



NFRA CONCLUSIONS
on Questions Posed in Consultation Paper
based on
Report of the Technical Advisory Committee on
Enhancing Engagement with Stakeholders:
September 2021

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NFRA Conclusions on Questions Posed in Consultation Paper based on Report of the TAC on Enhancing Engagement with Stakeholders

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LIST OF ABBREVIATIONS

AJNIFM	Arun Jaitley National Institute of Financial Management
AQR	Audit Quality Review
AQRR	Audit Quality Review Report
BOD	Board of Directors
BSR	BSR & Co. LLP, India
BVSS	Bharatiya Vitta Salahkar Samiti
CFO	Chief Financial Officer
CII	Confederation of Indian Industry
CP	Consultation Paper
DHS	Deloitte, Haskins & Sells LLP, India
FAQ	Foundation for Audit Quality, India
FFIAR	Forum For Indian Accounting Research
FRC	Financial Reporting Council (U.K.)
FRQR	Financial Reporting Quality Review
FRRB	Financial Reporting Review Board
IASB	International Accounting Standards Board of IFRS Foundation
ICAI	Institute of Chartered Accountants of India
IFIAR	International Forum of Independent Audit Regulators
IRDAI	Insurance Regulatory and Development Authority of India
MCA	Ministry of Corporate Affairs, Government of India
NFRA	National Financial Reporting Authority, Government of India
PCAOB	Public Company Accounting Oversight Board (U.S.)
PIE	Public Interest Entity
RoMM	Risk of Material Misstatement
RBI	Reserve Bank of India
SAG	Stakeholders Consultation and Advisory Group
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission (U.S.)
SOP	Standard Operating Procedures
SPOC	Single Point of Contact

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SQC	Standard on Quality Control
SRB	S R Batliboi & Affiliates
TAC	Technical Advisory Committee of NFRA, India
UK	United Kingdom
US	United States of America

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1 NFRA CONCLUSIONS

- 1.1 In June 2021, NFRA had issued a Consultation Paper (“CP”) seeking public comments in relation to the action it proposes to take on the recommendations of its Technical Advisory Committee (TAC), on enhancing NFRA’s engagement with Stakeholders.
- 1.2 The comment period ended on 30 July 2021. NFRA has received 17 comment letters from Stakeholders such as important Industry Bodies, Large Accounting Firms and Research/Academia. Overall, Stakeholders have expressed support for NFRA’s proposals to proactively promote Stakeholder engagement. Some respondents have specifically welcomed NFRA’s initiative to set up the TAC.
- 1.3 NFRA had requested for comments on a total of 19 specific questions arising from the recommendations of the TAC report of March 2021. There are number of valuable and relevant suggestions/inputs from the Stakeholders in respect of all the Questions on which NFRA had sought comments. The following table provides NFRA Conclusions on the Stakeholders’ views/suggestions on various questions posed to the Stakeholders for their comments.

NFRA Conclusions Paragraph #	NFRA Conclusions on Specific Questions to Stakeholders
4.3	Question # 1(a) Agenda Topics for Stakeholder Consultation and Advisory Groups
4.3.7	<p>NFRA Conclusions</p> <ul style="list-style-type: none"> • NFRA notes that the key Stakeholders generally have expectations of deliberation and discussion at Advisory Groups or Forums of NFRA in respect of a wide variety of topics covering financial and non-financial matters. While NFRA considers the range of the suggestions made by the Respondents to be useful, it will consider the totality of these suggestions at a later date as/when it builds up the required support staff. At present, NFRA considers it appropriate and relevant to include the following specific topics as the initial set of agenda items for the Stakeholders Consultation and Advisory Group (SAG). ✓ Trends in financial reporting and audit quality identified through NFRA’s inspections ✓ Emerging topics on external reporting including ESG, climate change, going concern, non-GAAP measures ✓ Integration between financial and non-financial reporting

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NFRA Conclusions Paragraph #	NFRA Conclusions on Specific Questions to Stakeholders
	<ul style="list-style-type: none"> ✓ Global trends and best practices in financial reporting and audit process ✓ Streamlining regulatory oversight for financial reporting and audit process • Needless to say, this list will be subject to continuous review, and amended, if felt necessary.
4.4	Question # 1(b) Methods for filling up positions on the Stakeholder Consultation and Advisory Groups
4.4.3 – 4.4.4	<p>NFRA Conclusions</p> <ul style="list-style-type: none"> • Respondents’ suggestion to increase the number of members from 12 to 15-18 is accepted. Considering the present plan to start with a single stakeholder group, a higher number of members as suggested is appropriate to enable adequate representation of all key Stakeholders including other Regulators. • In respect of the method of filling up positions, following approach/principles will be followed. <ul style="list-style-type: none"> ✓ Selection will be based on seeking nominations from stakeholder groups, as well as public announcements. ✓ NFRA will make selection from the nominations and applications received. ✓ NFRA will prescribe eligibility, experience criteria and independence/objectivity related requirements in consultation with TAC. ✓ Due consideration should be given for conflict of interest, qualifications and adequate representation from various segments ✓ Members will serve NFRA in their personal capacity, on an honorary basis, and not as a representative of any organization.
4.5	Question # 1(c) Single, comprehensive, Stakeholder Advisory Group versus Multiple Groups
4.5.5 – 4.5.6	<p>NFRA Conclusions</p> <ul style="list-style-type: none"> • Respondents’ support for formation of a single advisory group is noted. NFRA will form a single Stakeholders Advisory Group to start with. • NFRA will form a research cell that will, inter alia, support the Stakeholder Advisory Group.

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NFRA Conclusions Paragraph #	NFRA Conclusions on Specific Questions to Stakeholders
4.6	Question # 2 Fellowship Programmes: Fellowship Remuneration, Tenure etc.
4.6.7 – 4.6.8	<p>NFRA Conclusions</p> <ul style="list-style-type: none"> • In view of the feedback from Respondents that a nominal Fellowship amount would not attract high quality professionals/academics, and that a full-time fellowship of a year's duration is necessary for meaningful output to be produced, and the present situation of inadequacy of financial and technical resources at NFRA, this initiative will be considered at a future date. • However, NFRA notes the following suggestions for action at a suitable future date. <ul style="list-style-type: none"> ✓ Both Practice Fellowship and Academic Fellowship programmes, will help in the development of a more active collaboration between the NFRA and its key Stakeholders, ✓ One-year tenure with a chance to extend for another year is a good time frame ✓ Fellowship amounts cannot be nominal.
4.7	Question # 3 Public Speeches: NFRA's general approach to public communication
4.7.3	<p>NFRA Conclusions</p> <ul style="list-style-type: none"> • NFRA will gradually build up suitable channels such as Public Speeches for communication with the Stakeholders. The focus will be the various activities/initiatives of NFRA, knowledge dissemination etc.
4.8	Question # 4 (a) Inspection Policy: Objectives and Scope of the FRQR/AQR Inspection Programme
4.8.3 to 4.8.5	<p>NFRA Conclusions</p> <ul style="list-style-type: none"> • NFRA will adhere to the objectives, scope, and process, of both FRQR and AQR as stated in the CP, and as are already being followed in practice. Revision of the relevant Operating Manuals followed at present for internal guidance and use will be taken up to provide clearer guidance, wherever found necessary. Suggestions received from the present respondents, as well as the inputs from operating experience, will be evaluated and employed in the revision of the Manuals, which will be a continuous, on-going process. A

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NFRA Conclusions Paragraph #	NFRA Conclusions on Specific Questions to Stakeholders
	<p>high-level Statement of the Principles followed in FRQR/AQR will be separately published.</p> <ul style="list-style-type: none"> • The primary responsibility for ensuring compliance with sectoral/prudential laws and regulations rests with the respective Prudential and Other Regulators. Further, the objectives of Prudential Regulations are not necessarily the same as those of the Financial Reporting Standards that are designed to meet the information needs of primary users of General Purpose Financial Reports. Therefore, it is not appropriate to enlarge the scope of FRQRs to areas other than financial reporting. For similar reasons, involvement of Prudential Regulators in FRQR and AQR is not necessary unless certain specific cases warrant a closer co-ordination between NFRA and Prudential Regulators. • On-site inspections will be considered at a later stage when the NFRA builds up adequate human resources to enable the same, and if it is found advantageous to do so. In fact, Remote Working (or so called Work from Home) concept has gained acceptability in recent times as a new normal. Therefore, on-site inspection is not a priority at this stage.
4.9	Question # 4 (b) Inspection Policy: Risk-based Methodology for Sample Selections
4.9.6 – 4.9.8	<p>NFRA Conclusions</p> <ul style="list-style-type: none"> • NFRA is persuaded by the merits of the Respondents’ suggestions; therefore, these will be considered in the NFRA’s overall sample selection methodology. <ul style="list-style-type: none"> ✓ While the predominant portion of the sample will be selected on objective criteria, based on a pre-defined selection algorithm, there will be flexibility adequate to take care of emerging events and circumstances, and also to build in an element of surprise. The algorithm will also be designed to avoid the possibility of repeated selection of only a certain class of companies while repeatedly missing out other class(es) of companies and auditors. ✓ External Impact factors will be accorded higher risk weight than the RoMM.

