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15 June 2022

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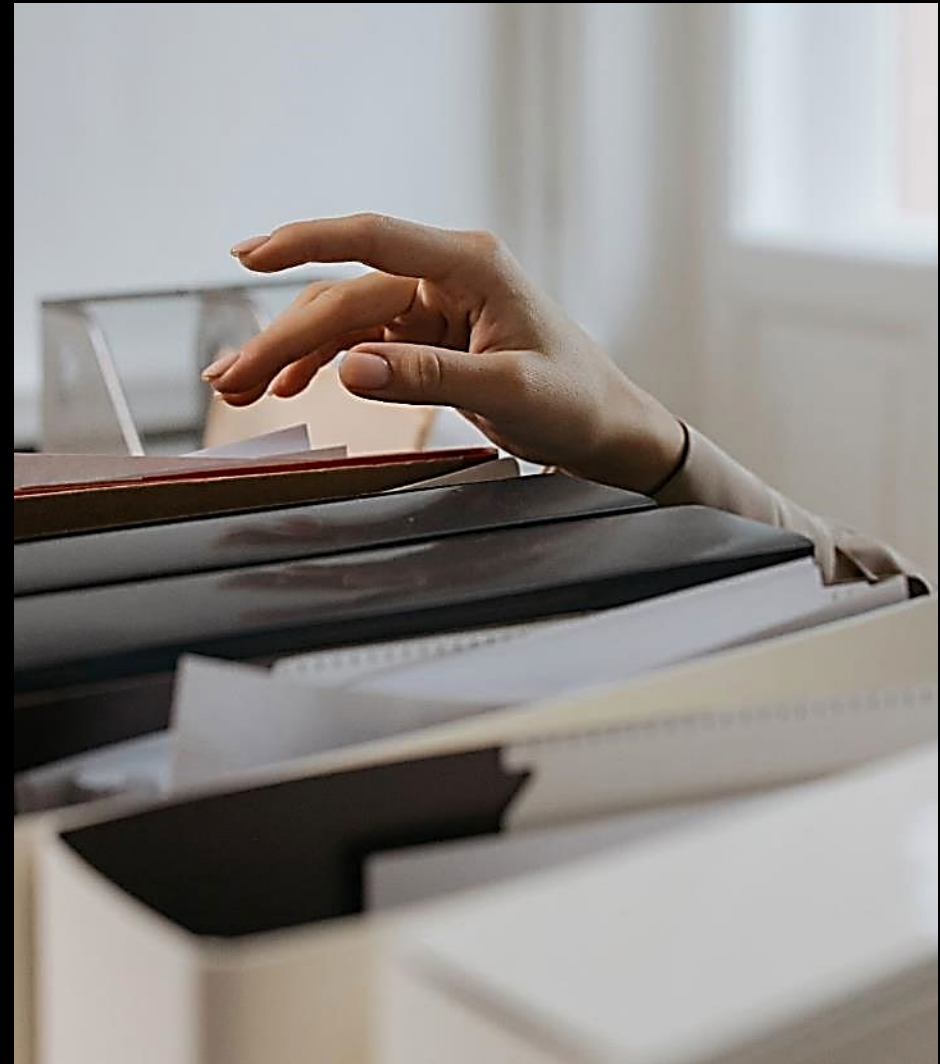
The regulatory updates publication issued by the Foundation for Audit Quality (FAQ) highlights the latest developments in accounting, auditing and regulatory developments in India and internationally.

In this edition

Some of the important updates relate to extension of the due date for furnishing a report on Corporate Social Responsibility in Form CSR-2 for FY 2020-21 and for FY 2021-22.

Additionally, the Securities and Exchange Board of India (SEBI) constituted an advisory committee on ESG related matters in the securities market. The terms of reference of the committee include enhancements in Business Responsibility and Sustainability Reporting (BRSR), ESG investments, and ESG ratings.

This issue of the regulatory updates publication covers some of the important updates on auditing and regulatory matters for the period from **1 May 2022 to 31 May 2022**. It also highlights some of the action points that auditors may consider when applying the relevant provisions.



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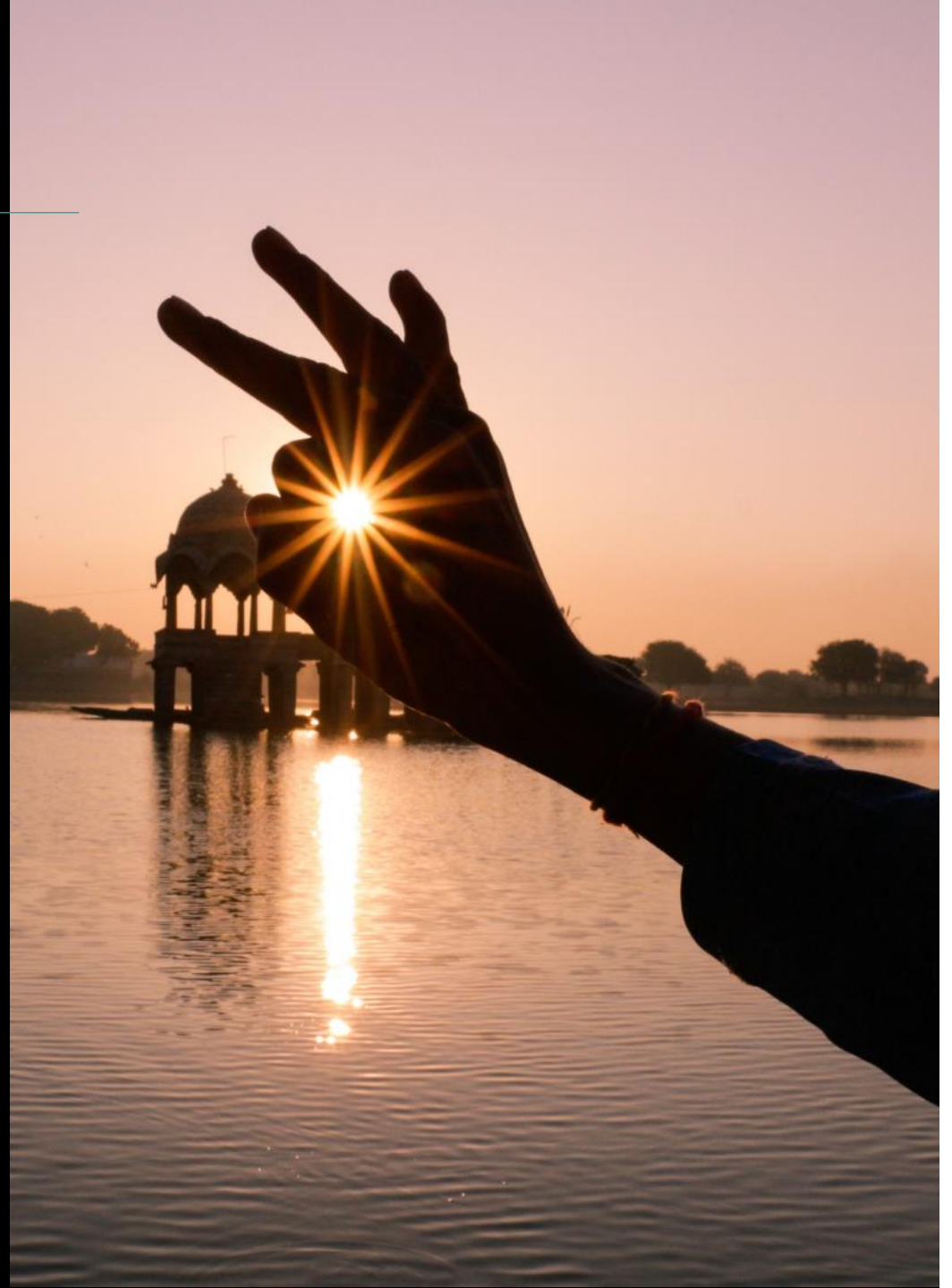
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Updates from ICAI

