from operating activities in the subsequent financial year i.e., 2020-21.

NFRA Conclusions/Recommendations

NFRA concludes that that KIOCL has not complied with the requirements Paragraph 35 of Ind AS 7 in the financial statements of the reporting period 2019-20. However, it has corrected the error in its financial statements of subsequent year. KIOCL is advised to avoid recurrence of such errors in future.

2.2.14 Statement of Changed in Equity (SOCIE)

Subject Matter of Issue

KIOCL has presented Statement of Changed in Equity (SOCIE) in Single Note and it has certain errors/omissions mentioned below.

a) Paragraph 10 of Indian Accounting Standard (Ind AS) 1, *Presentation of Financial Statements* (Ind AS 1) mentions the components that comprise of a complete set of financial statements and sub-paragraph (a) of paragraph 10 of Ind AS 1 requires the companies to present SOCIE as part of the Balance Sheet of the Company. Further, general instructions for preparation of Financial Statements of a Company contained in Division II of Schedule

III to the Companies Act, 2013, requires the below mentioned disclosure in respect of SOCIE:

"Name of the Company…….

Statement of Changes in Equity for the period ended ....

A. Equity Share Capital

Balance at the beginning of the reporting period

Changes in equity share capital during the year

Balance at the end of the reporting period

B. Other Equity

Please refer to website of Ministry of Corporate Affairs (http://ebook.mca.gov.in) for detailed table required to be presented in this head.

b) As per Paragraph 79(b) of Ind AS 1, a description of the nature and purpose of each reserve within equity shall be disclosed in the Notes.

NFRA Observation

NFRA observes that KIOCL has not complied with the below mentioned requirements of Ind AS 1 and Division II of Schedule III to the CA, 2013:

a) KIOCL has not bifurcated the Statement of Changes in Equity into A. Equity Share Capital; and B. Other Equity.
b) Name of "Equity Share Capital" is incorrectly disclosed as "Share Capital".
c) A description of the nature and purpose of each reserve within equity not disclosed in the Notes as required by para 79 (b) of Ind AS 1.

KIOCL Response

a) The bifurcation into Equity share capital and other equity will be considered during the current year.
b) The Company has only one Share Capital i.e Equity Share Capital the same has been disclosed in the Balance Sheet and in Notes under Note No. 10. During the current year the same shall be disclosed as Equity Share Capital.
c) The Company has only two Reserves. One is Capital Redemption Reserve in terms of section 69 of Companies Act 2013 and the other is General Reserve. The same have been disclosed under Note No. 11. Review shall be made for further description of nature of reserve in subsequent year.

NFRA Conclusions/Recommendations

NFRA observes that KIOCL has not complied with the presentation and disclosure requirements of Paragraph 10, and 79(b) of Ind AS 1. The Company has agreed to correct the errors in the financial statements of subsequent financial year. Therefore, the Company is advised to confirm the correction of error along with the corrected statements for the FY 2021-22.

2.2.15 Notes the Financial Statements: Background

Subject Matter of Issue

Paragraph 17 of Indian Accounting Standard (Ind AS) 10, *Events after the reporting period* (Ind AS 10) states that "An entity shall disclose the date when the financial statements were approved for issue and who gave that approval. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact."

Further Paragraph 18 of Ind AS 10 states that "It is important for users to know when the financial statements were approved for issue, because the financial statements do not reflect events after this date."

NFRA Observation

NFRA observes that the Company has not complied with the disclosure requirements of Paragraph 17 & 18 of Ind AS 10.

KIOCL Response

Financial Statement has been approved by the Board on 25.06.2020 and disclosure to that effect was made in each of the financial statement (Balance Sheet, Statement of Profit and Loss, Statement of Cash flow and Statement of Change in Equity) and Significant accounting policy and Note to Accounts.

We are under the mistaken impression that, the date of approval of the Board of Directors and authentication by the Directors constitute appropriate disclosures. We shall make suitable disclosures in the subsequent financial statements.

NFRA Conclusions/Recommendations

NFRA observes that KIOCL has not complied with the disclosure requirements of Paragraph 17 & 18 of Ind AS 10.

The Company has agreed to correct the error in financial statements of subsequent financial year. Therefore, the Company is advised to confirm the correction of error along with the corrected statements for the FY 2021-22.

2.2.16 Note 5.3 : Investment

Subject Matter of Issue

NFRA observes that in Note 5.3 "Investment" KIOCL disclosed Liquid Mutual Fund of ₹4,230.89 lakh as of March 31, 2019.

Para 6 (B)(II)(ii) Division II of Schedule III of General Instructions for Preparation of Balance Sheet which requires the following shall also be disclosed:

(a) Aggregate amount of quoted investments and market value thereof;
(b)Aggregate amount of unquoted investments;
(c) Aggregate amount of impairment in value of investments,

NFRA Observation

NFRA observes that KIOCL has not complied with the disclosure requirement of Paragraph 6 (B)(II)(ii) Division II of Schedule III of General Instructions for Preparation of Balance Sheet.

KIOCL Response

The Company has only made Investments in SEBI regulated Liquid Mutual Fund and such Investments were classified under Cash and Cash Equivalent up to 2018-19. During the year

2019-20, the same has been reclassified as "Current Investments" based on the expert opinion consequent to C&AG observations. (Kindly refer Note No.24.14- Copy Enclosed).

