



**PUBLIC COMMENTS RECEIVED**  
**on Questions Posed in Consultation Paper**  
**based on**  
**Report of the Technical Advisory Committee on**  
**Enhancing Engagement with Stakeholders**

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Confederation of Indian Industry

# **CII's views on NFRA's Consultation Paper on Enhancing Engagement with Stakeholders ("the Paper")**

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## **Background**

The Confederation of Indian Industry (CII) greatly acknowledge the contribution made by the National Financial Reporting Authority (NFRA) in protecting the public interest and the interests of investors, creditors and others associated with public interest entities falling within the NFRA jurisdiction, by establishing high quality standards of accounting and auditing, and exercising effective oversight of accounting functions performed by the companies and bodies corporate and auditing functions performed by auditors.

The NFRA is the first independent Regulator for accounting and auditing in India. It is indeed heartening to recognize that the NFRA is a unique body considering the scope of its functions and duties encompassing a wide engagement with the financial reporting aspects of public interest entities (PIEs) i.e., right from a critical role in Standard-setting, to ensuring effective compliance with those Standards by stakeholders. The NFRA has greatly contributed to improve the quality of corporate financial reporting in the country.

CII greatly appreciate and welcome NFRA's initiative to set up a Technical Advisory Committee (TAC) with regard to enhancing engagement with stakeholders and for providing inputs from the perspective of users, preparers, and auditors of financial statements and advise on suitable methods for promoting awareness relating to compliance with accounting and auditing standards. It is valued that the NFRA is seeking comments and suggestions of stakeholders on the TAC recommendations. It is also encouraging that NFRA has expressed its preliminary views/proposed actions thereon, to provide clarity and thought process.

While thanking NFRA for providing the opportunity, CII has engaged with relevant stakeholders on the Consultation Paper on the issues outlined therein, viz., stakeholder engagement, inspection policy of NFRA, communication and advocacy, roadmap for NFRA functioning, building regulatory capacity etc. and submit the comments for kind consideration.

## **Key objectives of the Paper**

The key objectives of the Paper are to seek inputs from various stakeholders on certain identified areas, which are critical to enhance the stakeholders' engagement. It is also noted that many of the identified areas and related recommendations are aligned with the best practices followed by other global regulators. The areas covered through this Paper will go a long way in building and enhancing trust and confidence of various stakeholders in NFRA and will help in aligning the processes and systems of NFRA, in line with the global regulators.

Our suggestions on the questions raised in the Consultation Paper, have been summarized in the below section:

## **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?**

The formation of a single Stakeholders Advisory Group, with an objective to extend the dialogue with corporates, investors, auditors, and other stakeholders, and give them additional and tangible opportunities to assist NFRA in accomplishing its mission, is a welcome step.

Section 132 of the Companies Act, 2013 empowers NFRA to make recommendations concerning the contents of professional standards (both accounting standards and auditing standards). Among other things, the following may be considered as the standing agenda of Stakeholder Advisory Group:

#### **Preparers related**

- 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 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
- Quality, reliability, and relevance of corporate reporting
- Balancing between relevant information vs. information overload in Annual Reports

#### **Auditors related**

- Refresh the roles and responsibilities framework for the auditors
- 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

#### **Other matters**

- Seek feedback/survey of impact of accounting and auditing developments from preparers of financial statements, audit firms, audit committees and investors. An example of current PCAOB stakeholder engagement in practice is the staff white paper "Stakeholder Outreach on the Initial Implementation of CAM Requirements" (2020). The paper reflects those practices advocated in the OECD guidance, notably a

structured, transparent engagement strategy. Further the paper provides the impact assessment of proposed requirements, a key point in the ICSA guidance.

- Recurring themes and trends arising out of inspections of preparers (such as around adoption of Accounting Standards)
- Recurring themes and trends arising out of inspections of auditors (such as around compliance with auditing standards).

### **Process orientation**

- The agenda must be defined at a granular level. The purpose should be to allow corporates the required freedom, while also enhancing trust in the capital markets. Further, the agenda may be implemented in a calibrated manner and communicated with transparency.
- The process of engagement should consider dealing with potential conflicts of interest of participants and guard against influence of special interests on the regulator. This may be achieved by way of:
  - inclusivity, which would allow any member of the public to contribute or comment or propose, not just representative groups, thus building confidence that all views are heard; and
  - transparency, which may include publicly documenting basis of conclusions/decisions and process of consultation. This may protect the regulator from suggestions of capture or failure to listen to an array of views and build confidence in the regulatory system.

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

- It is agreed that the view of NFRA that membership of the Stakeholder Advisory Group (SAG) should be by inviting nominations, as well as by selection by NFRA, with reasonable representation from industry, regulatory bodies (MCA, SEBI, IRDAI, RBI, etc.), experienced statutory auditors, subject matter experts (including experts on company law, valuation, tax, forensic and technology), investor groups (including proxy advisors and analyst groups), governance team (say audit committee chair, independent director) and academicians is acceptable.
- The number of members can range between 15 -18 since there would be a need to include all the four main stakeholder categories, as identified by the TAC. Also, it is agreed that there should be enough flexibility to increase the number of members depending upon the circumstances.

### **(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?**

A single, comprehensive Stakeholder Advisory Group (SAG), with sub-groups, as suggested in

response to Question 1(b), would lead to better quality of wholesome deliberations and advice, not only in the short term, but also in the long run. A single group approach would have the following benefits:

- Consideration of all viewpoints at one forum, resulting into holistic evaluation of relevant matters
- Resolution of conflicting views/interests, with dialogue amongst various stakeholders, at the level of the SAG
- Faster decision making and conflict resolution
- Single recommendation outcome for consideration of NFRA
- Better appreciation of varied perspectives by different user groups

As with all groups whose works have a wider application or impact multiple stakeholders, the SAG should be an inclusive group, in terms of gender, skills, maturity and representation. The purpose should be to create a group that is sufficiently representative so as to obtain and critically evaluate varying views.

The SAG should be empowered to constitute sub-groups with an endeavor to perform focused group discussions and efficient working, which, in turn, may be considered by the SAG for final deliberations. It may be important to empower SAG, granting them adequate authority to select members, agenda, etc., for the sub-groups, to deal with specific matters. There should be mandatory deliberations between the SAG and NFRA, while NFRA will remain the final authority on all the matters. As mentioned earlier also, the basis of conclusions by the SAG/NFRA should be made public to ensure transparency and objectivity of the process, while maintaining confidentiality of the detailed discussions and the parties involved.

## **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?**

Fellowship Program, which focuses on integrating academics into NFRA projects, may be a useful way to seek external perspective, wherein data collected by the NFRA through its oversight activities can be analyzed by the professionals/academics. It will also provide opportunity to professional/academics to work on key projects and research of professional importance.

Topics of research may include audit quality indicators; audit expectation gap, non-GAAP measures, etc.

The allowances/compensation should be commensurate with the prevailing opportunities (and market linked), so as to encourage experienced professionals/academics, to opt for the fellowship programs. Nominal Fellowship amounts (without access to other remuneration) may not attract the best talent. However, nominal Fellowship amounts (with access to regular ongoing remuneration from the current employer) may require addressing perceived conflict of interest situations.

NFRA may also encourage secondment of experienced staff from industries and audit firms to supplement their resources and experience, subject to guidelines relating to conflict of interest and confidentiality, as is the practice in mature geographies.

**(b) Should the Fellowship be full-time, or part-time?**

The fellowship programme should preferably be on a full-time basis so that the relevant professionals are committed to quality time to conduct research studies and produce high quality recommendations.

**(c) If it is to be part-time, what is the kind of minimum involvement that should be insisted upon?**

While it is believed that a full time fellowship programme would be preferable, if a part time programme is to be considered, it should be with a defined minimum time commitment (say 50% of the time to be spent on fellowship activities) and there is adequate physical and human resource infrastructure, for effective research and monitoring of the time spent by the fellow scholars.

**(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?**

Minimum tenure of such programs should be twelve months which may be extended to a maximum tenure of two years. Within the overall timelines, there should also be periodic milestones for each of the research matters, at which the fellow scholar should update on the progress made, so that the overall timelines may be monitored and adjusted, as required.

### **Question # 3 Public Speeches etc.**

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

NFRA's general approach to public communication on selective basis, considering the overall objective with which NFRA is established is appreciable. However, considering that global regulators have been engaging more frequently with stakeholders through investor forums, roundtable discussions, focused group meetings, NFRA is requested to consider the recommendation of TAC regarding public communication after establishing a well deliberated communication protocol, which should be hosted on the website of NFRA for wider understanding. For example, NFRA Chairman/Executive Committee Members may be allowed to make communication in focused group meetings (round table discussions).

Such communication has become increasingly important in view of the increasing expectation gap and to help in establishment of trust and transparency in the regulatory operations.

The focus of communication through public speech should be of knowledge dissemination, generating awareness about various activities/initiatives, etc., by NFRA, instead of dealing with any interpretation issues or specific instances leading to breach of confidentiality. This will avoid any inconsistent interpretation/application of a principle, based on a limited understanding and

varying interpretation by the audience.

## Question # 4 Inspection Policy

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

The objectives and scope of Financial Reporting Quality Reviews (FRQRs)/Audit Quality Reviews (AQRs) Inspection Programmes have not been amplified in the Consultation Paper. However, the following may be considered in this regard:

- The credibility of the AQR process would be significantly enhanced and facilitated if the inspections were to have an on-site component, at the premises of the audit firm.

As a part of onsite inspection, the inspection team should familiarize themselves with the systems and processes followed by an audit firm to enable it to comply with and conform to applicable auditing standards, guidance etc in the execution of its audits. In respect of financial reporting quality review, in addition to checking compliance with company law, there should be an endeavor to assess compliance with laws and regulations as applicable to the entity selected for the review, for example in case of bank/insurance companies, compliance with RBI/IRDAI guidelines.

- NFRA may also consider leveraging 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.
- The Market Regulator (SEBI, RBI, IRDAI) may also be involved when the issues are seen as systemic to the financial/capital markets/specific sectors. These are likely to involve more than one corporate/audit firm or the whole profession.
- There should be a clear distinction between an inspection and investigation by NFRA. Investigations should only be undertaken by NFRA only in specific circumstances. Investigations should be undertaken by a specialist team within the regulator or on their behalf when specialist knowledge or expertise is needed (e.g. a forensic audit).
- The process and approach, separately for inspections and investigations, should be transparent and clearly set out. The scope of inspections should be defined upfront and should not be expanded. However, for investigations, it is appreciated that where some new evidence comes to light, there may be a need to expand the scope or require investigating agencies to do so.
- NAFRA should treat anonymous complaints and named complaint (where it should maintain confidentiality of the complainant) with different severity.
- Care should be taken, to ensure that the inspections of preparers and the inspections of auditors, should not result in an unintended damage to the reputation of the corresponding

other. Confidentiality should be maintained at least until the conclusion of the inspection process.

- Inspection process should clearly lay down the stages involved in the inspection and the format of the review report.
- Procedure on how to treat company confidential documents by NAFRA /agencies involved should be clearly defined. Especially where there are client contractual obligations/other regulatory conflicts or the global privacy regulatory requirements.
- Procedure on how to treat audit work papers (including work papers that include extracts of company documents) confidential by NAFRA /agencies involved should be clearly defined having regard to similar obligations and constraints.
- Clearly define the confidential document archival/redaction process during and post the investigation/inspection.
- Clearly define how the confidentiality of the entire matter will be maintained and actions to be defined for violation of the same by anyone involved in the process (NAFRA employees, third party agencies, etc.).
- Clarity regarding post inspection process, including, remediation plan and closure of findings
- NFRA's expectations from stakeholders should be clearly defined.

The below core principles of International Forum of Independent Audit Regulators (IFIAR) may be examined and adopted by NFRA:

- Recurring inspections should be conducted according to a process comprising the selection of the audit firms to inspect. Requirements should also include appointment of an inspections team with appropriate expertise and competence, notification to the audit firm, advance documentation requests, notification of selection of audit engagements for review, meetings with management, and on-site inspection arrangements.
- The inspection process should be subject to appropriate internal quality control within the audit regulator to ensure high quality and consistency.
- Audit regulators should ensure that a risk-based inspections program is in place and that they have a process for taking their risk assessment into account when allocating inspection resources and in choosing inspection approaches.
- Audit regulators should ensure that inspections include effective procedures for both firm-wide and file reviews. The risk-based inspection approach should also be reflected in both firm-wide and audit file inspection procedures.
- Audit regulators should have a mechanism for reporting inspections findings to the audit firm and ensuring remediation of findings with the audit firm. Audit regulators' reporting processes should include the preparation and issuance of a draft inspection report, a

process for the audit firm to respond, and the preparation and issuance of a final inspection report.

Reference may also be drawn from the review programmes of ICAI, related to preparers (reviews by FRRB of ICAI) and auditors (Quality Review Board of ICAI).

Further, quantitative criteria should be laid down for frequency of audit quality reviews to be carried out for larger firms and for smaller firms. NFRA will in any way have the discretion to pick up companies/auditors, where the public interest is involved, to ensure an element of unpredictability.

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

The present thinking on the methodology and criteria for selection of companies and focus areas for FRQRs and AQRs commensurate with one of the Principles of IFIAR, which requires development of a risk-based methodology by the regulators.

Since the concept of NFRA framework is built around a foundational concept of Public Interest Entities, these should act as the starting point for a further classification that can help in drawing up the operational action plan.

It is acceptable that the criteria to be used in the selection methodology can be divided into (i) External Impact Factors; and (ii) Risk of Material Misstatement (“RoMM”) Factors. The following suggestions with regard to the selection methodology are submitted below:

- The success of the methodology will depend on clear definitions of the elements in each of the broad criteria and availability of credible and quantifiable data for computing risk profiles. Hence, the risk factors in respect of preparers and the practice units must be clearly defined. The risk factors may include economic trends, industry developments, market-capitalization size/changes, inspection history, etc.
- The selection of companies for the purposes of FRQRs should be based on defined thresholds (say, turnover, market capitalization, borrowings or other parameter indicating any financial stress, modifications in audit reports, etc.) applied to a stratified population. In this, certain strata may be covered more frequently (such as those above a certain size, industry, impact of public interest), and others with the lesser frequency. Other considerations in the choice of selection could be weightage to qualitative factors, such as listed/unlisted, inspection history etc., and building in unpredictability in its sample selection.
- The objective should be to cover majority of firms over a specified period of time. The size of a firm in terms of audits undertaken in a financial year may be considered to determine frequency.
- The frequency and coverage of the inspection should be commensurate with the capacity of NFRA and availability of experienced pool of reviewers.

- Inspection process should not aim to always cover the corresponding set of auditors and preparers. While the focus and objective of FRQR would be on financial reporting, the focus of AQR would be compliance with the auditing standards.
- Inspections should be a regular ongoing process in general, whereas investigations may be triggered by specific events.

## **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?**

While a standalone law governing NFRA may involve a prolonged process, the required changes in the framework, to attain the goals sought by NFRA may also be enabled within the remit of the Companies Act itself, by an amendment to the Act or by issuance of Rules.

It is appreciated that the discussion in the consultation paper (para 4.3, pages 18-19) regarding a settlement mechanism, for companies and audit firms, which seems to be an immediate requirement and may be more expeditiously incorporated in the Companies Act itself, or by issuance of Rules.

It is indeed an effective and vibrant capital market and to reduce prolonged litigation

NFRA may also consider the route of ‘consent mechanism’, as is prevalent in SEBI regulations and other territories, whereby, financial penalty may be levied, besides a remediation/monitoring plan. Further, the SEBI (Settlement Proceedings) Regulations 2018, has established a detailed framework around settlement mechanism, which may be considered by NFRA.

There should be a mechanism to settle on no admission of guilt basis (similar to what is there in other jurisdictions). Most authorities agreed that procedures take a lot of time. So, if prima-facie they believe the issue is a small impact (C class) item, then the case officer should be authorized to settle the case for a monetary fine. The company or audit firm should be allowed to pay the settlement amount without having to admit wrongdoing.

## **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?**

It is appreciable that NFRA acknowledges the relevance of website to be a key means of communication of the Authority’s role and responsibilities, and to disseminate information about its various activities. Further, it is noted that NFRA agrees with the TAC that its website should serve the critical information needs of its key stakeholder groups in an effective and efficient manner. Below components may be considered for inclusion on the website:

- NFRA’s expectations from stakeholders

- 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 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 blow related contacts
- Communication protocol referred to in Q3(a)

## **Question # 7 Communication and Advocacy: Newsletters**

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

Considering the overall objective with which NFRA is established, the Newsletters from NFRA could focus on the following subjects/areas (illustrative):

- 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.
- 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
- Summary of important decisions taken at the meetings of the governing body of NFRA
- Summary of research projects undertaken under Fellowship program.

## **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?**

It is noteworthy that the NFRA's preliminary views on communication with press and media on reports by the Authority. Executive Summary of FRQR and AQR and other Disciplinary Orders

may be used by media/press. However, such media interactions must ensure confidentiality considerations.

Below points may be considered by NFRA in this regard:

- to leverage experience of some of the experienced global regulators (PCAOB, FRC, etc.)
- to make a clear distinction between inspection and investigation in all press and media releases
- to give due consideration to confidentiality related aspects, while dealing with any matters arising from investigation and inspection process of NFRA.
- a proper documented policy on interaction with press and media, which is also made public.

Within the generality of the points above, it would serve the public interest if:

- Press interactions are limited until the closure of inspection/investigation. Interim reports, interaction should only be after seeking additional approvals within NFRA. All interim reports should state only facts and not interim views or probabilities/possibilities or any stretched hypotheses.
- Naming individuals/entities should be strictly avoided. While the matter under investigation might be disclosed if the amount is material on conclusion of investigation no other information should be with the press/media.
- Inspection results should be anonymized and communicated periodically only in aggregate.

## **Question # 9 Collaboration with Universities, Institutes and Colleges**

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

The engagement and collaboration with educational institutes will provide high-quality research. Modalities for collaboration could be in various forms:

- Annual academic research forum, literature reviews, etc., as part of the standard-setting work
- 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

## **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?**

NFRA's Strategic Goals and Priorities, say for 5 years (2022-27) are acceptable. Additionally, it is requested NFRA to consider including a strategic goal on harmonization of regulations and avoidance of overlap of multiple regulators, by establishing a collaboration platform with other regulators.

The following areas may also be considered as strategic goals and priorities:

- Membership of IFIAR
- Audit quality indicators and 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 professionals/preparers
- Streamlining of inspection process to make it constructive and improvement oriented
- Settlement and remediation mechanism
- Capacity building measures for the audit profession
- Strengthening the resources and skills available with NFRA
- Investment in emerging technologies
- Consider divisional segregation of the regulation of preparers and regulation of auditors to enable an appropriate focus on each, in a manner consistent with its overall objectives
- Bridging the stakeholders' expectation gap in respect of the financial reporting and audit process.

## **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?**

NFRA's overall approach to building regulatory capacity is a welcome step. Exchange program with auditors/preparers will not only accelerate the regulatory capacity development but will also instill confidence of many stakeholders. NFRA should ensure to establish adequate independence and ethical norms for such exchange programmes. Protocols followed by regulators like PCAOB, are well tested for years and can always be made more stringent depending upon the territorial requirements.

Below points may be considered by NFRA in this regard:

- Two-way staff exchanges (secondment) may be considered with auditors, preparers, and overseas regulators (PCAOB and the FRC).
- Devise a system for secondment of resources based on their experience and skill set.
- Personnel responsible for inspection and other audit quality related activities should have relevant industry and professional experience.
- Further, the personnel with specialized skills, such as valuation, IT, banking, Forensic, sectoral capabilities (banking, insurance) should also form part of NFRA considering greater involvement of specialists in large and complex audits.
- Benchmarking with other regulators
- Membership of IFIAR and adoption of best practices
- Ensure adequate payment to talented resources
- Ensure the available capacity vis-à-vis the inspection volume

## Conclusion

It is appreciated that the initiative undertaken by the NFRA would help build regulatory capacity and governance mechanism and implement various means to enhance engagement with the stakeholders. The areas identified by the NFRA in the Consultation Paper are of key importance to the industry and the economy and hence, its implementation will go a long way in building the trust and confidence among stakeholders and the Regulator. This sure will also help achieve the core objective of the NFRA i.e. '... to protect the public interest and interest of investors, creditors and others associated with Public Interest Entities...'.

CII once again thank the NFRA for giving the opportunity to provide comments on the Consultation Paper. CII sincerely appreciate that TAC recommendations would help in deliberating and fostering a continuous and constructive dialogue among stakeholders with the Regulator. An ongoing and engaging communication between Industry and the Regulator on pertinent issues highlighted in the Consultation Paper and other emerging issues would empower the constructive partnership between the Industry and NFRA for balancing the regulatory expectations and for protecting interest of investors and other stakeholders.

**NASSCOM's Response on NFRA's Consultation Paper  
on Enhancing Engagement with Stakeholders**

**July 2021**

**A. Background**

At the outset, we would like to thank National Financial Reporting Authority (NFRA) for taking this positive step towards setting up Technical Advisory Committee (TAC) and releasing a consultation paper for enhancing engagement with stakeholders and seeking public comments. The Consultation Paper sets out recommendations on certain identified areas, which are critical to enhance the stakeholders' engagement.

**B. NASSCOM's Response to specific questions listed in the Consultation Paper**

The areas covered in the Consultation Paper will go a long way in building and enhancing trust and confidence of various stakeholders in NFRA and will help in aligning the processes and systems of NFRA, in line with the global regulators. Our suggestions on the questions raised in the Consultation Paper are provided below:

**QUESTION # 1 FORMATION OF STAKEHOLDER CONSULTATION AND ADVISORY GROUPS****a) What would be a suitable list of subjects that should form standing agenda of Stakeholder Advisory Group?**

The formation of a single Stakeholders Advisory Group with the objective of enhancing dialogue with corporates, investors, auditors and other stakeholders, and give them additional opportunities to assist NFRA in accomplishing its mission, is a welcome step. Based on inputs from Industry, the following may be considered as the standing agenda of Stakeholder Advisory Group:

**Preparers related**

- Impact assessment of proposed standards, post their issuance;
- Impact of new/amended standards and Companies Act, 2013 to the extent applicable to financial reporting;
- Impact of change in technology and emerging trends/environments on financial reporting;
- Capacity building measures for corporates;
- Quality, reliability, and relevance of corporate reporting;
- Balancing between relevant information vs. information overload in Annual Reports.

**Auditors related**

- Refresh roles and responsibilities framework for the auditors;
- Existing accounting and auditing standards, quality control standards, ethics standards, and independence standards;
- Focus on the Code of Ethics and enhance overall audit quality;
- Build capacity of audit firms;
- Enhanced use of technology;
- Identify actions that will enhance credibility of auditors.

**Other matters**

- Seek feedback/survey on impact of accounting and auditing developments from preparers of financial statements, audit firms, audit committees and investors;
- Trends arising out of inspections of preparers and auditors.

**Process orientation**

- Dealing with potential conflicts of interest of participants and guard against influence of special interests on the regulator. This may be achieved by way of:
  - Inclusivity, which would allow any member of the public to contribute or comment or propose, not just representative groups, thus building confidence that all views are heard; and
  - Transparency, which may include publicly documenting basis of conclusions/decisions and process of consultation.

- b) What would be an appropriate method for filling up positions on the Stakeholder Advisory Group?
- The view of NFRA that membership of the Stakeholder Advisory Group (SAG) should be by inviting nominations, as well as by selection by NFRA, with reasonable representation from industry, regulatory bodies, experienced statutory auditors, subject matter experts, investor groups (including proxy advisors and analyst groups), governance team and academicians is acceptable. The SAG should comprise of people from equity and credit analysts, researchers in universities/ colleges, CFOs, audit committee chairs of large or medium listed companies, professionals engaged in audit of listed companies, amongst others.
  - The number of members of SAG can range between 15 -18, since there is a need to include all the four main stakeholder identified by the TAC. There should be enough flexibility to increase the number of members depending upon the circumstances. NFRA may also consider including the policy of one-third member retiring in every two year and appointment of new members in place of the ones retiring, so as to ensure adequate of mix of experts and independence.
  - Based on the strength of the SAG, few members of the SAG could be part of the sub-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?

A single, comprehensive SAG with sub-groups, as suggested in response to Question 1(b) above, would lead to better quality of deliberations and advice. This would have the following benefits:

- Consideration of all viewpoints at one forum, resulting into holistic evaluation of relevant matters;
- Resolution of conflicting views/interests, with dialogue amongst various stakeholders;
- Faster decision making and conflict resolution;
- Single recommendation outcome for consideration of NFRA.

The SAG should be an inclusive group in terms of gender, skills, maturity and representation, so as to obtain and critically evaluate varying views. The SAG should be empowered to constitute sub-groups with an endeavour to perform focused group discussions and efficient working. There should be mandatory deliberations between the SAG and NFRA, while NFRA will remain the final authority on all the matters. As mentioned earlier also, the basis of conclusions by the SAG/NFRA should be made public to ensure transparency and objectivity of the process. However, the gist of basis of conclusion may be published while maintaining confidentiality of the parties involved.

## **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?

Fellowship Program, which focuses on integrating academics into NFRA projects, may be a useful way to seek external perspective. The allowances/compensation should be such that helps in attracting experienced persons and should be commensurate with prevailing opportunities (and market linked). Nominal Fellowship amount (without access to other remuneration) may not serve the purpose.

NFRA should also encourage secondment of experienced staff from industries and audit firms to supplement their resources and experience, subject to guidelines relating to conflict of interest and confidentiality.

- b) Should the Fellowship be full-time, or part-time?

The fellowship programme should preferably be on a full-time basis so that the relevant professionals are committed to conduct research studies and produce high quality recommendations. SAG may also consider fellowship programmes that are part time.

- c) **If it is to be part-time, what is the kind of minimum involvement that should be insisted upon?**  
While it is believed that a full time fellowship programme would be preferable, if a part time programme is to be considered, it should be with a defined minimum time commitment (say 50% of the time to be spent on fellowship activities). With the hybrid model of working, it should be possible for the part-time candidate to work remotely. However, there should be adequate physical and human resource infrastructure for effective monitoring of the time spent by fellow scholars.
- 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?**  
Minimum tenure of such programs should be 1 year, which may be extended to a maximum tenure of two years. Further, periodic milestones should be defined for each research to keep a check on the progress made and overall timelines.

### **QUESTION # 3 PUBLIC SPEECHES ETC.**

- a) **Do you agree with NFRA's general approach to public communication?**  
Considering the fact that global regulators have been engaging more frequently with stakeholders through investor forums, roundtable discussions, focused group meetings, NFRA should also communicate with stakeholders on a regular basis after establishing a well deliberated communication protocol. For example, NFRA Chairman/Executive Committee Members may be allowed to make communication in focused group meetings. Such communications have increasingly become important in view of the increasing expectation gap and to help in establishment of trust and transparency in the regulatory operations.

The focus of communication through public speech should be of knowledge dissemination, generating awareness about various activities/initiatives, etc., by NFRA, instead of dealing with any interpretation issues or specific instances leading to breach of confidentiality.

### **QUESTION # 4 INSPECTION POLICY**

- a) **What are your comments on the objectives and scope of the FRQR/AQR Inspection Programme?**  
The objectives and scope of Financial Reporting Quality Reviews (**FRQR**)/Audit Quality Reviews (**AQR**) Inspection Programmes have not been amplified in the Consultation Paper. NFRA should formulate clear policies for finalising the principles and the methodology for selecting companies for inspection. However, the following may be considered in this regard:

- The credibility of AQR process would be significantly enhanced if inspections have an on-site component, i.e., at the premises of the audit firm. As part of onsite inspection, the inspection team should familiarise themselves with the systems and processes followed by an audit firm to comply with applicable auditing standards, guidance etc. for execution of audits.

For FRQR, in addition to checking compliance with Company law, there should be an endeavour to assess compliance with sectoral laws and regulations as applicable to the entity under review.

- NFRA should consider leveraging expertise of Financial Reporting Review Board (**FRRB**) set up by the Institute of Chartered Accountants of India (**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.

- The process, approach, timelines and format of review report for conducting inspections and investigations should be transparent and clearly set out.
- Protocol for treating company's confidential documents by NFRA /agencies involved should be clearly defined, especially where client has contractual obligations/other regulatory conflicts or the global privacy regulatory requirements.
- Confidential document archival/redaction process during and post investigation/inspection should be clearly defined.
- Clarity should be provided regarding post inspection process including remediation plan and closure of findings.

Reference may also be taken from review programmes of ICAI relating to preparers (reviews by FRRB of ICAI) and auditors (Quality Review Board of ICAI).

b) **What are your suggestions regarding risk-based methodology for choice of companies as described above?**

The present thinking on the methodology and criteria for selection of companies and focus areas for FRQRs and AQRs are commensurate with the principles formulated by International Forum of Independent Audit Regulators (**IFIAR**), which also require development of risk-based methodology by regulators.

It is acceptable that the criteria to be used in selection methodology can be divided into (i) External Impact Factors; and (ii) Risk of Material Misstatement (**RoMM**) Factors. NFRA may also consider following suggestions with regard to selection methodology:

- Success of the methodology will depend on clear definitions of elements in each of the broad criteria and availability of credible and quantifiable data for computing risk profiles. Hence, risk factors must be clearly defined and can include economic trends, industry developments, market-capitalisation, etc.
- Selection of companies for the purposes of FRQRs should be based on defined thresholds (say, turnover, market capitalisation, borrowings or other parameter indicating any financial stress, modifications in audit reports, etc.). In this, certain strata may be covered more frequently (such as those above a certain size, industry, impact of public interest).
- The frequency and coverage of inspection should be commensurate with the capacity of NFRA and availability of experienced pool of reviewers.
- Inspections should be a regular ongoing process in general, whereas investigations may be triggered by specific events.

#### **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?**

While a standalone law governing NFRA may involve a prolonged process, the required changes in the framework to attain the goals of NFRA may also be enabled within the remit of Companies Act, 2013 by an amendment to the Act or by issuance of Rules. NFRA may also consider to take guidance from SEBI (Settlement Proceedings) Regulations 2018, which provides detailed framework for settlement of disputes.

There should also be a mechanism to settle disputes on “no admission of guilt” basis for small impact items. If prima-facie authorities believe that the issue is a small impact (C class) item, then the case officer should be authorised to settle the case for a monetary fine. The company or audit firm should be allowed to pay settlement amount without having to admit wrongdoing. For this NFRA could consider entering into agreements/ memorandum of understanding with other regulators like SEBI or any other regulator to get clarity on the functions of each of them and also from an information exchange between the regulators.

**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?

It is appreciable that NFRA acknowledges the relevance of website to be a key means of communication of its role and responsibilities and to disseminate information about its activities. Considering technological advancements, NFRA could also consider developing a mobile application for ease of access by stakeholders. Following components may also be considered for inclusion on the website/ mobile application:

- NFRA's expectations from stakeholders;
- Detailed organisation 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 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).

**QUESTION #7 COMMUNICATION AND ADVOCACY: NEWSLETTERS**

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

Considering the overall objective with which NFRA is established, the Newsletters could include the following subjects/areas:

- 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 stakeholder groups to ensure consistency. For example, interpretation of a particular section of Companies Act, 2013 in consultation with Ministry of Corporate Affairs;
- Initiatives taken by NFRA in various work streams (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;
- 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;
- Summary of research projects undertaken under Fellowship program.

**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?

NFRA's preliminary views on communication with press and media on reports by the Authority are welcome. Following points may be considered by NFRA in relation to communication:

- Due consideration should be given to confidentiality while dealing with matters arising from investigation and inspection process of NFRA;
- Proper policy should be documented on interaction with press and media, which should be made public;

- Interactions with Press should be limited until closure of inspection/investigation;
- Naming individuals should strictly be avoided.

#### **QUESTION # 9 COLLABORATION WITH UNIVERSITIES, INSTITUTES AND COLLEGES**

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

Modalities for engagement and collaboration with educational institutes could include the following:

- Annual academic research forum, literature reviews, etc.;
- 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.

#### **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?

Considering the dynamic business environment, NFRA should consider formulating a Strategic Goals and Priorities for next three years (instead of five years). This will help NFRA in making the strategic goals and priorities more feasible and thus achievable. The following areas may also be considered as strategic goals and priorities:

- Audit quality indicators and 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 professionals/preparers;
- Streamlining of inspection process to make it constructive and improvement oriented;
- Settlement and remediation mechanism;
- Strengthening resources and skills available with NFRA;
- Investment in emerging technologies;
- Bridging stakeholders' expectation gap in respect of financial reporting and audit process.

#### **QUESTION # 11 BUILDING REGULATORY CAPACITY**

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

NFRA's overall approach to build regulatory capacity is a welcome step. Exchange program with auditors/preparers will not only accelerate regulatory capacity development but will also instil confidence amongst stakeholders. NFRA should ensure independence and ethical norms while conducting such exchange programmes. Following points may also be considered by NFRA:

- Devise a system for secondment of resources based on their experience and skill set;
- Personnel responsible for inspection and other audit quality related activities should have relevant industry and professional experience;
- Personnel with specialised skills such as valuation, income tax, technological experts, forensic, sectoral capabilities (banking, insurance) should also form part of NFRA considering greater involvement of specialists in large and complex audits;
- Benchmarking with other regulators.



**Bhartiya Vitta Salahkar Samiti**

*Contributing in Nation Building*



**BHARTIYA VITTA SALAHKAR SAMITI**

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Date: July 30<sup>th</sup>, 2021

To,

The Secretary,  
National Financial Reporting Authority (NFRA)  
New Delhi

Respected Sir/Ma'am,

**Subject:** *Suggestions/Comments on the consultation paper – June-2021 “Enhancing Engagement with Stakeholders: Report of Technical Advisory Committee (March 2021)” issued by National Financial Reporting Authority*

Bhartiya Vitta Salahkar Samiti “BVSS” is a registered society under the Societies Registration Act, 1860, and has over a thousand professionals consisting of Independent Directors of Public Sector undertakings / Banks, Chartered Accountants, Economists, Company Secretaries, Cost Accountants, Capital Market Experts, Bankers, Lawyers working in financial/ fiscal domain, and other financial consultants as its members. Our aim is to contribute towards nation building through constructive discussions, thought leadership and continuous research.

In view of the consultation paper -June 2021 “*Enhancing Engagement with Stakeholders: Report of Technical Advisory Committee (March 2021)*” issued by National Financial Reporting Authority (NFRA) wherein comments have been sought from the stakeholders, we are submitting our brief comments/suggestions as per **Annexure–A** attached to this letter.

We are thankful to you for giving the stakeholders an opportunity to present their views/comments/suggestions in respect of the captioned subject. If needed, officials of BVSS would be available to make oral representation to further elaborate on the issues raised above.

Thanking you

Yours Sincerely  
For **Bhartiya Vitta Salahkar Samiti**

Vipin Aggarwal  
President

**Annexure-A:** Comments/Suggestions



**Bhartiya Vitta Salahkar Samiti**

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### Annexure -A

**Comments and suggestions on recommendations in Consultation Paper – June, 2021 on 'Enhancing Engagement with Stakeholders'- Report of Technical Advisory Committee (March, 2021) issued by National Financial Reporting Authority (NFRA)**

#### **Preliminary comments**

- (1) NFRA's mandate is given in sub-section (2) of Section 132 of the Companies Act, 2013. Rule 4 of the NFRA Rules, 2018 has expanded NFRA's mandate beyond what is provided in the Act which is not legally tenable as Rules made under a specific Act cannot go beyond the Act resulting in ultra vires activity.
- (2) Institute of Chartered Accountants of India a body created by an act of Parliament and the Act has given specific mandate to it. NFRA cannot usurp ICAI's powers and domain. There is a need to have clear cut demarcation as to what the ICAI has to do and what NFRA is required to do as per the respective Acts to ensure no overlapping and overstepping activity.
- (3) Sub-section (3) of Section 132 of the Companies Act, 2013 prescribes that the Authority shall consist of a chairman and other full time and part-time members not exceeding fifteen. Subsection (3B) prescribes an executive body of NFRA consisting of Chairman and full time members of NFRA for efficient discharge of its functions. The role of Authority as envisaged in sub-section (3) has to be clearly defined vis-à-vis the Executive Body and Technical Advisory Committee appointed under Rule 15 of the NFRA Rules, 2018 to ensure transparency, independence and effective functioning of the Authority with an aim to promote the Authority as an epitome of a judicious body.





## Specific Comments and suggestions on Questions raised in the Consultation Paper

Without prejudice to the preliminary comments, the following comments and suggestions are being given in response to various questions raised in the Consultation Paper.

### Question # 1: formation of stakeholder consultation and Advisory Groups

- (a) We suggest that two more Groups representing Lenders and Audit Committees be formed. The Institute of Chartered Accountants of India (ICAI) may be included in all the Groups being suggested to be formed to enable a practical approach to each matter
- (b) Medium Industry has its constraints with respect to financial reporting. Their due representation may be ensured in CFO Advisory Group to ensure that the good intentions of the Authority do not result in any undue hardships to the segment.
- (c) The process of taking up recommendations made by various Groups may also be clearly defined. The respective Groups may be involved in subsequent discussions with NFRA before taking any final decisions on the recommendations.

### Question # 4: Inspection Policy

- (a) We suggest that top 1000 listed entities be picked up for FRQR. While selecting companies, number of employees, size in term of turnover and asset and sustainability may also be used as criterion.
- (b) Selection of companies for FRQR as well that of auditors for AQR should take into consideration, the capacity available with NFRA.
- (c) References and complaints from Government and various Departments and Authorities may also be considered on a priority basis in selection of companies and auditors for FRQR and AQR respectively.
- (d) Similarly, reports received under section 143(12) of the Companies Act, 2013 by the Ministry of Corporate Affairs may also be considered for selection.





**Question # 5: Settlement of Disciplinary Matters and Remediation**

- (a) In our view, settlement of disciplinary matters and remediation is not within the preview of NFRA. The Companies Act, 2013 clearly provide that actions involving fraud and misrepresentation are to be dealt with by Special Courts. There are also provisions for class action suits against the company and its auditors which cannot be curtailed. Reference of PCAOB and FRC in this issue is not appropriate as the status of those entities is different from that of NFRA. Therefore, we suggest that this recommendation of TAC may be dropped.
- (b) We strongly suggest that NFRA must have a transparent and clear policy regarding segregation of Inspection/Investigation from enforcement. The members involved with Inspection and investigation should not be involved in the enforcement process. In our opinion a retired High Court Judge needs be included in the enforcement process. Experienced chartered accountants may be included in both the processes.
- (c) We suggest that NFRA may create an appropriate appellate mechanism within and ensure transparency and independence.

**Question # 6: Communication and Advocacy**

We suggest that NFRA may set up a resilient whistle blower mechanism on the same lines as done by FRC. The important feature is that the whistle blower has to first exhaust such mechanism within the specific company and if not satisfied then may approach NFRA. It is a well-established fact that most of the prominent frauds have been reported by insiders only.

**Question # 9: Collaboration with Universities, Institutes and Colleges**

We suggest that there is no need for NFRA to collaborate with universities, institute and collages for publicising NFRA's role and activities, This role needs to be left to ICAI. NFRA may collaborate with ICAI for the same as most of its members would be involved and/or interested in the processes of FRQR and AQR.





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**Question # 10: Roadmap: Strategic Plan and Operating Plan**

- (a) India is an emerging economic power and therefore, we suggest that NFRA should take a lead and play pro-active role jointly with ICAI and not on stand-alone basis in international bodies involved with setting up international accounting standards and auditing standards. There needs to be one voice of the country in International Bodies. Issues specific to a developing country like India must be placed at proper forum at those international bodies so that suitable and implementable solutions can be framed.
- (b) We suggest that NFRA may frame distinct short-term and long-term strategies in the process of developing its road map. Capacity enhancement should be taken up fast. Deputation of professionals with NFRA selected through a well-defined process and representing all the important emerging sectors of the economy particularly from practicing segment can be implemented. The duration of deputation has to be carefully determined so that the talent is utilised without any fear of complacency. We suggest a deputation period of two years is optimal.

**Question # 11: Building Regulatory Capacity**

- If the intention is to build NFRA on the equal pedestal as that of PCAOB and FRC, the lawmakers must be convinced to bring out a separate law for that. In the present form of NFRA it cannot be achieved.
- For the time being we suggest that a Co-ordination Group may be formed by NFRA and ICAI to ensure that both the entities act within their defined domains and supplement each other to achieve better and honest disclosures by the corporates and independent and professional reporting by their auditors. The resources developed by ICAI over the period must be effectively used by NFRA rather than starting a fresh for. In the Coordination group ICAI would be represented by members who had exited from Council at least five years back.





**ASSOCHAM COMMENTS ON CONSULTATION PAPER - JUNE 2021 ENHANCING ENGAGEMENT  
WITH STAKEHOLDERS**

**Question 1(a): What would be a suitable list of subjects that should form the standing agenda of the Stakeholder Advisory Group?**

**We suggest that the following areas may be considered for standing agenda of the Stakeholders' Advisory Group:**

***Preparers related***

- Areas requiring accounting guidance
- Measures to enhance quality of financial reporting including emphasizing the importance of internal controls over both financial reporting and assurance thereon.
- Emerging themes/ trends (say, ESG) and impact on financial reporting
- Enhanced governance mechanism including accountability of the CFO, Audit Committee, and independent directors and conflict of interest
- Conflicting related party transactions
- Monitoring the audit process to enhance audit quality
- Whistleblow: Mechanism, confidentiality, and protection

***Investors/ users related***

- Enhancing relevance of financial reporting to users, including non-GAAP measures (for instance, enhancing corporate governance reporting)
- Balancing relevant information vs. information overload

***Auditors related***

- Enhancing audit quality
- Auditor's independence and ethics, including, consultation on best practices, governance around non audit services and fee thereof, business relationships
- Building capacity of audit firms
- Refresh the roles and responsibilities framework for the auditors
- Enhanced use of technology in auditing
- Emerging areas requiring auditing guidance

***Others***

- Overall strengthening and capacity building of NFRA
- Global regulatory developments and best practices
- Measures to avoid multiple regulatory oversight

**Question 1(b): What would be an appropriate method for filling up positions on the Stakeholder Advisory Group?**

- TAC may function as a Nomination Committee to assist NFRA in identifying appropriate persons representing relevant stakeholder groups to fill-up the positions
- Selection of members may be based on a mix of representatives comprising:
  - Business chambers and other bodies (e.g., ASSOCHAM)
  - Academic groups (e.g. IIMs)
  - Professional bodies like ICAI and IIA
  - selection based on other nomination (including industry, profession, and investors) received from any person or organization
- For above purposes, TAC may prescribe eligibility, experience criteria and independence/ objectivity related requirements, as relevant in the context of various stakeholder groups
- TAC may review the nominations received, conduct due selection process, including interview of nominated person, as required, and recommend the candidates to NFRA.
- TAC should ensure that shortlisted group comprise a fair representation of various stakeholder groups (such as large and medium sized audit firms, industry, investors academician etc.)

**Question 1(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?**

- We support that a single comprehensive group may be formed instead of four separate groups considering that most of the matters have cross-linkages where all the stake-holder groups need to contribute to reach to a single outcome which is acceptable to all or most of the stakeholders. One group approach would have the following benefits:
  - Consideration of all viewpoints at one forum resulting into holistic evaluation
  - Resolution of conflicting views/ interests with dialogue among various stakeholders
  - Fast decision making and addressal of matters
  - Single recommendation outcome for consideration of NFRA
  - Better appreciation of varied perspectives by different user group
- Based on practices followed by other regulators, we suggest that the single comprehensive group may be a broad-based group comprising 12-15 members to ensure adequate representation to various stakeholders (including investors, Audit Committee/ Board members, preparers, academicians, and audit professionals). Further, NFRA may consider that the advisory group should be empowered to constitute sub-groups or committee and invite relevant professionals on a need basis to support the brainstorming/deliberations on related topics.

**Question 2:**

- 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?**

From a capacity building perspective, the proposal with regard to fellowship programme may be considered over a medium to long term period. The programme should cover practitioners, accounting firms and academicians.

Our views with regard to specific questions are as below:

- (a) the nominal fellowship amount may not attract high quality professionals/ academicians to undertake the projects involving in-depth research, and accordingly, may not result in the desired outcome. Accordingly, the allowances/ compensation should be commensurate with the current position, so as to encourage more experienced well established (in their fields of play) people, to opt for the fellowship programs
- (b) the fellowship programme should preferably be on a full-time basis so that the relevant professional is able to devote dedicated quality time to conduct research studies and produce high quality deliverables.
- (c) Alternatively, if a part time programme is to be considered, it should be with a defined minimum time commitment (say 50% of the time to be spent on fellowship activities) and there is adequate physical and human resource infrastructure, for effective research and monitoring of the time spent by the fellow scholars
- (d) The tenure of the program should be considered on a case to case basis, considering the nature of the research topics, experience of person involved, full time/ part time involvement, overall timelines as per operational plans of NFRA around those topics etc. Within the overall timelines, there should be periodic milestones at which the fellow scholar should update on the progress made so that the overall timelines can be monitored and adjusted, as required.

NFRA should document the candidate evaluation criteria including appropriate independence requirements while selecting individuals for such programmes.

**Question 3(a): Do you agree with NFRA’s general approach to public communication?**

- We agree with the NFRA’s approach to gradually build up the communication with the stakeholders, as and when there are suitable opportunities.
- We suggest that NFRA frames a clearly articulated and binding communication policy. The policy should set out the nature of the topics they can speak to in public, the process to vet the remarks for appropriateness before made public and who is authorized to speak on behalf of NFRA.
- The communication should be made with an objective of creating confidence and enhanced stakeholder engagement
- The focus of communication through public speech should be of knowledge dissemination, generating awareness about various activities/ initiatives etc. by NFRA, instead of dealing with:
  - any interpretation issues
  - specific instances leading to breach of confidentiality
 This will avoid any inconsistent interpretation/ application of a principle based on a limited understanding and varying interpretation by the audience.

**Question 4(a): What are your comments on the objectives and scope of the FRQR/AQR Inspection Programme?**

**We support the two components of inspection programme of NFRA, covering both preparers and auditors.**

**The following elements should be considered as a part of the inspection programme:**

- The objective and scope of the FRQR/AQR inspection programme to cover:
  - ensure quality enhancement
  - guidance to the practice units and preparers for improvement
  - suggesting best practices and sharing experiences
  - remediation and monitoring plan
- In terms of the process of inspection, the following elements may be considered:
  - Predictability and transparency of inspection programme with a well-laid out process including frequency and selection methodology, though including an element of surprise.
  - One-time evaluation of firm’s system of quality controls in an inspection cycle, rather than with each file-selection
  - Consideration of confidentiality while segregating the inspection findings. Publication to happen, if necessary, in an anonymous manner, rather than publication of full reports in public domain.

- Clarity regarding post inspection process including remediation plan and closure of findings and monitoring
  - Objectivity of selection criteria, by including certain quantitative thresholds, to determine the frequency and coverage of an inspection
  - On-site inspections instead of offline file submission and reviews
  - An inspection process should have adaptability towards varied accounting and auditing systems, as long as they comply with the generally acceptable principles.
  - A continuous resolution of issues and confirmation of factual accuracy of observations, during the inspection process, instead of a legalistic/lengthy multi step procedure, i.e., issuing comments for clarification, writing draft reports, and then issuing a final report. The link between any observation and the inferences drawn should consider a holistic view before completion of inspection/report. An inspection should distinguish isolated incidents from pervasive quality issues, before concluding systemic quality issues. Conclusions reached should be agreed, before NFRA arrives at the final report.
  - An inspection process should be distinguished from an investigation process. An inspection may be followed by an investigation, only in specific circumstances. A sequence in this regard would be important.
- Experience and skill set of reviewers: The reviewers should be selected based on their experience of auditing large companies, sector/industry in which the auditee functions, involvement of specialists (such as, IT, valuation etc.), use of technology, etc

**Question 4(b): What are your suggestions regarding the Risk-Based Methodology for choice of companies as described above?**

While we support the risk-based methodology, the external impact factors and RoMM in its current form, as suggested by NFRA, should be clearly defined in an objective manner. These factors may involve considerable judgement and subjectivity and may, sometime be perception driven. Further, it may result in unintended consequence to the effect that certain audit firms/ companies may not be selected at all.

The methodology should be objective, to the maximum extent possible, while there can always be a surprise element. For this purpose, NFRA should consider laying down certain objective criteria for selection of firms and companies. For example -

- The selection of companies for the purposes of FRQRs should be based on defined thresholds (say, turnover, market capitalization, borrowings or other parameter indicating any financial stress, modifications in audit reports, etc.). The companies above these thresholds should be covered once over a period of time (say, five years). The prioritization in this selection process can be done based

on relevant factors involving public interest. The Companies below these thresholds should be selected on a random basis, giving due consideration to qualitative factors, such as listed/ unlisted etc.

- The frequency of inspection of audit firms may be specified and may be undertaken on a rolling basis. For instance, inspection of each audit firm at least once every three/ five financial years. The objective should be to cover all the firms over a specified period of time. The size of a firm in terms of audits undertaken in a financial year may be considered to determine frequency.
- The inspection should be parameters oriented as compared to investigations, which should be based on specific events

It may be noted that generally the other international regulators also inspects each firm either annually or triennially, depending upon the size and the number of assignments handled by an audit firm.

**Question 5(a): Do you have any specific suggestions on the contents of the stand-alone law that should govern NFRA?**

The settlement mechanism may be achieved by including enabling provisions in the Companies Act Which should have the coverage of all entities under the purview of NFRA. This may be achieved by amending the Companies Act or issuance of additional rules. A settlement mechanism is necessary rather than a prolonged litigative process.

We believe that the overall oversight and enforcement regime should be proportionate, and improvement based, rather than focusing on penal provisions. The enforcement mechanism should consider the following aspects:

- Consistent approach for enforcement/ penal actions against auditors and directors in case of corporate failures
- Range of commensurate sanctions other than extreme penal actions, like, ban or debarment. Other measures may include:
  - Requiring firms to perform enhanced quality control reviews.
  - Requiring firms to implement corrective actions.
  - Temporary suspension on tendering for new audit clients

Based on the practices in other jurisdictions, some of the elements which may be considered to make the settlement mechanism effective are as below:

- Holistic approach to settlement mechanism: Regulators should consider whether, and, if so, to what extent, the sanctions proposed would be likely to lead to improvements in respect of the matters which give rise to the proceedings and in the quality of work of the Auditors or the Firm concerned
- Settlement with Confidentiality: The settlement process should extend the benefit of confidentiality. Accordingly, in such a case, the information, documents, and evidence should be treated as confidential (unless disclosure is mandatory by law).
- Coverage of both actual and potential proceedings
- Comprehensive coverage of various provisions of the Companies Act
- Inclusion of both monetary and non-monetary terms after taking into consideration various parameters, including, cooperation by the firm, severity of issue, remedial actions taken by the firm etc. Such terms of settlement could include (but not limited to), in addition to the monetary penalty:
  - Censure,
  - Undertakings to improve the firm's system of quality control,
  - Appointment of an independent monitor to review and assess the firm's progress toward achieving remedial benchmarks,
  - Immediate practice limitations, including a prohibition on accepting certain new audit work until the monitor confirms the firm's progress in achieving its remedial benchmarks,
  - Additional professional education and training for the firm's audit staff.
- Detailed guidelines on various parameters to be considered, before arriving at the settlement terms/ amounts, which includes mitigating factors such as self-identification and acknowledgement of contraventions, corrective measures to avoid recurrence of misconduct etc.

To summarize, the settlement mechanism should be enabled by introducing new rules to ensure coverage for all entities or amendment to the Companies Act, 2013.

**Question 6(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?**

The website structure may be enhanced to include the following components:

- 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

- names and contact details of the SPOCs for each function
- number of inspections carried out, inspection process and remedial plan
- 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 commentary on governance process, rules & regulation, powers and authority, policies and processes, along with strategic plan and strategic imperatives.

With regard to whistle blow related contact, it is suggested that there should be sufficient checks and balances with regard to raising a whistle blow complaint on NFRA's website, so as to discourage any generic and frivolous complaints. NFRA may also consider putting out the action against the person engaging in frivolous complaints

**Question 7(a): What, in your opinion, would be the subjects/areas that Newsletters from NFRA should focus on?**

As suggested above (response to Question 6(a)), the focus of a communication should be knowledge dissemination, generating awareness about various activities/ initiatives etc. by NFRA instead of dealing with any interpretative issues. In this context, if the NFRA decides to issue a periodic newsletter, the areas of focus may be as below:

- 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
- 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

**Question 8(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?**

- As suggested above (response to Question 5(a)), due consideration should be given to confidentiality related aspects, while dealing with any matters arising from investigation and inspection process of NFRA.
- A 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.
- Accordingly, NFRA may consider that the matters arising from inspection and investigation process should not be covered as a part of press/ media releases. The issuance of AQRs should be in a

summarized form, on an anonymized basis

**Question 9(a): Do you have any suggestions on viable modalities for collaboration with educational institutes?**

- We support that NFRA should collaborate with universities, institutes, and colleges over a medium to long term period.
- This will help getting a different perspective and also support on emerging matters requiring research.
- The manner to collaborate with educational institutions may be in various forms:
  - 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

**Question 10(a): Do you have any suggestions on NFRA's Strategic Goals and Priorities for the medium term?**

We support that a strategic plan should be developed and operationalized. We also agree that the strategic plan should be published for public comments and feedback.

