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Regulatory updates for the month of February 2022

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Regulatory updates for February 2022

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

Recently, the Securities and Exchange Board of India (SEBI) issued guidelines for asset management companies to prepare the financial statements of mutual fund schemes under Indian Accounting Standard (Ind AS) with effect from 1 April 2023. SEBI has also issued guidance, including formats to be used while reporting under Ind AS.

The Ministry of Corporate Affairs (MCA) requires certain companies to furnish a report on corporate social responsibility for FY2020-21 and onwards. This issue of our regulatory updates publication covers some of the important updates on accounting, auditing and regulatory matters for the period from **1 February 2022 to 28 February 2022**. It also highlights some of the action points that auditors may consider when applying the relevant provisions.

Recap on key updates: During the financial year 2021-22, a number of important updates have been issued by various financial and regulatory bodies such as ICAI, SEBI, RBI, ICAI and other regulators. These updates have been summarised along with their applicability dates.



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Updates from SEBI

Financial statements of mutual fund schemes to follow Indian Accounting Standards (Ind AS)

As per the Securities and Exchange Board of India (SEBI) (Mutual Funds) Regulations, 1996 (MF regulations), every Asset Management Company (AMC) is required to keep and maintain proper books of account, records and documents for each scheme of a mutual fund. Such books of account, records and documents should explain the transactions and disclose the financial position of the mutual fund scheme at any point in time.

On 25 January 2022, SEBI issued the SEBI (Mutual Funds) (Amendment) Regulations, 2022 that mandate the AMCs to prepare the financial statements and accounts of the Mutual Fund schemes in accordance with Ind AS with effect from 1 April 2023.

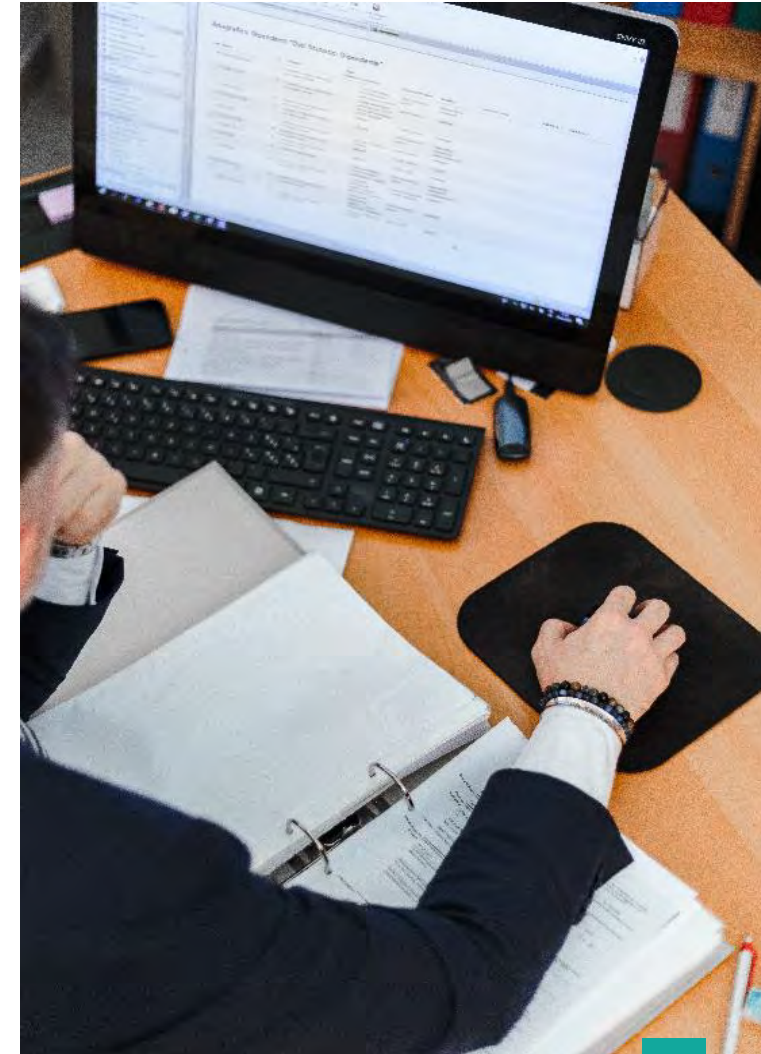
Additionally, on 4 February 2022, SEBI issued certain accounting guidelines (including formats) for the preparation of financial statements under Ind AS by AMCs. Following are important points of the circular:

- **Opening balance sheet:** Mutual Fund Schemes should prepare an opening balance sheet as on date of transition (1 April 2022) and the comparatives as per the requirements of Ind AS (FY 2022-23).
- **Historical per unit statistics:** Mutual Fund schemes are required to disclose scheme wise perspective historical per unit statistics for the past three years¹.

