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Regulatory updates for March 2023

The regulatory updates publication issued by the Foundation for Audit Quality (FAQ) highlights the latest developments in accounting, auditing and regulatory developments in India and internationally.

In this edition

Some of the key updates covered in this publication include:

On 31 March 2023, the Ministry of Corporate Affairs (MCA) issued the Companies (Indian Accounting Standards) Amendment Rules, 2023. These Rules notify certain amendments to the Indian Accounting Standards (Ind AS) which would be effective from 1 April 2023. They are in line with the amendments issued by the International Accounting Standards Board (IASB) to the International Financial Reporting Standards (IFRS). The Ind AS which have been primarily impacted by the amendments issued include – Ind AS 1, *Presentation of Financial Statements*, Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Ind AS 12, *Income Taxes* and Ind AS 101, *First-time Adoption of Indian Accounting Standards*.

Additionally, on 28 March 2023, the Institute of Chartered Accountants of India (ICAI) issued the Implementation Guide on Reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 (the Audit Rules). Rule 11(g) of the Audit Rules read with Section 143(3) of the Companies Act, 2013 prescribes the reporting responsibility of the auditors with regard to audit trail. The key guidance provided by the Implementation Guide includes:

- Meaning of ‘audit trail’ and ‘accounting software’
- Preservation of audit trail
- Management’s responsibility
- Responsibility of the auditor
- Reporting considerations

This issue of the regulatory updates publication covers some of the important updates on accounting, auditing and regulatory matters for the period from **1 March 2023 to 31 March 2023**. It also highlights some of the action points that auditors may consider when applying the relevant provisions.



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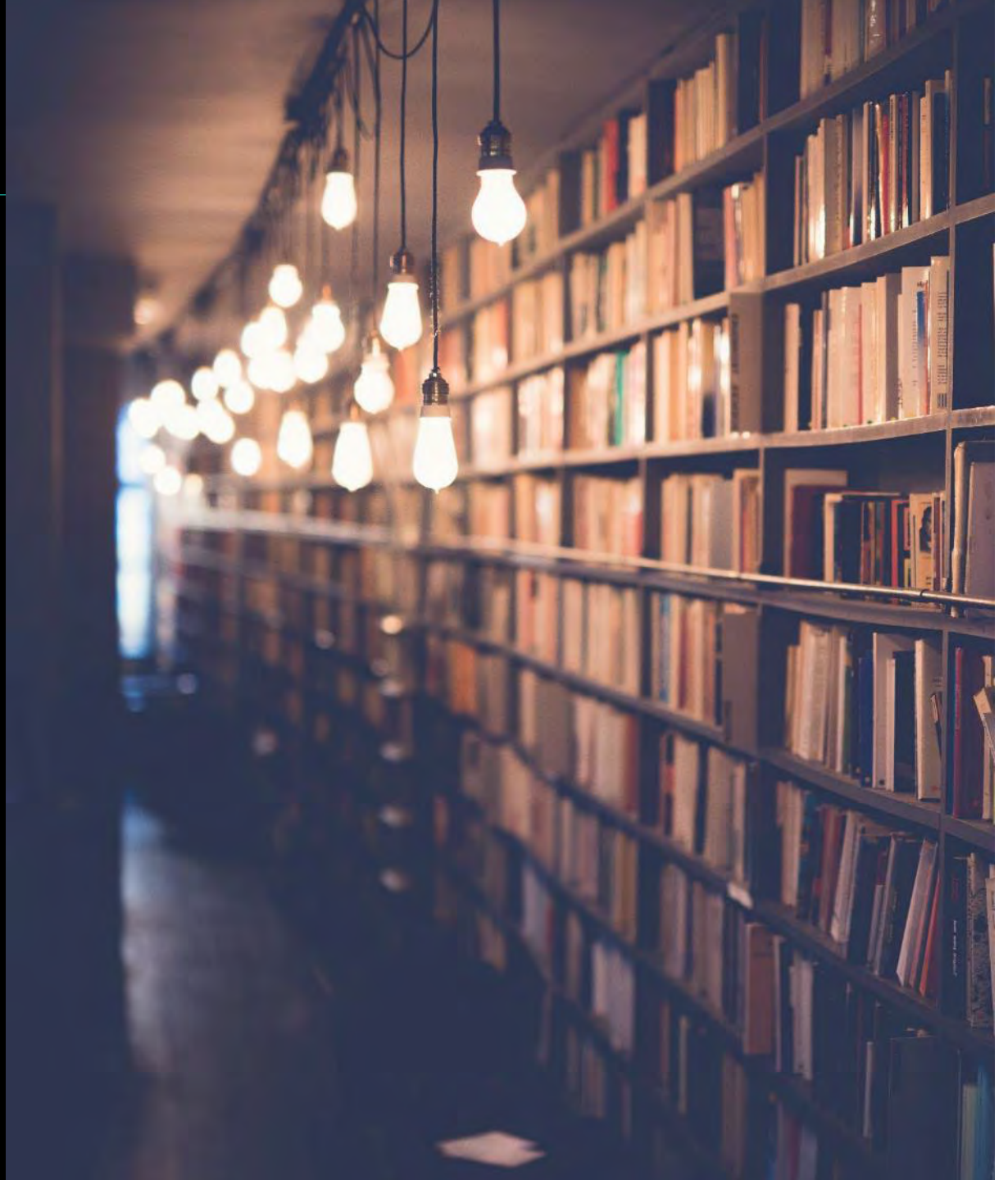


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Updates from MCA

Amendments issued to Indian Accounting Standards (Ind AS)

The Ministry of Corporate Affairs (MCA) vide a notification dated 31 March 2023 issued the Companies (Indian Accounting Standards) Amendment Rules, 2023 (2023 amendments). These Rules notify certain amendments to the Indian Accounting Standards (Ind AS) which would be effective from **1 April 2023**.

The 2023 amendments are in line with the amendments issued by the International Accounting Standards Board (IASB) to the International Financial Reporting Standards (IFRS). An overview of the key amendments issued is given below:

Ind AS	Amendments notified
Ind AS 1, Presentation of Financial Statements	<p>In 2021, certain amendments were introduced to International Accounting Standard (IAS) 1, <i>Presentation of Financial Statements</i>, in order to help companies, provide useful accounting policy disclosures. These amendments were applicable from 1 January 2023.</p> <p>In line with these, certain changes have now been made to Ind AS 1. The key amendments introduced include:</p> <ul style="list-style-type: none">- Companies should disclose their material accounting policy information¹ rather than significant accounting policies,- Accounting policies related to immaterial transactions, other events or conditions which are themselves immaterial are not required to be disclosed, and- It has been clarified that not all accounting policies that relate to material transactions, other events or conditions are material to a company's financial statements. <p>Corresponding amendments have also been prescribed to Ind AS 34, <i>Interim Financial Reporting</i>, and Ind AS 107, <i>Financial Instruments: Disclosures</i>, wherein instead of disclosing significant accounting policies, entities would be required to disclose their material accounting policy information in the interim financial statements and regarding financial instruments respectively.</p> <p>The amendments would apply for annual reporting periods beginning on or after 1 April 2023.</p>



¹ The 2023 amendments have clarified that accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements.