The following areas may be considered as strategic goals and priorities:

- Membership of IFIAR
- Audit quality indicators
- 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
- Measures to enhance audit quality
- Streamlining of inspection process to make it constructive and improvement oriented
- 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

**Question 11(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?**

- We fully support the capacity building initiative by NFRA.

- It is imperative that NFRA is adequately staffed with appropriate skill set and experience, both in terms of technical and administrative activities.
- It is important that the personnel responsible for inspection and other audit quality related activities should have relevant industry and professional experience.
- NFRA should ensure that the reviewers are equipped to handle different sized audit firms and entities. They should undergo various trainings like on industry specific matters (to develop ability to deal with complex sector issues), rapidly changing technology (to develop understanding of data analytic tools that may be used by various audit firms) etc. Remuneration considerations to attract the high performance individuals that form part of NFRA inspection teams.
- Further, the personnel with specialized skills, such as valuation, IT, banking, should also form part of NFRA considering greater involvement of specialists in large and complex audits.
- It is suggested that as an enabler towards capacity building, the Government should consider adequate funding as a part of their budgetary allocation to the activities being carried out by NFRA.
- In this context, it may be noted that internationally, all major oversight bodies have made significant investments in capacity building (to discharge their functions effectively).

**Comments/Views on NFRA’s consultation Paper –June 2021 on Enhancing Engagement with stakeholders, Report of Technical Advisory Committee (March 2021)**

<b>Question # 1 Formation of Stakeholder Consultation and Advisory Groups</b>	
<p>a) What would be a suitable list of subjects that should form the standing agenda of the Stakeholder Advisory Group?</p>	<p>The list of subjects that may form the standing agenda of the Stakeholder Advisory Group are as follows:</p> <ul style="list-style-type: none"> <li>• Issues/Area of Emerging risks from the perspective of each stakeholder i.e preparer, auditor &amp; user of financial statements.</li> <li>• Study of existing regulatory framework of accounting &amp; auditing.</li> <li>• Study of loopholes in existing rules/regulation/policy/procedures.</li> <li>• Study on overlapping /dichotomy of existing laws and their convergence.</li> <li>• Advice on amendment in existing laws or forming new laws.</li> <li>• Prevention of accounting /financial fraud.</li> </ul>
<p>b) What would be an appropriate method for filling up positions on the Stakeholder Advisory Group?</p>	<p>The selection of the Stakeholder Advisory Group Members should be based on nominations received from the stakeholder groups. Nomination of Public representatives may be invited through Advertisement or Public Notice in leading newspapers. Following points may be considered in formation of the groups:</p> <ul style="list-style-type: none"> <li>• Due consideration must be given to conflict of interest of members.</li> <li>• Qualifications of members need to be specifically prescribed.</li> </ul>

	<ul style="list-style-type: none"> <li>• Members must be Fit and Proper Person.</li> <li>• Due representation of various segments in each advisory group may be ensured.</li> </ul>
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?	In our considered view, the approach of setting up of single, comprehensive, Stakeholder Advisory Group will be a rational step considering time and resources constraints. Further common group will lead to collective decision based on mutual deliberation & understanding.
<b>Question # 2 Fellowship Programmes</b>	
a) Would a nominal Fellowship amount, as opposed to a full living allowance/compensation for loss of income attract high quality professionals/academics?	<p>In our view, competitive fellowship amount in lieu of full living allowance will attract high calibre professionals/academicians. Their engagement with a dynamic regulatory will be perceived as a source of immense learning and matter of pride, self-esteem &amp; recognition for the person concerned.</p> <p>Further if programme will be Part time proportionate compensation would be minimal. This will create a win-win situation for the fellow as well as the regulator.</p> <p>Further for practitioner fellowship, not only CFO of listed company but also from unlisted public company that are under the scope of NFRA may be consider.</p>

b) Should the Fellowship be full-time, or part-time?	In our view, the fellowship programme may be fulltime. This will ensure focused attention to the research in hand; meeting the tough timelines and deliver high quality academic outputs. There is also a career growth potential as a motivation for the fellow researcher.
c) If it is to be part-time, what is the kind of minimum involvement that should be insisted upon?	Minimum engagement of Fellow researcher on part time may be evaluated and insisted on the basis of Deliverable objectives and the timeline of specific research assignment. The engagement decision must be objective oriented instead of subjective decision.
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?	Ideally, the Fellowship engagement programme should be for One year. Engagement for few months will not attract talent. The engagement should however be relatable to the timeline of the research assignment. It may be need-based extendable.
<b>Question # 3 Public Speeches etc.</b>	
a) Do you agree with NFRA's general approach to public communication?	We may agree with NFRA's general approach to public communication. Timely Information dissemination will minimise information gaps, facilitate informed decision making and above trust creation.
<b>Question # 4 Inspection Policy</b>	

<p>a) What are your comments on the objectives and scope of the FRQR/AQR Inspection Programme?</p>	<p>The FRQR/AQR policy represent a comprehensive and holistic approach that will monitor and promote continuous improvements in financial reporting, audit quality, policies and practices in India and will help the authority to perform its paramount function of protection of public interest effectively&amp; efficiently.</p>
<p>b) What are your suggestions regarding the Risk-Based Methodology for choice of companies as described above?</p>	<p>In our considered view Risk -Based methodology as formulated by authority will help in early identification of those companies which are too big to fail or Systematically Important Entity (SIE's) so that timely action may be taken to save public wealth &amp; money.</p>
<p><b>Question # 5 Settlement of Disciplinary Matters and Remediation</b></p>	
<p>a) Do you have any specific suggestions on the contents of the stand-alone law that should govern NFRA?</p>	<p>Settlement Policy may specify the cases eligible for settlement, process with specified timeline to be followed in the Settlement Process. Settlement mechanism may trigger out of adjudication orders encompassing the jurisdiction of the Authority. There must also be an Appellate provision.</p>
<p><b>Question # 6 Communication and Advocacy: Website Structure and Layout</b></p>	
<p>a) Do you have any specific model that is ideal keeping in mind NFRA's functions and duties enshrined in the Companies</p>	<p>In our concerned view, NFRA proposal in this regard may be implemented. The Public Company Accounting Sight Board of SEC, USA may be considered as a case precedent. A Public Utility micro-site may also be considered.</p>

Act, 2013 and the related NFRA Rules 2018?	
<b>Question # 7 Communication and Advocacy: Newsletters</b>	
a) What, in your opinion, would be the subjects/areas that Newsletters from NFRA should focus on?	<p>Newsletter may focus on following:</p> <ul style="list-style-type: none"> <li>- Highlights the important issues and areas of concern in the area of accounting and auditing.</li> <li>-Recent updates in the accounting and auditing laws and standards,</li> <li>- Summary of the guidance for each stakeholder such as Finance/Accounting Professionals, Auditors, investors and other users.</li> <li>-Updates on recent activities and new initiatives by the Board, Directions, Recent adjudication and Settlement Orders</li> <li>- Information regarding special events and upcoming events,</li> <li>-Information pertaining to workshop, webinars, speeches, reports if any.</li> </ul>
<b>Question # 8 Press and Media Guidance</b>	
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?	We may agree with NFRA preliminary views on communication with Press and Media.
<b>Question # 9 Collaboration with Universities, Institutes and Colleges</b>	

a) Do you have any suggestions on viable modalities for collaboration with educational institutes?	NFRA may collaborate with educational institutions through research/academic & training programmes.
<b>Question # 10 Roadmap: Strategic Plan and Operating Plan</b>	
a) Do you have any suggestions on NFRA's Strategic Goals and Priorities for the medium term?	We may suggest that there should be periodic review of strategic and operational plans and the action taken to make sure that progressing is towards the goals.
<b>Question # 11 Building Regulatory Capacity</b>	
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?	We may agree with NFRA's overall approach to building regulatory capacity. NFRA can send their officials for training programmes/ conferences/ seminars held by domestic as well as international accounting bodies which may provide exposure and benchmarking with the best international practices in the accounting world. Further, NFRA may build up its capacity in 2-3 years.

**DEA-AJNIFM Research Team  
National Institute of Financial Management  
Ministry of Finance, Government of India**

July 30, 2021

The Secretary,  
National Financial Reporting Authority  
7th-8th Floor, Hindustan Times House,  
18-20, Kasturba Gandhi Marg,  
New Delhi 110001.

**Consultation Paper -June 2021 'Enhancing Engagement with Stakeholders: Report of Technical Advisory Committee (March 2021)' Issued by The National Financial Reporting Authority, Government of India**

Dear Sir,

The Foundation for Audit Quality ("FAQ") is pleased to provide our feedback on the Consultation Paper - June 2021 'Enhancing Engagement with Stakeholders: Report of Technical Advisory Committee (March 2021)' Issued by The National Financial Reporting Authority ("NFRA"), Government of India (the "Consultation Paper"). The FAQ is an autonomous, non-partisan and not-for-profit organisation, established to help build an environment of audit quality consciousness and to foster the identification, development and sharing of best practices to enhance governance and quality of financial reporting and audit process.

We commend the NFRA for its efforts at promoting proactive stakeholder engagement and increased communications by seeking inputs on several important aspects of the NFRA's functioning, including stakeholder engagement, inspections, communication and advocacy, medium term road map and building regulatory capacity, and independence, Funding and Accountability of NFRA. This letter identifies matters for consideration as the NFRA deliberates how to best achieve its objectives.

**Areas of strategic focus for the NFRA**

Corporate reporting and audit are posed for a paradigm shift. There are cross-functional disruptors that are driving change in the business environment and within companies. We are seeing the emergence of new and complex business models, role of digital technologies, geo-political and regulatory changes and demographic shifts driving significant changes across the board, impacting organisations of all sizes and sectors. Therefore, there is a need for NFRA's strategic direction to have a futuristic view of corporate reporting and the audit profession. The biggest changes in corporate reporting and audit are likely to be seen in the following three areas:

- **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. This will also need to be

accompanied by an integrated approach towards assurance or audit of these integrated corporate reports.

- **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 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. This will also make the auditors more effective in the identification of risk areas, control weaknesses, fraud and errors and also enhance the level of assurance on corporate reporting.
- **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.

In light of the above changes that are expected, the NFRA, as part of the development of its medium-term strategy and roadmap, should focus on the evolving needs with an eye on '*Corporate Reporting of the Future*' and '*Auditor of the Future*'. The NFRA should seek to play a pivotal and proactive role in shaping the future in both areas. This would include the development of standards and frameworks to enable this future state, as well as looking at the enabling changes that are required in the ecosystem to make the transition to this future state, and most importantly looking at the skills and talent landscape, both within corporates as well as the audit fraternity to embrace these changes.

### **Response to NFRA's Consultation Paper**

In addition to our views on the areas of strategic focus for the NFRA, we have provided below matters for consideration of the NFRA, specifically in the context of the topics discussed in the Consultation Paper. We have included more detailed comments for your consideration on each of these topics in the **Appendix** to this letter.

#### *Stakeholder Engagement: Formation of Stakeholder Consultation and Advisory Groups*

We welcome NFRA's commitment to a continuous improvement in the quality of financial reporting and audit process. However, NFRA's engagement should cover not only the four stakeholder groups (namely, investors, academic institutions, CFOs and auditors) but also audit committees, regulators and standard setters. The NFRA should deliberate on an objective selection process for members of the advisory group. The criteria laid down would help provide fair opportunity to various stakeholders to participate.

We would also like to recommend that NFRA forms a research cell that would support these stakeholder advisory groups by providing research based analytical inputs as this will ensure the inputs and feedback from the consultation process are more valuable.

We have also highlighted the subjects that could form part of the Stakeholder Advisory Group's standing agenda in the Appendix to this letter.

#### *Inspection policy*

We agree with the NFRA's proposed approach towards having inspection programmes covering both preparers and auditors. We believe that the NFRA should also give due consideration to the experience and skillsets of the reviewers, including their experience in financial reporting and/or audit process of large companies, sectoral expertise, specialist knowledge (including valuations, information technology, financial instruments, etc.).

NFRA should develop a risk-based methodology for selection for inspection programme. The current proposed 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. The Appendix to this comment letter provides detailed examples of how NFRA could develop its inspection programme.

It could also consider laying down its inspection and investigation process clearly on its website in the form of a 'guide to inspections' as it will help both companies and auditors to understand what the process would entail. Further the inspection process should be supported by a good *knowledge-base* maintained by the NFRA, so as to make the inspections more 'process and policy dependent' rather than 'person dependent' and thereby there is greater consistency in the positions being developed or taken by the NFRA during the course of its inspections.

We emphasise that there should be a process of dissemination of its findings considering the broader constructive development and remediation-oriented role towards improving quality of financial reporting and audit process.

#### *Settlement of disciplinary matters and remediation*

We believe NFRA should introduce a settlement scheme like the one followed by the Securities and Exchange Board of India ("SEBI"), which has stood the test of time. This would help to clear the pipeline of less important matters so that focus can be given on systematically important matters. In parallel, the NFRA could also work towards getting more regulatory clarity and empowerment for these settlement procedures, which may be achieved through the amendment of the sections of the Companies Act, 2013 that govern NFRA.

#### *Capacity building at the NFRA*

The consultation paper mentions that NFRA would like to work on a number of subjects through stakeholder advisory groups, engage with fellowship programmes, undertake inspections of auditors and companies and build capacity. We believe that NFRA should prioritise its work areas keeping in mind its current capacity and resources (both human and financial) in the short-term, while also building its capacity and resources in line with its key priorities in the medium term. This will help it to seek necessary budgetary allocation from the Government of India and utilise its resources in an efficient manner. We also believe that the NFRA should aim to follow the principles laid down by the International Forum of Independent Audit Regulators (IFIAR) on capacity building.

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We welcome the opportunity to be part of a continued dialogue for the benefit of the financial reporting ecosystem and auditing profession and the interests of investors. If you have any questions regarding our comments included in this letter, please do not hesitate to contact Mr. Sai Venkateshwaran on [saiv@FAQonline.org](mailto:saiv@FAQonline.org) or +91 98203 45741.

Very truly yours,

M. Damodaran  
Chairperson  
Foundation for Audit Quality

## Appendix – FAQ’s detailed responses to the specific questions raised in the Consultation Paper

### 1. Stakeholder Engagement: Formation of Stakeholder Consultation and Advisory Groups

TAC Report Reference	Subject matter and questions for respondents
4.1.3 to 4.1.5	<p><b>Question # 1 Formation of Stakeholder Consultation and Advisory Groups</b></p> <p>a) What would be a suitable list of subjects that should form the standing agenda of the Stakeholder Advisory Group?</p> <p>b) What would be an appropriate method for filling up positions on the Stakeholder Advisory Group?</p> <p>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?</p>

We welcome the NFRA’s efforts to engage with its key stakeholders on a continuing basis. We believe the NFRA would benefit from the proactive and effective dialogue with those who, like the NFRA, are committed to a continuous improvement in the quality of financial reporting and the audit process in the country. This constant engagement will serve the objective of seeking inputs and providing them with more timely and relevant information regarding the NFRA’s activities.

In this context, we believe that the NFRA’s engagement should cover not only the four stakeholder groups covered in the TAC Recommendations, namely, Investors, Academic institutions, CFOs, and Auditors, but also cover Audit Committees as well as Regulators and Standard Setters. Audit Committees have a significant role to play in enhancing the quality and effectiveness of financial reporting and the audit process, and the NFRA would significantly benefit from having a continuous engagement with this community. Further, we believe that engagement with other financial reporting and audit regulators from around the globe and standard setting organisations, both domestically and abroad to share perspectives on the risks and benefits of differing approaches financial reporting and audit oversight, and also emerging hot topics based on trends being seen in the broader financial reporting ecosystem. Effective engagement with other standard setters could be used as a means to efficiently and effectively leverage their efforts for the development of guidance impacting the financial reporting and audit process, including implementation guidance.

#### ***Suitable list of subjects forming part of the standing agenda of the Stakeholder Advisory Group***

We believe that the NFRA should include the following topics as part of its standing agenda for the Stakeholder Advisory Group (and other stakeholder engagement groups that will be formed over time):

- Bridging the expectation gap between auditors and other stakeholders
- Auditors independence and ethics
- Capacity building within the profession
- Capacity building within the CFO's organisation
- 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

### ***Ensuring balanced composition of the Stakeholder Advisory Group***

The NFRA should deliberate on an objective selection process for members of the advisory group. The criteria laid down would help provide fair opportunity to various stakeholders to participate. As part of this selection process, it should invite nominations from the various stakeholder groups, including investors, auditors, preparers/CFOs, audit committees, academic institutions and other standard setters through an open process as is done by various organisations internationally. This will help broad base the pool of candidates and strengthen the selection process for the stakeholder advisory group.

The NFRA should prescribe eligibility and experience criteria, as relevant in the context of various stakeholder groups and seek nominations (including self-nominations). Based on the nominations received, the NFRA should conduct due selection process, including interview of nominated person, as required, before confirmation. Further, on the representation from the auditor community, it should be ensured that firms of all sizes are well represented to ensure a balanced viewpoint on matters impacting auditors.

### ***A single, comprehensive, Stakeholder Advisory Group versus separate stakeholder groups***

We agree that in the initial stages of the NFRA's functioning, it can engage with all stakeholders through the formation of the Stakeholder Advisory Group, with adequate representation from all relevant stakeholders. However, in medium term, we support formation of separate groups, each focused on the key considerations relevant to that stakeholder group and allow deeper and focused deliberations. We also recommend that when separate groups are formed, the composition of each of those groups should be such that it has balanced representation (say 50% from that stakeholder community and the balance 50% from each of the other stakeholders communities) to allow discussion of all viewpoints and help break the silo approach and facilitate formation of holistic views. Additionally, interaction between various stakeholder groups can take place through periodic meetings amongst the key representatives of each of the stakeholder groups. In this context, we also reiterate the need to extend the stakeholder outreach to cover the Audit Committees and also the Other Regulators and Standard Setters.

We would also like to recommend that NFRA forms a research cell that would support these stakeholder advisory groups by providing research based analytical inputs as this will ensure the inputs and feedback from the consultation process are more valuable.

## 2. Stakeholder Engagement: Fellowship programmes

TAC Report Reference	Subject matter and questions for respondents
4.1.6	<p><b>Question # 2 Fellowship Programmes</b></p> <p>a) Would a nominal Fellowship amount, as opposed to a full living allowance/compensation for loss of income attract high quality professionals/academics?</p> <p>b) Should the Fellowship be full-time, or part-time?</p> <p>c) If it is to be part-time, what is the kind of minimum involvement that should be insisted upon?</p> <p>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?</p>

We believe the 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, by prescribing a revolving door policy with suitable safeguards to avoid conflicts of interest and other risks, while encouraging two-way movement of senior individuals from industry, academia, and auditor community as this would give them an opportunity to contribute and also help NFRA in its appreciation of relevant issues. Such fellowships have been used successfully by standard setters and regulators as a means of engagement. Practice fellowships at the NFRA could be a useful means of deeper engagement with the preparer and auditor community focussed on practical aspects around reporting trends and practices, including on areas such as enhanced use of emerging technologies. It will also provide a good sense of on-ground realities as well as related risks and opportunities. Similarly academic fellowships at the NFRA could be a useful means of deriving a deep level of engagement with the academic community, including those who have been focussed on research on topics relating to accounting, reporting and audit and related topics relevant to the NFRA, such as role of disruptive technological changes. The experiences with the NFRA that such practice fellows bring back to the industry and audit firms would enhance quality of reporting and audit process. Similarly, the experience that the academic fellows bring back to the classroom would likewise strengthen accounting and auditing education.

### ***Compensation / allowance, full-time vs part-time and duration of fellowships***

Given the lack of resources, we believe that the proposal for fellowships can be considered as part of the medium to long term plan of the NFRA. The programme should cover practitioners, accounting firms and academicians.

As regards compensation / allowances, we believe that a nominal fellowship amount may not attract high-quality professionals / academicians to commit their time to these fellowships. Considering the importance of the fellowships, as discussed above, NFRA should develop a compensation structure that is attractive enough to encourage the right level of participation from experienced professionals and academicians.

In our view, the fellowships should ideally be full-time. However, if part-time fellowships are offered,

they should be for a defined time commitment (of at least 50% time) that they adequate time can be devoted to the areas of study/research or other projects that they are undertaking at the NFRA. They should also be supported with adequate physical and human resource infrastructure to undertake their work at the NFRA.

We also believe that the tenure of the fellowships can be decided on a case to case basis, considering the nature of the research topics / projects being undertaken, while keeping the overall objective of two-way knowledge and experience transfer being at the heart of the program. Therefore, short-term fellowships of less than 12 months should generally be discouraged.

### 3. Stakeholder Engagement: Public Speeches etc.

TAC Report Reference	Subject matter and questions for respondents
4.1.7	<b>Question # 3 Public Speeches etc.</b> a) Do you agree with NFRA’s general approach to public communication?

We agree with the approach of the NFRA that it will explore suitable opportunities/channels to communicate with the stakeholders and appreciate NFRA’s cautious approach this area. We believe that focus of the communications could be on knowledge dissemination and generating awareness of the various initiatives and activities of the NFRA rather than focussing on interpretative issues. It could also share insights on emerging focus areas, including those from global trends and best practices.

### 4. Inspections: Inspection Policy

TAC Report Reference	Subject matter and questions for respondents
4.2.1 to 4.2.2	<b>Question # 4 Inspection Policy</b> 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?

#### ***Objectives and scope of the NFRA’s Inspection Programme (Financial Reporting Quality Reviews and Audit Quality Reviews)***

We agree with the NFRA’s proposed approach towards having inspection programmes covering both preparers and auditors. Having regular and effective oversight on corporate financial reporting will go a long way in enhancing the quality and consistency of reporting by companies. We also believe that the inspections should seek to improve the quality of financial reporting and audit process through a combination of prevention, detection, deterrence and remediation.

As more and more companies adopt Indian Accounting Standards (“Ind AS”), which is a principles-based framework, there is significant diversity that can arise in the way the standards are interpreted and applied by companies. While there should still be room for judgement, in order to bring in consistency in application, there is a need for a financial reporting regulator to play an active role in monitoring the

quality and consistency of reporting by companies. Further, the review by NFRA should cover both financial and related and relevant non-financial disclosures<sup>1</sup> on a periodic basis, say once every 3 years, and also develop its positions on key financial reporting matters, consistent with positions taken by other financial reporting regulators following similar accounting frameworks (primarily IFRS). Further, they should also work closely with other global securities regulators in developing consistent positions on reporting practices by companies.

The NFRA should also give due consideration to the experience and skillsets of the reviewers, including their experience in financial reporting and/or audit process of large companies, sectoral expertise, specialist knowledge (including valuations, information technology, financial instruments, etc.). We believe that NFRA should lay down its inspection and investigation process clearly on its website in the form of a 'guide to inspections' as it will help both companies and auditors to understand what the process would entail. Further the inspection process should be supported by a good *knowledgebase* maintained by the NFRA, so as to make the inspections more 'process and policy dependent' rather than 'person dependent' and thereby there is greater consistency in the positions being developed or taken by the NFRA during the course of its inspections. Over a period, it will help auditors and preparers to understand the NFRA's expected standards and also help inspectors to refer to benchmarks for their baseline inspections.

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. Therefore, it may consider making the summary of findings public in an anonymous manner and allow the full report to be handled in a private domain between the NFRA and the company / auditor reviewed. There should also be clarity regarding the post inspection process including remediation and closure of findings.

The manner of drafting of report should also be carefully considered, taking into account the link between any observation and any inference drawn, which needs to be vigorously challenged before the finalisation of the report / inspection.

#### ***Risk-Based Methodology for selection for inspection programme***

We broadly agree that there should be objectives-based criteria for selection of companies and auditors. However, 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. It seems 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. Therefore, the factors considered for selection may need to be more broad based and also allow for some level of objectivity.

Considering that NFRA's objective of improving quality of financial reporting and audit process should cover all companies and their auditors, the selection criteria may need to be suitably amended. Further, there should be a surprise element in the selection of companies and auditors for inspections.

<sup>1</sup> In this context, non-financial disclosures would be those that support the financial information e.g. information available on a company's website, its Management Discussion and Analysis, analyst presentations, investor calls, etc.

The NFRA could also evaluate other alternative approaches that could be followed. For example,

- It could also form an approach of identifying 70% of the population for inspection out of its objective criteria and balance 30% on a random basis which gives surprise element – this way it will give a chance to every preparer and auditor to be inspected.
- It could also use a size-based matrix. For instance, audit firms auditing more than 50 companies having an annual coverage, audit firms auditing 20 to 50 companies having biannual coverage and audit firms auditing less than 20 companies being covered once every 3 years, and for companies meeting certain size criteria (like turnover, market capitalization, borrowings, etc.), the periodicity of review could be once every two years, where are other companies could be reviewed once every four years.

We also feel that consultation paper does not discuss the manner of investigation and enforcement in detail. It mainly concentrates on the selection of preparers and auditors for the inspection purposes.

#### 5. Inspections: Settlement of Disciplinary Matters and Remediation

TAC Report Reference	Subject matter and questions for respondents
4.3.1 to 4.3.3	<p><b>Question # 5 Settlement of Disciplinary Matters and Remediation</b></p> <p>a) Do you have any specific suggestions on the contents of the stand-alone law that should govern NFRA?</p>

We believe NFRA should introduce a settlement scheme like the one followed by the Securities and Exchange Board of India (“SEBI”), which has stood the test of time. This would help to clear the pipeline of less important matters so that focus can be given on systematically important matters. We believe that the overall oversight and enforcement regime should be proportionate, and improvement based rather than focusing on penalty provisions.

In parallel, the NFRA could also work towards getting more regulatory clarity and empowerment for these settlement procedures, which may be achieved through the amendment of the sections of the Companies Act, 2013 that govern NFRA.

#### 6. Communication and Advocacy: Website Structure and Layout

TAC Report Reference	Subject matter and questions for respondents
4.4.1 to 4.4.2	<p><b>Question # 6 Communication and Advocacy: Website Structure and Layout</b></p> <p>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?</p>

We welcome NFRA’s plans to enhance the information on its website as it would be a good tool of communication with the stakeholders. However, on the whistle-blower mechanism we recommend that the NFRA consider developing a suitable mechanism separate from the grievance redressal mechanism on its website, including ensuring confidentiality and providing adequate protection for the whistle

blower against victimization. Therefore, we would urge the NFRA to institute a robust process which empowers it to grant leniency and offer protection against victimisation to whistle-blowers in certain instances determined on a case by case basis. It should also institute a filtering mechanism before such information is released in the public domain.

**7. Communication and Advocacy: Newsletters**

<b>TAC Report Reference</b>	<b>Subject matter and questions for respondents</b>
4.4.3	<p><b>Question # 7 Communication and Advocacy: Newsletters</b></p> <p>a) What, in your opinion, would be the subjects/areas that Newsletters from NFRA should focus on?</p>

We agree with the NFRA’s approach. We would request NFRA to cover progress on its strategic plans, emerging issues or trends both local and international requiring an accounting or audit response, its collaboration efforts with international bodies, learnings and findings arising from inspection process, etc. in its periodic newsletters.

Further, keeping in mind the emerging trends in consumption of information, including through mobile and handheld devices, the NFRA should consider suitable modes for dissemination of this information, including through podcasts, video capsules, etc.

**8. Communication and Advocacy: Press and Media Guidance**

<b>TAC Report Reference</b>	<b>Subject matter and questions for respondents</b>
4.4.6	<p><b>Question # 8 Press and Media Guidance</b></p> <p>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?</p>

On dealing with the press and media, we would urge the NFRA to give due consideration to confidentiality related aspects arising out of inspections and investigations. The practice of releasing a media statement/ publication of reports before its final determination, including, where relevant, 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. Accordingly, NFRA may consider that the matters arising from inspection and investigation process should not be covered as a part of press/ media releases. The issuance of FRQRs and AQRs should be in a summarized form, on an anonymized basis. Over a period of time (medium to long term), once the inspection process and reporting matures, the NFRA can consider making portions of the reports public as they are issued.

## 9. Communication and Advocacy: Collaboration with Universities, Institutes and Colleges

TAC Report Reference	Subject matter and questions for respondents
4.4.7	<p><b>Question # 9 Collaboration with Universities, Institutes and Colleges</b></p> <p>a) Do you have any suggestions on viable modalities for collaboration with educational institutes?</p>

We have indicated above that instituting academic fellowships at the NFRA could be a useful means of deriving a deep level of engagement with the academic community, including those who have been focussed on research on topics relating to accounting, reporting and audit and related topics relevant to the NFRA.

Considering the importance of learning and skill development, the NFRA should also use its academic collaborations to drive significant change in the finance and accounting education in the country, with a view to developing the new-age finance professional and new-age auditor.

Our suggestions on the areas of collaboration with universities, institutes and colleges are as follows:

- Upskilling of the key players in the financial reporting and audit process on subjects of growing relevant such as emerging technologies, including Data and Analytics, automation, cognitive technology, analytics, forensics, valuation, etc.
- Emerging trends in corporate reporting, including topics such as ESG, fraud and solvency reporting, enhanced level of assurance, etc.

The above areas and experience with academic fellows is likely to strengthen accounting and auditing education and will make auditors and finance teams ready for the rigor of inspections.

In this context, engaging with the Institute of Chartered Accountants of India (“ICAI”) to develop curriculums that are best suited for the new-age auditor and new age finance professional is extremely relevant. Further, the NFRA should consider how it can collaborate more effectively and leverage the strengths of the ICAI and its members on some of its future oriented studies and initiatives.

## 10. Medium-term Roadmap and Building Regulatory Capacity: Strategic Plan and Operating Plan

TAC Report Reference	Subject matter and questions for respondents
4.6.1 to 4.6.3	<p><b>Question # 10 Roadmap: Strategic Plan and Operating Plan</b></p> <p>a) Do you have any suggestions on NFRA’s Strategic Goals and Priorities for the medium term?</p>

We agree with NFRA’s approach that a strategic plan should be developed and operationalized and that it should be published for public comments. This approach is followed by other regulators and standard setters including the PCAOB in the US and the IFRS Foundation.

We also believe that while developing its strategic and annual operating plan, inputs should be sought from the Stakeholder Advisory Group. In developing this plan, some of the areas that NFRA could consider are:

- Development of Audit Quality Indicators
- Measures to bridge stakeholders' expectation
- 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
- Identify emerging audit risks and trends
- Engage effectively with other regulators, domestically and globally
- Capacity building in the profession
- Strengthening resources and skill sets available at NFRA
- Settlement and remediation mechanism

#### 11. Medium-term Roadmap and Building Regulatory Capacity: Building Regulatory Capacity

TAC Report Reference	Subject matter and questions for respondents
4.7.1 to 4.7.4	<p><b>Question # 11 Building Regulatory Capacity</b></p> <p>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?</p>

We agree with the NFRA's approach regarding trainings and staff secondments. However, these measures would not be enough and NFRA should also work towards increasing its staff strength as that will strengthen its inspection, investigation and enforcement functions. To achieve this, the NFRA would need to strengthen its team to independently carry out reviews of company filings and audits. We also believe that the NFRA should aim to follow the principles laid down by the International Forum of Independent Audit Regulators (IFIAR) on capacity building. In this context, it may be noted that the US SEC's Division of Corporation Finance which performs a similar role on review of corporate filings has approximately 500 staff and the US PCAOB which does audit firm inspections has a staff strength of 900+ resources, while FRC in the UK has over 250 resources.

NFRA needs to develop teams comprising data scientists, accountants, lawyers specialised in corporate law, software engineers and academicians. The members need to have depth of knowledge within their respective areas as also possess broad expertise across functional areas. The staff at NFRA should have experience to review different size audit firms and should undergo trainings to deal with sector specific issues and understand rapidly changing technology that would be used by audit firms in future.

We believe that NFRA should prioritise its work areas keeping in mind its current capacity and resources (both human and financial) in the short-term, while also building its capacity and resources in line with its key priorities in the medium term. This will help it to seek necessary budgetary allocation from the Government of India and utilise its resources in an efficient manner.

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30 July 2021

The Secretary,  
National Financial Reporting Authority  
7th-8th Floor, Hindustan Times House, 18-20,  
Kasturba Gandhi Marg, New Delhi 110001.

Dear Sir/Madam:

We are highly appreciative of the tasks and initiatives undertaken by NFRA in a very short period of time since its creation. We particularly compliment NFRA for this initiative of seeking feedback/responses through a consultative mechanism.

On behalf of the Forum for Indian Accounting Research, a not-for-profit organization that brings together academicians and practitioners to foster high-quality Accounting research in India, we are pleased to submit our responses to the Consultation Paper on Enhancing Engagement with Stakeholders: Report of Technical Advisory Committee (March 2021).

We thank NFRA for this opportunity to present our comments.

Sincerely,  
P R Ramesh, ex-Chairman, Deloitte India  
Professor Sanjay Kallapur, Indian School of Business  
Professor Srinivasan Rangan, IIM Bangalore  
Professor Srinivasan Sankaraguruswamy, National University of Singapore

### **Response to questions**

*Question 1: Formation of Stakeholder Consultation groups*

*Question 1a. What would be a suitable list of subjects that should form the standing agenda of the SAG?*

The SAG is a vehicle for the NFRA to receive feedback on its ongoing projects. Hence, a suitable list of subjects for the SAG to deliberate on would include all the issues that the NFRA is examining, prioritized according to NFRA's needs. These subjects can cover the main charges that the NFRA has, namely formulating standards, adhering to standards, monitoring firms, and auditing the auditors. Any attempt to prescribe a list of subjects could impair flexibility and curtail the opportunity of seeking a wider consultation.

*Question 1b. What would be an appropriate method for filling up positions on the SAG?*

The NFRA can use a combination of nominations and selection to fill the positions on the SAG. For example, industry bodies like the CII or the FICCI or the Assocham can, subject to

approval by NFRA, nominate a representative to the SAG. In the case of academics, the NFRA can directly select prominent academics to the SAG. The NFRA can invite retired partners of audit firms or ask individual audit firms to nominate members to the SAG. Additionally, other regulators like SEBI, RBI and IRDA could also be invited to nominate representatives.

*Question 1c. Would a single comprehensive SAG 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?*

One comprehensive SAG would lead to discussions among different stakeholders. The final report would incorporate the diverse views of the different stakeholders. Having four separate groups would forego the opportunity for discussions between them. As long as the final report contains the individual views of the members or the group of members in the integrated SAG, we feel that an integrated twelve-member SAG will serve the NFRA's purposes better than four individual SAG committees.

*Question 2: Fellowship Programs*

*Question 2a. Would a nominal fellowship amount as opposed to a full living allowance/compensation for loss of income attract high quality professionals/academics?*

Usually the fellowships last for a year in organizations similar to NFRA outside India. NFRA can come to an agreement with the organization that nominates the fellow to pay a certain level of income to the fellow. Instead of having organization-by-organization agreements, a single agreement with a class or group of organizations, say universities, would suffice. In some instances, the pay agreed to between NFRA and the sending organization will result in the professional taking a pay cut. The sending organization can top up the difference if required, as long as there is no conflict of interest.

*Question 2b. Would this fellowship be full time or part time?*

As long as there is enough work to be done, and NFRA has identified projects to be handled by the professionals, the fellowship should be full time. Part-time fellowship will become a secondary priority for the professional, who will be fully occupied with work at their home organization. The disadvantage of a full-time fellowship is that many professionals would be unwilling to move their families for one year.

*Question 2c. If this is to be part time then what is the kind of minimum involvement that should be insisted upon?*

NA.

*Question 2d. In the light of the above, is a one year tenure appropriate, or should it be for a longer period? Or should it be for a few months and tailored for the specific subject that is chosen for study?*

One year tenure with a chance to extend for another year is a good time frame. This time frame is especially needed if the professional has to relocate. A different contract and designation can be used for hiring professionals on a study-by-study basis. This decision can be made based on the subject under review.

*Question 3: Public speeches etc.*

*Question 3a. Do you agree with NFRA's general approach to communication?*

Usually when ranking members of a public organization give a talk, they make a disclaimer up front. The disclaimer is that the speech represents the personal opinion of the ranking member and not the opinion of the public organization. Further, these speeches are vetted by the organization's lawyers and are also uploaded to the organization's website when the speech is delivered.

NFRA has a duty to develop high-quality reporting and auditing. Speeches can help NFRA set expectations and discuss policy issues, which will help in fulfilling this role, and being transparent.

*Question 4: Inspection, investigation and enforcement*

*Question 4a. What are your comments on the objectives and scope of the FRQR/AQR Inspection program?*

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. Further, the inspection program should ensure that all firms over which NFRA has jurisdiction should be covered over a period of time.

Review of financial statements by the NFRA staff is important for ensuring that companies' disclosure quality is high and complies with accounting standards. We feel that all firms meeting the criteria should be reviewed every N years (in the US N tends to be 3 or 4 years), where NFRA can determine N. Whether a firm is selected for review should also partly depend on the outcome of the previous review.

*Question 4b. What are your suggestions regarding the Risk-Based Methodology for choice of companies as described above?*

We feel that external impact is very important and instead of an independent sort between external impact and high risk, we suggest that a dependent sort be done. That is, within the high-external-impact group, high-, medium-, and low-risk PIEs should be inspected. Time and effort allocation can be calibrated across the different risk categories, with maximum allocation to the high-risk category. Similarly, medium- and low-impact groups can be sub-classified based on risks. A dependent sort is preferable to an independent sort because it ensures that even if there is noise in the risk classification, PIEs that significantly affect the economy will be inspected thoroughly and regularly.

In structuring the teams for inspection, it will help if the teams are broken down by industry. This structure will allow the teams to develop expertise in that industry and help in comparisons across firms within the same industry. The accounting practices are usually similar among the firms in the same industry.

Automatic feedback: The MDAR (management discussion and analysis report) is mandated for listed companies under Clause 49. This section discloses in narrative form what is happening in the company. Experience from the US MD&A reports shows that usually the disclosure is boilerplate and the correlation of word pairs in the MD&A is very high across years. However, businesses are not static, and so the MD&A should vary by year. NFRA could create a program that will automatically capture the MDAR from Indian companies and compare the current year's description with the prior year's description to generate a similarity score. NFRA could then send a note to the company indicating that their description of the business is 98% similar to last year's description, and asking them to please provide additional data to either support the current narrative or make changes reflecting the current state of the business. This will put the PIEs on notice that the monitoring is high and timely.

Additional comment: The US SEC maintains a spreadsheet with every tip that it gets and whether it was acted upon, what progress was made and how it was concluded. It will help if NFRA also has a similar spreadsheet in relation to the whistleblower programme.

*Question 5: Settlement of Disciplinary matters and remediation*

Settlement helps ease the litigation process and unclogs the system; therefore, it is desirable. Some cases need to go to court for developing principles of wide applicability, but the rest can be settled. The Companies Act, however, does not have plea bargaining. Therefore, there is a need for legislative enablement.

*Question 6: Communication and Advocacy: Website structure and layout*

No comment.

*Question 7: What in your opinion, would be the subjects/areas that Newsletters from NFRA should focus on?*

Newsletters should be factual and report on current trends in accounting and auditing and activities of NFRA. A structured process with inputs from the various divisions of the NFRA can help set the agenda for newsletters. However, authoritative guidance on accounting standards and auditing standards should be a separate publication. Usually guidance is necessary after a new standard is issued, or when implementing changes in existing standards.

*Question 8: Webinars*

NFRA can organize a panel or round table discussions on important topics, which can be broadcast live. A regular webinar series, except for research papers presented at NFRA,

would lead to information overload and discussion of nitty-gritty details rather than big-picture issues. On the whole, interaction and outreach by NFRA should be done transparently.

*Question 8a: Do you agree with NFRA's preliminary views on communication with the Press and Media on reports by the authority?*

Having regular briefings with the press for large settlement and investigative issues will be helpful.

*Question 9: Do you have any suggestions on viable modalities for collaborations with universities and educational institutes?*

Universities can be engaged by providing researchers with a forum to present their research. So having a regular seminar series will help.

If NFRA requires a study to be performed, then identifying an expert in that area and commissioning them to do a study can be another way of engaging researchers.

NFRA research staff presenting papers at universities will also help researchers understand the processes at NFRA.

Having case competitions each year on disclosure standards or application of accounting standards, where college students take part, will engage the youth in NFRA 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. For example, Drake, Roulstone, and Thornock, "The Determinants and Consequences of Information Acquisition via EDGAR," *Contemporary Accounting Research*, 2014, show that investors use the SEC's EDGAR database when making their investment decisions. Availability of data will go a long way towards engaging researchers and industry players and will provide scientific inputs for policy-making by the NFRA.

*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?*

Since NFRA is a new organization, having a series of short-term goals will help achieve its objectives. The world is changing rapidly and so medium term and long-term plans are likely to become obsolete quickly.

*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?*

Whilst we agree with the NFRA's overall approach, we believe a combination of in-sourcing, co-sourcing and outsourcing should be considered depending on the situation. It is important for NFRA to build up capacity quickly; its credibility will be enhanced by an early demonstration of its relevance to the financial reporting and auditing eco-system. To achieve its objectives in a short period of time, NFRA should be willing to consider co-sourcing or outsourcing in the short term.

**Response to  
Consultation Paper on Enhancing Engagement with Stakeholders  
Report of Technical Advisory Committee (TAC)**

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We sincerely appreciate the efforts made by National Financial Regulatory Authority (NFRA) in implementing the provisions of the Companies Act, 2013 (the 'Act'). We also appreciate this opportunity to provide comments on this Consultation Paper which deals with several critical aspects of NFRA's functioning. This consultation process will surely encourage active participation of all stakeholders towards rebuilding trust in our financial ecosystem. We are committed to working with NFRA in accomplishing its objective.

**Response to specific questions**

#	Questions	Our comments / suggestions
1	<b>Formation of Stakeholder Consultation and Advisory Groups</b>	
	(a) What would be a suitable list of subjects that should form the standing agenda of the Stakeholder Advisory Group?	<ul style="list-style-type: none"> <li>- <b>Establishing mechanisms to foster stakeholder confidence:</b> We concur that there is a need to establish NFRA's national presence as trusted and effective regulator. The advisory group should consider various avenues and topics for wider communications and should also evaluate responses to outreach activities of NFRA for suitable inclusion or implementation in its operation.</li> <li>- <b>Standard Setting:</b> Identify and plan to actively participate in the standard setting process of IASB/IAASB and collaborate with other regulators. Identify areas that need practical guidance and implementation assistance for new standards or identified shortcomings through the inspection process. We note that the TAC has observed that NFRA does not have the powers to issue guidance, however, it may collaborate with ICAI in providing such guidance.</li> <li>- <b>Inspections and enforcement:</b> Periodically review the inspection process and evaluate ways to improve the process including communicating improvement areas for preparers and auditors.</li> <li>- <b>Resource building including technology:</b> Consider continuous upskilling and monitoring technical (accounting and auditing standards) and technological capabilities of NFRA to understand and assess audit documentation and audit methodologies deployed by the auditors, automated data analytics, artificial intelligence and other technological tools used by auditors. Consider the training needs of NFRA personnel and implement targeted in-depth training.</li> </ul>
	(b) What would be an appropriate method for filling up positions on the Stakeholder Advisory Group?	<p>We believe that NFRA's proposed approach of selection of members based on seeking nominations and selection by NFRA is appropriate as a first step. This process may be further refined in future to consider whether an independent panel may assist in shortlisting the final members.</p> <p>Appointment to Stakeholder Advisory Group should only be for one year term and members should sign an oath of acting in public interest above any personal interest.</p>

**Response to  
Consultation Paper on Enhancing Engagement with Stakeholders  
Report of Technical Advisory Committee (TAC)**

#	Questions	Our comments / suggestions
		We suggest that the members should serve NFRA in their personal capacity, on an honorary basis and not as a representative of any organization.
	(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?	<p>Forming a single and comprehensive Stakeholder Consultation and Advisory Group is a laudable idea.</p> <p>We do concur with the composition of the SAG. We believe that SAG will have equal representation from auditors, preparers, users and academics. This would serve well as a first step towards engaging with stakeholders and considering inputs from them in planning and reviewing the relevant activities of NFRA, considering that NFRA is in its initial phase. This will ensure in considering a finite number of projects and monitor their progress and delivery effectively.</p> <p>As the regulator gains further experience, it would perhaps become imperative then, to be assisted by separate groups to undertake larger number of focused and continuing projects.</p>
<b>2</b>	<b>Fellowship Programmes</b>	
	<p>(a) Would a nominal Fellowship amount, as opposed to a full living allowance/compensation for loss of income attract high quality professionals/academics?</p> <p>(b) Should the Fellowship be full-time, or part-time?</p> <p>(c) If it is to be part-time, what is the kind of minimum involvement that should be insisted upon?</p> <p>(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</p>	We are of the view that this need not be a priority area for NFRA currently.

Response to  
 Consultation Paper on Enhancing Engagement with Stakeholders  
 Report of Technical Advisory Committee (TAC)

#	Questions	Our comments / suggestions
	subject that is chosen for study?	
<b>3</b>	<b>Public Speeches etc.</b>	
	Do you agree with NFRA's general approach to public communication?	<p>We note that NFRA is currently circumspect with respect to the manner and extent of communication considering the inadequate judicial directives in this regard. Whilst we respect this thought process, we would submit the following for consideration.</p> <ul style="list-style-type: none"> <li>- NFRA's ambit of functions specifically includes "promote awareness in relation to the compliance of accounting standards and auditing standards". Consequently, we are of the view that whilst NFRA and its personnel should not communicate anything relating to specific inspections, findings or remediations, there should be communication regarding the larger themes, experience and expectations of NFRA.</li> <li>- We believe that constant communication by NFRA will promote public and other stakeholders' trust instead of the current proposed approach of perforce gradual.</li> <li>- Seminars organized by industry bodies and institutions are known to generate significant interest in the stakeholder groups that are relevant for NFRA. These forums can be used effectively by NFRA to communicate its objectives, observations and expectations.</li> <li>- Apart from participating in events hosted by other bodies and institutions, NFRA may want to consider hosting seminars and round tables with wider audiences on specific topics to generate awareness on specific areas of focus or concern</li> </ul>
<b>4</b>	<b>Inspection Policy</b>	
	a) What are your comments on the objectives and scope of the FRQR/AQR Inspection Programme?	<p><i>FRQR inspection Programme</i></p> <p>We welcome the suggestion to review the financial reporting practices. NFRA may consider providing a framework which will be used to achieve the objective. The framework may include a questionnaire on the functions discharged by those charged with financial reporting and oversight responsibilities.</p>
	b) What are your suggestions regarding the Risk-Based Methodology for choice of companies as described above?	<p><i>AQR Inspection Programme</i></p> <p>(a) We welcome the proposed methodology of using risk of material misstatement factors and external impact factors. In addition to specific selections done by NFRA using the proposed model, it should also consider selecting certain large firms for a periodic inspection. Public Company Accounting Oversight Board follows a similar approach. Under the Sarbanes-Oxley Act, 2002 read with PCAOB Rules, public accounting</p>

**Response to  
Consultation Paper on Enhancing Engagement with Stakeholders  
Report of Technical Advisory Committee (TAC)**

#	Questions	Our comments / suggestions
		<p>firms registered with PCAOB that regularly provide audit reports for more than 100 issuers are inspected annually, while those that regularly provide audit reports for 100 or fewer issuers are inspected at least once every three calendar years, with a few limited exceptions as specified in Rule 4003.</p> <p>(b) We believe that a well laid out inspection process is critical to the understanding of expectations and results from this process for all stakeholders. The process document should be in sufficient detail to ensure that the inspection process is consistent, seamless and achieves all the objectives thereof.</p> <p>(c) A few suggestions that we would like to put forth for NFRA's consideration with respect to the inspection process:</p> <ul style="list-style-type: none"> <li>- We suggest that NFRA creates a review program for assessing the effectiveness of the quality control policies and procedures of the Firm established for compliance with the requirements of 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 issued by the Institute of Chartered Accountants of India.</li> <li>- This list of exhibits/information required for inspection may be shared with the Firm to be inspected sufficiently in advance so that the Firm can collate the requisite documentation.</li> <li>- We also urge NFRA to carry out inspection at the Firm's location or using an online model which will enable efficient inspection since interaction with the Firm personnel including its leadership as well as reviewing the original audit documentation are critical for concluding whether the audit firm under inspection complied with the requirements of SQC 1. We urge NFRA to not require audit firms to provide audit documentation derived from the original archived documentation done as per the firm's policy, for submission to NFRA. This will save significant time and efforts of the auditors in providing audit documentation in the form mandated by NFRA.</li> <li>- NFRA may also consider laying down the composition of a Quality Review Team which will carry out the quality reviews. Each Quality Review Team may be headed by a Lead Reviewer equipped with necessary knowledge and experience in the field of auditing.</li> <li>- Other than the Lead Reviewer, a Quality Review Team may have specialists that specialize in policies and procedures at the Firm level and IT specialists. NFRA may also consider having an internal group to deal with independence and ethical issues and those related to application of accounting standards and standards on auditing.</li> </ul> <p><b>(d) Dealing with the Inspection Findings</b></p> <p>Please consider the following in relation to dealing with the findings noted in AQR Inspection Programme</p>

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#	Questions	Our comments / suggestions
		<ul style="list-style-type: none"> <li>- We have concerns regarding the inability of a firm to review a revised draft inspection report prior to its issuance and distribution as a final report. We believe that NFRA could provide for an opportunity to review a revised draft inspection report by the firm under review to ensure that the revised draft is consistent with facts and circumstances the firm believes are relevant to the matters discussed in presentation and accurately address all matters included therein.</li> <li>- We also believe that the firm should have right to submit response to final report and that the report should be accompanied by such letter of response from the audit firm.</li> <li>- NFRA may consider devising appropriate criteria for classification of review findings into different categories based on the severity of the inspection findings. The categorization of the finding is considered as input to decide the course of action that may be required to remediate the finding. For example, if a policy or procedure is not designed or implemented effectively by an audit firm or in an audit engagement, a non-compliance with an auditing standard has occurred, the finding may be classified as a significant deficiency or a material weakness depending upon several factors. In case there is an error in documenting a verification done, it may be case that no further action is required other than issuing a caution to the audit engagement team.</li> <li>- Identified findings may be communicated to the audit firm and the audit firm can be asked to submit a remediation plan to NFRA.</li> <li>- Once the firm confirms (period of 12 months may be provided) that appropriate remediation steps have been taken by the firm to remove the deficiency in the system of quality control, NFRA may cover those specific aspects in the next inspection.</li> <li>- No portions of an inspection report that deals with criticisms of or potential defects in the quality control systems of the firm shall be made public if those criticisms or defects are addressed by the firm, to the satisfaction of NFRA, no later than 12 months after the issuance of the inspection report.</li> </ul>
<b>5</b>	<b>Settlement of Disciplinary Matters and Remediation</b>	
	Do you have any specific suggestions on the contents of the stand-alone law that should govern NFRA?	<p>Kindly refer to our comments on the objectives and scope of the FRQR/AQR Inspection Programme under the heading “Dealing with the Findings”. We believe that all the findings noted in an inspection programme may not qualify as “misconduct” and may be indicative of improvements required in the quality control systems of a Firm or more education and trainings to be imparted to the audit engagement partner and other members of the engagement team.</p> <p>We believe that NFRA can effectively discharge its obligations under the current laws by carrying out effective reviews; asking firms to take remediation steps and taking steps like initiating a</p>

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#	Questions	Our comments / suggestions
		<p>disciplinary proceeding against an auditor who has been grossly negligent in performance of his obligations as a chartered accountant or as an auditor.</p> <p>We agree that the term “misconduct” is not defined under the Companies Act, 2013. Therefore, it is important to have some guidelines/framework for determining if and whether a finding should be classified as “gross negligence” or “misconduct” by the engagement partner or any other member of the engagement team. Disciplinary sanctions should be considered only where, in the opinion of NFRA, an individual is seen to be grossly negligent. Existence of such a framework will bring in consistency in evaluation of misconduct.</p> <p>Further, we recommend progressive approach to regulatory intervention which ensures efficient and cost-effective way of bringing improvements in audit quality and is proportionate to the gaps identified. International Forum of Independent Audit Regulators (IFIAR) recommends that the powers and conditions to promote effective audit inspection include a '<u>range of proportionate and adequate sanctions</u>, including the ultimate sanction of removal of the audit license'.</p> <ul style="list-style-type: none"> <li>- Recommend and monitor: Engage with the audit team during the inspection enabling resolution of issues as they arise. Allow reasonable time to audit firm to submit their remediation plan. The file deficiencies can then be corrected before the next reporting cycle depending on severity of the findings. Inspection team to work collaboratively with firms during the remedial period.</li> <li>- Corrective: If the severity of findings is higher than temporary restrictions may be applied to give firm time to improve on the audit quality. In case of low severity minor sanctions may include monetary penalties and requirements for remedial measures, such as training and revised quality control procedures by the firm.</li> </ul>
6	<p><b>Communication and Advocacy: Website Structure and Layout</b></p>	
	<p>a) Do you have any specific model that is ideal keeping in mind NFRA's functions and duties enshrined in the Companies Act, 2013</p>	<p>Transparent communication and public outreach using all means (Website, Press, Industry bodies, Academia, Investor Groups, auditors, etc.) will aid better two-way dialogue and building both awareness and trust.</p>

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#	Questions	Our comments / suggestions
	and the related the NFRA Rules 2018?	
<b>7</b>	<b>Communication and Advocacy: Newsletters</b>	
	a) What, in your opinion, would be the subjects/areas that Newsletters from NFRA should focus on?	<p>Whilst we note that NFRA is circumspect regarding the legal ramifications and information overload, we do believe that Newsletters from NFRA can deal with:</p> <ul style="list-style-type: none"> <li>- Summaries of non-entity specific inspection findings or themes - NFRA may include recommendation for improvements; and</li> <li>- Publications about emerging areas like use of data analytics and technology etc.</li> </ul>
<b>8</b>	<b>Press and Media Guidance</b>	
	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?	We concur with TAC's recommendation.
<b>9</b>	<b>Collaboration with Universities, Institutes and Colleges</b>	
	Do you have any suggestions on viable modalities for collaboration with educational institutes?	No comments.
<b>10</b>	Do you have any suggestions on NFRA's Strategic Goals and Priorities for the medium term?	<p>We appreciate NFRA's preliminary view with respect to a proposed long and short-term roadmap. We look forward to being provided an opportunity to respond to NFRA's proposed Strategic and Operating Plans. In formulating these plans we suggest the following be given priority:</p> <ul style="list-style-type: none"> <li>- Obtain IFIAR membership and work out mechanism to closely collaborate with PCAOB. This will help access to capital and will demonstrate to the world at large that India is a rules-favouring and transparent</li> </ul>

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#	Questions	Our comments / suggestions
		<p>nation unlike others that are competing for the same capital. This would also ease the inspection burden on the firms and on NFRA as well as PCAOB.</p> <ul style="list-style-type: none"> <li>- Build, retain and train a high-performance team with strong audit and accounting background;</li> <li>- Develop and refine inspection model;</li> <li>- Collaboration with international standard setting bodies to bring in improvements in auditing standards and the audit standard setting process; and</li> <li>- Bring in proportionate enforcement and monitoring plan (as discussed above in response to Question 5)</li> </ul>
<b>11</b>	<b>Building Regulatory Capacity</b>	
	<p>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?</p>	<ul style="list-style-type: none"> <li>- We suggest that the inspection personnel recruited are the best suited resources with adequate experience in financial reporting and auditing. This talent pool needs to be most high performing individuals in corporates and audit firms. NFRA may also consider recruiting personnel with previous experience with other audit regulators in other jurisdictions.</li> <li>- We concur with TAC's suggestions with respect to minimum training hours for each staff level. In keeping with the collaborative approach, as an audit firm with in-house training experts, we would be able to assist NFRA in its efforts to train its personnel on accounting and auditing standards as well as technology tools such as data analytics, among others.</li> <li>- We note NFRA's concerns regarding independence with respect to staff exchanges with auditors and preparers. We suggest that a clear process with adequate safeguards, based on global practices, is put in place to facilitate this initiative.</li> </ul>

## NFRA's Consultation Paper on Enhancing Engagement with Stakeholders – Response by S.R. Batliboi & Affiliates

### 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?**

The list of subjects should be in accordance with the purpose of NFRA and should be aligned with the provisions of the law.

