

Record note of the 18th Meeting of the National Financial Reporting Authority held on 11-12 November 2024

The 18th Meeting of the National Financial Reporting Authority was held 11th and 12th November 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) Dr. Kavita Prasad, Director General, O/o CAG of India
- (b) Shri S V Muralidhar Rao, Executive Director, SEBI
- (c) Ms. Sudha Balakrishnan, Chief Financial Officer, RBI
- (d) Professor R. Narayanaswamy, Ex-Faculty, Finance & Accounting, IIM Bangalore
- (e) Professor Sanjay Kallapur, Professor of Accounting at ISB, Hyderabad
- (f) CA. Ranjeet Kumar Agarwal, President, ICAI
- (g) CA. Pramod Jain, Chairman, ASB, ICAI
- (h) CA. (Dr.) Sanjeev Kumar Singhal, Chairman, AASB, 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.
 5. Chairperson, NFRA, welcomed the Members to the 18th Meeting, which was the third in the series of meetings being held to discuss updated Auditing Standards, towards recommending the same for notification to Central Government under s. 143 (10) of the Companies Act (CA) 2013.
 6. Chairperson stated that it was for the first time that a recommendation was being considered to be made to the Central Government for the notification of Auditing Standards. Prior to the enactment of CA 2013, ICAI issued guidance and guidelines under its own mechanism. After the notification of CA 2013, all Auditing Standards are to be notified by the Central Government as Rules, similar to the manner in which Accounting Standards have been notified. The impact of notification of updated, contemporary Auditing Standards on transparency in financial reporting, on corporate governance and enforcement is expected to be transformational, similar to what had been experienced after the Ind AS had been notified.
 7. Chairperson stated that for the Standard Setting purpose, the Authority has representation from RBI, SEBI, CAG, MCA, external independent experts, and ICAI. The Authority has a larger responsibility and **through its eminent constituents, the Authority's mandate**

and actions impact the whole economy. For instance, while RBI supervises banks, it is also a stakeholder in the robustness of the balance sheets of the corporates as the health of their balance sheets affects the balance sheets of banks. CAG similarly audits the entirety of the public sector and has a huge stake in the overall financial and fiscal health of the economy. SEBI, of course, is the country's capital market regulator and has a direct oversight over the financial statements and is directly concerned with corporate governance matters and financial health of corporates.

8. At the outset, Chairman, ASB, ICAI, asked for the Annual Report of NFRA to be provided to all Part-Time Members. He was informed that NFRA's annual report is tabled in Parliament and is available on NFRA website, being a public document.
9. Chairperson stated that Secretary, NFRA, would be making a presentation and providing a brief background of the issues at hand and the agenda items.
10. Secretary, NFRA, covered the following in the presentation:
 - Standard Setting Global practices and Indian Scenario
 - Who sets the Standards, globally
 - Provisions in law and obligations in law with respect to Standard Setting
 - 18th Meeting of the Authority- Objectives
 - Developments since notification of NFRA (in Standard Setting)
 - 15th Meeting of the Authority-discussions and decisions
 - 17th Meeting of the Authority-discussions and decisions
 - Proposal regarding SA 600 (Revised)
 - Proposal regarding SQMs
 - Opinion of Ld Solicitor General of India on some issues
 - Proposal for the 18th Meeting of the Authority
11. The points covered in the presentation are as below.
 - (a) A brief discussion on the global standard setting bodies being independent of the professional accounting bodies, and that the stakeholders of auditing standards cover not just the auditors but also other stakeholders such as investors-retail, institutional, (domestic and foreign), creditors, Government, Financial regulators, etc, was discussed to provide domestic and global context to the changes being proposed, for the information of the Authority.
 - (b) The provisions in law were recapitulated given the statutory status of the Auditing Standards as brought in by CA 2013.
 - (c) NFRA's obligations in law to establish high quality standards on auditing in public interest and for safeguarding interest of investors, creditors etc. were reiterated.
 - (d) It was highlighted that the NFRA was working towards reviewing the Auditing Standards and making them fit-for-purpose and contemporary for recommending their first-time notification by Central Government under the Companies Act 2013.
 - (e) **The developments in the Standard Setting agenda of the Authority, since 2020, were highlighted** (slides 7-11). It was pointed out that ICAI sent revised SAs 315, 540, 220, 250 and conforming adjustments to other SAs sent previously to NFRA, on 8 February 2024 (except SA 600 which was sent earlier and was based on the 2002 version of ISA 600, and except the SQMs which were not sent to NFRA by ICAI). The first meeting on the issue was held on 15 May 2024, after consideration of the updates.
 - (f) It was stated that since ICAI's proposal to NFRA had some variations in the

SAs compared to global standards, and the decision in the 15th Authority Meeting that the latest ISAs should be taken as base and changes kept at minimal, was reiterated. Secretary stated that the agenda notes carried changes suggested by ICAI in the SAs. The agenda documents accordingly highlighted both, the paragraphs and requirements where there was an agreement with the changes made by ICAI, and where changes were proposed with respect to the text proposed by ICAI.

(g) It was highlighted that regarding SA 600 (Revised), as included in the discussions in the 17th Authority Meeting, in-principle agreement from SEBI, RBI and CAG, to the convergence, with some suggestions, had been received. SEBI had stated that the SEBI (LODR) Regulations, 2015 require listed entities to submit consolidated financial results on a quarterly basis which may be audited or be subject to limited review. Further, SEBI Master Circular, dated 11 July 2023, on compliance with provisions of the SEBI LODR also specifies the procedure for limited review of the audit of entities/companies whose accounts are to be consolidated with the listed entity. The procedure is broadly in line with SA 600 issued by the ICAI. SEBI stated that given inherent deficiencies in SA 600 as pointed out by NFRA, it is crucial to update and bring the Indian Standard (SA 600) on par with global Standards (ISA 600).

(h) It was pointed out in the presentation that as far back as 2017 the Kotak Committee on Corporate Governance set up by SEBI, whose recommendations went a long way in enhancing corporate governance in India, had deliberated on the issue of Group Audits in India, and recommended (slide 34) that a move needs to be made to align Indian Auditing Standards (SA 600) with global best practices.

(i) The Company Law Committee, 2022, set up by the MCA had also recommended revision in SA 600 observing that large number of cases of diversion of funds through subsidiary companies were taking place, and had expressed the need for regulatory changes on this matter. The Committee was of the view that suitable amendments may be required to ensure that the auditor of the holding company is given assurance about the fairness of audit of each subsidiary company by the respective auditors.

(j) While the ISA 600 had been revised twice, in 2009 and 2022 (effective December 2023), the corresponding SA 600 had not been revised in India by ICAI. NFRA had also been in correspondence with ICAI to revise SA 600 since January 2023. However, as ICAI had informed that they would not be revising SA 600, the draft revised Standard was then included in the agenda for Authority's approval in the 17th meeting of the Authority held on 26.08.2024, for public consultation. Public consultation was then approved in the 17th meeting and the covering note was issued on 17.09.2024. ICAI members did not agree to the proposals regarding SA 600 revision as noted in the record note of the 17th meeting.

(k) The Authority was informed that the consultation paper received commendation from the stakeholders for the detailed rationale put out by NFRA for revision in SA 600.

(l) NFRA also conducted consultations with members of audit committees, and members of the profession, including workshops with the Bombay Chartered Accountant Society and the Karnataka Chartered Accountants Society. The Audit committee interactions were carried out in collaboration with CII and Assocham. The Chairperson also addressed a gathering of statutory auditors and CFOs organized by the RBI in Mumbai in July 2024. NFRA's webinar and two webinars on SA 600 organised by Assocham and IICA respectively, where eminent experts and CAs spoke about the provisions, were widely attended. In addition, there were 36 responses (*one comment was received after the meeting, taking the total to 37*) to the consultation paper of which an overwhelming majority supported the revisions and some also provided suggestions.

Some of these responses are by organisations and hence are not to be treated as individual views but as the views of a group of individuals. During the presentation the Authority was shown the web page on the NFRA website which contained information on the extent of consultations in the last few months on the subject (<https://nfra.gov.in/stakeholder-outreach-and-engagement/>), apart from the comments received.

(m) The Authority was informed that all issues pointed out by ICAI for not proposing any revisions in SA 600 had been clarified on more than one occasion. One of the reasons given by ICAI for not adopting SA 600 was that in their view 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. It was clarified that educational qualification cannot be confused with the professional competence and that the aspect of assessing professional competence of the component auditors by the principal auditor as provided in ISA 600 had to be understood in context of that particular engagement. The requirement is not new. The provisions of current SA 600 also provide for assessment of professional competence of the component auditor by the principal auditor in paragraph 13 of that SA. This aspect had also been detailed in the recent circular issued by NFRA on 3rd October 2024. The proposed revised SA 600 also has similar provisions. ***It was explained*** that competence and capability encompass not just being a CA, but relevant experience and skills, understanding and adhering to quality control framework, ethical considerations, amongst other competencies. Today, RBI, SEBI, IRDAI and CAG, while prescribing selection criteria for empanelment of auditors, include other additional criteria like sectoral experience of firms, existence of specific skills sets, number of audit partners and their experience, presence of information system auditors in audit teams etc., besides the basic qualification of being a CA. Internationally also CPAs and such other professionals need to fulfil certain criteria that are laid down by the audit regulators in their countries (as seen in the US, UK, South Africa, Australia, Singapore etc) and must demonstrate competencies relevant to audit of PIEs, in addition to registration with the audit regulator.