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Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors

The 2023 amendments have introduced certain key changes to Ind AS 8, which include:

- Replacing the definition of ‘change in accounting estimate’ with the definition of ‘accounting estimates’. The definition of accounting estimates states:
“Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty”
- The 2023 amendments also clarify the relationship between accounting policies and accounting estimates by stating that a company develops an accounting estimate to achieve the objectives set out by an accounting policy
- Developing an accounting estimate includes the use of both, measurement techniques and inputs (for example, expected cash outflows for determining a provision for warranty obligations when applying Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*). Measurement techniques include selection of estimation techniques (for example, techniques used to measure a loss allowance for expected credit losses applying Ind AS 109, *Financial Instruments*) or valuation techniques (for example, techniques used to measure the fair value of an asset or liability applying Ind AS 113, *Fair Value Measurement*)
- The effects of changes in such inputs or measurement techniques are changes in accounting estimates, unless they result from the correction of prior period errors
- The definition of accounting policy remains unchanged

These amendments would apply for annual reporting periods beginning on or after 1 April 2023. The amendments would be applicable to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the company applies the amendments.

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Ind AS 12, *Income Taxes*

Key amendments issued to Ind AS 12 include:

- The amendments clarify how companies should account for deferred tax on certain transactions – for example, leases and decommissioning provisions
- The amendments **narrow the scope of the initial recognition exemption**, so that it does not apply to transactions that give rise to equal and offsetting temporary differences, such as leases and decommissioning provisions. Thus, companies should recognise a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition in such transactions.

These amendments would apply for annual reporting periods beginning on or after 1 April 2023. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities would be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. If a company previously accounted for deferred tax on leases and decommissioning liabilities under the net approach, then the impact on transition is likely to be limited to the separate presentation of the deferred tax asset and the deferred tax liability.



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Ind AS 101, *First-time Adoption of Indian Accounting Standards*

The 2023 amendments have provided an exception to the retrospective application of the amendments made to Ind AS 12 on first-time adoption of Ind AS, by adding paragraph 14 to Appendix B² of Ind AS 101. The amendments to Ind AS 101 clarify that though paragraphs 15 and 24 of Ind AS 12 exempt an entity from recognising a deferred tax asset or liability in particular circumstances, at the date of transition to Ind AS, a first-time adopter should recognise a deferred tax asset and a deferred tax liability associated with:

- a. Right-of-use assets and lease liabilities, and
- b. Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.

To access the text of the 2023 amendments, please [click here](#)

Action Points for Auditors

The revised Ind AS would be applicable for the financial statements prepared for periods beginning on or after 1 April 2023. Auditors should consider the revised Ind AS when they audit the quarterly financial results (in accordance with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 prepared by the companies for periods beginning on or after 1 April 2023.



² Appendix B: Exceptions to the retrospective application of other Ind ASs

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Updates from NFRA

Circular on instances of non-compliance with Ind AS

During the recent review conducted by the National Financial Reporting Authority (NFRA) of the published financial statements of companies, various instances of non-compliance with the principles of Ind AS in significant areas like revenue recognition and initial measurement of trade receivables were observed. Accordingly, NFRA, vide a circular dated 29 March 2023 (the circular), highlighted the non-compliances with Ind AS with regard to accounting policies for measurement of revenue from contracts with customers and measurement of trade receivables. The issues highlighted in the circular include:

- a. **Revenue from contracts with customers – recognition and measurement:** Para 46 of Ind AS 115, *Revenue from Contracts with Customers*, requires an entity to recognise as revenue, the amount of the transaction price (net of variable consideration) that is allocated to the performance obligation.

However, NFRA observed that the significant accounting policies disclosed by many companies incorrectly state that revenue is recognised and measured at the **fair value of consideration received or receivable**. The circular has further clarified that the transaction price defined in Ind AS 115 is different from the 'fair value' defined in Ind AS 32, *Financial Instruments: Presentation*³.

- b. **Trade receivables – initial measurement:** Trade receivables are financial assets within the scope of the measurement requirements of Ind AS 109, *Financial Instruments*. All financial assets are required to be initially measured at fair value plus or minus the transaction costs.

However, financial assets classified as 'fair value through profit or loss' are required to be measured at fair value. Further, as an exception to these principles, financial assets in the form of trade receivables, should be initially measured at their **transaction price** (unless they contain a significant financing component, or when the entity has applied the practical expedient in accordance with the principles enunciated in Ind AS 115).

However, it was observed that many companies in their accounting policy have erroneously stated that the trade receivables are initially recognised (or measured) at **fair value**. Further, there have also been instances of inconsistency between the accounting policy for initial measurement of trade receivables and the accounting policy for measurement of corresponding revenue, resulting in misleading and confusing information to the users of the financial statements.

To access the text of the circular, please [click here](#).

Action Points for Auditors

- Auditors of companies which are required to prepare their financial statements in accordance with Ind AS should review the accounting policies of the companies they audit. Where the policies are non-compliant with the prescriptions of Ind AS, they should discuss these non-compliances with the companies, and ensure compliance.
- Auditors as well as companies may refer to examples of correct and incorrect accounting policies mentioned in the circular for further reference.



³ It is to be noted that under Ind AS 115, the application of fair value is relevant in a limited set of situations. For example, under para 66 of Ind AS 115, where the customer promises consideration in a form other than cash, an entity should measure the non-cash consideration at fair value.

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Updates from ICAI

Implementation Guide on Reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014

On 24 March 2021, the Ministry of Corporate Affairs (MCA) issued certain amendments to the Companies (Accounts) Rules, 2014 (the Accounts Rules) and the Companies (Audit and Auditors) Rules, 2014 (the Audit Rules) with regard to audit trail of transaction recorded in an accounting software (audit trail).

As per Rule 3(1) of the Accounts Rules, every company which uses an accounting software for maintaining its books of account, should use only such an accounting software which has the following features:

- Records an audit trail of each and every transaction
- Creates an edit log of each change made in the books of account along with the date when such changes were made, and
- Additionally, companies must ensure that the audit trail is not disabled.

Companies are required to comply with the audit trail requirements from 1 April 2023.

Further, Rule 11(g) of the Audit Rules read with Section 143(3) of the Companies Act, 2013 prescribes the reporting responsibility of the auditors with regard to audit trail.

In this regard, an auditor is required to provide his/her comments in the auditor's report stating that the company has used such an accounting software for maintaining its books of account which has a feature of recording audit trail facility. Auditors should also comment on whether:

- The audit trail feature has been in operation throughout the year, for all the transactions recorded in the software
- The audit trail feature has not been tampered with, and
- The audit trail has been preserved by the company as per the statutory requirements for record retention.