The disclosure as per Para 6 (B)(II)(ii) Division II of Schedule III of General Instructions of Balance Sheet shall be incorporated from current year. (FY 2021-22).

NFRA Conclusions/Recommendations

NFRA observes that KIOCL has not complied with disclosure requirement of Paragraph 6 (B)(II)(ii) Division II of Schedule III of General Instructions for Preparation of Balance Sheet. (Refer separate observation on incorrect classification and measurement of this financial instrument).

KIOCL has agreed to correct the error in financial statements of subsequent financial year. Therefore, the Company is advised to confirm the correction of error along with the corrected statements for the FY 2021-22.

2.2.17 Note 7.a : Inventories & Note 24.13 : Other Notes forming part of Financial Statements - Inventories

Subject Matter of Issue

a) Mode of Valuation of Inventories

KIOCL has disclosed the following inventories in Note 7.a:

(a) Raw Material
(b) Work in progress
(c) Finished Goods
(d) Stores and Spares
(e) Consumables and Additives

b) Valuation of Inventories

In Note 24.13 KIOCL has stated that it has valued certain inventories on "net replacement cost" as a measure of Net Realisable Value (NRV) as per the requirement of Paragraphs 9 and 32 of Indian Accounting Standards (Ind AS) 2, *Inventories* (Ind AS 2).

NFRA Observation

a) NFRA observes that KIOCL has not mentioned as to which class of inventories are valued at which method of inventory measurement in the above referred note.

For Example: whether Raw Material/ Work in progress/ Finished Goods/ Stores and Spares/ Consumables and Additives are Valued at Cost or Net Realisable Value is not disclosed and this lack of disclosure is non-compliance with the requirement of Para 6 (B)(I)(iii) Division II of Schedule III of General Instructions for Preparation of Balance Sheet which requires that "Mode of Valuation shall be stated". The Disclosure is required for each class of inventories.

b) NFRA observes that valuation method in respect of inventory of Raw Materials is not adequately and clearly disclosed in Note 1.12 of Significant Accounting Policies.

c) Inadequate and lack of systematic cross referencing: (page 103 & 115 of Annual Report of KIOCL for 2019-20)

i. Subject Matter of Issue

Paragraph 113 of Indian Accounting Standard (Ind AS) 1, *Presentation of Financial Statements* (Ind AS 1) requires that “An entity shall present notes in a systematic manner. An entity shall cross-reference each item in the balance sheet and in the statement of profit and loss, and in the statements of changes in equity and of cash flows to any related information in the notes”.

NFRA Observation

NFRA observes that KIOCL in Note 24.13 has disclosed certain information about the use of Net Replacement Cost as NRV for valuation of certain items of inventories. Further, it has disclosed in Note 7.a carrying amount of various category of inventories with. However, there is no proper cross referencing between these two notes and in Note 7.a there is no description/explanation of valuation of certain items of inventories at Net Replacement Cost except an ambiguous disclosure of ‘As valued and certified by the Management’. This kind of piecemeal disclosure in multiple places does not meet the underlying principles of paragraph 113 of Ind AS 1.

ii. Subject Matter of Issue

Note 7.a: Inventories has following disclosure “As valued and certified by the Management”

NFRA Observation

It is unclear as to the purpose of disclosure and this kind of disclosures confuse the users of financial statements and create doubts and dilute the reliability of the independent audit assurance on the financial statements.

KIOCL Response

a) It is clearly stated on the method of valuation of inventories at Note 1.12 of Significant Accounting Policies. As per which, “*Stock of Finished good namely Pellets and Pig Iron and semi-finished goods are valued at lower of cost and net realizable value………………. Raw materials including Materials in transit, Stores & Spares, Consumables and Additives are valued at lower of cost and net realizable value……… ”.*

However, observation on requirement of disclosure of each class of inventories separately is noted for future compliance.

b) Valuation of Inventories.

In accordance with Note 1.12 of Significant Accounting Policies on valuation of Inventories, at Note 24.13, the details of difference in value of NRV and Cost price of Raw materials and Additives viz., Iron Ore Fines, Furnace Oil and Manganese ore charged off to Profit and Loss during the year was disclosed.

c) **i.** It is submitted that the classification of Inventories is given in Note No.7 to the Financial Statement. The Accounting policies clearly brings out the Mode of the valuation of inventories in line with Ind AS-2. Note No.24.13 pertains to a disclosure regarding amount charged to Statement of Profit and Loss of the effect of measuring in the NRV. Cross reference between the Notes on the same subject matter has been noted for better disclosures in subsequent year.

ii. "As valued and certified by the Management" has been consistently practiced by the management, which will be removed in the subsequent financial statements from FY 2021-22.

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the inadequacy of disclosure of valuation method for each class of inventory in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of error along with the corrected statements for the FY 2021-22.

However, KIOCL should disclose the cross referencing between the notes and related information to help the user of the financial statement to understand it better. If some inventories are valued at Cost and some at Net Realisable Value, then KIOCL should disclose explicitly and unambiguously the fact in the notes to account for better understanding.

