



# Forensic lens on related parties and transactions

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There has been a significant evolution in how Related Party (RP) and transactions with them are viewed and scrutinised in the corporate landscape. What was once considered a routine governance matter has transformed into a **critical focus area for shareholders, regulators, and stakeholders alike.**

The traditional approach of treating RPTs as standard board approval is no longer sufficient.

Regulators and shareholders, particularly institutional

investors, are deploying risk-based analytics and scrutiny to evaluate these relationships and transactions through multiple lenses to ensure that these are legitimate and that they haven't been used for fraudulent purposes.

While related-party transactions (RPTs) are not inherently problematic, they do raise concerns about the potential for **conflicts of interest, fraud, siphoning-off, money laundering and corruption.**

**Below are some key considerations:**

Irregular RPTs	Business purpose	Pricing transparency	Conflict of interest	Compliant
Are unidentified and undisclosed related parties a concern?	Is the RPT crucial for business operations?	How robust is the methodology used to establish "fair value"? Are these arm's length dealings?	Are approval processes sufficiently independent and rigorous or these are just omnibus approvals?	Does the current RPT framework of your company including approvals and disclosures comply with statutory and regulatory requirements?

In this document, we discuss how forensic lens on RPTs can help uncover potential risks and provide guidance on how to mitigate these risks.



# Key Regulatory Insights for Corporates

Regulatory landscape for RPTs is primarily shaped by the Companies Act, 2013, and the SEBI Regulations, 2015, Listing Obligations and Disclosure Requirements (LODR) and Income Tax Act. These regulations aim to enhance corporate governance and protect the interests of minority shareholders by defining what is to be covered under “Related Parties”, the policy, approvals, and disclosure requirements.

In addition to SEBI and the Ministry of Corporate Affairs (MCA), regulatory action can come from the regulatory investigating bodies also, viz.- the Registrar of Companies (ROC), the Serious Fraud Investigation Office (SFIO), the Enforcement Directorate (ED), and the National Financial Reporting Authority (NFRA). These authorities can impose fines and penalties, conduct investigations and prosecutions, enforce debarments, carry out inspections and reviews, and execute asset seizures to ensure compliance and address violations.

## Who is responsible?

Regulations place responsibility at the highest levels, highlighting the importance of compliance:

### Board

Oversee governance to ensure RPTs are in the best interest of the company and establish a policy on RPTs for listed entities

### Audit committee

Approves all RPTs for listed companies

### Lending institutions

Assess RPT risks in financing.

### Tax auditor

Undertake appropriate scrutiny to ensure if RPs are identified properly and RPTs disclosed in accordance with Transfer Pricing ('TP') regulations, TP principles outlined in OECD TP guidelines

### Risk officers and internal audit

Ensure appropriate internal controls and framework on RPs and transaction monitoring in accordance with the Standards (SIA 18)

### Investors

Private Equity, Venture Capitalist, and strategic investors: Ensure compliance in invested companies and monitor for any siphoning of funds through RPTs which can harm investor interests and violate regulations

### Statutory auditor

Requirements listed in CARO, Accounting standards and Auditing standards (SAs) on RPTs. Recent NFRA orders have identified frequent violations of SA 200, SA 240, SA 250, SA 315, SA 330, and SA 550, underscoring the critical need for rigorous monitoring





## Prevalent risks and issues

There is a significant risk when related parties or probable related parties collude, conspire, or misuse opportunities to engage in irregular transactions. Therefore, risk management related to RPTs is a critical area of focus for audit committees and boards. The lack of a robust framework to monitor RPTs may result in severe regulatory and enforcement action against the company and those charged with governance. Based on our experience, some common issues often found include:

- Undisclosed related parties:** Related parties or probable related parties may be used to circumvent approval mechanisms and avoid disclosure obligations. Complex corporate structures, including the creation of trust structures, can help disguise related parties to evade classification.
- Preferential, Undervalued, Fraudulent, Extortionate (PUFE) transactions:** Assets may be diverted and siphoned through disclosed, undisclosed, or probable related parties without proper business reasoning or justification for arm's length pricing, often with missing supporting documentation
- Misclassification of RPTs:** Transactions may be misclassified to escape disclosure obligations (e.g., structuring loan transactions as guarantees or investments) or to avoid other regulatory implications (e.g., back-to-back arrangements to evade default status through loan evergreening)
- Non-disclosure of RPTs:** Collusive practices and misuse of related parties may be concealed, eluding scrutiny regarding the financial amount, nature, and scope of such transactions from stakeholders, regulators, investors, and the general public
- Inadequate approval, disclosures and monitoring:** Lack of specific disclosure to the Board and/or Audit Committee, when omnibus approval exists
- Laundering or improper payments to public officials:** Transactions that lack justification or proof of service need to be scrutinized in detail to prevent and detect such illicit activities.
- Siphoning funds to related parties:** Companies may use vendors/suppliers to obscure the flow of funds to related parties. This involves complex ownership structures and multiple transactions to hide the true beneficiaries which can lead to undisclosed related parties and fraudulent transactions. Advanced detection methods are essential to mitigate these risks.



## Looking ahead: RPT governance

Forward-thinking C-suite leaders should:

- Integrate RPT compliances within overall risk management framework for regular reviews on the risk areas highlighted above. Including strategic assessment of related party dealings – alternatives, exit plans, etc.
- Keep the board and Audit committee updated on regulatory and policy changes
- Enhance data analytics for RPT monitoring
- Usage of new tools and technology for identification of related parties and transaction monitoring.

## How can the risk be mitigated?

The stakeholders 'who are responsible' should consider undertaking review procedures to ensure that RPTs are genuine and have been conducted in accordance with appropriate disclosure and transparency requirements.

Forensic review of RPTs typically involve two primary areas of focus: evaluating the nature and propriety of RPTs, and the related-party disclosures of a company in their financial statements.

### 1. Risk-based assessment, compliance reviews and control framework

- Comprehensive regulatory compliance reviews and risk assessment on related parties and transactions, and corrective action planning
- Ongoing monitoring solutions
- Arm's length benchmarking
- RPT policies and SOPs.

### 2. Advanced detection methods

- Undisclosed relationships detection
- PUFÉ transaction identification
- Deep-dive data analytics
- Transaction pattern analysis
- Field-based verification procedures
- Digital forensic investigation- in case any such instances are uncovered.

Our forensic team delivers throughout RPT assessment and compliance services. Our approach combines advanced analytics with field-based verification to provide thorough transaction assurance. We assist robust related party compliances aligned with regulatory requirements and business objectives by validating that there are no undisclosed related parties or RPTs.



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