

**Record note/Minutes of the 17<sup>th</sup> Meeting of the National Financial Reporting Authority  
held on 26 August 2024**

The 17th Meeting of the National Financial Reporting Authority was held on Monday, 26.08.2024. The meeting was chaired by Dr. Ajay Bhushan Prasad Pandey, Chairperson, NFRA. The meeting was attended by:

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) Shri S V Muralidhar Rao, Executive Director, Securities and Exchange Board of India
- (c) Professor R. Narayanaswamy, Ex-Faculty of the Finance & Accounting, IIM Bangalore
- (d) Professor Sanjay Kallapur, Professor of Accounting at Indian School of Business, Hyderabad
- (e) CA. Ranjeet Kumar Agarwal, President ICAI
- (f) CA. Pramod Jain, Chairman, Accounting Standards Board, ICAI
- (g) CA. (Dr.) Sanjeev Kumar Singhal, Chairman, Auditing and Assurance Standards Board, ICAI

3. Officials

- (a) Ms. Vidhu Sood, Secretary, NFRA
- (b) CA Vidhyadhar Kulkarni, Sr. Consultant, NFRA
- (c) 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. Ms. Kavita Prasad, Director General, O/o CAG of India and Ms. Sudha Balakrishnan, Chief Financial Officer, Reserve Bank of India, were granted leave of absence.

5. Chairperson, NFRA, welcomed the Members to the 17<sup>th</sup> Meeting which was second in series of the meetings being held to discuss updated Standards of Auditing, towards recommending the same for notification to Central Government under Companies Act (CA) 2013. Chairperson stated that the matter had in fact been under consideration since 2021, as brought out in the Authority's 15<sup>th</sup> Meeting held on 15 May 2024, and given the significant time elapsed it was imperative that proposals on updated standards be considered by the Authority on priority. Chairperson introduced the agenda which pertained to considerations of proposals of revision of SA 600 on the lines of ISA 600 for public consultation, and inclusion of quality management standards in NFRA's recommendations to the Central Government under s. 143 (10) of CA 2013. Chairperson highlighted the matters related to corporate frauds and related audit failures, instances of gross negligence in audit of Group companies like Coffee Day Global Limited, Reliance Capital Limited, Dewan Housing and Finance Limited etc. amongst others, where serious deficiencies had been observed in the audit carried out by principal auditors and component auditors. Given the exposure of these companies to capital markets and significant public interest involved, Chairperson stated that the existing provisions of SA 600 need to

be revised. The SA 600 currently in force in the country was issued by ICAI in 2002 and has not been updated so far. Meanwhile the international standard ISA 600 has been revised twice, once in 2009 and then in 2023. Chairperson then asked Secretary, NFRA to make a detailed presentation on the agenda items.

6. Secretary, NFRA, presented the following issues, summarized, as below, from the agenda note. The presentation made is attached.

**A. NFRA's obligations in law**

a) Rule 4 (1) of NFRA Rules 2018, establishes the objective of NFRA and states that '*The Authority shall protect* the public interest and interest of investors, creditors and others associated with the companies and bodies corporate governed under rule 3 *by establishing high quality standards of accounting and auditing....*', thereby placing establishment of high- quality standards as a core obligation of NFRA.

**B. Revision in SA 600**

b) SA 600 is applied in case of audit of companies which have subsidiaries and associates, with the holding company being audited by a principal or main auditor and the subsidiaries and/or associates by 'other' or component auditors. The standard outlines the responsibilities of the principal auditor vis a vis those of the component auditor. Some of the largest corporations and companies with significant exposure to capital markets, investors, creditors and thereby involving huge public interest, operate through a network of subsidiaries and associates which makes the requirements of this standard very significant. The quality of audit opinion on the consolidated financial statements (CFS), which is relied upon by investors, creditors and other stakeholders, hinges on how robust the standard is and how it is applied by auditors in discharge of their audit responsibilities.