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NFRA Conclusions Paragraph #	NFRA Conclusions on Specific Questions to Stakeholders
	<ul style="list-style-type: none"> • It can be observed from the suggestions that the Respondents prefer separate and independent approaches for selection of samples for FRQR and AQR. NFRA is of the opinion that there are no advantages in such two-silo selection processes. NFRA clearly considers financial reporting as an integrated whole, and that the regulation of financial reporting with a view to improve its quality is possible and meaningful only on an integrated basis. In NFRA's view, an integrated approach for selection of companies, and the performance of FRQR and AQR simultaneously has advantages of enabling a comprehensive view of the two main strands of the quality of the financial reporting framework i.e. compliance with accounting and auditing standards. In both the FRQR and the AQR, there will be a two-step process to facilitate effective and efficient performance of the reviews by NFRA. The first step in the process is selection of Companies and its Statutory Auditors based on the risk-based methodology highlighted in the CP. The second step will be identification of significant or material areas for focus during FRQR and AQR. • In respect of AQRs, there seems to be preference for audit firm-wide AQRs instead of individual audit file-wise AQRs. NFRA understands that in relation to AQRs, this is the prevailing approach of audit regulators in US, UK, Australia and Canada, the jurisdictions with substantial concentration in the audit market. However, NFRA's initial study in this area in India indicates wide spread diversity of audits of PIEs among a large number of audit firms. This feature of the Indian Audit market is unlikely to change significantly in the near future. Therefore, the approach followed for selection of audit firms for AQRs in other jurisdictions is not necessarily suitable in India where audits are dispersed among a large number of audit firms and many of the Indian audit firms do less than 2-3 PIE audits in an Inspection cycle. Another reason mentioned to support audit firm-wide AQRs is due to the fact that some aspects of Standard on Quality Control (SQC) 1¹ operate at audit firm level and not at individual audit engagement level. Considering the structure of the

¹ Standard on Quality Control (SQC) 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

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NFRA Conclusions Paragraph #	NFRA Conclusions on Specific Questions to Stakeholders
	audit market in India, review of compliance with SQC 1 in many cases of Indian audit firms will have to be performed at individual audit engagement level only. Wherever necessary in the cases of some large firms, NFRA may consider review of compliance of SQC 1 at audit firm level.
4.10	Question # 5 Settlement of Disciplinary Matters and Remediation: Stand-alone Law
4.10.4	NFRA Conclusions <ul style="list-style-type: none"> • The introduction of a Settlement Mechanism is only one aspect of a whole raft of changes that need to be brought about in the law, to more properly define NFRA's remit, and to provide it with the requisite functional, financial, and administrative autonomy for being an effective regulator. As explained earlier, NFRA needs to be positioned as a Regulator for the entire gamut of Financial Reporting, covering all processes and participants in the Financial Reporting Chain. NFRA has requested the TAC to come up with draft proposals in this regard.
4.11	Question # 6 Communication and Advocacy: Website Structure and Layout
4.11.3	NFRA Conclusions <ul style="list-style-type: none"> • NFRA appreciates the suggestions made by various Stakeholders although there is no specific model suggested by the Stakeholders. These specific suggestions on the contents of the website will be factored-in while re-designing the NFRA's website structure and layout. However, in relation to suggestions regarding publication of contact details of officials and staff members, NFRA will further evaluate the pros-cons of such publications in the light of its effect on the NFRA's regulatory activities and the prevailing preference for minimal human interface (in the era of Faceless Regulations/Administration) in the regulatory and government administration. This will also be evaluated in the light of the requirements of Right to Information Act.
4.12	Question # 7 Communication and Advocacy: Newsletters
4.12.2	NFRA Conclusions <ul style="list-style-type: none"> • NFRA acknowledges the Stakeholders' expectation of periodic Newsletters as an important means of communication in many areas of interest to them.

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NFRA Conclusions Paragraph #	NFRA Conclusions on Specific Questions to Stakeholders
	The topics/matters suggested will be very useful and relevant to NFRA as and when it commences this initiative. The Newsletters will focus on information that is factual, and related to activities of NFRA.
4.13	Question # 8 Press and Media Guidance
4.13.3	<p>NFRA Conclusions</p> <ul style="list-style-type: none"> NFRA is bound by the provisions of the law. NFRA is also of the opinion that these provisions, including on publication and confidentiality, are, on an objective assessment, fully compliant with the principles of natural justice, and are designed to serve the public interest. The suggestion by Industry Bodies and Audit Firms to withhold information before ‘final’ (not clear what this means) determination of such matters in a court of law is entirely self-serving and unknown to any system of jurisprudence. Acceptance of these demands would completely destroy any chances of effectiveness of Financial Reporting Regulation.
4.14	Question # 9 Collaboration with Universities, Institutes and Colleges
4.14.4	<p>NFRA Conclusions</p> <ul style="list-style-type: none"> NFRA will consider the following suggestions. <ul style="list-style-type: none"> ✓ Universities can be engaged by providing researchers with a forum to present their research. ✓ Universities can be requested to undertake empirical research in areas that will be relevant to decide matters like the need for carve-outs in Indian Accounting Standards. ✓ To facilitate research, the MCA Corporate Filings website should be patterned after the US SEC website (https://www.sec.gov/) so that users can quickly access the data that they need.
4.15	Question # 10 Roadmap: Strategic Plan and Operating Plan
4.15.5	<p>NFRA Conclusions</p> <ul style="list-style-type: none"> NFRA recognises the dynamic nature of the present world and the need for flexibility to quickly align the plans to changing scenarios. Therefore, NFRA is persuaded by the suggestion to consider having a series of short-term goals to achieve its objectives instead of Medium and Long-term plans.
4.16	Question # 11 Building Regulatory Capacity

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NFRA Conclusions Paragraph #	NFRA Conclusions on Specific Questions to Stakeholders
4.16.3	<p>NFRA Conclusions</p> <ul style="list-style-type: none"> NFRA agrees that building regulatory capacity is a critical step to delivering NFRA's mandate of protecting public interest in a time bound manner. Some of the aspects relating to recruitment and remuneration of high-quality staff will require deliberation and discussion with MCA, which will be initiated.

- 1.4 NFRA gratefully acknowledges the usefulness of valuable comments made by Stakeholders and thanks them for their time and effort. NFRA considers this as evidence of their keen interest in the functioning and progress of NFRA as an Independent Regulator which is committed to work in the larger public interest.

2 INTRODUCTION – SETTING THE CONTEXT

2.1 National Financial Reporting Authority (“NFRA”), established in October 2018, is the independent regulator for accounting and auditing in India and has a responsibility to protect the public interest and the interests of investors, creditors and others associated with Public Interest Entities (“PIEs”) falling within its jurisdiction. NFRA’s Charter positions it as an organisation that should be known for *Objectivity, Integrity, Impartiality, Independence, Fairness, and Transparency*.

2.2 Purpose of this Paper

This document provides the NFRA’s Conclusions on the various questions posed in NFRA’s recent CP on Enhancing NFRA’s Engagement with its Stakeholders. This CP was issued based on a report issued by NFRA’s TAC in March 2021. A summary of the feedback received from Stakeholders on the various questions raised in the CP has also been given. The complete documents received from respondents in the public consultation process have been separately placed on the website of the NFRA at (https://nfra.gov.in/consultation_papers).

2.3 Structure and Contents of the Paper

Contents of this paper are structured as follows.

- a) NFRA Conclusions
- b) Introduction- Setting the context
- c) Summary of the comment letters and overview of feedback
- d) Feedback on specific questions in the CP and NFRA Conclusions

2.4 Overview of Public Consultation

2.4.1 The TAC’s functions include “*providing inputs from the perspectives of users, preparers and auditors of financial statements.*” As part of its remit, and in consultation with the executive body, the TAC reviewed the current engagement of NFRA with its Stakeholders, and issued a comprehensive report in March 2021. NFRA considered it useful to seek the views of the wider Stakeholder Group, and the public at large, on the recommendations of TAC and NFRA’s preliminary views thereon.

