

## **Minutes of the 15th Meeting of the National Financial Reporting Authority**

The 15th Meeting of the National Financial Reporting Authority was held on Wednesday, 15.05.2024, from 11.30 AM to 1.30 PM at NFRA office.

The meeting was chaired by Dr. Ajay Bhushan Prasad Pandey, Chairperson, NFRA.

The meeting was attended by the following Members/officials:

1. Full Time Members:
  - a. Dr. Praveen Kumar Tiwari
  - b. Ms. Smita Jhingran
2. Part Time Members:
  - a. Shri IDS Dhariwal, Joint Secretary, Ministry of Corporate Affairs
  - b. Ms Kavita Prasad, Director General, O/o CAG of India, (Online)
  - c. Ms. Sudha Balakrishnan, Chief Financial Officer, Reserve Bank of India
  - d. CA. Ranjeet Kumar Agarwal, President ICAI
  - e. CA. Pramod Jain, Chairman, Accounting Standard Board, ICAI
  - f. CA. (Dr.) Sanjeev Kumar Singhal, Chairman, Auditing and Assurance Standard Board, ICAI
  - g. Professor Sanjay Kallapur, Professor of Accounting at Indian School of Business, Hyderabad
  - h. Professor R. Narayanaswamy, Ex-Faculty of the Finance & Accounting, IIM Bangalore
3. Officials
  - a. Ms Vidhu Sood, Secretary, NFRA
  - b. CA Vidhyadhar Kulkarni, Sr. Consultant, NFRA
  - c. CA Parminder Kaur, Secretary, ASB, ICAI
  - d. CA Megha Saxena, Secretary, AASB, ICAI
4. The quorum for the meeting of the Authority was met, in accordance with para 3 (9) of the National Financial Reporting Authority (Meeting for Transaction of Business) Rules, 2019. Shri S V Muralidhar Rao, Executive Director, Securities and Exchange Board of India, was granted leave of absence.
5. Chairperson welcomed the participants and made the following opening remarks
  - a. Chairperson apprised the members about the agenda items for the 15<sup>th</sup> meeting and in particular drew attention to Agenda Item 3 regarding the status of notification of Standards on Auditing (SAs) u/s 143 (10) of the Companies Act, 2013. He mentioned about the statutory status accorded to SAs in the Companies Act 2013 and critical importance of recommending a set of SAs and addendum thereto to the Ministry. In respect of the other two Agenda items Chairperson mentioned that these were due to the international developments in the area of Minimum Tax (called Pillar Two Tax Rules) on large multinational entities operating in multiple jurisdictions and as such these proposals based on IFRS Accounting Standards viz. IAS 12, Income Taxes, are straightforward.
  - b. Chairperson also drew attention of the members to the legislative scheme of standard-setting under Companies Act that involves a tripartite review and consultation mechanism.
6. A presentation was made on the following agenda issues which were deliberated in the meeting.

### **7.1 Agenda Item No.1 - Consideration of the recommendations of the Institute of Chartered Accountants of India (ICAI) regarding *International Tax Reform—Pillar Two Model Rules: Amendments to Ind AS 12, Income Taxes***

The Authority discussed the amendments to Indian Accounting Standard (Ind AS) 12, *Income Taxes*, and in relation to public comment #6 it was noted that the disclosures prescribed as per the proposed amendments would be required in both the Separate and Consolidated Financial Statements

The Authority approved the ICAI proposals for recommendation to the Ministry of Corporate Affairs with the following changes i.e.to replace the para 98M relating to effective date.

98M International Tax Reform—Pillar Two Model Rules added paragraphs 4A and 88A–88D. An entity shall:

- (a) apply paragraphs 4A and 88A immediately upon the issue of these amendments and retrospectively in accordance with Ind AS 8; and
- (b) apply paragraphs 88B–88D for annual reporting periods beginning on or after 1 April 2024. An entity is not required to disclose the information required by these paragraphs for any interim period ending on or before 31 March 2025.

### **7.2 Agenda Item No. 2 - Consideration of the recommendations of the ICAI regarding amendments to *International Tax Reform—Pillar Two Model Rules: Amendments to AS 22, Accounting for Taxes on Income***

The Authority discussed the ICAI proposals on amendments to AS 22, *Accounting for Taxes on Income* applicable to non-Ind AS companies and notified under Companies (Accounting Standards) Rules 2021.

The Authority also noted the following:

- a. The amendments applicable to Ind AS 12 (IAS 12) may also be relevant for non-Ind AS Companies, therefore, AS 22 also requires amendments.
- b. There is a need to align certain terminologies used in AS Framework with that in Ind AS Framework at appropriate time e.g. the former framework uses the terminology 'Should' and 'Enterprise' as compared to the terms 'Shall' and 'Entity' used in the Ind AS Framework.