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

As related to filling up of the positions on the stakeholder advisory group is concerned, it will be good if NFRA can approach the respective bodies that deal with those stakeholders, e.g., the auditor's group could be formed on the advice of ICAI, CFO group could be formed on the advice of chambers of commerce and industry like CII, FICCI, Assocham, etc., the investor advisory group could be based on the suggestions received from the various investor advisory forums and the academic advisory group could be based on the nominations received from UGC or various central universities.

- 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?**

It will be appropriate if a single comprehensive stakeholder advisory group is form instead of four separate groups for effective and efficient functioning. It is possible that four separate groups are likely to lead to thinking in silos and may not give an integrated wholesome perspective.

### 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?**

For the Fellowship Programmes, the allowances/compensation should be commensurate with the opportunities available to the individuals and should be competitive, so that high quality professionals/academicians are encouraged to join these Programmes. Nominal Fellowship amounts may not attract the high-quality people.

NFRA may also invite secondment of experienced people from corporates and audit firms to work on these programmes for short to medium-term duration, subject to NFRA framing the rules or guidance relating to conflict of interest and confidentiality. This is prevalent practice in some of the jurisdictions.

We suggest that the fellowship amount may be equivalent to the amount which is paid to the

research scholars or an amount which is commensurate with their academic position, if the individuals are academicians or the market competitive amounts (subject to NFRA guidance on existing employers sponsoring a part) in case the individual is non-academician.

**b) Should the Fellowship be full-time, or part-time?**

NFRA academic fellowship may be on a full-time basis and it should be spread over a period of 1 to 3 years, so that the individuals are committed for the duration and can spend quality time in working towards the expectation from them. It will be appropriate, if NFRA can tie up with some recognized universities who can award a doctoral degree in the chosen area of study. It will motivate more people from academics to come to NFRA.

**c) If it is to be part-time, what is the kind of minimum involvement that should be insisted upon?**

Usually, the fellowships are for full-time to have time commitment from the professionals and we recommend this model for NFRA's fellowships. However, if NFRA decides to opt for part-time fellowships, the commitment should be for minimum of 50% of the time available each week or month. In that case, the fellowships could spread over a period of 6 months to 1 year since this category of people may not find it feasible to work on a full-time basis or for a longer duration. Compensation in full-time category should be commensurate with their current positions. However, in case of part-time positions, NFRA should consider how to compensate the fellows and to consider the conflict of interest with the effort these resources are incurring on their current work commitments.

NFRA can also work on a proposition, where the fellows from academics are working with fellows in profession. It will help the people from academics to gain practical insights.

**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?**

We refer to our suggestions above. If NFRA decides to use the service of a fellow for a specific subject, the tenure could be specific to that project. We recommend that the fellow should be expected to submit the progress report periodically and NFRA can decide whether to extend the tenure on case to case basis.

For reference, PCAOB has a fellowship program for academics (Link - [Fellowship Program | PCAOB \(pcaobus.org\)](#)) and a scholars program (link - [PCAOB Scholars Program | PCAOB \(pcaobus.org\)](#)).

**Question # 3 Public Speeches etc.**

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

We are in agreement with NFRA view given in the consultation paper on general approach to public communication.

## **Question # 4 Inspection Policy**

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

We welcome NFRA's thought process of taking into account the inspection process of its peer group, e.g., Public Company Accounting Oversight Board (U.S.) ("PCAOB"), Financial Reporting Council (U.K.) ("FRC") and Australian Securities and Investments Commission ("ASIC"). Audit regulators, Indian (Quality Review Board ("QRB") of Institute of Chartered Accountants of India ("ICAI"), Peer Review Board of the ICAI or global PCAOB and FRC perform review of the audit workpapers maintained by Audit Firms.

We suggest NFRA refers to the inspection process of these regulators, which is referenced below for reference for AQR Inspection Programme. There should be a greater dialogue between NFRA and its peer group for using the best practice of inspection of audit engagements without any bias and on consistent basis. NFRA should consider the inspection process of other regulators which are acknowledged by investors, auditors, preparers of financial statements and other users across the world and accepted for a long time. Using similar process will inspire confidence of users in the NFRA's inspection process and will lead to uniform inspection processes faced by auditors.

We also propose that NFRA, like its peer group of regulators, should select an audit firm periodically based on numbers of Public Interest Entity ("PIE") audit clients (once every year or once in 3 years) and then chose the audit engagements for the review under inspection cycle which is followed consistently for all audit firms. The timing and mode of the inspection should be agreed with the audit firm in advance and it will result in audit firms being prepared for the inspection in better way. Inspection of an audit firm should result in NFRA examining in depth (1) certain aspects of a limited number of audits performed by the audit firm and (2) certain elements of the firm's system of quality control over its audit processes.

Objective of the inspection should be to review the quality control system of the audit firm and we welcome such objective.

NFRA may consider IFIAR's Core Principles on this topic, as contained in part C ([link - Microsoft Word - Final Core Principles.docx \(ifiar.org\)](#)).

### **International regulatory inspection of audit workpapers**

Internationally, the regulators inspect audit files using the Audit Firm's proprietary software in the original format of the audit files and perform on-site reviews. The review teams are trained on the use of respective firms' online documentation tools:

- International regulators such as the PCAOB have adopted the standard process of performing the inspection at the Audit Firm's office and inspecting the audit work papers/files by accessing the original archived audit file in the Audit Firms' proprietary software and using the Audit Firms laptops.
- In performing these inspections, the Audit Firm subject to review is responsible to provide the working paper files including the online documentation tool on a laptop without access and print functionality, and the workpapers and key engagement documents maintained in hard copy as per the Audit Firm's documentation policy.

- The inspection team members can independently access the audit files and perform the inspection the way they want, at a location of their choice (though most regulators prefer to visit the Audit Firm’s office) as they get access to the Audit Firm laptop with the audit file in it, along with the login ID and password.
- Wherever required, the Audit Firms depute the engagement team members to explain to the inspection team, how to navigate the file, to help them smoothly inspect the file.
- Similar practices are adopted by other regulators, such as Financial Reporting Council, UK , Canadian Public Accountability Board, Committee of European Auditing Oversight Bodies (“CEOAB”), etc. It is common for all of them to do on site reviews. CEOAB inspection methodology for Firm Wide Audit Controls specifically includes meeting with leadership team of Audit Firm.

**We also suggest NFRA to consider following inspection methodology of peer audit regulators (with links to the detailed guidance):**

- For US PCAOB see [Basics of Inspections | PCAOB \(pcaobus.org\)](https://pcaobus.org)
- For UK FRC see [FRC-Approach-to-Audit-Supervision-FINAL.pdf](#)
- For Canadian CPAB see [Audit Firm Oversight \(cpab-ccrc.ca\)](https://cpab-ccrc.ca)
- For EU countries see in general the CEAOB Common Audit Inspection Methodology (CAIM) [Committee of European Auditing Oversight Bodies | European Commission \(europa.eu\)](https://europa.eu) (under guidelines 2018)

Further, NFRA may also consider the PCAOB Inspections of Public Company Auditors, PCAOB (refer link <https://pcaobus.org/resources/information-for-audit-committees>) and Guide to PCAOB Inspections, Center for Audit Quality (Refer link <https://www.thecaq.org/guide-pcaob-inspections/>) for explaining the inspection process followed by PCAOB, which cover following elements:

- Beginning of an Inspection
- PCAOB selection of the audits to inspect
- Inspection Process
- Inspection of work papers and importance of work papers
- What Happens if PCAOB Inspectors Believe There Is an Audit Deficiency?
- Does the PCAOB Consider the Role Professional Judgment Plays in Auditing?
- Inspection Reports

**While we have referenced the practices followed by the peer regulators, we suggest following factors to be considered by NFRA while drafting the scope of the FRQR / AQR:**

- AQR process would be considered credible and effective, if the inspections were to take place on-site at the premises of the audit firm, similar to the practice followed by all regulators.
- As a part of onsite inspection, the inspection team should familiarize themselves with the systems and processes followed by an audit firm to enable it to comply with and conform to applicable auditing standards, guidance, etc. in the execution of its audits. In respect of financial reporting quality review, in addition to checking compliance with company law, there should be an endeavor to assess compliance with laws and

regulations as applicable to the entity selected for the review, for example in case of bank/insurance companies, compliance with RBI/IRDAI guidelines.

- Other regulators such as SEBI, RBI or IRDAI may also be involved when the issues are seen as specific to the specific sectors. These are likely to involve more than one company or audit firm or may be the audit profession
- There should be a clear distinction between an inspection and investigation by NFRA. Investigations should only be undertaken by NFRA only in specific circumstances. Investigations should be undertaken by a specialist team within the regulator or on their behalf when specialist knowledge or expertise is needed (e.g. a forensic audit)
- The process and approach, separately for inspections and investigations, should be transparent and clearly set out by NFRA. The scope of inspections should be defined upfront and should not be expanded
- NFRA should differentiate complaints between anonymous and named (where it should maintain confidentiality of the complainant)
- Adequate precaution should be taken by NFRA to ensure that the FRQR and AQR should not result in an unintended damage to the reputation of the corresponding party, i.e. preparer in case of FRQR and auditor in case of AQR. Confidentiality should be maintained at least until the conclusion of the inspection process
- Inspection process should clearly lay down the stages involved in the inspection and the format of the inspection report
- Procedure on how to treat company confidential documents by NFRA /agencies involved should be clearly defined, especially where there are client contractual obligations/other regulatory conflicts or the global privacy regulatory requirements
- Procedure on how to treat audit work papers (including work papers that include extracts of company documents) confidentiality by NFRA /agencies involved should be clearly defined having regard to similar obligations and constraints
- Clearly define the confidential document archival/redaction process during and post the investigation/inspection
- Clearly define how the confidentiality of the entire matter will be maintained and actions to be defined for violation of the same by anyone involved in the process (NFRA employees, third party agencies, etc.)
- Clarity regarding post inspection process, including, remediation plan and closure of findings
- NFRA's expectations from stakeholders should be clearly defined

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

We appreciate NFRA's intending to take a risk-based approach to select audit engagements to review and the areas of inspection focus. As a result, inspections do not involve a random or representative sample of a firm's public company practice. NFRA may also consider PCAOB's operating model as it has developed a variety of tools to identify audits that may

pose difficult or complex issues.

Our suggestions with regard to the selection of companies are as follows:

- Risk factors may include the nature of the company, including its industry and market capitalization; audit issues likely to be encountered; and whether the company has significant operations in emerging markets. The risk factors as evaluated and finalized by NFRA should be clearly defined for each element of the criteria and the data required for calculating the risk profiles should be quantifiable and trustworthy
- Other factors that influence engagement selection are specific to the inspected firm, such as the type and range of its public company engagements, the results of prior PCAOB inspections, and findings from the firm's internal risk management and inspections processes
- Objective of selection should be to cover majority of firms over a specified period of time. The size of a firm in terms of audits undertaken in a financial year may also be considered to determine frequency of inspection of an audit firm
- The frequency and coverage of the inspection should be commensurate with the capacity of NFRA and availability of experienced pool of reviewers
- NFRA may also consider the assignments and inspection history of the partners who audit public companies

## **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?**

Our perspective on the settlement of Disciplinary Matters is as below:

An inspection is designed to assess the firm's compliance with the applicable auditing standards and rules, and other applicable regulatory and professional requirements in the firm's system of quality control and in the portions of audits selected for review. Inspections do not involve a review of all aspects of a firm's quality control system. Inspections also do not involve a review of all of the firm's audits, nor are they designed to identify every deficiency in the reviewed audits. We expect NFRA to differentiate between inspection and an enforcement proceeding and consider the nature and the background of the inspection findings.

We welcome the suggestion of TAC (para 4.3 of the consultation paper) for providing settlement mechanism for disciplinary matters for both companies and the audit firms, which is an immediate requirement and may be more expeditiously incorporated in the Companies Act itself, or by issuance of Rules by NFRA.

In the dynamic capital market, it will help in effective mechanism to deal with the inspection results and will help in reducing the litigation which may be continue for years at times.

NFRA may also consider the 'consent mechanism', which is prevalent in SEBI regulations and other jurisdictions, whereby financial penalty may be levied, besides a remediation/monitoring plan. Further, the SEBI (Settlement Proceedings) Regulations 2018, has established a detailed framework around settlement mechanism, which may be considered by NFRA.

Further, there should be a mechanism to settle based on “no admission of guilt” (similar to other jurisdictions). Many regulator and authorities have considered that the disciplinary procedures take a lot of time. So, if they believe prima-facie that the issue has a small impact, then the person leading the inspection should be authorized to settle the case for a monetary fine. The company or audit firm should be allowed to pay the settlement amount without having to admit wrongdoing.

NFRA may also consider Sarbanes-Oxley Act, 2002 for reference while framing the Rules / law related to:

- the disciplinary procedures as prescribed in section 105(c) therein
- Inspection of registered public accounting firms as prescribed in section 104 therein

We also suggest NFRA to consider following on this matter:

- In cases of NFRA’s observations relating to non-compliance of the firm’s quality control system, the firm should be asked to remediate the observations in suitable period, example 12 months.
- In case the firm is not able to remediate the observations in the given period or if the observations relate to a major finding, NFRA may consider any of the following actions:
  - Monetary penalty on the engagement partner, other members of the audit team and / or the audit firm based on criteria set by NFRA,
  - Initiating disciplinary action against the engagement partner and other members of the audit team, if there appears to be a prima-facie negligence in performing the engagement, or
  - Other enforcement action resulting in the audit professional be asked not to perform audit of a PIE entity for next 2-3 years. However, this should only be in extreme cases where there appears to be a willful fraud to favour the audit client or a gross negligence which resulted in issuance of a clean audit report where if audit procedures were performed adequately, it would have resulted in modified audit opinion.
- In case of PCAOB, disciplinary decisions are taken by the PCAOB board members jointly, but they are not involved in the review of files. They take the decisions based on reports/papers produced by staff.
- NFRA may consider Sarbanes Oxley Act, as per which individuals and audit firms subject to PCAOB oversight may appeal PCAOB decisions (including any disciplinary actions) to the SEC and the SEC has the power to modify or overturn PCAOB rules.

#### **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?**

We agree with NFRA’s preliminary views and proposed action plan. As regards NFRA’s website, our recommendation is that the website should contain:

- information of public interest related to NFRA’s structure and roles and responsibilities

of key officials

- Operating protocols for standards setting activities (accounting and auditing), inspection plans, disciplinary, enforcement and other similar functions
- Names and contact details of the key contacts for each function
- Number of inspections carried out, information and guidance on the 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
- Whistle-blower related contacts
- FAQs, news and events, resources, media and gallery, etc.
- Articles, publishings, panel discussions of experts, industry bodies and players, other domestic and international regulators would also help in raising user knowledge and experience

Information related to financial reporting quality reviews, audit quality reviews, investigations and enforcement should not include confidential or sensitive information or specific findings and conclusions. Rather, general themes, evolving matters, learnings, recommended measures for improving financial reporting quality or audit quality should be explained. The users to the websites are mostly external individuals and organisations and they should be able to locate the required materials (NFRA Rules, notifications and other technical pronouncements) and guidance easily.

As regards whistle-blower contact email address, we agree with the fact that there is already a separate tab titled “Public Grievance” on its website which contains detailed guidelines on the procedure for complaint handling in NFRA along with the process and documents required to be submitted along with complaint. Therefore, a separate whistle-blower contact email address may not be required.

We suggest that NFRA refers the websites of regulators such as PCAOB, IFAC, FRC, etc. for examples of leading practices on the structure and contents.

## **Question # 7 Communication and Advocacy: Newsletters**

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

We suggest that NFRA may consider including following subjects / areas in the Newsletters:

- Any new rule, notification, circular, etc. released by NFRA from the date of previous Newsletter or any amendments in such rule, notification, circular, etc., which is relevant to an external stakeholder
- Any guidance prepared by NFRA from the date of previous Newsletter, which is relevant to an external stakeholder
- Any emphasis or specific requirement, which NFRA wants to highlight to an external stakeholder
- Summary of findings/learnings arising from inspection process
- Summary of important decisions taken at the meetings of NFRA, which are relevant to the external stakeholders

- Summary of research projects undertaken under the Fellowship and / or another program

We agree with NFRA's view that consideration must be given to potential risk of legal ramifications of interpretation of accounting and auditing standards that are part of the law in India. The Newsletters should not include confidential or sensitive information or specific findings and conclusions. NFRA may also consider approach of PCAOB, which does a lot of outreach, see [pcaob.org](http://pcaob.org) under news & events ([news releases](#), [speeches](#), [events](#)).

## 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?

Webinars and other media are already used by ICAI and different organisations in the country on the new standards and developments. So, adding one more layer might not add any value to external stakeholders. Instead, we suggest that NFRA may consider webinars or other media articles on topical subjects including its expectations on inspections (FRQR and AQR) and other matters which are in only NFRA's jurisdiction.

We agree with NFRA that an App might not help in easy access to information.

On the press and other releases to journalists, we consider that NFRA's primary objective is to ensure that financial and audit frameworks are operating effectively by the preparers of financial statements and the auditor of these financial statements. Accordingly, media releases should be directed to provide clarity to these stakeholders on the processes and the directions that should be taken by preparers of financial statements and the auditor of these financial statements. NFRA should refrain from releasing any specific information about a company or auditor in its press releases and should follow the best practices of its peer regulators.

NFRA may also consider approach of PCAOB, which does a lot of outreach, see [pcaob.org](http://pcaob.org) under news & events ([news releases](#), [speeches](#), [events](#)).

It would serve the public interest if:

- Press interactions are limited until the inspection or investigation is completed. Communication of any interim report or media interaction should only be after seeking additional approvals within NFRA. If at all, the interim reports should state only facts and not interim views or probabilities/possibilities or any stretched hypotheses.
- Naming individuals/entities could be strictly avoided. While the matter under investigation might be disclosed if the amount is material on conclusion of investigation, no other information should be shared with the media.
- Inspection results should be anonymized and communicated periodically, only in aggregate.

## Question # 9 Collaboration with Universities, Institutes and Colleges

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

NFRA has been formed by virtue of Section 132 of the Companies Act, 2013. We suggest section 132 is included in the syllabus / course material of relevant course at the graduation and post-graduation level through dialogue between NFRA and UGC. It will help create awareness about the purpose, role and functions of NFRA.

Modalities for collaboration with educational institutes could be in various forms, such as:

- Academic research, literature reviews, etc., as part of the standard-setting work
- Research studies on topics selected by NFRA under the fellowship programmed,
- 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

### **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?**

We welcome NFRA's suggestions to develop the roadmap for its strategic goals and priorities for the medium term (example for 5 years), as it will clarify the position and its expectations to the external stakeholders. NFRA may also consider PCAOB's strategic goals and priorities for medium term and long term (link - [strategic-plan-2020-2024.pdf](https://www.pcaob.org/~/media/Files/StrategicPlan/strategic-plan-2020-2024.pdf) ([azureedge.net](https://www.azureedge.net))).

NFRA may consider following areas as its strategic goals and priorities in short to medium term:

- Membership of IFIAR
- Audit quality indicators and 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 professionals/preparers
- Streamlining of inspection process to make it constructive and improvement oriented
- Settlement and remediation mechanism
- Strengthening the resources and skills available with NFRA
- Investment in emerging technologies
- Consider divisional segregation of the regulation of preparers and regulation of auditors to enable an appropriate focus on each, in a manner consistent with its overall objectives

### **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?**

While overall, we agree with NFRA's views, it would help NFRA and the stakeholders, if more people with accounting and auditing background including senior professionals from corporates and audit firms are inducted or called for short term training programmes to increase the knowledge and experiences of the people who will inspect the companies and

audit firms as part of FRQR /AQR. NFRA can also take support and assistance of experts from industry and audit profession for building consultative papers on relevant topics.

Below points may be considered by NFRA in this regard:

- Staff exchanges or secondment may be considered with auditors, preparers, and overseas regulators (PCAOB and the FRC) as two-way process. Devise a system for secondment of resources based on their experience and skill set
- Personnel responsible for inspection and other audit quality related activities should have relevant industry and professional experience
- Further, the personnel with specialized skills, such as valuation, IT, banking, Forensic, sectoral capabilities (banking, insurance) should also form part of NFRA considering greater involvement of specialists in large and complex audits
- Membership of IFIAR and adoption of best practices
- Benchmarking with other regulators
- Considering appropriate payment to the resources working with NFRA (full or part-time)
- Ensure the available capacity vis-à-vis the inspection volume

July 30, 2021

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The Secretary,  
National Financial Reporting Authority  
7th-8th Floor, Hindustan Times House, 18-20,  
Kasturba Gandhi Marg, New Delhi 110001.

Dear Sir,

**Sub: Consultation Paper on Enhancing Engagement with Stakeholders (issued in June 2021)  
("Consultation Paper")**

At the outset, we thank and appreciate the National Financial Reporting Authority ("**NFRA**" / "**the Authority**") in constructively considering the recommendation of the Authority's Technical Advisory Committee ("**TAC**") on one of the important topics relating to enhancing engagement with the stakeholders. We believe that this is an important step in the stakeholders and the Authority understanding each other better, improve confidence in the financial reporting system and build mutual trust and respect between the Authority and the stakeholders.

Whilst in paragraph 3.4.1 of the Consultation Paper NFRA has invited comments on specific recommendations of the TAC listed in section 4 of the Consultation Paper we thank the Authority for considering it appropriate to expand the scope of invitation to comments to also seek the comments and suggestions of stakeholders on NFRA's preliminary views/proposed actions thereon (in paragraph 1.3 and 3.3.1 of the Consultation Paper).

We are pleased to submit, without prejudice, our comments and suggestions on the Consultation Paper for NFRA's consideration. Our comments and recommendations are provided as follows:

Part A – Comprising comments and suggestions on the questions to respondents as described in Section 4.2 of the Consultation Paper "*Summary of Questions for Respondents*" [Pages 2 to 10 and Annexures thereto in Pages 25 to 32]

Part B – Comprising comments and suggestions on the recommendations of the TAC to NFRA and NFRA's preliminary views/proposed actions thereon [Pages 11 to 24]

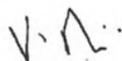
We will be happy to discuss these in detail with the Authority if you so desire. CA V. Balaji, Partner in our Firm ([vbajaji@deloitte.com](mailto:vbajaji@deloitte.com), Mobile No. +91 9845511510) may be contacted in this regard.

We look forward to other consultation papers from NFRA on specific topics providing ample time to respond (as in the case of the extant Consultation Paper) and also having transparency about responses received and the ultimate decisions that have been made.

Thanking you,

Yours sincerely,

For **Deloitte Haskins & Sells LLP**  
**Chartered Accountants**



**V. Balaji**  
**Partner**

Regd. Office: Indiabulls Finance Centre, Tower 3, 27<sup>th</sup> - 32<sup>nd</sup> Floor, Senapati Bapat Marg, Elphinstone Road (West), Mumbai - 400 013, Maharashtra, India. (LLP Identification No. AAB-8737)

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## Part A – Comments and suggestions on the questions to respondents as described in Section 4.2 of the Consultation Paper “*Summary of Questions for Respondents*”

NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
Section 4.2 (page 29 of 33) referred to in paragraph 4.1.3 to 4.1.5 (page 11 of 33)	Q1(a) What would be a suitable list of subjects that should form the standing agenda of the Stakeholder Advisory Group?	Refer Annexure 1 for list of subjects that can form part of the agenda of the respective Stakeholder Advisory Groups.	These subjects will enable achieving the objectives set forth for the respective Groups.
Section 4.2 (page 29 of 33) referred to in paragraph 4.1.3 to 4.1.5 (page 11 of 33)	Q1(b) What would be an appropriate method for filling up positions on the Stakeholder Advisory Group?	<p>In designing an appropriate method for filling up positions on the Stakeholder Advisory Group, the following may be considered:</p> <ol style="list-style-type: none"> <li>1. Defining the term/ period for which the position can be held</li> <li>2. Nominations may be invited on a pre-defined template</li> <li>3. Create an internal evaluation framework and share it for transparency. This framework should consider competency, experience and availability of time of the candidate</li> <li>4. Selections to be made by an internal committee of NFRA</li> <li>5. Limiting the number of persons selected from one organisation</li> </ol>	Just having nominations from organisations may not give NFRA with the right calibre of persons to be members of the various Group.

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
		<p>The internal committee of NFRA selecting the members may have discussions with the nominated persons to understand competency, experience and availability of time to contribute when being a member of the respective Groups. One person cannot be a member in more than 2 Groups. Equal weightage may be given to each of the above criteria and the selection can be made based on the highest scores. The person scoring the highest may still be required to score a minimum in each of the criteria.</p> <p>Example: The interested persons are assessed in a scale of 1 to 10 with 1 being the lowest, and the minimum qualifying score in each area is 5 Person A's scores on each of the areas is assessed as follows: Competency – 8 Experience – 8 Availability – 4</p> <p>Person B's score is as follows: Competency – 6 Experience – 6</p>	

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
		<p>Availability - 7</p> <p>In this example, Person B will be preferred over Person A though the total score of Person B is lower than Person A since Person A is deemed not to qualify because of his less than minimum score on availability.</p> <p>In respect of membership by other Regulators, it can be through a nomination process by the respective Regulators.</p>	
Section 4.2 (page 29 of 33) referred to in paragraph 4.1.3 to 4.1.5 (page 11 of 33)	Q1(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?	No. Separate groups are suggested. Further, a Coordinating Group of the Stakeholder Advisory Groups may be setup comprising representatives from the respective Advisory Groups to coordinate and synchronize the functioning of the respective Groups. Refer Annexure 1 for the recommended purpose, recommended members and recommended list of subjects that may be considered by the Coordinating Group.	The extent of work required to be performed by the respective Groups will be fairly significant and cannot be compressed into one Group. Such comprehensive Group may not be able to meet the specific objectives set for each of the Groups.
Section 4.2 (page 29 of 33) referred to in paragraph 4.1.6 (page 12 of 33)	Q2(a) Would a nominal Fellowship amount, as opposed to a full living allowance/compensation for loss of	A nominal Fellowship amount paid by NFRA and anything incremental being paid by the sponsoring organization of	Considering the limitations which may currently be faced by NFRA in paying a full living allowance and also to make the sponsoring organisation, who will

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
	income attract high quality professionals/academics?	the person undergoing this Fellowship would be appropriate.	eventually have the benefit of having a NFRA Fellowship employee responsible to pay the differential would be ideal.
Section 4.2 (page 29 of 33) referred to in paragraph 4.1.6 (page 12 of 33)	Q2(b) Should the Fellowship be full-time, or part-time?	It is recommended to have part-time Fellowship.	Considering that the person undergoing the Fellowship will be sponsored by an organisation and therefore will be working for the organisation also.
Section 4.2 (page 29 of 33) referred to in paragraph 4.1.6 (page 12 of 33)	Q2(c) If it is to be part-time, what is the kind of minimum involvement that should be insisted upon?	Approximately 20 to 24 hours a week.	
Section 4.2 (page 29 of 33) referred to in paragraph 4.1.6 (page 12 of 33)	Q2(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?	Timeline should be tailored to the specific subject that is chosen for study.	
Section 4.2 (page 29 of 33) referred to in paragraph 4.1.7 (Page 13 of 33)	<b>Public Speeches etc.</b> Q3(a) Do you agree with NFRA's general approach to public communication?	Yes. However, consider establishing a minimum number of speeches that the Authority may give in a year such that all key messages which NFRA intends to communicate are communicated.  NFRA's speeches should aim to grow the profession, build trust and confidence and communicate its expectations clearly. NFRA should also look at groups such as the SEC, PCAOB, JFSA, FRC, etc who	

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
		speak and publish their views based on what they are seeing from the consultations they receive, market and monitoring activities. These help in widely disseminating views and interpretations.	
Section 4.2 (page 29 of 33) referred to in paragraph 4.2.1 to 4.2.2 (page 18 of 33)	<b>Inspection Policy</b> Q4(a) What are your comments on the objectives and scope of the FRQR/AQR Inspection Programme?	Our comments and suggestions on the matters discussed regarding these programmes in the Consultation Paper are provided in Part B below.	The inspection programme / policy of NFRA can be aligned with the well established global practices.
Section 4.2 (page 29 of 33) referred to in paragraph 4.2.1 to 4.2.2 (page 18 of 33)	Q4(b) What are your suggestions regarding the Risk-Based Methodology for choice of companies as described above?	Refer Annexure 2 for a suggested list of factors that can be considered by NFRA in its selection of companies and auditors for the FRQR and AQR apart from solely a Risk-Based Methodology.	
Section 4.2 (page 29 of 33) referred to in paragraph 4.3.1 to 4.3.3 (page 19 of 33)	<b>Settlement of Disciplinary Matters and Remediation</b> Q5(a) Do you have any specific suggestions on the contents of the stand-alone law that should govern NFRA?	Refer Annexure 3	
Section 4.2 (page 30 of 33) referred to in paragraph 4.4.2 (page 21 of 33)	<b>Communication and Advocacy: Website Structure and Layout</b> Q6(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 the NFRA Rules 2018?	The website may have separate tabs for auditors, CFOs, audit committees, investors, academics.  The content of website may include additionally the following:	

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
		<ul style="list-style-type: none"> <li>• Public speeches, thought papers by NFRA, news article publications by NFRA</li> <li>• Any other guidance/ publications by NFRA</li> <li>• Details of special projects being undertaken by NFRA and their status/ progress</li> <li>• News and events</li> </ul>	
Section 4.2 (page 30 of 33) referred to in paragraph 4.4.3 (page 22 of 33)	<p><b>Communication and Advocacy: Newsletters</b> Q7(a) What, in your opinion, would be the subjects/areas that Newsletters from NFRA should focus on?</p>	<p>We recommend that Newsletter from NFRA should focus on the following subjects/ areas:</p> <ol style="list-style-type: none"> <li>1. Recent accounting and auditing developments</li> <li>2. Writeup on global trends and important communication by other Audit Regulators</li> <li>3. Themes noted in the inspections by NFRA and suggested remedial actions by audit firms and companies</li> <li>4. Themes reported by FRRB/ QRB in their inspections</li> <li>5. Recent accounting and auditing professional literature issued – both in India and Globally</li> <li>6. Writeup by eminent personalities on accounting, auditing, financial reporting and governance matters</li> </ol>	

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
		7. Reference to recent public speeches and news publications by NFRA 8. Forthcoming events and recently concluded events	
Section 4.2 (page 30 of 33) referred to in paragraph 4.4.6 (page 23 of 33)	<b>Press and Media Guidance</b> Q8(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?	Keeping the stakeholders updated on the results of the inspection programme is a good practice.  Matters that may be included in Press and Media guidance may cover the following: <ul style="list-style-type: none"> <li>• Recent accounting and auditing developments</li> <li>• Writeup on global trends and important communication by other Audit Regulators</li> <li>• Themes noted in the inspections by NFRA and suggested remedial actions by audit firms</li> <li>• Themes reported by FRRB/ QRB in their inspections</li> <li>• Recent accounting and auditing professional literature issued – both in India and Globally</li> </ul>	Inspection related matters are strictly between the preparers/ audit firm and the Authority. They should not be discussed in the public domain in the media since such discussions may be detrimental to the brand and reputation of the counterparty concerned.

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
		<ul style="list-style-type: none"> <li>• Writeup by eminent personalities on accounting, auditing, financial reporting and governance matters</li> <li>• Forthcoming events and recently concluded events</li> </ul> <p>However, publicising the AQR Report entirely which has client confidential information obtained by the auditor during the course of performance of the audit is detrimental to the interest of the company whose engagement has been inspected and should certainly be avoided. As is the international practice, only the findings on an inspection that remain unremediated by the audit firm after certain period of time may be put out in public domain but without identifying the engagement name. Similarly, full Disciplinary Order should not be published but only the extract of what caused the Order to be issued and the type and details of penalty levied on a practitioner may be disclosed, here again without naming the audit engagement to which Disciplinary Order relates to.</p>	

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
Section 4.2 (page 30 of 33) referred to in paragraph 4.4.7 (page 23 of 33)	<b>Collaboration with Universities, Institutes and Colleges</b> Q9(a) Do you have any suggestions on viable modalities for collaboration with educational institutes?	NFRA may reconsider its priority for collaborating with Universities, Institutes and Colleges since the past and current experience would suggest that there has been no significant contribution by these institutions other than by the ICAI on Financial Reporting matters.	
Section 4.2 (page 30 of 33) referred to in paragraph 4.6.1 to 4.6.3 (page 25 of 33)	<b>Roadmap: Strategic Plan and Operating Plan</b> Q10(a) Do you have any suggestions on NFRA's Strategic Goals and Priorities for the medium term?	We suggest that NFRA should prioritise Goal 2 which is currently " <i>Develop High Calibre Technical Resources</i> " since it will be foundational to achieve its other Goals.	To have an effective and efficient Operating Model for Monitoring Audit Quality and Financial Reporting, it is important and essential to have relevant and appropriate Technical Resources.
Section 4.2 (page 30 of 33) referred to in paragraph 4.7.1 to 4.7.4 (page 25 of 33)	<b>Building Regulatory Capacity</b> Q11(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?	We agree. The following may specifically be considered in the approach to building regulatory capacity: <ul style="list-style-type: none"> <li>• Soft skills</li> <li>• Stakeholders engagement</li> <li>• Global best practices</li> <li>• Training by auditors / preparers</li> <li>• Training on proprietary software</li> </ul> NFRA to disclose the staffing plan and capacity building and actual status on the same.	

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## Part B – Comments and suggestions on the recommendations by the TAC and NFRA’s preliminary views/proposed actions thereon

NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
4.1.3 to 4.1.5 (page 9 of 33)	<p><b>Formation of Consultative and Advisory Groups</b> The Committee suggests setting up the following consultative and advisory groups:</p> <ul style="list-style-type: none"> <li>a. Investor Advisory Group;</li> <li>b. Academic Advisory Group;</li> <li>c. CFO Advisory Group; and</li> <li>d. Auditor Advisory Group.</li> </ul>	<p>It is suggested to constitute 3 more Advisory Groups (Refer Annexure 1 for purpose of these Groups)</p> <ul style="list-style-type: none"> <li>1. Audit Regulators Outreach Group (including International Audit Regulators)</li> <li>2. Inspection Programme Advisory Group</li> <li>3. Regulator Advisory Group</li> </ul>	<ul style="list-style-type: none"> <li>1. Along with the 4 Groups recommended by the TAC, these 3 Groups together can project NFRA as the Lead Audit Regulator for the country across all stakeholders and Regulators.</li> <li>2. The Regulatory Advisory Group can facilitate and ensure that audit matters are inspected by one Regulator – NFRA taking into consideration the thoughts and concerns of the other respective Regulators.</li> <li>3. Other Audit Regulators Outreach Group can facilitate NFRA bringing in global best practices in its programmes which may enable NFRA to become a member of IFIAR.</li> <li>4. Inspection Programme Advisory Group can track market developments, inspection trends, risk events and give guidance to NFRA on the Inspection programme that will be conducted by NFRA.</li> </ul>
4.1.3 to 4.1.5 (page 9 of 33)	(Illustrative) <b>Purpose:</b> To provide the Authority with the views and advice of users of financial statements	It should be permissible for the members of the constituted Advisory Group to refine/ modify	<ul style="list-style-type: none"> <li>1. The flexibility to refine/ modify the purpose of the Group is to enable the members to revalidate the initially</li> </ul>

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
		the purpose of the Group based on the evolving thought process of the members of the Group. The purpose for each of the Groups should be mutual. It should address the interests of both the Authority and the Stakeholders.	stated purpose and modify as required based on their thoughts and deliberation. 2. The currently stated purpose may be widened to cover the interests of the stakeholders also to be more inclusive and objective.
4.1.3 to 4.1.5 (page 9 of 33)	<b>a. Investor Advisory Group</b> <b>Purpose:</b> To provide the Authority with the views and advice of users of financial statements	The purpose may be modified as follows: <i>“To provide the Authority with the views and advice of users of <del>financial statements</del> the Annual Report”</i>	Annual Reports offers a wider coverage on matters relating to the financial statements than just the Financial Statements alone.
4.1.3 to 4.1.5 (page 9 and 10 of 33)	<b>a. Investor Advisory Group</b> <b>Members:</b> Equity analysts, credit analysts, fund managers, investment advisers, business journalists and lawyers	Consider including auditors as well as CFOs/ CEOs/ Audit Committee members as members of this Group.	CFOs/ CEOs and auditors are important stakeholders impacting the interest of the investors and hence should be considered for membership in this Group. Such inclusion will also enable them to appreciate the matters deliberated in this Group such that they can be factored in their respective role execution.
4.1.3 to 4.1.5 (page 10 of 33)	<b>b. Academic Advisory Group:</b> <b>Purpose:</b> To provide the Authority with the views and advice of accounting and auditing educators	The purpose may be modified as follows: <i>“To provide the Authority with the views and advice of accounting and auditing <del>educators</del> matters”</i>	In the everchanging world of accounting and auditing it is important that NFRA officials are kept abreast of all the changes. It is important to have the perspective of the industry and auditors in this regard. Emphasis on academic advisors should be balanced considering their inherent limitation in the practical aspects of industry, business and auditing.

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
4.1.3 to 4.1.5 (page 10 of 33)	<b>b. Academic Advisory Group:</b> <b>Members:</b> Teachers or researchers in accounting or auditing in universities, institutes or colleges	Consider including auditors as well as CFOs as members of this Group.	Auditors and CFOs can bring in a practical approach to academic curriculum which will also be relevant and important in the real world.
4.1.3 to 4.1.5 (page 10 of 33)	<b>d. Auditor Advisory Group:</b> <b>Members:</b> Partners of large or medium accounting firms	Consider having representatives from other Regulators like ICAI, SEBI, RBI etc. who also prescribe roles and responsibility of the auditors in their respective regulations. Also include Audit Committee members as part of this Group.	Involving these additional members will enhance the advice which the Authority and the auditors receive on the expectations from the auditors in an audit.
4.1.6 (page 11 of 33)	<b>Fellowship Programmes</b> a. <u>The NFRA Practice Fellowships:</u> Two fellowships may be awarded annually for a term of one year on a competitive basis. Partners or staff of accounting firms and CFOs and finance and accounting staff in listed entities would be eligible to apply. The Authority would announce the topics of interest and these would typically include: application or implementation of accounting and auditing standards; <b>auditing internal financial reporting controls</b> ; auditing estimates, including fair value; and use of	The highlighted portion in bold and underline may be changed to " <i>auditing internal financial controls over financial reporting</i> ".	Internal financial controls over financial reporting is the terminology used by the auditors in their auditor's report.

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
	technology to improve audit quality		
4.1.6 (page 12 of 33)	<p><b>NFRA’s Preliminary Views and Proposed Action Plan</b>            ..... However, the resources, both financial and professional, of NFRA are not likely to be adequate, in the near, or even, medium term, to be able to design and run such a programme on a sustained basis. NFRA feels that without an assurance of such sustainability, it would not be advisable to start such a Fellowship programme.</p>	We agree with NFRA’s view.	Such programme may be deferred until NFRA fully establishes itself operationally.
4.2.1 to 4.2.2 (page 14 of 33)	<p><b>Inspection, Investigation and Enforcement</b>            The Policy for Inspection proposed to be adopted by NFRA is at present work- in- progress. The preliminary thinking in this regard is summarised below.</p>	<p>To prepare a due process handbook for inspection policy, settlement of disciplinary matters and remediation etc.. The due process may include detailed activities and the protocols to be followed for each of the aspect involved.</p> <p>The due process may include preparation of the draft, exposure of the draft for comments from stakeholders, consideration of comments, redraft and re-expose when it is substantially revised, consultation with advisory groups,</p>	A Due Process Handbook is published by IFRS Foundation for accounting standards setting/revisions.

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
		basis for conclusions, issuance of final policy with sufficient time for implementation and appropriate transition provisions etc.	
4.2.1 to 4.2.2 (page 14 of 33)	The FRQR will focus on the role of preparers, .... Therefore, the FRQR will evaluate how well the Chief Financial Officer (“CFO”), and the rest of the Management, .....	It is essential to clarify the term “ <i>rest of the Management</i> ” as to who would it comprise.	
4.2.1 to 4.2.2 (page 14 of 33)	<b>1) Financial Reporting Quality Reviews (“FRQR(s)”) </b> .....The primary objective of the FRQR is to assess and evaluate how well the information needs of these stakeholders has been met.	This review should be as per the presentation and disclosure requirements of the extant framework under which the financial statements are being presented.	Stakeholders information needs may be beyond what is stated in the financial reporting presentation and disclosure framework applicable to the entity and therefore the objective of FRQRs should be consistent with such requirements and should not stretch beyond that.
4.2.1 to 4.2.2 (page 14 of 33)	<b>2) Financial Reporting Quality Reviews (“FRQR(s)”) </b> ..... In case there are violations of accounting standards and the law that require action to be taken under the law, the matter will be reported to the competent authorities.	It may be considered to issue guidance/ Advisory for further improvement and the company should be asked to update NFRA on the status of implementation of the guidance/ Advisory. It may also be important to impose significant penalties on the company in cases of subsequent continuous default.	To ensure compliance with the implementation with the guidance/ Advisory.
4.2.1 to 4.2.2 (page 15 of 33)	<b>2) Audit Quality Reviews (AQRs) </b> .....The AQR also has the objective of assessing the Quality Control system	It may be noted that it will not be possible to assess the compliance with entire QC system of the audit firm in an engagement since some	The QC system enables the performance of engagements in compliance with standards. So while there are elements that are engagement specific (like independence)

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
	of the Audit Firm and the extent to which the same has been complied with in the performance of the engagement.	elements of the QC system do not operate at the engagement level.	other are much more broad like leadership, tone at the top, ethics, learning, etc.
4.2.1 to 4.2.2 (page 15 of 33)	..... Thereafter the Audit Firm is issued a questionnaire. Once the Audit Firm provides its response to the questionnaire, the matters raised in the questionnaire are examined by referring to the relevant portion of the Audit File as identified by the Audit Firm. Subsequently, NFRA conveys its <i>prima facie</i> observations/comments/conclusions on the various issues in the questionnaire to the Audit Firm. Once the Audit Firm provides its response to NFRA's <i>prima facie</i> observations, a Draft Audit Quality Review Report ("DAQRR") is issued after examining the responses	<p>For NFRA to be able to perform a timely inspection effectively and efficiently, and to build trust amongst the various stakeholders, it is important for NFRA to perform only on-site inspections at the offices of the audit firm. This is consistent with the manner in which inspections are done by the other local regulators (e.g., Peer Review Board, Quality Review Board) and international regulators (e.g., PCAOB, FRC).</p> <p>Further, NFRA's forms <i>prima facie</i> observations/comments/conclusions even without having a single discussion with the audit engagement team of the audit firm which will not be appropriate. We strongly suggest that the inspection team of NFRA should continuously engage with the audit team during the inspection process to gain the perspective of the audit team before</p>	We believe that this approach of NFRA in conducting inspections is not consistent with the approach followed by any of the international audit regulators. Further, the perspectives of the engagement team when carrying out the audit is not gathered by the inspection team of NFRA and which may lead to the inspection being carried out without considering the circumstances in which the audit was performed. It may also not be practical and / or effective to communicate everything in writing to NFRA since it is not uncommon for written communications to be misquoted or misinterpreted.

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
		arriving at any conclusions. This will also give a first hand experience to the audit team in understanding the thought process of the inspection team such that good practices and thoughts can be introduced by the audit team in their future audits.	
4.2.1 to 4.2.2 (page 15 of 33)	After considering all the submissions made by the Audit Firm, NFRA completes its review and publishes the final report as mandated by the law.	We recommend that the final report that NFRA issues in respect of an engagement or on an audit firm, should not be published in a public domain. As is the international practice, only the findings on an inspection that remain unremediated by the audit firm after certain period of time may be put out in public domain but without identifying the engagement name.	Inspection related matters are strictly between the preparers/ audit firm and the Authority. They should not be published in the public domain since such discussions may be detrimental to the interests and the brand and reputation of the parties concerned and may also adversely impact the operations of an entity.
4.2.1 to 4.2.2 (page 15 of 33)	<p><b>METHODOLOGY AND CRITERIA FOR SELECTION OF COMPANIES / AUDITORS / SUBJECTS FOR FRQR and AQR</b></p> <p><b>Introduction</b></p> <p>1. The choice of companies/auditors/subjects for the conduct of an AQR is best done when the logic therefor is built from first principles.</p>	In item 1, “a FRQR” should be added before “an AQR”)	The methodology and criteria for selection is for both companies as well as audit engagements. Therefore FRQR should be added and not just AQR.

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
4.2.1 to 4.2.2 (page 16 of 33)	Keeping all the above in view, the criteria to be used in the selection methodology can be divided into two groups that may have some overlap	Recommended to include a third group as ad hoc selection to bring in an element of unpredictability in selection of audit firms and also ensuring that all audit firms / relevant engagements stand an equal chance of being selected for inspection on a regular basis. Also selecting audit firms/ engagements based on a predefined metrics removes the element of surprise in the selection. It is also important to have a selection criteria which will help evaluating the auditor's compliance with professorial standards across all spectrum of engagements.	The concept of random selection has been discussed in NFRA's preliminary views page 18 of 33 and this is an important criteria .
4.2.1 to 4.2.2 (page 17 of 33)	<b>RoMM Factors</b> 10. In this category, the attempt will be to identify metrics that can potentially <b><u>predict the RoMM that may either escape the attention of auditors, or could be overlooked by auditors.</u></b>	The inspection programme should take an approach in line with global best practices with the objective of constructively engaging with stakeholders concerned with the objective of enabling enhancement of audit quality. . The phrase " <i>predict the RoMM that may either escape the attention of auditors, or could be overlooked by auditors</i> " in the referred paragraph seems to indicate that selection criteria is	

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
		being determined on the assumption that the auditors have missed identifying a ROMM or overlooked it even before looking into the audit files.. Instead ROMM factors should be identified based on understanding the entity, its business operations, governance structure and reading its Annual Report and based on other publicly available information.	
4.2.1 to 4.2.2 (page 18 of 33)	NFRA will give the highest priority to companies which are in the high RoMM/substantial external impact cell. Whereas companies which are in the average RoMM/low external impact cell would normally not be subject to detailed enquiry, unless the resource position of NFRA so permits.	NFRA can consider announcing upfront some of the significant risk areas it intends to cover in an audit engagement selected for inspection.	Such focused upfront communication by NFRA will enable audit firms to diligently plan and perform the required audit procedures in those areas.
4.2.1 to 4.2.2 (page 18 of 33)	NFRA will disclose only the high-level principles of its Inspections approach.	We agree with NFRA's views	
4.3.1 to 4.3.3 (page 19 of 33)	NFRA looks at a likely statutory settlement process as one element of a comprehensive stand-alone legislation that, ideally, should cover all aspects of NFRA's functioning.	We welcome NFRA's preliminary view to implement a Settlement mechanism as a separate legislation.  <b><u>We support such a regulatory regime on Settlements</u></b> that instils	

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
		<p>confidence in the capital markets by <u>regulating the roles, responsibility, and oversight of all the participants in the financial reporting environment in the public interest and not just the auditors</u>. The proposal is that NFRA will support and continue to participate in the development of the regulation of the financial reporting eco-system. One would expect that provisions of this nature on Settlements (affecting the wider financial reporting eco-system which should extend to other Assurance Providers, Audit Committee members and CFOs/CEOs) will feature in a standalone Act instead of in the Companies Act.</p>	
4.3.1 to 4.3.3 (page 19 of 33)	Any such proposed legislation should provide adequately for the institutional, functional and financial autonomy of NFRA, and provide for all the procedural safeguards necessary as far as the regulated entities are concerned.	The procedural safeguards on Settlements should be extended even to the audit firms and not just the regulated entities.	Settlement mechanism is an important element of a disciplinary action enforcement process on the auditors and therefore it is essential that procedural safeguards are built to the auditors also.
4.4.2 (page 20 of 33)	<p><b>Website</b> The new website should include the following:</p>	<p>It is recommended:</p> <ul style="list-style-type: none"> <li>To rename 'preparers' tab as 'CFOs' tab</li> </ul>	CFOs are the preparers and the relevant stakeholders. Therefore the website should have a separate tab for CFOs.