(n) It was further explained that the requirement of determination of competence and capabilities of component auditors by Group Auditors in SA 600 (Revised) is in the context of applying SA 220. This is provided as the Group auditor has to assess whether the work done by the component auditors is adequate to support his audit opinion on the CFS and whether he can obtain sufficient and appropriate audit evidence for his purposes. It is not a legal determination with a view to affect the appointment of component auditors and their audit of the separate financial statements of the components. The Authority was informed that this is clarified amply in SA 600 revised, para 26, which is required to be read with SA 220, that Group Auditor has to **obtain an understanding of the competence and capabilities of the component auditor** if the component auditor is from another firm (para A 23-25 of SA 220).

(o) It was also discussed that the **objective of the revisions** to the SA was to meet the overall public interest, for investor and creditor protection, and with a view to close the observed regulatory gaps and loopholes. **Audit concentration was already mitigated in law.** The right of the shareholders to appoint auditors and the role of the audit committees in respect of appointment, monitoring effectiveness of the auditors, is enshrined in the Companies Act (s. 139 and s. 177) and is paramount. Further, as also provided in s. 141 (3) (g), a CA can audit only 20 companies. It was further pointed out that the number of auditors **impacted by the revision was not significant.** The proposed SA 600 (Revised) would impact a maximum of only around 2 percent (including

subsidiaries, associates, JVs etc of the holding entities) of the total approx. 17 lakh active companies, as brought out in detail in para 10 of the consultation paper issued by NFRA.

(p) On the issue of the SQMs, the Authority was informed that subsequent to the decisions of the 17th meeting, ICAI was requested by the Authority to send the SQMs to NFRA within three weeks of the meeting. Subsequent reminders had been sent by the NFRA office to ICAI in this regard. However, on 14th October 2024, ICAI uploaded the SQMs and consequent amendments to 17 Standards of Auditing on its website. On 21st October 2024, ICAI wrote to NFRA that in the ICAI Council's view SQMs do not constitute standards of auditing and hence would not be sent to NFRA for recommendation to Central Government under section 143 of the Companies Act 2013.

(q) In this regard, on the questions whether ICAI had any authority to issue or amend any Auditing or Quality Control/Management Standard under the law and who is empowered under the law to issue or amend such standards, the opinion of the Ld Solicitor General of India was shared with the Authority. **Ld. Solicitor General of India has held that** *“There is no substantive definition provided for in the law as to what comprises of "auditing standards". It appears that the legislature deliberately left this expression fluid to enable the Central Government to adapt to changing needs of the times to address myriad unforeseen problems and decide what will constitute the auditing standards or addendum thereto. Therefore, in terms of sub-section (10) of section 143, whatever the Central Government prescribes as the standards of auditing will be construed as the auditing standards.”* **It was further clarified by the Ld SG that** under the law only the Central Government is authorized to decide on what constitutes auditing standards and prescribe auditing standards under CA 2013. On whether the Standards on Quality Control and Standards on Quality Management can be considered as ‘auditing standards or addendum thereto’ under s. 143 (10) of CA 2013, **Ld SG has confirmed the understanding that there is no definitional constraint in CA 2013 to do so.** He has held that if the Central Government is of the view that SQM should be notified as an Auditing Standard to meet the objectives of the Act, it and it alone, and not the ICAI, has the power to notify SQM as auditing standard or addendum thereto under s. 143 (10) of the Act.

(r) **Ld SG also clarified that ICAI has no powers,** either under the **Chartered Accountant Act, 1949, or under CA 2013,** to issue SQMs and amendments to Standards of Auditing under the proviso to s. 143 (10) of CA 2013 after the notification establishing NFRA, and MCA's letter of 11.08.2021. The proviso under s. 143 (10) of CA 2013 is only transitory in nature till the Central Government prescribes the auditing standards; and until such time the auditing standards already specified by the ICAI at the time of commencement of the Companies Act 2013, will continue to be in force.

(s) The Authority was, therefore, informed that the proposal in ICAI's letter dated 21.10.2024 that in their view SQMs do not form part of the auditing standards and addendum thereto under s 143 (10) of CA 2013 and accordingly were not being sent to NFRA, should be treated as their recommendation. Under Rule 6 (2) of NFRA Rules 2018, the Authority is competent to consider the recommendations of ICAI as it deems fit before making a recommendation to the Central Government. Accordingly, draft SQMs may be considered by the Authority for recommendation to MCA for notification under s. 143 (10) of CA 2013 in keeping with the Authority's powers and obligations to establish high quality auditing and accounting standards in public interest and to safeguard investor and creditor interest, under s. 132 (2) (a) of CA 2013 read with Rule 4 (1) of NFRA Rules 2018. Authority was also informed that the **Ld SG has also held that Section 132(2)(a) gives NFRA a wide power to make recommendations to the Central Government not only on the basis of the recommendations already**

submitted by ICAI, but more generally on the formulation and laying down of accounting and auditing standards as well as policies.

(t) Accordingly, in keeping with the mandate of the Authority under s. 132 (2) (a) read with obligations of the Authority under Rule 4 (1) of NFRA Rules 2018 and related provisions of the Act and NFRA Rules 2018, it was proposed to the Authority that it may approve the agenda item for recommending to the Central Government 38 SAs and SQM 1 and SQM 2, as reviewed by NFRA, for notification under s. 143 (10) of CA 2013.

Discussions and Decision on the Proposals related to SQMs

12. Chairperson stated that as the country aspires to be the third largest economy, it was important to align with global standards. This would also be in accordance with the Cabinet instructions as conveyed by the OM of July 2024 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.*”

13. It was clarified by the Chairperson that at the time of the notification of CA 2013, the Auditing Standards issued by ICAI as on that date had been given statutory cover under the proviso to section 143. Re-iterating the opinion given by Ld SG, Chairperson stated that that it was important that the legal basis of such issuances is confirmed so that the auditors have clarity on their obligations and legal infirmities do not occur in any enforcement proceedings. MCA had also conveyed in its letter dated 11.08.2021 to ICAI that after the constitution of NFRA, ICAI should send a comprehensive proposal for notification of all SAs to NFRA for recommendation to the Central Government.

14. President ICAI stated that ICAI fully respects the powers of the Central Government to notify Standards under the Companies Act 2013. However, as ICAI had obligations towards auditors of non-corporate entities (trusts, partnerships, individuals etc) also, it had issued the SQMs and consequent amendments to 16 Standards of Auditing. President ICAI stated that the SQMs are in the nature of Standard Operating Procedures (SOPs) and as per the ICAI Council’s view they do not constitute auditing standards. **He further stated that ICAI has no problem if the Government notifies the SQM.** However, as the ICAI Council does not consider them as Auditing Standards, ICAI has therefore decided that the SQMs would not be sent for NFRA review. President ICAI also mentioned that SQM is the revision of SQC1 issued by ICAI in force today. Chairman, ASB, ICAI, also stated that SQC/SQMs are not part of Standards of Auditing, hence should not be recommended by NFRA to MCA.

15. Chairperson stated that if the SQMs issued by ICAI are intended to be applied only to the audit of non-corporates, it would be in order if ICAI could clarify the same to the auditors. Prof Narayanaswamy also said that it was important that ICAI clarifies the scope of the SQM and amendments issued by it. In respect of the Public Interest Entities, CA 2013 places obligations on NFRA with regard to oversight of their audit quality. Therefore, ICAI must clarify the scope of application of SQMs issued by it on 14th October 2024.

16. Ms Sudha Balakrishnan and Professor Kallapur also requested clarity from ICAI Members on the scope of SQMs and amendments issued by the ICAI. Prof Kallapur also enquired why SQMs were issued by ICAI when the Authority had requested ICAI formally in the 17th

meeting to send the SQMs to NFRA for the reasons discussed in the Meeting.

17. Chairman, AASB, ICAI, said that the SQMs have been issued by the ICAI on a recommendatory basis from 1st April 2025 and on mandatory basis from 1st April 2026. Chairperson requested ICAI's confirmation that if, as an illustration, notification of SQMs by Central Government was delayed beyond 1.4.2026, would the SQC 1 apply on Companies or the SQMs? Chairman, AASB, ICAI, confirmed that in that case the SQMs would start applying to companies also from one 1st April 2026. Chairperson, NFRA, and other Members (apart from ICAI Members) pointed out that this view of the ICAI is not supported by the provisions of the Companies Act and Chartered Accountants Act. The SQMs and SAs are inter-related and without the SQMs, the SAs become largely ineffective and the statutory scheme of audit under Companies Act cannot function. ICAI's powers had also been clarified by the Ld Solicitor General of India, in his opinion (as presented above). Chairperson requested ICAI members to appreciate that even if one word of the SQM was applicable to companies then it was needed to be notified under the law. Even if it was applicable on audit or assurance services of non-corporates, ICAI could not issue it and make it applicable on companies. It was without question the power of the Central Government to notify such Standards. Chairman, AASB stated that ICAI had no issue with notification of the SQMs under CA 2013 by the Central Government but respecting the ICAI council views, they could not send SQMs to NFRA.