Further the disclosure that "As valued and certified by the Management" is not in accordance with Ind AS and therefore should be avoided. KIOCL has agreed to correct this ambiguous disclosure in the financial statements of subsequent year. Therefore, the Company is advised to confirm the removal of this ambiguous disclosure along with the corrected statements for the FY 2021-22.

2.2.18 Note 7.a : Inventories

Subject Matter of Issue

Paragraph 36(e) of Ind AS 2 requires disclosure about "the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 34"

Paragraph 34 of Ind AS 2 requires "when inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. **The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occur.** The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs." **[Emphasis added]**

NFRA Observation

NFRA observes that KIOCL has not disclosed in Note 7.a the amount of write down of Finished Goods inventories due to valuation of Finished Goods at Net Realisable Value, if any. This is non-compliance with disclosure requirements of paragraph 36(e) of Ind AS 2.

KIOCL Response

During the year, the finished goods were valued at net realizable value as stated above. Disclosure towards the valuation of finished goods for NRV and its impact shall be given in subsequent year financial statement.

NFRA Conclusions/Recommendations

NFRA observes that KIOCL has not complied with the disclosure requirement of Paragraph 36(e) of Ind AS 2 w.r.t disclosure of write down of Finished Goods due to valuation of Finished Goods at Net Realisable Value.

KIOCL has agreed to correct the inadequacy of disclosure of in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of error along with the corrected statements for the FY 2021-22.

2.2.19 Note 14: Other Current Liabilities

Subject Matter of Issue

In the above referred Note, KIOCL has disclosed an item under sub-head 'other' of ₹200.34 Lakh (FY 2018-19 ₹125.85 lakh).

Paragraph F (III) (c) of 'General instructions for preparation of Balance Sheet' of Division II of Schedule III required an entity to specify the nature of other liabilities as 'Other (specify nature)'.

NFRA Observation

NFRA observes that there is non-compliance with the disclosure requirements of Paragraph F (III) (c) of 'General instructions for preparation of Balance Sheet' of Division II of Schedule III to the Companies Act 2013.

KIOCL Response

Under Note 14 Liabilities against specific heads has been disclosed and other minor head liabilities has been clubbed to reduce line item in Notes. However, during the current year, the same shall be reviewed and will be incorporated accordingly.

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the inadequacy of disclosure of in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of error along with the corrected statements for the FY 2021-22.

2.2.20 Note 18: Employee Benefit Expenses

Subject Matter of Issue

As part of the above note, KIOCL has disclosed an item as contribution towards other superannuation benefits of ₹927.46 lakh for FY 2019-20.

Paragraph 135 of Indian Accounting Standard (Ind AS) 19, *Employee Benefits* (Ind AS 19) requires that "An entity shall disclose information that:

(a) explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 139);
(b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 140–144); and
(c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 145–147)."

In Note 18, KIOCL has mentioned "Contribution towards other Superannuation Benefits" of ₹927.46 lakh for FY 2019-20; the previous year figure show "Nil".

NFRA Observation

NFRA observes that there is no disclosure made in the notes to accounts to explain the nature of 'other superannuation benefits' (additional information), absence of which does not provide adequate information to users of the financial statement to make the decisions on the basis of financial statements and in non-compliance of Para 135 of Ind AS 19.

KIOCL Response

The other superannuation benefits are defined contributory pension scheme and defined contributory post-retirement medical scheme. Both the schemes are defined contribution plan, accordingly separate disclosure as per paragraph of Ind AS 19, not provided. Review with respect to disclosure shall be made in the current year.

NFRA Conclusions/Recommendations

NFRA observes that KIOCL has not complied with the disclosure requirement of Paragraph 135 of Ind AS 19.

KIOCL has agreed to correct the inadequacy of disclosure of in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of disclosure inadequacy along with the financial statements for the FY 2021-22.

2.2.21 Note 21: Tax Expense

Subject Matter of Issue

Paragraph 81(C) of Indian Accounting Standard (Ind AS) 12, *Income Taxes* (Ind AS 12) requires an entity to disclose separately an explanation of the relationship between tax expense (income):

(i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or

(ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed;

NFRA Query

NFRA observes that KIOCL has not complied with the disclosure requirement Para 81(c) of Ind AS 12.

KIOCL Response

The Company has exercised the option to pay tax under section 115BAA of Income Tax Act, 1961 (Tax rate 22% plus surcharge and cess thereon).

Disclosure to that effect has been made in Note No. 24.35. Review shall be made during current year considering the Para 81(c) of Ind AS 12 for further disclosure.

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the inadequacy of disclosure of in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of error along with the financial statements for the FY 2021-22.

2.2.22 Note 24: Other Notes forming part of Financial Statements

Subject matter of Issue

KIOCL has not disclosed the comparative amounts in the below notes to accounts for which disclosure was required as per Para 6 of "General instructions for preparation of Financial Statements of a Company required to Comply with Ind AS" Division II of Schedule III.

Paragraph 38 of Ind AS 1 requires that "Except when Ind ASs permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements".