c) The extent of investor participation in India being at an all-time high requires that a proper framework be brought in to safeguard the investors, creditors and the public interest.

d) NFRA's reasons for proposing the changes at this juncture, were interalia, its findings from its oversight and enforcement work which indicated fraud, negligence and audit failure emanating from a faulty application of SA 600 and a tendency on part of Principal auditors to rationalize their actions under the existing provisions of SA 600. As examples, cases of Group Audits involving various companies (Reliance Capital Limited, Reliance Home Finance Limited, Reliance Commercial Finance Limited (together alleged fraud of ₹ 29000 Crores), Coffee Day Global Limited (alleged fraud of ₹ 3500 Crores), Dewan Housing and Finance Limited (alleged fraud of ₹ 34000 Crores), and audit quality review of IL&FS (which collapsed with a debt of ₹ 90000 Crores ) etc were highlighted in the presentation. The combined effect of this amounted to tens of thousands of crores in the financial and capital market. SEBI's recent order on Reliance Home Finance Limited was also mentioned as it exposed the web of corporate fraud that had occurred. The auditors had overlooked all indications of fraud and issues of going concern in the holding company and its subsidiaries which were present and flagged to them, and tried to rationalize their gross negligence by taking shelter behind the provisions of SA 600.

e) It was presented that SA 600 being of 2002 vintage is inadequate to cater to audit of complex/group financial entities. It also differs in significant aspects from the then ISA 600 (of

2002).

### C. Key provisions in SA 600 are not in consonance with law

- f) **SA 600 contravenes provision in the Companies Act and Chartered Accountants Act 1949.** SA 600, as it exists today, does not permit review of work papers of component auditors by the principal auditor. Such review of work papers was part of the provisions in the then international standard (ISA 600 of 2002) and is provided in the current ISA 600 (Revised) also, as it is an important enabling provision for the group auditor to assess sufficiency of audit work performed by component auditors in support of the audit opinion expressed on the group financial statements, given the risks that present in case of such companies.
- g) ICAI had earlier stated that one of the reasons ISA 600 is not adopted is that the Standard requires sharing of work papers between auditors, but sharing of work papers is not permitted in Chartered Accountants Act 1949. Clause (1) of the Second Schedule of the Act, PART I, Professional misconduct in relation to Chartered Accountants in Practice -states that a Chartered Accountant in Practice shall be deemed to be guilty of professional misconduct, “*if he discloses confidential information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force*”. It was presented by the Authority that this clause is not a bar to sharing work papers as SAs would be notified in law. At present too, the SAs have statutory status under CA 2013. The proviso to section 143(1), of the Companies Act 2013, also specifically requires the Principal Auditor to have access to all records and books of account of all its subsidiaries and associates, for the purpose of consolidation.
- h) ISA 600 (2002) (para 18) stated that division of responsibility can arise *if the local regulations of some countries permit a principal auditor to base the audit opinion on the financial statements taken as a whole solely upon the report of another auditor regarding the audit of one or more components.* However, SA 600 is premised upon division of responsibility. In this context the provisions of CA 1956 (as SA 600 is 2002 vintage) and CA 2013 were also presented which showed that a **combined reading** of s. 227, s.228 in CA 1956 and of s.143 in CA 2013 provides for complete access of documents of companies and their subsidiaries to auditors and does not yield in any sense that the principal auditor is to ‘**solely rely**’ on the work of the component auditor.

### D. Government instructions

- i) The recent OM of Cabinet Secretariat, GOI, dated 26 July 2024 was also shared, which reiterates the need for incorporation of global benchmarks and best practices while preparing notes for cabinet/cabinet committees, also conveyed through OM of Cabinet Secretariat, GOI, dated 19 July 2022. The OM states that “*at the stage of conceptualising/formulating proposals related to policy matters. Schemes, programmes, projects etc, Ministries/Departments should examine global benchmark and best practices on the subject concerned. The objective should be to suitably incorporate global best practices and standards in policies, schemes, programmes, projects etc*”.