ICAI announces effective date of application of SAE 3410

In 2012, the International Auditing and Assurance Standards Board (IAASB) had issued the International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements* to provide reasonable or limited assurance on Greenhouse Gas Statements. However, the Indian reporting framework did not have any specific auditing standard corresponding to ISAE 3410. Taking note of this, in February 2021, the Sustainability Reporting Standards Board (SRSB) of the ICAI issued the Standard on Assurance Engagements (SAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*.

ICAI, vide a notification dated 2 May 2022 has announced the effective date of application of SAE 3410 as follows:

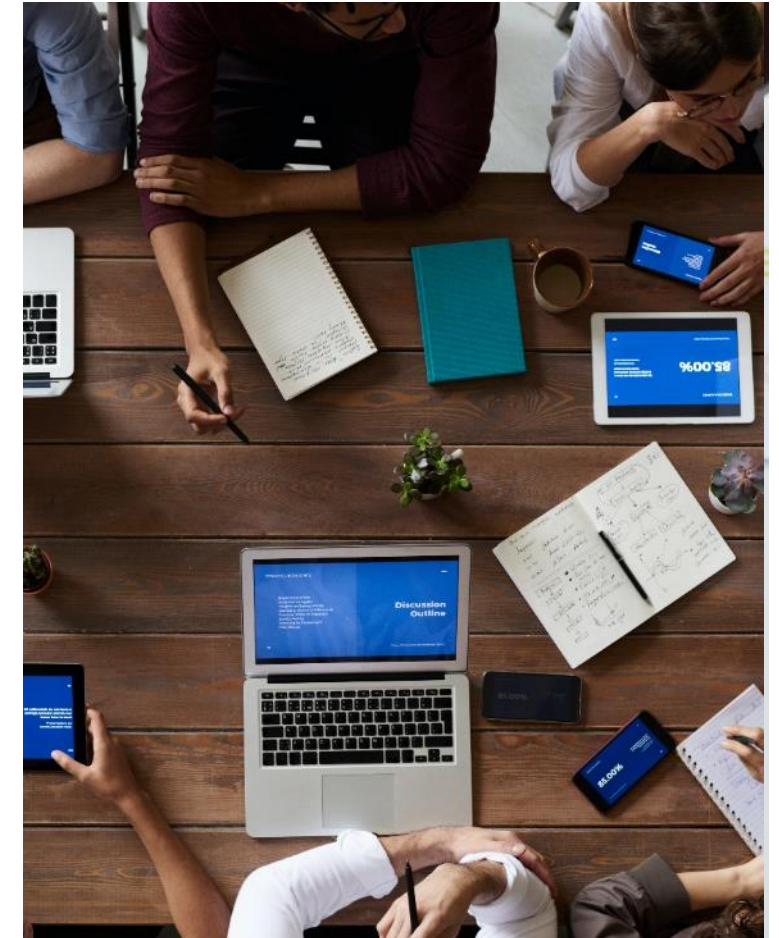
- i. Voluntary basis for assurance reports covering periods ending on 31 March 2023
- ii. Mandatory basis for assurance reports covering periods ending on or after 31 March 2024.

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

Action point for auditors

In recent years, climate change concerns and sustainable development have taken center stage in global and national priorities. Given the link between Greenhouse Gas (GHG) emissions and climate change, many entities are quantifying their GHG emissions as part of regulatory requirements and due to increase in demand for such information by investors. Since regulators and investors rely on such information, there is a corresponding demand for assurance on the information provided. SAE 3410 requires practitioners to select procedures appropriate to the circumstances of the engagement based on an assessment of risks of material misstatement.

The practitioners would need to assess whether a limited or reasonable assurance could be required on the GHG statement. Effective understanding and communication between the practitioner and the client would enable appropriate planning and risk assessment, which will facilitate a smooth execution of the assurance engagement.



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Updates from MCA

Clarification on holding of Annual General Meeting (AGM) and Extraordinary General Meeting (EGM) through Video Conference or Other Audio-Visual Means

The Ministry of Corporate Affairs (MCA), vide a circular dated 5 May 2022, has allowed companies whose AGMs are due to be held in the year 2022, to conduct their AGMs through video conference or other audio-visual means **on or before 31 December 2022¹** (earlier: 30 June 2022).

The MCA has further clarified that the aforesaid circular should not be construed as conferring any extension of time for holding of AGMs by the companies under the Companies Act, 2013, and the companies which have not adhered to the relevant timelines would remain subject to legal action.