18. President ICAI stated that the CA Institute had been issuing guidelines for the last 75 years for its members including the Standard Operating Procedures on how the firms operate. Before AS and SA were issued by ICAI and International bodies, ICAI has come out with Code of Conduct mandatory for its Members in 1963. That point of time there were no standards nationally and internationally. ICAI has taken lead in making its members answerable with the issuance of code of conduct and the golden line of code of conduct says, even if something is legal, members of ICAI has to be see whether it is ethical or not and if not ethical, Members should not resort to those kinds of practices even if it is legal. So ICAI has always regulated its members and updated them from time to time. SQC or SQM are the SOP for firms and not Standards on Audit. Moreover, President opined that if the Central Government does not notify Standards or if NFRA does not recommend Standards, would that imply that ICAI could not issue any revisions to update its members for discharging their duties.

19. Chairperson said that, on the contrary, the law does not envisage that the Authority requests for proposals related to auditing standards for its review which is denied by ICAI and then ICAI can keep issuing the standards or amendments. Chairperson stated that MCA had asked ICAI as early as 2021 to send a comprehensive proposal to NFRA and as was shown in the presentation, the matter has been in correspondence for over three years. At various times, for reasons outlined, ICAI's proposals were incomplete for one reason or the another. Consequently, as the critical updated standards were received by NFRA only in February 2024, they were considered by the Authority on priority. Hence it could not be said that ICAI had recommended standards which were not reviewed by NFRA and not sent to Government for notification. Prof Narayanaswamy also said that if ICAI sent standards for review to NFRA it is not conceivable why NFRA would hold on to these proposals and not convene Authority meetings to decide on its recommendations.

20. Ms Smita Jhingran stated that in the last two meetings the proposals on Auditing Standards have been considered and the Authority is seized of all matters in this regard. Ms Jhingran stated that the SQC is integral to the Standards on Auditing and these being interrelated, it was important to send them as one whole to the Central Government for notification. ICAI also

needs to appreciate that it is part of the Authority for the purpose of Standard Setting. Dr Kavita Prasad, while reiterating the written comments sent from CAG office also stated that since the matter was already under discussion between NFRA and ICAI, ICAI could have consulted NFRA before issuing the SQMs and amendments to SAs. Any disagreements could have been discussed in the Authority.

21. Mr MD Rao (participating virtually) stated that he had gone through the agenda items and conveyed his agreement to the NFRA's proposals in writing also, which may be taken on record. He stated that SEBI fully supports the alignment of SAs with ISAs. The proposals by NFRA are well drafted and well thought of. Changes have been suggested keeping Indian context and legal requirements. The date of implementation of 1.04.2026 was concurred. He also concurred with the proposal to revise SA 600, as proposed in the exposure draft. Mr MD Rao stated that SEBI's views had been communicated earlier also. He also said that in view of the Ld SG opinion, no other body can continue to do make amendments or issue Standards. Regarding the SQMs, Mr MD Rao was of the opinion that SQMs should be notified under s. 143 (10) as auditing standards. Notification of SQMs under CA 2013 would give legal sanctity, enable enforcement, and protect investors.

22. Prof Narayanswamy stated that ICAI's statement that the SQM was an SOP is problematic. If this argument is accepted that SQM has been an SOP and was not covered under the proviso to s. 143 (10), then after the notification of CA 2013, how was it being enforced in respect of quality of audit carried out by audit firms? Clearly, SQM is not an SOP and is integral to auditing standards required for the statutory scheme of CA 2013 to function.

23. A secondary issue was discussed that had emerged due to issue of SQMs by ICAI. It was informed that, presently, ICAI had no powers of enforcement over audit firms and therefore the issue of SQMs as mandatorily applicable on audit firms, was perhaps without sound legal basis. President, ICAI, stated that they enforce SQC on Member firm and in case of non-compliance ask for the member answerable from the firm and start disciplinary proceedings against member answerable. Similarly, ICAI has Peer Review System as mandated by SEBI wherein if any firm is not Peer-Reviewed, they are not eligible to get listed company audit as per provision of SEBI. In case a firm is not peer reviewed and do the listed company audit,

ICAI seek from that firm, name of member answerable and start disciplinary proceedings against the member answerable. So historically ICAI has regulated the **firm(s)** as well. Their jurisdiction over audit firms is part of the amendments to the Chartered Accountants Act 1949 which await notification by Government. Chairman AASB stated that the issuance of the SQM and consequent amendments to 16 Standards of Auditing was within law as ICAI had been created under an Act of Parliament and in ICAI's view they could issue standards for the purposes of the act.

24. It was clarified to ICAI that the Ld SG had pointed out that while dealing with the power of the Pharmacy Council of India to impose a moratorium for 5 years on starting of new pharmacy colleges in India, the **Hon'ble Supreme Court was pleased to reject the argument** of the Pharmacy Council **that the word "regulate" in the preamble of the Act** was sufficient to confer a source of power to the Pharmacy Council to impose moratorium by way of a policy decision. While striking down the moratorium the Hon'ble SC held that a statutory body can do only such acts as are authorized by the statute creating it and that the powers of such a body cannot extend beyond what the statute provides expressly or by necessary implication (in Pharmacy Council of India v. Rajeev College of Pharmacy & Ors). It was discussed that the

Chartered Accountants Act does not have any provisions under which ICAI can issue Auditing Standards now, especially after notification of CA 2013 and the setting up of the NFRA.

25. On the question of non-recommendation by ICAI to NFRA and NFRA going ahead without recommendation as raised by ICAI President, Chairman, NFRA reiterated that law did not envisage a situation where a request for a standard would be made to the ICAI by the NFRA which the ICAI would refuse to send. In such a case would the NFRA or the Central Government not undertake necessary steps to set right the financial reporting framework as obtaining in the Companies Act? Members urged ICAI to rethink their position. Dr P K Tiwari stated that the whole purpose of issuing standards is to enforce it and therefore, to be able to be enforceable, the standards have to be firmly rooted in law. The ICAI members of the Authority reiterated that while they may be members of NFRA, they could not differ from the ICAI Council's view.

26. At this stage, based on the sense of the house and majority of Members, it was decided that the draft SQMs (as circulated to the Authority and based on ISQMs issued by the IAASB) would be sent by the Authority to Central Government as its recommendations for notification as "auditing standards or addendum thereto" under the scope of s. 143 (10) of CA 2013. This proposal was agreed to by all members attending except for three members of the ICAI.

Discussions on changes in SAs with respect to ISAs.

27. The Authority was informed that as was given in the agenda notes, ICAI's proposals on most SAs were in alignment with the ISAs (except SA 600 and SA 299, which were the existing SAs and no revisions had been proposed by ICAI).

28. NFRA office had also carried out its review in keeping with the decisions in the 15th Meeting held on 15 May 2024. Accordingly, the ICAI proposals as reviewed by NFRA were recommended to be accepted and had been presented after the following changes – some references were needed to be brought in which applied contextually to India, retaining of some provisions of ISA which were clarificatory in nature but deleted in the ICAI proposal, and consequential changes to SA 600 (Revised) as ICAI proposals had references to SA 600 (2002) version. Across the proposed SAs, the nature of changes suggested to the Authority were discussed:

(a) The term 'public sector entities' wherever appearing was agreed to be retained as per ISAs. The definition of public sector entities was seen and as it was wide and encompassed the nature of public sector in India, it was not felt necessary to elaborate it.

(b) References to ICAI Code of Ethics was to be replaced with relevant ethical code applicable in India. The change was proposed as it was possible that to align the law, SQMs, SAs and ethical requirements, ethical standards or a code could be specified/reviewed by the Government. For instance, the present ICAI Code of Ethics bars review of work papers between auditors, which is not in alignment with law. Hence, for alignment, ethical standards could be differently specified. ICAI Members did not agree to the proposal. President ICAI at this stage pointed out that ICAI has come out with ICAI Code of Conduct in 1963 when there were no Standards and Guidance prevalent and ICAI has updated this Code of Conduct from time to time and these are mandatorily to be followed by every member of ICAI and now to replace the wording in Standards of Auditing, "ICAI Code of Conduct" with relevant applicable Code of Conduct is not warranted and not acceptable to ICAI. All other Members attending and except those from ICAI, agreed to substitute 'ICAI's Code of Ethics' by 'ethical code/standards applicable in India'.

- (c) All provisions across SAs that related to requirements regarding 'disclosures' in financial statements, which had been deleted in ICAI proposal, were agreed to be reinstated by all Members.
- (d) Where relevant, the use of word 'entities' was preferred as compared to 'companies'. However, the context was needed to be re-checked in each such reference and the appropriate word used.
- (e) References to Management/TCWG and BOD were to be reviewed for accuracy.
- (f) Definitions and Glossary would be examined and with minimal changes made relevant to Indian context.
- (g) References to the CA 2013 and laws and regulations were made specific. References to ICAI Council minutes etc were decided to be removed as the SAs would be notified in law.
- (h) Consequential changes to SA 600 (Revised) and to changes in SA 299.
- (i) Inclusion of SQMs in Authority's proposals to Central Government.

29. Chairman, AASB, observed that if the SA 600 circular had been issued by the Authority, there appeared no need to issue a revised standard. ICAI members stated that in their opinion the circular should have been discussed in the Authority. Chairperson stated that the circular is a reiteration of the existing responsibilities of auditors in law and SAs and it was issued for the entities in the NFRA domain. There are no new obligations in the circular. Dr Tiwari stated that in view of the NFRA's experience with oversight on Group Audits, it was felt important that the Regulator must clarify its expectations and its interpretation of the SA 600 so that there are no gaps in implementation. Chairperson further stated that while the Authority has powers to interpret SAs, the role and responsibilities of the Executive Body are clear in law.