Auditors are required to report on the audit trail requirement with effect from 1 April 2022.

With a view to provide guidance on the reporting requirements and procedures that auditors should adopt while discharging their reporting responsibilities on the audit trail features, on 28 March 2023, ICAI issued an Implementation Guide on Reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 (IG). The key guidance provided by the IG is given hereunder:

- **Scope of applicability:** The requirement to implement and maintain an audit trail is applicable to all companies which prepare their financial statements as per the provisions of the Companies Act, 2013⁴. Further, this feature would apply for both standalone as well as consolidated financial statements. Auditors of the companies which are within the scope of applicability would be required to report on whether the auditee companies have complied with the stated requirements. For the purpose of reporting on this clause in the consolidated financial statements, auditors would need to assess the matters reported by the auditors of subsidiaries, associates and joint ventures that are Indian companies.



⁴ This implies that the audit trail feature would also apply to Section 8 companies and a foreign company as defined in the 2013 Act.

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While making such assessments, auditors of the holding company should apply the principles of Standard on Auditing (SA) 600, *Using the Work of Another Auditor*.

- **Absence of compliance due to different applicability dates:** Companies are required to comply with the audit trail feature from 1 April 2023, however, auditors are required to report on the audit trail feature of the management from 1 April 2022. Therefore, there is likely to be a scenario for the financial year 2022-23 where in the absence of compliance requirement for the companies, auditors would not be able to report under the Audit Rules.
- **Preservation of audit trail:** The management should retain the records pertaining to audit trail as per the statutory requirements for record retention i.e., a period of eight years from the date of applicability of the audit trail requirement in the Account Rules i.e., from 1 April 2023.
- **What is an 'audit trail feature in an accounting software':** The IG defines and provides key considerations pertaining to an accounting software and the audit trail requirement. This is given as below:
 - **Accounting software:** The definition and other features of an accounting software are given as below:
 - Accounting software is a computer program or system that enables recording, maintenance and reporting of books of account and relevant ecosystem applicable to business requirements. The functionality of such accounting software differs from product to product.

As every organisation employs multiple software for accounting, operations and other requirements like consolidation, collection of data, etc. the guide emphasises that only the accounting software which is relevant for maintaining books of account should be considered for enabling of audit trail.

- Accounting software may be hosted and maintained in India or outside India
- Accounting software may be on the premise or on a cloud or subscribed to as Software as a Service (SaaS) software or maintained at a service organisation.
- In scenarios wherein the accounting software is supported by service providers, the independent auditor's report of the service organisation should be considered to ensure compliance with audit trail requirements.

For ease of reference for the practitioners and the companies, the IG has provided the illustrative list of accounting software used by the companies.

- **Audit trail:** Audit trail is a visible trail of evidence enabling one to trace information contained in statements or reports back to the original input source. Audit trails are a chronological record of the changes that have been made to the data. Any change to data including creating new data, updating or deleting data that must be recorded. Records maintained as audit trail may include the following information:
 - When changes were made i.e., date and time (timestamp)
 - Who made the change i.e., user ID
 - What data was changed i.e., data/transaction reference; success/failure



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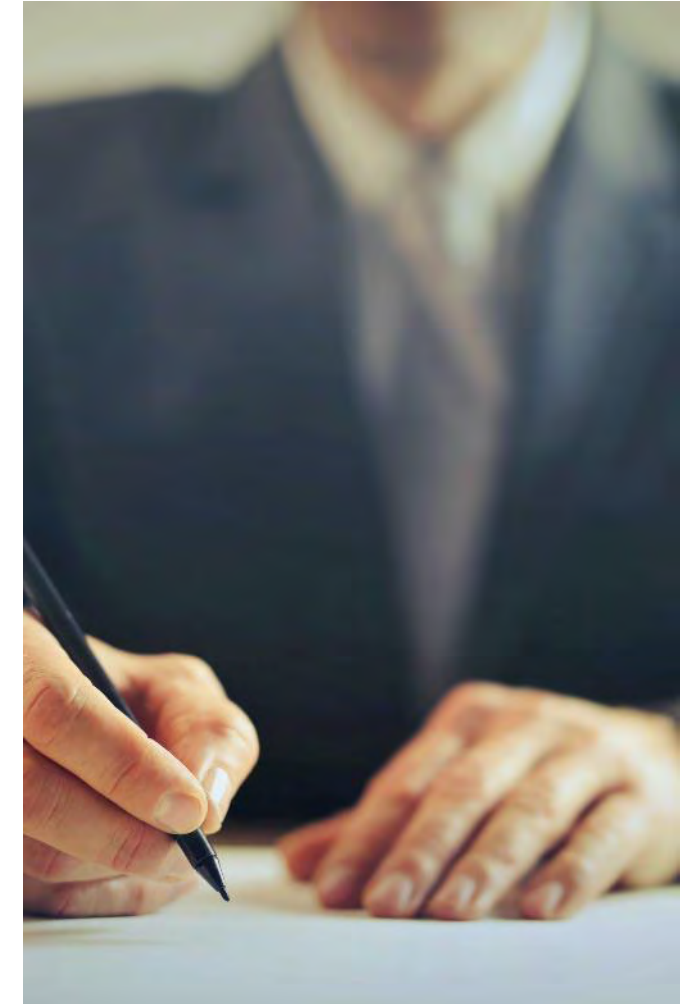


Audit trails may be enabled at the accounting software level depending on the features available in such software or the same may be captured directly in the database underlying such accounting software.

- **Management's responsibility:** It is the primary responsibility of the management of the company using an accounting software to ensure that an audit trail is effectively implemented as per the requirements stipulated in the Accounts Rules. The key points for implementation and maintenance of an audit trail feature include the following:
 - Identify what constitutes **books of account**
 - Identify the **software**
 - Ensure the software has **audit trail** feature
 - The audit trail should **capture changes** to each and every transaction
 - There should be controls to ensure that **changes to the configurations** of the audit trail feature are authorised and logs of such changes should be maintained.
 - The audit trail feature should **always be enabled** at database level, controls should be implemented for the same.
 - The audit trail should be protected from any **modification**.
 - There should be controls to ensure that **periodic backups** of the audit trails are taken and archived
 - There should be controls over **maintenance and monitoring of audit trail** and its feature, to ensure they are designed and operating effectively throughout the period of reporting.

- There should be controls to ensure that **User IDs** are assigned to each individual and that User IDs are not shared.
- There should be controls to ensure that **access to the audit trail** (and backups) is disabled or restricted and access logs should be maintained, whenever the audit trails have been accessed.

- **Responsibility of the auditor:** Auditors are required to comment on whether the company is using an accounting software which has a feature of recording audit trail. Additionally, the auditor should report on whether the audit trail feature is configurable, whether it operated throughout the year, whether all transactions in the software are covered in the audit trail feature, whether the audit trail feature has been preserved for record retention. Some of the key responsibilities of the auditor includes the following:
 - The auditor's responsibility under the Audit Rules is restricted to transactions which have been recorded in the accounting software and subsequent changes made thereto
 - With regard to the auditor's procedures to verify a company's compliance with the requirements of maintaining an audit trail, it needs to perform the following key procedures:
 - Assess on a test basis, whether the **audit trail has been configured** and enabled for the identified accounting software throughout the year
 - The **software configuration** that controls enabling or disabling of the audit and access to such configuration.