Also, MCA, vide another circular dated 5 May 2022, has allowed companies to conduct their EGMs through video conference or other audio-visual means or transact items through postal ballot in accordance with the prescribed framework up to **31 December 2022** (earlier: 30 June 2022).

To access the text of the circular relating to AGMs dated 5 May 2022, please [click here](#).

To access the text of the circular relating to EGMs dated 5 May 2022, please [click here](#).

Action point for auditors

While companies have now been permitted to hold AGMs and EGMs in the calendar year 2022 vide video conference or other audio-visual means, this does not imply an extension in timeline for holding of AGMs. Accordingly, provisions of SA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* should be considered by auditors when there has been a delay in holding an AGM.

Tightening of foreign investment norms in India

The Government of India has amended the foreign investment norms by making it mandatory for countries sharing land borders with India to take prior approval from the Indian Government before making any subscriptions or acquisitions within India. In this regard, MCA has notified a slew of amendments as given below:

Rules amended	Applicability date
The Companies (Prospectus and Allotment of Securities) Rules, 2014 (Prospectus Rules)	5 May 2022
The Companies (Incorporation) Rules, 2014 - Revised form INC-9 - Revised form SPICe 32	1 June 2022

Rules amended (cont.)	Applicability date
The Companies (Share Capital and Debenture) Rules, 2014	4 May 2022
The Companies (Compromises, Arrangements and Amalgamations) Rules, 2016 (Amalgamation Rules)	30 May 2022
The Companies (Appointment and Qualification of Directors) Rules, 2014 (Directors Rules) <ul style="list-style-type: none">• Revision of Rule 8 and form DIR-2• Revision of Rule 10 and form DIR-3	1 June 2022

Companies (Prospectus and Allotment of Securities) Amendment Rules, 2022

Rule 14 of the Companies (Prospectus and Allotment of Securities) Rules, 2014 (Prospectus Rules) states that a prior approval of shareholders by a special resolution is required by an entity, before it makes an offer to subscribe to securities through private placement. Further, an offer or an invitation to subscribe to securities would be made through issue of private placement offer letter in form PAS-4.

¹ As per the provisions of the original circular number 20/2020 dated 5 May 2020, there has *inter alia* also been an extension in the provision for issuing financial statements (including the Board's report, Auditor's report or other documents required to be attached therewith) by email to members, trustees for debenture-holders of any debentures issued by the company, and to all other persons entitled.

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MCA, vide a notification dated 5 May 2022 issued the Companies (Prospectus and Allotment of Securities) Amendment Rules, 2022, which has *inter alia* inserted a new proviso under Rule 14(1) (Private placement) of the Prospectus Rules. As per the amendments, no offer or invitation of any securities should be made (under Rule 14 of the Prospectus Rules) to a body corporate incorporated in, or a national of, a country which shares a land border with India, unless such body corporate or the national have obtained the Government approval under the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 and have attached the same with the private placement offer cum application letter. These amendments have been made in the form PAS-4.

The Rules come into force from the date of publication in the Official Gazette (i.e. 5 May 2022).

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

- **Revised form INC-9 issued**

As per Section 7 of the Companies Act, 2013 (dealing with incorporation of companies) read with Rule 15 of the Companies (Incorporation) Rules, 2014, each of the subscribers to the memorandum of association and persons named as the first directors in the articles of association need to make certain declarations in form INC-9²:

MCA, vide a notification dated 20 May 2022 has issued revised form INC-9. As per the revised form INC-9, in addition to the existing declarations, subscribers to the

memorandum and first directors of the companies are now required to confirm whether they need to obtain a Government approval under the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 prior to the subscription of shares³. If a Government approval is required then, enclose such clearance in the form.

Additionally, in the form SPICe 32 (form for incorporation of a company), when a national of a country who shares land border with India seeks appointment in a company being incorporated in India then, entities need to submit the security clearance (of such individual) obtained from the Ministry of Home Affairs.

The amendment has come into effect from 1 June 2022.

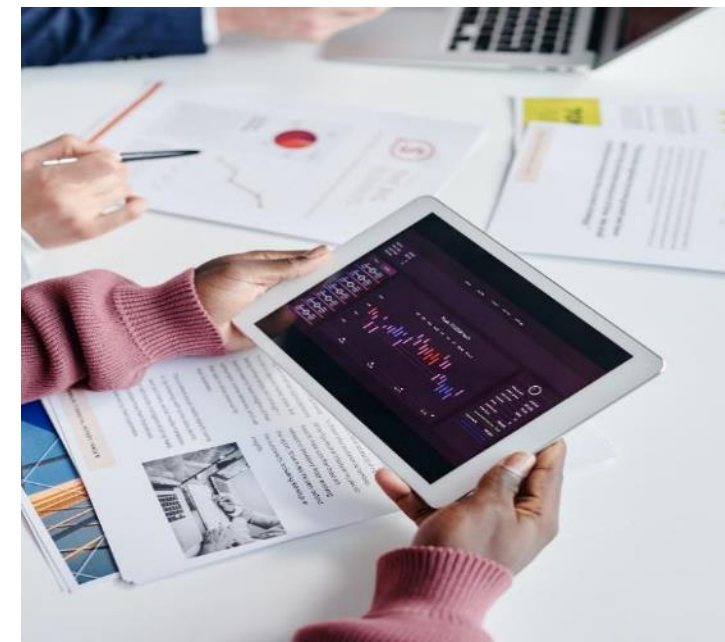
To access the text of the notification, please [click here](#).

- **The Companies (Share Capital and Debentures) Amendment Rules, 2022**

As per Section 56 of the Companies Act, 2013 read with Rule 11 (1) of the Companies (Share Capital and Debenture) Rules, 2014, securities held in physical form need to be transferred in form no. SH-4. The following information needs to be provided in Form SH-4:

- Details of the securities to be transferred
- Details of the transferor, and
- Details of the transferee

On 4 May 2022, MCA issued the Companies (Share Capital and Debentures) Amendment Rules, 2022, thereby requiring additional declarations for the transferee in form SH-4. These additional declarations include whether the transferee requires



² Form INC-9 is the form in which subscribers to the memorandum and first directors as mentioned in the articles of association of a company make following declarations:

- He/she is not convicted of any offence in connection with the promotion, formation or management of any company,
- He/she has not been found guilty of any fraud or misfeasance or of any breach of duty to any company under this Act or any previous company law during the preceding five years
- All the document filed with the Registrar for registration of the company contain information that is correct and complete and true to the best of his/her knowledge and belief;

³ This would be the case when the person seeking appointment is a national of a country which shares a land border with India.