Mutual Fund schemes may not be mandatorily required to restate the previous years published perspective historical per unit statistics, in accordance with the provisions of Ind AS for the first two years from first time adoption of Ind AS. However, mutual fund schemes would need to provide the following additional information in the perspective historical per unit statistics:

- State the previous Generally Accepted Accounting Principles (GAAP) information prominently as not being prepared in accordance with Ind AS and
- Disclose the nature of adjustments that are required to be made for compliance with Ind AS (quantification of adjustments is not required).
- **MF regulations to prevail over Ind AS:** Proviso to clause 50(1A) of the MF regulations states that in case there is any conflict between the requirements of Ind AS and the MF Regulations and guidelines issued thereunder, the mutual funds shall follow the requirements specified under the MF Regulations
- **Brokerage and transaction costs:** Currently, under the MF regulations, brokerage and transaction costs incurred for the purpose of execution of trade, up to a prescribed threshold are required to be capitalised to the cost of investment. As per the amendments, these brokerage and transaction costs incurred for the purpose of execution of trade will now be charged to

¹ As per clause 6 of the Eleventh Schedule of MF regulations



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the mutual fund scheme as provided under Regulation 52 (6A) of the MF regulations:

- Up to 12 bps and 5 bps for cash market transactions and derivatives transactions respectively
- Any payment towards brokerage and transaction costs, over and above the limits specified in (a) may be charged to the mutual fund scheme within the maximum limit of Total Expense Ratio (TER) prescribed in MF regulations.

Other disclosures: The circular also prescribes other disclosures such as accounting policies on recognition of revenue, accounting policies on valuation of investments, contingent liabilities, and other disclosures as part of Ind AS to be provided in the notes to account.

To access the text of the SEBI (Mutual Funds) (Amendments) Regulations, 2022, please [click here](#)

To access the text of SEBI circular dated 4 February 2022, please [click here](#)

Action points for auditors

- Transition to Ind AS is a significant exercise both, for the management and for the auditors. As MF regulations are not fully aligned with the principles of Ind AS, auditors should highlight the areas of differences to their clients. Broadly areas of that would require assessment are valuation of investments, disclosures under Ind AS, first-time adoption requirements and equity-liability classification of the unit capital. Given that the transition date is 1 April 2022, auditors should start liaising with their clients on priority.
- Auditors should take note of the various formats specified for preparing the financial statements of the Mutual Fund schemes.



Updates from ICAI

Exposure draft issued by ICAI on Amendments to Ind AS 117, *Insurance Contracts* : Initial Application of Ind AS 117 and Ind AS 109, *Financial Instruments* - Comparative Information

The Accounting Standards Board has issued an Exposure Draft of amendments in Ind AS 117, *Insurance Contracts* corresponding to IASB's amendments in IFRS 17, *Insurance Contracts* on initial application of IFRS 17 and IFRS 9, *Financial Instruments* – Comparative Information – (Amendments to IFRS 17)

The draft amendments add a transition option relating to comparative information about financial assets presented where an entity first applies Ind AS 117 and Ind AS 109 at the same time. Amendments have also been proposed to make the classification overlay available to entities that have applied Ind AS 109 before they apply Ind AS 117. For these entities, the classification overlay has been prescribed for the application of paragraph C29 of Ind AS 117 and can be applied only to financial assets derecognised in the comparative period.

These amendments are proposed to be made effective on initial application of Ind AS 117².

ICAI has invited comments on the ED up to 10 March 2022

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

Action points for auditors:

- Ind AS 117 is proposed to be made effective from 1 April 2023, thus the year of transition would be 1 April 2022. This gives management and the auditors limited time for compliance. The application of Ind AS 117 and Ind AS 109 requires application of judgement, and the impact on entities may be significant and pervasive. Therefore, auditors would need to understand the potential impact of Ind AS 117 early in order to comprehend the risk of material misstatement that could arise. Auditors should also ensure regular discussions with the audit committees or management in a decision-making position, and design an appropriate audit approach.
- Auditors should watch this space, as the final amendments will be issued by the Ministry of Corporate Affairs (MCA) based on recommendations received from finance and audit professionals.

². Currently, Ind AS 117 is proposed to be made effective from 1 April 2023



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Guidance Note on Audit of Banks

Statutory audit of banks involves a number of peculiarities due to some unique features of banks and banking operations e.g., huge volumes and complexity of transactions, wide geographical spread of banks' network, large range of products and services offered, extensive use of technology, strict vigilance by the banking regulator, etc.

In this regard, ICAI releases a publication 'Guidance note on audit of banks' (the guidance note) every year to provide detailed guidance to auditors conducting audit of banks and their branches. The revised 2022 edition of the guidance note is divided into two sections i.e., Section A - Statutory Central Audit and Section B - Bank Branch Audit. It contains illustrative formats of an engagement letter, auditor's report both in case of nationalised banks and banking companies and management representation letter. It also incorporates the impact of various circulars of the Reserve Bank of India (RBI) as well as certain important advisories, pronouncements of the ICAI which would be relevant for bank audits for the financial year ending 31 March 2022.