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
	<p>a. Separate tabs for auditors, preparers, investors, and academics</p>	<ul style="list-style-type: none"> <li>To have separate tab for Audit Committees</li> </ul>	<p>Audit Committees are important stakeholders in the financial reporting process and they should be engaged with by the Authority to promote effective and efficient financial reporting practices. It is needless to state that the Audit Committee and CFO roles are different and the governance is a critical role in the ecosystem responsible for holding companies to account.</p>
4.4.2 (page 20 of 33)	<p><b>Website</b> The new website should include the following:</p> <p>b. Videos on the Authority’s purpose, powers and functions, interviews on new accounting and auditing standards, panel discussions on implementation of accounting and auditing standards, and so on;</p>	<p>To add:</p> <ol style="list-style-type: none"> <li>public speeches, thought papers and news article publications by NFRA</li> <li>Any other guidance/ publications by NFRA</li> <li>Details of special projects being undertaken by NFRA and their status/ progress</li> <li>News and events</li> </ol>	<p>These are important matters to be included in the Authority’s website and are also commonly found in other websites too.</p>
4.4.2 (page 22 of 33)	<p><b>Website structure and layout</b> .....Authority website is proposed to be broadly divided into following Tabs.</p> <ul style="list-style-type: none"> <li>About Us</li> <li>Financial Reporting Quality Reviews</li> <li>Audit Quality Reviews</li> </ul>	<p>The suggested Tabs for the website also need to be synchronised with what is being suggested by TAC and accordingly following may be considered:</p> <ul style="list-style-type: none"> <li>Add new tab for Auditors and Audit Quality Reviews can be part of it</li> </ul>	

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
	<ul style="list-style-type: none"> <li>Investigations and Enforcements</li> <li>Standard-setting Activities</li> <li>Media and Gallery</li> </ul>	<ul style="list-style-type: none"> <li>Add new tab for CFOs and Financial Reporting Quality Review can be part of it</li> <li>Also, Investigations and Enforcements can be part of Auditors and CFOs tab instead of a separate tab</li> <li>Investors</li> <li>Academics</li> </ul>	
4.4.4 (page 22 of 33)	<p><b>Webinars</b> For the same reasons as explained above in relation to Newsletters, NFRA will examine this recommendation in detail to understand what value can be added by the webinars suggested.</p>	Webinars should be conducted but need not be on a fixed timetable. It can be conducted as and when a hot topic is identified.	
4.4.5 (page 22 of 33)	<p><b>NFRA App</b> ..... NFRA does not think that an App is necessary to facilitate easy access to information.</p>	We agree with the views of NFRA.	
4.5.1 to 4.5.3 (page 23 of 33)	<p><b>Data Dissemination</b> The Committee recommends making auditors' and preparers' filings with it available to the public.....</p> <p>NFRA's preliminary views and proposed action plan</p>	We agree with the views of NFRA	

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
	a) ..... NFRA feels that creation of multiple databases in the public domain, covering the same areas, may not be beneficial to users and it could cause confusion.		
4.5.1 to 4.5.3 (page 23 of 33)	<p><b>Data Dissemination</b> NFRA’s preliminary views and proposed action plan</p> <p>b) As far as the filings by auditors are concerned, NFRA will examine the extent to which they can be put in the public domain, without violating any confidentiality stipulations that may be in force.</p>	<p>Information based on the filings by auditors can not and should not be made public.</p> <p>In terms of data availability, the following features / details may be provided:</p> <ol style="list-style-type: none"> <li>1. Search for the audit firm and engagement partner by company name</li> <li>2. Disciplinary matters concerning audit professionals and audit firm that are not yet settled.</li> </ol>	Information provided to NFRA includes confidential business proprietary information of audit firms such as details of clients, fees, etc. These can not and should not be made public
4.6.1 to 4.6.3 (page 24 of 33)	<b>1. Strategic Plan</b> ..... The overall theme of the Strategic Plan will be “Institutional Development for Delivering on NFRA’s Mandate” .....	Theme of the Strategic Plan can be modified to state “Enhancing and Sustaining Audit Quality and Effective Financial Reporting in the Interest of the Stakeholders”.	The suggested theme based on which a strategic plan may be developed would reflect the core purpose for which NFRA was formed.
4.6.1 to 4.6.3 (page 24 of 33)	<b>1. Strategic Plan</b> Goal 1 Effective and Efficient Operating Model for Monitoring Audit Quality and Financial	The highlighted portion in bold and underline may be changed to “ <i>Facilitating and Ensuring</i> ”	It is highly regarded and expected that NFRA will be a constructive contributor to the financial reporting ecosystem rather than being just an enforcement regulator.

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NFRA Consultation Paper point reference and page number	Topic	Recommendation	Rationale
	Reporting, and <b>Enforcing</b> Compliance		
4.6.1 to 4.6.3 (page 24 of 33)	<b>1. Strategic Plan</b> Goal 2 Develop High Calibre Technical Resources	Consider adding “to execute the role of NFRA as envisaged in the Companies Act, 2013” at the end of the said Goal	This is to clearly clarify that high calibre technical resources are to be developed not just for conducting inspections but also for standard setting, enforcement and the other activities of NFRA.

The purpose and suitable list of subjects that should form the standing agenda of the Stakeholder Advisory Group (Response to Q1(a) stated in Section 4.2 (page 29 of 33) referred to in paragraph 4.1.3 to 4.1.5 (page 11 of 33) of the Consultation Paper)

**a. Investor Advisory Group:**

**List of subjects that may form part of the standing agenda:**

1. Presentation and disclosures in the Financial Statements
2. Management Discussion and Analysis including discussion on risk factors impacting the entity
3. Discussion on Corporate Governance
4. Compliance with Laws and Regulations
5. Reporting on fraud
6. Related party disclosures and transactions
7. Discussion on Managerial Remuneration
8. Discussion on corporate events and actions

**b. Academic Advisory Group:**

**List of subjects that may form part of the standing agenda:**

1. Accounting Standards
2. Auditing Standards
3. Guidance Notes issued by the ICAI to the auditors in respect of an audit of the financial statements
4. Auditor reporting requirements prescribed by the other Regulators in an audit of the financial statements
5. Code of Ethics issued by the ICAI
6. Independence requirements for an auditor specified by other Regulations/ Regulators
7. Emerging trends and global developments in accounting and auditing including in the International Standards.

**c. CFO Advisory Group:**

**List of subjects that may form part of the standing agenda:**

1. Presentation and disclosures in the Financial Statements
2. Management Discussion and Analysis including discussion on risk factors impacting the entity
3. Discussion on Corporate Governance
4. Compliance with Laws and Regulations
5. Reporting on fraud
6. Related party disclosures and transactions
7. Discussion on Managerial Remuneration
8. Discussion on corporate events and actions
9. Discussion on Internal Controls
10. Providing guidance to CFO/ Audit Committees regarding the expectations on their responsibilities

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11. Outreach to Audit Committees to exchange ideas and views on the functioning of the auditors

**d. Auditor Advisory Group:**

**List of subjects that may form part of the standing agenda:**

1. Accounting Standards
2. Auditing Standards
3. Guidance Notes issued by the ICAI to the auditors in respect of an audit of the financial statements
4. Auditor reporting requirements prescribed by the other Regulators in an audit of the financial statements
5. Code of Ethics issued by the ICAI
6. Independence requirements for an auditor specified by other Regulations/ Regulators
7. Emerging trends and global developments in accounting and auditing including in the International Standards
8. Feedback on processes / protocols followed by NFRA in relation to audit related matters
9. Conduct of surveys and outreach to the audit profession and share insights and recommendations based on such surveys and outreach
10. Sharing of best practices

**e. Audit Regulators Outreach Group including International Audit Regulators (Recommended by us now):**

**Recommended purpose:**

To provide the Authority with the views, advice and best practices followed by the Other Audit Regulators.

**Members:**

Nominees of ICAI, PCAOB, FRC, IFIAR, ACRA (Singapore), ASIC (Australia), CPAAOB (Japan)

**Recommended list of subjects that may form part of the standing agenda:**

1. Criteria for selection of audit firms/ audit engagements for review
2. Areas of inspection focus
3. Themes of findings
4. Exchange of ideas of remedial actions by audit firms
5. Sharing of best practices observed in the inspection process and best practices observed in the audit files/ audit firms
6. Discussions on disciplinary mechanisms

**f. Inspection Programme Advisory Group (Recommended by us now):**

**Recommended purpose:**

To provide the Authority with the views and advice on the inspection programme.

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## Members:

Nominees of ICAI and its constituted Boards such as Peer Review Board, QRB, CAQ, IFIAR, PCAOB, FRC, Auditors

## Recommended list of subjects that may form part of the standing agenda:

1. Criteria for selection of audit engagements/ audit firms
2. Timing of the inspections (such that inspections are carried out and completed within 18 months of audit report issuance)
3. Themes of focus in an inspection programme
4. Criteria for identifying specific areas of focus in every engagement that is subject to inspection
5. Establishing a framework/ process, including inspection questionnaires, to establish consistency in the inspections and inspection process
6. Establishing a training curriculum for the inspectors
7. Recommending a optimum inspection team composition (e.g. number of audit engagement reviewers, including the review work allocation based on their seniority and experience, IT specialists, reviewers for SQC, etc.)
8. Manner of specifically and clearly describing the findings in an inspection consistent with the requirements of professional literature
9. Criteria for grading the severity of the findings
10. Criteria for rating the engagements as compliant, improvement required or non-compliant
11. Criteria for rating the firm's SQC as compliant, acceptable with enhancements required, needs improvement or needs significant improvement
12. Process for follow-up regarding remedial/ other actions taken by the audit firm in respect of the observations in the inspection

## g. Regulator Advisory Group (Recommended by us now):

### Recommended purpose:

To provide the Authority with the views and advice of the other Regulators in respect of audit quality inspections to be conducted by NFRA including areas of focus and any findings by such other Regulators in their inspections.

### Members:

Nominees of ICAI, SEBI, RBI (for Banks and NBFCs), IRDA, MCA

## Recommended list of subjects that may form part of the standing agenda:

1. Areas of focus during inspections by themes or by entity
2. Findings by the other Regulators and any themes therein
3. Mechanism to avoid duplicity of inspections on the same matter by different Regulators
4. Exchange of findings amongst the Regulators and the actions taken/ proposed to be taken

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## **h. Coordinating Group (Recommended by us now):**

### **Recommended purpose:**

To coordinate activities of the other Stakeholder Advisory Groups.

### **Members:**

One person from each of the other Stakeholder Advisory Groups.

### **Recommended list of subjects that may form part of the standing agenda:**

1. Understanding the plan of action proposed by each of the other Stakeholder Advisory Groups
2. Identify areas of any overlap in the activities of the other Stakeholder Advisory Groups and help in minimizing the overlaps by suggesting modifications to the activities of the respective Stakeholder Advisory Group.
3. Assist in sequencing the activities of the respective Stakeholder Advisory Group such that the objectives of NFRA in setting up these Groups are met in an optimal manner.
4. Provide knowledge and advise on the functioning of each of the Stakeholder Advisory Group based on the insights gathered from the other Stakeholder Advisory Groups.

**Suggestions regarding the Risk-Based Methodology for choice of companies (Response to Q4(b) stated in Section 4.2 (page 29 of 33) referred to in paragraph 4.2.1 to 4.2.2 (page 18 of 33) of the Consultation Paper)**

## **Financial Reporting Quality Review (“FRQR”)**

### List of factors that can be considered by NFRA in its selection of companies for the FRQR

- Entities that have been referred to the NFRA by any regulatory body like, Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs, etc
- Entities in which serious accounting irregularities have been highlighted by media or other reports (such as by investment advisors, investor protection forums, etc)
- In the first year of formation of the FRQR, to select top 25 companies listed on the NSE as of the date of formation of the FRQR
- Entities that have modifications in the auditor’s report
- Entities that have significant number of related parties or significant related party transactions
- Entities that had previous negative inspection result
- FRQR to cover top 100 companies listed on the NSE over a period of three years
- FRQR may scope in other PIEs for the FRQR process, based on certain parameters such as recent IPO, large M&A transactions, etc.
- FRQR to extend to FRQR process to additional companies listed on the NSE over a period of four years

## **Audit Quality Review**

Selections for AQR should be a two-step process. Initially selecting the audit firm and then selecting the individual engagement of the audit firm for an engagement level AQR. Audit firms may also be selected only to review firm level AQR (like SQC). [Note: In case of a Network of audit firms, where SQC is deployed consistently across the all the audit firms in the network, the design of the SQC may be tested only in one audit firm in the network. The operating effectiveness may be tested in each audit firms of the Network.]

### List of factors that can be considered by NFRA in its selection of audit firms for the AQR

1. An Audit firm that audited an entity that has been referred to the NFRA by any regulatory body like, Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs etc
2. An Audit firm that audited an entity in which serious accounting irregularities have been highlighted by media or other reports (such as by investment advisors, investor protection forums, etc)
3. Categories of Audit firms:
  - Category A - Audit firms to be inspected once in 2 years
  - Category B - Other Audit firms to be inspected once in 3 years

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4. Criteria for Category A – based on NFRA-2 submissions:
  - Audit firms that audit more than 100 NFRA covered entities, such that Audit firms that audit at least 20% to 33% of NFRA covered entities are covered in a year
  - Audit firms that are auditors for certain types of entities, based on risk factors (including but not limited to nature and complexity of the engagements audited by the Audit firm, i.e., nature of industry (financial services industry likely to carry more risks, industries where there are high level of estimates and judgements), high level of public interest, maturity of markets (crypto currency))
5. An audit firm may also be selected for Inspection even if not due per the inspection cycle described above (on a haphazard basis to bring in an element of unpredictability). Such selection should not lead to frequent selection of an audit firm over the period specified under point 3 above.

## List of factors that can be considered by NFRA in its selection of engagement files in an audit firm

1. The ROMM based metrics as currently stated by NFRA
2. Engagements relating to financial statements of entities that recently had a public offer for shares / debentures
3. Entities that have had significant corporate actions (like significant M&A) or events (like resignation of a significant number of Directors or KMP)
4. Entities that have significant media coverage on its operating conditions
5. Entities that have had recent changes in auditors (other than on mandatory firm rotation)
6. Entities where auditor has resigned before expiry of their term.
7. Entities which have significant ongoing litigations or disclosing significant contingent liabilities
8. Entities which have been referred under Insolvency and Bankruptcy Protection
9. Entities not falling under any of the above criteria – to bring in an element of unpredictability in the selection of the engagement for inspection.

**Suggestions on the contents of the stand-alone law that should govern Settlement of Disciplinary Matters and Remediation by NFRA (Response to Q5(a) stated in Section 4.2 (page 29 of 33) referred to in paragraph 4.3.1 to 4.3.3 (page 19 of 33) of the Consultation Paper**

We would suggest that in line with the approach adopted by regulators across the world, it would help to create a more enabling regulatory environment for all stakeholders including, importantly, the professions / businesses that operate within such regulatory environment, if NFRA were to consider putting in place settlement frameworks and mechanisms. We believe this would enhance the efficiency of settling disciplinary matters and at the same time encourage stakeholders and market participants to improve their standards and quality.

SEBI has a similar framework (e.g., the High-powered Advisory Committee) headed by a retired judge of a High Court or the Supreme Court. Reference may be made to this model, and settlements on matters overseen by NFRA may be administered by NFRA under the aegis of an independent Advisory Committee.

A specific legal provision may be enacted under the powers of NFRA on the lines of Section 15 JB of the SEBI Act, that would enable NFRA to consider proposals of settlement in respect of pending proceedings under a framework that provides regulatory certainty.

Guidelines may be provided so that the settlement proposals are accepted in a consistent manner (e.g., by framing settlement rules/framework).

To make the framework more effective and encourage proposals for settlement, it may be provided that: (a) formula based charges may be set out for settlement for categories of items to which the settlement relates – e.g., x% or y% of the monetary penalties prescribed under the law (which will be sufficiently lower than the monetary penalties prescribed with further discounts on the penalty amounts given for reasons such as cooperation in the investigation; economic benefits derived being irrelevant or not correlated to the allegations; corrective actions, voluntary measures, training plans committed and other non-monetary terms/ measures); (b) the settlement framework should permit settlement on a ‘neither admit nor deny breach’ basis; (c) no appeals shall lie against settled matters; (d) all information submitted and discussions held in pursuance of the settlement proceedings under these regulations shall be deemed to have been received or made in a fiduciary capacity and the same may not be released to the public, if the same prejudices the authorities under the Act and/or the applicant; (e) appropriate provisions may be made to avoid multiplicity of claims or regulatory proceedings; and (e) where proposals relating to settlement are either withdrawn or otherwise do not culminate into fruition as to the settlement, the statements or information exchanged under the settlement application should not be used as evidence against the applicant in any related enforcement action/ proceeding.

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We believe an approach of this kind will encourage settlement so that the ability to enforce the law is enhanced for the larger good of the profession and industry and weightage has also been given to the savings in time, costs and efforts involved in litigation/ enforcement actions and the uncertainty of the outcome and risk of loss of the case for all concerned.

In cases where the formulae for calculating the base amounts cannot be adapted due to the peculiar nature of the contravention or default or the facts and circumstances of the case, the Advisory Committee may be vested with a discretion to recommend an application, with settlement charges lower or higher than the amounts arrived at in terms of the Rules and/ or non-monetary terms, for reasons to be recorded, considering the facts and circumstances of the case and the gravity of the contraventions.

In addition, a framework may also be considered for compounding of offences which are punishable with: (a) only imprisonment; or (b) both fine and imprisonment.

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30 July 2021

To  
The Secretary  
National Financial Reporting Authority

**Subject:** Comments on Consultation paper on 'Enhancing Engagement with Stakeholders' (the Paper)

Dear Sirs,

At the outset, we would like to acknowledge that National Financial Reporting Authority (NFRA) is taking significant steps towards enhancing engagement with stakeholders. Effective regulation is best achieved when implemented after following a due consultation process involving relevant stakeholders.

In this context, we note certain steps taken by NFRA with regard to formation of the Technical Advisory Group (TAC) in July 2020, outreach meetings by TAC with different sets of stakeholders early this year and issuance of the paper inviting comments. We understand that the broader aim of the Paper is to seek inputs from various stakeholders on certain identified areas, while NFRA evaluates and develops an action plan to implement the recommendations made by the TAC. We are supportive of this broader aim of the Paper and believe that this will enhance trust and confidence of various stakeholders.

In particular, we acknowledge the intent and overall thinking process for the following areas:

- Importance of involvement /contribution of various stakeholders to the financial reporting eco-system, i.e., preparers, auditors, investors, users, academicians
- Need for a structured policy and process for inspections, including selection of companies / audit firms
- Acknowledgement of the need for a settlement mechanism for disciplinary matters
- Various forms of stakeholders' engagement over a short-term to long-term time frame, such as, formation of consultative and advisory groups, public speeches etc.
- Focus on NFRA's strategic plan and building its regulatory capacity

We also note that many of the identified areas and related recommendations are sought to be aligned with the best practices followed by other well-established audit oversight bodies.

While we have included our detailed responses on all the questions raised in the Paper in Annexure 1 to this document, our suggestions on some of the focus areas are summarized in the below paragraphs, for your ready reference.

## 1. Stakeholder engagement through formation of consultative and advisory groups

With regard to TAC's recommendation to form Stakeholders' Advisory Groups ("Group"), NFRA's preliminary view is that an initial umbrella Group may be formed. As per the Paper, the formation of

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four focused and specialized Groups may be considered later. Further, the Paper indicates that membership of this Group should be by inviting nominations, as well as by selection by NFRA. The number of members will be fixed at 12.

In respect of the above, we summarize our views, as below:

(i) We support the establishment of a single comprehensive group instead of four separate groups considering that most of the matters have cross-linkages where all the stake-holder groups need to contribute to reach a consensus which is acceptable to all or most of the stakeholders. One group approach would have the benefit of consideration of all viewpoints at one forum resulting in holistic evaluation and resolution.

We suggest that the single comprehensive group may be a broad-based group comprising around 12-15 members to ensure adequate representation from various stakeholders (including investors, Audit Committee/ Board members, preparers, users, academicians, and audit professionals).

(ii) With regard to selection of members of the Group, we suggest that TAC may function as a Nomination Committee to assist NFRA in identifying appropriate persons representing relevant stakeholder groups to fill the positions. For this purpose, TAC may prescribe eligibility, experience criteria and independence/ objectivity related requirements, as relevant in the context of various stakeholder groups. TAC should ensure the shortlisted nominees comprise a fair representation of various stakeholder groups (such as investors, Audit Committee/ Board members, preparers, users, academicians, and, large and medium sized audit firms).

Selection of members may be based on a mix of organizational nominations (such as, The Confederation of Indian Industry (CII), The Associated Chambers of Commerce and Industry of India (ASSOCHAM), Indian Institutes of Management (IIMs, etc.) and, other nominations (including practicing-chartered accountants, prominent independent directors and investors) received from any person or organization. TAC may review the nominations received, conduct a due selection process, including interviewing nominated persons, as required, and recommend the candidates to NFRA.

(iii) As regards the standing agenda items for the Group, we suggest that the agenda items should be comprehensive to cover matters relevant to all stakeholders, including preparers, investors, Audit Committee/ Board members, auditors, users. These agenda items should essentially deal with themes such as, audit quality, auditors' independence, corporate governance, quality of financial reporting, building capacity of audit firms, emerging areas / trends requiring guidance, relevance of financial reporting to users, overall strengthening and capacity building of NFRA etc.

### **2. Inspections and remediation**

(i) We support the two components (Financial Reporting Quality Reviews (FRQR)/ Audit Quality Reviews (AQR)) of NFRA's inspection programme, covering both preparers and auditors.

(ii) Inspection is an important element of NFRA's monitoring and oversight process. Considering the importance and related impact on preparers and auditors, this is one area, where we believe NFRA should prioritize the implementation of its action plan. In our view, the current process of inspection

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requires significant structural as well as process level enhancements, to bring more transparency, and better consequence management.

- (iii) At a structural level, the objective and scope of inspections should be clearly set out to ensure:
- the focus is on quality enhancement
  - guidance is provided to practice units and preparers for areas of improvement
  - suggestions of best practices and experiences are shared
  - there is a remediation and monitoring plan

Inspections, by their very nature, are parameters oriented, as compared to investigations, which are based on specific events. Accordingly, an inspection process should be distinguished from an investigation process. The inspections should be improvement oriented with a focus on identifying substantive matters directly affecting the quality of financial reporting and auditors reporting thereon, rather than identifying, relatively non-critical compliance and procedural matters. Further, independent construct of the enforcement division relative to the divisions responsible for inspection and investigations may also be considered.

(iv) A comprehensive inspection policy should be issued on a priority basis. The inspection policy should clearly lay-out processes, covering important elements of an inspection, including:

- frequency and selection methodology,
- confidentiality requirements,
- clarity regarding post inspection process including remediation plan and closure of findings
- continuous resolution of issues and confirmation of factual accuracy of observations, during the inspection process,
- adaptability towards diverse auditing tools and documentation enablers, used by the audit firms, as long as they comply with the relevant framework.
- distinction between isolated incidents and recurring quality issues, before concluding on systemic quality issues.
- conclusions reached should be agreed, before NFRA arrives at the final report.

(v) Another important area to address is the enhanced involvement of experienced reviewers. The reviewers should be selected based on their sectoral experience in auditing, usage of technology, etc. Further, the review team may also involve specialists (such as, IT, valuation etc).

(vi) With regard to methodology of company/ audit firm selection, while we support the risk-based methodology, the manner specified by NFRA seems very subjective. The assessment of external impact factors and Risk of Material Misstatement (RoMM) may involve considerable judgement. Further, it may result in unintended consequences to the effect that certain audit firms/ companies may not be selected at all.

The methodology should be objective, to the maximum extent possible, and incorporate an element of unpredictability. For this purpose, NFRA should consider establishing objective criteria for selection of firms and corporates.

### **3. Settlement of disciplinary matters and remediation**

We are supportive of a settlement mechanism rather than a litigative process.

In our view, the settlement mechanism may be achieved by including enabling provisions in the Companies Act itself. This may be achieved by amending the NFRA Rules.

Given the overall objectives of NFRA, NFRA may consider more frequent application of the remedial measures as contemplated under the prevailing NFRA Rules. We believe that the overall oversight and enforcement regime should be proportionate, and improvement based rather than focusing on penalty provisions. The enforcement mechanism should consider the following aspects:

- Consistent approach for enforcement/ penal actions against auditors, management, and directors in case of corporate failures
- Range of sanctions including some that are less severe (e.g., temporary ban, quality measures)

Some of the elements which may be considered to make the settlement mechanism effective are listed below:

- Holistic approach to settlement mechanism
- Settlement with confidentiality
- Comprehensive coverage of various provisions of the Companies Act
- Inclusion of both monetary and non-monetary terms after taking into consideration various parameters, including, cooperation by the firm, severity of issue, remedial actions taken by the firm etc.
- Such terms of settlement in addition to the monetary penalty could include (but not limited to), - censure, undertakings to improve the audit firm's system of quality control, appointment of an independent monitor to review and assess the audit firm's progress toward achieving remedial benchmarks, immediate practice limitations, including a prohibition on accepting certain new audit work until the monitor confirms the audit firm's progress in achieving its remedial benchmarks, additional professional education and training for the firm's audit staff etc.

Detailed guidelines on various parameters may be considered, before arriving at the settlement terms/ amounts, which may include mitigating factors such as self-identification and acknowledgement of contraventions, corrective measures to avoid recurrence of misconduct etc.

Our detailed comments on the above matters and other questions contained in the consultation paper are attached as Annexure 1 to this letter.

### **Conclusion**

We acknowledge the objective and intent of NFRA for issuing the Paper. The continuous stakeholder engagement as envisaged in the Paper would make the regulatory oversight more effective, transparent, and cohesive from the perspective of all the relevant stakeholders.

We suggest the action plan/ recommendations on certain matters, such as, inspection policy, settlement mechanism, building regulatory capacity be implemented as a priority.

We would be happy to explain our views and provide additional inputs, should you so require.

Should you require any further clarifications or wish to discuss the contents in person, please feel free to communicate with Sethuraman Sivaramakrishnan (9841019107; [sethuramans@bsraffiliates.com](mailto:sethuramans@bsraffiliates.com)).



## **B S R & Co. LLP**

We once again thank you for the opportunity to provide our comments on the Paper.

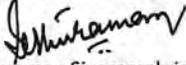
Thanking you,

Yours faithfully,

**For and on behalf of**

**B S R & Co. LLP**

*Chartered Accountants*



Sethuraman Sivaramakrishnan  
Partner

Encl.:

Annexure 1 - Detailed comments on question numbers 1 to 11 of Consultation Paper (total pages – 21 pages).

## Annexure 1

### Detailed comments on question numbers 1 to 11 of Consultation Paper on ‘Enhancing Engagement with Stakeholders’

TAC Report Reference	Summary of Technical Advisory Committee (TAC) Recommendation	Summary of National Financial Reporting Authority (NFRA) action plan/ preliminary views on recommendation
<p><b>4.1.3 to 4.1.5</b></p>	<p><b>Formation of Consultative and Advisory Groups</b></p> <ul style="list-style-type: none"> <li>▪ The Committee suggests setting up the following consultative and advisory groups:               <ol style="list-style-type: none"> <li>a) Investor Advisory Group</li> <li>b) Academic Advisory Group</li> <li>c) CFO Advisory Group</li> <li>d) Auditor Advisory Group</li> </ol> </li> <li>▪ The Authority may designate an Executive Director each as the chair of the above advisory groups.</li> <li>▪ In the early years, a single group called the Stakeholder Advisory Group with 8 to 12 members to be set up.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The TAC recommendation for an initial umbrella Stakeholder Advisory Group is accepted.</li> <li>▪ Membership of this Group will be by inviting nominations, as well as by selection by NFRA. The number of members will be fixed at 12.</li> <li>▪ A formal, yet flexible, remit, and procedures for the meetings of the Group, will be drawn up.</li> <li>▪ NFRA will consider the four focused and specialized Groups set up later on.</li> </ul>
<p><b>Question 1(a): What would be a suitable list of subjects that should form the standing agenda of the Stakeholder Advisory Group?</b></p>		
<p>In our view, the involvement of various relevant stakeholders (i.e., preparers, Audit Committee/ Board members, users, auditors) in an advisory capacity to NFRA and providing them an opportunity to actively participate in various policy matters is a positive step.</p> <p>With regard to standing agenda items for the Stakeholder Advisory Group, we suggest that the topics be aligned with the overall objective of NFRA and should cover matters relevant to all stakeholders, including preparers, investors, Audit Committee/ Board members, auditors, users.</p>		

**We suggest that the following areas may be considered for a standing agenda of the Stakeholder Advisory Group:**

***Auditors related***

▪ *Enhancing audit quality:*

Enhancing audit quality is one of the most important themes when considering the increased complexity in today's business environment and stakeholders' expectations from auditors. As a part of this topic, various sub-themes may be considered by the Stakeholder Advisory Group including:

- The effectiveness of an audit firm's System of Quality Management
- Increased use of specialists
- Audit quality indicators
- Structured consultation process, training, and development

▪ *Auditor's independence and ethics:*

The advisory group, through consultation and deliberations, may advise on matters such as those relating to independence requirements under standards of audit and under Companies Act 2013, including regarding non-audit services, business relationships, partner rotation, personal independence related aspects, conflicts of interest etc.

▪ *Building capacity of audit firms*

This topic may cover measures to enhance capacity of audit firms, including, networking/combinations amongst audit firms which will help create scale and encourage investment in infrastructure, tools and technology keeping with current requirements and the manner in which corporates maintain and prepare accounts, training needs analysis.

▪ *Refresh the roles and responsibilities framework for the auditors*

Considering the increased expectations of stakeholders, the Stakeholder Advisory Group could review the role and responsibility framework for auditors and suggest how to bridge the expectation gap between the auditors and other stakeholders, in areas such as, auditors' responsibility in detecting fraud/operational issues/ business failures etc.

▪ *Enhanced use of technology*

The use of technology can greatly enhance the audit quality. The Stakeholder Advisory Group may consider measures to enhance the use of technology by audit firms, such as mandatory use of certain data analytics tools in specified industries (say, those in financial services sector). There should be a balance between the use of technology and the need to maintain professional skepticism, while performing audit procedures.

▪ Emerging areas requiring auditing guidance

The Stakeholder Advisory Group may consider emerging areas requiring guidance and refer any identified challenges to the appropriate standard setting bodies for issuance of authoritative guidance. The emerging areas may include sustainability reporting, auditing guidance in situations like COVID 19, cyber issues, and matters arising through whistle blow mechanism, etc.

***Preparers related (including Audit Committees and Independent Directors)***

The following topics may be considered as standing agenda items in the context of preparers:

- Areas requiring accounting guidance: This may cover the identification of emerging areas requiring accounting guidance based on feedback received from preparer groups. The stakeholder Advisory Group may identify such areas and refer any identified challenges to the appropriate standard-setting body for issuance of accounting guidance
- Measures to enhance quality of financial reporting: including emphasizing the importance of internal controls over both financial reporting and assurance thereon. This topic may also include best practices in terms of relevant disclosures, common disclosure deficiencies identified based on inspection etc.
- Emerging themes/ trends (say, ESG) and the impact on financial reporting. The Stakeholder Advisory Group may gather periodic feedback from various stakeholders on emerging themes that may require accounting guidance and recommend NFRA address the same appropriately.
- Enhanced governance mechanism - The group can also discuss accountability of the CFO, Audit Committee, and independent directors and conflict of interests. Similar to auditors' independence, this is an important area which requires more attention and focus. While the Companies Act and The Securities and Exchange Board of India (SEBI) Listing Obligations and Disclosure Requirements (LODR) contain certain requirements; this area needs a holistic review, so there is a shared responsibility among the CFO, management, Audit Committee, and independent directors. Conflicts of interest regarding related party transactions is a critical area in the context of a governance mechanism.
- Oversight of the audit process to enhance audit quality: This area may focus on the role of the audit committee and independent directors to oversee the audit process, and the competence and capabilities of auditors so as to ensure high quality audits.
- Whistle blower mechanisms: In the context of preparers, areas relating to confidentiality and protection in whistle blower situations, may also require deliberation.
- Impact assessment of new/ revised accounting standards (both pre and post implementation): This assessment would help identify areas requiring further guidance or unintended consequences of application of new/ revised rules.

### ***Investors/ users related***

Investors and users place significant reliance on a company's financial statements and reporting process; and, hence their information needs and what matters to them the most, will require detailed evaluations and deliberation. In this context, the following topics may be considered as standing agenda items:

- *Enhancing relevance of financial reporting to users:* The Stakeholder Advisory Group may identify the areas where the information contained within the financial statements may be more relevant to investors/ users, such as, use of fair values, non-GAAP measures (for instance, sustainability, human resources related reporting), enhancing reporting on liquidity, solvency and corporate governance. Such areas may be recommended to the standard-setters for their consideration and issuance of relevant guidance.
- *Balancing relevant information vs. information overload:* The Stakeholder Advisory Group should consider exploring areas of where disclosures do not provide relevant information that is important to investors/users. The information disclosed in the financial statements should be commensurate with the benefits obtained by the investors/users. For this purpose, the Stakeholder Advisory Group may consider areas where clarifications or guidance over the intent of detailed disclosures can be provided based on relevance to specific sectors or categories of entities to help enhance the clarity of financial statement disclosures.

### ***Others***

In addition to the points raised above, the following matters may also be considered for inclusion in the standing agenda of the Stakeholder Advisory Group:

- Overall strengthening and capacity building of NFRA
- Global regulatory developments and best practices
- Measures to avoid multiple regulatory oversight, including potential areas where there is a jurisdictional or scope overlap.
- Coordination with authorities like Ministry of Corporate Affairs (MCA), The Institute of Chartered Accountants of India (ICAI), SEBI and Reserve Bank of India (RBI), including on the matters of interpretation
- Themes arising from the inspection and investigation processes of NFRA and any learnings or action plans to avoid recurrence of such themes

The Stakeholder Advisory Group may also follow a practice of conducting periodic surveys to solicit feedback from various stakeholders which could then be the basis for identifying topics for discussion, under each one of the above themes. This would make the process more inclusive and transparent.

**Question 1(b): What would be an appropriate method for filling up positions on the Stakeholder Advisory Group?**

With regard to selection of members of the Stakeholder Advisory Group, we suggest that TAC may function as a Nomination Committee to assist NFRA in identifying appropriate persons representing relevant stakeholder groups to fill the positions. For this purpose, TAC may prescribe eligibility, experience criteria and independence/ objectivity related requirements, as relevant in the context of various stakeholder groups. TAC should ensure the shortlisted nominees comprise a fair representation of the relevant stakeholder groups (such as investors, Audit Committee/ Board members, preparers, users, academicians, and, large and medium sized audit firms).

Selection of members may be based on a mix of representatives comprising:

- Business chambers and other bodies (e.g. The Confederation of Indian Industry, The Associated Chambers of Commerce and Industry of India, Federation of Indian Chambers of Commerce and Industry of India, All India Management Association)
- Academic groups (e.g. Indian Institutes of Management)
- Professional bodies like ICAI and Institute of Internal Auditors (IIA)
- Selection based on other nominations (including practicing-chartered accountants, prominent independent directors and investors) received from any person or organization

TAC may review the other nominations received, conduct a due selection process, including interviewing nominated persons, as required, and recommend the candidates to NFRA for their confirmation.

**Question 1(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?**

We support the establishment of a single comprehensive group instead of four separate groups considering that most of the matters have cross-linkages where all the stakeholder groups need to contribute to reach a consensus which is acceptable to all or most of the stakeholders. A single Stakeholder Advisory Group would have the following benefits:

- Consideration of all viewpoints at one forum resulting in a more holistic evaluation of topics or issues
- Resolution of conflicting views/ interests with dialogue among various stakeholders
- Timely decision making and addressal of matters

- Single source of recommendations for consideration by NFRA
- Better appreciation of varied perspectives by different stakeholders

Based on practices followed by other regulators, we suggest that the single comprehensive group be broad-based, comprised of 12-15 members to ensure adequate representation of the relevant stakeholders (including investors, Audit Committee/ Board members, preparers, academicians, and audit professionals). There should be flexibility to increase the number of members of the group, as needed, depending upon circumstances.

We also believe that the Stakeholder Advisory Group should be empowered to constitute sub-groups or invite other professionals (as special invitees) to the meetings of the group, based on the specialized nature of the topic and need for inputs of a subject matter specialist.

Alternatively, if NFRA decides to form separate groups for different stakeholders in the long run, there should interaction within these groups, by way of periodic meetings amongst designated representatives of these groups

For the effective functioning of the Stakeholder Advisory Group, it is imperative that the powers and responsibilities of the group be clearly defined. While the role of the Stakeholder Advisory Group is to provide its recommendations to NFRA, it would be useful, if these recommendations can be made public along with NFRA's basis of accepting or not accepting any specific recommendation. This would ensure accountability, greater transparency, and better appreciation of NFRA's thinking process by stakeholders.

<p><b>4.1.6</b></p>	<p><b>Fellowship Programmes</b></p> <ul style="list-style-type: none"> <li>▪ Two types of fellowships have been proposed:             <ul style="list-style-type: none"> <li>• <b>The NFRA Practice Fellowships:</b> Partners or staff of accounting firms and CFOs and finance and accounting staff in listed entities would be eligible to apply.</li> <li>• <b>The NFRA Academic Fellowships:</b> Faculty members or PhDs in economics, finance, accounting, or a related area would be eligible to apply.</li> </ul> </li> </ul> <p>The NFRA to announce the topics of interest for each such type of scholarship.</p>	<ul style="list-style-type: none"> <li>▪ The resources of NFRA are not likely to be adequate to design and run such a Programme on a sustained basis.</li> <li>▪ Hence it would not be advisable to start such a Fellowship Programme.</li> </ul>
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**Question 2:**

- 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?**

From a capacity building perspective, the proposal regarding fellowship programmes may be considered over a medium to long term period. The programme should cover practitioners, accounting firms, and academicians. The topics selected for the fellowship programmes should further NFRA's activities and should provide useful data-points and or conclusions supported by in-depth research. This would help embed the use of empirical data, best practices, and external perspectives into NFRA's policy making processes.

Further, NFRA may establish appropriate independence requirements when selecting individuals in such programmes. Appropriate safeguards may be implemented in terms of the selection process of fellow scholars, scope of research study, verifiability and reliability of data sources, methodology, etc., so that the objectivity of this programme is maintained. Further, adequate safeguards may be considered to maintain confidentiality, once individuals return to industry/profession post working with NFRA.

Our views with regard to specific questions are as below:

- (a) The nominal fellowship amount may not attract high quality professionals/ academicians to undertake the projects involving in-depth research, and accordingly, may not result in the desired outcome. Accordingly, the allowances/ compensation should be commensurate with the professional's current position, so as to encourage more experienced people, to pursue a fellowship programme.
- (b) The fellowship programme should preferably be a full-time position so that the fellow is able to devote dedicated quality time to their research studies and produce high quality deliverables.
- (c) Alternatively, if a part time programme is to be considered, it should be with a defined minimum time commitment (say 50% of the time to be spent on fellowship activities) and there is adequate physical and human resource infrastructure, to allow for effective research to be conducted by the fellow and appropriate oversight of the programme and outcomes by NFRA.
- (d) The tenure of the programme should be determined on a case to case basis, considering for example the nature of the research topics, experience of person

involved, full time/ part time involvement, and the overall timelines as per operational plans of NFRA around those topics. Within the overall timelines, there should be periodic milestones at which the fellow scholar should update NFRA on their progress so that the overall timelines can be monitored and adjusted, as required.

In this context, it would be useful to consider an alternate mechanism (in combination with the full-time fellowship programme), under which the cost of fellowship is borne by the sponsoring organization nominating the fellow scholar. Many organizations may be willing to make this type of investment.

<p><b>4.1.7</b></p>	<p><b>Public Speeches etc.</b></p> <p>Authority’s Chairperson and Members may make use of speeches in industry or other forums to communicate their thinking on matters of interest to the stakeholders.</p>	<ul style="list-style-type: none"> <li>▪ NFRA will act upon this recommendation whenever suitable opportunities present themselves.</li> <li>▪ The build-up in communication would have to be performed gradual.</li> <li>▪ Law in this area is still to evolve and get confirmation from the highest judicial forums.</li> </ul>
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**Question 3(a): Do you agree with NFRA’s general approach to public communication?**

We agree with NFRA’s approach to gradually building up communications with stakeholders, as and when there are suitable opportunities. Communications should be made with the objective of building trust, creating confidence, and enhancing stakeholder engagement. Besides public speeches, other modes/ platforms may also be used by NFRA to enhance and more frequently engage with relevant stakeholders, such as, focused group outreach meetings.

The focus of public speeches should be used as a communication channel to disseminate knowledge, generate awareness about various activities/ initiatives etc. by NFRA, instead of dealing with:

- interpretation issues; or
- specific instances leading to breach of confidentiality, including in respect of any pending or ongoing reviews

This will help to avoid any inconsistent interpretation/ application of principles, based on a limited understanding and varying interpretation by the audience.

For this purpose, we suggest that NFRA establish a clearly articulated communication policy. The policy should set out the nature of the topics they will speak to in public, the process to vet the remarks for appropriateness before made public, and who is authorized to speak on behalf of NFRA.

<p>4.2.1 to 4.2.2</p>	<p><b>Inspection, Investigation and Enforcement</b></p> <ul style="list-style-type: none"> <li>▪ NFRA should formulate a policy for inspection and make it public.</li> <li>▪ The proposed policy may cover the process for inspections including <ul style="list-style-type: none"> <li>• criteria for selection of companies</li> <li>• the procedure to be followed.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Inspection programme of NFRA to have two components, as below: <ul style="list-style-type: none"> <li>• <b>Financial Reporting Quality Reviews (FRQR)</b> to focus on the role of preparers</li> <li>• <b>Audit Quality Reviews (AQRs)</b> of the work performed by the statutory auditors of the companies.</li> </ul> </li> <li>▪ Methodology and criteria for selection for reviews based on external impact factor and RoMM Factors</li> </ul>
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**Question 4(a): What are your comments on the objectives and scope of the FRQR/AQR Inspection Programme?**

We support two components (FRQR/ AQR) of NFRA’s inspection programme, covering both preparers and auditors.

Inspection is an important element of NFRA’s monitoring and oversight process. Considering the importance and related impact on preparers and auditors, this is one area, where we believe NFRA should **prioritize the implementation of its action plan**. In our view, the current process of inspection requires a significant structural as well as process level enhancements, to bring more transparency, and better consequence management.

**Structural level enhancements**

At a structural level, the objective and scope of inspection should be clearly set out to ensure:

- the focus is on quality enhancement
- guidance is provided to practice units and preparers for areas of improvement
- suggestions of best practices and experiences are shared
- there is a remediation and monitoring plan

*Clear distinction between inspections and investigations*

Inspections, by their very nature, are parameters oriented, as compared to investigations, which are based on specific events. Accordingly, an inspection process should be distinguished from an investigation process.

*Focus on substantive matters and holistic approach of conclusion*

Inspections should be improvement oriented with a focus on identifying substantive matters, directly affecting the quality of financial reporting and auditors reporting thereon, rather than identifying, relatively non-critical compliance and procedural matters. A finding from an inspection does not necessarily indicate that the financial statements are misstated. Similarly, a poor inspection result does not automatically mean there has been an audit failure. The results may highlight areas that must be remediated. This approach is acknowledged by most of international regulators, including IFIAR, ACRA (Singapore), IRBA (South Africa), PCAOB (US) etc.

*Separation and independence of inspection/investigation divisions from the division that will hear and adjudicate on disciplinary proceedings that may ensue*

NFRA may consider identification of different divisions in NFRA Rules and on NFRA's website. One of the important considerations in this connection may be the independent construct of the enforcement division relative to the divisions responsible for inspection and investigations.

*Need to highlight good practices followed by the audit firm/ companies subject to inspections*

NFRA may also consider highlighting good practices followed by audit firms which are observed during NFRA's inspection processes. These practices may relate to overall quality control processes, their effectiveness, including, the use of technology, consultation structure, etc. This would help audit firms adopt best practices and, also result in a more constructive and improvement-oriented inspection programme.

#### **Process level enhancements**

A comprehensive inspection policy should be issued on a priority basis. The inspection policy should clearly lay-out processes, covering important elements of an inspection, including:

- **Transparency of the inspection programme** with a well-laid out process including **frequency and overall selection methodology, though** including an **element of unpredictability**
- One-time evaluation of firm's system of quality controls in an inspection cycle, rather than with each file-selection
- **Consideration of confidentiality** while segregating the inspection findings. If necessary, publication of findings should be anonymous, rather than releasing full reports in public domain. In this regard, NFRA can consider the practice followed by other regulators, such as, PCAOB, which segregates the report into two parts (public and non-public). The public portion of a PCAOB inspection report does not describe every audit deficiency observed in an inspection. The audit firms then have one year to implement the remediation plan before the deficiencies in the non-public report are made public. Further, the NFRA Rules do not require that the entire report be published. Some thought may be given to the format in which publication of findings should occur since these publications can severely impact reputation.
- **Clarity regarding post inspection process** including remediation plan and closure of findings

- An inspection process should have **adaptability towards diverse auditing tools and documentation enablers, used by the audit firms**, as long as they comply with the relevant framework.
- **Distinction between isolated incidents and recurring quality issues**, before concluding on systemic quality issues.
- **Conclusions reached should be agreed, before NFRA arrives at the final report**. A continuous resolution of issues and confirmation of factual accuracy of observations, should occur during the inspection process. The link between any observation and the inferences drawn should consider a holistic view before the completion of an inspection or report.

#### Experience and skill set of reviewers

Another important area to address is the enhanced involvement of experienced reviewers: The reviewers should be selected based on their sectoral experience in auditing, usage of technology, etc. Further, the review team may also involve specialists (such as, IT, valuation, etc.)

#### Core principles for inspections issued by International Forum of Independent Audit Regulators (IFIAR)

In this context, reference may be made to the core principles for inspections issued by IFIAR. While these are non-binding, independent audit regulators are encouraged to comply with these core principles in their respective jurisdictions. A summary of these core principles is set out below:

- (i) Audit regulators should as a minimum, conduct recurring inspections of audit firms undertaking audits of public interest entities in order to assess compliance with applicable professional standards including independence requirements.

The recurring inspections should be conducted **pursuant to a process** comprising:

- the **selection** of the audit firms to inspect,
- appointment of **inspection teams with appropriate expertise and competence**,
- notification to the audit firm and advance documentation request,
- **notification of selection** of audit engagements for review,
- **meetings with management**, and **on-site inspection arrangements**.
- The inspection process should be **subject to appropriate internal quality control within the audit regulator** to ensure **high quality and consistency**.

- (ii) Audit regulators should ensure that a **risk-based inspections program** is in place to include:

- risk assessment in allocating **inspection resources** and in the **inspection approaches** they adopt.

- processes that are **commensurate with the size and complexity of the audit firms** and their clients.
  - an established **minimum cycle regarding the frequency of inspections**.
- (iii) Audit regulators should ensure that inspections include effective procedures for both firm wide and file reviews.
- Consideration of firm wide procedures regarding audit firm’s quality control system as reflected in the firm’s organization, policies, and procedures.
  - ISQC 1 or similar standards should be used as a benchmark in performing firm wide procedures.
  - The inspection process should also include **adequate testing of selected audit files in order both to determine the effectiveness of the firm’s quality control system and to assess compliance with applicable laws, rules, and professional standards**.
- (iv) Audit regulators should have a mechanism for **reporting inspections findings to the audit firm** and **ensuring remediation of findings** with the audit firm.
- Audit regulators’ reporting processes should include the **preparation and issuance of a draft inspection report**, a process for the audit firm to respond, and the preparation and issuance of a final inspection report.
  - In addition, audit regulators should have a process for ensuring that **audit firms satisfactorily address inspection findings** that were reported to the audit firm

NFRA may consider these core principles and should release an inspection policy addressing the important elements, noted above, of an inspections programme.

**Question 4(b): What are your suggestions regarding the Risk-Based Methodology for choice of companies as described above?**

While we support the risk-based methodology, the external impact factors and RoMM in its current form, as suggested by NFRA, should be clearly defined in an objective manner. These factors may involve considerable judgement. Further, it may result in unintended consequences to the effect that certain audit firms/ companies may not be selected at all.

**The methodology should be objective, to the maximum extent possible**, while there can always be a surprise element. For this purpose, NFRA should consider laying down certain objective criteria for selection of audit firms and companies. For example:

- The selection of companies for the purposes of FRQRs should be **based on defined thresholds** (say, turnover, market capitalization, borrowings or other parameter indicating any financial stress, modifications in audit reports, etc.). The companies above these thresholds should be covered once over a period of time (say, five years). The **prioritization in this selection process** can be done based on relevant factors involving public interest. The **Companies below these thresholds should be selected on a random basis**, giving due consideration to **qualitative factors**, such as listed/ unlisted, inspection history etc.

- The frequency of **inspection of audit firms** may be specified and may be undertaken on a **rolling basis**. For instance, inspection of each audit firm **at least once every three/ five financial years**. The objective should be to cover all the firms over a specified period of time. The size of a firm in terms of audits undertaken in a financial year may be considered to determine frequency.
- Inspections should be parameters oriented as compared to investigations, which should be based on specific events.

It may be noted that generally other international regulators may inspect each audit firm annually, biennially, or triennially, depending upon the size and the number of public interest entity engagements handled by each audit firm.

We also suggest that the **frequency and coverage of the inspection should be commensurate with the availability of experienced pool of reviewers**. In our view, to achieve the objective of broad-based reviews of both preparers and auditors, there is an immediate need to build a pool of experienced reviewers with an appropriate skill set.

<p><b>4.3.1 to 4.3.3</b></p>	<p><b>Settlement of Disciplinary Matters and Remediation</b></p> <ul style="list-style-type: none"> <li>▪ No provision for settlement of disciplinary matters in the Act or the Rules.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Statutory settlement process to be defined in the statutory laws governing NFRA.</li> </ul>
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**Question 5(a): Do you have any specific suggestions on the contents of the stand-alone law that should govern NFRA?**

In our view, NFRA, in consultation with MCA, may consider necessary enablers in the NFRA Rules in respect of settlement of disciplinary proceedings. To do this, powers under section 469 of the Companies Act, 2013 can be considered. Importantly, parties should be able to avail of the settlement provisions without requiring any admission of non-compliance. In other words, the enablement of settlement mechanism of disciplinary proceedings may be achieved within the framework of the existing Companies Act itself.

In framing such rules allowing for settlement, NFRA may also consider the SEBI (Settlement Proceedings) Regulations, 2018, which essentially provides the following:

- **SEBI is empowered to enter into settlements** with regard to violations by entities regulated by SEBI (listed entities/intermediaries), arising from violations of security laws.

- **The settlement powers are not restricted** only to violations stemming from the parent act (SEBI Act, 1992) or regulations framed thereunder, but also extend to such provisions of any other law (such as the Companies Act, 2013) which are administered by SEBI.
- **SEBI is empowered to extend the benefit** of confidentiality (which would ordinarily extend to both the identity of applicant as well as the information disclosed) in the event an applicant offers to make an admission regarding a violation of security laws.
- **SEBI is empowered to take into account other factors such as past conduct, nature of role/involvement**, economic benefit accruing to any third party from violation, and impose conditions so as to create future deterrence.

With regard to exceptions to the said powers, a principle-based approach has been considered by SEBI. wherein situations such as those relating to fugitive economic offenders, violators who have defaulted in payment of penalties etc. have been kept outside the purview of settlement.

Given the overall objectives of NFRA, NFRA may consider more frequent application of the remedial measures as contemplated under Rule 9 of the NFRA Rules. We believe that the overall oversight and enforcement regime should be proportionate, and improvement based, rather than focusing on penal provisions. The enforcement mechanism should consider the following aspects:

- Consistent approach for enforcement/ penal actions against auditors, management and directors in case of corporate failures
- Range of commensurate sanctions other than extreme penal actions, like, ban or debarment. Other measures may include:
  - Requiring firms to perform enhanced quality control reviews.
  - Requiring firms to implement corrective actions.

#### **Other Elements for an effective settlement mechanism**

Based on the practices in other jurisdictions, **some of the other elements** which may be considered **to make the settlement mechanism effective** are noted below:

- Holistic approach to settlement mechanism: Regulators should consider whether, and, if so, to what extent, the sanctions proposed would be likely to lead to improvements in respect of the matters which give rise to the proceedings and in the quality of work of the Auditors or the Firm concerned
- Settlement with Confidentiality: The settlement process should extend the benefit of confidentiality. Accordingly, in such a case, the information, documents, and evidence should be treated as confidential (unless disclosure is mandatory by law).
- Coverage of both actual and potential proceedings under various provisions of the Companies Act.

- Inclusion of both monetary and non-monetary terms after taking into consideration various parameters, including, cooperation by the audit firm, severity of issue, remedial actions taken by the firm etc. Such terms of settlement could include, in addition to the monetary penalty:
  - Censure,
  - Undertakings to improve the audit firm's system of quality control,
  - Appointment of an independent monitor to review and assess the audit firm's progress toward achieving remedial benchmarks,
  - Immediate practice limitations, including a prohibition on accepting certain new audit work until the monitor confirms the audit firm's progress in achieving its remedial benchmarks,
  - Additional professional education and training for the firm's audit staff.
  
- Detailed guidelines on various parameters to be considered, before arriving at the settlement terms/ amounts, which may include mitigating factors such as self-identification and acknowledgement of contraventions, corrective measures to avoid recurrence of misconduct etc.

**4.4.1 to  
4.4.2**

**Website**

- NFRA to redesign its website to include the following:
  - Separate tabs for auditors, preparers, investors, and academics.
  - Videos on the Authority's purpose, powers and functions, interviews on new accounting and auditing standards, etc.
  - A whistle-blower contact email address.