### E. In principle agreement of SEBI, RBI and CAG to the proposal

- j) **Agreeing to the proposal to revise SA 600, SEBI** had stated that the standards issued by independent audit regulators which are aligned with international standards would lead to improvements in regulatory framework governing audit firms and associated ethical requirements, **therefore leading to better quality audits of financial statements of listed entities.**
- k) **RBI had stated that they agree in principle** with NFRA’s proposal to revise SA 600 in line with international standards. However, RBI has currently requested for consideration of a carve out in respect of the requirement in the ISA 600 (Revised) that the principal auditor needs to assess the

competence of the component auditors. Given the number of branch auditors in case of Public Sector Banks (PSBs) and in other group entities as well, RBI stated that it may be onerous for central auditors to verify the professional competence of all such auditors.

- l) **CAG office had stated that the audit framework in India should always evolve** keeping in line with developments worldwide for ensuring financial integrity and accountability of both public and private sector organisations. In respect of SA 600 revision, CAG suggested wide stakeholder consultation and a graded approach in alignment of SA 600 with ISA 600 (Revised).
- m) CAG also mentioned a process issue, that in their view ICAI would have to consider proposing revised SA 600 to NFRA. The Authority was informed that this requirement is met as ICAI has already referred SA 600 as part of their proposals. NFRA had enquired revision of SA 600 from ICAI and ICAI had recommended status quo (no revision was proposed). The Authority can consider changes to SA 600 **as per Rule 6 (2) of NFRA Rules 2018, which states that the Authority shall consider the recommendations and additional information received from ICAI in such manner as it deems fit before making recommendations to the Central Government.**

#### **F. Quality Management Standards**

- n) The Authority was apprised that ICAI had not yet sent draft SQM 1 and SQM 2 to NFRA for its consideration. As per ICAI's interpretation, only SAs in the series 200-799 were required to be notified under CA 2013.
- o) The nature of SQMs was apprised to the Authority. They are the starting point which lay down the framework and requirements of an audit quality management system and cover quality requirements for both the firms and individual audits. SAs are in fact premised on an audit firm following quality management requirements and the SQMs are referred to in hundreds of places in the SAs. The interdependence of SQM, CA 2013 provisions and SAs was further highlighted with a detailed discussion about independence requirements of auditors which is relied upon by all financial regulators and Central Government. It was informed that the notification of such SAs and SQMs by two separate bodies (former under CA 2013 and later issued by ICAI) and consequent amendments, where the SAs come for review by NFRA, but the SQMs do not, would be highly anomalous for a coherent audit quality framework and its enforcement in the country. It would be detrimental to not just the statutory responsibility of the NFRA, but also present an anomalous situation for Central Government, all financial sector Regulators and oversight bodies as well affecting India's international standing and commitments. All over the world, the SAs and SQMs are issued together by the independent audit regulator or independent standard setting body.

#### **G. In principle agreement of SEBI, RBI and CAG to the proposal and their comments**

- p) In this regard, views of SEBI, RBI and CAG were informed to the Authority. SEBI had conveyed its agreement that NFRA's proposal to recommend notification of Standards of Auditing and Standards on Quality Management under Companies Act, 2013, is a step in the right direction.
- q) RBI had stated that they agree in-principle with NFRA's proposal that Standards on Quality Management can be issued as part of Standards on Auditing.