2.4.2 Accordingly, NFRA had issued a Consultation Paper in June 2021 and initially set 10 July 2021 as the last date for public comments. Subsequently, the deadline for public comments was extended to 30 July 2021.

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2.4.3 The CP had requested for comments on a total of 19 specific questions arising from the recommendations of the TAC report of March 2021.

3 SUMMARY OF COMMENT LETTERS AND OVERVIEW OF FEEDBACK

3.1 Summary of Comment Letters

3.1.1 The comment period for the CP on Enhancing Engagement with Stakeholders ended on 30 July 2021. NFRA received 17 comment letters from Stakeholders, In order to facilitate effective analysis of the views of the Stakeholders, comment letters have been grouped under following categories.

- a) Industry Bodies
- b) Research/Academia
- c) Audit Firms
- d) Individuals/others

Appendix 1 to 3 provides summary details of the content of the comment letters. The full text of the Comment Letters is also published on NFRA website at (https://nfra.gov.in/consultation_papers).

The Institute of Chartered Accountants of India (ICAI) has commented on the Report of the TAC, and has also discussed many issues related to the NFRA Rules etc., apart from providing some responses to the specific questions answers to which were sought by the CP.

NFRA has very carefully examined the comments received from the ICAI.

Presumably referring to the CP, the ICAI says that “India being a major destination for investment, this kind of document will completely harm the image of the country”. The ICAI goes on to say that “The fallacious circular argument analogies, references and hence inferences made in the consultation paper are far from ground realities' in many matters; and as such the ICAI expresses its serious concerns on one sided surrealism unleashed in TAC Report which formed the basis of instant Consultation Paper and therefore, ICAI out rightly rejects the TAC Report”.

The ICAI has also expressed fears that “The Report” (TAC Report, it is presumed) “may also harm the National interest due to change in Investment Rating and other parameters taken in consideration by the World Bank in preparing the Ease of Doing Business Report”.

As far as its understanding of the role, functions and powers of the NFRA is concerned, the ICAI says that “the mandate of NFRA as per the Companies Act, 2013 is of a consulting body, which has to run in congruence with ICAI's overall objective of Regulation and development of CA profession and not to act as a Super Regulator affecting the overall growth of the CA profession”. That this is ICAI's understanding is reiterated by the answer to Question 4.1

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dealing with the formation of Stakeholder Advisory Groups. ICAI says that “as per Sec 133 of the Companies Act, 2013, NFRA is a consultative body formed to advise MCA; in respect of the recommendations given by ICAI for setting Standards of Accounting”. Further, the ICAI opines that “in respect of NFRA’s role relating to disciplinary matters, a consultative approach should be considered to be appropriate”. NFRA is unable to comprehend what exactly a consultative approach in disciplinary matters would entail. ICAI concludes that “this task” (i.e., the formation of Consultative and Advisory group) “should be continued to be done by ICAI and therefore there is no need for NFRA to step into it”.

NFRA has been established under Sec 132 of the Companies Act, 2013. The above comments of the ICAI, when read in the context of the various sub sections of Sec 132, as well as the NFRA Rules, 2018, framed thereunder, show how way off the mark ICAI is in understanding the role, functions, and powers of the NFRA.

Given the premises on which the ICAI’s responses are based, and the ICAI’s understanding of the role, functions, and powers of the NFRA, as explained in detail above, NFRA is of the opinion that it would not be productive for it to engage with the ICAI’s responses. Hence, they have not been considered further in this Report.

3.2 Overall Feedback

- 3.2.1 This section is a summary of the overall feedback. It does not, in any manner, reflect NFRA’s conclusions on such feedback. For NFRA’s conclusions, please see Section 4 of this Report.
- 3.2.2 Overall, the respondents, who represent very important segments of NFRA’s primary Stakeholders’ group, have expressed support for NFRA’s efforts in promoting proactive Stakeholder engagement and increased communication.
- 3.2.3 The tone of the messages, the direction of the comments, and the number of suggestions made by critical segments of Stakeholders in the financial reporting supply chain, reflect the need for an independent regulator in the area of accounting and auditing, and overwhelming support to develop NFRA as an effective, independent audit regulator, able to hold its own amongst the global regulator community.
- 3.2.4 Respondents have, in general, commented on almost all the specific questions posed in the CP. In addition, a few of them have also commented specifically on NFRA’s preliminary views/action plan as mentioned in the CP.
- 3.2.5 There is overwhelming support for formation of an umbrella Stakeholders Consultation and Advisory Group (SAG) as a beginning to engage with various Stakeholders. Most of the

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Respondents have offered very useful and specific list of topics for the agenda of SAG that cover matters of interest to all key Stakeholders of NFRA.

- 3.2.6 Majority of the Respondents have expressed the need for more frequent communication by or engagement of NFRA with the Stakeholders.
- 3.2.7 There has been support for Financial Reporting Quality Review (FRQR) by NFRA in addition to Audit Quality Review (AQR). Stakeholders have supported the direction and thinking on the application of risk-based methodology for selection of companies and audit firms. A few Stakeholders have suggested that more clarification is needed on the objectives and scope of FRQR and AQR. There is a common suggestion to differentiate between Inspection and Investigation, perhaps due to the extensive and detailed reviews undertaken by NFRA in its initial AQRRs. These were cases that have had catastrophic impact on Indian economy and severe damage to the public interest.
- 3.2.8 In the context of a stand-alone law for NFRA, many Stakeholders have emphasised the urgent need for a Settlement Mechanism as the enactment of a stand-alone law is a prolonged process. Some have said that the creation of settlement mechanism within the existing framework of Companies Act is possible and some have suggested to consider SEBI Settlement Regulations for this purpose.
- 3.2.9 There is overwhelming support for revamping of NFRA's website structure and layout and introduction of Newsletters, both of which could be useful channels of communication from NFRA. There are a number of useful suggestions about the topics/matters/contents for these two channels of communication.
- 3.2.10 Stakeholders have by and large supported formulation of Strategic and Operating Plans by NFRA. Many have suggested specific focus areas in the formulation of Strategic Plan such as obtaining membership of IFIAR, Building Regulatory Capacity, Investing in emerging technologies, Initiatives to improve audit quality and financial reporting, Bridging the expectation gap in financial reporting and audit process, and Settlement Mechanism.
- 3.2.11 Stakeholders have emphasised that priority should be given for building regulatory capacity within NFRA and recommended development of teams comprising data scientists, accountants, lawyers specialised in corporate law, software engineers, forensic experts, sectoral capabilities (banking, insurance) and academicians. Some have suggested two-way staff exchange programmes with Preparers and Audit Firms and not only with global peer group of regulators.

4 FEEDBACK ON SPECIFIC QUESTIONS IN THE CONSULTATION PAPER AND NFRA CONCLUSIONS

4.1 The following table lists the topics covered and comments on specific questions requested in the CP.

TAC Report Reference	Topics and Specific Questions to Respondents
4.1.3 to 4.1.5	Question # 1 Formation of Stakeholder Consultation and Advisory Groups
	<ul style="list-style-type: none"> a) What would be a suitable list of subjects that should form the standing agenda of the Stakeholder Advisory Group? b) What would be an appropriate method for filling up positions on the Stakeholder Advisory Group? c) Would a single, comprehensive, Stakeholder Advisory Group lead to better quality of deliberations and advice, taken in an integrated perspective, rather than four separate groups that could, perhaps lead to thinking in silos?
4.1.6	Question # 2 Fellowship Programmes
	<ul style="list-style-type: none"> a) Would a nominal Fellowship amount, as opposed to a full living allowance/compensation for loss of income attract high quality professionals/academics? b) Should the Fellowship be full-time, or part-time? c) If it is to be part-time, what is the kind of minimum involvement that should be insisted upon? d) In the light of the above, is a one-year tenure appropriate, or should it be for a longer period? Or should it be only for a few months, and tailored to the specific subject that is chosen for study?
4.1.7	Question # 3 Public Speeches etc.
	<ul style="list-style-type: none"> a) Do you agree with NFRA's general approach to public communication?
4.2.1 to 4.2.2	Question # 4 Inspection Policy
	<ul style="list-style-type: none"> a) What are your comments on the objectives and scope of the FRQR/AQR Inspection Programme? b) What are your suggestions regarding the Risk-Based Methodology for choice of companies as described above?
4.3.1 to 4.3.3	Question # 5 Settlement of Disciplinary Matters and Remediation
	<ul style="list-style-type: none"> a) Do you have any specific suggestions on the contents of the stand-alone law that should govern NFRA?
4.4.1 to 4.4.2	Question # 6 Communication and Advocacy: Website Structure and Layout

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TAC Report Reference	Topics and Specific Questions to Respondents
	a) Do you have any specific model that is ideal keeping in mind NFRA's functions and duties enshrined in the Companies Act, 2013 and the related NFRA Rules 2018?
4.4.3	Question # 7 Communication and Advocacy: Newsletters a) What, in your opinion, would be the subjects/areas that Newsletters from NFRA should focus on?
4.4.6	Question # 8 Press and Media Guidance a) Do you agree with NFRA's preliminary views on communication with press and media on reports by the Authority? Do you have any alternative suggestions?
4.4.7	Question # 9 Collaboration with Universities, Institutes and Colleges a) Do you have any suggestions on viable modalities for collaboration with educational institutes?
4.6.1 to 4.6.3	Question # 10 Roadmap: Strategic Plan and Operating Plan a) Do you have any suggestions on NFRA's Strategic Goals and Priorities for the medium term?
4.7.1 to 4.7.4	Question # 11 Building Regulatory Capacity a) Do you agree with NFRA's overall approach to building regulatory capacity, as explained above? Or do you feel that this approach needs to be different, and, if so, how?