- NFRA website is proposed to be broadly divided into following Tabs.
  - About Us+
  - Financial Reporting Quality Reviews
  - Audit Quality Reviews
  - Investigations and Enforcements
  - Standard-setting Activities
  - Media and Gallery
  
- Suitability of videos on new accounting and auditing standards etc will be further examine.
  
- A separate tab titled "Public Grievance" on NFRA website exist, which contains detailed guidelines on the procedure for complaint handling.

**Question 6(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?**

The NFRA website structure may be enhanced to include the following components:

**(i) More detailed organization structure indicating NFRA's composition, brief profile of officials, staff strength, composition of committees etc.**

NFRA may consider providing a more detailed organization structure on its website, including the list of consultants engaged, composition of committees, study group, staff strength, brief profile of officials, strategic plans, and budgets etc. Further as stated above, the website may specifically identify the different divisions of NFRA and members thereof. This would provide more transparency to NFRA's activities and provide a broader perspective to stakeholders.

**(ii) Standard operating procedures (SOPs) in respect of standards setting, inspection, enforcement, and other functions of NFRA:**

As per the terms of constitution, NFRA's functions cover various elements, including, standard setting, inspection, enforcement etc. It would be useful, if the SOPs in respect of each of these elements are shared on the website. These SOPs can include flow of activities, indicative timelines, steps followed by NFRA, etc.

**(iii) Names and contact details of the Single Point of Contacts (SPOCs) for each function:**

The SPOCs for all the elements covered by NFRA (along with contact details/ functional mail IDs), should be made available on the website. This would enhance stakeholder engagement and provide stakeholders with a forum to ask questions and queries to allow the SPOCs to respond or resolve issues in a timely manner.

**(iv) Number of inspections carried out, inspection process and remedial plan**

Creating and publishing a review plan on the website achieves two important goals:

- Transparency to NFRA's stakeholders
- A cycle of constant reviews and not one that is a response to a crisis

This will allow NFRA to reach more informed and balanced conclusions on the trends in audit quality, required remedial actions and monitor the implementation of these actions. The creation of an inspection plan and schedule and its availability on the website will be helpful to all the audit firms. The information that may be made available on the website may include:

- Selection process- method of selection of firms (i.e. categorization of firms on the basis of size / number of listed clients served by them, etc.)
- Frequency of inspection of audit firm (such as annually/ triennially)

- Manner of submission of documentation (electronic/ hard files, etc.)
- Manner of review (on-site or remote).
- Query resolution process before finalization of report.

**(v) Commonly noted issues/themes, arising out of the reviews undertaken by NFRA**

**(vi) Initiatives/ projects which are planned over the next few months:**

NFRA may consider sharing updates on planned initiatives/projects on a periodic basis. Stakeholders may also be interested in other types of information, for example key decisions taken at meetings, status of initiatives/ projects in progress, and action plans over next 12-18 months.

**(vii) For further transparency, consider including commentary on governance process,** rules & regulation, powers and authority, policies, and processes, along with NFRA’s strategic plan and imperatives.

**(viii) Whistle blower related contacts:** It is suggested that there should be sufficient checks and balances with regard to raising a whistle blower complaint on NFRA’s website, so as to discourage any generic and/or frivolous complaints.

<p><b>4.4.3</b></p>	<p><b>Newsletters</b></p> <ul style="list-style-type: none"> <li>▪ The Authority may start a quarterly newsletter to report current developments in accounting and auditing.</li> </ul>	<ul style="list-style-type: none"> <li>▪ NFRA will have to evaluate whether the use of Newsletters has the potential of information overload in the areas of accounting and auditing.</li> <li>▪ It also has potential risk of legal ramifications of interpretation of accounting and auditing standards that are part of the law in India.</li> </ul>
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**Question 7(a): What, in your opinion, would be the subjects/areas that Newsletters from NFRA should focus on?**

As suggested above (response to Question 3(a)), the focus of a communication should be knowledge dissemination, generating awareness about various activities/ initiatives etc. by NFRA but avoiding statements that may tantamount to legal conclusions or dealing with any interpretation issue. In this context, if the NFRA decides to issue a periodic newsletter, the areas of focus may be as below:

- Activities of NFRA, including initiatives taken in various workstreams (such as accounting, auditing, inspection, investigations, and other regulatory matters)
- Emerging issues/trends (both local and international) requiring accounting and auditing guidance
- Summary of findings/ learnings arising from the 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

4.4.6

**Press and Media Guidance**

- NFRA may provide a short non-technical note to business journalists on standards, AQRs, disciplinary orders, and other documents in order to enable them to understand the content and report the matter in a timely manner.

- In respect of AQRs and Disciplinary Orders, NFRA will evaluate the potential use of issuing Press Releases, in addition to Executive Summaries, in cases of material or significant impact to public interest.

**Question 8(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?**

As suggested in our response to Question 3(a) above, we suggest that NFRA frames a clearly articulated and binding press and media policy. The policy should set out the nature of the topics they can discuss with the media, the process to vet the remarks for appropriateness before made any press statements public, and who is authorized to make such statement on behalf of NFRA.

The press/ media policy should consider the following aspects:

- As suggested above (response to Question 5(a)), due consideration should be given to confidentiality related aspects, while dealing with any matters arising from investigation and inspection process of NFRA.
- A 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.
- Accordingly, NFRA may consider that the matters arising from inspection and investigation process should not be covered as a part of press/ media releases. The issuance of AQRs should be in a summarized form, on an anonymized basis.

<b>4.4.7</b>	<b>Collaboration with Universities, Institutes and Colleges</b> <ul style="list-style-type: none"> <li>▪ NFRA may collaborate with universities, institutes, and colleges for publicizing its role and activities.</li> </ul>	<ul style="list-style-type: none"> <li>▪ NFRA will explore various ways and means to collaborate with academic and professional institutions.</li> </ul>
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**Question 9(a): Do you have any suggestions on viable modalities for collaboration with educational institutes?**

We support NFRA’s collaboration with universities, institutes, and colleges over a medium to long term period. This will help provide NFRA with different perspectives and also support their efforts when considering emerging matters that may require research.

However, consideration will need to be given to the any confidential data which academics may want to use in their studies. NFRA should consider what safeguards should be in place to ensure compliance with data privacy and protection requirements.

Collaboration with educational institutions may be in various forms:

- Joint research studies on identified topics under the fellowship programme,
- Secondment of resources (with identified skill sets)
- Nomination/ participation as special invitees in the Stakeholder Advisory Groups constituted by NFRA
- Training programmes and knowledge dissemination activities

<b>4.6.1 to 4.6.3</b>	<b>Road Map</b> <ul style="list-style-type: none"> <li>▪ NFRA may develop a road map consisting <ul style="list-style-type: none"> <li>• A five-year strategic plan and</li> <li>• Annual operating plan and publish them in advance.</li> </ul> </li> <li>▪ The road map should reflect the NFRA’s priorities, resources, and experience.</li> <li>▪ The draft version of the road map may be issued first for public comment.</li> </ul>	<ul style="list-style-type: none"> <li>▪ NFRA will endeavour to develop a strategic Plan covering period of Five Years say 2022-2027.</li> <li>▪ Operating Plan is proposed to be developed and operationalized.</li> <li>▪ NFRA will be separately publishing the Strategic Plan for public comments and feedback.</li> </ul>
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**Question 10(a): Do you have any suggestions on NFRA’s Strategic Goals and Priorities for the medium term?**

It is important for NFRA to develop and implement a strategic plan. We agree that the strategic plan should be published for public comments and feedback.

The following areas may be considered as strategic goals and priorities:

- Membership of IFIAR
- Streamlining the inspection process to make it constructive and improvement oriented and ensuring proper separation of the inspection/investigation divisions from the enforcement division
- Establishing a settlement and remediation mechanism
- Identifying 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
- Capacity building measures for the audit profession
- Framework for audit quality indicators
- Strengthening the resources and skill sets available with NFRA
- Investing in emerging technologies
- Bridging the stakeholders' expectation gap in respect of the financial reporting and audit process
- Measures to avoid overlap with other domestic regulatory bodies

4.7.1 to  
4.7.4

**Building Regulatory Capacity**

- NFRA should build up its capacity steadily in the next five years.
- The staffing plan may describe the number of personnel, levels and skills, the timeline for recruitment and training.
- Two-way short-term staff exchanges may be considered with auditors, preparers, and overseas regulators (PCAOB and the FRC)

- NFRA will address human resource area in a holistic manner, as part of its Operating Plan.
- NFRA agrees to develop and implement well-designed and structured training programmes.
- NFRA would prioritize staff exchange Programmes with global peer groups.
- The methods of exchanges with auditors and preparers would require examination before they can be adopted.

**Question 11(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?**

We support the capacity building initiatives by NFRA. It is imperative that NFRA is adequately staffed with appropriate skill set and experience, both in terms of technical and administrative activities. Some of the aspects to consider are noted below:

**(i) Two-way secondment arrangements**

We support TAC's recommendations that two-way staff exchanges (secondment) may be considered with preparers, professional firms, and overseas regulators (e.g., PCAOB and the FRC). This may be done with appropriate safeguards to ensure objectivity, independence and confidentiality. This would not only help build

NFRA's capacity by adding experienced resources but would also help the preparers and auditors to better appreciate NFRA's perspective in discharge of its role as regulator.

**(ii) Need for a pool of experienced reviewers and specialized trainings**

It is important that the personnel responsible for inspection and other audit quality related activities have **relevant industry and professional experience**. NFRA should ensure that reviewers are **equipped to handle different sized audit firms**. They should undergo **various trainings** on a several topics, for example, industry specific matters (to develop ability to deal with complex sector issues), and rapidly changing technology (to develop understanding of data analytic tools that may be used by various audit firms).

Further, the **personnel with specialized skills and knowledge**, in areas such as valuation, IT, banking, should also form part of NFRA inspection teams and be used when required as reviewers on large and complex audits.

**(iii) Benchmarking with other regulators**

In this context, it may be noted that internationally, all major audit regulatory oversight bodies have made significant investments in capacity building (e.g. PCAOB has 900+ resources and FRC UK has 250+ resources) to carry out their responsibilities effectively, including assembling teams with not just accounting and auditing expertise, but also significant industry and sectoral expertise.

**(iv) Membership of International Forum of Independent Audit Regulators (IFIAR) and adoption of best practices.**

IFIAR's mission is to serve the public interest, including investors, by enhancing audit oversight globally. Accordingly, NFRA should endeavour to become a member of IFIAR within a defined timeframe to have access to global benchmarking and best practices. This will help NFRA benchmark their activities with global best practices and may lead to better engagement with stakeholders.

**(v) Adequate funding as a part of budgetary allocations**

It is suggested to assist with capacity building, the Government should consider adequate funding as a part of their budgetary allocation to the activities being carried out by NFRA.

**NFRA CONSULTATION PAPER ON ENHANCING ENGAGEMENT WITH STAKEHOLDERS  
REPORT OF TECHNICAL ADVISORY COMMITTEE (MARCH 2021)**

**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?**

The formation of the Stakeholders Advisory Group with an objective to extend the dialogue with corporates, investors, auditors and other stakeholders and give them additional and tangible opportunities to assist the NFRA in accomplishing its mission is a welcome step.

The section 132 of the Companies Act 2013, empowers NFRA to make recommendations concerning the content of professional standards (both accounting and auditing). Among other things, the following may be considered as the standing agenda of Stakeholder Advisory Group:

- Existing accounting and auditing standards, quality control standards, ethics standards, and independence standards;
- Proposed standards;
- Potential new or amended standards;
- Quality and reliability of corporate reporting and audit (Audit Quality Indicator)
- Use of technology in audit
- Non-GAAP reporting (ESG, sustainability reporting etc.)
- Capacity building measures for corporates and professionals
- Matters other than standards that are of significance to NFRA for instance numbers of grievances received during a specific period, those resolved and pending, sub-judice grievances
- **Seeking feedback/survey of impact of accounting and auditing developments from preparers of financial statements, audit firms, audit committees and investors.** An example of current PCAOB stakeholder engagement in practice is the staff white paper [“Stakeholder Outreach on the Initial Implementation of CAM Requirements”](#) (2020). The paper reflects those practices advocated in the OECD guidance, notably a structured, transparent engagement strategy. Further the paper provides the impact assessment of proposed requirements, a key point in the ICSA guidance

Engagement processes should protect against potential conflicts of interest of participants and guard against the risk that the regulator may be seen to be captured by special interests. This can be achieved via inclusivity and transparency

- Inclusivity allows any member of the public to contribute or comment or proposals, not just representative groups thus building confidence that all views are heard
- Transparency includes publicly documenting who has been consulted, their input, and the release of the regulator’s **response to main issues raised. This can protect the regulator from suggestions of capture** or failure to listen to an array of views and builds confidence in the regulatory system

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

We agree with the view of NFRA that membership of the Stakeholder Advisory Group should be by inviting nominations, as well as by selection by NFRA with reasonable representation from industry, **experienced statutory auditors, subject matter experts (including experts on company law, valuation, tax**

etc and other experts relating to various laws and regulations), investor group, governance team (audit committee/director) and academicians.

The number of members can range between 12 -18 since there would be a need to include all the four main stakeholder categories that have been identified by the Technical Advisory Committee (TAC). We also agree that there should be enough flexibility to increase the number of members depending upon the circumstances.

We also believe that the Stakeholder Advisory Group should be empowered to constitute sub-groups with an endeavor to perform focused group discussions and efficient working, which in turn can be considered by the Stakeholder Advisory Group for final deliberation.

Empowering Stakeholder Advisory Group here would imply granting them with authority to select members, agenda etc. for the sub-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?**

A single, comprehensive Stakeholder Advisory Group would lead to better quality of deliberations and advice since it would result into an integrated perspective on a subject matter. However, as suggested in response to Question 1(b), there is a necessity for constituting sub-groups for focused group discussions.

## **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?**

Fellowship Program which focuses on integrating academics into NFRA projects can be a useful way to seek external perspectives, wherein data collected by the NFRA through its oversight activities can be analysed by the professionals/academics. It will also benefit professional/academics since they will be able to get an opportunity to work with NFRA data for key projects and research.

Topics on which research proposals can be invited may include audit quality indicators; audit expectation gap, non-GAAP measures etc.

With regard to the nominal Fellowship amount, we would suggest that Fellowship should commensurate with the academic position that is last held by the individual. In case of professionals, the compensation could commensurate with cost of similar projects undertaken by an Assistant Professor in a recognized university.

NFRA should also encourage secondment of experienced staff from audit firms to supplement their resources and experience subject to guidelines relating to conflict of interest and confidentiality as is the practice in few other territories.

**b) Should the Fellowship be full-time, or part-time?**

Fellowship should be full-time.

**c) If it is to be part-time, what is the kind of minimum involvement that should be insisted upon?**

Not responded in view of (b) above

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?

Minimum tenure of such program would be 12 months which can be extended to maximum tenure of 2 years.

### **Question # 3 Public Speeches etc.**

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

Although we agree with NFRA's general approach to public communication on selective basis considering the overall objective with which NFRA is established. However, considering that global regulators have been engaging more frequently with stakeholders through investor forums, roundtable discussion, focused group meeting, we would also like NFRA to consider the recommendation of TAC regarding public communication after establishing a well deliberated communication protocol. For example, NFRA Chairman/Executive Committee Members may be allowed to make communication in focused group meetings (round table discussions).

Such communication has become increasingly important with an increasing expectation gap and to establish trust and transparency in the regulatory operations.

### **Question # 4 Inspection Policy**

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

The objective and scope of FQQR/AQR Inspection Programme appears to be reasonable, however we would like NFRA to consider the following.

#### **In respect of FRQR (Financial Reporting Quality Reviews)**

The Council of the Institute of Chartered Accountants of India in 2002, constituted the Financial Reporting Review Board (FRRB) as its non-standing committee. The scope and functions of FRRB is to review the general-purpose financial statements of certain enterprises and auditor's report thereon with a view to determine, to the extent possible:

- Compliance with the generally accepted accounting principles in the preparation and presentation of financial statements;
- Compliance with the disclosure requirements prescribed by regulatory bodies, statutes and rules and regulations relevant to the enterprise; and
- Compliance with the reporting obligations of the auditor.

Such reviews are performed suo-moto or basis recommendations from regulators like MCA, RBI etc. FRRB is mandated to report the irregularities to the respective regulatory authority governing the entity. Further, FRRB is also empowered to refer cases of auditor negligence to Peer Review Board, Director Discipline, QRB.

## **In respect of AQR**

Similar to FRRB, ICAI has constituted Peer Review Board (PRB) whose main objective is to ensure that in carrying out the assurance service assignments, the members of the Institute (a) comply with Technical, Professional and Ethical Standards as applicable including other regulatory requirements thereto and (b) have in place proper systems including documentation thereof, to amply demonstrate the quality of the assurance services.

## **In respect of QRB**

Services of QRB can also be leveraged where required by NFRA.

**In the interim, while NFRA is in the process of building its organisation structure, the existing inspection/review structures which are already in place, can be leveraged by NFRA as under :**

- In respect of financial review in addition to checking compliance with company law, there should be an endeavor to assess compliance with laws and regulations as applicable to the entity selected for the review, for example in case of bank, compliance with RBI guidelines, **and/or whether the company derives a significant portion of revenue from jurisdictions which are not affiliated to international organisation or have a low degree of compliances.**
- NFRA may also consider leveraging the expertise of FRRB by mandating them to report irregularities in respect of entities governed by NFRA and cases once referred to NFRA should move out of the purview of FRRB.
- In respect of audit firm level inspections, the same should continue to be conducted by ICAI through Peer Review Board as adding another layer of regulations would constitute over regulation.
- The Market Regulator (SEBI, RBI) should also be involved when the issues are seen as systemic to the financial /capital markets and most probably involve more than one audit firm or the whole profession - and should involve close collaboration with the NFRA
- We recommend both inspection and investigation by NFRA, however, investigations should only be undertaken by the NFRA when there is the suspicion of wrongdoing either by the auditor and/or others which the auditor should reasonably have been able to detect, and they should be the exception, not the rule. Investigations should be undertaken by a specialist team within the regulator or on their behalf when specialist knowledge or expertise is needed (e.g. a forensic audit).
- There should be a clear distinction in process and approach between audit inspections and investigations, which should be transparent and clearly set out
- We recommend that the IFIAR Core Principles be examined and adopted by NFRA.

To summarise, ensuring quality should be the responsibility of all parties, but with clear delineation of responsibilities and accountability as under:

- NFRA responsible for audit firm and audit engagement quality
- ICAI responsible for individual auditor/accountant quality
- Market regulators (e.g. SEBI, RBI) jointly responsible with the NFRA for specific instances where the quality of an audit impacts the stability of the financial markets or categories of listed entities (e.g. banks).

Further, quantitative criteria should be laid down for frequency of audit quality reviews to be carried out for larger firms and for smaller firms. NFRA will in any way have the discretion to pick up companies/auditors where the public interest is involved.

*[Refer Annexure II “Research on global organisations - Audit inspections”]*

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

The present thinking on the methodology and criteria for selection of companies, and focus areas, for FRQR and AQR commensurate with the 9<sup>th</sup> Principle of IFIAR which also requires developing and risk-based methodology by the regulators.

We agree that since the concept of NFRA framework is built around a foundational concept of PIEs, these should act as the starting point for a further classification that can help in drawing up the operational action plan.

We also agree that the criteria to be used in the selection methodology can be divided into (i) External Impact Factors; and (ii) Risk of Material Misstatement (“RoMM”) Factors.

The risk factors may include economic trends, industry developments, market-capitalization size and/or changes, audit firm and partner, and inspection history. Further, once NFRA has developed its capacity, it may consider including an element of unpredictability by selecting some reviews on random basis.

#### **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?**

Pending a decision on a legal framework that would require a lot of deliberation at MCA level, it would be difficult to provide suggestions on the contents of the stand-alone law that should govern NFRA.

To ensure **wholesome laws and regulations for an independent regulator**, a separate legislation may be desirable. The proposed legislation will ensure independence, funding and detailed coverage relating to inspection, investigation, standard setting and time bound resolution of the relevant matters.

#### **Remediation**

We recommend a ‘remediation’ process for ensuring that audit firms satisfactorily address inspection findings that were reported to the audit firm in the inspection in a time-bound manner. The objective of an inspection should be to ensure the findings are appropriately addressed. This also meets the functions and duties of the Authority as laid down in Rule 8 of NFRA Rules, 2018. These may be at the auditors’ firm level of engagement level. Auditing standards are in place for auditors to consider procedures and documentation at the engagement level under SA 230. These measures shall improve quality and instill confidence in the investors.

#### **Consent Mechanism**

To avoid protracted litigation, NFRA may also consider the route of ‘consent mechanism’ as is prevalent in SEBI regulation and other territories whereby financial penalty can be levied.

### **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?

We appreciate that NFRA acknowledges the relevance of website to be a key means of communication of the Authority's role and responsibilities, and to disseminate information about its various activities. Further, it is noted that NFRA agrees with the TAC that its website should serve the critical information needs of its key stakeholder groups in an effective and efficient manner and willing to consider the suggestions.

In this regard we would request NFRA to consider *Annexure III: Website content which list the items posted by other regulators world-wide*.

### **Question # 7 Communication and Advocacy: Newsletters**

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

Considering the overall objective with which NFRA is established the subjects/areas that Newsletters from NFRA could focus on following (illustrative):

- Expectation from investors from corporate reporting – example questions that investors are asking in uncertain times like COVID 19
- Common irregularities noted in corporate reporting – non-compliance with accounting standards, company law etc.
- Legal positions which needs to be disseminated to all stakeholder groups to ensure consistency for example interpretation of section of a company law in consultation with Ministry of Corporate Affairs
- NFRA workgroup findings in terms of audit inspection benchmarking them against audit quality indicators
- Summary of research projects undertaken under Fellowship program

### **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?

Yes, we agree with the NFRA's preliminary views on communication with press and media on reports by the Authority. Executive Summary to AQR and Disciplinary Orders can be used by media/press. However, NFRA may consider issuing short note to press/media only where it concludes that there exists a risk of potential misinterpretation in the manner it is issued by other regulators world wide.

### **Question # 9 Collaboration with Universities, Institutes and Colleges**

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

Engaging and collaboration with educational institutes will provide high-quality research. Modalities for collaboration could be annual academic research forum, literature reviews as part of the standard-setting work.

### **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?

Yes, we agree with NFRA's Strategic Goals and Priorities for 5 years (2022-2027). Additionally, we would request NFRA to consider including GOAL 6 – Harmonisation of regulations and avoiding multiplicity of regulators by establishing a collaboration platform with other regulators.

### **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?

Although we agree with NFRA's overall approach to building regulatory capacity, we would request NFRA to re-consider its view of exchange program with auditors/preparers by establishing adequate independence and ethical norms. Such an exchange program will not only accelerate the regulatory capacity development, it will also instill confidence of many stakeholders. Protocols followed by regulators like PCAOB are well tested for years and can always be made more stringent depending upon the territorial requirements.

## Annexure I: Mode of engaging with stakeholders

### FRC

Examples of outreach that influenced policy outcomes include<sup>1</sup>:

- Outreach with investors and preparers to inform thematic reviews for AQR on Audit Quality Indicators and the Use of Technology in Audit.
- In our standard setting work, FRC ran extensive consultations and outreach activities to support the updates to the Audit and Ethical Standards and the Going Concern Standards, resulting in tougher new rules for audit firms.
- The FRC strategy and plan was informed by significant stakeholder feedback. FRC held a variety of small group discussions and targeted stakeholder meetings with institutional investors, groups representing large and small listed companies and audit committee chairs as well as with the regulated entities and the accountancy profession.
- In January 2019, the FRC published the consultation on the revision to the UK Stewardship Code. There was broad support for the key proposals, however there were some concerns raised by stakeholders about the structure of the Code and the approach to reporting. After reviewing these concerns the Codes and Standards Committee approved a short delay to the publication of the Code to allow the team to revise the structure and reporting approach and test proposals with stakeholders. The FRC has a broad impact and different types of stakeholders, reflecting the different ways in which our work affects others. Some stakeholders may fit into more than one category, for instance investors benefit from the FRC's work and are also regulated by the FRC as a result of the Stewardship Code. Stakeholders can be categorised as follows:
  - those who benefit directly from the FRC's work because of the increase in integrity and transparency of companies;
  - those who are regulated by FRC and whose actions are affected by the FRC's work;
  - those who interact with or are affected by the FRC in other ways; and
  - The Government and public sector, to whom the FRC reports.

### Stakeholders who benefit directly from the FRCs work

#### Investors

Key issues investors care about	How we engage
<ul style="list-style-type: none"> <li>• Quality and reliability of corporate reporting and audit</li> <li>• Transparency of corporate reporting</li> <li>• Executive pay and behaviour</li> <li>• The competitiveness and reputation of the UK as a place to do business</li> <li>• Impact of COVID-19</li> <li>• Impact of climate change</li> </ul>	<ul style="list-style-type: none"> <li>• Investor events</li> <li>• Investor round tables and briefings</li> <li>• Investor Advisory Group</li> <li>• Non-executive board members with investor experience</li> <li>• Public consultations</li> </ul>
	<p><b>Priorities for the FRC for 2020/21</b></p> <ul style="list-style-type: none"> <li>• Transformation of the FRC into a fit-for-purpose, independent regulator</li> <li>• To promote improvements and innovation, exploring good practice with a wide range of stakeholders</li> </ul>

<sup>1</sup> <https://www.frc.org.uk/getattachment/d3201f4b-2946-4e50-aa27-3a131ae17750/Annual-Report-2019-20.pdf>

	<ul style="list-style-type: none"> <li>• Deliver robust, fair and transparent regulatory outcomes</li> <li>• Support the Government’s green finance strategy to embed climate-related issues into corporate reporting and investment decision making</li> </ul>
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**Stakeholders of regulated entities**

<b>Key issues Stakeholders of regulated entities care about</b>	<b>How we engage</b>	
<ul style="list-style-type: none"> <li>• Quality and reliability of corporate reporting and audit</li> <li>• Transparency of corporate reporting</li> <li>• Executive pay and behaviour</li> <li>• Treatment of stakeholders by companies</li> </ul>	<ul style="list-style-type: none"> <li>• Stakeholder advisory panel</li> <li>• Public consultations</li> </ul>	
	<b>Priorities for the FRC for 2020/21</b>	
	<ul style="list-style-type: none"> <li>• Transformation of the FRC into a fit-for-purpose, independent regulator</li> <li>• To promote improvements and innovation, exploring good practice with a wide range of stakeholders</li> <li>• Deliver robust, fair and transparent regulatory outcomes</li> </ul>	

**NGOs including environmental and societal groups**

<b>Key issues NGOs care about</b>	<b>How we engage</b>	
<ul style="list-style-type: none"> <li>• Quality and reliability of corporate reporting and audit</li> <li>• Transparency of corporate reporting</li> <li>• Executive pay and behaviour</li> <li>• Treatment of stakeholders by companies</li> </ul>	<ul style="list-style-type: none"> <li>• NGO round tables</li> <li>• Non-executive board members with NGO experience</li> <li>• Public consultations</li> </ul>	
	<b>Priorities for the FRC for 2020/21</b>	
	<ul style="list-style-type: none"> <li>• Support the Government’s green finance strategy to embed climate-related issues into corporate reporting and investment decision making</li> </ul>	

**The public**

<b>Key issues that the Public care about</b>	<b>How we engage</b>	
<ul style="list-style-type: none"> <li>• Understanding the work of the FRC</li> <li>• Trust in business</li> <li>• Executive pay and behaviour</li> <li>• Impact of a company’s actions on individuals, communities, the environment and society</li> <li>• Impact of company performance on investments and pensions</li> <li>• Transparency of FRC actions</li> </ul>	<ul style="list-style-type: none"> <li>• Citizen’s juries</li> <li>• AGM</li> <li>• Responding to complaints</li> <li>• Participating in ‘Speakers4Schools’, through which six students from London Boroughs took part in a week-long work experience with the FRC</li> </ul>	
	<b>Priorities for the FRC for 2020/21</b>	
	<ul style="list-style-type: none"> <li>• Transformation of the FRC into a fit-for-purpose, independent regulator</li> </ul>	

## Stakeholders who are regulated by the FRC

### Companies

<b>Key issues companies care about</b>	<b>How we engage</b>	
<ul style="list-style-type: none"> <li>• Clarity, relevance and understandability of accounting standards</li> <li>• Clarity, relevance and understandability of Corporate Governance Codes in the UK</li> <li>• The competitiveness and reputation of the UK as a place to do business – Fairness and consistency of monitoring work</li> <li>• Fairness and consistency of enforcement action against companies</li> <li>• Provision of timely and helpful guidance on matters of relevance</li> <li>• Impact of the FRC’s transformation into ARGA</li> </ul>	<ul style="list-style-type: none"> <li>• Advisory committee representation</li> <li>• Company round tables</li> <li>• Regular meetings with audit committee chairs</li> <li>• Regular meetings with chairs</li> <li>• Company events</li> <li>• Engagement as part of our monitoring, supervision and enforcement activities</li> </ul>	
	<b>Priorities for the FRC for 2020/21</b>	
	<ul style="list-style-type: none"> <li>• Transformation of the FRC into a fit-for-purpose, independent regulator</li> <li>• Assist the Government with creating new structures for setting accounting standards after leaving the EU</li> <li>• Update the UK Corporate Governance Code and/or related guidance for enhanced requirements on internal controls, risk management, going concern and resilience/ viability.</li> </ul>	

### Auditors

<b>Key issues auditor care about</b>	<b>How we engage</b>	
<ul style="list-style-type: none"> <li>• Impact of the CMA review</li> <li>• Impact of the Brydon Review</li> <li>• Fairness and consistency of audit inspections across different audit firms</li> <li>• Fairness of enforcement action against auditors</li> <li>• Quality of auditing standards</li> <li>• Impact of the transition to incorporate firm level supervision of audit firms</li> <li>• Impact of Brexit on the cross-border work of audit firms</li> <li>• Effect of operational separation of audit practices from the rest of the business</li> <li>• Maintaining the high global reputation of UK audit</li> </ul>	<ul style="list-style-type: none"> <li>• Close supervisory contact with audit firms</li> <li>• Regular meetings with audit firm heads</li> <li>• Advisory boards</li> <li>• Representation on committees</li> <li>• Engagement as part of our monitoring, supervision and enforcement activities</li> </ul>	
	<b>Priorities for the FRC for 2020/21</b>	
	<ul style="list-style-type: none"> <li>• Transformation of the FRC into a fit-for-purpose, independent regulator</li> <li>• Build and deepen our supervision of the major audit firms, including governance, structure, audit quality management, culture and resilience</li> <li>• Expand oversight of the professional bodies</li> </ul>	

### Accountants

<b>Key issues accountants care about</b>	<b>How we engage</b>
<ul style="list-style-type: none"> <li>• Clarity, relevance and understandability of accounting standards</li> </ul>	<ul style="list-style-type: none"> <li>• Regular meetings with accounting technical partners</li> <li>• Advisory groups</li> </ul>

<ul style="list-style-type: none"> <li>• The competitiveness and global reputation of the UK as a place to do business</li> <li>• Fairness and consistency of monitoring work</li> <li>• Fairness and consistency of enforcement action against companies</li> <li>• Impact of COVID-19 on corporates and their reporting</li> <li>• Impact of the FRC’s transformation into ARGA</li> </ul>	<p><b>Priorities for the FRC for 2020/21</b></p> <ul style="list-style-type: none"> <li>• Assist the Government with creating new structures for setting accounting standards after leaving the EU</li> </ul>
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**Investors as stewards**

<p><b>Key stewardship issues Investors care about</b></p>	<p><b>How we engage</b></p>
<ul style="list-style-type: none"> <li>• Publication of the new Stewardship Code</li> <li>• Clear expectations of behaviours and processes expected under the Stewardship Code</li> <li>• Fair monitoring processes of performance under that Code.</li> </ul>	<ul style="list-style-type: none"> <li>• Stewardship Code round tables and other events</li> <li>• Regular meetings</li> </ul> <p><b>Priorities for the FRC for 2020/21</b></p> <ul style="list-style-type: none"> <li>• Assess early reporting of implementation of the Stewardship Code Support signatories to the Code</li> </ul>

**Government and Public Sector**

<p><b>Key issues that the Government and the public care about</b></p>	<p><b>How we engage</b></p>
<ul style="list-style-type: none"> <li>• Fulfilment of statutory functions</li> <li>• Fulfilment of delegated functions</li> <li>• Operating within the boundaries of the Managing Public Money rules</li> </ul>	<ul style="list-style-type: none"> <li>• Reporting annually to Parliament</li> <li>• Reporting annually to BEIS</li> <li>• Regular meetings with BEIS</li> </ul> <p><b>Priorities for the FRC for 2020/21</b></p> <ul style="list-style-type: none"> <li>• Work with BEIS on any Consultation Documents in response to the Kingman and Brydon Reviews</li> <li>• Work with BEIS on their response to the Competition and Markets Authority assessment of competition in the audit market</li> <li>• Deliver change in line with Kingman recommendations with existing powers, or take major steps towards them</li> <li>• Integrate all reform for the FRC into a transformation programme with appropriate governance</li> </ul>

## IASB

### Our stakeholders and how we engage<sup>2</sup>

Effective stakeholder engagement is a prerequisite for the Foundation achieving its objectives. The Foundation publishes formal consultation documents and we also engage with different stakeholder groups, tailoring that engagement to their needs.

<b>Stakeholders</b>	<b>Why?</b>	<b>How?</b>
<b>Academia</b>	Provide high-quality research, teach students about IFRS Standards	Annual academic research forum, literature reviews as part of the Board's standard-setting work, student group visits to the Foundation's offices
<b>Accounting profession and auditors</b>	Promote, develop and support accountants worldwide, audit financial statements	Joint conferences and events, regular meetings, cooperation with International Federation of Accountants
<b>Accounting standard setters</b>	Provide local knowledge and relationships, technical expertise and standard-setting experience, play a role in endorsement of Standards	Annual conference for standard-setters, meetings with the Accounting Standards Advisory Forum, the Emerging Economies Group*, and the International Forum for Accounting Standard Setters, regular engagement with individual standard-setters
<b>Companies</b>	Use our Standards when preparing financial statements, provide important input to consultations and feedback on application of Standards	Meetings with the Global Preparers Forum (advisory group consisting of preparers of financial statements), regular meetings, conferences, education and explanatory materials
<b>Funding providers</b>	Provide financial support	Regular updates and engagement
<b>Investors</b>	Use financial reports, provide important input and feedback to the standard setting process	Meetings with the Capital Markets Advisory Committee (advisory group consisting of users of financial statements), Investors in Financial Reporting programme, dedicated investor relations team, regular communication and meetings
<b>Media</b>	Publish information about technical developments to a wider audience	Press office, regular communication and briefings
<b>Other standard-setters</b>	Provide subject-matter expertise	Cooperation and regular engagement with standard setting organisations and forums
<b>Policy makers</b>	Make decisions about adoption, endorsement and funding	Regular meetings and events
<b>Regulators</b>	Enforce use of our Standards, provide subject-matter expertise	Cooperation and regular meetings, including with the Basel Committee on Banking Supervision, European Securities and Markets Authority (ESMA) and the International

<sup>2</sup> <https://cdn.ifrs.org/-/media/feature/about-us/funding/2019/ifrs-ar2019.pdf?la=en>

		Organization of Securities Commissions (IOSCO)
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**PCAOB**

One of the Board’s top priorities is to enhance our external communications and stakeholder engagement, and they made significant progress in this area during 2019. Through the creation of the Office of External Affairs, which was formed in late 2018, they worked to align our communications and stakeholder engagement strategies with the Board’s vision

Objective One: Improve the timeliness, usefulness, and clarity of PCAOB information.

- Launching a multi-year project to update the PCAOB’s brand and transform the website to make it more relevant to a variety of stakeholders.
- Using less technical language on the website and within emails, social media posts, and other PCAOB documents
- Leveraging graphic design to make our external communications, publications, and rulemaking more user-friendly.
- Revamping the way to communicate staff guidance, beginning with guidance to support the implementation.
- Issuing guidance to raise awareness of the new requirements related to auditing estimates and the use of specialists.
- Creating a new “Spotlight” document series, beginning with CAMs, to highlight timely and relevant observations from PCAOB staff for auditors and other key stakeholders.
- Holding webinars with the content from our small business and broker-dealer forums to allow more auditors to have access to the information.

Objective Two: Cultivate an effective and dynamic dialogue with stakeholders.

Based on feedback received during the strategic planning process in 2018, the Board identified that the PCAOB needed a dedicated staff member to serve as the direct point of contact for and liaison to our key stakeholders. The PCAOB’s first-ever stakeholder liaison joined the Office of External Affairs in 2019 and has worked collaboratively with the Board and all PCAOB divisions and offices to execute an engagement strategy that enhances our outreach to investors, audit committees, and preparers. The Board also

## PCAOB 2019 Engagement with Investors, Audit Committees, and Preparers\*



**840+**  
Investors

800+ investors attended events at which the PCAOB spoke or participated.

40+ investors participated in one-on-one conversations or small group meetings with the PCAOB.



**1200+**  
Preparers

1,065+ preparers attended events at which the PCAOB spoke or participated.

146+ preparers participated in one-on-one conversations or small group meetings with the PCAOB.



**1200+**  
Audit Committee  
Members

800+ audit committee members attended events where a Board Member or PCAOB staff spoke.

400+ audit committee chairs participated in one-on-one conversations or small group meetings with the PCAOB.

## PCAOB-Hosted Events with Auditors, International Regulators, and Academics



**1,309**  
Auditors of Small  
Businesses and  
Broker-Dealers

attended the forums,  
livestreams, or webinars  
on Auditing in the Small  
Business Environment



**299**  
Academics  
attended the PCAOB and  
The Accounting Review  
Conference on Auditing  
and Capital Markets and  
the PCAOB/American  
Accounting Association  
Conference



**75**  
Representatives  
from 37 Non-U.S.  
Jurisdictions  
attended the  
International Institute  
on Audit Regulation

OECD

[Best Practice Principles for Regulatory Policy: The Governance of Regulators](#) (2014)

The OECD best practice principles, as they related to stakeholder engagement by regulators, are focused on a few key points:

- Regulators should undertake regular and purposeful engagement with regulated entities and other stakeholders focused on improving the operation and outcomes of the regulatory framework
  - Procedures and mechanisms for engagement should be institutionalised as consistent transparent practices. There should be a focus on establishing structured and regular consultation mechanisms with regulated entities
  - Engagement processes should protect against potential conflicts of interest of participants and guard against the risk that the regulator may be seen to be captured by special interests. This can be achieved via inclusivity and transparency
- Inclusivity allows any member of the public to contribute or comment on proposals, not just representative groups thus building confidence that all views are heard
  - Transparency includes publicly documenting who has been consulted, their input, and the release of **the regulator's response to main issues raised. This can protect the regulator from suggestions of capture** or failure to listen to an array of views and builds confidence in the regulatory system

#### On advisory bodies

- Establishment of such bodies has been an important element of a transition to an expertise-based governing board, from a board previously made up largely of representatives of regulated entities
- However, mandating an arrangement in legislation may be unnecessarily rigid or prescriptive; an entity needs to determine if there is a strong case to mandate an advisory body and if a sunset clause should be included

#### Other key points

- Engagement with key stakeholders should be institutionally structured to produce concrete, practical opportunities for dialogue based on achieving active participation and, where possible, exchange of empirical data, rather than a desire to achieve consensus (emphasis added)
- It is good to develop and release a consultation policy so that key stakeholders are aware of the **regulator's practices and any expectations that may be placed on stakeholders** (OECD cites the **International Council of Securities Organisations' consultation best practices below**)
- Engagement should be considered on:
  - Matters relating to individual decisions (where information from stakeholders is necessary to inform a regulatory decision);
  - **The regulator's operational policies (for example, to better understand community expectations relating to regulatory priorities);**
  - The potential policy outcomes a regulator may seek to achieve (based on stakeholder input on what might be achievable in different circumstances)
  - Moreover engagement between regulators and stakeholders is a way to improve the quality and efficiency of the rules and regulations that are implemented as well as a way to enhance the credibility of the regulatory framework (emphasis added)

#### Further details-

- The OECD published [“Regulatory Consultation: A MENA Practitioners' Guide for Engaging Stakeholders in the Rule-Making Process”](#) (2012) a 'how to' guide on the consultation process,

including best practices, checklists, and rationale for greater stakeholder inclusion (although directed at the MENA region, its holdings would be applicable anywhere)

## International Council of Securities Associations

### [ICSA Best Practices for Regulatory Consultation](#) (2013)

This document provides detail on consultation best practices (through a securities regulator lens). It stresses the key components of the regulatory consultation process

- Sufficient time is allocated for the consultation process, particularly for consultations on major reforms
- Any proposed measures have well defined policy objectives and are written in a clear and precise manner so that stakeholders are able to provide comprehensive comments
- Any proposed new regulations are consistent and coherent with the existing regulatory framework

The best practices also addresses the importance of impact assessments to allow for stakeholders to comment in a comprehensive manner while also helping regulators better understand the costs of proposed actions

- Impact assessments (and regulatory transparency) improve the decision making process of securities regulators while also reducing the risk that new policies will have unintended, and negative, consequences for financial markets

## IFIAR (International Forum of Independent Audit Regulators)

### [Facilitating Oversight of Global Audit Firm Networks](#) (September 2020)

**The focus of IFIAR's work more on the consumers of financial information as stakeholders and how this** contributes to a strong financial system:

- Audit regulators typically report publicly on at least some aspects of the outcomes of their oversight activities. This can take the form of reporting on inspection findings (for example, an individual report by audit firm inspected or through a collective report that summarizes themes arising from inspections) or through announcing enforcement measures taken. The existence of independent auditor oversight, reinforced by information disclosed to the market about audit **regulators' activities, enables a more informed** evaluation of whether audit firms are effectively serving their role in the financial reporting system

IFIAR also emphasises the importance of regulators adhering to global best practices. Thus, following the best practices forwarded by the OECD or other bodies, including other regulators, on stakeholder engagement would align with IFIAR recommendations

## Annexure II: Research on global organisations - Audit inspections

### Overview

- The themes below emphasise the appropriate behaviour/processes an inspection team should exhibit. The behaviours include the recognition of the good aspects of an audit, having a collaborative attitude with the audit teams instead of a confrontational one, and taking a holistic approach to allow for thorough decision-making when encountering an audit finding.

### Core principles applied to inspections

#### IFIAR

- **Recurring inspections should be conducted according to a process comprising the selection of the audit firms to inspect.** Requirements should also include appointment of an inspections team with appropriate expertise and competence, notification to the audit firm, advance documentation requests, notification of selection of audit engagements for review, meetings with management, and on-site inspection arrangements. The inspection process should be subject to appropriate internal quality control within the audit regulator to ensure high quality and consistency.
- **Audit regulators should ensure that a risk-based inspections program is in place** and that they have a process for taking their risk assessment into account when allocating inspection resources and in choosing inspection approaches.
- **Audit regulators should ensure that inspections include effective procedures for both firm-wide and file reviews.** The risk-based inspection approach should also be reflected in both firm-wide and audit file inspection procedures.
- **Audit regulators should have a mechanism for reporting inspections findings to the audit firm and ensuring remediation of findings with the audit firm.** Audit regulators' reporting processes should include the preparation and issuance of a draft inspection report, a process for the audit firm to respond, and the preparation and issuance of a final inspection report.

#### PCAOB

- **PCAOB designs its inspections process to drive improvement in the quality of audit services** through a focus on efficient and effective prevention, detection, deterrence, and oversight of firms
- **Approach to selecting engagements for inspection and areas of focus, and how the PCAOB communicates about its inspections is under review.** The public portion of a PCAOB inspection report does not describe every audit deficiency observed in an inspection
- **Individual audits and areas of inspection focus are often selected on a risk-weighted basis and not randomly**

## OECD

- **Risk focus and proportionality** - Enforcement needs to be risk-based and proportionate. The frequency of inspections and the resources employed should be proportional to the level of risk, and enforcement actions should aim at reducing the actual risk posed by infractions. Even whilst receiving complaints or other information, a risk-based methodology should be used to determine whether to conduct reactive inspections.
- **Clear and fair process** - Governments should ensure that rules and processes for enforcement and inspections are clear. Coherent legislation to organise inspections and enforcement needs to be adopted and published, and the rights and obligations of officials and of businesses, clearly articulated
- **Long-term vision** - A good, risk-based inspection and enforcement system needs to be protected from “risk regulation reflex” where politicians act impulsively after the emergence of a new risk.

## Good practices

- **Internal control mechanisms - ACRA (Singapore)** highlights examples of audit firms strengthening their internal control mechanisms via more frequent reviews of archival statistics. It also includes the sampling of audit engagements to ascertain whether working papers have been correctly and appropriately assembled and archived.
- **Data analytics tools - ACRA** points out audit firms’ deployment of data analytics tools to enhance its risk assessment process.
- **Independence - AFM (Netherlands)** highlights improvements made by audit firms on issues such as independence.
- **Quality Management System (QMS) - CPAB (Canada)** points out the level of commitment by firms to improve their QMS and link them to CPAB’s five audit quality assessment criteria.

## CPAB (Canada)

- Regulator has a collaborative relationship with the audit firms. It is open to meeting with audit committees, audit firms, PAOs to discuss the inspection results in more depth.
- The inspection is intended to assist all public company accounting firms and audit committees of reporting issuers as they begin the next audit cycle.

## PCAOB

- Inspection team initiates a dialogue with the firm if it finds the audit has not been performed in accordance with PCAOB standards. Inspectors will issue the audit firm a “comment form” if its concerns cannot be answered via discussion.

## Stages

- **Planning - ASIC** states the importance of the planning phase of the inspection as it ensures it is conducted efficiently. During this stage, the regulator meets the firm to discuss the inspection process and issues notices requesting information from the firm related to audit quality and auditor independence.
- **Investigation - FRC** clearly distinguishes between the procedures applied in an investigation compared to an inspection.
- **Remedial action - PCAOB** encourages firms to have a dialogue with the inspections team to draft remediation plans that describe how a firm intends to address the quality control criticisms.
  - Comments on the audit firm's system of quality control are non-public when the regulator's report is issued.

## IFIAR

- A finding from an inspection of the audit does not necessarily indicate that the financial statements are misstated; therefore, the frequency of findings addressed in the appendices of the regulator's inspection report is not indicative of the frequency of financial statement misstatements.

## ACRA

- A poor inspection result does not automatically mean there has been an audit failure. The results highlight areas that must be remediated.

## IRBA

- An unsatisfactory audit assessment does not necessarily mean that an inappropriate audit opinion was expressed, or a financial misstatement occurred, or there was misconduct by the firm/auditor.

## PCAOB

- PCAOB recognises that in some situations, auditors may reach different conclusions about what the auditing standards require. In these cases, PCAOB inspectors look for evidence that explains how the auditor reached their judgement. It highlights the careful considerations used by the PCAOB in its inspections.