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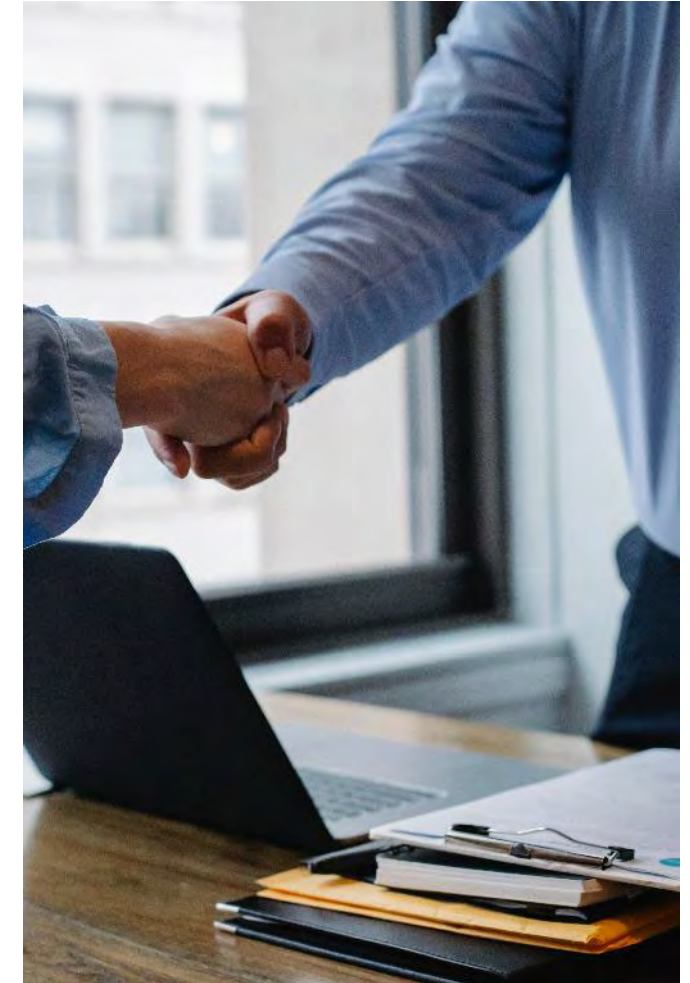
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- **Changes** to the audit trail configuration during the period of audit and management's review mechanism for such changes
- **Completeness and accuracy** of audit trail or edit logs
- **Testing** that management has performed to assess the completeness and accuracy of the audit trail
- Evaluate the **management's approach** regarding identification of accounting software considered for the purposes of maintenance of audit trail
- Inquire with the management on how they **evaluated changes** that are required for the maintenance of audit trail as part of changes or upgrades to the accounting software
- Consider **involvement of specialists** or experts to assist in evaluation of management controls and configurations in the accounting software with regard to audit trail
- Reviewing the **independent auditor's report of the service organisation** in scenarios where the company's accounting software is supported by service providers
- Inquire and understand from the management regarding the **procedures implemented to preserve the records** as per the statutory record retention period.
- **Reporting considerations:** The auditor is expected to evaluate the reporting implications by giving due consideration to SA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*.
- **Special considerations in case of fraud:** In scenarios wherein the occurrence of an error or fraud cannot not be established due to lack of maintenance, availability or retrievability of audit trails, the auditor should consider performing an assessment of risk of material misstatements due to fraud. Professional judgement should be applied while determining reporting implications under the audit report, including under CARO.
- **Reporting on internal financial controls:** An auditor should state in his/her audit report whether the company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls. Where the feature of audit trail has not operated throughout the year, the auditor may need to appropriately modify his/her comment while reporting under Rule 11(g) depending upon further testing/examination. However, it should be noted that mere non-availability of audit trail does not necessarily imply failure or material weakness in the operating effectiveness of internal financial controls over financial reporting.
- **Written representations:** Auditors should obtain written management representation- the IG has provided an illustrative management representation letter.
- **Audit documentation:** The auditor should comply with the requirements of SA 230, *Audit Documentation* to document the work performed on the audit trail.

To access the text of the IG, please [click here](#)



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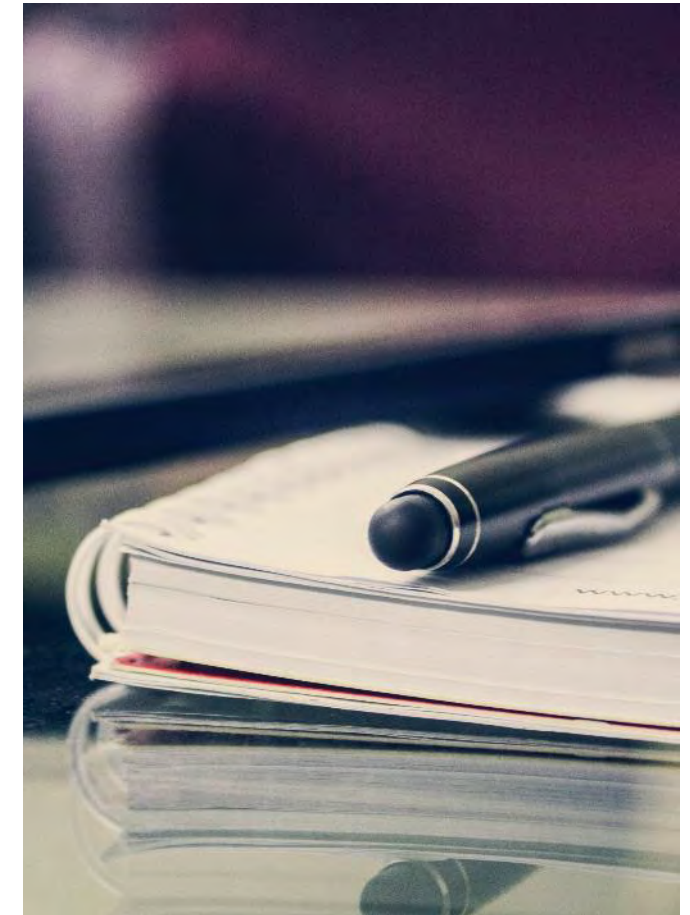
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Action Points for Auditors

Maintaining audit trail is a significant requirement for the companies in terms of resources and infrastructure needed for implementing the same. It also casts an important responsibility on the auditors to report on the same in accordance with Rule 11(g) of the Audit Rules read with Section 143(3) of the Companies Act, 2013. Thus, the auditors should evaluate the necessary audit procedures required and audit evidence needed to report on the same. Further, he/she should also engage with the companies and discuss about the key organisational-level changes that may be required for implementing this. Some of the important considerations, in this regard include:

- Has the company identified all accounting software that would get covered under the provisions of the audit trail rules?
- Has the company made necessary arrangement and additional investment for maintenance of daily backups and generating and maintaining audit trails?
- Whether necessary processes and controls are in place regarding the access of audit trail, avoidance of data tampering and ensuring that audit trail feature is not disabled at any point in time?
- Whether a periodic review of the user access (i.e., the users who can access, review, make changes etc. to the accounting software) performed?
- In case of a third party or outsourced software, has the company obtained Service and Organisation Control (SOC) report for evaluating the compliance with the regulatory requirements of daily backup and audit trail?
- Whether the logs are being maintained as per the retention requirements and retrieval of the same is possible?