- r) CAG office had stated that the SAs and SQCs should normally converge with ISAs and ISQMs to ensure a robust quality management program at the firm level and enhanced quality at engagement level. ISQMs appear more dynamic, risk-focused and comprehensive.
- s) Regarding notification of SQM in CA 2013, CAG office suggested for NFRA's consideration a definitional issue that SQMs may not form part of SAs and there may be a need for an amendment in s.143 (10) of Companies Act 2013.
- t) Consequently, the Authority was apprised that to assist the Authority in making its recommendations and confirm the position in law, a legal opinion on the matter was taken. The legal opinion had confirmed the understanding that there is no definitional constraint which requires interpreting SAs only to mean a particular series 200-799. SAs can be interpreted to mean any set of auditing standards or addendum thereto, notified by MCA under s.143 (10) of CA 2013 given the definitions in the Act (s. 2(7) and s.143(10) and Rules 2(1)(c) of NFRA Rules 2018 read together). Besides, section 143 (10) of CA 2013 not only provides for notification of SAs but also certain relevant standards, codes and guidance materials as an addendum to SAs and is definitionally consistent with s. 2 (7) of CA 2013.
- u) Legal precedents were apprised to the Authority by which Hon'ble Supreme Court had held in its judgment in *Workmen of Dimakuchi Tea Estate v Management of Dimakuchi Tea Estate 1958 INSC 2*, that "*the definition clause must be read in the context of the subject matter and scheme of the Act, and consistently with the objects and other provisions of the Act*". It was reiterated that the object of the law is given in s. 132 (2) (a) of CA 2013 read with Rule 4 (1) of NFRA Rules 2018, which clearly conveys NFRA's wide powers and the obligation to establish high quality standards in public interest.

The legal opinion obtained by NFRA further stated that *the terms 'accounting standards' and 'auditing standards', as used in the 2013 Act, do not refer to a particular class of instruments but are general, undefined terms. As such, they may be taken to refer to any set of mandatory/binding rules which seek to regulate the conduct of a particular class of individuals/entities with a broader aim of protecting public interest, the interests of a particular sector or industry*".

- v) Authority was informed that major jurisdictions across the globe (UK, EU-almost all of its member states, South Africa, Australia, New Zealand, Brazil, Canada, Malaysia and Singapore) have adopted/converged with ISA 600 (Revised).
- w) In conclusion, the Authority was apprised that there were no legal impediments to the Authority recommending revisions in SA 600 or including quality management standards as part of its recommendations under s. 143 (10) of CA 2013.

7. Chairperson invited comments from Members to the proposals that revisions proposed in SA 600 should be published for public comments, and quality management standards (SQMs) drafts should also be put out for public consultation by NFRA.

- (a) Prof Kallapur stated that SAs are closely dependent on SQM and the world over SAs and SQM are issued together as a single set of standards by independent regulators or standard setting bodies. If these are issued separately by two different organizations there would be problems of the kind

indicated in the presentation. Such issuance where SAs are issued under CA 2013 and quality management standards by ICAI would violate the spirit of CA 2013 and the responsibility of such a recommendation, if made, would be cast on NFRA. Regarding SA 600, Professor Kallapur stated that when a task is split in this manner between two people, there is scope for misunderstanding and blame, which can also be used as a strategy to evade responsibility. Hence it is necessary that SA600 is harmonized with ISA 600. As regards Banks, Professor Kallapur stated that private sector banks do not have branch statutory auditors.

(b) Professor Narayanaswamy stated that the test at any time should always be public interest. He referred to the structure of standards where the ethical framework is at the top, followed by the quality management standards and then the engagement standards. This structure is there in international framework (e.g. IAASB) as well as in India. SQM is an integral part of this set and therefore it should be notified under CA 2013. Regarding SA 600, Professor Narayanaswamy said that he had been on boards of several companies and also given his experience, a lot of siphoning of funds actually occurs through JVs, subsidiaries, associates etc including money laundering. Professor Narayanaswamy also opined that no Standard should have a carve out by itself at the stage of inviting comments. The consultation process should yield feedback as to operational problems that may be perceived by all stakeholders including other Regulators in implementation of the Standard, which is also international practice, and that can again be deliberated by NFRA.

(c) Shri IDS Dhariwal, JS, MCA, stated that his views were personal and that the ICAI regulates the profession and their feedback is important. Proper quality management can only occur when we have proper SAs. Process (of audit) is important and should be standardized. JS gave a recent example of an audit where several regional branches of an organization were audited and as the audit process was not standardized centrally, the consolidation of the audit became a challenge, apart from the time it took to complete the task. JS stated that ICAI in fact should consider audit procedures applicable for all, as it has a larger population of CAs attached to it. NFRA deals only with listed companies. NFRA would of course be the final authority to consider proposals and send recommendations to MCA. ICAI needs to take a lead and ICAI's position should not be undermined.