4.2 The following paragraphs analyse the Respondents views/suggestions in relation to the specific questions in the CP and lay out NFRA's Conclusions on each subject.

4.3 Question # 1 Formation of Stakeholder Consultation and Advisory Groups

(a) What would be a suitable list of subjects that should form the standing agenda of the Stakeholder Advisory Group?

Feedback

4.3.1 A large majority of Respondents (11 out of the 13 Respondents to this question) have made specific suggestions in respect of the agenda topics for the SAG. The topics suggested by Industry Bodies and Audit Firms have generally been grouped in a manner relevant to each of the 4 Advisory Groups suggested by the TAC for formation in the long run.

4.3.2 The agenda topics suggested are summarised below.

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4.3.3 Agenda Topics suggested by Industry Bodies

Preparers related (CFO Advisory Group)	Auditors related (Auditor Advisory Group)
<ul style="list-style-type: none"> • Impact assessment of proposed standards post their issuance • Potential new or amended standards and Companies Act to the extent applicable to financial reporting e.g. Schedule III amendments including interpretation issues • Alignment of roadmap of accounting standards interpretations across industry sectors, and highlighting ‘best practice’ • Impact of the change in technology and emerging trends/environments on financial reporting • Non-GAAP reporting (ESG, sustainability reporting, etc.) • Capacity building measures for corporates • Directors and conflict of interest • Conflicting related party transactions • Quality, reliability, and relevance of corporate reporting • Balancing between relevant information vs. information 	<ul style="list-style-type: none"> • Update the roles and responsibilities framework for the auditors • Auditor’s independence and ethics, including, consultation on best practices, governance related to non-audit services and fees thereof, business relationships • Existing accounting and auditing standards, quality control standards, ethics standards, and independence standards • Measures to enhance overall audit quality (say guidelines towards Audit Quality Indicators, audit documentation, etc.) • Building capacity of audit firms • Enhanced use of technology • Identify actions that will enhance the credibility of auditors

There have also been other suggestions such as seeking feedback/survey of impact of accounting and auditing developments, measures to avoid multiple regulatory oversights and process related ones such as dealing with potential conflicts of interest of participants and guarding against the pressures of special interests on the regulator.

4.3.4 Agenda Topics suggested by Research/Academia are summarised below.

- Bridging the expectation gap between auditors and other Stakeholders
- Auditor’s independence and ethics
- Capacity building within the profession
- Capacity building within the CFO's organisation

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- Development, adoption and continuous enhancement of Audit Quality Indicators
- Consistent application of accounting principles
- Emerging topics on financial reporting
- Trends in financial reporting and audit quality identified through NFRA's inspections
- Anticipating and responding to changing environment (including cross-functional disruption), emerging technologies, and related risks and opportunities
- Emerging topics on external reporting including ESG, climate change, going concern, non-GAAP measures
- Emerging topics for audit focus including solvency reporting and fraud detection
- Integration between financial and non-financial reporting
- Enhancing areas of assurance beyond financial statements (such as extended external reporting)
- Balancing information needs of Stakeholders and avoiding information overload
- Global trends and best practices in financial reporting and audit process
- Streamlining regulatory oversight for financial reporting and audit process
- Prevention of accounting /financial fraud

4.3.5 Agenda Topics suggested by Audit Firms

Preparers related (CFO Advisory Group)	Auditors related (Auditor Advisory Group)
<ul style="list-style-type: none"> • Areas requiring accounting guidance • Measures to enhance quality of financial reporting: Discussion on Internal Controls • Emerging themes/ trends (say, ESG) and the impact on financial reporting • Enhanced governance mechanism - Compliance with Laws and Regulations • Providing guidance to CFO/ Audit Committees regarding the expectations on their responsibilities • Oversight of the audit process to enhance audit quality • Whistle blower mechanisms • Impact assessment of new/ revised accounting standards (both pre and post implementation) 	<ul style="list-style-type: none"> • Accounting/Auditing Standards/Guidance Notes issued by the ICAI to the auditors • Auditor reporting requirements prescribed by the other Regulators in an audit of the financial statements • Code of Ethics issued by the ICAI • Independence requirements for an auditor specified by other Regulations/ Regulators • Emerging trends and global developments in accounting and auditing including in the International Standards • Feedback on processes / protocols followed by NFRA in relation to audit

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<ul style="list-style-type: none"> • Management Discussion and Analysis including discussion on risk factors impacting the entity • Reporting on fraud 	<p>related matters</p> <ul style="list-style-type: none"> • Conduct of surveys and outreach to the audit profession and share insights and recommendations based on such surveys and outreach • Sharing of best practices, Building capacity of audit firms • Enhanced use of technology • Emerging areas requiring auditing guidance • Inspections and enforcement: Periodically review the inspection process and evaluate ways to improve the process
<p>Investors/ users related (Investor Advisory Group)</p> <ul style="list-style-type: none"> • Enhancing relevance of financial reporting to users: Presentation and disclosures in the Financial Statements • Balancing relevant information vs. information overload • Management Discussion and Analysis including discussion on risk factors impacting the entity • Discussion on Corporate Governance • Compliance with Laws and Regulations • Reporting on fraud • Related party disclosures and transactions • Discussion on Managerial Remuneration • Discussion on corporate events and actions 	<p>Academic Advisory Group</p> <ul style="list-style-type: none"> • Accounting/Auditing Standards/Guidance Notes issued by the ICAI to the auditors • Auditor reporting requirements prescribed by the other Regulators in an audit of the financial statements • Code of Ethics issued by the ICAI • Independence requirements for an auditor specified by other Regulations/Regulators • Emerging trends and global developments in accounting and auditing including in the International Standards

One of the Audit Firms has suggested creation of 4 additional Advisory Groups and suggested agenda topics for these advisory groups as well.

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4.3.6 Agenda Topics suggested by Individuals/Others

2 of the 4 Respondents in this category have commented on the agenda topics for SAG. One of these Respondents had specifically commented in relation to financial reporting standards as follows.

- Considering the fact that the Stakeholders engagement for accounting standard-setting takes place at Accounting Standards Board (ASB) of ICAI, an impression should not be created that there is duplication of effort and precautions should be taken to prevent potential regulatory arbitrage by vested interests.
- Agenda topics could be, how to avoid carve-outs in Indian Accounting Standards which takes place through Court-schemes and Regulatory overrides and enabling mechanisms for efficient review of financial statements.

NFRA Conclusions

4.3.7 NFRA notes that the key Stakeholders generally have expectations of deliberation and discussion at Advisory Groups or Forums of NFRA in respect of a wide variety of topics covering financial and non-financial matters. While NFRA considers the range of the suggestions made by the Respondents to be useful, it will consider the totality of these suggestions at a later date as/when it builds up the required support staff. At present, NFRA considers it appropriate and relevant to include the following specific topics as the initial set of agenda items for the SAG.

- Trends in financial reporting and audit quality identified through NFRA's inspections
- Emerging topics on external reporting including ESG, climate change, going concern, non-GAAP measures
- Integration between financial and non-financial reporting
- Global trends and best practices in financial reporting and audit process
- Streamlining regulatory oversight for financial reporting and audit process

Needless to say, this list will be subject to continuous review, and amended, if felt necessary.

4.4 Question # 1 Formation of Stakeholder Consultation and Advisory Groups

- b) What would be an appropriate method for filling up positions on the Stakeholder Advisory Group?

Feedback

4.4.1 12 out of the total of 13 Respondents to this question have expressed their support for selection of members by both inviting nominations and selection by NFRA. A few Respondents have suggested nomination/selection of SAG members by the TAC. There are also suggestions for inclusion of representatives from other Regulators such as SEBI, RBI etc.