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Updates from SEBI

Updates from the SEBI board meeting (March 2023)

The Securities and Exchange Board of India (SEBI) in its board meeting dated 29 March 2023 approved certain key proposals. Following are the key takeaways:

- **Balanced framework for ESG disclosures, ratings and investing:** In February 2023, SEBI had released a consultation paper on Environmental Social Governance (ESG) disclosures, ratings and investing (the consultation paper). The consultation paper had proposed the development of the Business Responsibility and Sustainability Reporting (BRSR) Core framework, which would be subject to mandatory reasonable assurance for the listed entities, as specified in this regard. This proposal has now been approved in the SEBI board meeting. It has been provided that corresponding amendments would be required to be made in the SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015 (LODR Regulations) and SEBI (Mutual Funds) Regulations, 1996 (MF Regulations) to facilitate a balanced approach to ESG. Some of the important amendments proposed include:
 - a. **ESG BRSR Core:** It has been provided that the BRSR Core framework would be applicable for the top 150 listed entities (by market capitalisation) from FY 2023-24 and gradually the applicability would be extended to the top 1,000 listed entities by FY 2026-27.
 - b. **ESG disclosures for value chain of listed entities:** SEBI observed that many companies have significant ESG footprints in their value chain process.

Accordingly, the consultation paper had proposed ESG disclosures and assurance on the BRSR Core framework for the value chain of listed entities. In this regard, it has now been provided that the disclosure and assurance requirements would be applicable to the top 250 listed entities (by market capitalisation), on a comply-or-explain basis from FY 2024-25 and FY 2025-26 respectively.

- c. **ESG rating:** It has been provided that the ESG Rating Providers (ERPs) must consider India/emerging market parameters while providing ESG Ratings. They should also offer a separate category of ESG rating known as the '**Core ESG Rating**', which would be based on the assured parameters under BRSR Core.
- d. **ESG investing:** In order to address the risk of mis-selling and greenwashing, SEBI has introduced measures to enhance the reporting requirements for promoting ESG investing. The key measures introduced include the following:
 - ESG schemes would be mandatorily required to invest **at least 65 per cent** of Asset Under Management (AUM) in listed entities where assurance on BRSR Core is undertaken
 - Mandatory **third-party assurance** and certification would be required by the board of Asset Management Companies (AMCs) on compliance with objective of the ESG scheme
 - Mandating **enhanced disclosures on voting decisions** with specific focus on ESG factors
 - Mandating disclosure of **fund manager commentary** and case studies on how ESG strategy is applied on funds/investments



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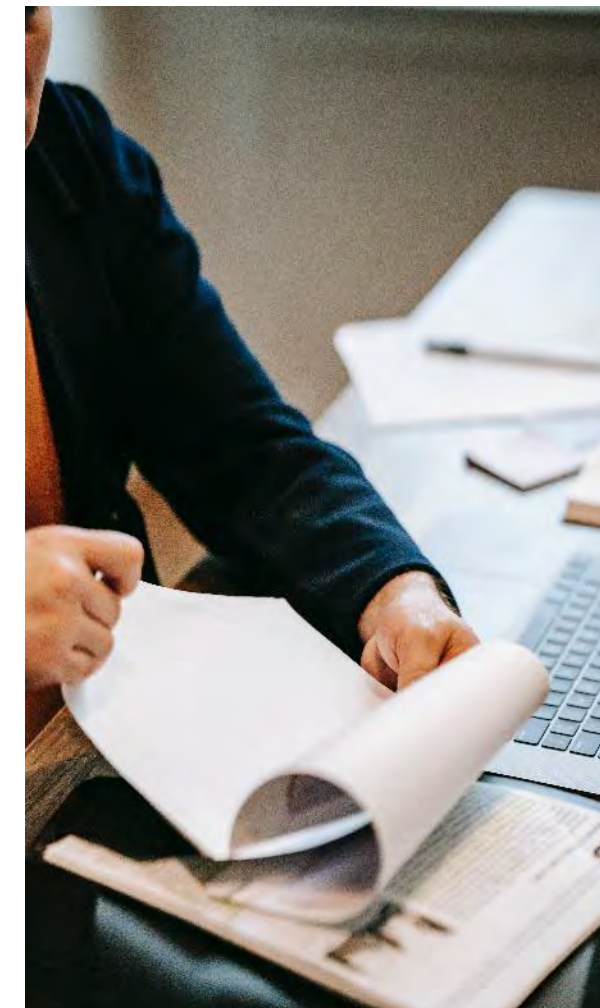
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- Introduction of a **new scheme category** and enabling the launch of multiple schemes on ESG related factors.
- **Establishing a regulatory framework for ERPs:** In February 2022, SEBI had issued a consultation paper on the regulatory framework for ERPs in the securities market. In this regard, SEBI has now approved the proposal to introduce a regulatory framework for ERPs by introducing a new chapter in the SEBI (Credit Rating Agencies) Regulations, 1999 (CRA Regulations). The introduction of this chapter would inter alia result in the following:
 - Enhanced transparency in ESG rating rationales
 - Measures to mitigate conflict of interest by ERPs
 - Facilitate augmentation of transition finance in India, and
 - Facilitate ESG ratings based on assured data.
- **Amendments to the SEBI LODR Regulations to facilitate comprehensive and timely disclosures**
 - a. **Disclosure of material events or information:** Following amendments have been approved to bring transparency and ensure timely disclosure of material events or information by listed entities:
 - **Material events:** Introduction of a quantitative threshold for determining 'materiality' of events/information
 - **Stricter timelines for disclosure of information:** The stricter timelines for disclosure of information is given as below:
 - o Material events/information for which decisions have been taken in the meeting of the board of directors, should be disclosed within 30 minutes (earlier, this was required to be done within 24 hours).
 - o Material events/information emanating from within the listed entity, should be disclosed within 12 hours (earlier, this was required to be disclosed within 24 hours).
 - **Market rumours:** Market rumours to be verified and confirmed, denied or clarified, as the case may be, by top 100 listed entities by market capitalisation (**effective 1 October 2023**) and by top 250 listed entities (**effective 1 April 2024**)
 - **Binding agreements:** Disclosure of certain types of agreements binding listed entities would be mandatory.
- b. **Strengthening corporate governance at listed entities by empowering shareholders:** In February 2022, SEBI issued a consultation paper on strengthening corporate governance for listed entities by empowering shareholders. In this regard, following amendments have now been approved by SEBI:
 - **Perpetuity of special rights:** In order to address the issue of perpetuity of special rights, periodic approval by shareholders would be required for any special right granted to a shareholder of a listed entity
 - **Sale, lease or disposal of an undertaking:** The extant mechanism of sale, lease or disposal of an undertaking of a listed entity outside the 'scheme of arrangement' framework is to be further strengthened
 - **Permanent board seats:** In order to do away with practice of permanent board seats, periodic approval by shareholders would be required for any director serving on the board of a listed entity.