The Authority approved the ICAI proposals for recommending to the Ministry of Corporate Affairs with the following changes i.e., to replace the para 35M relating to effective date.

35 International Tax Reform—Pillar Two Model Rules, added paragraphs 2A and 32A–32D. An enterprise should:

- (a) apply paragraphs 2A and 32A immediately upon the issue of these amendments and retrospectively; and
- (b) apply paragraphs 32B–32D for annual reporting periods beginning on or after 1 April 2024. An enterprise is not required to disclose the information required by these paragraphs for any interim period ending on or before 31 March 2025.

### **7.3 Agenda Item 3: Consideration of the recommendations of the ICAI regarding Notification of Standards on Auditing (SAs) u/s 143 (10) of the Companies Act**

## 2013

1. Chairperson, NFRA, apprised the Authority of the need to consider the proposal on notification of the Standards on Auditing (SAs) under CA 2013. Chairperson stated that, globally, the International Standards on Auditing (ISAs) had also seen significant changes over the last decade and a half, and therefore, this was an opportunity for considering updates to SAs and aligning with global standards given the inter-connectedness in economies throughout the world and given India's aspiration of being the third largest economy in the world.
2. A presentation was made to the Authority covering the role of various international standard setters and the Authority was apprised of the status of the proposals sent by ICAI, so far, as below.
  - a. In January 2020, NFRA had reviewed the ICAI proposals for certain amendments to SAs in the series 800 - Specialised Areas mentioned below.
    - i. SA 800, Special Considerations- Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
    - ii. SA 805, Special Considerations- Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
    - iii. SA 810, Engagements to Report on Summary Financial Statements
  - b. NFRA vide its letter dated 20.07.2021 and 15.09.2021 had advised AASB, ICAI to review and update the entire set of auditing pronouncements in view of the changes in the statutory and legal framework in India.
  - c. Ministry of Corporate Affairs (MCA), on ICAI's proposal of notification of certain amendments related to SA 800, 805, 810 etc, vide its letter dated 11.08.2021 had requested ICAI to submit a comprehensive proposal to notify all the SAs u/s 143 (10) of the Act.
  - d. The ICAI vide its letter dated 23.06.2022 had submitted draft of 35 SAs for the consideration of NFRA. NFRA vide letter dated 07.09.2022 requested ICAI to submit comparative position of proposed SAs with the corresponding ISAs.
  - e. ICAI vide email dated 07.11.2022 provided text of 33 SAs in track change mode and also mentioned that in case of SA 250, *Consideration of Laws and regulations in an Audit of Financial Statements*, SA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity* & SA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, were based on old version of ISAs. Further, ICAI said that SA 600, *Using the Work of Another Auditor* is not based ISA 600, Special Considerations -Audits of Group financial statements (including the work of component auditors) and that there is no ISA corresponding to SA 299, *Joint Audit of Financial Statements*.
  - f. NFRA preliminary review of the ICAI's proposal on the draft of 35 SAs and the information provided by ICAI vide email dated 07.11.2022 indicated that SAs recommended had not considered several revisions/amendments in ISAs that had been carried out in the last decade. Accordingly, NFRA vide letter dated 3.01.2023, requested certain clarifications from the ICAI on the following aspects.
    - (i) Some important SAs (esp. SA 250, SA 315 and SA 540) appeared to be based on ISAs issued in 2008-2009 and did not appear to

incorporate latest changes.

(ii) There seemed to be no proposal to modify SA 600, *Using the Work of another Auditor* which is not based on ISA 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*.

(iii) In respect of SA 299, *Joint Audits*, ICAI was requested for providing the rationale for limiting the individual joint auditor's responsibility in respect of area of work allocated to him/her, and the international practice, if any, in this regard.

(iv) SA 220, *Quality Control for an Audit of Financial Statements* is premised on the basis that the firm is subject to SQC 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*. The ICAI's views on notification of SQC 1 u/s 143 (10) of the Act was requested.

(v) Further, ICAI views were requested also on incorporation of recent changes at international level i.e., replacement of ISQC 1 with ISQM 1 and ISQM 2 and changes in ISA 220.