Annexure III: Website Content

Particulars	UK FRC	US PCAOB	Switzerland FAOA	Australian ASIC
<b>For Auditors</b>	<p><b>Audit and Assurance</b></p> <ul style="list-style-type: none"> <li>● <a href="#">Standards and Guidance for Auditors</a></li> <li>● <a href="#">Promoting Audit Quality</a></li> <li>● <a href="#">Audit Firm Governance Code</a></li> <li>● <a href="#">Research Activities</a></li> </ul> <p><b>Audit and Assurance Lab:</b> The FRC is piloting an Audit and Assurance Lab project to explore the role of Audit Committee reporting in promoting audit quality.</p> <p><b>Audit firm monitoring approach</b></p> <ul style="list-style-type: none"> <li>● <a href="#">Our Expectations</a></li> </ul> <p><b>Audit quality review</b></p> <ul style="list-style-type: none"> <li>● <a href="#">Audit Quality Sanctions Procedures</a></li> <li>● <a href="#">Thematic Inspections</a></li> </ul> <p><b>Report on Development in Audit: <a href="#">Development in Audit 2018</a></b></p> <p><b><a href="#">Making a compliant about a statutory auditor or audit firm</a></b></p>	<p><b>Standards</b></p> <ul style="list-style-type: none"> <li>● <a href="#">Auditing Standards</a></li> <li>● <a href="#">Attestation Standards</a></li> <li>● <a href="#">Ethics &amp; Independence Rules</a></li> <li>● <a href="#">Quality Control Standards</a></li> <li>● <a href="#">Auditing Interpretations</a></li> <li>● <a href="#">Research and Standard-Setting Projects</a></li> <li>● <a href="#">Implementation Resources for PCAOB Standards and Rules</a></li> <li>● <a href="#">Archived Standards and Guidance</a></li> </ul> <p><b>Inspections</b></p> <ul style="list-style-type: none"> <li>● <a href="#">Firm Inspection Reports</a></li> <li>● <a href="#">Inspection Procedures</a></li> <li>● <a href="#">Basics of Inspections</a></li> <li>● <a href="#">Remediation</a></li> <li>● <a href="#">Inspections-Related Board Reports and Statements</a></li> </ul>	<p>Licensing</p> <ul style="list-style-type: none"> <li>● <a href="#">Individuals</a> <ul style="list-style-type: none"> <li>○ <a href="#">- Forms &amp; Documents</a></li> <li>○ <a href="#">- Reporting Obligations</a></li> </ul> </li> <li>● <a href="#">Audit firms</a></li> <li>● <a href="#">Foreign audit firms</a></li> <li>● <a href="#">Regulatory audit</a></li> </ul> <p>Enforcement</p> <ul style="list-style-type: none"> <li>● <a href="#">Principles of enforcement by FAOA</a></li> <li>● <a href="#">FAOA decisions</a></li> <li>● <a href="#">Tribunal administrative federal</a></li> <li>● <a href="#">Tribunal federal</a></li> </ul>	<p><b>Financial Reporting and audit</b></p> <ul style="list-style-type: none"> <li>● <a href="#">Directors</a></li> <li>● <a href="#">Auditors</a></li> <li>● <a href="#">Preparers of reports</a></li> <li>● <a href="#">SMSF auditors</a></li> <li>● <a href="#">Users of reports</a></li> </ul> <p><b>For Finance professional</b></p> <ul style="list-style-type: none"> <li>● <a href="#">Company auditors</a></li> <li>● <a href="#">Apply for auditor registration</a></li> <li>● <a href="#">Your ongoing obligations as a registered company auditor</a></li> <li>● <a href="#">Changing your auditor registration details</a></li> </ul> <p><b>For Stakeholders</b></p> <ul style="list-style-type: none"> <li>● <a href="#">Banned and disqualified people</a></li> <li>● <a href="#">How to complain</a></li> </ul>
<b>For Accountants</b>	<p><b>Accounting and Reporting policies</b></p> <ul style="list-style-type: none"> <li>● <a href="#">UK Accounting Standards</a></li> <li>● <a href="#">IFRS Influencing</a></li> <li>● <a href="#">Wider Corporate Reporting</a></li> <li>● <a href="#">Research Activities</a></li> <li>● <a href="#">Accounting and reporting Policy team</a></li> </ul> <p><b>Corporate Reporting Review</b></p> <ul style="list-style-type: none"> <li>● <a href="#">Annual Activity Reports</a></li> </ul>	-	-	-

	<ul style="list-style-type: none"> <li>• <a href="#">Corporate Reporting Thematic Reviews</a></li> <li>• <a href="#">CRR Reviews of Corporate Reporting</a></li> <li>• <a href="#">Entity Specific Public Announcements</a></li> <li>• <a href="#">FAQs</a></li> <li>• <a href="#">Financial Reporting Review Panel</a></li> <li>• <a href="#">General Public Announcements</a></li> <li>• <a href="#">How FRC Review Reports and Accounts</a></li> <li>• <a href="#">Operating Procedures</a></li> </ul> <p>CRR Reviews of Corporate Reporting</p> <ul style="list-style-type: none"> <li>• <a href="#">Company Names Published March 2020</a></li> <li>• <a href="#">Company Names Published December 2019</a></li> <li>• <a href="#">Company Names Published in September 2019</a></li> </ul> <p>Enforcement</p> <ul style="list-style-type: none"> <li>• <a href="#">Accountancy Scheme</a></li> <li>• <a href="#">Audit Enforcement Procedure</a></li> <li>• <a href="#">Case Examination and Enquiries</a></li> <li>• <a href="#">Current Cases</a></li> <li>• <a href="#">Enforcement Outcomes</a></li> <li>• <a href="#">Past cases</a></li> </ul> <p>Professional oversight</p> <ul style="list-style-type: none"> <li>• <a href="#">Oversight of the Accountancy Profession</a></li> <li>• <a href="#">Key Facts and Trends</a></li> <li>• <a href="#">Complaints</a></li> </ul>			
<p><b>Others</b></p>	<p><a href="#">Annual Review of Corporate Reporting</a></p> <p><a href="#">Making a complaint about an accountant or accountancy firm</a></p> <p>Financial Lab Reporting</p> <ul style="list-style-type: none"> <li>• <a href="#">Current Lab Projects</a></li> <li>• <a href="#">Lab Box</a></li> <li>• <a href="#">Publications</a></li> <li>• <a href="#">Lab Steering Group</a></li> <li>• <a href="#">Lab Team</a></li> </ul>	<p><a href="#">Enforcement</a></p> <ul style="list-style-type: none"> <li>• <a href="#">Enforcement Actions</a></li> <li>• <a href="#">Tips and Referrals</a></li> </ul> <p><a href="#">International</a></p> <ul style="list-style-type: none"> <li>• <a href="#">PCAOB Cooperative Arrangements with</a></li> </ul>	<p><a href="#">About Us</a></p> <ul style="list-style-type: none"> <li>• <a href="#">Legislation</a> <ul style="list-style-type: none"> <li>○ <a href="#">- Ordinances</a></li> <li>○ <a href="#">- Circulars</a></li> <li>○ <a href="#">- Consultations</a></li> </ul> </li> <li>• <a href="#">Strategic objectives</a></li> <li>• <a href="#">Annual reports</a></li> <li>• <a href="#">Whistleblowing</a> <ul style="list-style-type: none"> <li>○ <a href="#">- FAQ</a></li> </ul> </li> <li>• <a href="#">FAOA Articles</a></li> </ul> <p><a href="#">Oversight</a></p> <ul style="list-style-type: none"> <li>• <a href="#">Oversight Concepts</a></li> <li>• <a href="#">Audit Committees</a></li> </ul>	<p><a href="#">Regulatory Resources</a></p> <p><a href="#">Find a document</a></p> <ul style="list-style-type: none"> <li>• <a href="#">Information sheets</a></li> <li>• <a href="#">Regulatory guides</a></li> <li>• <a href="#">Reports</a></li> <li>• <a href="#">Consultation papers</a></li> <li>• <a href="#">Forms</a></li> <li>• <a href="#">Legislative instruments</a></li> <li>• <a href="#">Media releases</a></li> <li>• <a href="#">Gazettes</a></li> <li>• <a href="#">Speeches</a></li> </ul>

	<ul style="list-style-type: none"> <li>• <a href="#">News from the lab</a></li> </ul> <p><b>Professional Oversight</b></p> <ul style="list-style-type: none"> <li>• <a href="#">Complaints about Statutory Auditors, Accountants and Actuaries</a></li> <li>• <a href="#">Local Audit and Statutory Regulations</a></li> <li>• <a href="#">Oversight of Audit</a></li> <li>• <a href="#">Oversight of Accountancy</a></li> <li>• <a href="#">Key Facts and Trends</a></li> <li>• <a href="#">Third Country Auditors</a></li> </ul> <p><a href="#">Corporate governance code with respect to the profession (with stakeholders' view)</a></p> <p><a href="#">Whistleblowing Disclosures</a></p> <p><a href="#">FRC's Enforcement Process</a></p> <p><b>Make a compliant</b></p> <ul style="list-style-type: none"> <li>• <a href="#">Make a Complaint about a Company's Accounts</a></li> <li>• <a href="#">Make a Complaint about a Professional Body</a></li> <li>• <a href="#">Make a Complaint about a company's auditor</a></li> <li>• <a href="#">Make a Complaint about an Accountant</a></li> <li>• <a href="#">Make a Complaint about the FRC</a></li> </ul> <p><a href="#">FRC Operational Policies</a></p> <p><b>FRC Board and Committees</b></p> <ul style="list-style-type: none"> <li>• <a href="#">FRC Board</a></li> <li>• <a href="#">Executive Committee</a></li> <li>• <a href="#">Audit &amp; Risk Committee</a></li> <li>• <a href="#">People Committee</a></li> <li>• <a href="#">Conduct Committee</a></li> <li>• <a href="#">Regulatory Standards &amp; Codes Committee</a></li> </ul>	<p><a href="#">Non-U.S. Regulators</a></p> <ul style="list-style-type: none"> <li>• <a href="#">Update such as China-Related Access Challenges</a></li> <li>• <a href="#">Public Companies that are Audit Clients of PCAOB-Registered Firms from Non-U.S. Jurisdictions where the PCAOB is Denied Access to Conduct Inspections</a></li> <li>• <a href="#">The International Forum of Independent Audit Regulators and Other International Organizations</a></li> </ul> <p><b>Resources</b></p> <ul style="list-style-type: none"> <li>• <a href="#">Information for Academics</a></li> <li>• <a href="#">Working Papers</a></li> <li>• <a href="#">Information for Auditors</a></li> <li>• <a href="#">Information for Investors</a></li> <li>• <a href="#">Information for Preparers</a></li> <li>• <a href="#">Audit Quality Indicators</a></li> </ul> <p><a href="#">Resources for Audit Committees</a></p> <p><a href="#">Updates for stakeholders</a></p> <ul style="list-style-type: none"> <li>• <a href="#">News Releases</a></li> <li>• <a href="#">Speeches and Statements</a></li> <li>• <a href="#">Events</a></li> <li>• <a href="#">Provide Feedback</a></li> </ul>	<ul style="list-style-type: none"> <li>• </li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">Statistics</a></li> <li>• <a href="#">Pro formas</a></li> <li>• <a href="#">ASIC Digest</a></li> <li>• <a href="#">Regulatory document updates</a></li> <li>• <a href="#">ASIC submissions</a></li> </ul> <p><a href="#">Financial Services</a></p> <ul style="list-style-type: none"> <li>• <a href="#">Regulatory reforms</a></li> <li>• <a href="#">Dispute resolution</a></li> <li>• <a href="#">Breach reporting</a></li> </ul> <p><a href="#">COVID-19 FAQs</a></p> <p><a href="#">Corporate Governance</a></p> <ul style="list-style-type: none"> <li>• <a href="#">Corporate Governance Taskforce</a></li> <li>• <a href="#">Managing conflicts</a></li> <li>• <a href="#">Shareholder engagement</a></li> <li>• <a href="#">Director oversight of financials and audit</a></li> <li>• <a href="#">Risk oversight</a></li> <li>• <a href="#">Handling corporate information</a></li> </ul>
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	<ul style="list-style-type: none"><li>• <a href="#">Advisory Panel</a></li><li>• <a href="#">Tribunal Panel</a></li></ul> <p><a href="#">FRC's Areas of Research Interest</a></p>			
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**Email****NFRA TAC**

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**Suggestions on Consultation Paper issued by NFRA**

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**From :** abhishek mahawar <abhishek.mahawar@gmail.com> Wed, Jun 16, 2021 12:06 PM  
**Subject :** Suggestions on Consultation Paper issued by NFRA  
**To :** NFRA TAC <comments-tac.paper@nfra.gov.in>

Dear NFRA,

I am glad that public consultation is being taken at the start of the implementation of new regulatory changes to improve the robustness of the financial system in India.

In this regard, I have some specific suggestions/feedback which may be considered:

1. Formation of Advisory Groups: These advisory groups will be very effective in management of stakeholder expectation. However, I would suggest to include one more group for safeguarding consumer interests, as the financial sector also provided non-participating products like insurance and other financial services. In case of a scam or major financial failure, the consumers of these products are also adversely impacted. Hence, I propose to form 1 more advisory group - Consumer Advisory Group.
2. Single or Separate Advisory Groups: I think that the multiple advisory group will be beneficial over single group due to following reasons:
  - a) It will bring together people with same interest and hence will come up with more detailed analysis of the subject stakeholder
  - b) It will allow equal voice to each stakeholder as compared to a single group (which sometimes suppresses the voice of minority stakeholder).
3. Fellowship Programme: In my opinion, a continuous engagement of stakeholders by the advisory groups should be adequate to improve interactions between practitioners and academics. The fellowship programme will not be very effective for this purpose. Instead, regular events, jointly funded research projects in finance would be more effective for such interactions.
4. Public Speeches: I agree with the NFRA approach. However, apart from mandatory guidelines already issued to the audit agencies, regular publication of best practices guidelines shall be focused by NFRA.
5. Inspection: NFRA is competent enough to formulate inspection procedures. However, more focus by the authority shall be laid upon the governance and functioning of the inspections to remove possibility of corruption. It should not become a breeding ground for financial manipulations just like the Chartered Accountants community.

Thanks a lot for providing the opportunity to submit feedback.

Regards,  
Abhishek Mahawar



***Consultation paper on “Enhancing Engagement with Stakeholders Report of Technical Advisory Committee”***

<b>Name of the organisation- Excellence Enablers Private Limited</b>			
<b>Sr. No.</b>	<b>Ref. No.</b>	<b>Question</b>	<b>Suggestion</b>
<b>4.1.3 to 4.1.5 - Question # 1 Formation of Stakeholder Consultation and Advisory Groups</b>			
1	a)	What would be a suitable list of subjects that should form the standing agenda of the Stakeholder Advisory Group?	Some of the subjects that can be included in the standing agenda for Stakeholder Advisory Group are 1. Review of audit and auditing standards, accounting standards, and quality control standards 2. Ethics 3. Eligibility of auditors, their independence, and parameters for disqualification 4. Accounting procedures, auditing methods and preparation of financial statements. 5. List of permissible non-audit services 6. Corporate governance related matters
	b)	What would be an appropriate method for filling up positions on the Stakeholder Advisory Group?	NFRA should select persons for the Group having regard to stakeholder diversity as well as relevant experience and expertise. Given the importance of the Group, there should be no external interference in its composition.
	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?	To begin with, the constitution of a sufficiently representative Stakeholder Advisory Group will be advisable. With the benefit of experience, the question whether one or more separate Groups should be constituted can be addressed.
<b>4.1.6 – Question # 2 Fellowship Programmes</b>			
2	a)	Would a nominal Fellowship amount, as opposed to a full living allowance/compensation for loss of income attract high quality professionals/academics?	No
	b)	Should the Fellowship be full-time, or part-time?	Full time
	c)	If it is to be part-time, what is the kind of minimum involvement that should be insisted upon?	Does not arise
	d)	In the light of the above, is 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?	One year tenure is appropriate. A suitable extension can be considered if the specifics of the fellowship warrant such extension.
<b>4.1.7 - Question # 3 Public Speeches etc.</b>			
3	a)	Do you agree with NFRA’s general approach to public communication?	NFRA’s preliminary views on the subject are endorsed. In addition to public speeches, NFRA can communicate with stakeholders through

			notifications, circulars, press releases, FAQs etc.
<b>4.3.1 to 4.3.3 - Question # 5 Settlement of Disciplinary Matters and Remediation</b>			
4	a)	Do you have any specific suggestions on the contents of the stand-alone law that should govern NFRA?	The existence of a settlement mechanism would be a useful addition to the existing powers of NFRA. Even though it would be best to have such a mechanism specifically provided in a statute, there have been a few precedents (SEBI) where the settlement process was introduced before legislative backing. If the Companies Act 2013 is to be amended to provide for such specific power, or if a separate law is to be enacted to cover all aspects of NFRA's structure and its functioning, it would take considerable time. It is important to create a settlement mechanism so that the cases that do not have systemic implications are quickly disposed of, allowing NFRA to focus on the systemically important cases.
<b>4.4.1 to 4.4.2 - Question # 6 Communication and Advocacy: Website Structure and Layout</b>			
5	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?	Keeping in mind NFRA's functions and duties, apart from having some common tabs, they can also have separate tabs for auditors, directors, preparers, investors and academics. It would provide easy accessibility to each category.  Financial Reporting Council (FRC) of UK also has separate tabs for investors, accountants, actuaries, auditors and directors on their website.
<b>4.4.3 - Question # 7 Communication and Advocacy: Newsletters</b>			
6	a)	What, in your opinion, would be the subjects/areas that Newsletters from NFRA should focus on?	NFRA's preliminary views recognise the dangers involved in bring out newsletters, both by way of information overload, as well as the risks attached to inaccurate statements that newsletters might contain.
<b>4.4.6 - Question # 8 Press and Media Guidance</b>			
7	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?	We agree with NFRA's preliminary views on communication with press and media.
<b>4.4.7 - Question # 9 Collaboration with Universities, Institutes and Colleges</b>			
8	a)	Do you have any suggestions on viable modalities for collaboration with educational institutes?	While considering collaboration with universities, institutes and colleges, NFRA should be circumspect regarding the quality of education imparted by those institutes, as well as reputational issues, if any, associated with that institute. Further, such collaborations, at least in the initial years, should be very few since too many of them will impact on the bandwidth of NFRA.
<b>4.6.1 - 4.6.3 - Question # 10 Roadmap: Strategic Plan and Operating Plan</b>			
9	a)	Do you have any suggestions on NFRA's Strategic Goals and Priorities for the	A 5 year strategic plan is theoretically a good objective. However, with far reaching changes likely

		medium term?	to take place in the course of the next few years, a 5 year strategic plan could become less relevant. The alternative is to have an annual action plan and a set of medium term goals and objectives that need not translate to a finite strategic plan.
<b>4.7.1 - 4.7.4 - Question # 11 Building Regulatory Capacity</b>			
10	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?	The building of regulatory capacity is a matter that has not been given adequate attention in the context of most regulatory authorities, at least in their early years. It is gratifying to note that at an early stage of its existence, NFRA is focusing on capacity building. NFRA's preliminary approach, based on human resources, training programmes, and short term staff exchanges with auditors, preparers, and the global peer group, is an excellent roadmap. Regulatory organisations all over the world have benefitted significantly from a two-way movement of persons between the Regulators and the regulated entities.

**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?
- 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?

**Response:**

(a)(i) With regard to the NFRA's authority related to review of accounting standards for recommending to the Central Government, while it may not be possible to suggest specific subjects, the following general approach may be followed for the purpose of stakeholders' involvement:

1. As the stakeholders' involvement also takes place at various stages of formulation of Accounting Standards by the Accounting Standards Board (ASB) of the ICAI, it needs to be ensured that it should not create an impression that there is duplication of effort.
2. NFRA should be clear about the objective of stakeholders' involvement, e.g., it may not be used as a mechanism of last resort for getting any accounting standard modified/changed resulting in a carve-out from IFRS, if such an attempt failed or no effort was made by the stakeholder concerned during earlier consultation with the ASB of ICAI. On the other hand, if there is a modification in an accounting standard suggested by ICAI, which results into non-convergence with IFRS, the same may become a subject matter of stakeholders' consultation. While taking decisions in such matters, prominence should be given to the views of the users of financial statements as compared to those of the preparers.

(ii) With regard to ensuring compliance with Accounting Standards, the following areas may be considered for stakeholders' consultation:

1. How to avoid carve-outs in implementation of Indian Accounting Standards? It is noted that such carve-outs may occur in various ways such as the following:

- (i) Through Court Schemes – For example, recently, under a court scheme, it has been permitted to transfer a huge amount from retained earnings to the statement of profit and loss resulting in large profit for the company whereas it would have incurred a huge loss, with consequential effects on EPS etc. While such an accounting treatment would have resulted at least in a qualification in the auditors’ report if not an adverse opinion, but because of the blessings of the court, the same would be considered as compliance with accounting standards as presently it is argued that law over-rides accounting standards. It should be discussed with various stakeholders how a court scheme could not be used as a mechanism to avoid compliance with accounting standards since such departures, in effect, as in the above case, many times provide misleading information to investors.
  - (ii) Through government orders – for example, MCA has issued a circular wherein it has mentioned that the appointed date approved in a court scheme would override the requirements of relevant Ind AS in a business combination. Similarly, sector-specific Regulators issue circulars etc., permitting departures from accounting standards.
  - (iii) Clarifications/guidance/opinions etc., in various forms issued by ICAI which may result in effective carve-outs from Ind AS – A mechanism should be formulated to ensure that such instances are reduced, if not altogether eliminated. At present, there is hardly any consultation with stakeholders before issuance of such guidance materials.
2. As digitization of financial statements is the future of financial reporting, the stakeholders may discuss how and whether the XBRL financial statements filed with MCA should be brought within the purview of the quality review by NFRA. Presently, the quality of financial reports filed with MCA is woefully poor and therefore lacks credibility. In fact, if there is one permanent agenda item which could be there for stakeholders’ meetings, this item should be the one with prominence. The medium-term goal of NFRA should be to review XBRL financial statements with a view to determine compliance with accounting standards and other requirements. Over a period, as the quality and credibility of XBRL financial statements improves, NFRA may even think of doing all reviews on the basis of these financial statements. Reviews could be much faster and the scope could be widened as digitization increases. For this purpose, NFRA may think of developing software tools.
3. Pending review of XBRL financial statements as suggested above, every year, a few areas of accounting policies may be decided in consultation with stakeholders for reviewing compliance of financial statements with accounting standards., e.g., during the period of COVID, impairment of assets and going concern assumption policies and disclosures may

selected. This exercise may be done for all companies or a particular class of vulnerable companies instead of randomly selecting a few companies for a total review of financial statements. Alternatively, a mixed approach may be followed. The results of the findings, any action taken etc., may be published for general information as is done by the European Securities and Markets Authority (ESMA).

(b) An appropriate method of filling up positions would be to ensure that persons having relevant expertise are appointed on the stakeholders' group(s). Obtaining nominations from associations, trade bodies, or organizations may be avoided as it is noted that many times nominations are made on the basis of the position held by a person in the organization rather than on the basis of his expertise. In view of this, NFRA itself may make the selection from the relevant interest group. In this exercise, NFRA may consult others. Where it is not possible to do so, applications may be invited from the interested persons and NFRA should make selections as is done sometimes for constitution of certain industry-specific groups by the IASB.

(c) From the accounting standards perspective, in my view, there should be two stakeholder groups, viz., for (i) preparers and (ii) users, as these are the primary stakeholders. Auditors' group may be relevant for auditing standards. In my view, auditors should have no role in determining what information should be presented and disclosed in financial statements. In any case, auditors have sufficient opportunity to present their views during the formulation stage of ICAI as primarily members of ASB are from the auditing fraternity. Further, in my view, it is not necessary to have a separate group for academics as they are not primary stakeholders. An academician each may be included in on one or more groups to provide insights from the perspective of academics.

Notwithstanding the above, to begin with, an umbrella group comprising representatives from various stakeholders may be constituted.

### **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?

## **Response**

- (a) Nominal fellowship amount would not attract high quality professionals/academics.
- (b) Depending on the topic of research it may be full time or part-time.
- (c) For part-time, a minimum of 8 hours a week may be insisted upon. However, it could be varied based on the topic of research, urgency for completion of the research project, etc.
- (d) Tenure should be tailored to the specific subject that is chosen to study. In my view, focus should be to obtain best of the expertise and there should be enough flexibility to decide modalities.

## **Question # 3 Public Speeches etc.**

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

## **Response**

I agree with NFRA's general approach to public communication.

## **Question # 4 Inspection Policy**

- 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?

## **Response**

- a) With regard to FRQR, please consider suggestions under Response to Question 1 at (a)(II) (2) and (3) above. With regard to AQR, I do not have any comments/suggestions.
- b) I have no comments on risk-based methodology for choice of companies.

## **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?

## **Response**

I support that there should be a separate legislation that should govern NFRA. In fact, even enforcement and implementation of accounting standards should be under one legislation and should be the prerogative on one authority. Presently, different governmental and regulatory authorities implement accounting standards for companies, banks, insurance companies, statutory bodies etc. This is not conducive for a level playing field for the users of financial statements. For instance, presently, significantly important sectors such as banks and insurance companies are outside the ambit of Ind AS resulting in lack of comparability of financial statements by investors in different sectors.

## **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 the NFRA Rules 2018?

## **Response**

No specific suggestions/comments

## **Question # 7 Communication and Advocacy: Newsletters**

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

## **Response**

As a regulator, it is suggested that any newsletter to be issued by NFRA should focus on the findings emanating from its activities such as financial statements reviews, auditors' reviews, disciplinary findings etc. As suggested in response to Question 1 above, NFRA may publish instances of non-compliance with accounting standards based on its evaluations for general information of preparers and auditors. In my view, NFRA should not provide opinions/interpretations of accounting standards and law as it may hamper its role of the evaluator of financial statements. Also, it may not publish articles on different subjects as there are other fora available, such as professional and academic journals, for publication of articles and similar material.

I am of the view that NFRA may not hold webinars for general educational purposes unless these are towards fulfilling or facilitating its regulatory activities, e.g., webinars may be periodically held to discuss non-compliances with accounting standards.

I support the views of NFRA with regard to the NFRA App.

### **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?

#### **Response**

I agree with the preliminary views of NFRA.

### **Question # 9 Collaboration with Universities, Institutes and Colleges**

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

#### **Response**

Currently, there is significant dearth of research material which helps in standard-setting in the field of accounting and auditing and study of implications of standards on financial reporting in India. For instance, research on whether or not there should be carve-outs in IFRS and the effects of such carve-outs on the quality of financial reporting is almost non-existent. Further, while in other countries, in many cases, the responses to various consultative documents issued by IASB is based on findings from empirical research, e.g., goodwill amortization, in response to a Discussion Paper issued by the IASB, however, in India, such responses are generally based on the experience of professionals. While such responses are also useful, but responses which are backed by empirical research would carry greater weight. NFRA may try to encourage and foster research in these areas through research fellowships as discussed above in response to Question 2 and/or collaborate with universities/professional institutes by providing financial incentives, e.g., providing research grant to a researchers who carries out research in these areas with a definitive research output.

### **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?

#### **Response**

NFRA's Strategic Goals as indicated in NFRA's Preliminary Views represent medium term goals as it is felt that these goals are representative of the theme decided by NFRA.

### **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?

#### **Response**

Apart from training and exchange programmes as mentioned in the Preliminary Views, NFRA should also formulate suitable policy to recruit and retain high quality technical staff to discharge its functions. It is felt that within the constraints of governmental rules relating to remuneration, promotion etc., as also experienced by various similar regulators within and outside India, it sometimes becomes difficult to attract high quality talent. In some countries, e.g., Malaysia, it is informed, that even though the regulators and standard-setters are part of the government, separate cadre has been established for accounting staff, which is different from the usual governmental services cadres to sufficiently remunerate and retain high quality staff. If the newly recruited staff is not of requisite quality, it has been found that no amount of training is sufficient to bring them up to the desired standards.

Training programmes should be more rigorous in terms of imparting practical training thorough case studies of real life situations to develop necessary skills apart from providing in-depth conceptual knowledge on the subjects concerned.

The Secretary,  
National Financial Reporting Authority,  
K.G. Marg,  
New Delhi - 110003

**Subject: Invitation to Comment on NFRA's Consultation Paper - June,2021**

Sir,

Thanks for providing the opportunity to provide comments on the Consultation Paper - June, 2021 on Enhancing Engagement with Stakeholders Report of Technical Advisory Committee (March 2021).

I hereby submit my comments on some select questions for your kind perusal.

May I add that it shall be highly appreciated if comments received from all institutions and individuals are shared in the public domain.

Warm Regards,  
Vijay Kapur  
Former Director  
The Institute of Chartered Accountants of India  
+91 9818938866

## Comments on Select Questions - NFRA's Consultation Paper, June,2021

### Question 4 Inspection Policy

#### a) What are your comments on the objective and scope of the FRQR/AQR Inspection Program?

##### Comments

4(a) Keeping in view of the fact that the Inspection Program of NFRA has two components, namely, Financial Reporting Quality Review (FRQR), and, Audit Quality Review (AQR), it is proposed to comment on each component separately.

##### **(I) Financial Reporting Quality Review Inspection Program - Objective and Scope**

(1)(a) Conduct a research study to understand, "Information needs of Stakeholders" In this context, attention is invited to para 4.2 in which it has been stated that, "... primary objective of the FRQR is to assess and evaluate how well the **information needs of these stakeholders** have been met."**(Emphasis added)**. In my opinion, NFRA needs to revisit the objective of FRQR since it may be well beyond the mission of NFRA to 'meet information needs of stakeholders' which are generally quite diverse and specific in nature.

(1)(b) Establish, Recommend and Specify Applicable high quality Accounting Standards - Till date, NFRA has not undertaken any visible step to inform about the "Applicable Accounting Standards". As per Rule 4, the first primary function of NFRA is to, "...establish high quality accounting and auditing standards.." and it is just reasonable to expect that the NFRA shall inform about the "applicable standards".

(1)(c) In addition to specification of "applicable accounting standards", NFRA should also take responsibility for applicability of industry specific technical literature including interpretations, if any. Accordingly, NFRA should take all steps to inform companies regarding the applicability of accounting standards and relevant technical literature well before the commencement of each financial year.

(1)(d) NFRA being the sole regulator for all public interest entities including banks and insurance sector, it is imperative for NFRA to specify "applicable Accounting Standards and other relevant literature for the preparation of financial statements" for all public interest entities including banking and insurance companies. If for some reason, Reserve Bank of India and Insurance Regulatory Development Authority of India continue to be Accounting Regulators for banking and insurance sector respectively, the NFRA must consolidate all requirements for the preparation of financial statements at one place for everyone's guidance.

(1)(e) Rule (4)(1) requires, "...exercising effective oversight of accounting functions performed by the company...". But it is a matter of concern that Rule 9, "Overseeing the quality of service and suggesting measures for improvement", contains no reference to FRQR exercise undertaken pursuant to Rule 7 involving monitoring and enforcing compliance with accounting standards.

(1)(f) Sub Rule (4) of Rule 7 may be clarified to specify the circumstances which may lead to investigation or enforcement action in case of violation of Accounting Standards.

(1)(g) NFRA as an oversight regulator must strive to establish, propagate, and guide the stakeholders before monitoring and enforcing compliance. Thus, any inspection program should state clearly in a transparent manner as to what is expected from the company.

(2)(a) The complete data base of entities under Rule 3 may be classified in strata, namely, listed companies, unlisted companies, insurance companies, banking companies and body corporates. Further, classification may be done regard to paid up capital/ market cap and/or nature of activities, financial services, etc. A separate category of government listed companies subjected to CAG audit and Public Sector Banks be also made. Now having regard to resources and time plan, NFRA may pick up sample from each strata.

(2)(b) Focus on preparers should also concentrate on "Role of Audit Committee" and the "Role of Internal Auditors" in addition to CFO and the Board. Because, normally, internal auditor is primarily responsible for proper implementation of internal controls and reports independently to the Audit Committee. In any case, Audit Committee and its members are largely responsible for authentication of financial statements. It is incumbent upon NFRA to define "preparers of financial statements" so that a better communication channel can be built.

(2)(c) Define important elements of Annual Report being subject matter of review in view of para 4.2, ".... the FRQR Process will subject **all important elements of the Annual Report....**".(Emphasis added).

Hence, it is important for NFRA to clarify ad to what constitutes "all important elements". Though the emphasis as per mandate is on compliance with Accounting Standards but the pragmatic approach dictates to include Sustainability Standards, Integrated Reporting Climate change reporting, etc.

(2)(d) Build strong channel of provision of guidance on implementation of accounting standards including current and emerging issues in the form of 'Alerts', 'Practice Notes', 'Advisory', etc, periodically for all Preparers, particularly for Audit Committee members.

(2)(e) In order to achieve objectives of the inspection program, it is imperative that the NFRA should participate actively in the international standards setters and independent Auditor Regulators.

(2)(f) As per para 4.2,,"..... FRQR will conclude with an **advisory to the preparers....**". It implies that NFRA doesn't intend to follow up to see implementation of the advisory. Further, it also doesn't plan to take any action against the company including preparers apart from reporting the matter to competent authority for appropriate action. Such a half-hearted approach towards the preparation of financial statements strongly defies the NFRA's mission to improve financial reporting.

Consequent to FRQR exercise, it may be considered to issue guidance/ Advisory for further improvement to be followed up for actual implementation. But it is also important to impose significant penalties on the company in cases of subsequent continuous default.

## **II) Audit Quality Review(AQR) Inspection Program - Objective and Scope**

(1)(a)Sub Rule (1) of Rule 8 states,"..... compliance with auditing standards under the Act **by a company or body corporate governed under rule 3....**"(Emphasis added) is wrong since the responsibility to comply with Auditing standards rests with the auditor and not with the company.

(1)(b) Establish and Recommend high quality Auditing Standards as a part of inspection program. NFRA must be seen as setting the highest benchmarks i.e., establishing standards against which quality of financial reporting should be assessed. It is not only important to establish the Auditing Standards in terms of sub rule (1) of Rule (4), recommend to the Central Government for approval but announce applicable Auditing Standards before the commencement of the financial year.

(1)(c) NFRA must lay down clearly the authority attached to various relevant publications, namely, Code of Ethics, Guidance Notes, Technical Guides, etc.

(1)(d) The process of AQR explained in para 4.2 is too simplistic and conceals more than it reveals. In the fitness of things, NFRA should share the "questionnaire" irrespective of the fact that it may be subject to modifications, if any, in specific cases. It needs no reiteration that the scope of questionnaire has to be strictly within the framework of applicable standards and other relevant literature brought to the attention of both preparers and auditors. In case one reads para 4.8, the manner in which NFRA has ducked the observations of Technical Advisory Committee on "Decision making" shows that the NFRA is a top-class bureaucratic organisation and is an extension of the Ministry of Corporate Affairs rather than an independent Regulator.

(2)(a) As far as AQR is concerned, primarily, the focus should be on the selection of audit firm rather than the company. First, classify the entire data base, audit firm wise w.r.t. listed companies, unlisted companies, banking sector, insurance sector and body corporates, Second, compile separate data for public sector banks and insurance companies because there are large number of Central Statutory Auditors and branch auditors. Third, a separate classification of PSU companies w.r.t. audit firms be prepared. NFRA may decide to pick audit firms in each strata on random basis.

(2)(b) The above classification would reveal that a particular audit firm may be auditing large number of listed companies but may not be auditing a single PSU or Public Sector Banks. On the other hand, there would be large number of audit firms which may not be auditing a single listed company but auditing large PSUs and Public Sector Banks. In fact, such factors may be considered while working on matrix model.

(2)(c) With a view to ensure that review of audit file of a particular audit firm is comprehensive, it is significant to review audit files of Auditors of all subsidiaries, associates, joint ventures and branch auditors including Consolidation Auditors. In case of joint audits, it is imperative to review audit files of all joint Auditors including branch Auditors. Because, in the Indian environment, an auditor is an auditor whose work cannot be reviewed by group auditor/ principle auditor.

(2)(d) Any AQR of an audit firm on standalone basis will defeat the objective of AQR itself since it is a well-known fact that how corporates create complex web of companies. It is also important to remember that the present set of Auditing standards on "Joint Audit" and "Group Audit" impose great restrictions on Group/Principle Auditor.

#### **Question 4: Inspection Policy**

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

##### **Comments**

1) First, it is important to have a comprehensive database. Attention is invited to sub-para (2)(a) under *para 1* above regarding different categories of public interest entities in the data base as per Rule 3. The data base under each category may be further subdivided w.r.t paid up capital, market cap, amount of loans taken, nature of industry etc. Second, it is suggested to follow stratified sampling approach and coverage from each strata. It is important to ensure that selection of companies is done based on objective criteria. Third, while selecting samples it is important to select some samples from apparently insignificant strata as well. Third, it is important that review should never be done for the company on standalone basis. Rather, it is critical to review the compliance with the applicable Accounting Standards for the group as a whole including consolidation.

II) First, the scope of review should be as comprehensive as possible. In this context, attention is invited to sub- para (2)(a) of *para II* above suggesting the possible basis for complete classification of data under different categories. The focus should be to cover maximum number of audit firms rather than the companies. Second, any basis of selection must ensure that all audit firms are subjected to review at least once in three years. Third, one must remember that the Indian Auditing sector enjoys several unique characteristics like six to twelve joint auditor and a large number of branch auditors. And we have been witnessing that big corporate having large number of subsidiaries, joint ventures, associates, etc having different auditor for each entity. Thus, once an audit firm is selected and is required to submit Audit File of a particular company, it is critical on the part of NFRA to ensure review of audit files of all audit firms of all subsidiaries, associates, etc including branch auditors of that company.

### **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?**

#### **Comments**

(1) As per the explanation given in para 4.6, "...overall theme of the Strategic Plan will be **Institutional Development for Delivering on NFRA's Mandate.**" Hence, first of all, it is important to have clarity over the expression "mandate" so that one can formulate a Strategy and Operating Plan to achieve the mandate.

(2) Sub Rule (1) of Rule 4 of the NFRA Rules, 2018, provides that the Authority shall **"protect the public interest and the interests of investors, creditors and others associated with the companies or bodies corporate governed under Rule 3....."**(Emphasis added).

***Thus, NFRA may define the expression "public interest" and "interests of investors, creditors and others associated..". It may also be helpful to clarify "others associated with the companies or body corporate". It is important to have clear understanding of the expression "public interest" and how to balance it inter se interests of other stakeholders.***

(3) The Operating Plan as envisaged by Sub Rule (1) of Rule 4 of the NFRA Rules, 2018 which requires **"establishing high quality standards of accounting and auditing and exercising effective oversight of accounting functions performed by the companies and bodies corporate and auditing functions performed by auditors.** (Emphasis added). ***Thus, NFRA has to subdivide its "operating plan" in two distinct parts, namely, Financial Reporting Quality Review, and Audit Quality Review.***

(4) An harmonious reading of the governing section, i.e. section 132 of the Companies Act, 2013 and Rules made thereunder makes it clear that the NFRA is one point stop for enhancing financial reporting practices right from establishing standards, recommending applicable accounting and auditing standards, monitoring and enforcing compliance including performing oversight function. In this context, attention is invited to clause (a) of Section 132(2) which states, "..... make **recommendations to the Central Government** on the formulation and laying down of accounting and auditing policies ..". Rule 4 empowers the Authority to protect Public interest, **"by establishing high quality of standards on accounting and auditing"**. But

Clause (b) of Rule 4(2) states, "...**recommend** accounting and auditing standards for **approval** by the Central Government". From the plain reading, it appears that ICAI is the standard setting body for **establishing** standards; NFRA is entrusted with **Review and Recommendation**, and, finally, **Approval** rests with the Central Government.

***But NFRA must be seen as a "standard setting body" instead of merely a "recommending body". It is not expected to act like a "post office" by simply receiving recommendations from ICAI and may review (there is nothing in the public domain to demonstrate that NFRA undertook review and suggested changes in ICAI's drafts) before forwarding the same to the Central Government. Because, as a part of its inspection program, NFRA must be seen as setting the highest benchmarks i.e. establishing standards against which the quality of financial reporting shall be assessed. This issue needs resolution while formulating a Strategy, particularly, in terms of the stated goal, "Accelerate Convergence with Global Best Frameworks".***

(5) Monitor and enforce the compliance with the accounting and auditing standards as per clause (b) of section 132(2) has to be an integral part of the operating plan.

**(a) Accounting Standards-Monitor and Enforce w.r.t. Rule 7**

(i) The Operating Plan must lay down the principle to identify companies for **review** of financial statements of companies covered under Rule 3

(ii) The timelines in the Operating Plan should be made in a manner that some companies in each Sector are covered on a yearly basis and all companies are covered in a cycle of three years.

(iii) It is important to identify "Significant Focus areas" on a yearly basis for review of financial statements.

(iv) The Operating Plan ought to specify the date on which the Accounting Standards shall be notified. Because, it is important for preparers to know applicable standards.

(v) It is not advisable to involve "Auditors" in FRQR and focus should be on Audit Committee members, CFO and internal auditors.

(vi) The Authority shall also have to take a call as to whether it wishes to act as a guide to the companies in the preparation of financial statements. In case one looks at the global regulators like FRC, PCAOB, etc, then it ought to issue guidance/ advisory/ alerts from time to time for companies in general and Audit Committees in particular. It is quite important to consider this as a part of Strategy even though some aspects are partly taken care of by SEBI. Because NFRA should be one point window for all regulatory matters for the entire financial reporting supply chain in respect of public interest entities.

**(b) Monitor and Enforce: Auditing Standards wrt Rule 8:** Sub rule 1 of Rule 8 states, "... compliance with auditing standards under the Act **by a company or body corporate governed under Rule 3...**" is wrong since Auditing Standards have to be complied by the Auditors. The Authority may like to have a look at this apparent mistake.

(i) Operating plan must lay down the principle for selection of audit firm for review. Since it is an ARQ exercise, the principle must be size neutral. Accordingly, principle must be to select more number of firms rather than more number of companies. As an analogy, the strength of a chain depends on the weakest link, and, hence it is critical to review those audit firms auditing very few public interest entities.

(ii) The operating plan may lay down the process clearly from start to finish to fulfill the desired goals. For instance, sub rules (1&2) of Rule 9 requires Review of working papers, Sufficiency of the Quality Control System of the auditor; Testing of the Audit, Supervisory and Quality Control Procedures AND Report on Governance Practices and internal

processes. NFRA must share the complete process step by step in public domain. Such actions are bound to create better awareness and, thus, ensuring better compliance as well. (iii) The Operating Plan must clearly define the timelines for completing inspections involving review of audit file. In case, the inspection is not completed in a time bound manner, the sanctity of the entire process would lose its value. Just as a guiding post, the PCAOB does not take more than two weeks to complete review of the file.

(iv) ***The Operating Plan should convey the entire process including timelines right from the review of the audit file to its closure. The audit firm should be positively informed about the completion of the review assignment. Given the enormous task in the hands of NFRA, the operating plan must lay down timelines of both commencement and closure of the review. To this effect, a clear communication should also be shared with the audit firm(s), which shall ultimately inspire confidence amongst the entire Indian Accounting professionals across the country.***

(iv) Sub rule 4 of Rule 9 is very specific and states, "... officers or experts with **sufficient experience in audit of the relevant industry**". It is a highly relevant requirement and thus important to be part of the Operating Plan. Interestingly, such requirement in case of FRQR under Rule 8 is missing. (Emphasis added)

(6) Clause (c) of section 132(2) states NFRA shall, "oversee the **quality of professions associated** with..." (Emphasis added) read with Rule 9 requires the Authority to oversee the quality of service and suggesting measures for improvement. First, the correct word should have been 'professional' instead of 'profession'. Second, as a part of Strategy formulation, it is important to reconcile NFRA's functions of "Monitoring and Enforce Compliance" with "Oversight function" w.r.t. objectives of Authority. Because in case of "overseeing", no investigation or enforcement actions are intended. Hence, both these concepts are different.

(7) Reconcile NFRA Charter with Strategic Plan. The first three clauses of NFRA Charter are:

- "1. The objective of the National Financial Reporting Authority (NFRA) is to **continuously improve the quality of all corporate financial reporting** in India.
- 2. The **quality of corporate financial reporting** will be measured and evaluated essentially by its compliance with the law and the statutorily notified accounting standards and auditing standards.
- 3. NFRA will strive for **continuous improvement of corporate financial reporting** across all types of Public Interest Entities (PIEs) and **across all size categories of audit firms.....**"(Emphasis added)

First, the Charter emphasises "improvement of financial reporting". It is important that Strategy Plan must reflect this as how it is being achieved. Second, there is some ambiguity in para 3 of the Charter since it is not clear how it intends to improve corporate financial reporting across all size categories of audit firms because audit firms evaluate financial reporting function.

(8) NFRA has a well declared policy:

**NFRA aspires to know for:**

....**"Fairness – Not imposing unfair burdens especially with the benefit of hindsight  
Transparency– Fair and open processes.**

**NFRA's functioning will be mindful of the need to promote the ease and speed of doing business and will be guided always by the overall public interest**, with all its actions being strictly anchored by and lying within its legal mandate. **(Emphasis added)**. In this context, first, it is quite natural that in case of Auditors, many propositions may change in the hindsight may be due to availability of more information with the passage of time, legal interpretations from retrospective effect, etc. Hence, benefit of hindsight and availability of fresh information should never be used to evaluate the auditors. Second, as an oversight regulator, it is important for NFRA to first create awareness about the complete process. For instance, it may begin with listing of applicable Accounting and Auditing Standards well in time including clarifications/ interpretations, industry specific guidance, advisories, etc followed by Oversight Process. But under no circumstances, NFRA should interpret law and that too from the retrospective effect. It may issue clarifications involving legal points, if any, well before the commencement of the financial year.

(9) Development of High Calibre Technical Resources is a highly appreciable idea, but one must look at its w.r.t a particular time frame and the number of companies/ body corporates/ audit firms under review.

सी.ए. निहार एन जंबुसरिया  
अध्यक्ष

CA. Nihar N Jambusaria  
President



भारतीय सनदी लेखाकार संस्थान  
(संसदीय अधिनियम द्वारा स्थापित)

THE INSTITUTE OF CHARTERED  
ACCOUNTANTS OF INDIA  
(Set up by an Act of Parliament)

ICAI/ CL&CGC/ 06/ 2021-2022/ Rep-10

9<sup>th</sup> July, 2021

**Shri Vivek Narayan**

Secretary, National Financial Reporting Authority  
7th-8th Floor, Hindustan Times House, 18-20,  
Kasturba Gandhi Marg, New Delhi 110001

Vivek Narayan

12/7/21

Sr. Consultant →

Sci. Bhandji

vh  
15/7

Dear Sir,

**Sub: ICAI Comments and Recommendations on the NFRA Consultation Paper on "Enhancing Engagement with Stakeholders".**

This is with reference to the Comments/Suggestions invited from the Stakeholders on the Consultation Paper on Enhancing Engagement with Stakeholders by the National Financial Reporting Authority (NFRA).

This Report is put in public domain without even consulting the Institute of Chartered Accountants of India. India being the major destination for Investment, this kind of document will completely harm the image of the country.

This is to mention here that the purpose of the Technical Committee Advisory (TAC) and the questions asked for comments are in sync but the observations and remarks on which this Consultation Paper is based has nothing to do with the purpose. For ex.,

- Comments made on the Auditors, Preparers, Management, Regulators and the Government;
- The Statement that the Poor audit quality and lack of independence make auditing a weak link in the financial reporting supply chain and it needs fixing, *here and now*.
- With the advent of technology, IBM and Accenture will do the audit etc.

Upon analysing the TAC report, it was found that there were many instances, which exhibit lack of understanding of auditing process on the part of members of TAC. For eg, Auditor issues its Report based on Management Representation Letter, Auditor issues Boilerplate Audit Report etc.

Besides this, it has been observed that the TAC's report also lacks in fundamental principles of fairness, as the report is based on the views of a minuscule sample size of stakeholders who have responded to the questionnaire unrelated to the observations made in the Report; and the report is based on extremely unreliable and un-authentic data relied upon to perpetuate its circular arguments of perceived notions.

TAC has talked about failure of Regulator and Regulator being under electoral pressure of the accounting industry association. Obviously, this a comment on ICAI even though ICAI has not been even mentioned anywhere in the Report. If this is not the case, does it mean that as a regulator SEBI has failed, or RBI has failed or all the Regulators have failed in India.

This Statement is dangerous for country as a whole and may have serious consequences. We state that Individual Auditor in some instances may have failed but ICAI has never failed in its duties.

सी.ए. निहार एन जंबुसरिया  
अध्यक्ष

CA. Nihar N Jambusaria  
President



भारतीय सनदी लेखाकार संस्थान

(संसदीय अधिनियम द्वारा स्थापित)

THE INSTITUTE OF CHARTERED  
ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

Moreover, it is mentioned in the consultation paper that NFRA is the Sole Regulator for Accounting & Auditing Profession wherein ICAI has been set up under an Act of Parliament way back in 1949 and as per CA Act, 1949 "It is an Act to make provision for regulation of the Profession of Chartered Accountants" which surprisingly NFRA is not aware.

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 outrightly rejects the TAC Report.

When the objective of both NFRA and ICAI is to work for the common public good and not as competing entities, still it has been seen that a rather non-collaborative approach is being adopted by NFRA and the way in which TAC Report and Consultation Paper is worded, wherein NFRA has also given its preliminary view in the said report, it seems that NFRA feels that for so many years there was no Regulator for accounting and auditing profession.

We would like to reiterate 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.

We would like to state that this damaging report is surely believed to harm the image of the CA profession. The Report may also harm the National interest due to change in Investment Rating and other parameters taken in consideration by World Bank in preparing the Ease of Doing Business Report.

In this regard, the Institute of Chartered Accountants of India has prepared a detailed response addressing the various issues and concerns on the matters in the consultation paper issued by NFRA albeit ICAI believes that such matters could have been consulted with ICAI for a better understanding of the current dynamics and ICAI's public welfare role.

Thanking you

Yours faithfully,

(CA.Nihar N Jambusaria)

End: Annexure A to Letter No CL&CGC/ 06/ 2021-2022/ Rep- 10 dated 9th July, 2021 - Detailed ICAI Comments on the Consultation Paper issued by NFRA

**ICAI Comments  
on the Consultation Paper issued by National  
Financial Reporting Authority (NFRA) on  
Enhancing Engagement with Stakeholders-June  
2021**



**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA  
(Set up under an Act of Parliament)**



**Preamble**

The National Financial Reporting Authority (NFRA) has set up a Technical Advisory Committee (TAC) to, inter alia, provide NFRA with inputs from the perspective of users, preparers, and auditors of financial statements; and advise on suitable methods for promoting awareness relating to compliance with accounting and auditing standards.

The TAC submitted its first report and recommendations on "Enhancing Engagement with Stakeholders" in March 2021.

NFRA based on the report of TAC has presented its preliminary views/ proposed action on the recommendations of the TAC and has issued a **Consultation Paper in June 2021 on enhancing the engagements with the Stakeholders.**

The fallacious circular argument analogies, references and hence inferences made in the consultation paper are far from ground realities' in many matters; as the sections that follow hereto would elaborate; and as such ICAI expresses its serious concerns on one sided surrealism unleashed in TAC Report which formed the basis of instant Consultation Paper and outrightly rejects the TAC Report.

Further, when the objective of both NFRA and ICAI is to work for the common public good and not as competing entities, still it has been seen that a rather non-collaborative approach is being adopted by NFRA whereby rather than discussing the matters at the NFRA Board level; where the Board has the benefit of three ex officio members from ICAI; it has been seen that Exposure of Consultation Papers without discussing the matters of key significance at Board has become recurring phenomenon; even otherwise asking or consulting the Institute as regards the factual accuracy of the matters when on Audit matters; it has the statutory backing of being a Regulator with nearly 72 years of steadfast standing behind it and has a glorious contribution to demonstrate in the growth story of Indian Economy where it stands today as its resilient practices targeted towards ushering good governance (through strong regimen of standards, ethics and a strong disciplinary mechanism) have been consistently and persistently followed by its members .



In this regard, the Institute of Chartered Accountants of India has prepared this detailed response addressing the various issues and concerns in the consultation paper issued by NFRA **albeit ICAI believes that such matters could have been consulted with ICAI for better understanding of the current dynamics and ICAI's public welfare role.**

The policy parlance never intended ICAI and NFRA to be competing entities in each other's working to intersect and infringe upon the powers of each other. The Chartered Accountants Act, 1949 is *lexspeacdis* as against NFRA coming into being by way of the Companies Act 2013.

The Chartered Accountants Act, 1949 empowers ICAI legislatively into all aspects of Regulations which aspect *interalia* developmental function of membership besides having a vigilant eye on the professional misconduct of its members. The term Regulation encompasses all facts namely Education, training, including post membership training, quality assurance, standard setting, prescribing Code of Ethics and doing all such acts which uphold the spirit regulating the profession of chartered accountancy which the constituent assembly in its wisdom bestowed upon the ICAI through the CA Act 1949.

The mandate of NFRA as per the Companies Act, 2013 is of a consulting body, and NFRA has to run in congruence with ICAI overall objective of Regulation and development and not to act as a Super Regulator affecting the overall growth of the profession.



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**ICAI Recommendations on the Concerns in the Consultation Paper issued by National Financial Reporting Authority (NFRA)-June 2021 on Enhancing Engagement with Stakeholders**

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## **I. ICAI Recommendations**

Recommendations of ICAI have been bifurcated into following parts:

1. Background
2. Detailed Issues and Concerns in the Report of Technical Advisory Committee
3. Issues and Concerns on the Recommendations in the Consultation paper issued by NFRA
4. Other Issues
5. Issues arising out of NFRA Rules 2018 read with National Financial Reporting Authority (Amendment) Rules, 2019 including ICAI Suggestions thereon

### **1. Background**

The National Financial Reporting Authority (NFRA) had constituted a seven-member Technical Advisory Committee (TAC) under the Chairmanship of R Narayanaswamy, Professor, Indian Institute of Management, Bengaluru to aid and advise the Executive Body of the NFRA on issues related to the drafts of accounting standards and auditing standards and also provide inputs from the perspectives of users, preparers and auditors of financial statements.

Ideally, decisions of prime importance should have been taken at the NFRA Board level where ICAI three nominees are there, however, the entire Board was kept in dark while taking such decisions of utmost importance. Further, NFRA does not call meetings of the NFRA Board where such matters of utmost importance can be discussed and decided. Meetings of NFRA Board should, in our view, should be called at regular intervals and greater participative role of ICAI part-time members should be there for better governance at NFRA.

Being primarily the auditing profession and globally the leading second largest accounting body, an integrated regulator which has served creditably the country and abroad; ICAI is representing the country as Regulator of Accountancy Profession and growth of Indian industry is symbiotic with the growth of Indian accounting profession since independence.



Time and again it has been seen that the Committees formed by NFRA did not have representation of ICAI like one for the Issuance of NFRA Form- 2 or Draft Procedure for submission of Audit Files to NFRA etc.; which have implications on the accountancy profession being regulated by ICAI.

Therefore, the views of ICAI, the Regulatory body mandated to regulate the profession of Chartered Accountancy are totally missing in the deliberations of such Governmental Committees and whereas people have been called by NFRA who represented thereat in their personal capacity. And as a result, the domain expertise of regulation which is available with ICAI does not get factored in the final outcome of Reports by NFRA.

ICAI considers that it would have been more appropriate that ICAI nominees should have been included by Government of India on TAC as the domain expertise of Regulation is exclusively available with ICAI in regard to the multifaceted and varying perspectives of users, prepared and auditors of financial statements.

It is stated that National Financial Reporting Authority is also issuing/ posting various papers/ complying requirements for auditors separately emphasising the independence of the auditors.

ICAI believes that Regulators should work in coordination with each other and should consider the overall ecosystem of governance. Where the laws/ other requirements for other stakeholders are being relaxed to promote ease of doing business; at the same time, stringent provisions are being introduced only for the audit profession which shows a rather lack of trust in the auditors.

It is reiterated that this will not only increase the compliance burden on the auditors but is creating a fearful environment for the auditors. Therefore, overregulation of the profession will lead to adverse impact on the profession and any new requirement imposed by the Regulator shall have prospective application. In all fairness ICAI should have been consulted before issuance of such requirement from the profession.

The Chartered Accountant Act, 1949 is a Special purpose Act mandated with the regulation of the Accountancy Profession. The subsequent enactments and decisions taken are seemingly not only increasing the cost of compliances but also resulting in General purpose enactments, having precedence over special-purpose enactments already in place.



Being the largest stakeholder in upholding the ecosystem of assurance; we are sure that our aforesaid position will be taken up in the *right earnest*.



## **2. Detailed Issues and Concerns in the Report of Technical Advisory Committee**

The Consultation Paper issued by NFRA initially describes the objective for which it has been incorporated; which are delineated below:

- **Objectivity-** No subjective action from either members or staff, openness to all acts/views/opinions without any pre-conceived conclusions, or pre-judging any matter.
- **Integrity-** Across cases/persons/firms, absence of multiple standards, uniform treatment of all those identically/similarly placed.
- **Impartiality-** Discharge of its functions without fear or favour.
- **Independence-** Equidistant from all stakeholders.
- **Fairness-** Not imposing unfair burdens, especially with the benefit of hindsight.
- **Transparency-** Fair and open processes.

However, it has been observed that this background setting has only been theoretically prescribed and the outcome of Report suffers from " *petitio principii*" as it is not based on any facts or a proper research based evidence. It suffers from a perceived bias and prejudice against the current system of audit regulation being regulated by ICAI.

To elaborate; one of the objectives of NFRA as stated above is fairness; however, the filing of NFRA-2 is imposing an additional and unfair burden on the auditor as most of the information asked for in the said form is either duplicated or impossible to file, leading to virtually no additional benefit. Further, it speaks to foster transparency, however in reality, even the Board members of NFRA have been so far kept in dark while taking decisions of utmost public importance.

NFRA's Consultation Paper is based on the recommendation of TAC, wherein it has been mentioned that the comments have been drawn out based on a sample size of 50 participants out of which only 34 have responded. This sample size is considered to be absolutely inappropriate to draw such far reaching conclusions and in fact even negligible and halo of perceived bias, considering the wide number of stakeholders available in India. Further, the data or the conceived grounds on which the arguments have been made by the TAC in its report and in turn the conclusions of the report; being factually incorrect are not acceptable.



While going through the TAC report, it has been observed that there are many instances in the report, which prove that the report is contradictory in itself.

