

INTRICO Insights | Enhancing Financial Transparency: SEBI's Digital Assurance Mandate for Top-100 Listed Companies - Summary

SEBI has released a **draft circular** proposing a **Digital Assurance Report** to improve **financial accuracy, transparency, and investor trust** in listed companies. This move will ensure that financial statements are **verified against external regulatory data sources**, making it harder for companies to manipulate financial information.



💡 What is Digital Assurance?

It is a structured verification of a company's financials using **Digital external data** to ensure **accuracy, transparency, and compliance**.

Key sources include:

✓ **GST & Income Tax portals** – Validating revenue, TDS, and tax collections

✓ **Stock Exchange Disclosures** – Cross-checking corporate filings

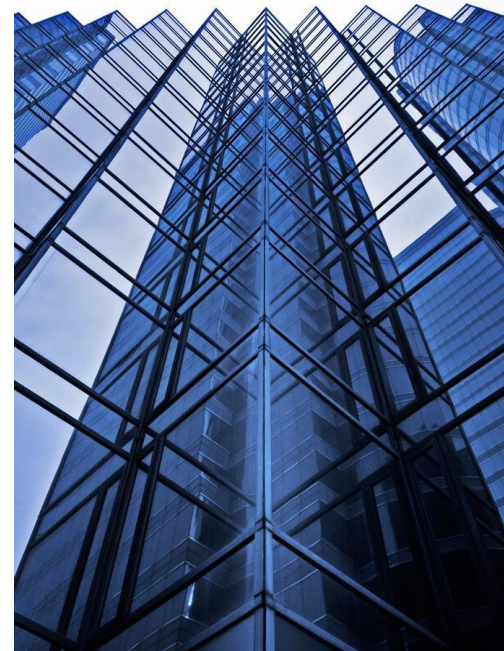
✓ **Government Tenders & Contracts** – Verifying financial commitments

✓ **Public Data (Market Reports, social media, News, etc.)** – Ensuring consistency with industry trends

✓ **Other Regulatory & Open Data Sources** – Strengthening financial integrity

🔍 Key Highlights of SEBI's Circular

- ✓ **Who is affected?** Top 100 listed companies (by market capitalization).
- ✓ **Effective from?**
- ✓ **What companies must do:**
 - Allow **auditors access** to external data sources.
 - Ensure **books of accounts match regulatory records**.
 - Provide **management explanations for discrepancies**.
- ✓ **What auditors must do:**
 - Verify financial figures against **external data sources**.
 - Highlight **differences & arithmetic accuracy**.
 - Follow ICAI's "**Technical Guide on Digital Assurance**".
- ✓ **Who can conduct the audit?**
 - **Statutory Auditor / Independent Practitioner** (must be ICAI peer-reviewed).
- ✓ **Penalties for non-compliance?**
 - **Same as LODR Regulation 33 violations** (delays attract fines).



💡 Why This is Important?

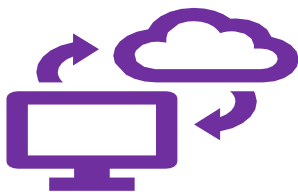
- 🚀 **Enhances financial transparency** – Reduces fraud & misreporting
- 🚀 **Encourages digital adoption in audits** – Faster and more reliable financial reviews
- 🚀 **Boosts investor confidence** – Reliable, externally verified financials
- 📌 **Public Comments Open Until February 24, 2025!**

INTRICO Insights | Enhancing Financial Transparency: SEBI's Digital Assurance Mandate for Top-100 Listed Companies - A deep dive

In a landmark move to enhance financial transparency, the **Securities and Exchange Board of India (SEBI)** has introduced a proposal mandating **digital assurances** for financial statements of the top-100 listed companies. This initiative, effective from the **financial year 2024-25**, aims to bolster investor confidence and streamline financial disclosures in India's corporate sector. This paper delves into the rationale behind SEBI's mandate, its key features, potential impact, and the challenges and opportunities it presents.

The Rationale Behind SEBI's Initiative

Financial disclosures play a crucial role in fostering investor trust and ensuring market integrity. Recently, concerns over **financial misstatements, inadequate disclosures, and audit deficiencies** have prompted regulators worldwide to adopt stringent measures. In an era marked by increasing complexities in financial reporting and a growing need for investor protection, SEBI's proactive approach addresses concerns regarding potential financial misstatements, inadequate disclosures, and audit deficiencies. SEBI's latest initiative aligns with global best practices, ensuring that India's top-listed firms adhere to the highest standards of financial transparency and governance. The move towards **digital assurance** is not merely a procedural change; it represents a fundamental shift towards leveraging technology to enhance the credibility and verifiability of financial information.



Key Highlights of the Digital Assurance Mandate

The mandate's core objective is to fortify the integrity of financial reporting by employing digital technologies. This involves moving beyond traditional paper-based processes and accepting a more secure, verifiable, and transparent system. Key aspects of the mandate include:

- ❖ **Implementation Timeline** | The requirement will be applicable **from FY 2024-25**. Companies to submit their **digitally assured financial statements, including management statements and auditors' reports, by July 31, 2025**. This timeline provides companies with a window to prepare for the transition.
- ❖ **Scope** | Initially, the mandate covers the top 100 listed companies, signifying a phased approach that may eventually extend to a broader range of listed entities.
- ❖ **Objective of Digital Assurance** | To **strengthen the credibility** of financial statements through the use of digital technology and to **enhance regulatory compliance** by integrating digital verification tools.
- ❖ **SEBI's Consultation & Technical Framework** | The framework draws upon the expertise of the Auditing and Assurance Standards Board (AASB) and the Digital Accounting and Assurance Board (DAAB) of the Institute of Chartered Accountants of India (ICAI). The guide emphasizes the use of **external data repositories** to enhance audit evidence collection.
- ❖ **Role of Management & Auditors** | Listed companies bear the responsibility for ensuring their financial statements are digitally assured. Auditors, playing a crucial role, are required to undergo peer review by the ICAI and hold valid certification, underscoring the importance of qualified professionals in this new paradigm. Importantly, the mandate clarifies that management is not required to provide direct access to external audit evidence, safeguarding auditor independence.