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4.4.2 Respondents have also indicated need for higher number of members i.e., 15-18 for SAG instead of 12 currently indicated by NFRA.

NFRA Conclusions

4.4.3 Respondents' suggestion to increase the number of members from 12 to 15-18 is accepted. Considering the present plan to start with a single Stakeholder group, a higher number of members as suggested is appropriate to enable adequate representation of all key Stakeholders including other Regulators.

4.4.4 In respect of the method of filling up positions, following approach/principles will be followed.

- Selection will be based on seeking nominations from Stakeholder groups, as well as public announcements.
- NFRA will make selection from the nominations and applications received.
- NFRA will prescribe eligibility, experience criteria and independence/ objectivity related requirements in consultation with TAC.
- Due consideration should be given for conflict of interest, qualifications and adequate representation from various segments
- Members will serve NFRA in their personal capacity, on an honorary basis, and not as a representative of any organization.

4.5 Question # 1 Formation of Stakeholder Consultation and Advisory Groups

- c) Would a single, comprehensive, Stakeholder Advisory Group lead to better quality of deliberations and advice, taken in an integrated perspective, rather than four separate groups that could, perhaps lead to thinking in silos?

Feedback

4.5.1 15 out of the total of 16 Respondents have expressed their view in respect of issue of Single versus Multiple SAGs. A Majority (11) of the Respondents have supported formation of a single SAG.

4.5.2 4 Respondents have advised need for formation of multiple advisory groups. One of the Audit Firms, which advocates multiple SAGs, has suggested formation of 4 more SAGs as follows.

- Audit Regulators Outreach Group including International Audit Regulators
- Inspection Programme Advisory Group
- Regulator Advisory Group
- Coordinating Group

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- 4.5.3 Total of 4 Respondents (3 from Industry Bodies and 1 Audit Firm) have also suggested empowering the SAG to constitute sub-groups or committees on a need basis.
- 4.5.4 Foundation for Audit Quality (FAQ) has suggested formation of Research Cell and also suggested inclusion of Audit Committee Members, Regulators and Standard-setters in the SAG. Bharatiya Vitta Salahkar Samiti (BVSS) has suggested formation of two more advisory groups comprising Lenders and Audit Committees.

NFRA Conclusions

- 4.5.5 Respondents' support for formation of a single advisory group is noted. NFRA will form a single Stakeholders Advisory group to start with.
- 4.5.6 NFRA will form a research cell that will, inter alia, support the Stakeholder Advisory Group.

4.6 Question # 2 Fellowship Programmes

- a) Would a nominal Fellowship amount, as opposed to a full living allowance/compensation for loss of income attract high quality professionals/academics?
- b) Should the Fellowship be full-time, or part-time?
- c) If it is to be part-time, what is the kind of minimum involvement that should be insisted upon?
- d) In the light of the above, is a one-year tenure appropriate, or should it be for a longer period? Or should it be only for a few months, and tailored to the specific subject that is chosen for study?

Feedback

- 4.6.1 12 out of the 14 Respondents to this question have confirmed that nominal fellowship amount will not attract the best talent or high-quality professionals/academics. The view expressed is that the compensation/allowances should be commensurate with prevailing opportunities (and market linked).
- 4.6.2 One of the Audit Firms has said that the institution of Fellowship programmes should not be priority area at this stage.
- 4.6.3 11 of the Respondents have preferred fellowship programme on full-time basis.
- 4.6.4 Majority of the Respondents, while preferring full-time fellowship programme, have suggested a commitment of minimum of 50% of the time for fellowship activities in the event part-time fellowship programmes are offered by NFRA.

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- 4.6.5 In respect of the minimum tenure of the fellowship programme, views of the Respondents are more or less equally divided. 6 of the Respondents have said minimum tenure of 12 months is appropriate and can be extended up to two years. 5 of the Respondents have not shown any preference for any minimum or maximum tenure, rather suggested that the fellowship programme tenure can be decided on a case-to-case basis, considering the nature of the research topics / projects being undertaken.
- 4.6.6 One of the Respondents in Research/Academia category has advised that NFRA should encourage both Practice Fellowship and Academic Fellowship programmes, which will help in the development of a more active collaboration between the NFRA and its key Stakeholders.

NFRA Conclusions

- 4.6.7 In view of the feedback from Respondents that a nominal Fellowship amount would not attract high quality professionals/academics, and that a full-time fellowship of a year's duration is necessary for meaningful output to be produced, and the present situation of inadequacy of financial and technical resources at NFRA, this initiative will be considered at a future date.
- 4.6.8 However, NFRA notes the following suggestions for action at a suitable future date.
- Both Practice Fellowship and Academic Fellowship programmes, will help in the development of a more active collaboration between the NFRA and its key Stakeholders,
 - One-year tenure with a chance to extend for another year is a good time frame
 - Fellowship amounts cannot be nominal.

4.7 Question # 3 Public Speeches etc.

- a) Do you agree with NFRA's general approach to public communication?

Feedback

- 4.7.1 A large majority (14 out of total of 16 Respondents) have responded to this question and agreed with NFRA's approach to gradually build up communication with the Stakeholders, as and when there are suitable opportunities. However, there is an expectation from the Audit Firms and Industry Bodies that regular engagement and communication by NFRA will be in line with the prevailing practices of global regulators by way of participation in investor forums, roundtable discussions, focused group meetings.
- 4.7.2 Many of the Respondents have indicated that the focus of communication through public speech should be knowledge dissemination, generating awareness about various activities/initiatives,

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etc., by NFRA, instead of dealing with any interpretation issues or specific instances leading to breach of confidentiality.

NFRA Conclusions

4.7.3 NFRA will gradually build up suitable channels such as Public Speeches for communication with the Stakeholders. The focus will be the various activities/initiatives of NFRA, knowledge dissemination etc.

4.8 Question # 4 Inspection Policy

a) What are your comments on the objectives and scope of the FRQR/AQR Inspection Programme?

Feedback

4.8.1 Almost all the (15 out of 16) Respondents have responded to the question regarding Inspection Policy. Respondents have generally accepted the two components viz. FRQR and AQR, of the NFRA's Inspection Programme. 4 Respondents have explicitly welcomed the introduction of FRQR Programme that will be focussed towards the compliance with accounting standards by the Preparers of the financial statements.

4.8.2 There have been some suggestions/comments made by the Respondents which are highlighted below.

- CII and NASSCOM have said objectives and scope of FRQR and AQR Inspection Programmes have not been amplified in the CP.
- The review should cover both financial and non-financial disclosures on a periodic basis, say once every 3 years.
- In terms of the scope of the FRQR/AQR program, all firms with large external impacts because of size, stock market listing, or borrowings from banks should be included. Top 1000 listed companies should be picked up for FRQR.
- NFRA should treat anonymous complaints and named complaints with different severity.
- There should be a clear distinction between an inspection and investigation by NFRA.
- Other Regulators SEBI, RBI or IRDAI may also be involved; in respect of FRQR, there should be an endeavour to assess compliance with laws and regulations as applicable to the entity selected for the review.
- Protocol for treating company's confidential documents by NFRA /agencies involved should be clearly defined.

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- Clarity should be provided regarding post inspection process including remediation plan and closure of findings.
- On-site inspections will enhance credibility of AQR process.
- One-time evaluation of firm's quality system of controls in each inspection cycle instead of each audit file.
- NFRA may leverage the expertise of Financial Reporting Review Board (FRRB) of ICAI, by mandating them to report irregularities in respect of entities governed by NFRA. The cases once referred to NFRA, should move out of the purview of FRRB.
- NFRA should also lay down the process of dissemination of its findings considering the broader constructive development and remediation-oriented role towards improving quality of financial reporting and audit process.
- IFIAR Core Principles should be followed.

NFRA Conclusions

- 4.8.3 NFRA will adhere to the objectives, scope, and process, of both FRQR and AQR as stated in the CP, and as are already being followed in practice. Revision of the relevant Operating Manuals followed at present for internal guidance and use will be taken up to provide clearer guidance, wherever found necessary. Suggestions received from the present Respondents, as well as the inputs from operating experience, will be evaluated and employed in the revision of the Manuals, which will be a continuous, on-going process. A high-level Statement of the Principles followed in FRQR/AQR will be separately published.
- 4.8.4 The primary responsibility for ensuring compliance with sectoral/prudential laws and regulations rests with the respective Prudential and Other Regulators. Further, the objectives of Prudential Regulations are not necessarily the same as those of the Financial Reporting Standards that are designed to meet the information needs of primary users of General Purpose Financial Reports. Therefore, it is not appropriate to enlarge the scope of FRQRs to areas other than financial reporting. For similar reasons, involvement of Prudential Regulators in FRQR and AQR is not necessary unless certain specific cases warrant a closer co-ordination between NFRA and Prudential Regulators.
- 4.8.5 On-site inspections will be considered at a later stage when the NFRA builds up adequate human resources to enable the same, and if it is found advantageous to do so. In fact, Remote Working (or so-called Work from Home) concept has gained acceptability in recent times as a new normal. Therefore, on-site inspection is not a priority at this stage.