The Extract of the notes in which comparative figures are not disclosed is mentioned below:

a) Note 24(1)(B)(2): "includes ₹11,057.62 lakh towards Forest Development Tax (FDT) at the rate of 12% of basic price of iron ore."

b) Note 24(1)(B)(2): "The amount of ₹2,617.43 lakh (equivalent to 25% of FDT) collected earlier by NMDC as per the interim order of Hon'ble Court is shown under "Other Current Assets" in Books of Accounts and the Bank Guarantee equivalent to ₹2,734.87 lakh furnished to NMDC in this regard has not been included under the contingent liability."

c) Note 24(1)(B)(3): "Disputed Liabilities in Appeal on Revenue Account"
    - Excise Duty FY 2018-19 ₹5,848.31 lakh
    - Service Tax FY 2018-19 ₹60.77 lakh

   Further, in this note it is not clear whether this amount is with respect to previous year or current year since no information is disclosed in Current Year Column.

d) Note 24(1)(D): "The Company sought rectification of mistake u/s 154 of Income Tax Act, 1961 in the computation of taxable income for the Assessment Year 2013-14 involving tax demand of ₹383.76 lakh and for the Assessment Year 2017-18 tax amount of ₹ 134.36 Lakh, including interest which are pending before the Assessing Authority."

e) Note 24(2): "Both South Western Railway (SWR) and East Coast Railway (ECR) have raised demand of ₹14,463.93 lakh and ₹ 10,361.38 lakh respectively towards distance-based charge (DBC) over and above normal freight on Iron ore transported."

   "Against the demand of ₹ 14,463.93 lakh of SWR, KIOCL had filed writ petition before the Hon'ble High Court of Karnataka."

   "Accordingly, ₹8,325.15 Lakh was paid and for the balance amount of ₹6,138.77 Lakh provision has been made in the books."

   "Similarly, against the demand of ₹ 10,361.38 lakh of ECR which after considering the freight already paid, worked out to be ₹ 6,740.94 Lakh, KIOCL has filed WRIT petition before High Court of Orissa and High Court granted stay subject to deposit of 50% amount excluding the penalty. Against the worked-out liability, the Company paid ₹ 5,188.86 Lakh and the balance amount of ₹ 1,552.08 lakh provision has been made in the books."

NFRA observes the similar issue of non-disclosure of comparative amounts of Previous Years found in Note 24.3, 24.4, 24.6, 24.16, 24.20, 24.22, 24.24, 24.31, 24.32, 24.33, 24.35, and 24.38.

NFRA Observation

NFRA observes that KIOCL has not adhered with the presentation requirement of Paragraph 38 of Ind AS 1.

KIOCL Response

The Note is consistently followed for past several years, without change in any of the figure. The figures towards comparative year shall be included in the current year.

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the inadequacy of disclosure of in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of disclosure and presentation errors along with the financial statements for the FY 2021-22.

2.2.23 Other Observations (Different Terminologies / Heading used, Inconsistency in cross referencing etc.)

Balance Sheet (page no. 88 of Annual Report)

Subject matter of issue

On the face of the Balance Sheet, in "Equity & Liabilities", subhead - "Equity", KIOCL has disclosed "Share Capital" however as per the format of Balance Sheet given in Part I of Division II of Schedule III the word mentioned is "Equity Share Capital".

NFRA Observation

NFRA observes that KIOCL shall disclose the terms which should be consistent with the presentation and disclosure requirement of Balance Sheet given in Part I of Division II of Schedule III.

KIOCL Response

Change for description as "Equity Share Capital" has been noted for future presentation.

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the error in disclosure of description of the items in in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of presentation and disclosure error along with the financial statements for the FY 2021-22.

2.2.24 Cash Flow Statement (page no. 90 of Annual Report)

Subject Matter of issue

General instructions for preparation of Financial Statements of a Company required to Comply with Ind AS" Division II of Schedule III, requires the cash flow statement shall be prepared in accordance with the requirement of the relevant Indian Accounting Standard.

Paragraph 1 of Indian Accounting Standards (Ind AS) 7, *Statement of Cash Flows* (Ind AS 7) requires that "An entity shall prepare a **statement of cash flows** in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented." **[Emphasis added]**

NFRA Observation

NFRA observes that Ind AS 7 requires to prepare the "Statement of Cash Flows", However KIOCL has mentioned the word "Cash Flow Statement". This is non-compliance with of the requirement of Paragraph 1 of Ind AS 7. Cash Flow Statement is a title used in AS 3, Cash Flow Statements in Accounting Standards Rules 2006 and this AS is not applicable to KIOCL.

KIOCL Response

Heading "Cash Flow Statement" continued as it was done in earlier periods and the same has been corrected during subsequent financial year as "Statement of Cash Flow".

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the error in disclosure in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of presentation and disclosure errors along with the financial statements for the FY 2021-22.

2.2.25 Cash Flow Statement (page no. 90 of Annual Report)

Subject Matter of issue

In the head "Cash Flow from Investing Activities", KIOCL has disclosed "Purchase of Fixed Assets" and "Proceeds from sales of Fixed Assets". NFRA observed that the KIOCL has disclosed "Property, Plant and Equipment" in the Balance Sheet, therefore the disclosure shall be "Purchase of Property, Plant and Equipment" and "Proceeds from sales of Property, Plant and Equipment". This is also the requirement of Paragraph 16(b) of Ind AS 7.