Key external data sources suggested in technical guide:

❖ E-way bill portal:

Use in Assurance: Revenue cut-off testing, sales reconciliation

Data Verified: Sales register vs. E-Way Bill records

Source: ewaybill.nic.in

❖ GSTN Portal:

Use in Assurance: ITC claims verification, tax liability assessment

Data Verified: GSTR filings, Input Tax Credit (ITC) ledger

Source: services.gst.gov.in

❖ Airports Authority of India (AAI)

Database:

Use in Assurance: Passenger movement validation for airline revenue audits

Data Verified: Passenger counts vs. reported revenue

Source: aai.aero

❖ London Metal Exchange (LME) Data:

Use in Assurance: Cross-checking metal trading rate

Data Verified: Sales and purchase rates of metals

Source: lme.com

❖ DGFT e-BRC & EDPMS/IDPMS

Use in Assurance: Export-import transaction validation

Data Verified: Export realization, foreign exchange remittances

Source: dgft.gov.in

❖ SEBI & Stock Exchanges (NSE/BSE)

Filings

Use in Assurance: Benchmarking financial performance

Data Verified: Financial statements, revenue growth comparison

Source: nseindia.com, bseindia.com

❖ Credit Rating Agencies (CRISIL, ICRA, CARE)

Use in Assurance: Assessing debtor credit risk, provisions for doubtful debts

Data Verified: Customer credit ratings

Source: Relevant agency websites

❖ Payroll Process - Employee Master Data Validation via EPFO

Use in Audit: Verifies employee details through UAN & provident fund records

Data Verified: Payroll master vs. EPFO database

Source: epfindia.gov.in

❖ Ownership and Licensing of Export Incentives (MEIS/SEIS/RoSCTL)

Use in Assurance: Ensures export incentive claims are valid

Data Verified: Government records vs. entity claims

Source: dgft.gov.in

❖ Wilful Defaulter Testing – CARO Compliance

Use in Assurance: Checks if the company is a wilful defaulter with financial institutions

Data Verified: Borrowing history, default status

Source: CIBIL, RBI databases





The Transformative Impact on Stakeholders

- ❖ **Strengthened Financial Reporting** | With the introduction of digital assurances, **financial statements will undergo enhanced scrutiny**, reducing the risk of misrepresentation and errors. The requirement to use **external audit evidence** ensures that financial reports are based on independent, verifiable data
- ❖ **Increased Investor Confidence** | Investor trust is the foundation of capital markets. By mandating **digitally certified financial statements**, SEBI is ensuring that investors have access to **accurate, tamper-proof, and reliable** financial information, fostering greater confidence in corporate governance.
- ❖ **Enhanced Regulatory Oversight** | Regulatory authorities will have access to **standardized, digitally verifiable financial reports**, facilitating better enforcement and **swift action against discrepancies or non-compliance**.
- ❖ **Technological Integration in Audits** | Companies and auditors will need to **adopt digital tools** for compliance. This includes: **Automated audit trails, AI-driven financial statement analysis, blockchain-based financial verification**. The integration of technology will lead to **more efficient audits and reduced scope for fraudulent activities**.

Navigating the Challenges and Embracing the Opportunities

While the initiative is a **positive step towards financial transparency**, companies may face **certain challenges** in the initial phase of implementation:

- ❖ **Technology Adoption** | Companies will need to invest in appropriate technologies and ensure seamless integration with their existing systems.

This may require significant investment and careful planning.

- ❖ **Skill Development** | Training and upskilling of finance professionals and auditors will be crucial for effective implementation. A robust training ecosystem needs to be developed to equip professionals with the necessary skills.
- ❖ **Data Integrity and Security** | Ensuring the integrity and security of data within external repositories is paramount. Robust data governance frameworks and security protocols will be essential.
- ❖ **Cost of Compliance** | The initial costs of technology upgrades, training, and compliance may be substantial for some companies. However, these costs should be viewed as an investment in long-term benefits.



Despite these challenges, the mandate also presents several opportunities:

- ❖ **Enhanced Efficiency** | Digitalization can streamline financial reporting processes, leading to greater efficiency and reduced costs in the long run.
- ❖ **Improved Accuracy** | Automated checks and validations can minimize the risk of human error and improve the accuracy of financial data.
- ❖ **Stronger Governance** | The mandate will promote stronger corporate governance practices and enhance accountability.





Conclusion: A Paradigm Shift in Financial Reporting

SEBI's digital assurance mandate represents a paradigm shift in financial reporting in India. By embracing technology and promoting greater transparency, this initiative will strengthen investor confidence, enhance regulatory oversight, and foster a more robust and resilient capital market. While challenges exist, the long-term benefits of this transformative move are undeniable. As companies and auditors adapt to this new landscape, India's financial reporting framework will be elevated to global best practices, setting a new benchmark for transparency and accountability.

What will the Digital Assurance Report Look Like?

External Source	Description	Books of Account (₹)	Regulatory Data (₹)	Difference (₹)	Management Explanation
GST Portal	Revenue from Sales	10 Cr	9.8 Cr	0.2 Cr	Timing difference in invoices
Income Tax Portal	TDS Deducted	50 Lakh	49.5 Lakh	0.5 Lakh	Correction in tax deposit entry
EPFO	PF Contribution	20 Lakh	19.8 Lakh	0.2 Lakh	Pending reconciliation