To access the text of ICAI guidance note, please [click here](#)

Action points for auditors:

- Auditors should refer to the various Appendices included in the guidance note, such as - illustrative formats of an engagement letter, formats of auditor's report in case of nationalised banks and banking companies, formats of management representation letter, text of master directions, master circulars and other relevant circulars issued by RBI. This will provide relevant guidance and enhance uniformity in the audit reports issued.
- With the entire banking process becoming automated and computerised, auditors should emphasise on key IT aspects like cyber security review, digital banking fraud risks, blockchain and so on.
- Previously, AASB had also issued two separate publications i.e., "Technical Guide on Audit of Internal Financial Controls in case of Public Sector Banks" and "Technical Guide on Revised Formats of Long Form Audit Report". Auditors should use this guidance note in conjunction with the mentioned publications.



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Updates from SEBI

SEBI requires constitution of audit committee at Asset Management Company (AMC) level of a mutual fund

For AMCs, currently, the requirement for an Audit Committee is at the level of trustees of Mutual Funds. Based on the recommendation of Mutual Fund Advisory Committee (MFAC), SEBI, vide circular has decided that with effect from 1 August 2022, the AMCs of mutual funds would be required to constitute an Audit Committee. While the circular prescribes certain guidelines for the audit committee of the AMC, it requires the audit committee members to also comply with the relevant provisions of the Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations).

Key features of the Audit committee of the AMC are as follows:

Role

The Audit Committee of the AMC is responsible for oversight of the financial reporting process, audit process, company's system of internal controls, compliance to laws and regulations and other related process, with specific reference to operation of the Mutual Fund business of the AMC. It should also ensure that the rectifications suggested by the internal and external auditors have been implemented.

Membership

The audit committee of AMC would have:

- Minimum three directors as members

- At least two-third members⁵ of the audit committee should be independent directors of AMC
- The members of the audit committee would be appointed by the Board of Directors of AMC
- All members of audit committee should be persons with ability to read and understand the financial statements and at least one member should have experience and background in finance and accounts
- The Chairperson of the audit committee should be an independent director, with adequate experience in the areas of finance and financial services.

Meetings

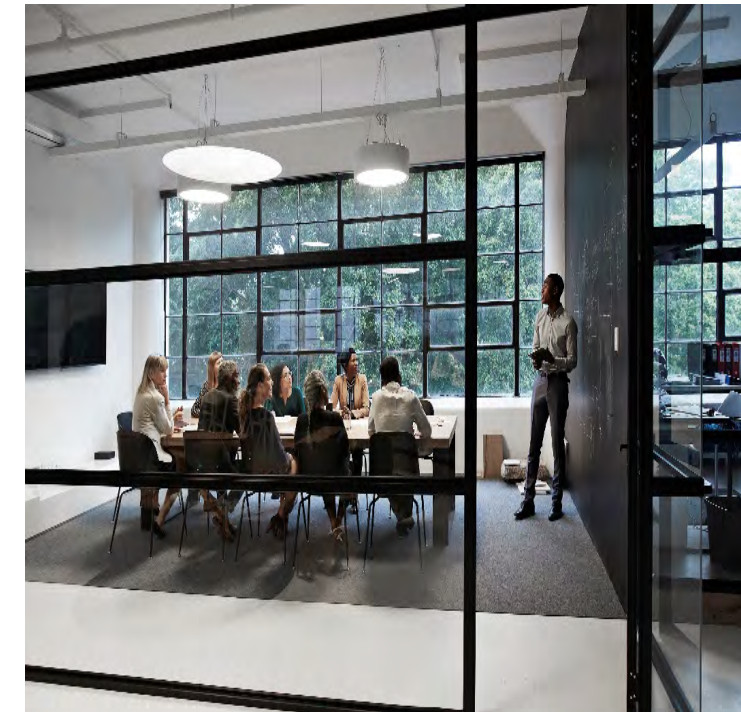
The Chairperson of the audit committee can call for meetings, as and when required. However, the following should be noted:

- At least four meetings should be called in a financial year and not more than 120 days should elapse between two meetings
- The quorum for meeting should either be two members or one third of the members of the Audit Committee⁵, whichever is greater, with at least two independent directors.

Reporting

- The internal auditor is required to submit its report to the Audit Committees of AMC and the Board of AMC.

- The Audit Committee of AMC should forward their observations on internal audit to the Trustees.