For instance, it has been mentioned in the report that 67,404 companies are listed on stock exchanges and during the last three decades, the Indian economy has witnessed large-scale liberalisation. Also, it has been RATHER IGNOMINIOUSLY mentioned in the report that auditing is facing a crisis of confidence and its continued relevance as a social and economic institution depends squarely on its ability to keep an uncompromising focus on audit quality and independence. On the contrary it is stated that despite such erroneous and despicable state as depicted i.e., how despite auditing being in crisis, India has attracted a lot of Foreign Direct Investment (FDI) and Foreign Institutional Investor (FII) and the number is still growing. Such type of investments are never done without exercising due diligence, therefore there is no question of poor audit quality that is being attributed in the report issued by TAC.

Further, the report has mentioned that altogether over three decades, a total of 12 frauds have been identified questioning the role and effectiveness of the statutory audit by Independent Auditor. Such a harsh conclusion on the whole profession based on such limited number of instances which were aberrations and cannot be attributed to Auditors alone; is again inappropriate.

Considering the potential far-reaching impact of the NFRA's report, the ICAI considers it to appropriate if the same WAS DULY consulted by all the members of the NFRA Board before finalization. Further, it suggested that the executive board of the NFRA should have some limitations in respect of exercising its powers and functions.

The ICAI is of the view that to ensure transparency in the operations of NFRA (which is one of the NFRA's objective); the details w.r.t number of meetings of the board conducted during the year, participation of director in each such meeting held etc. shall be disclosed in a similar way as prescribed under section 134 of the Companies Act 2013 for the meetings of the group which are proposed to be formed by NFRA.

Nonetheless, as it has been perceived that the objective of the formulation of TAC by NFRA was to provide NFRA with inputs from the perspective of users, preparers, and auditors of financial statements and advise on suitable methods for promoting awareness relating to



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compliance with accounting and auditing standards; which is covered in the questionnaire given by the TAC to stakeholders seeking suggestions on suitable methods for promoting awareness relating to compliances with matters relating to accounting and auditing matters, and so on the TAC report should have only dealt with the matters as being asked in the questionnaire; and the other things which are stated are outside its scope AND should not have been included in the report, as it was neither required nor warranted.

The point wise remarks/recommendations of ICAI on the TAC report are tabulated below.

S. No.	Para No.	Para	Draft Recommendations of ICAI
1.	1.2.1	Composition of the Committee (TAC)	The Institute is startled to note the composition of the TAC which does not comprise of persons having commensurate auditing experience.
2.	2.3.3	Despite these regulatory advances, there are serious concerns about audit quality and auditor independence, as symbolised by the controversies involving IL&FS entities, DHFL, Reliance Capital, GVK Power, Yes Bank, and others. Put mildly, auditing faces a crisis of confidence. Its continued relevance as a social and economic institution depends squarely on its ability to keep an uncompromising focus on audit quality and independence.	<p>We strongly object the statement "<i>Put mildly, auditing faces a crisis of confidence</i>", as the same is outrageous and cannot be generalised.</p> <p>Secondly, in India audit has delivered well. Further, there are sufficient provisions in the law to deal with the aberrations, if any, and to deal with; and penalise the erring auditor accordingly following due process of law.</p> <p>Further as stated in the TAC report regarding "<i>serious concerns about audit quality and auditor independence, as symbolised by the controversies involving IL&amp;FS entities, DHFL, Reliance Capital, GVK Power, Yes Bank, and others</i>"; the ICAI was of the view that-</p> <ul style="list-style-type: none"><li>• If the reports have not been concluded or the reports have been challenged, then how</li></ul>



			<p>the TAC is authorised to make such a collusive conclusion in its report on matters subjudice.</p> <ul style="list-style-type: none"><li>• Businesses may fail for various reasons, including non-governance by the board of directors, and therefore the auditor is not the only person who has to be blamed; further nowhere in the report, this point has been factored in by TAC.</li><li>• Furthermore, the assertion that the organisations have failed because of the auditors is entirely blasphemous as they might have failed due to the management's action or inaction or wrong action and certainly not because of the auditor.</li></ul> <p>It has been observed that NFRA has been holding chartered accountants guilty unless they prove themselves innocent, and this is against the principle of natural justice.</p>
3.	2.3.4	Auditors talk of an 'expectation gap' between them and the users of financial statements.	<p>It is believed that there is no lowering of expectation or lowering of standards in any way and practices consistent with best international practices are being followed by audit firms.</p> <p>ICAI is also dedicating itself to empowering all users through financial literacy programmes.</p> <p>Further, the reasons substantiating the argument are as follows:</p>



- **The expectation gap if at all is felt, is due to the misunderstandings of the auditor's role which needs to be explained.**

Therefore, a need was felt to distinguish between the role of auditor v/s the role of investigator.

Further, it is pertinent to note that auditor role is that to be of a watchdog and not a blood hound; it is so because it is not the job of the auditor to find the frauds and which aspect is also very well spelt out in CARO and revised CARO as well, highlighting that the auditor is not required to be a blood hound, and there have to be some boundaries between the process of audit as different from investigation. None of the provisions of any law gives powers to an auditor to investigate like other law enforcing agencies namely CBI, ED, Police or Revenue Authorities. Even under section 143 of the Companies Act 2013; the auditors have been given right to obtain information and express an opinion as against the power given for issue of summons, discovery and imposing a penalty for non-compliance to NFRA under Section 132 of the Companies Act 2013.

Furthermore, we are of the view that the expectations of users, if any, have to be spelt out in the Standards on Auditing.



- Further, the ICAI mentioned that the Auditor's role under para 5 and 8 read with para 35 and 36 of SA-240, clearly states that the auditor has to be appropriately alert to such frauds and is responsible for finding them in the appropriate circumstances, and therefore it cannot be concluded that the auditors have denied their duties to find frauds, at all.

The extract of Para 5, 8, 35 and 36 of SA-240 are as under: -

*"Para 5 of SA 240- An auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, **whether caused by fraud or error**. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the SAs<sup>1</sup>*

***Para 8 of SA-240:** When obtaining reasonable assurance, the auditor is responsible for maintaining professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit*

<sup>1</sup> SA 200, paragraph A51-A52



			<p><i>procedures that are effective for detecting error may not be effective in detecting fraud.</i></p> <p><b>Para 35 of SA-240:</b> <i>When the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor shall evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence.</i></p> <p><b>Para 36 of SA-240:</b> <i>If the auditor identifies a misstatement, whether material or not, and the auditor has reason to believe that it is or may be the result of fraud and that management (in particular, senior management) is involved, the auditor shall re-evaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures to respond to the assessed risks. The auditor shall also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained"</i></p>
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			<p>And thus, the users should not be in a wrong impression that the audit will not disclose frauds because in certain circumstances the auditor can find fraud.</p> <p>Therefore, the conclusion that the user has a huge expectation gap that needs to be filled up is entirely wrong, as there is nothing that is required to be filled up.</p> <p>It seems that the ones who have made the comments don't understand the roles and responsibilities of the auditor, and therefore it is reiterated that the auditors take full responsibility even for finding fraud under SA-240 under the given conditions.</p>						
4.	2.3.5	<p>Auditors Acceptance of Management's Representation and reliance on the work of experts figure frequently in the Regulators "Disciplinary Orders".</p> <p>Auditors have been found to be wanting in applying 'professional scepticism', an attitude that includes a questioning mind,</p> <p>auditors' acceptance of management representations and reliance on the work of experts figure frequently in</p>	<p>We do not agree to the comment of the TAC as Professional skepticism is followed throughout the audit and many qualified reports, EOMs, disclaimers have been given in various audit reports.</p> <p>To justify the aforementioned reasoning, the data showing the no of cases in which qualification is given in the reports of top 500 companies for the year 2019-20 have been given below:</p> <table border="1" data-bbox="799 1742 1361 2011"> <tr> <th colspan="3"><b>Table: Showing data of Qualifications given in respect of top 500 companies for the year 2019-20</b></th> </tr> <tr> <th><b>Qualification</b></th> <th><b>Number</b></th> <th><b>of</b></th> </tr> </table>	<b>Table: Showing data of Qualifications given in respect of top 500 companies for the year 2019-20</b>			<b>Qualification</b>	<b>Number</b>	<b>of</b>
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	regulators' disciplinary orders.?	<b>given in</b>	<b>Cases (Out of top 500 Companies)</b>
		Main Audit Report	24
		ICFR	21
		CARO	213
<p>Further, with regard to the comment of TAC w.r.t. <i>auditors' acceptance of management representations and reliance on the work of experts figure frequently in regulators' disciplinary orders</i>, the observations of the ICAI are as follows:</p> <ul style="list-style-type: none"> <li>• <b>Para 3 of SA-580 on Written Representation as Audit Evidence</b> states that <i>"Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assertions"</i></li> </ul> <p>Therefore, the standard simply states that the auditor should not rely solely on the Management Representation as an "only audit evidence"; wherever acceptable it should be taken as evidence, otherwise it is</p>			



			<p>not the audit evidence in itself.</p> <p>Therefore, there is no question of acceptance of management representations and its reliance as "only audit evidence".</p> <ul style="list-style-type: none"><li>• <b>Further, it should be ascertained from TAC that which are the instances of disciplinary orders by any Authority which stated that the auditor relied only on the management representation letters and hence, failed to identify fraud.</b></li></ul> <p>If at all such instances are brought to notice, there is no doubt that the disciplinary mechanism will hold the auditor guilty and accord a suitable punishment.</p> <p>Such instances, if any, being aberration therefore it is not correct to paint the whole profession with the same brush.</p> <p>Further, ICAI has never either prescribed in its Standards on Auditing or its Guidance Notes has never advocated members to solely rely on the Management Representations.</p> <p>Accordingly, the ICAI does not agree with the comments of the TAC.</p>
5.	2.3.6	Large companies may have limited choice of auditors, because they believe that	We are not in consonance with the argument of the TAC that " <i>there are just a handful of firms that have the scale, technology, expertise</i>



	<p>there are just a handful of firms that have the scale, technology, expertise and investor acceptability to audit them.</p> <p>2.3.8 The flip side of technological advances is that audit firms may have to compete with technology firms in auditing.</p>	<p><i>and investor acceptability to audit them”.</i></p> <p>It is the perception of the company’s management that which audit firm is right; or which audit firm is better than the other firm and therefore it is their choice as to which audit firm they might select based on their views and opinions.</p> <table border="1" data-bbox="810 689 1433 1227"> <thead> <tr> <th colspan="3"><b>Table 2.1</b></th> </tr> <tr> <th colspan="3"><b>Share of Big Four in Audit of Listed Companies, Fiscal Year 2020-21</b></th> </tr> <tr> <th colspan="3"><b>Per cent to Reference Group Total</b></th> </tr> <tr> <th><b>Reference Group</b></th> <th><b>Number</b></th> <th><b>Market Capitalization</b></th> </tr> </thead> <tbody> <tr> <td>NSE 200 Index</td> <td>26</td> <td>70</td> </tr> <tr> <td>NSE 500 Index</td> <td>57</td> <td>68</td> </tr> </tbody> </table> <p>We are not in consonance with the above data and assuming the data is right, the conclusion drawn is wrong as their own data do not support their conclusion that the companies are choosing audit firms due to technology.</p> <p>The data does not prove the concentration of the firms as stated in the comment above. It also does not support the argument that very few firms are preferred by the management because of technological advancement.</p> <p>They may have reasons to appoint a particular firm; but it does not mean that there is no</p>	<b>Table 2.1</b>			<b>Share of Big Four in Audit of Listed Companies, Fiscal Year 2020-21</b>			<b>Per cent to Reference Group Total</b>			<b>Reference Group</b>	<b>Number</b>	<b>Market Capitalization</b>	NSE 200 Index	26	70	NSE 500 Index	57	68
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			<p>choice with them to appoint another firm. And in the case of rotation of auditor, in any case, the management has to meet the choice of appointing other firms.</p>
6.	2.3.7	<p>Auditors use blockchain, cloud computing, analytics, artificial intelligence, machine learning, and big data. Drones, robotics, and augmented reality have considerable potential for use in auditing. The bigger accounting firms are already spending billions on technology. The high cost of investment in technology is bound to widen the difference between the Big Four and the others.</p>	<p>We do not agree to the comment made by the TAC since Investment in technology is being done by all the large, small firms alike in this country, <b>to the extent necessary.</b></p> <p>And there is no proof of widening gap in the selection of auditor between large firms and other firms because of the advent of technology as Technology can be adopted by all and therefore is not a limiting constraint.</p> <p>Further, the audit of Public Sector Banks, Insurance Companies and other Public Sector Companies; which are specialised category of companies; are being done by Non-Big-4. This has demonstrated that the technology does not make a difference as Non-Big 4 has shown its capabilities over time and has addressed those audit requirements.</p> <p>Further, ICAI is also undertaking a capacity-building exercise for its profession by developing Digital Audit tools, and that investment by ICAI in audit tools will reduce the gap substantially, if any, that is said to exist.</p>
7.	2.3.9	<p>Poor audit quality and lack of independence make auditing a weak link in the financial reporting supply chain and it needs fixing,</p>	<p>ICAI objects to the comment made by TAC.</p> <p>Fixing is required when something is broken. In any economy's journey, there is always a scope for improvement.</p>



		<p><i>here and now</i>. To be sure, it is not the only weak link and there are others, as discussed below.</p>	<p>Not to belittle the importance of improving audit quality, we do not have evidence of any widespread or even more than insignificant numbers of cases where performance of audit is not in accordance with standards.</p> <p>The usage of idiom "<b>here and now</b>" is unwarranted.</p> <p>Audit is done based on a set of standards which are same as international standards. The investment in India (FDI and FII) over time, is a reflection of the confidence of investors in the audited financial statements.</p> <p>On independence, there have been steps in the country which are more stringent than rest of the world:</p> <p>Pre- 2013</p> <ul style="list-style-type: none"><li>• ICAI code of ethics prohibited several non- assurance services</li><li>• Ceiling on extent of non- assurance services</li><li>• Ceiling on number of audit engagements</li><li>• Rotation of partner</li></ul> <p>Appointment (name approval) of Auditors of Public Sector organisations, public sector banks and insurance companies.</p> <p>Post 2013:</p> <ul style="list-style-type: none"><li>• Rotation of firm/ Restriction on tenor – 2 terms of 5 years</li><li>• Specification of prohibited non- assurance</li></ul>
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			<p>services in Companies Act (similar to the ICAI list of prohibited non assurance services in the code of ethics; the ICAI code of ethics and several council decisions have much more stringent norms)</p> <ul style="list-style-type: none"><li>• Internal Financial Controls Reporting</li><li>• Mandatory internal audits for large enterprises</li><li>• Loan to Directors, etc. and Loan and investment by company</li><li>• Related party transactions</li><li>• Acceptance of deposits</li><li>• Code of independent directors</li><li>• Enhanced board responsibility Additional reporting requirements under CARO.</li><li>• First time introduction of penalties including criminal liability on the Audit profession etc.</li></ul> <p>MCA has issued a consultative paper in early 2020, on Auditor independence. The consultation on same is still on.</p>
8.	2.4.2	<p>Management's performance and rewards depend in part on the numbers in the financial statements. So it is inherently conflicted in the preparation of financial statements.</p> <p>If the spate of accounting scandals in listed companies is any indication,</p>	<p>Observations like <i>"Management's performance and rewards depend in part on the numbers in the financial statements. So, it is inherently conflicted in the preparation of financial statements."</i> is a statement which questions the effectiveness of the Corporate Governance provisions in the Companies Act, SEBI guidelines, etc.</p> <p>The observation <i>"According to investment advisers, accounting quality is the most</i></p>



		<p>this process doesn't appear to be working well. Corporate governance in practice needs to be strengthened by adhering to the spirit rather than the letter of the law.</p> <p>According to investment advisers, accounting quality is the most underestimated investment risk in India.</p>	<p><i>underestimated investment risk in India."</i> is a very casual and uninformed one.</p> <p>This conclusion is again completely baseless as none of the investment advisors invests or recommends investment in a company that has very poor account quality i.e., in other words, if a company's accounts can be easily tweaked and results can be tweaked, under no circumstances an investment advisor advises to invest in that company.</p> <p>Further, the portrayal of accounting quality not being good is at best an imaginary assertion and is not made out of reality.</p>
9.	2.4.8	<p>Users complain that the financial statements comply with the letter of the law rather than its spirit.</p> <p>The effort seems to be aimed at ticking the boxes for compliance with the accounting standards and other requirements. As a result, financial statements are not much useful to them in making decisions.</p>	<p>ICAI is of the view that if financial statements are not much of use to the investor in spite of all the information being given, then it is the fault of the Regulatory requirements which mandate voluminous data as part of financial statements and not of the person who prepares those statements and audits them in compliance to such requirements.</p> <p>Further, if the financial statements become useless, as is so attributed by TAC; it is not because of the tick box approach in compliance, rather it is due to the voluminous data.</p> <p>It needs to be understood that documentation aids in taking appropriate decisions about what is to be reported and how it is reported- whether it should be modified, unmodified</p>



			<p>opinion, or whether the notes are sufficient in giving required information etc.</p> <p>Further, Standards on Auditing provide that auditor should have evidence when he is reporting, and that proof can only be maintained THROUGH documentation being questioned.</p> <p>Therefore, just by keeping documentation in compliance with Accounting Standards and Standards on Auditing or various other Standards, it cannot be called a tick box approach.</p> <p>The basis of arriving at the conclusion of calling it as a "tick box approach" is very questionable and depicts poor understanding of what entails audit.</p> <p>Using a checklist for compliance of Accounting Standards, ICDS, IFRS, Standards on Auditing by itself is not a tick box approach.</p>
10.	2.5.3	<p>The increasing complexity of accounting standards and policies has made financial statements less intelligible to users. The use of fair value has further increased the difficulty of understanding the numbers in the financial statements. Some users may be confused by the volatility of</p>	<p>It is believed that this comment has nothing to do with the role of auditor.</p> <p>And if NFRA agrees to this comment of TAC, they should recommend that instead of Ind AS, Accounting Standards developed by ICAI over 70 years should be followed in India.</p>



		results caused by fair value accounting	
11.	2.5.4	<p>Financial statements could lose their relevance because of the growing importance of intangible assets to businesses</p> <p>Accounting does a poor job of capturing the value of what may be the most crucial assets for pharmaceutical, technology, services and consumer goods companies.</p>	<p>It has been noticed that this paragraph in itself is a contradictory one; since on the one hand it had been said by the TAC's report that the fair value is causing a problem and on the other hand, it has been said that there should be a concept of fair value in case of intangibles.</p> <p>Further, prudence is a very well recognised principle in accounting.</p> <p><i>Self-generated intangibles are not recorded,</i> and all purchases of intangibles are only recorded. Self-generated Intangibles are nowhere recorded in the world and therefore, the conclusion being drawn by the TAC is incorrect.</p> <p>Revaluation is the only prerogative of the company's management and if the management doesn't want to revalue for the purchased intangible; it is their choice.</p>
12.	2.5.6	<p>Users expect auditors to be the guardians of financial reporting but feel that auditors let them down.</p> <p>The following quote neatly sums up users' frustration with frequent audit mishaps: In most instances, investors seemed to sense (italics in original) that something is amiss, well</p>	<p>ICAI strongly disagrees with the baseless comment in the TAC report.</p> <p>It is stated that Market news and market information cannot necessarily be the audit information and that the market reaction has nothing to do with the audit.</p> <p>An audit is a periodic exercise, say, quarterly, half-yearly or yearly and the Auditor's report is given after the end of that period.</p>



		<p>before an auditor raised red flags. This has been reflected in either a steadfast deterioration in the company's stock price, or a systematic contraction in the company's access to debt. Therefore, if the 'market knows' based on largely publicly available information, why are auditors – who have access to much better quality of internal information – unable to see the writing on the wall? Can what the 'market knows' be embedded into the audit process?</p>	<p>The information which is available to the auditor during the audit may also be available to the market and the market reacts to the same immediately even before the auditor raises a red flag.</p> <p>It is not understood as to how the auditor has let the market down when there are already enough embedded checks and balances in the audit process.</p> <p>Revised Clause xi (c) of CARO requires the auditor to report, <i>whether whistle blower complaints have been considered, if any, received during the year</i>, which implies that even whistle blower complaint has been taken care under CARO as well by the auditor reports, therefore ICAI fails to understand how, it has been concluded by the TAC that the auditors have not met the user's expectations.</p>
13.	2.5.7	<p>Users are unconvinced when auditors disown responsibility for detecting fraud.</p> <p>Metaphors about watchdog and bloodhound don't find any takers in the face of a large-scale fraud.</p>	<p><b>Para 5, 8 and 10 of SA-240</b> clearly articulates that the auditor does not disown the responsibility of detecting frauds. It in fact explains how the material misstatements in the financial statements due to fraud can be identified, assessed and be detected using appropriate procedures.</p> <p><b>The extract of Para 5, 8 and 10 of SA-240 are as under: -</b></p> <p><b>"Para 5 of SA 240- An auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the</b></p>



		<p><i>financial statements taken as a whole are free from material misstatement, <b>whether caused by fraud or error.</b> Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the SAs<sup>2</sup></i></p> <p><b>Para 8 of SA-240:</b> <i>When obtaining reasonable assurance, the auditor is responsible for maintaining professional skepticism throughout the audit, <b>considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud.</b></i></p> <p><b>Para 10 of SA-240:</b> <i>The objectives of the auditor are:</i></p> <ul style="list-style-type: none"><li><i>(a) To identify and assess the risks of material misstatement in the financial statements <b>due to fraud;</b></i></li><li><i>(b) To <b>obtain sufficient appropriate audit evidence</b> about the assessed risks of material misstatement <b>due to fraud</b>, through designing and implementing appropriate responses; and</i></li><li><i>(c) To <b>respond</b> appropriately to <b>identified or suspected fraud.</b>"</i></li></ul> <p>Further, because all the Standards on Auditing are applicable under the Companies Act or</p>
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<sup>2</sup> SA 200, paragraph A51-A52



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			<p>otherwise and where the auditor may fail to detect a fraud in a particular case because of inherent limitations of audit that is also covered under SA-200 AND that does not mean that they are disowning or denying its responsibilities in respect of detection of fraud.</p>
14.	2.5.8	<p>Users complain about auditors churning out the same boilerplate audit reports.</p>	<p>It is opined that SA-700 is an internationally accepted Standard on Auditing Report and therefore it is absolutely right to follow it.</p> <p>Further, there is nothing wrong in giving report in a similar format for all the companies.</p> <p>The Standards on Auditing in India are formulated after adopting the following procedure:</p> <ul style="list-style-type: none"><li>• Determination of broad areas (by the AASB of ICAI) in which the SAs need to be formulated.</li><li>• Formation of study groups for assisting in the preparation of SAs by the AASB, where provision is made for participation of a cross-section of members of the Institute.</li><li>• Preparation of exposure draft based on the work of the study group for seeking comments of the members of the ICAI.</li><li>• Finalisation of the draft standard based on the comments received from the members and submission to the Council</li><li>• Issuance of the Standard by the council, after considering the final draft and making modifications, if any.</li></ul> <p>Further, the draft of the Standard is prepared</p>



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			<p>in line with the International trends and the practices which are followed and are consistent with best international practices.</p> <p>As it can be inferred from above, that a standard before being finalised and issued under the seal of ICAI has to go through a lot of procedures; and such offensive and obnoxious comment in a public report is seemingly disregarding the reputation of the Institute and its members who are serving day and night for the betterment of the society.</p>
15.	2.6.1	<p>They are designed to be insulated from the electoral pressures of the accounting industry association and so can act independently. Therefore, users often see regulators as their last hope, a shining white knight of sorts ready to rush to their rescue. For the same reason, regulatory failure is far more unacceptable than failure by auditors or preparers.</p>	<p>As far as ICAI is concerned, there is no regulatory failure, therefore the remark made by the TAC that the regulator has failed is virulently vexatious and ICAI expresses its anguish on such hyperbole in the form of Gobbelsian propaganda by such unfounded comment.</p> <p>ICAI as a regulator has never failed, there may be few circumstances where individual auditor <b>might</b> have failed, but ICAI has never failed in its duties viz preparation of Accounting Standards and Standards on Auditing and giving implementation guidance.</p> <p>Furthermore, Public oversight is inherent in the ICAI structure since its inception. At present, 8 members of the ICAI Council are nominated by the Government of India (representing one fifth of the total composition).</p> <p>The Disciplinary Committee and Board of</p>



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			<p>Discipline are duly represented by the Government nominees. The composition are as follows:</p> <ul style="list-style-type: none"><li>• Board of Discipline - Comprises of Two Central Council member and One Government nominee. (i.e., Government nominees representing 33% of the stake)</li><li>• Disciplinary Committee - Comprising of 5 members which include 2 Government nominees. (i.e., Government nominees representing 40% of the stake)</li></ul> <p>The meetings cannot be held without the presence of 1 Government nominee.</p> <p>Further, in both, the Board of Discipline and Disciplinary Committee decisions are taken on a consensual basis and there are hardly any instances in the past where any of the Government Nominee has recorded his / her dissent on the decision of the BoD/DC.</p> <p>Further, ICAI has monitoring non standing committees like FRRB, Peer Review Board, TAQRB and Disciplinary Committee. The findings by the Disciplinary Benches have been upheld in their judicial scrutiny ICAI's present structure of QRB, Disciplinary, FRRB and PRB is very robust, and well supervised by the Government Nominees to ensure independence.</p> <p>Therefore, ICAI dissents with the baseless inferences made by TAC.</p>
16.	2.6.3	Regulation is also in the	ICAI deplors the TAC on its conclusion on the



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	<p>interests of auditors and preparers, because of the imperfections of the capital market and the audit market. Regulation raises the cost of poor reporting and auditing and thus helps to drive out inferior auditors and preparers from the market or at least set apart superior auditors and preparers from inferior ones.</p>	<p>role of ICAI.</p> <p>ICAI is a regulator which is set up by an Act of Parliament. A regulator has to go by the regulations of this country.</p> <p>The ICAI is bound by the Chartered Accountants Act, 1949 read with regulations thereunder.</p> <p>It is not any court of law that can put any penalty not prescribed under the Chartered Accountants Act, 1949.</p> <p>Further, every Regulator has its own limitations, therefore it cannot be concluded that regulation is useless and adds to the cost of reporting. It is the necessary cost that is required to be incurred considering the overall market scenario.</p> <p>Keeping all these facts in mind, no extraordinary punishment not provided under the law can be given by the ICAI.</p> <p>Following remarks are being made to substantiate the view:</p> <ul style="list-style-type: none"><li>• In the case of Satyam, the decision regarding the lifetime ban was upheld by the Court.</li><li>• There are instances where the Court has reduced the punishment given by the ICAI and has never increased it.</li><li>• None of the time in the last 70 years the</li></ul>
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			<p>court has increased the punishment given by ICAI, the court either decreased the punishment or exonerated the person or confirmed the punishment given by the ICAI, which clearly demonstrates that ICAI as a Regulator is as hard as possible or even austere.</p>
17.	2.7.2	<p>Unlike auditors, preparers and users, generally academics have no conflict of interests. Since their remuneration and career prospects are unaffected by the positions they take on accounting and auditing matters, they are arguably more independent than the others in the financial reporting chain. As a result, their opinions are less likely to be biased.</p>	<p>ICAI strongly objects to the comment made in the report by the TAC.</p> <p>Academicians without prior experience as preparer or auditor or as user are most likely to end with wrong conclusions.</p> <p>It is puzzling that with observations/conclusions like this in the report and such report has been considered appropriate to for public comments.</p>
18.	3.4.2	<p>Stakeholders observed that the introduction to the Authority happened in a grim setting in the wake of the IL&amp;FS and the Punjab National Bank scandals. The timing might have influenced perceptions of auditors about the regulator, in turn affecting its engagement with them.</p>	<p>The remarks made by the ICAI in respect of the comment "<i>the introduction to the Authority happened in a grim setting in the wake of the IL&amp;FS and the Punjab National Bank scandals</i>" are as follows:</p> <ul style="list-style-type: none"><li>• First of all, the facts being represented in the comment are incorrect, as it is erroneous to quote IL&amp;FS as the reasons for the constitution of NFRA, as NFRA was there in the statute since 2013 and Cabinet approved its establishment in March 2018; and hence only after Punjab National Bank,</li></ul>



	<p>the PCAOB and the FRC, they should have no reason to be disposed unfavourably to the regulator in India.</p>	<p>got promulgated.</p> <p>Therefore, giving the example of IL&amp;FS in itself is inappropriate.</p> <ul style="list-style-type: none"><li>• Secondly, the PNB failure was due to the non-compliance of the Circulars issued by RBI, highly confidential to the CEOs of the Banks in August 2016 and November 2016, therefore, the failure on the part of the management and cannot be attributed to the auditors.</li><li>• Further, in respect of the comment "<i>the PCAOB and the FRC, they should have no reason to be disposed unfavourably to the regulator in India</i>", ICAI has reasons/grounds for opposing the constitution of NFRA, which the members of TAC does not seem to know due to which such comment has been made in the report, some of the reasons for the opposition of constitution of NFRA are quoted below based on ICAI's earlier positions in the said matter:</li></ul> <p>In case of all Statutory Regulators like SEBI, RBI, IRDA, PFRDA, IBBI, etc., (who are special bodies set up an Act of Parliament, just like ICAI) it is the concerned Statutory Regulator which enforces discipline amongst the various market intermediaries associated with the concerned industry, nowhere the</p>
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disciplinary mechanism is entrusted to a separate Regulator.

Also, the constitution of two regulatory bodies under the Act of the Parliament will only create multiple layers, which would create overlapping structures, reduce efficiencies, waste time and drain resources. Multiple regulatory authorities governing the audit profession would hinder the growth of the profession and is also against the constitutional right of a person.

Further, it has been observed that in most countries, the oversight bodies had nominees who were past practitioners & dominated by few firms and the Government nomination process requires improvement.

However, in India, the ICAI has a unique model of governance where democratically elected persons of eminence in the profession perform the regulatory function, with the active participation of Government nominees, who are not from accounting fields hence bringing diversity and desired balance in the quasi-judicial process.

Further, since no one size fits all approach, therefore numerous systems are being followed by different countries based upon their domestic conditions, laws and



			<p>requirements and accordingly no concept can be borrowed as it is without looking at the domestic requirements and conditions.</p> <ul style="list-style-type: none"><li>• Further, timing has not affected either the auditor's perception about the regulator or affected their engagement with them. The argument made by the TAC is mere distortion and again incorrect.</li></ul>
19.	3.5.1	<p>Users pointed out that the quality of financial statement information is the most important consideration for investors. Since accounting has moved away from historical cost (or prudence) to fair value, the loss of verifiability of the numbers has conceivably made the work of auditing harder.</p>	<p>It is stated that users shall reverse and switch back to AS instead of IND AS, if it is felt that financial statement information has moved away from historical cost (or prudence) to fair value, resulting in the loss of verifiability of the numbers.</p> <p>The auditors have no role to play in this regard.</p>
20.	3.5.2	<p>They felt that many audit failures are caused by auditors compromising on independence in order to obtain non-audit services. While bigger firms have the skills to do quality audits, they may lack independence in some cases. Also, there has been very little effective peer review of audits.</p>	<p>We do not agree with the comment made by the TAC as the Companies Act, 2013 does not allow non-audit fees in excess of audit fees to be taken by parties related to the auditor and auditor's firm and the services are also clearly mentioned under the Act.</p> <p>Further, restriction on non-audit services are clearly mentioned under section 144 of the Companies Act, 2013, and whatever which has not been restricted under section 144 of the Act is assumed to be permitted; also there are enough checks and balances in the ICAI Code</p>



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			<p>of Ethics as well as in the Companies Act to maintain auditor's independence and therefore it is incorrect to say that the auditors are compromising in the audit quality for obtaining the non-audit services.</p> <p>Further, ICAI is of the view that the conclusion drawn by the TAC "<i>there has been very little effective peer review of audits.</i>" is entirely incorrect and baseless.</p> <p>ICAI seeks to question the TAC as from where they have derived such conclusions being drawn in a paper written by TAC Convenor on a limited understanding of what entails audit. This paper is put in the public domain and that proves to be highly detrimental to the interest of the profession and for the members who are relentlessly working to the quality audits.</p> <p>Most importantly it is to be noted that the audit failures are not caused by compromising on independence for the non-audit services and ICAI's Code of Ethics has stringent provisions in place to prevent it.</p>
21.	3.6.2	Stakeholders observed that dealing with multiple regulators was a problem and wanted the Authority to clarify its scope. In particular, they wanted the Authority to define its relationship and overlap with other regulators such as the RBI, SEBI, and the	<p>ICAI is a Regulator formed under the Act of Parliament same as NFRA.</p> <p>The TAC is presenting a distorted view that ICAI is opposed to working with NFRA it clearly shows the bias of those who have made this paper.</p> <p>The duties and powers of NFRA have been clearly stated in Section 132 of the Companies</p>



		IRDAI in matters such as accounting standards and auditor regulation.	Act 2013 and Rules thereunder.
22.	3.9.1	<p>Auditors and preparers emphasised the need for the Authority's guidance on issues faced by them in their work.</p> <p>Auditors and preparers wanted timely guidance on accounting for the effect of changes in the gratuity law and investment in equity instruments by provident fund trusts.</p>	<p>The comment "<i>Auditors and preparers emphasised the need for the Authority's guidance on issues faced by them in their work</i>" is completely inappropriate, as the auditors and preparers in this regard, do always consult ICAI and not NFRA.</p> <p>ICAI believes that NFRA is consulted only in case of notification and orders issued by the NFRA, and not for enunciations made by the ICAI regarding the Accounting Standards and Standards on Auditing and related accounting matters.</p> <p>Therefore, it is concluded that the members don't need any guidance from NFRA for anything related to their work as that task is statutorily assigned to ICAI.</p>
23.	3.10.1	<p>Auditors were of the view that while monetary penalty and debarment from practice were important, they were not the only methods of enforcement. They proposed settlement and remediation, where appropriate, as cost-effective and time-saving, yet highly effective, methods of enforcement. Settlement can save time</p>	<p>ICAI is of the view that this process may lead to malpractices.</p> <p>Also to expedite the process, there can be a "Fast Track Disciplinary Mechanism" for disposing off the cases like Daily Hearing of Cases.</p>



		and cost for the Authority, auditors and preparers.	
24.	3.13.3	It is critical for the Chairperson and Members to engage with other regulators in India and overseas who have a role in financial reporting and agree on information sharing to avoid duplication.	ICAI is of the view that in the list of Regulators mentioned by TAC, the name of ICAI is missing.  It is felt that consultation with ICAI and more specifically discussions on key matters at Board level, will make work NFRA much richer.
25.	3.15.1	In order to maintain its independence, the Authority may explore the possibility of funding from the RBI, SEBI, the Investor Education and Protection Fund, and credit rating agencies, besides a levy on auditors and preparers.	In the opinion of ICAI, the auditors and preparers, especially, should be kept out of the requirement of providing funding to NFRA as such a move will create a conflict of interest.  Further, since NFRA is made under a law; the government should only finance it, and it should not ask for funding from other Regulators.

### **Conclusion**

A foundation is an underlying basis or principle on which the entire structure is dependent. The Technical Advisory Committee's (TAC) report in our view lacks in fundamental principles, as the report is based on the views of a minuscule sample size of stakeholders who have responded to the questionnaire; and the extremely unreliable and un-authentic data on which TAC has relied upon to perpetuate its circular arguments of perceived notions.

Accordingly, in view of these fundamental concerns, as also detailed in the table above, the report needs to be scrapped altogether and re-drafted based on the views of a large sample size of stakeholders which may be obtained through Google forms or other available techniques, so that the comments are backed by proper research-based evidence rather



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than simply stating the arbitrary and exfacie opinions which are suffering from distorted understanding and a skewed bias.



**3. Issues and Concerns on the Recommendations In the Consultation paper issued by NFRA**

Para no. of Recommendation	Heading of Recommendation	Main Recommendation	Recommendations in Detail	NFRA's Preliminary Views on Recommendations of TAC	ICAI's Recommendation
4.1.	<b>Stakeholder Engagement</b>	<b>4.1.1 The Committee recommends the Authority's continuous engagement with investors and other users, academics, media, preparers, and auditors by forming advisory groups</b>	<p>4.1.2 Engagement with stakeholders will result in a better understanding of the stakeholders' concerns and the Authority's expectations.</p> <p>4.1.3 The Committee suggests setting up the following consultative and advisory groups:</p> <p>a. Investor Advisory Group; b. Academic Advisory Group; c. CFO Advisory Group; and</p>	<p><b>Overall recommendation by the TAC</b></p> <p>NFRA has been established to serve an overarching objective to protect the public interest and the interests of investors, creditors and others associated with the companies or bodies corporate. NFRA is to achieve this objective through a high-quality financial reporting framework. In order to effectively discharge this public interest role, NFRA welcomes</p>	<p>In respect of <b>question-1</b> relating to the formation of Stakeholder Consultation and Advisory Groups by NFRA, the views of ICAI are as follows:</p> <p>As per section 133 of the Companies Act, 2013, NFRA is a consultative body formed to advise MCA; in respect of the recommendations given by the ICAI for setting</p>



		<p><i>and establishing fellowships.</i></p>	<p>d. Auditor Advisory Group.</p> <p>Separate groups for each of the major stakeholder categories would enable the participation of many industries, organizations, and individuals in the activities of the Authority.</p> <p>4.1.4 The purpose and composition of these advisory groups may be as follows:</p> <p><b>a. Investor Advisory Group:</b></p> <p><i>Purpose:</i> To provide the Authority with the views and advice of users of financial statements.</p>	<p>the TAC recommendation to maintain a continuous engagement with various stakeholder groups.</p> <p><b>Formation of Consultative and Advisory Groups</b></p> <p>NFRA recognises the importance of formal institutional structures for a sustained, focused, and productive engagement with its key stakeholders. The TAC recommendation for an initial umbrella Stakeholder Advisory Group is accepted. Membership of this Group will be by inviting nominations, as well as by selection by NFRA. Since there would be a need to include all the four main stakeholder categories that have been</p>	<p>Standards of Accounting.</p> <p>Therefore, the Group is of the view that NFRA need not form so many further groups under it; for setting of Standards and to take up exercise for capacity building for giving an opinion.</p> <p>Further, in respect of the NFRA's role relating to the disciplinary matters, a consultative approach should be considered to be appropriate.</p> <p>Moreover, the task of formation of Consultative and Advisory group has been done by ICAI for</p>
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			<p>Size: 10 to 15 persons.</p> <p><i>Members:</i> Equity analysts, credit analysts, fund managers, investment advisers, business journalists and lawyers.</p> <p><i>Eligibility:</i> Persons with (a) extensive experience in equity analysis, credit analysis or investment advice, (b) a strong record of investor protection, professional independence, and personal integrity.</p> <p><b><i>b. Academic Advisory Group:</i></b></p> <p><i>Purpose:</i> To provide the</p>	<p>identified by the TAC, the number of members will be fixed at 12. A formal, yet flexible, remit, and procedures for the meetings of the Group, will be drawn up. With experience, and the build-up of NFRA's resources and capacity to service the Groups, NFRA will consider whether, and, if so how, the four focused and specialised Groups, as suggested by the TAC, will be progressively set up.</p> <p><b><u>Question # 1 Formation of Stakeholder Consultation and Advisory Groups</u></b></p> <p>a) What would be a suitable list of subjects that should form the standing</p>	<p>decades, whether in terms of interaction with the auditor or CFO or by the investor community.</p> <p>In this regard, it is believed that this task should be continued to be done by ICAI and therefore there is no need for NFRA to step into it.</p>
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			<p>Authority with the views and advice of accounting and auditing educators.</p> <p>Size: 10 to 15 persons.</p> <p><i>Members:</i> Teachers or researchers in accounting or auditing in universities, institutes or colleges.</p> <p><i>Eligibility:</i> Persons with (a) extensive experience in accounting and auditing education, (b) a strong record of teaching or research, professional independence, and personal integrity.</p> <p><b><i>c. CFO Advisory Group:</i></b></p>	<p><b>agenda of the Stakeholder Advisory Group?</b></p> <p><b>b) What would be an appropriate method for filling up positions on the Stakeholder Advisory Group?</b></p> <p><b>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?</b></p>	
				<p><b>Fellowship Programmes</b></p>	<p>-</p>



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		<p><i>Purpose:</i> To provide the Authority with the views and advice of preparers of financial statements.</p> <p><i>Size:</i> 10 to 15 persons.</p> <p><i>Members:</i> CFOs, controllers and audit committee chairs of large or medium listed entities.</p> <p><i>Eligibility:</i> Persons with (a) extensive experience in preparation of financial statements, and (b) a strong record of accounting and disclosure quality, professional independence, and personal integrity.</p> <p><b>d. Auditor Advisory</b></p>	<p>NFRA appreciates the reasoning behind the TAC's recommendation. However, the resources, both financial and professional, of NFRA are not likely to be adequate, in the near, or even, medium term, to be able to design and run such a programme on a sustained basis. NFRA feels that without an assurance of such sustainability, it would not be advisable to start such a Fellowship programme. Nevertheless, there are questions about the details of such a programme on which NFRA would like suggestions/comments.</p> <p>Feedback on these issues would</p>	
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			<p><b>Group:</b></p> <p><i>Purpose:</i> To provide the Authority with the views and advice of auditors of financial statements.</p> <p>Size: 10 to 15 persons.</p> <p><i>Members:</i> Partners of large or medium accounting firms.</p> <p><i>Eligibility:</i> Persons with (a) extensive experience in audit of large or medium listed companies, and (b) a strong record of audit quality, professional independence, and personal integrity.</p> <p>The Authority may designate an Executive Director each as</p>	<p>be of help to NFRA to design the programme.</p> <p><b><u>Question # 2 Fellowship Programmes</u></b></p> <p><b>a) Would a nominal Fellowship amount, as opposed to a full living allowance/compensation for loss of income attract high quality professionals/academics?</b></p> <p><b>b) Should the Fellowship be full-time, or part-time?</b></p> <p><b>c) If it is to be part-time, what is the kind of minimum involvement that should be insisted upon?</b></p> <p><b>d) In the light of the above, is a one-year tenure appropriate, or should it be</b></p>	
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			<p>the chair of the above advisory groups.</p>	<p><b>for a longer period? Or should it be only for a few months, and tailored to the specific subject that is chosen for study?</b></p>	
			<p><b>4.1.5 Setting up and managing groups would call for considerable time and resources that the Authority may not have in the early years. Therefore, a single group called the Stakeholder Advisory Group with 8 to 12 members drawn equally from among auditors, preparers, users and academics may be considered for the next few years.</b></p> <p>4.1.6 The Authority may establish a fellowship programme in order to</p>	<p><b>Public Speeches etc.</b></p> <p>This recommendation will be acted upon whenever suitable opportunities present themselves. NFRA's communication will be based on what it understands to be the central pillars of its mandate, and the manner in which the same can be executed, and will be based on its assessment of audit quality as revealed by its reviews. NFRA would also need to reckon with the fact that the jurisprudence in this area is still</p>	<p>In response to <i>question-3</i> raised by NFRA, ICAI is of view that NFRA should not disclose any matter to the public which is till sub judice or is under the process of completion as the same triggers unwarranted media speculation.</p> <p>Further, ICAI is of the view that any information should not be disclosed by NFRA in the public domain for media trials when</p>



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			<p>strengthen its interaction with practitioners and academics. Two types of fellowships may be considered:</p> <p><b>a. The NFRA Practice Fellowships:</b> Two fellowships may be awarded annually for a term of one year on a competitive basis. Partners or staff of accounting firms and CFOs and finance and accounting staff in listed entities would be eligible to apply. The Authority would announce the topics of interest and these would typically include: application or implementation of accounting and auditing</p>	<p>to evolve and get confirmation from the highest judicial forums. Given the need to rigorously anchor its communication in the facts of extant audit quality, the build-up in communication would have to be performed gradual.</p> <p><b><u>Question # 3 Public Speeches etc.</u></b></p> <p><b>Do you agree with NFRA's general approach to public communication?</b></p>	<p>there are other options available and it should go for making public comment only after the completion of the legal process, not in the interim stage.</p> <p>Furthermore, while making public comments, it should not disclose any confidential information.</p>
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			<p>standards; auditing internal financial reporting controls; auditing estimates, including fair value; and use of technology to improve audit quality.</p> <p><b>b. The NFRA Academic Fellowships:</b> One fellowship may be awarded annually for a term of one year on a competitive basis. Faculty members or PhDs in economics, finance, accounting or a related area would be eligible to apply. The Authority would announce the topics of interest and these would typically include: audit firms' quality control systems; audit quality indicators; audit</p>		
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			<p>report communication; and preventing and detecting financial reporting fraud.</p> <p>4.1.7 Wherever possible, the Authority's Chairperson and Members may make use of speeches in industry or other forums to communicate their thinking on matters of interest to the stakeholders.</p>		
<b>4.2.</b>	<b>Inspection, Investigation and Enforcement</b>	<b>4.2.1 The Committee recommends that the Authority formulate a policy for inspection and make it public.</b>	<p>4.2.2 The proposed policy may cover the process for inspections including criteria for selection of companies and the procedure to be followed.</p> <p>4.2.3 Investigation and enforcement may follow inspection or receipt of a complaint or reference.</p>	<p>The Policy for Inspection proposed to be adopted by NFRA is at present work-in-progress. The preliminary thinking in this regard is summarised below.</p> <p>NFRA Rules 2018 lay down how NFRA should protect the public interest and the interests of investors, creditors and others</p>	<p>The NFRA as per Rule 10 of the NFRA Rules 2018 is empowered to conduct investigation on the alleged misconduct of the Auditors of any specified entity.</p> <p>However, as per the suggestion of the TAC and NFRA's preliminary view,</p>



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			<p>Therefore, it would be difficult to lay down a policy for these activities.</p>	<p>associated with the companies or bodies corporate falling within its jurisdiction. Rule 7 to 9 of the NFRA Rules 2018 specifically require the Authority to monitor and enforce compliance with accounting standards and auditing standards and oversee the quality of audit services. These Rules also lay down the processes by which such functions are to be carried out. The <b>Inspection Programme</b> that NFRA has instituted, pursuant to the above, has two components. The components, as well as what is comprehended by each, are described below.</p> <p><b>1) Financial Reporting</b></p>	<p>the NFRA is entering the domain of Inspection, which is outside its functional authority.</p> <p>As per the dictionary<sup>3</sup> meaning; Inspection is defined as an act of examining something, often closely.</p> <p>Whereas, investigation is defined as the process of inquiring into or following up.</p> <p>Since both of these terms cannot be interchangeably used, therefore NFRA should also exercise</p>
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<sup>3</sup> <https://wikidiff.com/inspection/investigation>; accessed on 22.06.2021 at 09:19 am



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				<b>Quality ("FRQR(s)")</b>  Financial statements are presented as an Integral part of the Annual Report of the Company. The Annual Report has many inter linkages amongst its constituent parts. NFRA's primary role, as explained in Rule 4 of the NFRA Rules, is to protect the public interest and the interests of investors, creditors, and others associated with companies or bodies corporate. The Annual Report is the mechanism through which all the information required by these stakeholders is sought to be provided. The primary objective of the FRQR is to assess and	<b>Reviews</b>  caution while using its power prescribed under the Act when under the Act where-ever so required , inspection has been dealt with specifically .
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				<p>evaluate how well the information needs of these stakeholders has been met.</p> <p>In undertaking the FRQR, NFRA's role, inter alia, will include monitoring compliance with accounting standards.</p> <p>The FRQR will focus on the role of preparers, i.e., those responsible for the preparation of financial statements and reports in accordance with the applicable accounting standards. Therefore, the FRQR will evaluate how well the Chief Financial Officer ("CFO"), and the rest of the Management, and the Board of Directors ("BOD") of the Company, have performed in preparing financial</p>	
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			<p>statements that show a true and fair view as required under the Companies Act, and in accordance with the applicable accounting standards. The FRQR will conclude with an advisory to the preparers, highlighting the matters that need improvement. In case there are violations of accounting standards and the law that require action to be taken under the law, the matter will be reported to the competent authorities.</p> <p>In order to discharge NFRA's role effectively and efficiently, the FRQR Process will subject all important elements of the Annual Report to the four- fold tests of appropriate Recognition, Measurement, Presentation, and</p>	
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				<p>Disclosure, and whether they are:</p> <ul style="list-style-type: none"><li>i. In compliance with the law and the applicable accounting standards; and</li><li>ii. Relevant, verifiable, comparable, and understandable, as explained in the conceptual framework.</li></ul> <p><b>2) Audit Quality Reviews (AQRs)</b> of the work performed by the statutory auditors of the companies.</p> <p>The AQR has the objective of verifying compliance with the requirements of Standards on Auditing relevant to the performance of the Engagement by the Audit Firm. The AQR also</p>	
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				<p>has the objective of assessing the Quality Control system of the Audit Firm and the extent to which the same has been complied with in the performance of the engagement. NFRA's AQR process starts by asking the Audit Firm to provide to NFRA the Audit File (as defined by Para 6(b) of SA 230). Thereafter, the Audit Firm is issued a questionnaire. Once the Audit Firm provides its response to the questionnaire, the matters raised in the questionnaire are examined by referring to the relevant portion of the Audit File as identified by the Audit Firm. Subsequently, NFRA conveys its prima facie observations/ comments/</p>	
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				<p>conclusions on the various issues in the questionnaire to the Audit Firm. Once the Audit Firm provides its response to NFRA's prima facie observations, a Draft Audit Quality Review Report ("DAQRR") is issued after examining the responses. The Audit Firm then submits its written reply in response to the DAQRR which is followed by a presentation to NFRA. After considering all the submissions made by the Audit Firm, NFRA completes its review and publishes the final report as mandated by the law.</p> <p>NFRA's present thinking on the methodology and criteria for selection of companies, and focus areas, for FRQR and AQR</p>	
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				<p>is given below.</p> <p><b>METHODOLOGY AND CRITERIA FOR SELECTION OF COMPANIES /AUDITORS/ SUBJECTS FOR FRQR and AQR</b></p> <p><b>Introduction</b></p> <p>1. The choice of companies/auditors/subjects for the conduct of an AQR is best done when the logic therefor is built from first principles.</p> <p>2. The NFRA framework is built around a foundational concept of PIEs. These entities are to be identified on the basis of clear public interest criteria. The objective of such identification is</p>	
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				<p>to set in place procedures and mechanisms for the protection of the public interest and the interests of investors, lenders, creditors, and others are associated with and who have significant stake in the financial health of such entities.</p> <p>3. This paramount objective of NFRA is clearly enunciated in Rule 4 of the NFRA Rules, 2018.</p> <p>4. With this objective in view, Rule 3 of the NFRA Rules, 2018, lays down a skeleton framework of the criteria that should be used to identify PIEs. The criteria included in Rule 3 are essentially twofold:</p>	
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				<p>(i) Listing of any of the securities of a company on any recognized Stock Exchange, whether in India or abroad; and</p> <p>(ii) Public Limited Companies above a certain threshold in terms of turnover, or outstanding debt, or paid-up share capital.</p> <p>5. There are a few more criteria listed in Rule 3 which are largely subsumed in the two categories explained above.</p> <p>6. However, the scope of NFRA's jurisdiction, as provided by Rule 3 of the NFRA Rules, 2018, is not described in sufficient detail in the said Rule as to enable the drawing up of an operational action plan for</p>	
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				<p>NFRA. In order to finalize the principles and the methodology that should be the basis of an operational action plan, the broad framework of considering only PIEs, defined as above, would have to be used as the starting point for a further classification that can help in drawing up the operational action plan.</p> <p>7. Keeping all the above in view, the criteria to be used in the selection methodology can be divided into two groups that may have some overlap:</p> <p>(i) External Impact Factors; and (ii) Risk of Material Misstatement ("RoMM") Factors</p>	
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				<p>8. Each of the above two broad categories will have to be drilled down into a number of specific metrics in such a manner as to be able to assess the combined effect of all these metrics on the overall criteria. The division of the overall criteria into two broad categories as explained above is not meant to create two water tight groups but is meant to be used more as an analytical device that helps to clarify and guide the application of the methodology in an objective manner. Any metric, classified in any one category could, possibly, have an impact on the other category as well. The methodology should provide for:</p>	
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				<p>i. A clear definition of the metric, so as to enable computation of its value in a consistent manner across companies;</p> <p>ii. Specific data sources for each metric, that present the same according to accepted, standard definitions;</p> <p>iii. Computation of the metric from published sources; and</p> <p>iv. A weighting diagram for integrating the numbers from all the metrics into an overall figure.</p> <p><b>External Impact Factors</b></p> <p>9. This group of factors will cover all metrics that seek to</p>	
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				<p>understand, identify and measure the financial impact that a company has on the economy and environment.</p> <p><b>RoMM Factors</b></p> <p>10. In this category, the attempt will be to identify metrics that can potentially predict the RoMM that may either escape the attention of auditors, or could be overlooked by auditors.</p> <p>11. In respect of each of these two broad categories of indicators, companies would be classified into one of three buckets based on substantial, moderate and low external impact in terms of the External</p>	
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				<p>Impact Factors, and high, moderate and average RoMM.</p> <p>12. Once the comprehensive list of metrics and their calculation methodology are detailed, a suitable method for calculating the Composite Index of the metrics under each category and the ranges for each of the three buckets under each category will have to be developed.</p> <p>13. The result of the above classification would be a 3X3 matrix:</p> <table border="1"><tr><td>External</td><td>High</td><td>Moderate</td><td>Average</td></tr><tr><td>Impact/ RoMM</td><td></td><td></td><td></td></tr></table>	External	High	Moderate	Average	Impact/ RoMM				
External	High	Moderate	Average										
Impact/ RoMM													