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to obtain a government approval under the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 prior to transfer of shares, and enclosure of such approval (where required and obtained).

The Rules come into force from the date of publication in the Official Gazette (i.e. 4 May 2022).

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

- **The Companies (Compromises, Arrangements and Amalgamations) Amendment Rules, 2022**

As per Rule 25A of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016 (Amalgamation Rules) if a foreign company incorporated outside India intends to merge with an Indian company, or vice versa, it needs to file an application before the Tribunal as per provisions of Sections 230 to 232 of the Companies Act, 2013 read with the Amalgamation Rules. Additionally, certain provisions stated in the Companies Act, 2013 and the Amalgamation Rules need to be complied with.

The MCA, vide a notification dated 30 May 2022 has issued the Companies (Compromises, Arrangements and Amalgamations) Amendment Rules, 2022. As per the amendment, in case of a compromise, an arrangement, merger, or demerger between an Indian company and a company or body corporate which has been incorporated in a country which shares land border with India, a declaration in Form No. CAA-16 would be required at the stage of submission of application under section 230 of the Companies Act, 2013.

Form No CAA-16, requires the authorised representative of a company/body corporate which has been incorporated in a country which shares land border with India to declare whether the company/body corporate is required to obtain a prior approval of the Government under the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019, and enclose such approval, where obtained.

The Rules come into force from the date of publication in the Official Gazette (i.e. 30 May 2022).

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

- **The Companies (Appointment and Qualification of Directors) Amendment Rules, 2022**

On 1 June 2022, MCA issued the Companies (Appointment and Qualification of Directors) Amendment Rules, 2022. Following are the amendments:

- **Amendment in Rule 8:** As per Rule 8 of the Companies (Appointment and Qualification of Directors) Rules, 2014 (Directors Rules), every person who has been appointed as a director is required to furnish to the company his/her consent in writing to act as such in form DIR-2. Further, companies are required to file such a consent with the Registrar of companies in the form DIR-12 within 30 days of appointment of the director.

The amendments now state, that in case the person seeking appointment is a national of a country which shares land



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border with India, necessary security clearance from the Ministry of Home Affairs, Government of India should also be attached along with the consent in form DIR-2. Requisite amendments have been made in form DIR-2.

- **Amendment in Rule 10:** As per Rule 9 and Rule 10 of the Directors Rules, every person who intends to be appointed as a director needs to apply to the Central Government for a Director Identification Number (DIN) in the form DIR-3. On submission of DIR-3 on the portal and payment of requisite fees, an application number is generated by the system automatically.

As per the amendment, an application number would not be generated in case the person applying for DIN is a national of a country which shares land border with India, unless necessary security clearances are obtained from the Ministry of Home Affairs, Government of India along with form DIR-3. Requisite amendments have been made in the form DIR-3.

The Rules come into force from the date of publication in the Official Gazette (i.e. 1 June 2022).

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

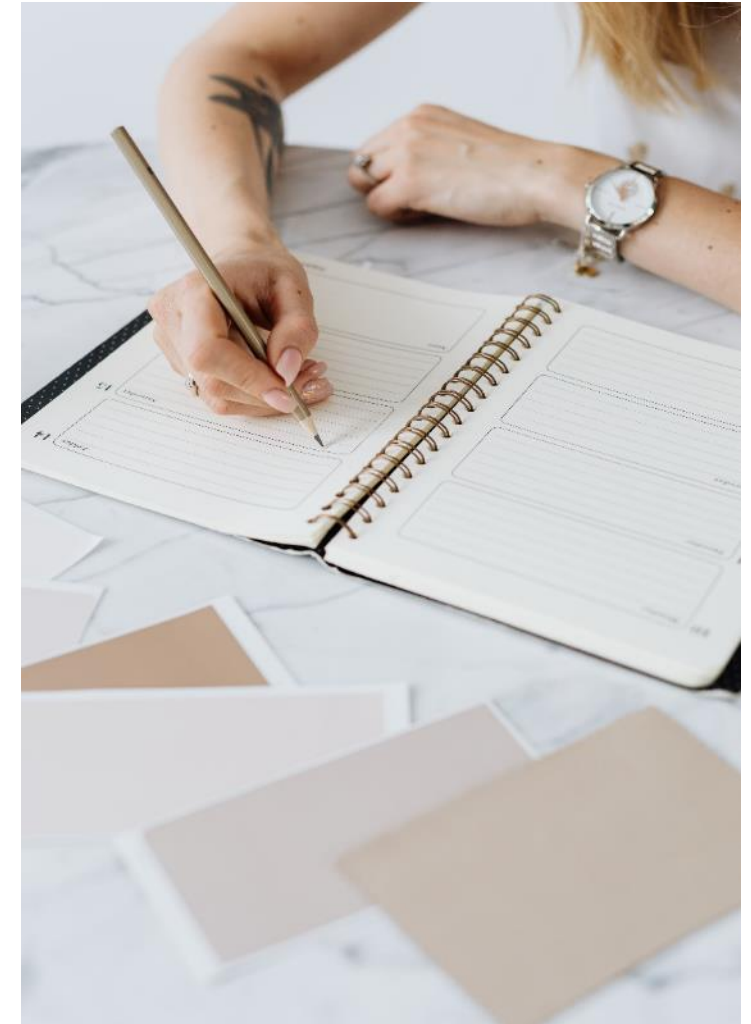
Action point for auditors

Auditors should take note of the companies that they audit which have foreign investments, are planning mergers with companies incorporated outside India or have directors who are nationals of countries which share a land border with India.

With regard to private placement of shares or convertible debentures (fully, partly or optionally convertible debentures) by a company during the year, auditors should take note of the reporting requirements under the CARO 2020 on:

- whether the private placement is in accordance with Section 42 of the Companies Act, 2013, and
- whether the funds raised have been used for the purposes for which they were raised. If not, details of the amount involved, and nature of non-compliance need to be reported.