5. Where this results into a fraction, it should be rounded up to a higher number

Powers and responsibility

The powers and responsibility of the audit committee is given hereunder:

- **Financial reporting:** This includes oversight of the financial reporting process, considering all accounting policy issues, including changes in accounting policies and practices, reviewing the audit opinion of statutory auditor, recommending to the AMC board regarding adoption of financial statements, and other relevant matters.
- **Audit matters (both internal and statutory audit) and internal controls:** Recommending the appointment, re-appointment, replacement, or removal of statutory or internal auditor, and fixing fees for audit and other services of statutory auditor. With regard to internal audit, the audit committee is required to review the scope of internal audit and internal audit reports. With regard to investigations and inspections of the entity, the audit committee is required to review the findings of internal investigations, regulatory inspection reports, adequacy of internal control systems, etc. Audit committee should also interact with internal and statutory auditor and audit committee of the trustees at least once in a year.
- **Regulatory, compliance and other functions:** Reviewing compliance reports under all applicable laws, policy on insider trading, etc.

In addition to these responsibilities, the AMC Board may also assign such other responsibilities as it may deem fit.

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

Action points for auditors

- As per the Listing Regulations, either the auditors or a practicing company secretary is required to issue a compliance certificate regarding compliance of conditions of corporate governance, which will be annexed to the directors' report. In this regard, the auditors will need to ensure that the AMC has complied with the provisions pertaining to formation of audit committee and other matters pertaining to constitution, number of meetings, quorum, etc.
- Once the audit committee of the AMC has been established, all significant findings and issues pertaining to audits/limited reviews for the periods ending on or after the date of such establishment should be discussed with the audit committee of the AMC on a periodic basis.
- Auditors should interact with the audit committee members of AMC without engagement of management of the AMC and discuss key matters relating to audit.

Amendments to the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003

On 25 January 2022, SEBI has issued various amendments to the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (UTP Regulations)

Some of the key amendments issued are as follows:

List of fraudulent and unfair trade practices (Regulation 4) – Regulation 4 of the UTP regulations deals with prohibition of manipulative, fraudulent and unfair trade practices. Sub-regulation (2) of regulation 4 of the UTP regulations provides a list of practices that would be considered manipulative, fraudulent or an unfair trade practice.

One such practice, for which an amendment has been issued includes, 'disseminating information or advice through any media, whether physical or digital, which the disseminator knows to be false or misleading **in a reckless or careless manner** and which is designed to, or likely to influence the decision of investors dealing in securities' (*emphasis added to highlight the change*)

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Power of investigative authority (Regulation 6): Regulation 6 prescribes the powers of investigative authority with regard to conduct of investigation.

- One such power includes to keep the books, registers, other documents, and records (records) produced in custody. Earlier, investigative authorities were permitted to keep custody of the said records for a maximum period of one month, which could be extended to six months. The amendments have now increased the maximum period up to which the investigative authorities can keep the records to **six months**.
- Additionally, other powers have been given to the investigative authorities, such as to call for information or records from any person, bank, authority, board, or corporation in respect of transactions in securities under investigation, make an application to the judge of the designated court for seizure of records, and retaining custody of records for a stipulated period.

- **Manner of service of summons and notices issued by the Board (Regulation 11A)** – The amendments have also prescribed the modes by which summons and notices can be issued by SEBI to the person under investigation. The following modes have been prescribed:
 - a. By delivering or tendering it to that person or his duly authorised agent; or
 - b. By sending it to the person by fax or electronic mail or electronic instant messaging services along with electronic mail or by courier or speed post or registered post
 - c. In case of failure to serve a summons or notice through any one of the modes provided above, the **summons or notice may be affixed on the outer door or some other conspicuous part of the premises** in which the person resides or is known to have last resided, or carried on business or personally works, or last worked, for gain and a written report thereof should be prepared in the presence of two witnesses.
 - d. In case of failure to affix the summons or notice on the outer door as provided, the summons or notice should be published in at least two newspapers, one of which should be in an English daily newspaper having nationwide circulation and another should be in a newspaper in the regional language where that person was last known to have resided or carried on business or personally worked for gain.

Updates from SEBI

Updates from MCA

Updates from RBI

Effective date: These amendments are effective from 25 January 2022.

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

Action points for auditors

- One of the powers that SEBI has issued to investigative authorities is to *call for information or records from any person or bank, etc.* This could also include an auditor. Auditors should watch this space for further guidance and discuss this aspect with their clients.

Clarification regarding change in control of an AMC under a scheme of arrangement

According to Regulation 22(e) of Mutual Fund Regulations (MF regulations)⁶, no change in the control of the Asset Management Company (AMC), directly or indirectly, can be made unless the following conditions are complied with:

- Prior approval of the trustees and SEBI is obtained
- A written communication about the proposed change is sent to each unitholder and an advertisement is given in one English daily newspaper having nationwide circulation and, in a newspaper published in the language of the region where the Head Office of the mutual fund is situated; and
- The unitholders are given an option to exit on the prevailing Net Asset Value (NAV) without any exit load within a time period not less than 30 calendar days from the date of communication.