The same error has been made in the disclosure of Cash flow from operating activities where KIOCL has mentioned "(Profit)/Loss on sale of Fixed assets" and "Sale/deletion/transfer of Fixed Assets".

Further in footnote 2 to "Cash Flow Statement" (page no 91) KIOCL mentioned "Additions to Fixed Assets and Capital Work-in-progress between the beginning and end of the period are treated as investing activities."

NFRA Observation

NFRA observes that KIOCL has used the titles/terms prevalent in the Accounting Standards issued under Companies Accounting Standards Rule 2006, some of which have also undergone changes since 2016 amendment. However, KIOCL is required to follow the requirements of Ind ASs currently applicable to KIOCL and as a result there will be confusion among the users of the financial statements of KIOCL whether KIOCL has followed Ind AS or not?

KIOCL Response

The necessary correction from the current year as Property, Plant and Equipment in place of Fixed Assets shall be incorporated.

NFRA Conclusions/Recommendations

NFRA observes that KIOCL shall disclose the terms which should be consistent with the presentation and disclosure requirement of Division II of Schedule III read with Ind AS 7.

KIOCL has agreed to correct the error in disclosure in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of presentation and disclosure errors along with the financial statements for the FY 2021-22.

2.2.26 Other Observations: Inconsistency in cross referencing: (page 92 & 105 of Annual Report)

Subject matter of issue

Paragraph 113 of Ind AS 1 requires that "An entity shall present notes in a systematic manner. An entity shall cross-reference each item in the balance sheet and in the statement of profit and loss, and in the statements of changes in equity and of cash flows to any related information in the notes".

NFRA Observation

NFRA observes in "Statement of Changes in Equity" KIOCL has disclosed the word "Surplus in Profit and Loss Account" of ₹ 5,604.29 lakh (FY 2018-19 ₹ 11,228.56 lakh) however the same figure is disclosed as "Retained Earnings" in Note No. 11 "Other Equity" which is inconsistent with each other. NFRA observes that KIOCL shall disclose the terms which should be consistent with the presentation and disclosure requirement of Division II of Schedule III read with Paragraph 113 of Ind AS 1.

KIOCL Response

Retained earnings includes only surplus in Profit and Loss Account, accordingly retained earnings/Surplus in Profit and Loss account included for the same purpose. During the current year, the same shall be presented correctly in systematic manner as per Para 113 of Ind AS 1.

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the error in disclosure in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of presentation and disclosure errors along with the financial statements for the FY 2021-22.

2.2.27 Other Observations: Inconsistency in cross referencing: (page 89 & 102 of Annual Report)

Subject Matter of issue

Paragraph 113 of Ind AS 1 requires that "An entity shall present notes in a systematic manner. An entity shall cross-reference each item in the Balance Sheet and in the Statement of Profit and Loss, and in the Statement of Changes in Equity and of cash flows to any related information in the notes".

Note 3.1a: Heading of Note 3.1a is mentioned as "Description of Assets" however this Note relates to "Depreciation and Amortization Expense" as mentioned in the Face of the Statement of Profit and Loss.

Further, NFRA observes that amount of amortization of intangible asset for FY 2019-20 disclosed in Note 3.1a is ₹8.46 lakh, however in Note 3.2 the amortisation made during the year is disclosed as ₹9.73 lakh. This is inconsistent with each other.

NFRA Observation

NFRA observes that there is error in the title of the Note 3.1a and the heading of the sub-line item in Note 3.2.

KIOCL Response

The “Description of Assets” as stated in Note No.3.1.a of the Notes to the Financial Statements is an inadvertent error and should read as “Depreciation and Amortization Expenses”. We regret for the mistake and shall be corrected in the subsequent year.

KIOCL submits that it is brought to your kind attention that in Note No.3.2, the figure of Rs.9.73 lakh is Accumulated Amortization Reserve and not “Amortization made during the year”. The same shall be corrected in subsequent years.

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the error identified and reported by NFRA in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of presentation and disclosure errors along with the financial statements for the FY 2021-22.

2.2.28 Other Observations: Incorrect use of heading for the schedules relating to statement of profit and loss: (page 106 to 108, 102 of Annual Report)

Subject Matter of issue

Note No. 15 to Note 22 and Note 3.1a is related to Statement of Profit and Loss which should be presented as “Year ended March 31, 2020” and “Year ended March 31, 2019” however KIOCL as mentioned it as “As at March 31, 2020” and “As at March 31, 2019.

NFRA Observation

Use of incorrect accounting period to Notes relating to Line Items of Statement of Profit and Loss will be misleading and confusing to the users of the financial statements.

KIOCL Response

For “the year ended” in place of “as at “31st March of respective years “for the Notes to statement to profit and loss noted for changes in subsequent year.

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the error identified and reported by NFRA in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of presentation and disclosure errors along with the financial statements for the FY 2021-22.

2.3 PART C: OBSERVATIONS OF NFRA ON THE FINANCIAL STATEMENTS OF KIOCL LIMITED CLASSIFIED AS LOW IMPACT

2.3.1 Note 15: Revenue from Operations

Subject Matter of Issue

Paragraphs 116 & 117 of Indian Accounting Standard (Ind AS) 115, *Revenue from Contracts with Customers* (Ind AS 115) require the following disclosures in respect of Contract balances:

Paragraph 116 An entity shall disclose all of the following:

(a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;
(b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and
(c) revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).