Section 42 of the Companies Act, 2013 *inter alia* provides that a company can make private placement only to a select group of persons (as identified by the board of directors of a company). Thus, the auditors would need to ascertain whether the company has complied with the requirements specified in Companies (Prospectus and Allotment of Securities) Amendment Rules, 2022 in determining the group of persons for private placement. In case of any non-compliance, the auditors would need to report non-compliances in accordance with the requirements of the CARO 2020.



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The Companies (Accounts) Third Amendment Rules, 2022

On 11 February 2022, MCA had amended Rule 12 of the Companies (Accounts) Rules, 2014, thereby inserting a new sub-rule (1B) which required every company covered under 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 (FY 2020-2021) and onwards, on or before 31 May 2022, as an addendum to Form AOC-4 or AOC-4 XBRL or AOC-4 NBFC (Ind AS), as the case may be.

The MCA, vide notification dated 31 May 2022 has extended the due date for filing Form CSR-2 for FY 2020-2021 to **30 June 2022**.

It has also been provided that the Form CSR-2 for FY 2021-22 would be required to be filed on or before **31 March 2023** after filing Form AOC-4 or AOC-4 XBRL or AOC-4 NBFC (Ind AS), as the case may be.

The amendment comes into force from the date of publication in the Official Gazette (i.e. 31 May 2022).

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

Action point for auditors

Earlier a form to furnish a report on CSR was not prescribed. Details of the CSR committee, the CSR policy and other prescribed matters were required to be part of the Board of Directors' Report. Auditors should engage with the companies covered under the provision of Section 135(1) of the Companies Act, 2013 and communicate the new norms along with the revised reporting timelines.

Updates from SEBI

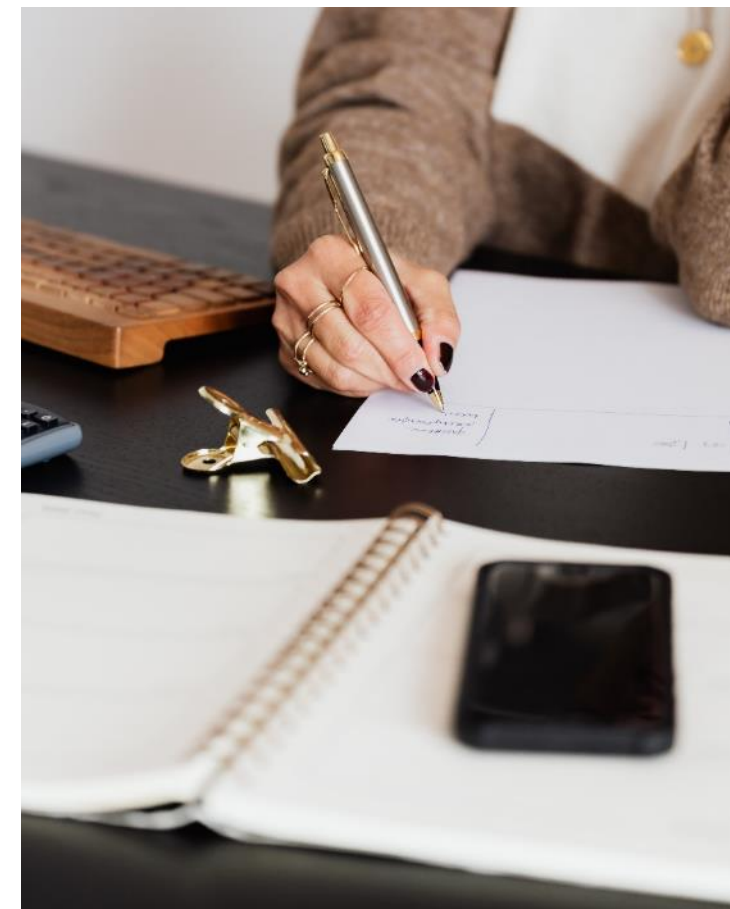
SEBI constitutes advisory committee on Environmental, Social and Governance (ESG) matters

SEBI, vide a press release dated 6 May 2022 has constituted an advisory committee on ESG related matters in the securities market. The terms of reference of the committee include:

- Enhancements in Business Responsibility and Sustainability Report (BRSR)
- ESG ratings
- ESG investing

A few key considerations for the committee include:

- In terms of BRSR, the committee would review the leadership indicators that may be made essential - including those related to value chain along with developing sector specific sustainability disclosures.



⁴ Section 135(1) of the Companies Act, 2013 requires companies having net worth of INR500 crore or more, turnover of INR1,000 crore or more or a net profit of INR5 crore or more during the immediately preceding financial year to comply with the Corporate Social Responsibility (CSR) provisions.

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- Examine evolving disclosures/metrics relevant to Indian context, as well as identifying areas for assurance and a plan for implementation.
- With regard to ESG ratings, the committee would oversee the development of a second or parallel approach for ESG ratings tailored to emerging markets, such as a focus on 'S' including employment creation, and so on. This will also include developing uniform indicators of 'G' as input to ESG ratings and/or credit ratings.
- In case of ESG investing, the advisory committee would assess the ongoing improvement of disclosures relevant to ESG Mutual Fund Schemes, with a special focus on risk mitigation of mis-selling and greenwashing hazards.

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

Action point for auditors

Currently, BRSR prescribes certain essential indicators (that are to be reported on a mandatory basis) and certain leadership indicators, that are to be reported on a voluntary basis. The ESG advisory committee will be reviewing the leadership indicators (including indicators related to the value chain of the listed entity) and will determine which of these can be made 'essential indicators', that require mandatory reporting. It will also prescribe sector specific disclosures. Considering that BRSR reporting is mandatory for FY2022-23 for top 1,000 companies by market capitalisation, these would be important updates for preparers of BRSR reports.

In recent years, there has been an increase in demand for sustainability disclosures amongst investors and an increase in ESG investments. Accordingly, there is a need for assurance of sustainability related information. The ESG advisory committee will be identifying the areas in BRSR that require assurance and develop a road map for its implementation. Auditors should watch for developments in this area. Auditors could also determine the standards that they may apply in engagements on assurance of non-financial information. For example, SAE 3410⁵ would be applied in audit of greenhouse gas statements.