SEBI circular dated 4 March 2021, *inter alia*, prescribed the same procedure to be followed for the change in control of an AMC.

However, the Companies Act, 2013 requires sanction of National Company Law Tribunal (NCLT) to the proposed change in control of an AMC involving scheme of arrangement.

Clarification

To streamline the process of providing approval to the proposal for change in control of an AMC under a scheme of arrangement, the following procedure has been clarified by SEBI vide circular dated 31 January 2022:

- The application seeking approval for the proposed change in control of the AMC should be filed with SEBI for an in-principle approval prior to filing the application with the NCLT
- The validity of such in-principle approval would be three months from the date of issuance, within which the relevant application should be made to NCLT
- Once an order is received from NCLT, the applicant would be required to submit prescribed documents for a final approval of SEBI

Effective date: The provisions of this circular would be applicable to all the applications for change in control of AMC for which the scheme(s) of arrangement are filed with NCLT on or after 1 March 2022

To access the text of SEBI circular dated 31 January 2022, please [click here](#)

To access the text of the SEBI circular dated 4 March 2021, please [click here](#)

Action points for auditors

While reviewing the scheme of arrangement entered into by AMCs, the auditors should evaluate whether the AMC has complied with the norms prescribed in this circular.

6. Regulation 22 of the MF regulations specifies the terms and conditions to be complied by the AMC

No Objection Certificate (NOC) for a Scheme of Arrangement by listed entities

In November 2021, SEBI had issued certain amendments to its master circular on schemes of arrangement for listed entities dated 22 December 2020. The amendments mainly prescribe additional documents to be submitted with the stock exchanges before the scheme is sanctioned by the National Company Law Tribunal (NCLT). The documents, *inter alia*, included a No Objection Certificate (NOC) from lending scheduled commercial banks/financial institutions/ debenture trustees.

Amendment

SEBI vide circular dated 1 February 2022 has made amendments to the circular issued in November 2021, clarifying that a No Objection Certificate (NOC) from the lending scheduled commercial banks / financial institutions / debenture trustees, should be **received from not less than 75 per cent of the secured creditors in value**. (*Emphasis added to highlight the change*).

Effective date: This circular would be applicable for all the schemes filed with the stock exchanges after 16 November 2021.

To access the text of SEBI circular dated 1 February 2022, please [click here](#)

To access the text of SEBI master circular dated 22 December 2020, please [click here](#).

Action Points for auditors

While reviewing the scheme of arrangement entered into by listed entities, the auditors should evaluate whether the listed entities have received the NOC from the stipulated lending institutions as clarified in the circular dated 1 February 2022.



SEBI board meeting

SEBI in its board meeting dated 15 February 2022 took some key decisions pertaining to the following:

Separation of role of Chairperson and MD/CEO

Currently, Regulation 17(1B) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations), requires the top 500 listed entities⁷ to ensure that with effect from 1 April 2022:

- The chairperson of the listed entity is a non-executive director, and
- The chairperson of the listed entity is not related to the Managing Director (MD) or the Chief Executive Officer (CEO)

Amendments

SEBI has received representations from industry bodies and corporates, providing compelling reasons and challenges in complying with the requirement that the chairperson of the listed entity is not related to the MD or CEO. Further, basis SEBI's review, as on 31 December 2021, the compliance level on this requirement stood at 54 per cent amongst the top 500 listed companies. Accordingly, SEBI in its board meeting held in February 2022 has decided that the provision to ensure that the chairperson of the listed entity is not related to the CEO/MD of the listed entity may not be retained as a mandatory requirement and instead be made applicable to the listed entities on a 'voluntary basis'.

SEBI has not mentioned the date from which this requirement would be applicable on a mandatory basis.

Alignment of regulatory framework for 'security cover', disclosure of credit ratings and due diligence certificate

SEBI has approved certain amendments to SEBI (Debenture Trustee) Regulations, 1993 (Debenture Trustee Regulations), SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 and (Listing Regulations). The amendments bring uniformity and consistency in these regulations with respect to the following:

- The term 'asset cover' has been substituted with term 'security cover' in Debenture Trustee Regulations and Listing Regulations
- Requirement to maintain security cover which is sufficient to discharge both principal and interest thereon, has been prescribed in the Listing Regulations
- References with respect to disclosure of credit ratings has been rationalised and due diligence certificate for unsecured debt securities has been prescribed in SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021.

Amendment to SEBI (Alternative Investment Funds) Regulations, 2012

Alternative Investment Fund (AIF) is a privately pooled investment vehicle which collects funds from investors, whether Indian or foreign, for investing it in accordance with a

defined investment policy for the benefit of its investors.