				<p>14. The detailing of this methodology will be finalized based on feedback and further internal review and periodically revised, if found necessary, based on experience.</p> <p>The selection criteria of companies and audits for Inspections will also include random methods of selection so as to ensure that appropriate responses are possible to emerging situations NFRA is conscious of the need for transparency in the approach to Inspection. However, NFRA has also to consider any unintended consequences that could follow upon complete and detailed disclosure of the risk-based</p>	
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				<p>methodology, in terms of the potential risk of loss of the element of surprise. This could prove detrimental to the effective discharge of NFRA's functions and duties. NFRA will disclose only the high-level principles of its Inspections approach, which is in line with the public disclosures made by its peer group e.g., Public Company Accounting Oversight Board (U.S.) ("PCAOB"), Financial Reporting Council (U.K.) ("FRC") and Australian Securities and Investments Commission ("ASIC").</p> <p><b><u>Question # 4 Inspection Policy</u></b></p> <p><b>a)What are your comments</b></p>	
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				<p><b>on the objectives and scope of the FRQR/AQR Inspection Programme?</b></p> <p><b>b) What are your suggestions regarding the Risk-Based Methodology for choice of companies as described above?</b></p>	
4.3	<p><b>Settlement of Disciplinary Matters and Remediation</b></p>	<p><b>4.3.1 The Committee recommends that the Authority examine the desirability and feasibility of a policy on settlement of disciplinary matters.</b></p>	<p>4.3.2 Under Section 132(4), the Authority has the power to impose monetary penalty and debar an auditor or the audit firm in case of "misconduct". This requires a determination of "misconduct" by the auditor or the firm after investigation and adjudication. Currently, there is no provision for settlement of disciplinary matters in the Act or the</p>	<p>NFRA appreciates the reasoning behind the recommendation. As clarified by the TAC itself, settlement procedures require statutory backing. NFRA will examine the matter further and take it up with the government appropriately, if found warranted.</p> <p>NFRA looks at a likely statutory settlement process as one element of a comprehensive</p>	<p>ICAI is of the view that this process may lead to malpractices.</p> <p>Also to expedite the process, there can be a "Fast Track Disciplinary Mechanism" for disposing off the cases like Daily Hearing of Cases.</p> <p>Further, it is necessary to be clarified that investigation by NFRA</p>



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			<p>Rules without such determination. Disciplinary proceedings take time, effort and resources. Litigation of disciplinary orders before courts and the National Company Law Appellate Tribunal (NCLAT) not only costs time, effort and resources but also causes uncertainty.</p> <p>4.3.3 Settlement of disciplinary matters would expedite enforcement action. The PCAOB and the FRC have settlement of disciplinary cases prior to adjudication. In India, SEBI has procedures for settlement of proceedings under the securities laws.</p>	<p>stand-alone legislation that, ideally, should cover all aspects of NFRA's functioning. This is the pattern that has been followed in the case of other regulators as well. Any such proposed legislation should provide adequately for the institutional, functional and financial autonomy of NFRA, and provide for all the procedural safeguards necessary as far as the regulated entities are concerned. The law should also empower NFRA to fill out the operational details and requirements within its overall framework. NFRA will work on the draft of such a law.</p> <p><b><u>Question # 5 Settlement of Disciplinary Matters and</u></b></p>	<p>about misconduct of the Auditors of any specified entity shall be only in respect of their conduct relating to statutory audit of the entity.</p>
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			<p>The Authority may consider taking up the matter with the Government.</p> <p>4.3.4 Rule 9 of the NFRA Rules, 2018 provides for direction by the Authority to an auditor to make improvements and for monitoring improvements made by the auditor. Therefore, the Committee does not make any recommendation on remediation.</p>	<p><b><u>Remediation</u></b></p> <p><b>a) Do you have any specific suggestions on the contents of the stand-alone law that should govern NFRA?</b></p>	
<b>4.4</b>	<b>Communication and Advocacy</b>	<b>4.4.1 The Committee recommends expansion of the Authority's communication and advocacy</b>	<p>4.4.2 The Authority may redesign its website to make it more informative and accessible. The new website should include the following:</p> <p>a. Separate tabs for</p>	<p><b>Website structure and layout</b></p> <p>NFRA considers the website to be a key means of communication of the Authority's role and</p>	-



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		<p><b>activities by redesigning its website, posting videos, starting a newsletter, and organizing webinars.</b></p>	<p>auditors, preparers, investors, and academics;</p> <p>b. Videos on the Authority's purpose, powers and functions, interviews on new accounting and auditing standards, panel discussions on implementation of accounting and auditing standards, and so on;</p> <p>c. A whistleblower contact email address.</p> <p>4.4.3 The Authority may start a quarterly newsletter to report current developments in accounting and auditing. The newsletter can also have articles from the staff on such matters.</p> <p>4.4.4 The Authority may</p>	<p>responsibilities, and to disseminate information about its various activities. NFRA agrees with the TAC that its website should serve the critical information needs of its key stakeholder groups in an effective and efficient manner. While it may be useful to consider the typical structure and layout of the Authority's global peer group as a benchmark, the differences in the scope of functions and duties also need to be borne in mind. This will be an area of constant attention, and effort for improvement, as far as NFRA is concerned. Considering the present status, nature and volume of activities of the Authority and the scope of its</p>	
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		<p>organize webinars to discuss new standards and current developments. To begin with, one webinar per month may be planned and the number can be increased depending on feedback. Inviting suggestions from stakeholders would help in identifying relevant topics for webinars.</p> <p>4.4.5 An NFRA app may be developed to facilitate easy access to information.</p> <p>4.4.6 The Authority may provide a short non-technical note to business journalists on standards, AQRs, disciplinary orders, and other documents in order to</p>	<p>role and responsibilities, the information disclosed on the Authority website is proposed to be broadly divided into following Tabs.</p> <ul style="list-style-type: none"><li>❖ About Us</li><li>❖ Financial Reporting Quality Reviews</li><li>❖ Audit Quality Reviews</li><li>❖ Investigations and Enforcements</li><li>❖ Standard-setting Activities</li><li>❖ Media and Gallery</li></ul> <p><b>Videos on the Authority's purpose, powers and functions, interviews on new accounting and auditing standards, panel discussions on implementation of accounting and auditing</b></p>	
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			<p>enable them to understand the content and report the matter in a timely manner.</p> <p>4.4.7 The Authority may collaborate with universities, institutes and colleges for publicising its role and activities.</p>	<p><b>standards</b></p> <p>NFRA, as an Independent Audit and Accounting regulator, is in its formative years. NFRA's remit is different from that of some of the prominent global bodies such as PCAOB, US. Therefore, NFRA agrees that there is a need to clearly articulate the scope of NFRA's role and responsibilities and unambiguously communicate the same to its stakeholders. Audio-visual modes such as Videos and Interviews would definitely be useful means of communication, supplementing documents published on the website. However, NFRA needs to evaluate the need for and suitability of videos on new</p>	
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				<p>accounting and auditing standards, and panel discussions on their implementation, bearing in mind the scope and extent of its role and responsibility in this area, and the role assigned to the relevant professional bodies. Therefore, NFRA will further examine this matter for a suitable action plan.</p> <p><b>Whistle-blower contact email address</b></p> <p>In regard to whistle-blower contact email address, NFRA wishes to clarify that there is already a separate tab titled "Public Grievance" on its website which contains detailed guidelines on the procedure for complaint handling in NFRA</p>	
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				<p>along with the process and documents required to be submitted along with complaint. The procedure also contains the course of action to be followed by complainant in case he wants to keep his identity details confidential.</p> <p><b>Question # 6</b></p> <p><b><u>Communication and Advocacy: Website Structure and Layout</u></b></p> <p><b>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 the NFRA Rules 2018?</b></p>	
				<b>Newsletters</b>	Every organisation



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				<p>NFRA recognises the importance of Newsletters (particularly in electronic form in this technology enabled world) to remain connected with stakeholders. In relation to the purpose and contents of the Newsletters as indicated in the TAC report, NFRA will have to evaluate whether the use of Newsletters to disseminate information about accounting and auditing standards has the potential of information overload in the areas of accounting and auditing, and also the potential risk of legal ramifications of interpretation of accounting and auditing standards that are part of the law in India.</p>	<p>conducts programme for its members to educate them in their respective fields, for example:</p> <ul style="list-style-type: none"><li>• The Ministry of Corporate Affairs (MCA) conducts programme for its investors through the ICAI.</li><li>• The ICAI conducts various programmes for its members.</li><li>• The Indian Institute of Corporate Affairs (IICA) conducts programme for its Independent Directors.</li></ul> <p>It is apparently visible, that the organisation is</p>
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			<p><b>Question # 7</b> <b>Communication and</b> <b>Advocacy: Newsletters</b></p> <p><b>a) What, in your opinion, would be the subjects/areas that Newsletters from NFRA should focus on?</b></p> <p><b>Webinars</b> For the same reasons as explained above in relation to Newsletters, NFRA will examine this recommendation in detail to understand what value can be added by the webinars suggested.</p> <p><b>NFRA App</b> NFRA's work is connected with a well-defined group of stakeholders. NFRA does not</p>	<p>empowered to conduct awareness programmes for its "own members" only.</p> <p>In the Consultation Paper issued by NFRA, it has been proposed by the TAC to NFRA to conduct programmes cum webinars for the "Auditors".</p> <p>It is to be noted when the Auditors are the members of ICAI, then how NFRA could suo moto propose to authorise itself to conduct awareness programme for them, when an institution has already been incorporated</p>
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			<p>provide any services to the public at large. Nor do NFRA's activities require real time, interactive, contact with its stakeholders. Considering all this, there does not appear to be any value addition that an App would provide over what a well-designed website would. Hence, NFRA does not think that an App is necessary to facilitate easy access to information.</p>	<p>under Law to serve and educate them.</p> <p>The said suggestion is THEREFORE considered to be an infringement on the present functions of ICAI for prescribing education for its members which is not in any way envisaged UNDER the Companies Act and therefore, ultra vires to the Companies Act 2013 and the Chartered Accountants Act 1949.</p>
			<p><b>Press and Media Guidance</b></p> <p>NFRA appreciates the role of Press and Media as the 4th Pillar of Indian Democracy in the larger public interest area of</p>	<p>ICAI is of the view that NFRA should not perform any task related to advocacy in respect of briefing the media in a non-technical manner, as</p>



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quality of financial reporting and auditing. Material regularly posted on the website is designed to also assist business journalists to understand the contents and import of FRQR/AQRs, disciplinary orders etc. Even currently, executive summaries are posted along with the detailed reports. In respect of AQRs and Disciplinary Orders, NFRA will be evaluating potential use of issuing Press Releases, in addition to Executive Summaries, in cases of material or significant impact to public interest.

it will result in forming an influenced opinion AND create a chilling effect.

**Question # 8 Press and Media Guidance**

**a) Do you agree with NFRA's**



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			<p><b>preliminary views on communication with Press and Media on reports by the Authority? Do you have any alternative suggestions?</b></p>	
			<p><b>Collaboration with Universities, Institutes and Colleges</b></p> <p>NFRA believes that academic and professional institutions associated with critical area of financial reporting are fundamental building blocks of a High-Quality Financial Reporting Framework which is a sine qua non for development of robust and sound economy and financial markets. These institutions can play a critical role in furthering the goals and objectives for which NFRA has</p>	



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				<p>been established. NFRA will explore various ways and means to collaborate with academic and professional institutions.</p> <p><b><u>Question # 9 Collaboration with Universities, Institutes and Colleges</u></b></p> <p><b>a) Do you have any suggestions on viable modalities for collaboration with educational institutes?</b></p>	
<b>4.5</b>	<b>Data Dissemination</b>	<b>4.5.1 The Committee recommends making auditors' and preparers' filings with it</b>	4.5.2 Easy access to data would enable research in accounting and auditing. In addition, the Authority may commission research on topics of interest and publish the results as working papers	a) Companies are required to file, on a periodic basis, certain important information, and documents useful to the public, with Ministry of Corporate Affairs, Government of India ("MCA"), Securities and	The <i>recommendation in respect of making auditors' and preparers' filings available to the public which is with NFRA</i> is not considered to be appropriate as it will



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		<p><i>available to the public.</i></p>	<p>or discussion papers.</p> <p>4.5.3 The Authority may set up a database service similar to SEBI's EDIFAR (now not available) or the SEC's EDGAR for the filings with it.</p> <p>4.5.4 The information to be made available would exclude any confidential filings and submissions.</p>	<p>Exchange Board of India (SEBI) and Stock Exchanges. NFRA feels that creation of multiple databases in the public domain, covering the same areas, may not be beneficial to users and it could cause confusion.</p> <p>b) As far as the filings by auditors are concerned, NFRA will examine the extent to which they can be put in the public domain, without violating any confidentiality stipulations that may be in force.</p>	<p>harm the fundamental objective of confidentiality.</p> <p>As per the Code of Ethics of ICAI, a Chartered Accountant has to maintain confidentiality for matters related to the company(ies) for which it performs the statutory service of audit.</p> <p>Disclosing any matter as aforesaid by the CA will be considered as violation of the Code of Ethics and for which he will be held guilty under the provisions of the Chartered Accountants Act, 1949.</p>
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					In respect of filings with NFRA, certain confidential matters are required to be disclosed by the auditor to NFRA, and if same information is made available to the public; it has the propensity to harm the confidentiality and is not likely to serve any useful purpose by its disclosure.
4.6	Road Map	<b>4.6.1</b> <i>The Committee recommends that the Authority develop a road map to guide its direction and activities</i>	4.6.2 The Authority may develop a road map consisting of a five-year strategic plan and an annual operating plan and publish them in advance. The road map should reflect the Authority's priorities, resources and experience.	NFRA is of the view that the suggestion made by the TAC for developing a road map to guide its direction is of utmost importance. NFRA will endeavour to develop a <b>1) Strategic Plan</b> covering a time horizon of Five Years say	In response to <b>question 10</b> , the views of ICAI are as under:  The five goals which are envisaged in the strategic plan of NFRA, most of them are far beyond its functional authority as laid



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		<p><b>and convey its priorities to stakeholders.</b></p>	<p>The draft version of the road map may be issued first for public comment.</p> <p>4.6.3 The policy for inspection recommended in Section 4.2 may be included in the annual plan.</p>	<p>2022-2027. The overall theme of the Strategic Plan will be "Institutional Development for Delivering on NFRA's Mandate". This will be achieved through the following Five Strategic Goals.</p> <p><b>GOAL 1</b> Effective and Efficient Operating Model for Monitoring Audit Quality and Financial Reporting, and Enforcing Compliance.</p> <p><b>GOAL 2</b> Develop High Calibre Technical Resources</p> <p><b>GOAL 3</b> Promote Awareness, Establish Stakeholder Engagement, And Enhance Transparency/Accessibility</p>	<p>under the Act.</p> <p>The proposal to monitor Audit Quality and Financial Reporting by NFRA as stated in Goal 1 has not been prescribed under the Act.</p> <p>Again, the goal of promoting awareness (as mentioned in GOAL 3) does not lie with NFRA, as it is the duty of ICAI to create awareness in respect of matters relating to auditing and accounting to its professionals. (Please refer 4.4 of this table)</p> <p>Further, in respect of GOAL 4, it is to be noted</p>
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			<p><b>GOAL 4</b> Standard-Setting – Accelerate Convergence with Global Best Frameworks</p> <p><b>GOAL 5</b> Build Global Partnerships and Contribute in Global Initiatives</p> <p><b>2) Operating Plan:</b> In order to achieve the goals and priorities set in the Strategic Plan referred above, a comprehensive, but achievable and measurable, operating plan is proposed to be developed and operationalised. This instrument will have detailed plans and actions including the resources required.</p> <p>NFRA will be separately publishing the Strategic Plan for</p>	<p>that as per section 133 of the Companies Act, 2013, the Standard Setting has to be done by the ICAI and NFRA has only advisory role in such case. (Refer 4.1 of this table)</p> <p>Lastly, in respect of the GOAL 5 of the NFRA as stated in its strategic plan; the NFRA while implementing the same is requested to refer to meeting held on 18<sup>th</sup> July, 2018 at MCA, wherein it was discussed that NFRA is to be a member of International Forum of Independent Audit Regulators (IFIAR) only and NFRA will not be a</p>
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				<p>public comments and feedback.</p> <p><b><u>Question # 10 Roadmap: Strategic Plan and Operating Plan</u></b></p> <p><b>a) Do you have any suggestions on NFRA's Strategic Goals and Priorities for the medium term?</b></p>	<p>member where ICAI is already representing as accounting body to avoid duplicacy.</p>
<b>4.7</b>	<b>Building Regulatory Capacity</b>	<b>4.7.1 The Committee recommends that the Authority build up its capacity steadily in the next five years.</b>	<p>4.7.2 The staffing plan may describe the number of personnel, levels and skills and the timeline for recruitment and training.</p> <p>4.7.3 Regular training should help the staff be up to date in their area of work and increase their productivity. Annual training hours may be</p>	<b>Human Resources</b>	<p>The NFRA's approach w.r.t. short term staff exchange with auditors and preparers is not considered to be correct; since it will lead to conflict of interest; as in a similar way of proposing funding from auditors and preparers (mentioned under point 25 of table II)</p>



		<p>specified and included in the performance appraisal. The Committee suggests a minimum of 100 hours for each member of the staff. The topics and hours of training would depend on the current and expected responsibilities of the staff and should also be related to their long-term career progression. Typically, the training calendar should have accounting and auditing standards, business law, inspection and investigation procedures, forensic investigation, technological developments, analytical tools and techniques, written communication and report writing, team working,</p>	<p><b>Training</b></p> <p>The world of financial reporting and auditing needs to rapidly change to keep pace with technology, and new methods and practices of globalised businesses over a period of time and continues to evolve in line with trade, commerce and information technology. Certain areas of financial reporting require specialist skill-sets relating to finance and risk management. While NFRA has already initiated training programmes for its professional staff, NFRA agrees with the TAC recommendations to develop and implement well-designed and structured training</p>	
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		<p>operations management, and so on.</p> <p>4.7.4 The Authority may consider two-way short-term staff exchanges with auditors and preparers and leading overseas regulators such as the PCAOB and the FRC.</p> <p>4.7.5 Appropriate legal and ethical arrangements should be put in place for exchange of staff in order to ensure confidentiality and eliminate potential conflict of interest and excessive familiarity that could impair objectivity.</p>	<p>programmes that comprehensively cover areas that are relevant and important to the staff in NFRA.</p> <p><b>Short-term staff exchanges with Auditors, Preparers and Global Peer Group</b></p> <p>While NFRA agrees that staff exchanges with Auditors and Preparers could potentially be of benefit, an important factor to consider is any unintended impact it could have on Independence. Initially, therefore, NFRA would prioritise staff exchange programmes with global peer groups. The best, and most effective methods of exchanges with auditors and preparers that can lead to</p>	
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				<p>mutual benefit, without any compromises, would require examination before they can be adopted.</p> <p><b><u>Question # 11 Building Regulatory Capacity</u></b></p> <p><b>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?</b></p>	
<b>4.8</b>	<b>Decision-making</b>	<b><i>4.8.1 The Committee recommends that the Authority ensure transparency in</i></b>	<b>4.8.2</b> The Authority may publish a handbook containing the various steps to be followed in reaching decisions. <b>4.8.3</b> Rule 17 of the NFRA	NFRA agrees with the TAC's view about the need for maintaining confidentiality and security of the information provided to NFRA. The steps in the FRQR/AQR processes have already been detailed above in	-



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		<i>decision-making</i>	Rules, 2018 provides for maintenance of "complete confidentiality and security of the information provided" to the Authority and persons and organizations associated with it. Therefore, the Committee does not make any recommendation in this regard.	paragraph 4.2 above. The various steps to be followed in Disciplinary Proceedings are laid down in Rule 11 of the NFRA Rules.	
4.9	<b>Timely Guidance</b>	<i>No recommendation</i>	4.9.1 The Committee appreciates auditors' and preparers' need for timely guidance on some emerging accounting and auditing questions. Under the law, the Authority does not have powers to issue any guidance. The Government (Ministry of Corporate Affairs) issues accounting and auditing standards,		Please refer point 22 in the table given in Issues and Concerns in the Report of Technical Advisory Committee



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			which have the status of subordinate legislation under the law. Given this position, it needs to be examined if even the Ministry can provide clarifications and guidance. Therefore, the Committee does not make any recommendation in this regard.		
4.10	<b>Audit Quality Indicators and Audit Firm Evaluation</b>	<b>No recommendation</b>	4.10.1 The Committee thinks that a requirement to disclose audit quality indicators (AQIs) has the potential to encourage audit firms to take a critical look at their audit processes and raise audit quality. Evaluation of internal culture, remuneration policies, reporting relationships, and independence, among	-	In line with the Consultation Paper issued by MCA, ICAI has already established Centre for Audit Quality and is also in the process of issuing audit quality maturity model.  So, it is believed that there is no need for parallel issuance of AQR



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			others, by audit firms would help them identify their strengths and weaknesses and take remedial measures in advance rather than in the middle of a crisis. However, these matters are outside the scope of this report. The Committee would like to leave it to the Authority to consider them as part of its strategic plan.		by NFRA.
<b>4.11</b>	<b>Independence , Funding and Accountability</b>	<b>No recommendation</b>	4.11.1 Currently, the Authority is fully funded by the Government (Ministry of Corporate Affairs). Any changes in funding arrangements would require amendments to the law. The independence of the Authority is guaranteed by the Companies Act, 2013 and	While NFRA is broadly in agreement with the above views of the TAC, it is of the opinion that these matters need to be specified by a stand-alone legislation, as explained in response to paragraph 4.3 above.	Please refer point 25 in the table given in Issues and Concerns in the Report of Technical Advisory Committee



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			<p>the NFRA Rules. In particular, sub-sections (3A) and (3B) of section 132 protect the objectivity, integrity and independence of the monitoring, compliance review, and disciplinary processes, and prevent the capture of the regulator by the regulated entities and the accounting industry associations. As for accountability, the section provides for submission of an annual report on its activities to Parliament. These matters are outside the scope of this report.</p>		
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#### **4. Other issues**

The Major issues being faced are enumerated below:

- 1. Legality of some of the Actions taken by NFRA**
- 2. Audit Quality**
- 3. NFRA unsettling the working environment**

There are some instances of one side working of NFRA which are as follows:

##### **i. Issuance of Draft Procedure for submission of Audit Files to NFRA:**

The National Financial Reporting Authority has issued Draft Procedure on 30<sup>th</sup> April, 2020 for submission of Audit Files to NFRA wherein comments were invited up to 31<sup>st</sup> May, 2020 which ICAI came to know through the Notice, however, later on, NFRA requested for ICAI Comments and to upload the same on ICAI website for seeking comments from regulated entities.

While as per the Constitution of NFRA, there are three nominees of ICAI on the Board of NFRA; they were not aware of such Draft procedure as at no stage the same was placed as an agenda in any of the meetings held. The said draft procedure had bearing on the audit profession of the country especially in the pandemic time and it is disappointing that ICAI being the regulator of the Chartered Accountancy profession was not consulted before the Draft procedure was hosted. It is imperative that ICAI should have been consulted before issuing such important documents so that the profession is not impacted and the practices proposed are not practicable to implement.

##### **ii. Formation of Technical Advisory Committee:**

We had come to understand through Press that the National Financial Reporting Authority had constituted a seven-member Technical Advisory Committee (TAC) under the Chairmanship of R Narayanaswamy, Professor, Indian Institute of Management, Bengaluru. The Committee has been formed to aid and advise the Executive Body of the NFRA on issues related to the drafts of accounting standards and auditing standards and also provide inputs from the perspectives of users, preparers and auditors of financial statements.



This Institute's nomination on such committees has been found to be totally lacking. Therefore, the contribution of a Regulatory body arising through the legislative mandate arising out statute is totally missing in the deliberations of such Governmental Committees and people consulted thereat are best representing in their personal capacity.

The domain expertise of regulation is available with ICAI including through Users, preparers and auditors of financial statements; the entire analysis is available with Institute.

The entire people who have nothing to do with the Regulation, Accounting and Auditing profession are getting such positions of eminence. Without going into the merits or demerits of this, it should have been appropriate that the ICAI nominee should have been included by the Government of India and the type of constitution also should be advised by the Government of India.

**iii. Issuance of Form NFRA- 2 by NFRA:**

We would like to state here that NFRA 2 form was introduced without consultation with ICAI which required detailed information about the Auditor's work and his clients. Certain informations have been asked that are duplicate along with the details that are not possible to be filed and the information also has been sought for the year 2017.

In this regard, this is to mention here that the Annual General Meeting (AGM) of a company shall be held by 30th September in which the financial statements pertaining to the previous year are adopted and approved. For example, for approving the Financial Statements for the year 2018-2019 and adoption of Annual Report for the said Financial Statements, the AGM is required to be held upto 30th September, 2019.

In view of this, it is mentioned that when the filing is due on November, 2019, it shall refer to the Financial Statements for the year 1st April, 2018 to 31st March, 2019 and the Auditor's Report issued on the Financial Statements for the period from 1st April, 2018 to 31st March, 2019.

Since, the NFRA Rules were notified in the financial year 2018-19, the details as per Form NFRA 2 shall be required to be filled for that particular year and not 2017-18.



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This is also to state that since the Companies are required to file Form ADT-1 and AOC-4 which contains the details of individual auditor/audit firm. Moreover, details of auditors can be examined through the XBRL forms which are to be filed by listed companies and other prescribed companies.

Therefore, the relevant details asked through Form NFRA - 2 are already being filled in through various other forms.

We would also like to mention here that in Form NFRA -2, the details like number of employees, remuneration of the auditor in various capacities have been sought. The remuneration details are already required to be disclosed in Schedule III to the Companies Act 2013.

Lastly, it can be clearly stated that major information that are asked in the Form NFRA 2 are outside the purview of its jurisdiction or already being asked in some other ROC forms.

#### **iv. Information sought from various firms for the years from 2015-2019 to study matters relating to the independence of Statutory Audit:**

We understand that the National Financial Reporting Authority had sought information from various firms to study matters relating to the independence of Statutory Audit namely:

*"We note that the institution of an independent statutory auditor is a vitally important pillar of the structure of corporate governance. Independence of the statutory auditor is an all-pervasive theme that infuses meaning, credibility and trust into the audit. While this is, in fact, to be taken as present throughout the standards on auditing, special reference is made in SQC1, Framework for Assurance Engagements, SA 220 etc.*

*As part of the data input to study matters relating to independence of statutory audit in the country, it is kindly requested to supply us with the data as per the following table:*

<b>Financial Year</b>	<b>Name of Partner</b>	<b>Status</b>	<b>Percentage of total income from</b>
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			<b>Audit Services</b>	<b>Assurance Services</b>	<b>Non-audit Services to audit Clients</b>	<b>Non-audit Services to non-audit clients</b>

**Notes:**

- (i) Data is to be given for Financial Years 2015-16 to 2019-20 (five years).
- (ii) For each year, data is to be given separately for every partner who has been an Engagement (signing) Partner or an Engagement QC Review Partner in respect of an Audit Report of any listed company, or any other company that fulfils the criteria laid down in Rule 2 of NFRA Rules, 2018.
- (iii) The Total Income of the Partner for the year is to include not only that from the individual partnership/LLP of which he is a partner, but his total income from all network firms as well as its related entities that would come within the scope of the explanation to Sec 144 of the Companies Act, 2013."

With regard to the above, it seems that the independence of the Statutory Auditor in the country is based on the fees that it receives.

It is stated that the National Financial Reporting Authority (NFRA) is a body constituted under the provisions of Section 132 of the Companies Act, 2013. The constitution of this authority is effective from 1st October 2018. The aim of the Central Government in this regard appears to be:

- Setting up of a separate and independent regulatory body to assist in the framing and enforcement of legislation relating to accounting and auditing,
- Improving investor and public confidence in the financial reporting of an entity.

It is added that Institute has also made applicability of the ICAI Revised Code of Ethics (Revised 2019) mandatory from 1<sup>st</sup> July, 2020. ICAI Code of Ethics (Part A), (Revised 2019)



provides detailed independence requirements that have been included for assurance engagements.

In the case of audits, reviews and other assurance engagements, the Code sets out Independence Standards, established by the application of the conceptual framework to threats to independence in relation to these engagements. Schedule III to the Companies Act 2013 provides that the expenses incurred towards auditor's remuneration should be disclosed under each of the following sub-heads as follows:

- (a) Auditor,
- (b) For taxation matters,
- (c) For company law matters,
- (d) For management services,
- (e) For other services,
- (f) For reimbursement of expenses;

A disclosure for the fee to render various services has been mandated along with separate disclosure of fee in the above specified categories. Accordingly, it cannot be presumed that Income from other services provided by the auditor also affects how far the auditor may be influenced by the management.

The details that have been sought go beyond the jurisdiction of NFRA and beyond the Law. Further, the said details have been sought from the year 2015-2016 whereas NFRA has come into existence in October, 2018. Furthermore, the data asked by NFRA is impracticable and has retrospective application to the period even when NFRA was formed and the form in which data is sought, the bifurcation does not exist. Any new requirement which is proposed should have prospective applicability.

**v. Regarding the presence of part-time members in NFRA meetings and the number of meetings of NFRA as per NFRA (Meeting for Transaction of Business) Rules, 2019**

In accordance with section 132(10) of the Companies Act, 2013, the National Financial Reporting Authority shall meet at such times and places and shall observe such rules of procedure in regard to the transaction of business at its meetings in such manner as may be prescribed. The NFRA (Meeting for transaction of business) Rules, 2019 that have been



notified on 22<sup>nd</sup> May, 2019 does not specify the number of meetings of NFRA that are required to be held in a year.

According to Rules, the quorum for a meeting of the Authority shall be four members, of which at least one member shall be a full-time member.

The NFRA (Manner of Appointment and other Terms and Conditions of Service of Chairperson and Members) Rules, 2018 states the Authority consists of:-

- i. A Chairperson,
- ii. Three full-time members, and
- iii. Nine part-time members

But, there is no specific mention about the presence of part-time members as well as the number of meetings to be held by NFRA in a year.

Also, as per the amendments in Section 132 vide the Companies (Amendment) Act 2019, it has been provided that NFRA shall perform its functions through such divisions as may be prescribed by the Central Government. Each division of the NFRA should be presided over by the Chairperson or a full-time Member authorised by the Chairperson.

It also provides that there shall be an executive body of the NFRA consisting of the Chairperson and full-time Members for the efficient discharge of its functions other than Sub-section 2 (a) and sub-section (4).

In view of the above, it is stated that the meetings of NFRA shall be called at regular intervals and a greater role of part-time members should be there for better governance.

**vi. Differentiation between Inspection and Investigation by NFRA:**

It is necessary to clarify that the investigation by NFRA about the misconduct of the Auditors of any specified entity shall be only in respect of their conduct relating to statutory audit of the entity. The expression used in the Rules as 'Professional or Other misconduct' which is very wide. It includes the conduct of an auditor in his personal life as well as his conduct while rendering professional services other than audit service.



Section 132 of the Companies Act, 2013 very clearly provides NFRA scope as only non-compliance with Accounting Standards and Standards on Auditing in the audit of Financial Statements as the Accounting Standards and Standards on Auditing are applicable only for Financial Statements. Even the quality of service is also with reference to the way work is performed using Standards on Auditing.

**vii. How to deal with Conflict within the Sections of the Companies Act 2013**

- a. Section 132- Constitution of National Financial Reporting Authority
- b. Section 210- Investigation into the Affairs of the Company
- c. Section 212- Investigation into affairs of company by Serious Fraud Investigation Office.
- d. Section 213- Investigation into company's affairs in other cases

The above-mentioned Sections provide for an investigation into the affairs of the company in some specific cases.

In case of the complaint/ information received/ public interest for an investigation into the affairs of the company, which of the Section shall be invoked as all the Sections provide for dealing with the investigation to the affairs of the company.

It is stated that a single Act is dealing with the same issues or having jurisdiction on the same people through multiple Sections, therefore, there needs to be clarity for applicability of the Section of the same Act.

**4. Multiplicity of Regulatory Authorities and their functioning is causing ambivalence in the accounting profession.**

Parallel working/ Dual control of the multiple regulatory bodies under the Act of the Parliament is creating confusion and affecting the sustainability of the Accounting Profession. Multiple regulatory authorities governing the audit profession are hindering the growth of the profession and are creating a fearful environment that is against the constitutional right of a person.

This is not in the overall interest of the profession and society and needs to be dropped. Therefore, creating yet another institution will not serve the purpose.



It is important to note that the Hon'ble Joint Parliamentary Committee on Stock Market Scam and matters relating thereto had expressed the view that the Multiplicity of Regulators will lead to coordination problems and dilution of responsibility.

While regulatory reform could provide a big boost if it is done right, indiscriminate deregulation could do more harm than good.

It should not be open to so many regulatory authorities to encroach upon the rights and powers of the Institute prescribed under the CA Act, 1949. The idea is not to have overlapping of powers already provided under the Chartered Accountants Act, 1949, the provisions that have stood test of times over so many decades.

The disciplinary jurisdiction of ICAI has been conferred by the statute itself in explicit terms which cannot be permitted to be encroached upon by other Regulators which will not derive any additional benefit but will have a negative impact on the profession.

The powers of the other Regulators cannot run parallel with ICAI.

While the aforesaid were the initial comments of ICAI; in hindsight they are proving to be correct given the one sided and non-collaborative working of NFRA through its various Groups

Regulators should work in coordination with each other and should consider the overall ecosystem of audit.

### **Chilling Effect on Auditor- Auditee relationship with newer provisions**

***"The jurisdiction of NFRA for investigation of Chartered Accountants and their firms under section 132 of the Act extends to listed companies and large unlisted public companies" as per Rule 3 of NFRA Rules, 2018.***

The powers of NFRA have been extended to public companies and listed companies and large unlisted companies. By virtue of this, NFRA has authority over the auditors auditing government PSUs, Government Banks and various Government Insurance Companies. This



is an obvious and glaring conflict of interest, undue pressure and chilling effect for the auditors auditing Government/Public Sector Companies since they are being regulated and subjected to possible punishment by a Government-appointed body viz. NFRA.

In this situation, it would be virtually impossible for CA's to perform their duties towards Government Companies/PSU's with any degree of professionalism, fairness or freedom. The independence, objectivity and impartiality with which a CA is supposed to audit the books of a client would be lost in such cases, since the CA would be auditing the books of the Government owned and run PSU and would also be answerable for the said audit to the same Government. In such an environment, the CA would not be able to point out discrepancies or non-compliance with legal provisions committed by the PSU/Government Company without fear of reprisal or adverse action by the Government.

Considering that Government Companies/PSU's deal with public money and assets, this would definitely be against the interest of the nation as a whole.

Unreasonable restriction on the right to carry on profession under Article 19(1)(g) of the Constitution of India which is not saved by Article 19(6).

Under Article 19(1)(g) of the Constitution, the fundamental right to practice any profession, is protected. The only restriction on that right, as provided by Article 19(6), can be by way of a reasonable restriction on the right. This restriction must further, necessarily be in the interests of the general public. Further, this does not prevent the State from making a law that lays down technical or professional qualifications.



**5. Issues arising out of NFRA Rules 2018 read with National Financial Reporting Authority (Amendment) Rules, 2019 including ICAI Suggestions thereon**

<b>Sr. No.</b>	<b>Headline</b>	<b>Rule No</b>	<b>NFRA Rules, 2018 (November 2018) read with National Financial Reporting Authority (Amendment) Rules, 2019</b>	<b>Issues/ Suggestions</b>
1.	Definitions	2(d)	"auditor" means an individual or a firm including a limited liability partnership incorporated under the Limited Liability Partnership Act, 2008 (6 of 2009) or any other Act for the time being in force, who has been appointed as an auditor of a company or a body corporate under section 139 of the Act or under any other Act for the time being in force;	<p>Rule 2(d) defines an 'Auditor' whereas Section 2 (17) of the Companies Act 2013 defines a 'Chartered Accountant' having a certificate of practice. Section 132 (4) on NFRA also uses the term chartered accountant.</p> <p>An auditor as defined under Section 139 read with Section 141 of the Companies Act 2013 has to be a Chartered Accountant registered with ICAI, however, the reference of an auditor being a Chartered Accountant needs to be given.</p>
2.	Classes of companies and bodies corporate covered by	3(1)	The Authority shall have power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service under sub-section (2) of section 132 or undertake investigation under sub-section (4) of such section of	It is mentioned that NFRA shall have the power to monitor and enforce compliance of such section of the auditors of any body corporate or company or person, or any class of bodies corporate or companies or persons, on a reference made to the



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Sr. No.	Headline	Rule No	NFRA Rules, 2018 (November 2018) read with National Financial Reporting Authority (Amendment) Rules, 2019	Issues/ Suggestions
	the Authority		the auditors of the following class of companies and bodies corporate, namely:-	<p>Authority by the Central Government in public interest.</p> <p>It may be noted that Section 3 of the Limited Liability Partnership Act, 2008 provides that a LLP registered under the Act is a Body Corporate. Therefore, it appears that Auditors of any LLP, irrespective of its capital, turnover or borrowings will now be governed by the NFRA Rules if such a case is referred to NFRA by the Government. Apparently, this does not appear to be the intention of these Rules.</p>
3.	Classes of companies and bodies corporate covered by the Authority	3(1) (d)	The Authority shall have power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service under sub-section (2) of section 132 or undertake investigation under sub-section (4) of such section of the auditors of the following class of companies and bodies corporate, namely:-	It is mentioned that NFRA shall have the power to monitor and enforce compliance of such section of the auditors of any body corporate or company or "person", or any class of bodies corporate or companies or "persons", on a reference made to the Authority by the Central Government in public interest.



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Sr. No.	Headline	Rule No	NFRA Rules, 2018 (November 2018) read with National Financial Reporting Authority (Amendment) Rules, 2019	Issues/ Suggestions
			d) any body corporate or company or person, or any class of bodies corporate or companies or persons, on a reference made to the Authority by the Central Government in public interest, and	It is to be mentioned here that the Companies Act, 2013 is applicable on the companies and is not applicable on the persons. In view of this, the clause needs to be modified to remove reference to "person (s)".  Further, 'person' is not defined in the Companies Act, 2013.
4.	Classes of companies and bodies corporate covered by the Authority	3(1) (e)	a body corporate incorporated or registered outside India, which is a subsidiary or associate company of any company or body corporate incorporated or registered in India as referred to in clauses (a) to (d), if the income or networth of such subsidiary or associate company exceeds twenty per cent of the consolidated income or consolidated networth of such company or the body corporate, as the case may be, referred to in clauses (a) to (d).;	<b>Compliance of accounting standards under section 129 of the Companies Act, 2013 by a foreign subsidiary</b>  A foreign subsidiary prepares its accounts under the Local GAAP applicable in that jurisdiction in the local reporting/ presentation currency.  The Indian parent for consolidation would restate the subsidiary's financials in terms of Indian GAAP



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Sr. No.	Headline	Rule No	NFRA Rules, 2018 (November 2018) read with National Financial Reporting Authority (Amendment) Rules, 2019	Issues/ Suggestions
				<p>and convert it into INR.</p> <p>These accounts may not be audited necessarily even if the subsidiary's original accounts are audited under the Local regulation.</p> <p>In India under the Companies Act, 2013, it is adequate, if the subsidiary's accounts are filed as audited/ unaudited.</p> <p>Generally big foreign subsidiaries prepare the financial statements as per Indian GAAP based on the complexity and size of the business, however, it is not mandatory.</p> <p>Standalone financial statements of a foreign subsidiary can be filed as per Local GAAP of the jurisdiction of that company (subsidiary) (in English) or as per Indian Accounting Standards.</p>



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Sr. No.	Headline	Rule No	NFRA Rules, 2018 (November 2018) read with National Financial Reporting Authority (Amendment) Rules, 2019	Issues/ Suggestions
				<p>The accounts may not even be signed by the same directors who have signed the accounts of that subsidiary prepared in Local GAAP.</p> <p>As far as compliance with the preparation of financial statements in Indian GAAP is concerned by a foreign subsidiary, reference can be drawn from Section 137 of the Companies Act, 2013 which provides the following:</p> <p>'Provided also that a company shall, along with its financial statements to be filed with the Registrar, attach the accounts of its subsidiary or subsidiaries which have been incorporated outside India and which have not established their place of business in India.</p> <p>Provided also that in the case of a subsidiary which</p>



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Sr. No.	Headline	Rule No	NFRA Rules, 2018 (November 2018) read with National Financial Reporting Authority (Amendment) Rules, 2019	Issues/ Suggestions
				<p>has been incorporated outside India (herein referred to as "foreign subsidiary"), which is not required to get its financial statement audited under any law of the country of its incorporation and which does not get such financial statement audited, the requirements of the fourth proviso shall be met if the holding Indian company files such unaudited financial statement along with a declaration to this effect and where such financial statement is in a language other than English, along with a translated copy of the financial statement in English.'</p> <p>With the above, it can be stated that the financial statements of the foreign subsidiary are not required to be prepared as per Indian Accounting Standards from India's perspective. For the purpose of clause 3 (1) (d) of National Financial Reporting Authority Rules, 2018, it may not come under NFRA jurisdiction.</p>



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Sr. No.	Headline	Rule No	NFRA Rules, 2018 (November 2018) read with National Financial Reporting Authority (Amendment) Rules, 2019	Issues/ Suggestions
				<p><b>FAQ 4 states that the information is required for statutory audit of financial statements by the auditor in respect of entities covered in Clause 3(1)(a) to 3(1)(e) of NFRA Rules 2018. It will not cover tax audits, Limited review &amp; Quarterly audits.</b></p> <p><b>A Chartered Accountant may not be appointed as statutory auditor of a foreign company and therefore the clarification can be included in the rule itself.</b></p>
5.	Classes of companies and bodies corporate covered by the Authority	3(1)(e)	a body corporate incorporated or registered outside India, which is a subsidiary or associate company of any company or body corporate incorporated or registered in India as referred to in clauses (a) to (d), if the income or networth of such subsidiary or associate company exceeds twenty per cent of the consolidated income or consolidated networth of such company or the body corporate, as the case	<p><b>Compliance of auditing standards under section 143 (9) of the Companies Act, 2013 by a foreign subsidiary</b></p> <p>A foreign subsidiary does not file an audit report of its accounts for filing in India. It only submits compilation Report which may or may not be adjusted for making suitable changes as per Indian</p>



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Sr. No.	Headline	Rule No	NFRA Rules, 2018 (November 2018) read with National Financial Reporting Authority (Amendment) Rules, 2019	Issues/ Suggestions
			may be, referred to in clauses (a) to (d).;	<p>requirements. From an Indian perspective, audit report is not submitted.</p> <p>As far as compliance with the audit requirements in India is concerned by a foreign subsidiary is concerned, reference can be drawn from Section 136 of the Companies Act, 2013 which provides the following:</p> <p>Provided also that a listed company which has a subsidiary incorporated outside India (herein referred to as "foreign subsidiary")— (a) where such foreign subsidiary is statutorily required to prepare consolidated financial statement under any law of the country of its incorporation, the requirement of this proviso shall be met if a consolidated financial statement of such foreign subsidiary is placed on the website of the listed company;</p>



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Sr. No.	Headline	Rule No	NFRA Rules, 2018 (November 2018) read with National Financial Reporting Authority (Amendment) Rules, 2019	Issues/ Suggestions
				<p>(b) where such foreign subsidiary is not required to get its financial statement audited under any law of the country of its incorporation and which does not get such financial statement audited, the holding Indian listed company may place such unaudited financial statement on its website and where such financial statement is in a language other than English, a translated copy of the financial statement in English shall also be placed on the website.;</p> <p>With the above, it can be stated that the financial statements of the foreign subsidiary are not required to be audited as per Indian Auditing Standards from India's perspective. For the purposes of clause 3 (1) (d) of National Financial Reporting Authority Rules, 2018, it may not come under NFRA jurisdiction.</p>
6.	Classes of companies and bodies	3 (2)	(2) Every existing body corporate other than a company governed by these rules, shall inform the Authority within thirty days of the commencement of	As per the Rule, it is provided that every existing body corporate other than a company governed by NFRA Rules is required to file details in Form NFRA –



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Sr. No.	Headline	Rule No	NFRA Rules, 2018 (November 2018) read with National Financial Reporting Authority (Amendment) Rules, 2019	Issues/ Suggestions
	corporate governed by the Authority		these rules, in Form NFRA-1, the particulars of the auditor as on the date of commencement of these rules.	1.  Though the information has been furnished by the auditors but the way said information is asked is cumbersome, impractical, therefore, recommended to be dropped.
7.	Classes of companies and bodies corporate governed by the Authority	3 (2)	(2) Every existing body corporate other than a company governed by these rules, shall inform the Authority within thirty days of the commencement of these rules, in Form NFRA-1, the particulars of the auditor as on the date of commencement of these rules.	It may be noted that if the NFRA Rules apply to a LLP, irrespective of its capital, turnover of borrowings, all small and big LLPs will have to file particulars of their existing Auditors in Form NFRA-1.  This Rule states that particulars of Auditors appointed under section 139(1) of the Act are to be given. It may be noted that section 139(1) refers to the appointment of Auditors of Companies registered under the Companies Act, 2013. It does not refer to the appointment of Auditors by a Body Corporate.  It is in our view, not the intention of the law to cover



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				LLP. We recommend amending the rule to exclude LLPs.
8.	Annual return	5	Every auditor referred to in rule 3 shall file a return with the Authority on or before 30 <sup>th</sup> November every year in such form as may be specified by the Central Government.	<p>Every auditor governed by NFRA Rules is required to file an Annual Return with the Authority on or before 30<sup>th</sup> November every year.</p> <p>It is stated that at the meeting which was held to discuss Draft NFRA Rules, 2018 on 18<sup>th</sup> July, 2018, it has been mentioned by Secretary, MCA that as far as filing of Annual Return and other details are concerned, duplication in reporting is not required.</p> <p>We have noted that Form NFRA-2 has been issued vide notification dated 5<sup>th</sup> September, 2019 in the National Financial Reporting Authority (Amendment) Rules, 2019 without consultation with ICAI.</p> <p>According to the said Rules, every auditor referred to in Rule 3(a), (b), (c), (d), and (e), shall file a return</p>



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				<p>with the Authority on or before 30<sup>th</sup> November every year in Form NFRA-2.</p> <p>In this regard, we would like to state that the Companies are required to file Form ADT- 1 and AOC -4 which contains the details of individual auditor/audit firm. Moreover, details of auditors can be examined through the XBRL forms which are to be filed by listed companies and other prescribed companies.</p> <p>Therefore, the relevant details asked by Form NFRA – 2 are already being filled in through various other forms.</p> <p>Hence, we request you to look into the aforesaid issues and make necessary changes in Form NFRA-2.</p>
9.	Monitoring	8(8)	Where the Authority finds or has reason to believe	The Rule provides for compliance with auditing



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	and enforcing compliance with auditing standards.		that any law or professional or other standard has or may have been violated by an auditor, it may decide on the further course of investigation or enforcement action through its concerned Division.	standards. Therefore, this requirement to be limited to auditing standards and should not be extended to 'any law or professional or other Standards'.
10.	Overseeing the quality of service and suggesting measures for improvement.	9(1),(2),(3)	<p>(1) On the basis of its review, the Authority may direct an auditor to take measures for improvement of audit quality including changes in their audit processes, quality control, and audit reports and specify a detailed plan with time-limits.</p> <p>(2) It shall be the duty of the auditor to make the required improvements and send a report to the Authority explaining how it has complied with the directions made by the Authority.</p> <p>(3) The Authority shall monitor the improvements made by the auditor and take such action as it deems fit depending on the progress made by the auditor.</p>	<p>There are existing frameworks for accounting, auditing and ethics, namely, accounting standards, auditing standards, Code of Ethics and Code of Conduct. This framework is well established and understood by the auditors and Regulators.</p> <p>Oversight should be done with reference to the existing framework and no new framework should be introduced such as audit quality indicators and benchmarks etc.</p> <p>NFRA should not prescribe measures for improvement of audit quality including changes in their audit processes, quality control, and audit reports other than that which is already in existence.</p>



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11.	Power to investigate	10	<p>(1) Where the Authority has-</p> <p>(a) received any reference from the Central Government for investigation into any matter of professional or other misconduct under sub-section (4) of section 132 of the Act;</p> <p>(b) decided to undertake investigation into any matter on the basis of its compliance or oversight activities; or</p> <p>(c) decided to undertake <i>suo motu</i> investigation into any matter of professional or other misconduct, after recording reasons in writing for this purpose, it shall forward the matter to its Division dealing with enforcement for carrying out investigation and other action.</p> <p>(2) If, during the investigation, the Authority has</p>	<p>It is necessary to clarify that the investigation by NFRA about the misconduct of the Auditors of any specified entity shall be only in respect of their conduct relating to statutory audit of the entity. In this Rule, the expression used is 'Professional or Other misconduct' which is very wide. It includes the conduct of an auditor in his personal life as well as his conduct while rendering professional services other than audit service.</p> <p>The section very clearly provides NFRA scope as only non-compliance with Accounting Standards and Standards on Auditing in the audit of Financial Statements as the Accounting Standards and Standards on Auditing are applicable only for Financial Statements. Even the quality of service is also with reference to the way work is performed using Standards on Auditing.</p>



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			<p>evidence to believe that any company or body corporate has not complied with the requirements under the Act or rules which involves or may involve fraud amounting to rupees one crore or more, it shall report its findings to the Central Government.</p> <p>(3) On the commencement of these rules-</p> <p>(a) the action in respect of cases of professional or other misconduct against auditors of companies referred to in rule 3 shall be initiated by Authority and no other institute or body shall initiate any such proceedings against such auditors:</p> <p>Provided that no other institute or body shall initiate or continue any proceedings in such matters of misconduct where the Authority has</p>	



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			initiated an investigation under this rule;  (b) the action in respect of cases of professional or other misconduct against auditors of companies or bodies corporate other than those referred to in rule 3 shall continue to be proceeded with by the Institute of Chartered Accountants of India as per provisions of the Chartered Accountants Act, 1949 and the regulations made thereunder.	
12.	Manner of enforcement of orders passed in disciplinary proceedings	12 (2)	If, within thirty days of the order passed under rule 11, the auditor neither pays the penalty nor appeals against the order, the Authority shall, without prejudice to any other action, inform about such non-compliance to every company or body corporate (including those not covered by rule 3) in which the auditor is functioning as auditor and every such company or body corporate shall appoint a new auditor in accordance with the provisions of the Act.	The time limit of 30 days needs to be increased to 60 days (Civil liabilities) and the instead of the time limit starting from date on which order is passed it should start from the date on which order is received
13.	Manner of	12(3)	Where the order passed under rule 11 imposes a	The Cases should be referred to ICAI to proceed



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	enforcement of orders passed in disciplinary proceedings		penalty on the auditor or debar the auditor from practice, the order shall be sent to every company or body corporate in which the auditor is functioning as auditor.	further as NFRA does not have jurisdiction over all companies.
14.	Manner of enforcement of orders passed in disciplinary proceedings.	12(4)	Where the order passed under rule 11 debar the auditor from practice or the order under sub-rule (2) is passed, the order shall be sent to every company or body corporate (including those not covered by rule 3) in which the auditor is functioning as auditor and every such company or body corporate shall appoint a new auditor in accordance with the provisions of the Act.	<p>Rule 12(4) provides that the penalty order debar the auditors under Section 132 (4) shall be sent to every company or body corporate (including) those covered Rule 3 and every such company or body corporate shall appoint a new auditor in accordance with the provisions of law.</p> <p>This provision travels beyond the jurisdiction of NFRA.</p> <p>Information in this regard shall not be sent by the NFRA directly to the companies which are not covered under Rule 3, shall be communicated to the ICAI for necessary action.</p>



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15.	Financial reporting advocacy and education	16	The Authority shall take suitable measures for the promotion of awareness and significance of accounting standards, auditing standards, auditors' responsibilities, audit quality and such other matters through education, training, seminars, workshops, conferences and publicity.	The functions prescribed under this Rule are infringement on the present functions of ICAI for prescribing pronouncements on financial reporting, advocacy and education for its members which is not in any way envisaged in the Companies Act and therefore, ultra vires to the Companies Act 2013 and the Chartered Accountants Act 1949.