30. President ICAI questioned the need for revising the SA 600, especially since NFRA's circular, in his view, had shown that the existing SA 600 was robust as that was being used for enforcement by the NFRA. It was clarified to President, ICAI, that the world over clarity projects are undertaken to clarify requirements in the Standards unambiguously. Standards need to have integrity within themselves and be consistent with law. The scope for interpretation is always required to be minimized. For instance, auditors applying existing SA 600 were disregarding provisions in s. 129 (4) of CA 2013. Hence, all obligations of law, SAs, ethical requirements etc. needed to be aligned.

31. The gist of public comments received in case of SA 600 were discussed. It was informed that ICAI had not responded to the public consultation. The comments received were grouped by subject matter for ease of discussion. A booklet of all comments received was also provided to the Members. Comments related to aligning Joint Audit requirements, reconsidering exemptions and coverage, competency assessment, timelines to finalize the financial statements, rotation of auditors, Alignment with other SAS/Regulations, Sharing / Review of WPs, Reporting and Reference to Component Auditor in the Group auditor's report, Responsibility of Component auditors, Independence and ethical considerations, Reporting under CARO, ICFR and Audit Trail, Stakeholder Education, Documentation, Operational Matters, Apprehension on audit concentration were discussed. It was pointed out that an overwhelming majority had supported the revisions. Chairman, AASB, ICAI, requested that it be placed on record that in ten comments at least issues relating to revised proposals that required discussion were pointed out.

32. In discussions on the comments received in response to the public consultation, the following additional points were clarified.

- (a) The proposed SA 600 (Revised) does not impact the component auditor's audit of the SFS (Standalone Financial Statements) of the component.
- (b) Responsibilities related to fraud reporting by both the principal and component auditor are given in the Standard. In any case, these have to be read with 143 (12) in CA 2013. NFRA has also issued a circular in this regard.
- (c) On comments received for extension of coverage of SA 600 (Revised) to all entities, it was informed that the PSBs and PSUs are not proposed to be covered at present as the approach is to apply the SA in a graded manner, as also advised by the CAG. Chairman, AASB, asked why private banks were not exempted. It was clarified that private banks do not operate in a framework of thousands of branch auditors and hence, they were included in the present proposals. Besides, private banks are companies under CA 2013. With the exception of a few, most big PSBs are not companies. On being asked by President, ICAI, if RBI and CAG had not agreed to the revisions, both Ms Sudha Balakrishnan and Dr. Kavita Prasad reiterated their organization's views as already conveyed to NFRA and discussed in the Authority. It was clarified that it was not the case that RBI or CAG had stated that PSBs and PSUs should not be considered at all. But it was important to see that in the case of both PSBs and PSUs, RBI and CAG respectively have oversight on audit quality which constitutes an additional layer of oversight over statutory audit, and hence application of SA 600 (Revised) on these entities could be done subsequently. As with any reform, it was important that various entities adapt to the changes in a gradual manner, as CAG had also advised. Chairperson also added that most reforms occur in a graded fashion and the same graded approach had been followed in making GST e-invoices applicable to companies.
- (d) Comments related to assessment of professional competency of the component auditor by the group auditor, apprehension of audit concentration was discussed in detail (paras 10 (m)-(o) above) and provisions in the draft revised SA clarified. Chairperson reiterated that the law was very clear that shareholders and audit committees have a role in appointment of auditors. Principal Auditors could not influence appointments and if they attempted to do so, it could be reported and would be actionable professional misconduct. If the Principal Auditor did not find the work of the component auditor to be adequate, he could undertake the additional procedures himself or the Standard provides for circumstances in which he can qualify or disclaim. In case any practices to the contrary are experienced post implementation, suitable action can be contemplated at that stage.
- (e) References to provisions of law (s. 134 (1) read with s. 129 (4) of CA 2013) related to responsibilities of the holding company management and auditors to the CFS were discussed in detail and it was emphasised that the draft revised SA 600 was aligning to the provisions in the Act.
- (f) It was discussed that the issue of sharing of workpapers was clarified amply in the 17th Authority Meeting and the circular issued by the Authority on 3.10.2024. President, ICAI stated that in ICAI Act sharing of working paper is there if mandated by law.
- (g) Aspects such as quantitative limits on how much Principal Auditor should audit, or fixing materiality were discussed as not required to be specified. It would be the Principal Auditor's determination. In this respect President, ICAI, pointed out that quantitative limits for Principal Auditor's view of financial statements of components are provided in SEBI's LODR.
- (h) It was clarified that if an auditor audits an overseas component of an Indian company, audit would need to be carried out as per Indian auditing standards.
- (i) On aspects that were indicated in the comments as requiring implementation guidance, it was presented that significant guidance exists internationally as issued by the IAASB on the subject, and going forward suitable steps will be taken by NFRA also in providing the

same where gaps exist.

Discussions on SA 600 (revised)

33. President ICAI stated that countries such as the US, Japan, Germany, China and Russia had not adopted ISA 600. In many countries on IFAC website it was showing that they had 'partially adopted' ISAs. President and Chairman, AASB, ICAI, stated that while it was not clear which SAs had not been adopted, it showed that a complete alignment with ISAs was not necessary.

34. In response, it was clarified that the US has two Standards on the subject. This had already been discussed in NFRA's consultation paper on SA 600 (revised) in para 8.6. The Auditing Standard in the US which corresponds to similar provisions as ISA 600, though PCAOB, US issues its own Standards, is AS 1201 which is about the lead auditor's supervision and direction of the work of the 'other auditor'. Very recently, PCAOB has approved a Standard for division of responsibility, but which is envisaged as applying to infrequent and uncommon situations, such as for an equity method investment or a late-year acquisition of a company audited by another auditor. In respect of the other countries, any specific differences with ISA 600 could not be pointed out in the meeting by ICAI Members.

35. President ICAI mentioned that ICAI has aligned 38 Standards out of 40, fully, with the standards issued by the IAASB. One Standard SA 299 on Joint audit is not issued by IAASB and ICAI has formulated and implemented it as per suitability of Indian market. President, ICAI, highlighted the following points which he specifically mentioned to be part of the minutes:-

- (a) ICAI since beginning has aligned current Standards issued by International Boards wherever it felt necessary as per the suitability of Indian Economy and wherever it felt not suitable, ICAI has done carve out from these Standards while implementing them in India.
- (b) When IFRS came, ICAI adopted IFRS with some carve outs (which was not suitable to Indian market) and named it Ind AS. International Ethical Standards Board came with code of Ethics and President, ICAI himself being Chairman of Ethical Standards Board of India, while aligning ICAI code with International Code of Ethics, found that there is a scope of interpretation in every line and para. IESBA keeps the option of interpretation open. Wherever there is threat as per ethical code, they give the option to minimize the threat and keep the option of interpretation open. ICAI Code of ethics has been aligned till 2019 and ICAI code of Ethics is more stringent than the International Code of Ethics. Therefore, ICAI has aligned with International Best Practices wherever required and followed own principles and procedure in some cases to suit the Indian conditions and market. ICAI also believes that every International Practice is not necessarily the Best Practice.
- (c) India is a developing country with a great geographical spread. Outside India all companies are not necessarily being audited and that's why they have Group audit concept, but in India every company is being mandatorily audited as per Companies Act. More so in India, in addition to the Standards of Audit, there is a regulatory mechanism on companies, by Companies Act, SEBI Act, RBI Act and CAG making Indian market more robust and regulated compared to the rest of the world.
- (d) India also has a number of smaller audit firms. No major frauds have happened in India as compared to frauds in foreign jurisdictions as current SA 600 has maker-checker approach as it is easy to manage one than many. NFRA has based its proposals of SA 600 (Revised) on a few cases. Corporate balance sheets in India are clean. India is 5th largest Economy and going to be 3rd largest economy of the World based on the current standards in force today and India has the best standards.

(e) The proposed revision of SA 600 pre-supposes that Principal auditors are more knowledgeable than component auditors. Component auditors can also be knowledgeable and check the work of the Principal Auditor. President, ICAI, stated that ICAI is for the regulation and development of profession. ICAI apprehended that by implementing revised SA 600 where Principal Auditor is held accountable for entire Group, there are likely chances of more frauds and concentration of audit profession in India as prevalent in rest of the world. On the contrary, for audit quality enhancement, if something more is required to be done in respect of SA 600, ICAI will take it up. It has been discussed twice recently in the ICAI Council and sent to AASB for review and come with revised mechanism in SA 600, but it came to no conclusion. It will be discussed again. In the last five years, every year, ICAI has handled more than 400 disciplinary cases. Indian CAs are well respected in India and outside equally. Indian CAs are not back-room accountants now, rather they are sitting in Board rooms.

36. Chairman, AASB, ICAI, stated that ICAI supports progressive thinking. Whatever India is doing can also become global. In G-21 countries, while ICAI does not have specific details, it can be seen that each country applies its own considerations. In respect of Accounting Standards, two carve outs by India have later been adopted globally. While SA 600 (revised) would cover a few companies, it would cover 95 percent of revenue/market capitalization. ICAI has instituted peer review of firms and hence competency assessment is happening and will cover more firms over time. It was important to adopt a block chain type of arrangement where different things are done by different people. Component auditors can be made more responsible. It is important to provide for more accountability at every level. It will be extremely challenging for Principal Auditor to supervise audits. Effective communication will also be complex.