It consists of three categories:

Category I - AIFs which invest in start-up or early-stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable

Category II – Real estate funds, private equity funds (PE funds), funds for distressed assets etc.

Category III - AIFs which employ diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives. For example, hedge funds, etc.

Amendment

SEBI has provided flexibility to category III Alternate Investment Funds (AIFs) to calculate the investment concentration norm based either on investable funds or net asset value of the fund while investing in listed equity of investee company, subject to the conditions as may be specified by SEBI.

To access the text of SEBI board meeting dated 15 February 2022, please [click here](#)

7. The top 500 entities should be determined on the basis of market capitalisation, as at the end of the immediate previous financial year

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Action points for auditors

- As per the Listing Regulations, either the auditors or a practicing company secretary is required to issue a compliance certificate regarding compliance of conditions of corporate governance, which will be annexed to the directors' report. While issuing such a certificate for the top 500 listed entities, for financial years commencing on or after 1 April 2022, auditors should consider the changes prescribed in the SEBI board meeting.
- As per Regulation 56 of the Listing Regulations, auditors are required to provide a half-yearly certificate to the listed entity regarding maintenance of prescribed asset cover (now security cover), including compliance with all the covenants, in respect of listed non-convertible debt securities. Auditors should take note of the increase in the limit of the asset cover (now security cover) (i.e. it should be sufficient to discharge both, principal and interest thereon) when such certificates are being issued.



Updates from Ministry of Corporate Affairs (MCA)

Companies to furnish a report on Corporate Social Responsibility (CSR)

Rule 12 of the Companies (Accounts) Rules, 2014 *inter alia* prescribes the forms for filing of financial statements and fees to be paid thereon. As per sub-rules (1) and (1A) of rule 12, companies and Non-Banking Financial Companies (NBFCs) are required to file their standalone and consolidated financial statements with the registrar along with stipulated forms³.

On 11 February 2022, MCA issued the Companies (Accounts) Amendment Rules, 2022 which amended rule 12 of the Companies (Accounts) Rules, 2014.

A new sub-rule (1B) has been inserted which requires every company covered under the provisions of section 135(1) of the Companies Act, 2013⁴ to furnish **a report on Corporate Social Responsibility** in Form CSR-2 to the Registrar for the preceding **financial year (2020-2021) and onwards** as an addendum to Form AOC-4 or AOC-4 XBRL or AOC-4 NBFC (Ind AS), as the case may be.

Form CSR-2 for the preceding financial year (FY2020- 2021) would be filed separately on or before 31 March 2022, after filing Form AOC-4 or AOC-4 XBRL or AOC-4 NBFC (Ind AS), as the case may be.

MCA has specified the format of the report on CSR in the notification issued.

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

Action points for auditors:

- Previously, there was no form prescribed to furnish a report on CSR. Earlier, details of CSR committee, the CSR policy and other prescribed matters were required to be part of the Board of Directors' Report. While the auditors do not have any reporting obligations on this form, they should engage with clients and make them aware of the new norms.

3. Companies are required to file their standalone and consolidated financial statements along with forms AOC-4 and AOC-4 CFS respectively. NBFCs that are required to comply with Ind AS should file their standalone and consolidated financial statements along with forms AOC-4 NBFC (Ind AS) and AOC-4 CFS NBFC (Ind AS) respectively.

4. As per section 135(1) of the Companies Act, 2013, every company having

- Net worth of INR500 crore or more, or
- Turnover of INR1,000 crore or more or
- A net profit of INR5 crore or more

during the immediately preceding financial year is required to constitute a Corporate Social Responsibility Committee of the Board consisting of three or more Directors, out of which at least one director shall be an independent director.



Relaxation on levy of additional fees for filing various e-forms

MCA received various requests from stakeholders regarding relaxation of levy of additional fees for annual financial statements/return filings required to be done for the financial year ended 31 March 2021. In this view, MCA has decided not to charge additional fees for filing of certain forms for financial year ended 31 March 2021 as below:

- **Upto 15 March 2022:** for filing of e-forms AOC-4, AOC-4 (CFS), AOC-4 XBRL and non-XBRL and
- **Upto 31 March 2022:** for filing forms MGT 7/MGT-7A

During the said period, only normal fees would be payable

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

Updates from RBI

Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances

On 1 October 2021, the Reserve Bank of India (RBI) had issued a master circular on the prudential norms on Income Recognition, Asset Classification and Provisioning (IRACP) to advances.

On 12 November 2021, with a view to ensure uniformity in the implementation of IRACP across all lending institutions, RBI had issued a circular with certain clarifications (12 November circular).

On 15 February 2022, RBI issued further clarifications based on queries received on its circular dated 12 November 2021, which are as follows:

Out of Order:

The 12 November 2021 circular clarified that an account would be treated as out of order if:

- The outstanding balance in the Cash Credit (CC)/Overdraft (OD) account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
- The outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but

- There are no credits continuously for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period.