It is expected that the advisory committee will be recommending rules that would apply to the ESG rating providers and require disclosures by asset management companies with regard to ESG schemes.



⁵ As per ICAI announcement, SAE 3410 would be mandatory for assurance engagements for the periods ending on or after 31 March 2024.

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Relaxation from compliance with certain provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations)

Regulation 36(1)(b) of the LODR Regulations requires companies to send the hard copy of their annual report containing salient features of all the documents prescribed in Section 136 of the Companies Act, 2013⁶ to the shareholders who have not registered their email addresses with the company.

MCA vide circular dated 5 May 2022 had extended the relaxations from dispatching of physical copies of financial statements for the year 2022 (i.e., till 31 December 2022). In view of the same, SEBI also received multiple representations from the listed companies, seeking dispensation from the requirements of sending hard copy of the annual reports to their shareholders. Accordingly, SEBI, vide a circular dated 13 May 2022 has decided to provide relaxation from regulation 36(1)(b) of the LODR Regulations upto **31 December 2022**.

Further, the notice of the Annual General Meeting published by an advertisement in terms of Regulation 47 of the LODR Regulations, should contain a link to the annual report, so as to enable shareholders to have access to the full annual report. It has, however, been emphasised that in terms of Regulation 36(1)(c) of the LODR Regulations, listed entities would be required to send a hard copy of full annual report to those shareholders who request for the same.

The circular would come into effect on an immediate basis.

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

SEBI issues a consultation paper on introducing a framework for schemes of arrangement for entities that have listed only debt securities / Non-Convertible Redeemable Preference Shares (NCRPS)

Chapter XV of the Companies Act, 2013 deals with compromises, arrangements and amalgamations by any entity, desirous of entering into a compromise or arrangement with its members or creditors. Presently, for schemes of arrangement involving merger, amalgamation, etc., certain safeguards are available in the LODR Regulations to protect the interest of investors of the entities with listed specified securities (equity shares and convertible securities).

While such stipulations exist for entities with listed specified securities, no separate framework is prescribed for entities with only listed debt securities/NCRPS under SEBI (Issue and listing of Non-Convertible Securities) Regulations, 2021 (NCS Regulations).

Therefore, the consultation paper proposes to add specific provision in the LODR Regulations, to provide for schemes of arrangement under Chapter XV of the Companies Act, 2013 for entities that have listed only debt securities/NCRPS.



⁶ As per Section 136 of the Companies Act, 2013, a copy of the financial statement, including consolidated financial statements, if any, auditor's report and every other document required by law to be annexed or attached to the financial statements, which are to be laid before a company in its general meeting, shall be sent to every member of the company, to every trustee for the debenture-holder of any debenture issued by the company, and to all persons other than such member or trustee, being the person so entitled, not less than twenty-one days before the date of the meeting.

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The proposed regulatory framework would be on the same lines as for entities that have listed specified securities. As per the proposed framework, the listed entity would file a draft scheme of arrangement with stock exchange(s) for obtaining a No-Objection Letter (NOL). The stock exchange(s) would in turn, forward the draft scheme received from the listed entity along with NOL to SEBI. SEBI may seek clarifications on the draft scheme from the listed entity, stock exchanges and may seek an opinion from certain experts (including practicing company secretaries, practicing chartered accountants, etc.). The SEBI would then provide comments on the draft scheme to the stock exchange(s), pursuant to which the stock exchange(s) would issue the NOL to the listed entity, incorporating the comments received from SEBI.

The validity of the NOL would be six months from the date of issuance. Upon receipt of NOL from the stock exchange(s), the listed entity must ensure that the same is submitted immediately, but not later than two working days from such receipt to the Court or Tribunal to avoid any delay.

SEBI has proposed the detailed timelines for each step forming part of the filing and processing of schemes of arrangement for entities that are only debt listed and have raised money by way of:

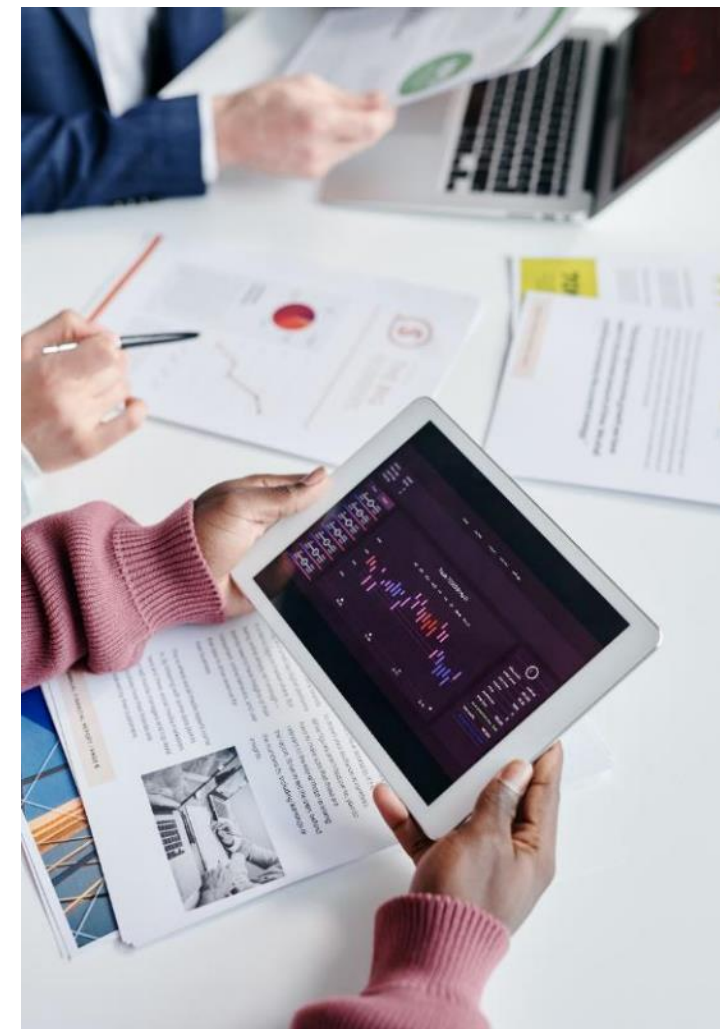
- Public issue of debt securities/NCRPS
- Private placement of debt securities/NCRPS

The consultation paper would be open for comments up to 19 June 2022.