- g. In response, ICAI informed that since SQM 1, SQM 2, SA 220 (revised), SA 315 (revised), SA 540 (revised) are interrelated, exposure drafts of all these needed to be issued together and accordingly, ICAI had issued the exposure drafts and sent their updated proposal to NFRA on 8 February 2024.
- h. ICAI informed that ISA 600 was not adopted in view of
- i. Unique circumstances of audits of Banks and Public Sector Enterprises
  - ii. Assessment of professional competence of Component Auditors is not considered necessary as both the Component Auditor and Group Auditor are members of the ICAI with same education, training and licensing requirements.
  - iii. Group Auditors' Report specifically mentions the extent of involvement of Component Auditors
  - iv. ISA 600 requires access of the Work Papers of Component Auditors by the Group Auditor which is not possible as sharing of working papers is prohibited under Chartered Accountants Act 1949.
- i. In context of SA 600, Chairperson, NFRA, stated that it had been recently experienced in the case of audit of a Housing Finance Company dealt with by NFRA that absence of overall responsibility by the lead auditor or group auditor had proved to be very detrimental to the cause of audit and to the stakeholders.
- j. Chairperson, NFRA enquired from Part-time Member, RBI and Part-time Member, CAG office, if on account of Banks and PSEs respectively, as mentioned by ICAI in respect of ISA 600, they would like to share their views. Both Part-time Members stated that in-principle the lead auditor/group auditor should take overall responsibility. They would however like to revert with their organisational view. On the issue of SA 600 vis-a-vis ISA 600, Part-time Member, CAG Office, requested that as this meeting introduced significant issues pertaining to SAs for further deliberation, relevant documents on SA 600/ISA 600 may be shared to enable taking a considered view on the issue. Full-time Members, NFRA, JS, MCA, Prof Narayanaswamy and Prof Kallapur stated that, in their view,

consideration of ISA 600 for adoption would be productive. All members were requested to consider this and give their views on or before the next meeting.

ICAI too was requested to give their views in the next meeting on the subject.

- k. On the notification of SQC 1 (revised) ICAI had stated in their written response to NFRA that as only SAs in the series 200 to 700 are applicable to the audit of general-purpose financial statements of various entities, only these need to be sent to MCA for notification u/s 143 (10) of the Act. Chairman, AASB, ICAI and Chairman, ASB, ICAI reiterated this view. During discussions it was felt that the quality control standard is the underlying edifice of SAs and has a bearing on all SAs. It is cross referenced in SAs widely and should therefore be notified by MCA in order for them to have the same statutory status. All members were requested to consider this. ICAI was requested give their views in the next meeting on the subject.
1. Proposal on SA 200 was introduced for discussion.
  - a. It was discussed that in the Standards that may be finalised for recommending to MCA, references to responsibilities of other parties (e.g. Directors) who weren't auditors, reference to ICAI guidance notes etc may be avoidable.
  - b. It was discussed that guidance notes may sometimes be inconsistent with Standards or involve an interpretation of Standards and law. ICAI stated that the guidance notes do not interpret law and they have been issued for long to assist auditors. For instance, guidance note on ICFR etc has been very useful for auditors. Prof Narayanaswamy stated that if any guidelines, such as on ICFR, is needed to be issued based on a requirement in CA 2013, it may be better to consider issuing it as a standard.
  - c. Chairperson, NFRA, stated that the guidance note on Reporting on Fraud under section 143 (12) of CA 2013, had also raised concerns as it departs from provisions in law. It was pointed out that in the case of guidance note on 'Accounting Treatment of Capital Reserve under Ind-AS', MCA had in fact asked ICAI to not issue the guidance note stating that it requires consultation with NFRA and MCA before taking any further action on it as it has a larger implication and may require amendment in relevant Ind ASs.
  - d. It was discussed that Guidance note can be continued to be issued by ICAI separately, but they should remain as a guidance and should not be mandatory. There should be a provision/rider in the guidance note that in case of a conflict with any provisions of law/rules/standards, the law, rules, standards will prevail. JS stated that any guidance that is mandatory for auditors should follow the same process as followed for Standards as it has economy wide repercussions. President, ICAI, stated that UDIN related guidance had been notified in gazette.

ICAI was requested to give their views in this respect in the next meeting on the subject.

4. IAASB's policy on compliance statements and modifications by national standard setters was informed. The policy states that National Standard Setters shall not be regarded as conforming to respective International Standards in case of International Standards on Auditing, International Standards on Review Engagements, International Standards on

Assurance Engagements and International Standards on Related Services unless professional accountants who are required to follow those National Standards are also required to follow a National Standard that conforms to International Standards on Quality Control. Additions and deletions that are permitted were also informed. These mainly pertain to those conforming to national legal and regulatory requirements, jurisdiction specific practice or elimination of options provided for in the International Standard.

5. It was decided that latest ISAs would be followed as base standards and changes kept at minimal. For making any changes or carve outs, there should be compelling reasons. Any changes that may be required with latest ISAs would be suggested keeping in view the IAASB principles. AASB would work with concerned NFRA officials and propose SAs accordingly for consideration of the Authority. The latest IAASB handbook (published 2023) may be referenced for the purpose of latest version of ISAs. In case of any amendment to latest ISAs, while the consideration of SAs is underway by Authority, the same would also be brought to the notice of the Authority.

The meeting ended with a vote of thanks.

Sd/-

Secretary, NFRA