37. Chairman, ASB, ICAI, enquired into the parameters of judgment of competency. For purpose of consolidation, in his view, the Principal auditor may judge competency of standalone statements. In an associate or JV, a component auditor may have more than one Principal Auditor. Time and costs may also change. He stated that while the SA may improve, it may not include competency assessment.

38. Prof Narayanaswamy stated that respondents to the consultation paper have commented on various aspects. It is important to look at the purpose of the revision. The purpose is to improve its utility to users of financial statements. For instance, empirical evidence shows that Related Party Transactions are more numerous in India. The revised SA has robust requirements to meet it. With his hands on experience in Boards of Companies, Prof Narayanaswamy stated that in several instances both auditors did not take responsibility and audit quality suffered as a result. If the Principal Auditor signs the documents, he is responsible. He needs to make his assessment of resources. The revision of SA 600 is not giving them power but making them more responsible. He also added that Ind AS carve outs also need to be addressed. Professor Kallapur supported the revision in SA 600. He stated that reasons were discussed in the 17th meeting and difficulties faced by NFRA in enforcement were discussed. If two people are doing different jobs, accountability is difficult to fix. It was important to align with global standards. Commitments to G 20, the cabinet instructions reinforced this alignment. Fresh evidence has come in this meeting through consultation comments, papers and points made in Authority. Practicing CAs need clarity, not confusion with regard to the requirements. In determining the competence the Principal Auditor will not be passing a judgment. Their review is not for appointing an auditor. It is for deciding what procedures have to be done for the purposes of the Group financial statements and assess risks to their overall opinion. Professor Kallapur stated that he does not agree to points made about audit concentration. Principal Auditor cannot decide who to appoint and if they indulge in these practices, they will be violating ethical standards. He further stated that in his experience as a company director, one

gets greater comfort if the signing auditor/s take full responsibility.

39. Dr. Kavita Prasad reiterated CAG's point of view, that aligning with international standards could be undertaken in a phased manner. She further stated that stakeholder consultation, which was also suggested by CAG, had also been carried out by NFRA.

40. Ms Smita Jhingran stated that it had been decided in the Authority Meetings that the SAs would be revised as per the ISAs and applied to public interest entities except public sector banks and public sector units and their branches. In the previous meeting ICAI's serious reservation to the application of SA 600 (Revised) had already been noted. The consultation paper by NFRA had received several comments and some were from industry bodies and groups. The need for revision of SA 600 was not just based on NFRAs enforcement experience but the increasing number of such cases going in for IBC. Every fraud creates a setback, costs the exchequer and takes the country back from its developmental goals. Setting robust standards would be this Authority's contribution correcting the overall framework. She also stated that it was not correct to change the parameters on which concentration was being measured (from numbers to market capitalization). She also pointed out the President, ICAI's statement that ICAI is looking at discussing changes to the SA 600 is something that should have been undertaken much earlier when NFRA started the conversation in January 2023. This was the stage to finalise recommendations.

41. Dr PK Tiwari stated that he supported the alignment of SA 600 with the ISA 600. He said that as India is aspiring to be the third biggest economy, it should do so with the best standards possible. He said that he had looked at the issue of audit concentration very closely in view of the apprehensions being expressed. However, post his detailed review he was of the view that the legal framework in the country is robust and has sufficient safeguards to mitigate any audit concentration. He also stated that the reference to the assessment of competency and capability in the SA600 was in relation to the application of SA220 and hence it was important to understand the requirement of SA220, which talks **about the principal auditor obtaining an understanding of the skills and experience of the component auditor for the purposes of his opinion on the group financial statements. There is no provision that can be interpreted to mean that this determination of competency under SA 600 (read with the relevant provision of SA 220) is tantamount to determination of competency impacting appointment of auditors, which is an altogether different process under the Companies act and is the sole prerogative of the members of a company.** He also stated that it was important that India aligns with global standards given that several international bodies to which India is signatory or international forums where India participates require compliance to international standards. For example, under its Article IV consultations, the IMF reviews compliances in member countries with respect to 13 standards and codes, one of which one is the standards on accounting and auditing. He referred to the observations of the Chairperson that the path to Viksit Bharat can only be achieved if every institution of the corporate world works towards it. Dr Tiwari also emphasized the need to be conscious of the cabinet instructions and Authority's responsibilities in this regard. He stated that the Authority had a high responsibility to achieve alignment with global standards, especially as the concerns expressed on the proposed revisions both in the Authority meetings and in the consultation, process had been addressed.

Regarding conforming adjustments in SA 299

42. It was presented to the Authority that in all seven comments had been received regarding aligning SA 600 with SA 299. This was because joint auditors, in case of holding companies, could also function as principal auditors and hence without the alignment the set of standards being recommended to the Central Government would not be consistent. Once SA 600 is

revised, it could not be a case that SA 299 provides for division of responsibility between joint auditors (who can function as principal auditors). The Authority was informed that while there is no corresponding ISA to SA 299, the international practice in South Africa, Singapore, France and Germany had been referenced by NFRA office. None of these countries provided for division of responsibility. Provisions in Singapore were showed in the meeting, as an illustration.

43. It was, therefore, proposed that the division of responsibility in SA 299 be replaced by the joint auditors being 'jointly and severally responsible' for the joint audit. Along with this, the Authority was apprised that provisions regarding sharing of work papers or review of work papers between the joint auditors was needed to be permitted to enable joint audits to be effective. Such a review in respect of joint audits is called a cross review. Chairman, AASB, ICAI stated that while he did not support the revision of SA 299, the requirement of cross review is integral, globally, to joint responsibility of joint auditors.

44. The recommendations of the Company Law Committee 2022 were also discussed which had called for a reconsideration of the liability of the joint auditor while recommending mandatory joint audits for certain class of companies.

45. All members agreed to the conforming adjustments in SA 299 except **all 3** ICAI members. ICAI Members also stated that SA 299 needed to be exposed for public consultation, as it is a change in basic principles. Chairperson and other members stated that the changes being proposed were only consequential to SA 600 (Revised) and considering the need to align SA600 with SA 299. In any case public comments on need for alignment were received. It was also pointed out that in 2021 when ICAI had exposed SA 299 for public comments they had received just one comment which too had recommended doing away with division of responsibility amongst joint auditors.

Regarding SAs in the 800 series

46. The 40 Standards being proposed to Authority for consideration included the three SAs, SA 800 (Revised) (Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks, SA 805 (Revised) (Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement, SA 810 (Revised) (Engagements to Report on Summary Financial Statements) also for notifying under Section 143(10) of the Companies Act, 2013, as these have a bearing on audits of financial statements. These SAs deal with special considerations that apply to audit of financial statements that are prepared in accordance with a special purpose framework. Such audits of financial statements are required for instance by creditors, or by Regulators (e.g. SEBI requires application of these SAs) and involve expressing an opinion on financial statements. However, Chairman, ASB, ICAI, stated that SA 800/805/810 should not be recommended by NFRA to MCA as these are not to be used for audits of financial statements under Companies Act, 2013. Other ICAI members also agreed to this viewpoint. However, all other members attending did not agree with the views of the members of ICAI and supported the proposal to recommend SA 800/805/810 to the Central Government.

47. At the close of the meeting, the following were the decision points.

- (a) Recommend revision of the Standard on Quality Control (SQC1), as Standards on Quality Management (SQM 1 and SQM 2) on the lines of the global Standards on Quality Management (ISQM1 and ISQM2), with minor contextual changes, to the Central Government for notifying under Section 143 (10) of the Companies Act 2013.
- (b) Recommend SA 600 (Revised) on the lines of the global Standard ISA 600, with some minor contextual changes, to the Central Government for notifying under Section

143(10) of the Companies Act 2013. The SA 600 (Revised) and relevant conforming adjustments in the other SAs are proposed to be applicable only to Public Interest Entities (PIEs) except Public Sector Banks, PSUs (including public sector insurance companies) and their branches, respectively.

- (c) Recommend conforming adjustments with the SA 600 (Revised) in the liability of joint auditors under SA 299, for consistency, by making the joint auditors jointly and severally responsible, on the lines of the standard international practices, and recommend the same to the Central Government for notifying under Section 143(10) of the Companies Act, 2013.
- (d) Recommend the three SAs, SA 800 (Revised) (Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks, SA 805 (Revised) (Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement, SA 810 (Revised) (Engagements to Report on Summary Financial Statements) also for notifying under Section 143(10) of the Companies Act, 2013.
- (e) Of 11 Members present and attending the meeting, 8 members except President, ICAI, Chairman, AASB, ICAI, and Chairman, ASB, ICAI, approved these above four proposals.
- (f) The Authority unanimously also approved the other 33 Auditing Standards on lines of corresponding Global Standards.
- (g) In line with the practice followed globally in countries such as UK, Australia, Singapore, the Authority unanimously also decided to recommend to Central Government to name the Auditing Standards as Ind SAs.
- (h) The effective date for implementation agreed to be recommended was w.e.f. 1.04.2026.

The meeting ended with a vote of thanks.