(d) Shri. M D Rao, Executive Director, SEBI, said that the presentation had fully brought out SEBI's comments. Group auditors should take more responsibility. In SEBI investigations this issue has been flagged. Subsidiaries are used as a conduit to divert funds and hence main auditors have a significant role to play. Related party transactions (RPT) are very critical to be seen and subsidiaries also carry out RPT and if a subsidiary is unlisted it has to take approval of listed company. Hence subsidiary is important and if there is a lapse then main auditor should see it. Regarding SAs and SQMs, Mr Rao said that they are co-dependent and we must move to the global standards.

(e) Shri Ranjeet Kumar Agarwal, President, ICAI, said that the issues being discussed were important, thought provoking and future oriented. He appreciated the details in the agenda note and examples given. He highlighted the role of ICAI and said that ICAI was engaged with audit quality for 75 years. The code of conduct was brought out by ICAI in 1963 much before global bodies were set up. In the last several decades corporates have thrived due to the standards issued by the ICAI. The Government has also stated that until standards are notified in the Act, the ones issued by ICAI will be applicable. As India is aspiring to be the 5<sup>th</sup> largest economy, credit goes to Standards set up and the CAs who certify the financial statements based on standards. The Unique Document Identification Number (UDIN) captures 1.60 crore signatures of CAs every year. Out of which 400-500 complaints are received every year and acted upon by ICAI. He

further said that until a few years ago there were 2.9 lakh CAs but 1.5 lakh in practice. Today the figure is 4.5 lakh including 1.5 lakh in practice. The number of CAs is increasing but commensurate numbers are not coming to the profession. He also mentioned other measures taken such as several checks and balances have been put in place by ICAI-CAs cannot audit more than 30 audits in a year. There are other such regulations in place also. He also said that the manner of conduct of the CA exam has been appreciated even by the Hon'ble Supreme Court of India (in wake of questions on the processes in other exams in the country).

Regarding, SA 600, he said that the ICAI Council, in 1995, 2002, 2006 and later again has taken the call that ISA 600 will not be applied in India.

In India, RBI, SEBI, CAG have a system of empanelment of auditors on certain criteria. Due to PSB, PSUs etc the position is unique in India. India cannot be equated with any other country. In India there are 96000 firms of which 75000 are proprietorships mostly catering to MSMEs. Only 400 firms have more than 10 partners or more.

If in revised SA 600, a CA is not permitted to rely on another CA then we are undermining our own CA qualification. All CAs are expected to be of the same quality. We cannot distinguish between one CA and other CA. President, ICAI stated that in the case of Coffee Day Global Enterprises, NFRA has invoked SA 600, so the standard as it exists today, is not toothless. Principal auditor today also can perform additional procedures and reach out to the component auditor. There is also scope for improvement, debate, discussion and we should continue to do that. NFRA and ICAI are both to protect public interest. President said that they would like to again discuss and debate this matter in the Council and come back to NFRA with views. He would not prefer any recommendation from NFRA without ICAI recommending some proposal. He also said that concentration of audit work should not happen. Also, if Standard is so rigorous, people will not take up the audit profession.

f) Shri Sanjeev Singhal, Chairman AASB said that as President has spoken and represented views of Council, his views are also the same.

g) Shri Pramod Jain, Chairman ASB said that as President has spoken and represented views of Council, his views are also the same.