Paragraph 117 An entity shall explain how the timing of satisfaction of its performance obligations (see paragraph 119(a)) relates to the typical timing of payment (see paragraph 119(b)) and the effect that those factors have on the contract asset and the contract liability balances. The explanation provided may use qualitative information.

NFRA Observation

NFRA observes that KIOCL has not adequately complied with the disclosure requirements of Paragraphs 116 - 117 of Ind AS 115.

KIOCL Response

The matter shall be reviewed during the current year with the help of consultant to make suitable disclosure as per Ind AS 115. Would like to bring kind attention of NFRA that Para-116 of Ind AS-115 requires the disclosure, if not otherwise separately presented or disclosed. The opening and closing balances of receivables consists of only export receivables and the duly disclosed in Note no.5.4, which represents the contract assets also. Amount received in advance from customers were disclosed in Note No.14. Further, the Export of goods constitute major portion of revenue, the revenue recognition is only at a point of time not over a period of time.

NFRA Conclusions/Recommendations

NFRA has examined the response of KIOCL and observes that the Company has not disclosed the Paragraph 116 in complete which require the disclosure of revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price). Disclosure requirement of Paragraph 117 of Ind AS 115 is not complied with in the Financial Statements.

KIOCL's response that disclosure in Note 5.4 relating to outstanding balances of Trade Receivables complies with the disclosure requirement of paragraph 116 of Ind AS 115 is not justifiable as disclosure of only the opening and closing balances is not the only requirement of this paragraph.

KIOCL has agreed to review the disclosure requirement in the next financial year. Therefore, the Company is advised to confirm the compliance with the disclosure requirements of Ind AS 15 along with the financial statements for the FY 2021-22.

2.3.2 Note 15: Revenue from Operations

Subject Matter of Issue

In the above referred Note, KIOCL has disclosed Rent Income of ₹165.77 lakh (FY 2018-19 ₹ 148.42 lakh) under head ‘other operating income’.

NFRA Observation

NFRA observes that classification of items of income in the nature of ‘Other Income’ as ‘Other Operating Income’ is inappropriate and gives misleading information about the financial performance and source of revenue of the Company to the users of its financial statements.

KIOCL Response

The Company has provided land for laying underground pipeline on annual lease basis. Rent recovered from employees towards providing Company owned quarters along with lease rent from pipe line are shown as Rental Income under the head Other operating income, as both activities are ancillary to main business.

NFRA Conclusions/Recommendations

NFRA has examined the response of KIOCL in reference to Paragraph 9.1.8 of Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013 which states that:

“The term “other operating revenue” is not defined. This would include Revenue arising from a company’s operating activities, i.e., either its principal or ancillary revenue-generating activities, but which is not revenue arising from sale of products or rendering of services. Whether a particular income constitutes “other operating revenue” or “other income” is to be decided based on the facts of each case and detailed understanding of the company’s activities.”

Paragraph 9.1.9 and 9.1.10 further provides examples which help to understand whether a particular income is other operating income or not.

NFRA is in opinion that lease rent from underground pipeline and rent recovered from employee towards providing company owned quarters are not to be treated as “Other operating income” instead, it should be “Other Income”.

2.3.3 Note 24.30: Other Notes forming part of Financial Statements

Subject Matter of Issue

In the above referred Note, KIOCL has disclosed that “The Company requested its debtors and creditors to confirm the balances at the year-end in respect of trade payables, trade receivables, advances and loans directly to the Statutory Auditors.”

NFRA Observation

The purpose of this disclosure is not clear. Further, the impact of this disclosure on recognition and measurement of these financial assets and financial liabilities in the financial statements is also not clear.

KIOCL Response

The Statement is provided in accordance with Para 112 (c) of Ind AS-1. Letters for confirmation of balances were addressed to parties of trade payable, trade receivable, advances and loans for direct confirmation to the statutory auditors. There is no impact on recognition and measurement of financial assets and liabilities wherever no discrepancies in the balance confirmation. During the year, no discrepancy noticed as a result, no impact recognized in the financial statement. Disclosure to that effect has been made as action of the management. Review shall be made during the current year for continuance of the disclosure.

NFRA Conclusions/Recommendations

NFRA reviewed the response of KIOCL and observes that paragraph 112(c) of Ind AS 1 states as follows:

Paragraph 112: The notes shall:

(c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

Since balance confirmation is only a procedure required to be performed on routine basis and not a relevant information for presentation in the financial statement, therefore it need not be presented in Financial Statement.

2.3.4 Note 1.8: Leases

Subject Matter of Issue

As a lessee

The accounting policy in relation to the KIOCL's accounting as a lessee, states that in case of low value leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

NFRA Observation

Accounting policy is disclosure is incomplete and inadequate in respect of the criteria, including the monetary threshold, if any, applied for determining low value leases.

KIOCL Response

The treatment is guided by the Para B5 of Ind AS 116, wherein no monetary limit has been prescribed. Underlying assets value is considered to determine low value assets.

NFRA Conclusions/Recommendations

NFRA observes that KIOCL has not provided any criteria used for determining the low value lease. Therefore, KIOCL's accounting policy is not adequate and helpful to the users of financial statements.