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c. **Streamlining timeline for submission of first financial results by newly listed entities:** In February 2022, SEBI issued a consultation paper on streamlining disclosures by listed entities and strengthening compliance with the LODR Regulations. Accordingly, in order to overcome the challenges in immediate submission of financial results post listing and to ensure that there is no omission in submission of financial results, SEBI has approved the streamlining of the timeline for submission of first financial results by newly listed entities.

d. **Timeline to fill up vacancy of directors and other officials of listed entities:** Listed entities are now required to fill up the vacancy of directors, a compliance officer, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) within a period of **three months** from the date of such vacancy, to ensure that such critical positions are not kept vacant.

- **Amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations)**

In February 2022, SEBI had issued a consultation paper on amendments to the ICDR Regulations, with the objective of increasing transparency and streamlining certain processes. In this regard, SEBI has approved the following amendments to the ICDR Regulations:

a. **Disclosures regarding underwriting:** If an issuer has entered into an underwriting agreement to cover shortfall in demand or to cover subscription risk, then the same should be disclosed in the offer document prior to opening of an issue

b. **Bonus issue:** A listed entity can announce bonus issue of shares, only after obtaining approval from the stock exchange(s) for listing and trading of all the pre-bonus securities issued by it. Further, bonus issue should be made only in dematerialised form.

- **Other amendments:**

a. **Compliance of corporate governance norms by High Value Debt Listed Entities (HVDLEs⁵):** Currently, the corporate governance norms (i.e., Regulations 16 to 27 of the LODR Regulations) are applicable to HVDLEs up to 31 March 2023 on a comply or explain basis, and mandatory thereafter. However, SEBI has now extended the period for which the corporate governance norms would be applicable to HVDLEs on a comply or explain basis up to 31 March 2024.

Additionally, SEBI has proposed the approval for consolidation of disclosure requirements under Regulation 57⁶ of the LODR Regulations. Accordingly, the disclosure requirements pertaining to payment of interest/coupon and redemption amount would be streamlined and multiple filings would be eliminated.

b. **Introduction of the concept of General Information Document (GID) and Key Information Document (KID) for issuance of bonds/commercial paper and streamlining of disclosures:** In February 2023, SEBI had issued a consultation paper for the introduction of GID/KID⁷. The following proposals have been approved:

- A GID would contain the specified information and disclosures in common schedule and should be filed with the stock exchange(s) at the time of the first issuance. It would have a validity period of one year.



⁵ A listed entity which has listed its non-convertible debt securities and has an outstanding value of listed non-convertible debt securities of INR500 crore and above

⁶ Regulation 57 of the LODR Regulations deals with intimations/other submissions to stock exchanges

⁷ Consultation paper on proposal for introduction of the concept of General Information Document(GID) and Key Information Document(KID),mandatory listing of debt securities of listed issuers and other reforms under the NCS Regulations.

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Thereafter, for subsequent private placements of non-convertible securities and/or commercial paper within the validity period, only a KID would be required to be filed with the stock exchange(s) containing material changes. This has been proposed to be made applicable on a 'comply or explain' basis till 31 March 2024 and mandatory thereafter.

- Introduction of a common schedule for disclosures that are required to be made in a prospectus for public issuance of debt securities/non-convertible redeemable preference shares and in a placement memorandum for private placement of non-convertible securities which are proposed to be listed.

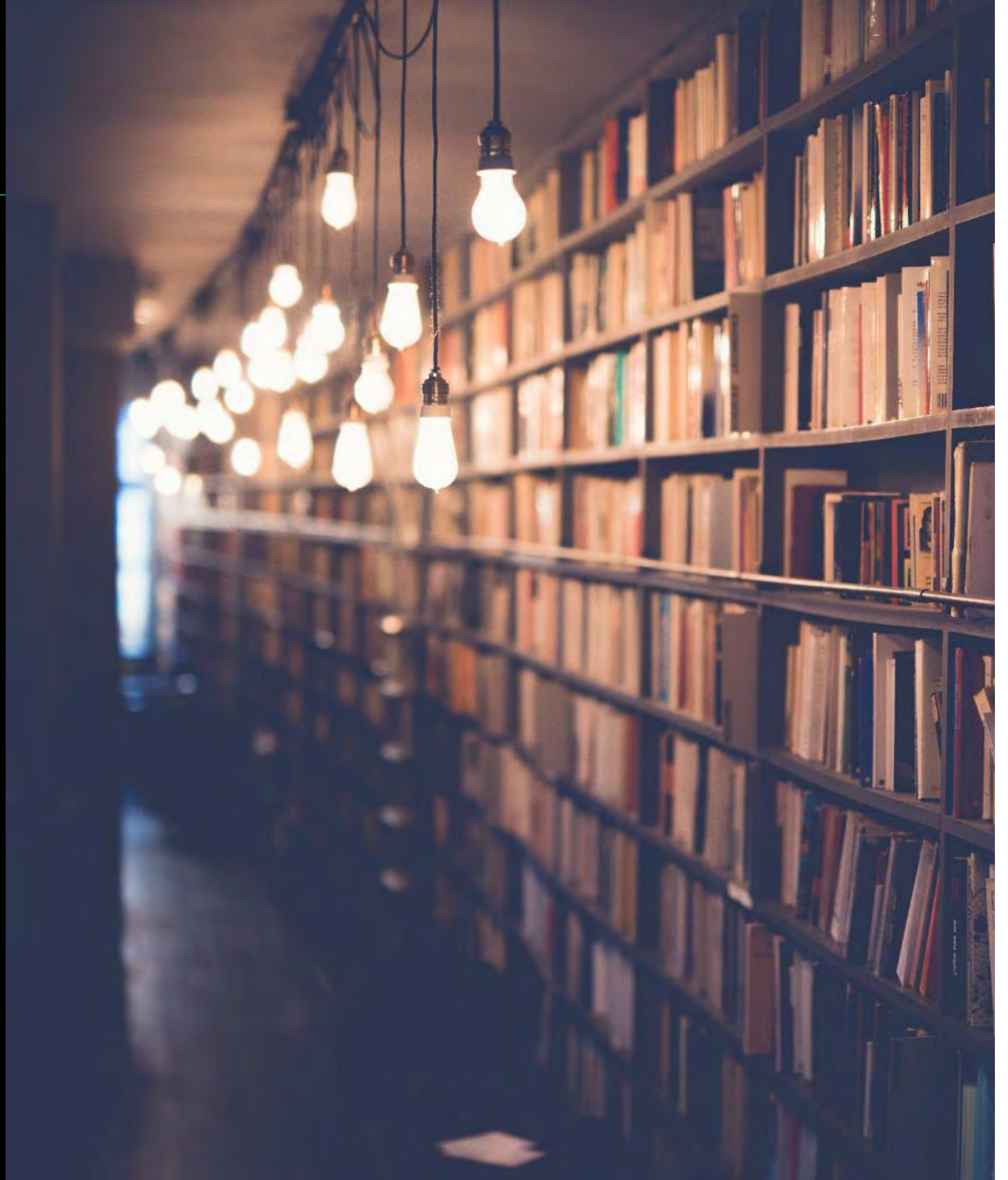
- c. **Extension of “comply or explain” period for Large Corporates (LCs) to meet their financing needs from debt market through issuance of debt securities:** Currently, large corporates are required to mobilise a minimum of 25 per cent of their incremental borrowings in a financial year through the issuance of debt securities which has to be met over a contiguous block of two years. SEBI has extended the period of compliance to a contiguous block of three years.