Clarification

It has been clarified that the definition of 'out of order' as per the circular issued on 12 November 2021 would be applicable to **all loan products being offered as an overdraft facility**, including those not meant for business purposes and/or which entail interest repayments as the only credits.

Further, the 'previous 90 days period' for determination of 'out of order' status of a CC/OD account would be inclusive of the day for which the day-end process is being run.



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Upgradation of accounts classified as NPA

The 12 November 2021 circular stated that loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower.

Clarification

NBFCs would have time till **30 September 2022** to put in place the necessary systems to implement this provision. Additionally, SEBI has clarified that in case of borrowers having more than one credit facility from a lending institution, loan accounts should be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to **all the credit facilities**.

No changes in certain requirements

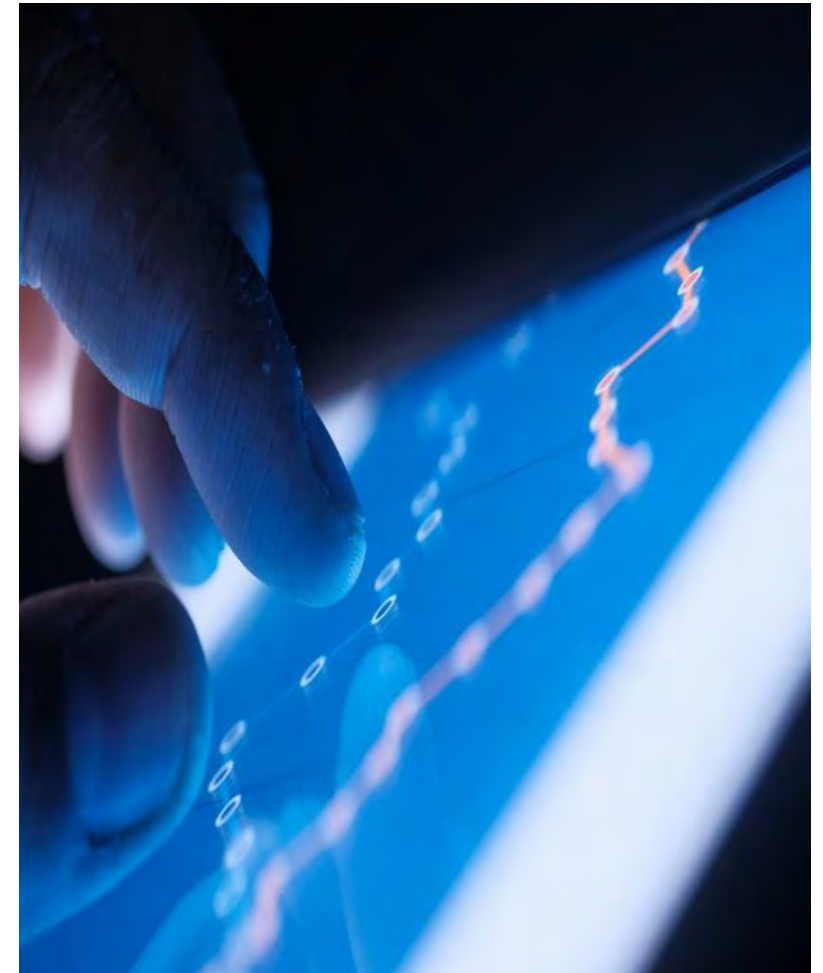
RBI clarified that the November 2021 circular does not make any changes to the requirements related to reporting of information to the Central Repository of Information on Large Credits (CRILC) and interfere with the extant guidelines on implementation of Ind AS by NBFCs.

To access the text of RBI circular dated 15 February 2022, please [click here](#)

To access the text of RBI circular dated 12 November 2021, please [click here](#).

Action points for auditors

- The circular provides extension of time till 30 September 2022 to NBFCs to ensure compliance with NPA requirements, and auditors should determine appropriate audit procedures to evaluate compliance with these changes.
- NBFCs would classify loan accounts to standard category only when the interest and principal amounts of **all credit facilities** have been repaid. Thus, the classification from NPA to standard category will now be done on a 'customer' basis, and not on the basis on an individual loan account.



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During the financial year 2021-22, a number of important updates have been issued by various financial and regulatory bodies such as ICAI, SEBI, RBI, ICAI and other regulators. These updates have been summarised below along with their applicability dates.

Updates from MCA

Applicability of CARO 2020

(Effective 1 April 2021)



In February 2020, MCA issued the [Companies \(Auditor's Report\) Order, 2020 \(CARO 2020\)](#), making it applicable for auditors of prescribed class of companies. It is effective for financial years [commencing on or after 1 April 2021](#).