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

Action point for auditors

As per the proposal, stock exchange(s) after receiving the draft scheme from a listed entity might seek any clarification or opinion, if required from the statutory auditors and registered valuers of the entity. Auditors are thus expected to maintain sufficient documentation and have appropriate understanding of the relevant matters contained in the draft scheme filed with the stock exchange(s).



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SEBI issues a revised format of a security cover certificate, monitoring and revision in timelines

In terms of regulation 54, read with regulation 56(1)(d) of the LODR Regulations, listed entities are required to disclose the security cover to the stock exchange(s) and the debenture trustee(s), in the prescribed format.

Accordingly, SEBI, vide circular dated 12 November 2020 had specified the format of a security cover certificate, periodical monitoring and disclosures by debenture trustee(s).

However, SEBI received various representations from the issuers, the debenture trustee(s) as well as other market participants on issues related to operational challenges faced in complying with certain provisions of the circulars. Therefore, SEBI, vide notifications dated 11 April 2022, had amended the SEBI (Debenture Trustees) Regulations, 1993, LODR Regulations and NCS Regulations.

In line with the recent amendments, SEBI, vide a circular dated 19 May 2022 has issued the following amendments:

- **Revised format of a security cover certificate:** A revised format of a security cover certificate has been prescribed⁷, which provides a holistic picture of all the borrowings and the status of encumbrance on the assets of a listed entity. SEBI has also provided the following:
 - The manner in which the security cover certificate will be **prepared by a listed entity**. This *inter alia* includes certification of the book values of assets included in the

security cover certificate by the statutory auditor on a quarterly basis, separate certificates to be issued to each debenture trustee, etc.

- The manner in which security cover certificate will be **prepared and submitted by the debenture trustees**. This includes a requirement to carry out a due diligence by the debenture trustee or its appointed agencies.
- Formulas have been prescribed to **standardise the calculation of the security cover ratios** as mentioned in the security cover certificates.
- Certificates certified by the statutory auditor of the issuer company and by the empaneled independent chartered accountants of the debenture trustee should have the **Unique Document Identification Number (UDIN)** generated in the manner prescribed by the relevant regulatory authority.
- Debenture trustees to take corrective action where **qualifications/disclaimers** affect the rights of debenture holders.
- **Monitoring of covenants:** On a quarterly basis, listed entities are required to furnish the compliance status with respect to financial covenants of the listed debt securities certified by the statutory auditor of the listed entity to debenture trustees. Debenture trustees are required to monitor the breach of covenants by following the prescribed procedures.
- **Revision in timelines for submission of documents:** SEBI has revised the timelines for listed entities for submission of security cover certificate, valuation report and quarterly compliance report and regulatory compliance by debenture trustees.



⁷ Accordingly, the security cover format prescribed in the November 2020 circular has been rescinded

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- **Recovery Expense Fund and other disclosures:** Debenture trustees to monitor Recovery Expense Fund and other disclosures.

The provisions of the circular with respect to 'Revised format of the security cover' and 'Monitoring of covenants' would be applicable with effect from 1 October 2022. Other provisions of the circular would come into effect with immediate effect.

To access the text of the circular dated 12 November 2020, please [click here](#).

To access the text of the circular dated 19 May 2022, please [click here](#).

Action point for auditors

As per the revised norms, statutory auditors of the listed entities are required to certify the book values of the assets provided in the security cover certificate prepared by the entity on a quarterly basis. Statutory auditors are also required to certify compliance status with respect to financial covenants of the listed debt securities. Additionally, the debenture trustees will have an empaneled list of chartered accountants who would certify the market value of assets held as security cover by the debenture trustee on a quarterly basis. Thus, auditors and empaneled individual practitioners should take note of the amendments notified in the specified circular and also communicate these new developments with the companies.

Updates from RBI

Reporting of reverse repos with RBI on bank's balance sheet

Background

Before the clarifications issued by RBI, the RBI Master Direction on Financial Statements-Presentation and Disclosures (Master Directions) did not provide any specific guidance regarding the presentation requirements for disclosure of reverse repos of a bank with:

- RBI (including those under Liquidity Adjustment Facility) and
- Other banks and institutions having original tenors more than 14 days.

New development

In view of this, RBI, vide a notification dated 19 May 2022, has prescribed the disclosures to be provided in the balance sheet of banks, in order to bring more clarity on the presentation of reverse repo.

As per the revised requirements:

- All type of reverse repos with RBI including those under Liquidity Adjustment Facility should be presented under sub-item (ii) 'In Other Accounts' of item (II) 'Balances with Reserve Bank of India' under Schedule 6 'Cash and balances with Reserve Bank of India'.



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- ii. Reverse repos with banks and other institutions having original tenors up to and inclusive of 14 days should be classified under item (ii) 'Money at call and short notice' under Schedule 7 'Balances with banks and money at call and short notice'
- iii. Reverse repos with banks and other institutions having original tenors more than 14 days should be classified under Schedule 9 – 'Advances' under the following heads:
 - A. (ii) 'Cash credits, overdrafts and loans repayable on demand'
 - B. (i) 'Secured by tangible assets'
 - C. (I)(iii) Banks or (iv) 'Others' (as the case may be)

The Master Directions have been updated on the basis of the above revised requirements.

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

To access the text of the revised Master Directions, please [click here](#).

Action point for auditors

Auditors should refer the text of the updated master directions and actively engage with the banking companies to understand the new requirements and the revised disclosures required in the financial statements.