4.9 Question # 4 Inspection Policy

- b) What are your suggestions regarding the Risk-Based Methodology for choice of companies as described above?

Feedback

- 4.9.1 In relation to the above question, 13 Respondents out of the total 16 Respondents have commented on the Risk-Based Methodology for selection of companies. 5 of the 13 Respondents have explicitly concurred with the two-factor component methodology and 2 of these have also said that the present thinking on the methodology is commensurate with one of the principles of IFIAR (Principle 9).
- 4.9.2 2 Respondents viz. FAQ and FFIAR, have suggested to consider alternative approaches. In FAQ's view, the matrix suggested by NFRA has only two dimensions, which are highly subjective, and it is unlikely to tap a broad range of companies and sectors. Further, FAQ has said the matrix will result in a certain class of companies and auditors being repeatedly selected, while another class of companies and auditors may never get selected. FAQ has suggested two alternatives; one alternative where 70% of the samples selected on objective criteria and 30% based on random basis to build in an element of surprise. Another alternative suggested by FAQ is similar to the ones suggested by other Respondents as summarised in next paragraph. FFIAR seems to suggest that said external impact is inherently more important than RoMM and, therefore, suggested a dependent sort be done, instead of an independent sort between external impact and high risk. FFIAR suggestion seems to suggest more weightage to external impact factors than RoMM.
- 4.9.3 Other Respondents have suggested following separate factors for selection of companies for FRQRs, and selection of audit firms for AQRs.
- i)FRQR Selection Factors: Defined thresholds say, turnover, market capitalization, borrowings or other parameter indicating any financial stress, modifications in audit reports, etc.
- ii)AQR Selection Factors: The size of a firm in terms of audits undertaken in a financial year may be considered to determine frequency. The objective should be to cover majority of firms over a specified period of time. In particular, Size-based matrix suggested by FAQ is as follows:
- “audit firms auditing more than 50 companies having an annual coverage, audit firms auditing 20 to 50 companies having biennial coverage and audit firms auditing less than 20 companies being covered once every 3 years.”

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iii) CII has categorically suggested that Inspection process should not aim to always cover the corresponding set of auditors and preparers.

iv) Further, there is a suggestion to clearly define the risk factors which can include economic trends, industry developments, market-capitalisation, etc.

4.9.4 An Audit Firm viz. DHS, has suggested a detailed approach for selection of samples, the key features of which are as follows:

- Separate factors are given for selection of companies for FRQR and audit firms for AQR.
- Nine risk factors are suggested for selection of companies for FRQR.
- A two-step process has been suggested for selection of audit firms for AQR i.e., initially selecting the audit firm and then selecting the individual engagement of the audit firm for an engagement level AQR.
- Audit Firms will have to be selected based on three factors and one of the factors is segregation of audit firms into two categories i.e., Category A for AQR once in 2 years and category B once in 3 years. This segregation is based on number of audits performed by the audit firm and the industry types.
- Audit files within the Audit firms will be selected for AQR based on 9 risk factors.

4.9.5 DHS has also made an observation regarding the drivers behind the identification of metrics that can potentially predict the RoMM that may either escape the attention of auditors, or could be overlooked by auditors. Instead of these two drivers, DHS has suggested that RoMM should be based on consideration of factors such as understanding the entity, its business operations, governance structure and reading its Annual Report and based on other publicly available information.

NFRA Conclusions

4.9.6 NFRA is persuaded by the merits of the following suggestions; therefore, these will be considered in the NFRA's overall sample selection methodology.

- While the predominant portion of the sample will be selected on objective criteria, based on a pre-defined selection algorithm, there will be flexibility adequate to take care of emerging events and circumstances, and also to build in an element of surprise. The algorithm will also be designed to avoid the possibility of repeated selection of only a certain class of companies while repeatedly missing out other class(es) of companies and auditors.
- External Impact factors will be accorded higher risk weight than the RoMM.

- 4.9.7 It can be observed from the above suggestions that the Respondents prefer separate and independent approaches for selection of samples for FRQR and AQR. NFRA is of the opinion that there are no advantages in such two-silo selection processes. NFRA clearly considers financial reporting as an integrated whole, and that the regulation of financial reporting with a view to improve its quality is possible and meaningful only on an integrated basis. In NFRA's view, an integrated approach for selection of companies, and the performance of FRQR and AQR simultaneously has advantages of enabling a comprehensive view of the two main strands of the quality of the financial reporting framework i.e. compliance with accounting and auditing standards. In both the FRQR and the AQR, there will be a two-step process to facilitate effective and efficient performance of the reviews by NFRA. The first step in the process is selection of Companies and its Statutory Auditors based on the risk-based methodology highlighted in the CP. The second step will be identification of significant or material areas for focus during FRQR and AQR.
- 4.9.8 In respect of AQRs, there seems to be preference for audit firm-wide AQRs instead of individual audit file-wise AQRs. NFRA understands that in relation to AQRs, this is the prevailing approach of audit regulators in US, UK, Australia and Canada, the jurisdictions with substantial concentration in the audit market. However, NFRA's initial study in this area in India indicates wide spread diversity of audits of PIEs among a large number of audit firms. This feature of the Indian Audit market is unlikely to change significantly in the near future. Therefore, the approach followed for selection of audit firms for AQRs in other jurisdictions is not necessarily suitable in India where audits are dispersed among a large number of audit firms and many of the Indian audit firms do less than 2-3 PIE audits in the Inspection cycle. Another reason mentioned to support audit firm-wide AQRs is due to the fact that some aspects of Standard on Quality Control (SQC) 1² operate at audit firm level and not at individual audit engagement level. Considering the structure of the audit market in India, review of compliance with SQC 1 in many cases of Indian audit firms will have to be performed at individual audit engagement level only. Wherever necessary in the cases of some large firms, NFRA may consider review of compliance of SQC 1 at audit firm level.

4.10 Question # 5 Settlement of Disciplinary Matters and Remediation

- a) Do you have any specific suggestions on the contents of the stand-alone law that should govern NFRA?

² Standard on Quality Control (SQC) 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

Feedback

- 4.10.1 A large majority (12 out of the 14 Respondents to this question) of the Respondents have expressed the urgent need for a settlement mechanism rather than a prolonged stand-alone law-making process. There are different views as to how this can be achieved. 6 Respondents have explicitly suggested that the settlement mechanism can be incorporated in the existing law i.e., Companies Act 2013 or the Rules thereunder. Two of the Respondents have preferred a separate stand-alone law. 1 Respondent believes Settlement of disciplinary matters is not within the purview of NFRA.
- 4.10.2 In respect of the specific suggestions on the contents of the Settlement mechanism, 6 of the Respondents have suggested consideration of the settlement scheme under SEBI (Settlement Proceedings) Regulations 2018.
- 4.10.3 A few of the Respondents have specifically suggested inclusion of provisions such as '*consent mechanism*', '*No admission of guilt mechanism*' and '*neither admit nor deny breach*' basis. One of the Audit Firms viz. DHS, has made few more specific suggestions in this regard.

NFRA Conclusions

- 4.10.4 The introduction of a Settlement Mechanism is only one aspect of a whole raft of changes that need to be brought about in the law, to more properly define NFRA's remit, and to provide it with the requisite functional, financial, and administrative autonomy for being an effective regulator. As explained earlier, NFRA needs to be positioned as a Regulator for the entire gamut of Financial Reporting, covering all processes and participants in the Financial Reporting Chain. NFRA has requested the TAC to come up with draft proposals in this regard.

4.11 Question # 6 Communication and Advocacy: Website Structure and Layout

- a) Do you have any specific model that is ideal keeping in mind NFRA's functions and duties enshrined in the Companies Act, 2013 and the related NFRA Rules 2018?

Feedback

- 4.11.1 Many Respondents have offered specific inputs as to the topics or matters that can be included in the website of NFRA. 2 respondents have suggested that the website be structured on the lines of PCAOB, US and FRC, UK.

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4.11.2 Specific topics or matters suggested by the Industry Bodies and Audit Firms are summarised in the Table below.