h) Ms Smita Jhingran, Full-time Member of NFRA stated that the agenda is twofold- first about putting out the proposal for revision of SA 600 on lines of the present ISA 600 in public consultation and second that the Authority publishes the exposure drafts for SQM. She said that she supports both the proposals. Revision in SAs had been in consideration since 2021 and several years had passed. It was imperative to bring in best practices and decisions taken accordingly. It was also necessary to broaden consultation and seek views from the public. Ms. Jhingran also stated that the Cabinet decision cited in the presentation clearly stated that international benchmarks should be referenced and followed in matters of policy. NFRA is India's independent regulator and as per international practice where the set of standards is issued as one, SAs cannot be conceived without the SQM. A single set needs to be issued by the Central Government. Once public comments are obtained, NFRA could move forward with its recommendations to the Central Government.

i) Dr P K Tiwari, Full-time Member stated that at the outset that he supported both the proposals adding that the Authority should be aware of the risks at both the international and national levels arising from any non-compliance with international standards. At the international level, the non-compliance with international standards impacts India's position relating to (a) Report on the Standards and Codes (ROSC) that IMF prepares for its member countries as a part of its Article IV consultations and (b) India's position in the FATF as the accounting and auditing are part of the

Designated Non-financial Businesses and Professions (DNFBPs), which are covered in the FATF Recommendations (equivalent to standards) and are monitored by the FATF for a country's compliance with anti-money laundering and combatting the financing of terrorism measures. There are international frameworks to which India is signatory and where consistency with global standards and codes is a requirement (the standards and codes assessed by the IMF include Accounting and Auditing: IFRS and ISAs).

Apart from the international risks in not complying with the frameworks to which India is signatory, there are risks at the national level in not adequately dealing with the complex group structures, and the layering transactions which present scope for corporate fraud and the related money laundering. He stated that in view of these risks, the regulatory gaps in national legal frameworks, standards and codes need to be plugged. He underlined that NFRA's investigation proceedings have revealed that complex group structures are prone to be used for corporate fraud and that the auditors are using gaps in SA 600 to evade responsibility. NFRA's responsibility in law is directly impacted by the existing gaps in the standard, more so as NFRA is concerned with Public Interest Entities and therefore it is obligatory for NFRA to plug the gaps vis a vis international standards.

Regarding the SQM, Dr Tiwari stated that the SQM permeates through the SAs and is central to NFRA's exercise of its functions as the Companies Act empowers NFRA for investigation of professional misconduct of both the individual auditors and the audit firms. Since establishing the quality management framework is the responsibility of the audit firms, for which they should remain responsible under the Companies Act, the SQM needs to be on the same statutory footing as the SAs when the SAs are notified under the Act. Not doing so will directly impact NFRA's ability to discharge its responsibility under s. 132 (4) of the Act especially in relation to the auditing firms.

j) Chairperson clarified that this was not the stage for the Authority to take a final call on the issues. This meeting had been called for a decision to merely expose the proposed revisions for wider consultation so that the Authority gets feedback and thereafter take a final call on the proposed standards. Chairperson appreciated the comments on ICAI, and its endeavors and accomplishments as expressed by President, ICAI. He said that, however, it is necessary to constantly review the gaps. Chairperson said that there were several instances of corporate failures noticed by NFRA in their work relating to the auditors of Reliance Home Finance Limited, Reliance Capital Limited, Reliance Commercial Finance Limited, ILFS, Coffee Day Global Limited, where tens of thousands of crores of rupees were siphoned out through subsidiaries and group entities and the Principal auditor took shelter behind SA600. Under the law, NFRA has obligations which require the Authority to Act and conform to the global standards and best practices. In aspiring to be the third largest economy in the world, India's auditing standards need to converge with global standards with sound reasons for deviations if any. This would warrant broad consultations at this stage itself to get as many views as possible. Chairperson reiterated that only when the revisions proposed are exposed for public consultation, will everyone get a complete picture.

k) President, ICAI, stated that in the past the ICAI Council considered the standard as per its maturity. However, they will go back to the Council and discuss the standard again in the current scenario. On the clarification if consultation within Council can be timebound, President said ICAI can come back with Council views in 2.5-3 months. Chairman, ASB, ICAI, stated that NFRA should not issue the exposure draft of auditing standards of public consultation. It should be issued by ICAI.