2.3.5 Note 1.14 Impairment of financial assets

De-recognition of the financial assets

Subject Matter of Issue

Paragraph 20A of Indian Accounting Standard (Ind AS) 107, *Financial Instruments: Disclosure* (Ind AS 107) states that "An entity shall disclose an analysis of the gain or loss recognised in the statement of profit and loss arising from the derecognition of financial assets measured at amortised cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognising those financial assets."

NFRA Observation

NFRA observes that while the accounting policy describes the company's de-recognition policy, there are no further disclosures in this area as required by paragraphs 42A-42H of Ind AS 107. In the previous year also, there were no such transactions. Therefore, it is unclear as to the relevance and importance of disclosure of this accounting policy.

KIOCL Response

There was no de recognition of financial assets made during the last two financial years. The policy for recognition and de-recognition of financial assets has been framed. Suitable disclosure towards derecognition to be incorporated in the current year.

NFRA Conclusions/Recommendations

NFRA has examined the response of KIOCL and observes that the KIOCL had no such transactions during last three years including the current reporting period. KIOCL is advised to evaluate the relevance and usefulness of accounting policy in respect of transactions or events that have not occurred in the entity or relevant to its operations.

2.3.6 Significant Accounting Policies- Note 1.21: Contributed Equity

Subject Matter of Issue

KIOCL accounting policy states that Equity shares are classified as Equity. Incremental costs directly attributable to the issue of new shares or options are shown in Equity as a deduction, net of tax, from the proceeds.

Paragraph 15 of Ind AS 32 states that "The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument."

NFRA Observation

NFRA's disclosure gives an impression that all the financial instruments issued in the form and title of Equity Shares are accounted as 'Equity'. However, according to the principle prescribed in paragraph 15 of Ind AS 32, various types of financial instruments are classified as Equity or Financial Liability (Debt) based on substance of the contractual arrangement and not merely based on the form/title of the financial instrument.

KIOCL Response

The meaning of Equity share refers in accounting policy has been disclosed in the Note No. 10. The company has complied with paragraph 15 of Indian Accounting Standard 32.

NFRA Conclusions/Recommendations

KIOCL is advised to amend the text of its accounting policy to convey the application principles of Ind AS 32 in a clear and unambiguous manner.

2.3.7 Statement of Cash Flows: Cash flow from Operating Activities

Subject Matter of Issue

In the head Cash flow from operating activities, KIOCL has disclosed "Depreciation Current Year" of FY 2019-20 of ₹2,749.08 lakh (FY 2018-19 ₹1,926.82 lakh). NFRA observes that the amount shown in this line items in Current and Previous reporting period is as per "Note 3.1a" which is "Depreciation and Amortization Expense".

In this respect, Para 114 (c) of Indian Accounting Standard (Ind AS) 1, *Presentation of Financial Statements* (Ind AS 1) states that "An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:

> (c) supporting information for items presented in the balance sheet, and in the statement of profit and loss, and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented;"

NFRA Observation

NFRA observes that KIOCL has clubbed "Note 3.1a" which is related to Statement of Profit & Loss with sequence of Notes related to Balance Sheet. This is not in line with the letter and spirit of para 114(c) of Ind AS 1. Please explain the reason for this departure of Ind AS 1 prescription. Please explain why line item in the Statement of Cash Flows refers to depreciation expense only whereas the related notes consist of amortisation expense also?

KIOCL Response

It is Submitted that in the Statement of Profit and Loss Account, it is correctly stated as "Depreciation and Amortization Expenses" and reference to Note 3.1a is also made. However, in the Statement of Cash Flows, the word "Amortization" was omitted inadvertently. We shall correct the error in subsequent financial statements. The Notes to account sequences have been consistently followed as per practice and same shall be reviewed during the current year to present in line with Ind AS 1.

NFRA Conclusions/Recommendations

NFRA observes that KIOCL has not complied with the Paragraph 114(c) of Ind AS 1. KIOCL has agreed to correct the error in the financial statements of subsequent financial year. Therefore, the KIOCL is advised to confirm the correction of presentation and disclosure errors along with the financial statements for the FY 2021-22.

2.3.8 Note 24: Other Notes forming part of Financial Statements

Subject Matter of Issue

Note 24.1 (B)(3), KIOCL has disclosed the below mentioned information:

"During the year, the company has settled the disputed Liabilities on account of Services Tax under "Sabka Vikas Scheme, 2019" and paid an amount of ₹8.86 lakh (including amount paid at the time of filling appeals) against disputed service tax liability for ₹ 29.54 lakh."

NFRA Query

NFRA observes that in the above note, it is not clear as to which financial year the disputed liabilities settled pertains to?

KIOCL Response

Contingent liabilities towards service tax have been disclosed as total figure without year wise breakup consistently. Copy of the notes for the previous year is attached. During the year 2019-20, settlement made through "Sabka Vishwas Scheme" has been disclosed as disputed liability settled without providing relevant year of the liability.

NFRA Conclusions/Recommendations

NFRA observes that KIOCL should disclose the information in the notes in such a manner which enables provision of clear and unambiguous information to users of the financial statements.