CARO 2020 has added several new clauses and revised certain existing clauses of CARO 2016. Reporting on CARO requires application of judgement, accordingly ICAI has released a [guidance note for reporting under CARO](#).

Revision to Schedule III

(Effective 1 April 2021)



On 24 March 2021, MCA issued certain [amendments to Schedule III](#) of the Companies Act, 2013 in Divisions I, II and III. The amendments in Schedule III are largely driven by requirements relating to CARO 2020. ICAI has issued guidance notes for amendments in [Division I](#), [Division II](#) and [Division III](#).

Additional disclosures in auditors' report (Effective 1 April 2021)



On 24 March 2021, MCA [amended the Companies \(Audit and Auditors\) Rules, 2014](#), thereby requiring additional matters to be reported in audit report under 'Other matter' paragraph. The matters include:

- Management representation on funds advanced, loaned to or invested in by an entity or received by an entity for further advancement, etc.; and such representation is not materially misstated
- Dividend declared and paid during the year is in compliance with the Companies Act, 2013

Recap on key updates



Accounting updates

Auditing updates

Regulatory updates

Recap on key updates

Updates from MCA (cont.)

Manner of maintaining books of account in electronic mode and auditor's responsibility to report thereon

(Effective
1 April 2022)



On 24 March 2021, MCA issued amendments to provisions of [Companies \(Accounts\) Rules, 2014](#) and [Companies \(Audit and Auditors\) Rules, 2014](#) under the Companies Act, 2013. As per the amendments:

- **Companies** that use accounting software for maintaining books of account, should use such software which has feature of **recording audit trail** of each transaction, creates an **edit log** of each change made in books of account and ensures **audit trail is not disabled**
- **Auditor** needs to report whether the company has **used** an accounting software having a **feature of recording audit trail**, the audit trail feature has been **operated throughout the year** for all transactions recorded, audit trail feature has **not been tampered with**, and audit trail has been **preserved by the company** as per statutory requirements.

The requirements for [maintaining the software with audit trail feature](#) and [auditors responsibility to report thereon](#) are effective for the financial year commencing on or after 1 April 2022.

Recap on key updates



Accounting updates

Auditing updates

Regulatory updates

Recap on key updates

Updates from SEBI

Revisions in related party provisions

(Effective 1 April 2022 and 1 April 2023)



On 9 November 2021, SEBI notified amendments to the Listing Regulations on related parties and Related Party Transactions (RPTs) vide [SEBI \(Listing Obligations and Disclosure Requirement\) \(Sixth Amendment\) Regulations, 2021](#). Subsequently, on [22 November 2021](#) and [7 January 2022](#), SEBI issued a circular specifying the disclosure obligations of listed entities (including HVDLEs) with respect to RPTs. The amendments mainly pertain to:

- Revising the definition of related parties and RPTs
 - Audit committee's approval mechanism for RPTs and information to provided to audit committees
 - Materiality threshold and shareholder's approval for RPT
 - Enhanced disclosures, including revised format prescribed for submitting RPTs to stock exchanges on a six-monthly basis
- Certain amendments will be effective 1 April 2023, and others will be effective 1 April 2022.

BRSR

(Voluntary for FY 21-22 and mandatory from FY 22-23)



On 10 May 2021, SEBI notified the [Business Responsibility and Sustainable Reporting \(BRSR\)](#) provisions which is applicable to top 1,000 listed entities based on market capitalisation.

As per the notification, top 1,000 listed entities by market capitalisation may voluntarily report on BRSR (in place of the extant Business Responsibility Report (BRR)) as part of their annual report for financial years 2021-22. However, it would be mandatory to report on BRSR for financial year 2022-23 and onwards.

Recap on key updates



Accounting updates

Auditing updates

Regulatory updates

Recap on key updates

Updates from SEBI (cont.)

Corporate governance for HVDLEs

(Mandatory from 1 April 2023)



On 7 September 2021, SEBI notified amendments to [issuers of Non-Convertible securities](#). Most of the amendments pertaining to financial reporting and enhanced disclosures to stock exchanges, debenture trustees and on the website were applicable on an immediate basis.

However, corporate governance provisions for High Value Debt Listed Entities (HVDLEs) are applicable on a 'comply or explain basis' up to 31 March 2023, and on a mandatory basis with effect from 1 April 2023.

Updates from Reserve Bank of India (RBI)

Scale-based regulation for NBFCs

(Effective 1 Apr 2022/ 1 October 2022)



On 22 October 2021, RBI issued guidelines on a [scale-based regulation for NBFCs](#). The scale-based regulatory approach renders the regulation and supervision of NBFCs to be a function of their size, activity and perceived riskiness.

As per the scale-based regulation, NBFCs would be structured in the top layer, upper layer, middle layer and bottom layer.

These guidelines would apply from 1 October 2022. The instructions relating to ceiling on IPO funding would apply from 1 April 2022.



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