l) In response, it was reiterated that NFRA has the powers to issue draft exposures for public consultation and that ICAI had already sent its proposal on SA 600 to NFRA (para 6 (n) above) and, therefore, keeping in view the recent large scale corporate scams and siphoning off of the money amounting to tens of thousands of crores of rupees through subsidiaries and associates, as described in the above paras, no useful purpose would be served by sending the matter again to the ICAI. It was need of the hour to plug the loophole as fast as possible to protect the public interest. ICAI may, if it so wishes, also give its views on the proposed revisions when it is issued.



m) Professor Narayanaswamy stated in this regard that this proposal has been in consideration since 2021. It had been considered by ICAI's Council several times and that there had been no changes to their stand. In the interim, DHFL and Coffee Day corporate failures occurred. These evidence the regulatory gaps for which NFRA is the agency accountable in law today. He said that if NFRA does not act, then NFRA will be held responsible. The paramount test should be public interest. In the Council or in NFRA, users of Financial Statements don't have a representation. It is therefore important to take their views also at this stage through the process of inviting comments on the exposure draft. Professor Narayanaswamy stated that the process of calling for public comment and internal consultation within the ICAI were not mutually exclusive. NFRA could put out its consultation and ICAI could simultaneously also take the matter to their Council.

n) Mr. M D Rao also supported the issue of proposed revisions in SA 600 for public consultation by NFRA and said everyone can then respond to it.

o) Ms. Jhingran stated that in light of public interest cases highlighted in the presentation and the fact that it had been several years since the revised SAs were being considered, the broad consultation should now take place with no further time being lost in going back to the drawing board.

p) Regarding SQM, it was clarified to the Members that NFRA will only issue a consultation if ICAI still does not send it for NFRA's consideration. Chairman AASB informed that due process on changes in SQM on lines of ISQM had been completed by ICAI. It was discussed and decided that NFRA will request ICAI to send the revised SQMs for NFRA consideration

q) With regard to the observation on the number of companies under NFRA purview, the Authority was apprised that NFRA's remit is PIEs under Rule 3 of NFRA's Rules. The relevant statistics to consider while taking a decision is not the number of companies under the purview of NFRA, but the importance of PIEs to the economy, their size, their market capitalization, their exposure to banks and the overall public interest involved. All over the world, PIEs operate in a stronger financial reporting framework than other companies. Corporate failures in PIEs cause ripple effects in the economy and can cause Bank failures as well.

r) **President ICAI also stated that the first largest economy in world i.e. US has its own standard on group audit which allows option of division of responsibility. The second largest economy in world i.e. China also has its own standard on group audit. Currently, India has its own SA 600. If India is to become the third largest economy in world, it should have its own standard considering the country's own requirements and the economic development in the country.**

s) **In response it was clarified, to President, ICAI, and to all Members, that India follows IAASB standards- ISAs.** If we were to compare with the US, we would need to compare our Standards with the entire set of PCAOB (the auditing regulator in the US) Standards. The Standards operate in a cohesive framework and contain cross references to one another. The individual standards in a set of standards cannot be seen in isolation. Any set of standards (like the ISAs in our case) a country chooses to apply must be seen as an organic whole in which the individual standards are inter-related to each other to function as a whole. A single standard (like SA 600) cannot be seen by itself because deviations from the universally adopted version will have an effect on the whole of the standards of which it a part. It also appeared from documents available in the public domain that PCAOB introduced the said division of responsibility in respect of audits recently for a very small set of audits and the accompanying requirements were quite stringent. So it was not appropriate to draw a parallel between SA 600 and AS 1206 issued by the PCAOB.

t) It was also clarified that all over the world, SQMs are issued along with Standards by bodies independent of the accounting profession. In the case of Malaysia and Sweden, it is issued by professional accounting associations, but their independent audit regulators supervise these bodies in these countries, which is a completely different arrangement than in India.