Industry Bodies suggestions	Audit Firms suggestions
<ul style="list-style-type: none"> • More detailed organization structure indicating composition, brief profile of officials, staff strength, composition of committees, etc. • Standard operating procedures (SOPs) in respect of standards setting, inspection plans, enforcement, and other functions of NFRA • Names and contact details of the Single Point of Contacts (SPOCs) for each function and offer to interact with Stakeholders • Number of inspections carried out, inspection process and remedial plan • Commonly noted issues/themes, arising out of the reviews undertaken by NFRA • Initiatives/projects which are planned over the next few months • Commentary on governance process • Whistle blower related contacts • Communication protocol referred to in Q3(a) 	<ul style="list-style-type: none"> • More detailed organization structure indicating composition, brief profile of officials, staff strength, composition of committees etc. • Standard operating procedures (SOPs) in respect of standards setting, inspection, enforcement, and other functions of NFRA. • Commonly noted themes, arising out of the reviews by NFRA • Initiatives/ projects which are planned over the next few months • For further transparency, consider including the following <ul style="list-style-type: none"> ✓ commentary on governance process, rules & regulation, powers and authority, policies and processes, along with strategic plan and strategic imperatives ✓ names and contact details of the SPOCs for each function ✓ number of inspections carried out, inspection process and remedial plan • Identify actions that will enhance the credibility of auditors • Public speeches, thought papers by NFRA • News article publications by NFRA • Any other guidance/ publications by NFRA

NFRA Conclusions

4.11.3 NFRA appreciates the suggestions made by various Stakeholders although there is no specific model suggested by the Stakeholders. These specific suggestions on the contents of the website will be factored-in while re-designing the NFRA's website structure and layout. However, in relation to suggestions regarding publication of contact details of officials and staff members, NFRA will further evaluate the pros-cons of such publications in the light of its effect on the NFRA's regulatory activities and the prevailing preference for minimal human interface (in the era of Faceless Regulations/Administration) in the regulatory and government administration. This will also be evaluated in the light of the requirements of Right to Information Act.

4.12 Question # 7 Communication and Advocacy: Newsletters

- a) What, in your opinion, would be the subjects/areas that Newsletters from NFRA should focus on?

Feedback

4.12.1 Considering the number of Respondents (13 out of total 16 Respondents) to this question, there is overwhelming support for publication of periodic Newsletters by NFRA. Majority of these Respondents have made specific and useful suggestions regarding the topics or subjects that can be part of these Newsletters. Significant suggestions made by the Respondents are listed in the Table below.

Industry	Bodies/Research/Academia	Audit Firms suggestions
suggestions <ul style="list-style-type: none"> • Expectation from Stakeholders in terms of corporate reporting and audit opinions. • Common irregularities noted in corporate reporting. For instance, non-compliance with accounting standards, company law, etc. • Legal positions which need to be disseminated to all stakeholder groups to ensure consistency. For example, interpretation of a section of Companies Act in consultation with Ministry of Corporate Affairs. 		<ul style="list-style-type: none"> • Activities of NFRA, including initiatives taken in various workstreams (such as accounting, auditing, inspection, and other regulatory matters). • Emerging issues/trends (both local and international) requiring accounting and auditing guidance. • Legal positions which needs to be disseminated to all stakeholder groups to ensure consistency for example interpretation of section of a company

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<ul style="list-style-type: none"> • Benchmarking of the audit inspection findings against audit quality indicators. • Activities of NFRA, such as initiatives taken in various workstreams (such as accounting, auditing, inspection, and other regulatory matters), policy initiatives, etc. • Emerging issues/trends (both local and international) requiring accounting and auditing guidance. • Summary of findings/learnings arising from inspection process. • Measures towards capacity building undertaken by NFRA. • Strategic plan and upcoming activities, say over a period of next 6 to 12 months. • its collaboration efforts with international bodies. 	<ul style="list-style-type: none"> law in consultation with Ministry of Corporate Affairs. • Summary of findings/ learnings arising from inspection process. • Measures towards capacity building undertaken by NFRA. • Strategic plan and upcoming activities, say over a period of next 6 to 12 months. • Summary of important decisions taken at the meetings of the governing body of NFRA. • Recent accounting and auditing developments. • Summary of research projects undertaken under the Fellowship and / or another program.
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NFRA Conclusions

4.12.2 NFRA acknowledges the Stakeholders' expectation of periodic Newsletters as an important means of communication in many areas of interest to them. The topics/matters suggested will be very useful and relevant to NFRA as and when it commences this initiative. The Newsletters will focus on information that is factual, and related to activities of NFRA.

4.13 Question # 8 Press and Media Guidance

- a) Do you agree with NFRA's preliminary views on communication with press and media on reports by the Authority? Do you have any alternative suggestions?

Feedback

4.13.1 A large majority (13 out of 16) of the Respondents have agreed with NFRA's preliminary views on communication with Press and Media. In particular, NFRA's preliminary view in the CP mentioned issue of Press Releases, in addition to Executive Summaries posted on website, in cases of material or significant impact to public interest. In addition, there have been a few specific suggestions from Industry Bodies and Audit Firms relating to

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i)Timing of Press and Media Interaction: Practice to release a media statement/ publication of reports before final determination of such matters in a court of law can cause significant reputational damage to the concerned parties, the profession at large and is unlikely to increase the confidence of Stakeholders in financial reporting or audit quality in the country. A suggestion has been made to have a limited Press interactions until the closure of inspection/investigation.

ii)Confidentiality: In this regard, a few specific suggestions made are as below:

- It is suggested to NFRA to give due consideration to confidentiality related aspects, while dealing with any matters arising from investigation and inspection process of NFRA. AQR Reports and Disciplinary reports should not be published in full but only in summary form.
- Naming individuals/entities should be strictly avoided. Inspection results should be anonymized and communicated periodically only in aggregate.

4.13.2 A few Respondents have agreed with NFRA's preliminary views on NFRA App i.e., it is not necessary to facilitate easy access to information.

NFRA Conclusions

4.13.3 NFRA is bound by the provisions of the law. NFRA is also of the opinion that these provisions, including on publication and confidentiality, are, on an objective assessment, fully compliant with the principles of natural justice, and are designed to serve the public interest. The suggestion by Industry Bodies and Audit Firms to withhold information before 'final' (not clear what this means) determination of such matters in a court of law is entirely self-serving and unknown to any system of jurisprudence. Acceptance of these demands would completely destroy any chances of effectiveness of Financial Reporting Regulation.

4.14 Question # 9 Collaboration with Universities, Institutes and Colleges

- a) Do you have any suggestions on viable modalities for collaboration with educational institutes?

Feedback

4.14.1 Of the total 13 Respondents to this question, 11 have supported the initiative of NFRA's collaboration with Universities, Institutes and Colleges. One Audit Firm has advised to reconsider the priority of this initiative and another Respondent (BVSS) has suggested to leave this aspect to ICAI.

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4.14.2 FAQ, a Respondent in the Research/Academic category has specifically suggested to NFRA to engage with ICAI to develop curriculums that are best suited for the new-age auditor and new age finance professionals. One of the Audit Firms viz. SRB, has suggested inclusion of Section 132 in the syllabus / course material of relevant course at the graduation and post-graduation level through dialogue between NFRA and UGC. It has said it will help create awareness about the purpose, role and functions of NFRA.

4.14.3 In respect of the question of viable modalities of collaboration with educational institutes, some have made useful suggestions which are summarised below.

- Annual academic research forum, literature reviews, etc., as part of the standard-setting work; an example quoted by a Respondent in this regard is the use of findings of empirical research by the IASB in its standard-setting project on subsequent measurement of Goodwill
- Joint research studies on identified topics under the fellowship programme
- Secondment of resources (with identified skill sets)
- Nomination/participation as special invitees in the Advisory Groups constituted by NFRA
- Training programmes and knowledge dissemination activities
- To facilitate research, the MCA Corporate Filings website should be patterned after the US sec.gov website so that users can quickly access the data that they need

NFRA Conclusions

4.14.4 NFRA will consider the following suggestions.

- Universities can be engaged by providing researchers with a forum to present their research.
- Universities can be requested to undertake empirical research in areas that will be relevant to decide matters like need for carve-outs in Indian Accounting Standards. To facilitate research, the MCA Corporate Filings website should be patterned after the US SEC website (<https://www.sec.gov/>) so that users can quickly access the data that they need.

4.15 Question # 10 Roadmap: Strategic Plan and Operating Plan

- a) Do you have any suggestions on NFRA's Strategic Goals and Priorities for the medium term?

Feedback

4.15.1 There is overall appreciation acceptance for development of Strategic Plan and Operating Plan wherein 15 out of total 16 Respondents have supported/commented on this area. Three of these

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15 Respondents have suggested to have short-term or medium-term goals rather than 5- year Strategic Goals. The reasons for the same are dynamic nature of the operating environment.