To access the text of the SEBI board meeting, please [click here](#)



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Updates from IASB

IASB concludes project to improve its approach for developing disclosure requirements in IFRS Accounting Standards

On 8 March 2023, the International Accounting Standards Board (IASB) concluded its project, *Disclosure Initiative – Targeted Standards-level Review of Disclosures* on improving the approach for developing and drafting disclosure requirements in IFRS Accounting Standards. The improved approach would assist the IASB develop accounting standards which would enable companies in making better judgements regarding which information is material and should be disclosed, thereby providing more useful information to the investors.

The improved approach involves:

- Engaging early with investors to understand their information needs,
- Developing disclosure requirements alongside recognition and measurement requirements,
- Considering the digital reporting implications of new disclosure requirements,
- Using general and specific objectives that describe and explain investors' information needs, and
- Supporting specific objectives by requiring companies to disclose items of information that would satisfy the objectives in most cases.

To access the text of the project, please [click here](#)

Updates from FASB

FASB improves lease guidance on related party arrangements between entities under common control

On 27 March 2023, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU), *Leases (Topic 842): Common Control Arrangements* to improve lease guidance on related party arrangements between entities under common control. The key issues addressed by the ASU include:

- a. **Terms and conditions to be considered:** Topic 842 states that the entities should determine whether a related party arrangement between entities under common control constitutes a lease arrangement. If yes, then it must classify and account for the lease on the same basis as an arrangement with an unrelated party (on the basis of legally enforceable terms and conditions).

The ASU has provided a practical expedient for certain private companies and not-for-profit entities to use the written terms and conditions of a common control arrangement to determine:

- Whether a lease exists, and if so,
- The classification of and accounting for such lease.

Where no written terms and conditions exist, an entity is prohibited from applying the practical expedient and must evaluate the enforceable terms and conditions to apply Topic 842.



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b. Accounting for leasehold improvements: Topic 842 requires the leasehold improvements to have an amortisation period, which is consistent with the shorter of the remaining lease term and the useful life of the improvements. However, it was observed that multiple methods of accounting for such improvements exist, leading to diversity in practice. In this regard, the ASU has introduced certain amendments to the leasehold improvements associated with common control leases. Such improvements should be:

- Amortised by the lessee over the useful life of the leasehold improvements to the common control group (regardless of the lease term), as long as the lessee controls the use of the underlying asset through a lease. However, in cases where the lessor obtained the right to control the use of the asset through a lease with another entity (not within the same common control group), the amortisation period may not exceed the amortisation period of the common control group
- Accounted for as a transfer between entities under common control through an adjustment to equity (or net assets for not-for-profit entities), where the lessee no longer controls the use of the underlying asset.

Additionally, these leasehold improvements are subject to impairment guidance in Topic 360, *Property, Plant and Equipment*.

Effective date: The amendments would become effective for fiscal years beginning after 15 December 2023, including the interim periods within these fiscal years.

Additionally, early adoption is permitted for both interim and annual financial statements that have not yet been made available for issuance.

To access the text of the ASU, please [click here](#)



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Regulator	ICAI
Publication	Exposure Draft of Guidance Note on transfer of capital reserves
Particulars	<p>Certain Indian Accounting Standards (Ind AS) such as Ind AS 102, <i>Share-based Payment</i>, Ind AS 103, <i>Business Combinations</i> and Ind AS 109, <i>Financial Instruments</i> require a capital reserve to be created towards unrealised profits arising from certain transactions or other events. However, currently, there is no specific guidance on their subsequent transfer to retained earnings or other free reserves.</p> <p>In this regard, on 21 March 2023, ICAI issued an exposure draft of the Guidance Note on Transfer of Capital Reserve (ED). As per the ED, for capital reserves created as per the requirements of an Ind AS or erstwhile Accounting Standards, the amount can be transferred to retained earnings or other free reserves when the following two conditions are met:</p> <ol style="list-style-type: none"> The company has realised the underlying amount The amount has become available for distribution under the law. <p>The amount may be transferred either proportionately each or at end on sale of the asset. Specific disclosures are required in the year of transfer.</p> <p>The ED also clarifies that it would not apply to capital reserves created under any law. Any reserve which is created as per the requirements of the Companies Act, 2013 or other applicable law cannot be transferred to other reserves except as required by the applicable law or by a regulatory requirement. Additionally, few other reserves, which are purely capital in nature – for example, capital profit on reissuance of forfeited shares, cannot be transferred to free reserves/retained earnings as underlying transaction is completed.</p> <p>It has been proposed that this guidance note would come into effect in respect of the capital reserve appearing in the books of accounts retrospectively.</p> <p>The last date for submission of comments is 20 April 2023.</p> <p>To access the text of the ED, please click here</p>

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Regulator	IASB
Publication	IASB proposes amendments to IFRS 9, <i>Financial Instruments</i> and IFRS 7, <i>Financial Instruments: Disclosures</i>
Particulars	<p>The IASB has issued an Exposure Draft (ED), <i>Amendments to the Classification and Measurement of Financial Instruments: Proposed amendments to IFRS 9 and IFRS 7</i>. The ED has proposed the following amendments to IFRS 9 and IFRS 7, <i>Financial Instruments: Disclosures</i>:</p> <p>Amendments to IFRS 9</p> <ol style="list-style-type: none"> Clarifying the classification of financial assets with Environmental, Social and Governance (ESG)-linked features: ESG-linked features in loans could affect whether the loans are measured at amortised cost or fair value and determine whether such loans have cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI). The proposed amendments clarify how a company would assess SPPI condition for contractual cash flows arising from financial assets with contingent features. The proposals address a specific call for clarification on how to classify financial assets with an ESG-linked feature – for example, a feature that adjusts the interest rate on an asset by a specified number of basis points depending on whether the borrower achieves a pre-determined ESG or sustainability-related target(s). However, the proposals address all contingent features, not just ESG linked features. Classifying contractually linked instruments: To address questions on applying the SPPI requirements to contractually linked instruments, the proposals clarify their key characteristics and how they differ from financial assets with non-recourse features. The proposals also provide factors a company could consider when assessing the cash flows underlying a financial asset with non-recourse features (the ‘look through’ test). Settlement of liabilities through electronic payment systems: The IASB proposes to: <ul style="list-style-type: none"> Clarify that an entity uses settlement date accounting when recognising or derecognising financial assets and financial liabilities, and Develop new requirements to permit an entity to deem a financial liability that is settled using an electronic payment system to be discharged before the settlement date if specified criteria are met.