u) President, ICAI, stated that subsidiaries of listed companies are also audited by smaller audit firms and with the application of revised standard, the principal auditor may choose component auditors which may lead to concentration of audit work in few large firms. He thus expressed his strong reservation to the proposal and wanted the same to be recorded. Shri Sanjeev Singhal and Shri Pramod Jain too stated that they agree to the views expressed by the President, ICAI.

v) It was clarified that in the case of public sector companies, there is a process of empanelment of auditors by CAG and use of these panels by various PSBs and PSUs. The appointment of auditors of PSUs and their branches is by CAG. This is provided in law and SAs cannot override the law. Appointment of PSB auditors and their branches is by Banks as provided for by RBI instructions and criteria. The revisions being proposed were intended to protect public interest and could not be used by audit firms to protect and promote their own financial interest. It was pointed out that the qualification of CA was an eligibility for being appointed as an auditor. RBI, SEBI, IRDAI and CAG look at other additional criteria like sectoral experience of firms, existence of specific skills sets, presence of information system auditors in audit teams, etc. while selecting their auditors.

w) In the spirit of a collaborative effort, and in view of the concerns expressed by President, ICAI, Chairperson proposed that the consultation could specify that the revisions were proposed currently to be applied for audit of PIEs and not for audit of all companies. For the non-PIE companies, ICAI could also revert with their recommendations after consulting with their Council and Members. He also sought to allay the apprehension expressed and reminded everyone that the power to appoint the component auditors rests with the shareholders and necessary safeguards can be addressed after the consultation process and accommodated suitably at the time of final recommendations to the Central Government. Professor Narayanaswamy stated that the Authority should not consider excluding any entities at this stage, as this is only about floating the consultation paper/proposal. The consultation process will yield feedback and at that stage views regarding any entities to which the revised SA may not apply can be considered by the Authority with full feedback as to its reasons proposed by the wider group of stakeholders.

x) After further discussion, it was then suggested that it may be included in the cover note that it is proposed to apply the revisions currently to the audit of listed companies and PIEs except PSUs and Public Sector Banks and their branches. RBI had also advised to consult the Indian Banks' Association, which was yet to be done. Chairperson stated that this graded approach could be a way forward which will address the concerns of the President, ICAI as well and also plug the regulatory loophole which has led to many corporate failures such as ILFS, DHFL, Reliance Capital Limited and its subsidiaries, Coffee Day Global Limited etc, where the investors and banks have lost lakhs of crores of Rupees. This will help improve corporate governance in India and enhance the trust of investors- foreign, domestic and retail investors and other stake holders. Inclusion of suggestion of graded approach, will also yield adequate feedback from all stakeholders on the application of these standards. This graded approach would also meet and address the views and suggestions of RBI, SEBI, and CAG. Professor Sanjay Kallapur, Shri M D Rao from SEBI, Dr Praveen Tiwari, and Ms Smita Jhingran echoed similar views in support of the proposal.

y) At the end of the meeting, based on above deliberations, views expressed by all the members in the meeting, the sense of the house and the views communicated by SEBI, RBI, and CAG in support of the proposal, urgency of the matter to protect public interest, and after recording the strong concerns expressed by President ICAI in this regard, the following decisions were taken.

- 1. The proposed revisions for SA 600 will be put out for public consultation and it would be clarified in the accompanying cover note that the revisions are sought to be applied currently only to the listed entities and PIEs under Rule 3 of NFRA Rules 2018, excluding PSUs, Public Sector Banks and their branches, in view of the detailed discussions above.**
- 2. ICAI is requested to send, within three weeks as was agreed, the drafts of SQMs finalized at**

**their end, and their proposal for notification of quality management standards (SQM 1 and 2) to NFRA for the Authority's consideration so that comprehensive recommendations can be made to Central Government on the auditing standards framework as a whole, as all of these standards impact the audit quality framework in the country which is relied upon by Government, Financial Sector Regulators, oversight bodies (domestic and international) etc and users of financial statements, as per para 6(o) above.**

-sd/-  
Secretary, NFRA