Sd/-
Secretary, NFRA



Presentation

18th Meeting of the
National Financial Reporting Authority
11-12 November 2024

Structure of the Presentation

1. Standard Setting Global practices and Indian Scenario
2. Who sets the Standards, globally
3. Provisions in law and obligations in law with respect to Standard Setting
4. 18th Meeting of the Authority- Objectives
5. Developments since notification of NFRA
6. 15th Meeting of the Authority-discussions and decisions
7. 17th Meeting of the Authority-discussions and decisions
 1. SA 600
 2. SQM
8. Proposal for 18th Meeting of the Authority

Standard Setting Objectives

-Public Interest and Investor protection

Auditing Standards need to meet multiple objectives

- High quality accounting and auditing Standards are the fundamental building blocks in ensuring a robust financial reporting and audit quality framework globally
- Promote transparency and Trust in financial markets

The **Stakeholders** comprise

- **USERS**-Auditing Standards provide assurance on a consistent audit quality framework to
 - Investors- retail and institutional, domestic and foreign
 - Creditors
 - Government, all financial Regulators, International organizations etc
- **MANAGEMENT**, CFOs, Audit Committees
- **AUDITORS**-Clarifies obligations, processes, objectives to auditors themselves

Who sets Auditing Standards, globally?

- Globally, Audit Regulators or Independent Standard Setting Bodies set Auditing Standards
 - Where professional accounting bodies set auditing standards, they are overseen by the Audit Regulator
 - In various countries, such regulators or standard setting bodies are entrusted this function under respective laws
- These arrangements ensure that there is no conflict of interest arising out of self-regulation or standard setting exclusively by the practitioners themselves
- In India, Standards are to be notified by Central Government under the Companies Law, after considering recommendations by the NFRA
- The NFRA, for the purposes of Standard Setting comprises Chairperson and Full-Time Members of NFRA, and Part-time Members from MCA, CAG, RBI, SEBI, Two experts and three members from the ICAI (President, Chairman of AASB and Chairman of ASB)

18th Meeting of NFRA-Objectives

- **This 18th Meeting of the Authority** is the third in the series of meetings being held in reviewing the Standards of Auditing and making them fit-for-purpose for **recommending first-time notification by Central Government** under the Companies Act 2013
- In India, Auditing Standards aim to align with the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB)
- Currently, Auditing Standards in force in India are those issued by the ICAI and are at much variance with the International Standards

Provisions in law with respect to Auditing Standards

Section 143 (9) of CA 2013

- Every auditor *shall* comply with the auditing standards.

Section 132 (2)(a)

- **Notwithstanding any provision in any other law**, the NFRA *shall* make recommendations to the Central Government on accounting and auditing policies and standard

S. 143 (10) of CA 2013

- The Central Government may prescribe the **standards of auditing or any addendum thereto**, as recommended by the Institute of Chartered Accountants of India, constituted under section 3 of the Chartered Accountants Act, 1949 (38 of 1949), **in consultation with and after examination of the recommendations made by the National Financial Reporting Authority**

Provided that until any auditing standards are notified, any standard or standards of auditing specified by the Institute of Chartered Accountants of India shall be deemed to be the auditing standards.

Developments since notification of NFRA

First proposal from ICAI- amendments to three SAs

- 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

NFRA and MCA advise to address the entire framework

- 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.
- Ministry of Corporate Affairs (MCA), vide its letter dated 11.08.2021 had also asked ICAI to submit a comprehensive proposal to notify all the SAs u/s 143 (10) of the Act.

Developments since notification of NFRA

ICAI proposal in 2022-But based on dated SAs

- The ICAI vide its letter dated 23.06.2022 had submitted draft of 35 SAs for the consideration of NFRA.
- 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
- ICAI also mentioned that the following were based on old ISAs
 - 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.

Developments since notification of NFRA

NFRA's preliminary review

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**

- (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).

Developments since notification of NFRA

NFRA requested clarifications.....ctd

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.

Developments since notification of NFRA

ICAI response to NFRA clarifications-2023

1. 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.

ICAI updated proposal received on 8 February 2024

2. Accordingly, ICAI issued the exposure drafts and sent their updated proposal to NFRA on 8 February 2024

3. ICAI informed that ISA 600 was not adopted in view of

- i. Unique circumstances of audits of Banks and Public Sector Enterprises (Branch audits by SMPs)
- 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.

15th Meeting of the Authority-decisions

- Standard Setting taken up in 15th Meeting held on 15 May 2024

1. Regarding **revision in SA 600**, the experience of NFRA in examination of cases of Group Audits was highlighted and the need for revision for the SA was discussed and emphasised.

2. 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 Central Government** 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

Authority's approach to evaluation of proposals

3. As India has been following ISAs, the latest ISAs should be taken as base and changes kept at minimal. For making any changes or carve outs, there should be compelling reasons.

4. Any changes that may be required with latest ISAs would be suggested as mainly pertaining to those conforming to national legal and regulatory requirements, jurisdiction specific practice or elimination of options provided for in the International Standard.

17th Meeting of the Authority on 26.08.2024

Two Main Agenda Items- SA 600 (Revised) and SQMs

Agenda 1, SA 600 revision

1. SA 600 (2002) version was in receipt of NFRA from ICAI, but revisions were being proposed by NFRA. (This was in line with Rule 6 (2) of NFRA Rules 2018)

Rule 6 (2) The Authority shall consider the recommendations and additional information in such manner as it deems fit before making recommendations to the Central Government.

2. Revised draft of the SA 600 had been circulated as agenda item
3. It was proposed to issue the revised draft for public consultation for wider stakeholder consultation

SA 600 – Agenda 1 of 17th Meeting

NFRA reasons for proposing revision in SA 600..ctd

- To meet increasing complexity in companies' structures and investor and creditor protection
- Top 100 listed cos (excluding Banks/Insurance Entities)
 - 23 of these 100 had over 50 such components and
 - 76 of these 100 companies had overseas components.
 - Significant participation of audit firms or individual auditors other than the Group Auditor.
- CFS indicate significant portion of net assets arising from the components; in case of 20 companies, the percentage is above 50%. Similarly, in case of 18 companies, the percentage of total assets and in case of 17 companies, the percentage of total revenue audited by component auditors was above 50%.

SA 600 – Agenda 1 of 17th Meeting

NFRA reasons for proposing revision in SA 600..ctd

Investor protection

- There are 15.8 crore demat accounts which are growing at 24% per annum.
- As of 30.06.2024, there are 19.10 Crore Mutual Funds investors.
- AMFI data indicates AUM of Mutual Funds is Rs 61.15 lakh crores as of 30.06.2024 (up from Rs 24.25 crores five years ago).
- During last five years (June 2019 – June 2024) AUM of Mutual Funds have depicted growth rate of 152% as against 70% in Bank Deposits.
- Similarly, subscribers and assets under management (AUM) of National Pension Schemes, has increased from Rs 3.38 lakh crores to Rs 12.14 lakh crores

SA 600 – Agenda 1 of 17th Meeting

NFRA reasons for proposing revision in SA 600..ctd

- SA 600 contravenes provision in the Companies Act 2013 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.
- It was presented to the Authority that this clause is not a bar to sharing work papers and this was further clarified in NFRA's circular dated 3.10.2024.
- Hence, requisite changes in the SA 600 need to be incorporated for ensuring consistency with law and clarifying requirements in group audits to all stakeholders

SA 600 – Agenda 1 of 17th Meeting

NFRA reasons for proposing revision in SA 600..ctd

- 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.

SA 600 – Agenda 1 of 17th Meeting

NFRA reasons for proposing revision in SA 600..ctd

To meet the objective of the Authority set by the Statute

- 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.
- It was informed that IAASB’s revisions in ISA 600 also gave paramountcy to public interest as detailed in the agenda note

SA 600 – Agenda 1 of 17th Meeting

NFRA reasons for proposing revision in SA 600..ctd

- The recent OM of Cabinet Secretariat, GOI, dated 26 July 2024 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.
 - It 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*”.
- Judicial precedent-Hon’ble SC judgment

SA 600 – Agenda 1 of 17th Meeting

Views from SEBI

- SEBI, vide its letter dated 15.7.2024, stated that it is broadly in agreement with NFRA's prima facie views. SEBI stated that CA 2013 recognised the need for having an independent audit regulator for improving the quality of accounting and audit in India. The standards issue 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.
- **The SEBI (LODR) regulations, 2015** requires listed entities to submit consolidated financial results on a quarterly basis which may be audited or subject to limited review. Further, SEBI Master Circular dated July 11, 2023 on compliance with provisions of the SEBI LODR also specifies the procedure for limited review of the audit of entities/companies whose accounts are to be consolidated with the listed entity. The procedure is broadly in line with SA 600 issued by the ICAI. SEBI stated that given inherent deficiencies in SA 600 as pointed out in NFRA letter, it is crucial to update and bring the Indian Standard (SA 600) on par with global standards (ISA 600).

SA 600 – Agenda 1 of 17th Meeting

Views from RBI

- RBI 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 a carve out in respect of the requirement in the ISA 600 (Revised) that the principal auditor must 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).

SA 600 – Agenda 1 of 17th Meeting

CAG views

- CAG vide their response dated 06.08.2024 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 revisions, CAG suggested wide stakeholder consultation and a graded approach in alignment of SA 600 with ISA 600 (Revised).

SA 600 – Agenda 1 of 17th Meeting

International Adoption

- 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).