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Regulator	IASB
Publication	IASB proposes amendments to IFRS 9, <i>Financial Instruments</i> and IFRS 7, <i>Financial Instruments: Disclosures</i> (continued)
Particulars	<p>Amendments to IFRS 7</p> <p>a. Investments in equity instruments designated at fair value through other comprehensive income: For investments in equity instruments for which subsequent changes in fair value are presented in other comprehensive income, the ED has proposed that:</p> <ul style="list-style-type: none">- Disclosure of an aggregate fair value of equity instruments should be provided instead of the fair value of each instrument at the end of the reporting period, and- An entity should disclose the changes in the fair value presented in other comprehensive income during the period. <p>b. Contractual terms that could change the timing or amount of contractual cash flows: The ED has proposed amendments to the disclosure requirements for contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event. These requirements would be applicable to each class of financial asset measured at amortised cost or fair value through other comprehensive income and each class of financial liability measured at amortised cost.</p> <p>The ED is open for comments up to 19 July 2023.</p> <p>To access the text of the ED, please click here</p>

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The table below provides an overview of some important publications released by various regulators during this month:

Regulator	Publication	Particulars
ICAI	Implementation Guide to SA 580, <i>Written Representations</i>	<p>Recently, ICAI issued the Implementation Guide (IG) to Standard on Auditing (SA) 580, <i>Written Representations</i>. The IG consists of three chapters –</p> <p>Chapter 1: Introduction and overview Chapter 2: Implementation guidance Chapter 3: Illustrative checklist</p> <p>Further, the IG also provides an illustrative representation letter, an illustrative format for updating management representation letter as well as the illustrative format for additional considerations for reference purpose.</p> <p>To access the text of the IG, please click here</p>
ICAI	Guidance Note on Audit of Banks (2023 Edition)	<p>On 16 March 2023, ICAI, through the AASB issued the Guidance Note on Audit of Banks (2023 Edition) (GN). The GN has been updated to incorporate the recent updates, impact of amendments and changes in the banking environment, including – master directions/circulars of the Reserve Bank of India (RBI), relevant advisories, pronouncements of ICAI etc. The GN is divided into two sections:</p> <p>Section A: Statutory Central Audit Section B: Bank Branch Audit</p> <p>The GN also contains various appendices such as the illustrative formats of engagement letter, auditor's report, management representation letter, master directions, master circulars and other relevant RBI circulars.</p> <p>To access the text of the GN, please click here</p>

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Regulator	Publication	Particulars
ICAI	Technical Guide on Valuation of Assets in Extractive Industries	<p>Over the years, several instances have come to light wherein different assumptions considered by the valuers have resulted in significant differences in the final valuation. Further, recent developments in the Indian valuation landscape have necessitated a greater emphasis on proper valuation processes. Valuation of asset in the extractive industry is one of the crucial elements in the overall valuation ecosystem. Considering its importance, ICAI, through the Valuation Standards Board and the Registered Valuers Organisation issued the Technical Guide on Valuation of Assets in Extractive Industries (technical guide). The technical guide provides some key guidance with respect to:</p> <ul style="list-style-type: none"> - Recent developments and future outlook of the extractive industry - Recent key drivers in valuation of companies in the extractive industry - Valuation approaches – Market approach, income approach and cost approach - Financial statements of some industries in the extractive business <p>To access the text of the technical guide, please click here</p>
ICAI	FAQs on important principles enunciated in Standards on Auditing w.r.t. Auditor's Opinion and Audit Sampling	<p>SA 700, <i>Forming an Opinion and Reporting on Financial Statements</i> deals with the form and content of audit report. SA 705, <i>Modifications to the Opinion in the Independent Auditor's Report</i> specifies how the form and content of an audit report is affected when the auditor expresses a modified opinion. SA 530, <i>Audit Sampling</i> prescribes the principles for using audit sampling in audit engagements. In order to enable the auditors in discharging their audit responsibility effectively, ICAI, on 25 March 2023 issued certain FAQs on important principles enunciated in Standards on Auditing w.r.t. Auditor's Opinion and Audit Sampling (FAQs). The FAQs explain some concepts such as:</p> <ul style="list-style-type: none"> - When is an unmodified, qualified, adverse or disclaimer of opinion issued? - What is a material misstatement of a financial statement? - When is the effect of a misstatement considered to be pervasive? - What is the inability of the auditor to obtain sufficient appropriate audit evidence? - What is sampling risk? How to determine sample size and select samples? - How to determine completeness of population from which sample is drawn? <p>To access the text of the FAQs, please click here</p>

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Regulator	Publication	Particulars
ICAI	Compendium of opinions issued by EAC (Volume XLII)	<p>ICAI, through the Expert Advisory Committee (EAC) issued the 42nd volume of the compendium of opinions (Volume XLII Part-I). It contains the opinions finalised between 12 February 2022 and 31 August 2022. Some of the key opinions issued include:</p> <ul style="list-style-type: none">• Accounting for bearer plants• Accounting treatment of delayed payment charges• Applicability of Ind AS 114 and presentation of deferred tax liabilities on regulatory deferral accounts• Classification of PPE under refurbishment, depreciation thereon and its impairment• Presentation of accrued interest in the statement of cash flows• Adoption of 'Net Book Value' method as one of the valuation techniques to measure the fair value of investments in equity instruments that do not have a quoted market price in an active market <p>To access the text of the compendium, please click here</p>

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The table below provides an overview of some important publications released by the regulators during this month:

Regulator	Publication	Particulars
IAASB	IAASB Digital Technology Market Scan: Digital Assets	<p>On 6 March 2023, the International Auditing and Assurance Standards Board (IAASB) issued the Digital Technology Market Scan: Digital Assets (market scan). The market scan explores digital assets, with a focus on recent developments within the cryptocurrency market and its relevance for the audit and assurance ecosystem. It covers:</p> <ul style="list-style-type: none">• What are digital assets and why are they important?• The latest developments – including crypto audits under scrutiny, and• Impact on IAASB. <p>To access the text of the market scan, please click here</p>



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