2.3.9 Board Report: Other observations

Subject Matter of Issue

In Page 11 of Board's Report – 2020, KIOCL has mentioned "During the year, your Company achieved an operating income of ₹ 1,937.65 crores as compared to ₹ 1,887.71 crores in the previous year, a growth of 2.65 %...."

NFRA Observation

NFRA observes that above disclosed figure is of "Revenue from Operations" as mentioned in Statement of Profit and Loss, therefore, required to be disclosed appropriately. NFRA observed that KIOCL should disclose the figures in the annual report which is consistent with the terms mentioned in the annual report and in such a manner which enables provision of clear and unambiguous information to users of the financial statements.

KIOCL Response

Point has been noted for disclosure in subsequent years.

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the inadequacy of disclosure of in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of presentation and disclosure errors along with the financial statements for the FY 2021-22.

2.3.10 Other Observations (Different Terminologies / Heading used, Inconsistency in cross referencing etc.)

Balance Sheet (page no. 88 of Annual Report)

Subject matter of issue

On the face of the Balance Sheet, in "Equity & Liabilities", subhead "Non-Current Liabilities" – Financial Liabilities, KIOCL has disclosed "Lease Liability" however as per the format of Balance Sheet given in Part I of Division II of Schedule III the word mentioned is "Lease Liabilities".

NFRA Observation

NFRA observes that KIOCL shall ensure consistency in the title/description of Line items and Sub-line items sub-line items in different parts of the financial statements.

KIOCL Response

Change for description as "Lease Liabilities" has been noted for future presentation.

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the error in disclosure in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of presentation and disclosure error along with the financial statements for the FY 2021-22.

2.3.11 Other Observations (Different Terminologies / Heading used, Inconsistency in cross referencing etc.)

Balance Sheet (page no. 88 of Annual Report)

Subject matter of issue

As per the format of Balance Sheet given in Part I of Division II of Schedule III, Trade Payables shall be disclosed as:

"Trade Payables:

(A) total outstanding dues of micro enterprises and small enterprises; and

(B) total outstanding dues of creditors other than micro enterprises and small enterprises."

NFRA Observation

NFRA observes that KIOCL has not disclosed the bifurcation on the face of the Balance Sheet as required by the requirements of Schedule III to the Companies Act 2013.

KIOCL Response

The Disclosure towards total outstanding dues of Micro and Small Enterprises shown in the notes to the accounts, however the necessary changes have been made in subsequent financial year 2020-21.

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the error in disclosure in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of presentation and disclosure error along with the financial statements for the FY 2021-22.

2.3.12 Other Observations (Different Terminologies / Heading used, Inconsistency in cross referencing etc.)

Statement of Profit and Loss (page no. 89 of Annual Report)

Subject matter of issue

On the Face of the Statement of Profit and Loss, KIOCL has mentioned "Total Revenue" of ₹205,653.01 lakh (FY 2018-19 ₹201,267.82 lakh) however Part II of Division II of Schedule III mentioned the word "Total Income".

NFRA Observation

NFRA observes that KIOCL there is inconsistency between the terms used in the financial statements vis-a-vis the term prescribed in the presentation and disclosure requirement of Balance Sheet given in Part II of Division II of Schedule III.

KIOCL Response

The total income shown as total revenue as a practice and the same shall be corrected in the current financial year.

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the error in disclosure in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of presentation and disclosure errors along with the financial statements for the FY 2021-22.

2.3.13 Other Observations: Inconsistency in cross referencing: (page 88 & 102 of Annual Report)

Subject Matter of issue

Paragraph 113 of Ind AS 1 requires that “An entity shall present notes in a systematic manner. An entity shall cross-reference each item in the balance sheet and in the statement of profit and loss, and in the statements of changes in equity and of cash flows to any related information in the notes”.

On the Face of the Balance Sheet there is a line item with the heading “Intangible Asset”, however, heading of the related Note is mentioned as “Other Intangible Asset”.

NFRA Observation

NFRA observes that there is error in mentioning the correct heading to Note 3.2

KIOCL Response

Change for description as ‘Intangible Asset” in Note 3.2 is noted for correction in subsequent year.

NFRA Conclusions/Recommendations

KIOCL has agreed to correct the error identified and reported by NFRA in the financial statements of subsequent year. Therefore, the Company is advised to confirm the correction of presentation and disclosure errors along with the financial statements for the FY 2021-22.

Approved by the Executive Body of NFRA for Issue

Vivek Narayan

(Vivek Narayan)

Secretary, NFRA

विवेक नारायण/VIVEK NARAYAN
सचिव/Secretary
राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण
National Financial Reporting Authority

3. CHRONOLOGY OF THE EVENTS LEADING TO FRQRR OF KIOCL LIMITED FOR THE FINANCIAL YEAR 2019-20

S No.	Date	Event/ Correspondence
1.	15.04.2021	NFRA has sought information / certified copies of documents pertaining to the financial statements.
2.	12.07.2021	The response of KIOCL Limited was received to NFRA.
3.	20.07.2021	NFRA sent a questionnaire to KIOCL Limited.
4.	19.08.2021	The response to the Questionnaire was received from KIOCL Limited.
5.	28.09.2021	Issuance of FRQR Report by NFRA