Company Law Committee 2022, on Group Audits

- The Committee discussed the issue of large number of cases of diversion of funds through subsidiary companies that are presently taking place and expressed the need for regulatory changes on this matter.
- The Committee deliberated on this issue and viewed that since a holding company makes significant investment in its subsidiary companies, there should be proper oversight, especially on financial matters, of such subsidiary companies by the Board and the auditor of the holding company. The Committee was also informed about the existing auditing standards and practices. The Committee was of the view that suitable amendments may be required to ensure that the auditor of the holding company has been given assurance about the fairness of audit of each subsidiary company by the respective auditors. In addition, the auditor of the holding company may also be empowered to independently verify the accounts or part of accounts of any subsidiary company. The Committee was however of the view that suitable amendments concerning these matters may be introduced after further examination and public consultation

SA 600 – Decision in the 17th Meeting

- The draft SA 600 (Revised) was presented for consideration of the Authority for public consultation
- Detailed deliberations were held and as noted in the minutes of the meeting, also published on NFRA website, decision was recorded as follows:

Decision in the 17th Meeting of the Authority after detailed deliberations:

“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”.

The 17th Meeting addressed ICAI concerns

ICAI had stated

1. Unique circumstances of audits of Banks and Public Sector Enterprises

- PSBs and PSUs have several branches and some provisions of SA may require more consultation with RBI, CAG, IRDAI
- Noting the concern, for the present, the revised SA was proposed to apply to all PIEs except to audit of PSBs and PSEs

2. Group Auditors' Report specifically mentions the extent of involvement of Component Auditors

- This is about the format of audit reports. Does not translate into better audits

3. Sharing of working papers is prohibited under Chartered Accountants Act 1949.

- This arose due to incorrect interpretation of law by ICAI. The issue is addressed in slide 15 &16 . There has been no bar to sharing of work papers in law. On the contrary, the SA and Code of Ethics provisions need to align with the law.
- There is also no observed parallel to such a general prohibition globally

The 17th Meeting addressed ICAI concerns

ICAI had stated (ctd)

- **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.**
 - *It was explained* that competence and capability encompass not just being a CA, but relevant experience, understanding and adhering to quality control framework, ethical considerations, amongst other competencies.
 - Today as well, while qualification of CA is an eligibility condition for being appointed as an auditor, RBI, SEBI, IRDAI and CAG provide for other additional criteria like sectoral experience of firms, existence of specific skills sets, number of audit partners and their experience, presence of information system auditors in audit teams, etc., as part of the empanelment/selection criteria for auditors
 - Internationally also CPAs and such other professionals need to fulfil certain criteria that are laid down by the audit regulators in their countries (as seen in the US, UK, South Africa, Australia, Singapore etc) and must demonstrate competencies relevant to audit of PIEs, in addition to registration with the audit regulator.
 - That one CA is equal in competency to another CA was not tenable; it is not so in any profession

ICAI's concerns on audit concentration were addressed in consultation paper

Assessment of professional competence of Component Auditors

Existing SA 600 also has such provision

- Requirement of Group Auditor assessing professional competence of component auditor is already there in existing SA 600 also. Paragraph 13 of existing SA 600 requires that the nature, timing, and extent of procedures (performed by the Principal Auditor) will depend on the circumstances of the engagement and the Principal Auditor's **knowledge of the professional competence** of the Other Auditor.

SA 600 (Revised) similarly includes such references

- SA 600 (Revised) requires Group Auditor to 'determine' competence and capabilities of component auditor in applying SA 220 (with the objective to ensure quality of audit of financial statements)
- The word 'determine' has to be understood in context.
- It implies clearly, as given in SA 220, that Group Auditor has to **obtain an understanding of the competence and capabilities of the component auditor** if they are from another firm. (para A 25, A 26 of SA 220)

NFRA issued a consultation paper and draft Revised Standard on 17.09.2024

Purpose of public consultation informed to stakeholders as below

- “.....This Standard 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, joint ventures, branches 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 in significant part on how robust this standard is and how it is applied by auditors in discharge of their audit responsibilities.** The revisions being proposed are to be applied to audits of Public Interest Entities (PIEs) that fall under Rule 3 of NFRA Rules 2018, except Public Sector Enterprises, Public Sector Insurance Companies, Public Sector Banks and their respective branches

Consultation by NFRA

- **The consultation paper covered in detail**
 - NFRA's observations from enforcement cases relevant to the proposal
 - NFRA's objective in proposing revision to SA 600 and NFRA's obligations under law with respect to Standards Setting
 - Various Judicial and Parliamentary Committee pronouncements on need to converge with global standards, and recommendations of the Company Law Committee, 2022
 - Provisions in law relevant to the proposal
 - Key aspects of SA 600 which are at variance with ISA 600 (2002) and with provisions in law
 - Basis for revision of ISA 600- IAASB- paramountcy to public interest issues
 - Consultation with SEBI, RBI and CAG and their in-principle agreement
 - Discussion on apprehension of concentration of audit

ICAI's apprehension on audit concentration were addressed in consultation paper

Objective of revision

- The revisions are intended with overall public interest in view, for investor and creditor protection, and with a view to close the observed regulatory gaps and loopholes.

Audit concentration already mitigated in law.

- The right of the shareholders to appoint auditors and the role of the Audit Committees in the respect of appointment, monitoring effectiveness of the auditors, as provided in Companies Act. (s. 139 and s. 177), is paramount
- Also as per s. 141 (3) (g) a CA can audit only 20 companies.

Impact was not significant

- The proposed SA 600 (Revised) would impact a maximum of only around 2 percent of the total approx. 17 lakh active companies
- UDIN data published by ICAI for 2023-24 also shows that statutory audits account for less than 10 percent of total audit assignments by auditors.

Wide consultation by NFRA and Response to consultation

- Consultation by NFRA was wide and employed various means-meetings, webinars
 - Included CII-NFRA workshop with Audit Committees, workshop with Bombay Chartered Accountants Society, Karnataka Chartered Accountants Society
 - As part of the discussion on SA 600, pursuant to issue of the consultation paper, the other modes of discussion, engagement, opinions have been put together on <https://nfra.gov.in/stakeholder-outreach-and-engagement/>
- 31 email/written responses were received, including from CII, Assocham, Bombay Chartered Accountants Society, which represent professional/industry groups, Chartered Accountants, Independent Directors, a gist of which was circulated to the Authority.
- **The transition to SA 600 (Revised) has been widely supported**
- The consultation paper has also been appreciated for its detailed statements of objects and reasons for the revisions.

Need to revise SA 600 also noted by Kotak Committee 2017

- The Committee noted that several international jurisdictions that have adopted the International Standards on Auditing (ISA) are governed by the requirements of ISA 600 which do not permit a division of responsibility between auditors of the holding company and its subsidiaries. **Therefore, in such cases, the auditor of the holding company is responsible for the direction, supervision and performance of the group audit engagement.** The Committee noted that auditing standards in India (SA 600) differ from the International Standards on Auditing by **allowing the holding company auditor to place reliance on the audit performed by the auditor of the subsidiaries** and provide an audit opinion on the consolidated financial statements based on the audit report provided by the other auditor
- ...However, the Committee believes that a move needs to be made to align Indian auditing standards with global best practices. Therefore, as a step in the right direction, but keeping in mind the concerns that may arise, it is recommended that **for listed entities in India, the auditor of the holding company should be made responsible for the audit opinion of all material unlisted subsidiaries.**

SQM – Agenda 2 of 17th Meeting

Agenda 2 - Recommending SQMs to Central Government for notification under s. 143 (10) of CA 2013

Importance of the SQM

- It is the starting point which lays down the framework and requirements of an audit quality management system. Edifice of SAs
- **Covers both firms and individual audits**
 - It states that the objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other review, assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:
 - **The firm and its personnel** fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
 - **Engagement reports** issued by the firm or engagement partners are appropriate in the circumstances.

SQM – Agenda 2 of 17th Meeting

Interdependence of SQM, CA 2013 provisions, SAs – example Independence Requirements

a) Section 141 (3) (i) of CA 2013 and s.144 of the CA 2013 prohibit an auditor from rendering certain services (grouped as non-audit services), and provision of such services is considered as a disqualification to act as an auditor. These provisions and other provisions in law, are intended to ensure independence of the auditor rendering an audit opinion on financial statements. In keeping with these requirements, the SQM, Code of Ethics and SAs together provide for independence requirements.

SQM – Agenda 2 of 17th Meeting

Interdependence.....ctd

- The SQM specifically provides for establishment of policy and procedures for Ethical requirements including independence requirements at the level of the audit firm. These are cross referenced in related SAs and the Code of Ethics.
- Para 29 of SQM 1 specifically provides for the Audit Firm to establish quality objectives relating to ethical requirements including independence requirements at the level of the audit firm.
- Para 4 of SA 220 which deals with quality management of individual audit engagements states that “Engagement teams are entitled to rely on the firm’s system of quality management’ and this reliance extends to firm policies regarding independence. **SA 220 is premised on the firm being subject to a quality control standard.**
- Para 16-21 of SA 220, lay down detailed obligations on part of the Engagement Partner to ensure compliance with relevant ethical requirements, including those related to independence by the entire engagement team.

SQM – Agenda 2 of 17th Meeting

Risk to Statutory scheme under CA 2013

- The notification of such SAs and SQMs by two separate bodies (former under CA 2013 and latter 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 and detrimental to the statutory responsibility of the NFRA
- Audit quality framework is also relied upon by other financial regulators

SQM – Agenda 2 of 17th Meeting

SEBI views

SEBI, vide its letter dated 15.7.2024, stated that it is broadly in agreement with NFRA's prima facie views as expressed in NFRA's letter dated 2.7.2024 and 5.7.2024. SEBI stated that CA 2013 recognised the need for having an independent audit regulator for improving the quality of accounting and audit in India. The standards issue 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. Therefore, 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.