4.15.2 In respect of the Strategic Goals and Priorities, following areas have been suggested as areas of priorities.

- Membership of IFIAR
- Audit quality indicators & Measures to enhance audit quality
- Overall enhancement of quality of financial reporting including the relevance to the users
- Enhanced stakeholder engagement in a transparent manner to build confidence between the regulators and the profession/ preparers
- Streamlining of inspection process to make it constructive and improvement oriented; Bring in proportionate enforcement and monitoring plan
- Settlement and remediation mechanism
- Capacity building measures for the audit profession
- Strengthening the resources and skill sets available with NFRA
- Investment in emerging technologies
- Bridging the Stakeholders' expectation gap in respect of the financial reporting and audit process
- Measures to avoid overlap with other regulatory bodies; Engage effectively with other regulators, domestically and globally
- Identify emerging audit risks and trends

4.15.3 FAQ, a Respondent in the Research/Academic category has suggested 3 focus areas on the evolving needs with an eye on '*Corporate Reporting of the Future*' and '*Auditor of the Future*'. NFRA should seek to play a pivotal and proactive role in shaping the future in both areas.

1)Future shape of corporate reporting: Investors and users of corporate reports are now increasingly focusing on information beyond the financial statements, such as ESG (Environment, Social and Governance) and sustainability reports and other sources of non-GAAP and non-financial information. It is therefore inevitable that corporate reporting will soon need to evolve towards an integrated corporate reporting framework, covering both financial and non-financial elements, in line with the integrated thinking and strategy of the organization.

2)Role of technology: Technology, in particular the emerging technologies, including data analytics and blockchain have transformed almost all areas of a company's operations, including finance, and this is changing the way it transacts with its external Stakeholders and also how these transactions are recorded, analysed and reported. This requires auditors to also

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embrace technology in newer ways, and conduct audits using technology and analytics, moving away from traditional approaches of sampling to auditing the entire population to identify exceptions.

3) Enhancing scope of audit: There is a growing expectation from various Stakeholders that auditors, as part of their audit, should be able to highlight risks around corporate failure and solvency as well as in detecting large frauds. As the global debate on this between regulators, lenders, investors, companies and auditors makes progress, we can expect to see the scope of audit being enhanced to meet these expectations.

- 4.15.4 One of the Respondents (BVSS) has suggested NFRA to take a lead and play a proactive role in the international standard-setting activities, but jointly with ICAI. An audit firm viz. DHS, has suggested to prioritise Strategic Goal 2 “Develop High Calibre Technical Resources”. Another Respondent has suggested to sub-divide the Operating Plan into ‘FRQR’ and ‘AQR’.

NFRA Conclusions

- 4.15.5 NFRA recognises the dynamic nature of the present world and the need for flexibility to quickly align the plans to changing scenarios, Therefore, NFRA is persuaded by the suggestion to consider having a series of short-term goals to achieve its objectives instead of Medium and Long-term plans.

4.16 Question # 11 Building Regulatory Capacity

- a) Do you agree with NFRA’s overall approach to building regulatory capacity, as explained above? Or do you feel that this approach needs to be different, and, if so, how?

Feedback

- 4.16.1 There is overwhelming support by 15 of the 16 Respondents, rather many have emphasised its priority, for addressing the area of Building Regulatory Capacity within NFRA. In the CP, NFRA had discussed this aspect into parts viz. Human Resources Management in a holistic manner, Training and Short-term Staff Exchanges with prioritisation of exchanges with global peer groups.
- 4.16.2 There have been some specific suggestions made/views expressed by the Respondents and the significant ones are highlighted below.
- i) Two-way staff exchanges with Preparers and Auditors may be considered.

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ii) Trainings and staff secondments would not be enough and NFRA should also work towards increasing its staff strength as that will strengthen its inspection, investigation and enforcement functions.

iii) NFRA needs to develop teams comprising data scientists, accountants, lawyers specialised in corporate law, software engineers, forensic experts, sectoral capabilities (banking, insurance) and academicians. The members need to have depth of knowledge within their respective areas as also possess broad expertise across functional areas.

iv) Benchmarking with other regulators; Membership of IFIAR and adoption of best practices.

v) Ensure adequate payment to talented resources; a separate and distinct cadre of '*Accounting Staff*' may be established within the Government Services to remunerate and retain high quality staff.

vi) BVSS has said capacity enhancement should be taken up fast. It has also said if the intention is to build the NFRA on equal pedestal as PCAOB and FRC, the lawmakers must be convinced to bring out a separate law for that.

NFRA Conclusions

4.16.3 NFRA agrees that building regulatory capacity is a critical step to delivering NFRA's mandate of protecting public interest in time bound manner. Some of the aspects relating to recruitment and remuneration of high-quality staff will require deliberation and discussion with MCA, which will be initiated.

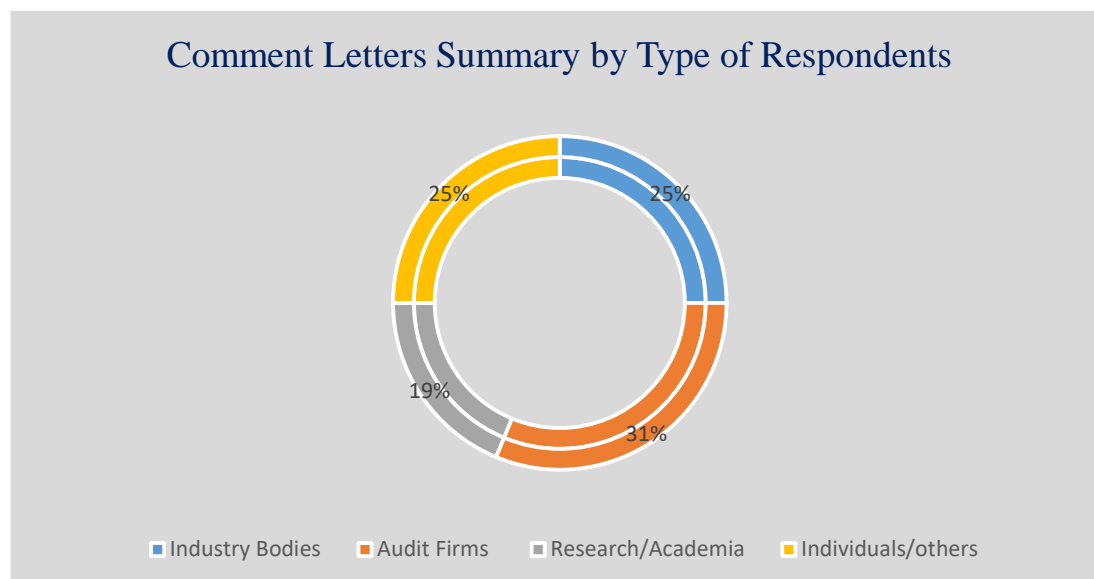
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Appendix I

List of Respondents to the Consultation Paper*		
Sl.No.	Name of the Respondent	Type of Respondent
1	Confederation of Indian Industry (CII)	Industry Body
2	NASSCOM	Industry Body
3	Bharatiya Vitta Salahkar Samiti (BVSS)	Industry Body
4	ASSOCHAM	Industry Body
5	Arun Jaitley National Institute of Financial Management (AJNIFM), Ministry of Finance, Government of India	Research/Academia
6	Foundation for Audit Quality (FAQ)	Research/Academia
7	Forum For Indian Accounting Research (FFIAR)	Research/Academia
8	Walker Chandiok & Co LLP	Audit Firm
9	S.R. Batliboi & Affiliates	Audit Firm
10	Deloitte, Haskins & Sells LLP (DHS)	Audit Firm
11	BSR &Co. LLP	Audit Firm
12	Price Waterhouse	Audit Firm
13	Mr Abhishek Mahawar	Individual/Others
14	Excellence Enablers Private Limited	Individual/Others
15	Dr. Avinash Chander, Former Technical Director, ICAI	Individual/Others
16	Dr Vijay Kapur, Former Director, ICAI	Individual/Others
17	The Institute of Chartered Accountants of India (ICAI)	Professional Body
* Above list excludes 1 comment letter by the name Dinesh Trading which is not relevant to CP.		

Appendix 2

Overview of the comment letters by the Type of Respondents



Respondent Type	Number	Percentage
Industry Bodies	4	25%
Audit Firms	5	31%
Research/Academia	3	19%
Individuals/others	4	25%
Total	16	100%

Appendix 3

Overview of the comment letters by the Type of Questions