SQM – Agenda 2 of 17th Meeting

RBI views

RBI, in its response dated 6 August 2024, stated that they agree in-principle with NFRA's proposal that Standards on Quality Management can be issued as part of Standards on Auditing.

SQM – Agenda 2 of 17th Meeting

CAG views

- CAG office, in their response dated 6 August 2024, 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.
- Regarding notification of SQM in CA 2013, CAG office suggested to clarify definitional issues
- Consequently, it was thought fit to assist the Authority by getting a legal opinion to clarify definitional issues

SQM – Agenda 2 of 17th Meeting

Legal position was discussed

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 the Central Government under s.143 (10) of CA 2013.

- . It is also pertinent to note the definition of Auditing Standards in CA 2013;

- Section 2 (7) of CA 2013 provides:

“(7) “auditing standards” means the standards of auditing or any addendum thereto for companies or class of companies referred to in sub-section (10) of section 143;”

- Rule 2(1)(c) of NFRA Rules 2018 states:

“(c) “auditing standards” means the ‘auditing standards’ as defined in clause (7) of section 2 of the Act

SQM – Agenda 2 of 17th Meeting

Legislative parallel

- In Australia the SQM has been issued as an auditing standard.
- Corporations Act 2001 of Australia provisions are similar to that in India including definition of auditing standards.
- Under section 336 of the Corporations Act 2001, the Australian Auditing and Assurance Standards Board (AUASB) is empowered to make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the Legislation Act 2003.
- The (AUASB) is a non-corporate Commonwealth entity of the Australian Government established under section 227A of the Australian Securities and Investments Commission Act 2001, as amended (ASIC Act).
 - b) According to S.227B(1) of the ASIC Act, the functions of the AUASB are:
 - ‘(a) to make **auditing standards** under section 336 of the Corporations Act for the purposes of the corporations legislation;’

SQM – Agenda 2 of 17th Meeting

Legislative parallel

The s.336 of the Corporation Act 2001 states that the AUASB may, by legislative instrument, make auditing standards for the purposes of this Act. The standards must not be inconsistent with this Act or the regulations. An auditing standard applies to financial reports.

As per this Act, "auditing standard" means:

- (a) a standard in force under section 336; or
- (b) a provision of such a standard as it so has effect.

As per this Act "financial report" means:

- (a) an annual financial report required by or under section 292, 293, 294, 294A or 294B; or
- (b) a half - year financial report required by section 302.

The AUASB has issued the Quality Management Standard as an Auditing Standard, calling it the Auditing Standard on Quality Management (ASQM)

SQM – Agenda 2 of 17th Meeting

Global position was discussed

- All over the world, SQMs and SAs are issued by the same body
- SAs are rendered infructuous and ineffective without the SQM

SQM – Decision in the 17th Meeting

In the 17th meeting of the Authority held on 26.08.2024, based on ICAI's confirmation that the due process on SQMs is complete, the Authority decided as follows:

“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..”

NFRA follow up on SQM with ICAI

- NFRA requested ICAI to send the SQMs on 27.09.2024, 9.10.2024 and 14.10.2024
- ICAI replied on 11.10.2024 that they are seized of the matter, and would revert to NFRA soon
- However, ICAI uploaded the SQM and consequent amendments to 16 SAs on its website late evening on 14.10.2024.
- ICAI also formally wrote to NFRA on 21.10.24 that they would not send SQMs to NFRA, as in their view SQMs are not covered by s. 143 (10) of CA 2013, as these are not ‘auditing standards’. This was decided, ICAI said, in their Council Meeting of 17 September 2024.

Follow up to 17th Meeting of the Authority

- Despite reasons why SQMs and SAs needed to be notified under the same statutory framework, the inherent nature of the SQMs and their relatedness with SAs, discussion on legislative parallel, no exception to this globally, and the legal opinion that had confirmed no definitional constraints in the CA Act 2013, ICAI stated that ICAI council is of the view that SQMs are not covered under s. 143 (10) and hence SQMs are not being sent to NFRA for its review and recommendation to Central Government

For decision on Agenda before the 18th Authority

1. What constitutes Auditing Standards?
2. Who is the authority to make the determination of what is required to be notified as auditing standards under s.143 (10) of CA?

What constitutes Auditing Standards?

- Under s. 139 of CA 2013, **both audit firms or individual CAs** can be appointed as **auditors**
- Accordingly, the set of auditing standards required to be notified by the Central Government to meet the objectives of independent, effective, quality audits under CA 2013, presently under consideration of the Authority for recommendation to Central Government, need to include
 - i. Standards on Quality Control (SQC) or **Standard on Quality Management (SQM)** (as will be revised), which are **applicable to the auditing firms** which perform Audits and Reviews of Historical Financial information and other Assurance and related services engagements.
 - ii. Standards on Auditing (SAs), to be applied in the audit of historical financial information (individual audits)
- ICAI's understanding, as also formally conveyed to NFRA earlier and reiterated on 21.10.2024, that only SAs in series 200-799 are relevant to be notified under auditing standards under s.143 (10) of CA 2013 is, therefore, not correct.

What constitutes Auditing Standards?

Ld Solicitor General of India has held

“There is no substantive definition provided for in the law as to what comprises of "auditing standards". It appears that the legislature deliberately left these expression fluid to enable the Central Government to adapt to changing needs of the times to address myriad unforeseen problems and decide what will constitute the auditing standards or addendum thereto.

Therefore, in terms of sub-section (10) of section 143, **whatever the Central Government prescribes as the standards of auditing will be construed as the auditing standards.”**

Who determines what are auditing standards?

2. Who is empowered under the law to decide what constitutes auditing standards and prescribe auditing standards under CA 2013.

Ld SG has held that Central Government alone is the authority to do so.

3. Whether the Standards on Quality Control and Standards on Quality Management can be considered as auditing standards or their addendum under s. 143 (10) of CA 2013?

Ld SG has confirmed the understanding that there is no definitional constraint in CA 2013 to do so. It is Central Government's decision what it feels is required to be notified under s. 143 (10) to achieve the related objectives of the Act. **If the Central Government is of the view that SQMs should be notified as auditing standards, it will be within its powers to notify them as Auditing Standards**

What is the status of SQMs issued by ICAI on 14.10.2024

Legal opinion on Whether ICAI can issue SQMs and amendments to Standards of Auditing under the proviso to s. 143 (10) of CA 2013 after the notification of NFRA, and given MCA's letter of 11.08.2021?

Ld SG has held that ICAI cannot do that. ICAI has no powers under the Chartered Accountant Act , 1949 or Companies Act 2013 to issue any Standards.

The said power (citing of proviso under s. 143 (10) of CA 2013, is only transitory in nature and it is meant to only fill the gap as a transitory measure till the Central Government prescribes the auditing standards and until such time the auditing standards already specified by the ICAI at the time of commencement of the Companies Act 2013, will continue to hold the field

Hence, the SQMs issued by ICAI are without legal basis. ICAI has no powers of enforcement over audit firms, hence also has no authority to issue mandatory standards for audit firms. They are procedurally infirm given MCA letter dated 11.08.2021, as the SQMs apply to auditors of PIEs also, which are in NFRA domain and NFRA has not been consulted in this regard.

Proposal regarding SQMs to Authority

ICAI's proposal for SQMs is contained in its letter of 21.10.2018, vide which they have stated that they do not consider SQMs as part of auditing standards and would not be sending SQMs for NFRA review.

Their letter dated 21.10.2024 is proposed to be treated as their recommendation in the instant case. Under Rule 6 (2) of NFRA Rules 2018, the Authority is competent to consider the recommendations of ICAI as it deems fit before making a recommendation to the Central Government.

Accordingly, draft SQMs may be considered by the Authority for recommendation to MCA for notification under s. 143 (10) of CA 2013 in keeping with the Authority's powers and obligations to establish high quality auditing and accounting standards in public interest and to safeguard investor and creditor interest, under s. 132 (2) (a) of CA 2013 read with Rule 4 (1) of NFRA Rules 2018

Ld SG has also held that Section 132(2)(a) gives NFRA a wide power to make recommendations to the Central Government not only on the basis of the recommendations already submitted by ICAI, but more generally on the formulation and laying down of accounting and auditing standards as well as policies.

Proposal for the 18th Meeting of the Authority

Accordingly, in keeping with the mandate of the Authority under s. 132 (2) (a) read with obligations of the Authority under Rule 4 (1) of NFRA Rules 2018 and related provisions of the Act and NFRA Rules 2018, the present proposal before the Authority includes finalising the 38 SAs, SQM 1 and SQM 2 for recommending to MCA for notification by the Central Government under s. 143 (10) of CA 2013

Nature of changes proposed in the SAs

In keeping with the decisions in the 15th Meeting held on 15 May 2024

1. Changes to ISA are minimal

- Contextual changes to Indian context
- Reinstatements of some provisions of ISA which were clarificatory in nature but deleted in ICAI proposal
- Consequential changes to SA 600 (Revised) as ICAI proposals had references to SA 600 (2002) version.

SA 600 (Revised) Exposure draft was shared with the Authority as part of Agenda circulated ahead for the 17th Meeting held on 26.08.2024.

SQM has already been exposed for public comments

Thank You