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Updates from IAASB

IAASB issues new non-authoritative guidance on fraud in an audit of financial statements

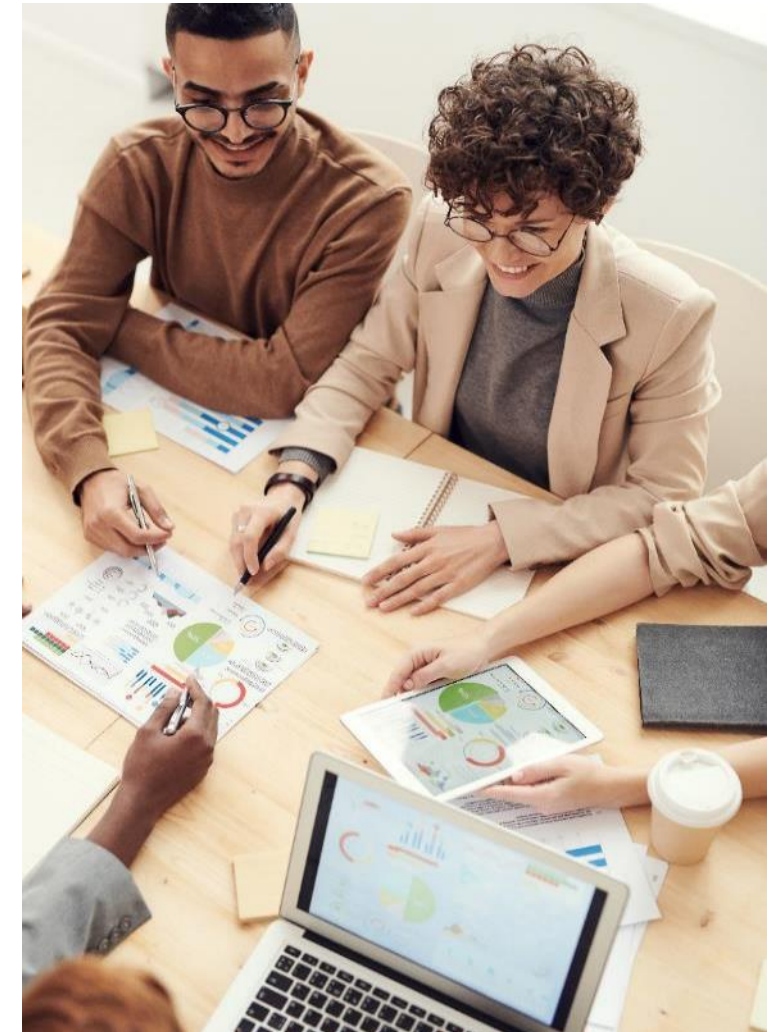
The International Auditing and Assurance Standards Board (IAASB) has released non-authoritative guidance on fraud in an audit of financial statements, *The Fraud Lens – Interactions Between ISA 240 and Other ISAs*. The guidance has been developed by the Fraud Task Force of the IAASB to explain the relationship between, and linkage of, International Standards on Auditing (ISA) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, and other ISAs when conducting an audit.

Since IAASB recently approved a project proposal to revise ISA 240 in order to enhance or clarify an auditor's responsibilities with respect to fraud in an audit of financial statements, the guidance illustrates the application of ISA 240 in conjunction with the other ISAs such as ISA 200⁸, 315⁹, 330¹⁰, 550¹¹ and so on.

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

Action points for auditors

A clear understanding of the relationship between, and linkage of ISA 240 and the other ISAs would assist the auditors to apply a fraud lens when planning and performing audit procedures, thus ensure fraud-related audit procedures are embedded throughout the audit process. This would ultimately help the auditors in fulfilling their responsibilities under ISA 240 and other ISAs effectively



⁸ Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing

⁹ Identifying and Assessing the Risks of Material Misstatement

¹⁰ The Auditor's Responses to Assessed Risks

¹¹ Related Parties

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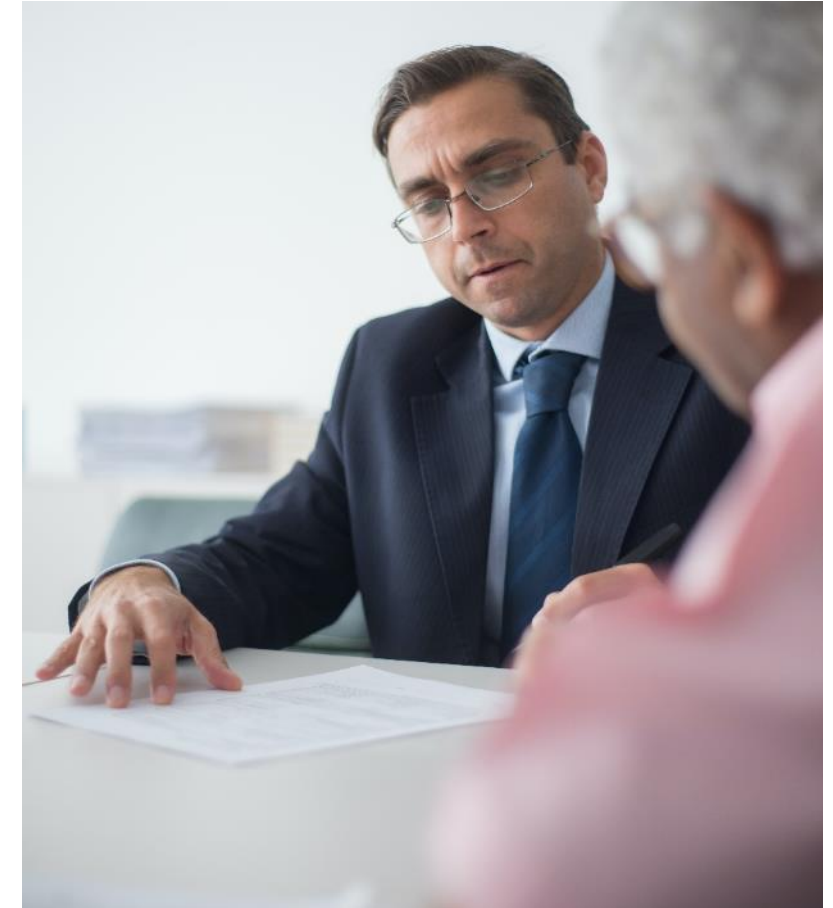
IAASB issues new fact sheet to address engagement team definition

In December 2020, IAASB had released ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*. One of the key changes introduced in ISA 220 (Revised) related to the definition of Engagement Team (ET), so as to improve quality management at the overall firm and engagement level. The revised definition of ET in ISA 220 (Revised) is as follows:

All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor's external expert¹² and internal auditors who provide direct assistance on an engagement¹³.

This revision ensured that all individuals, regardless of their location or employment status, who have performed audit procedures on the engagement, would be considered as part of the ET.

To help users of its standards adapt to the clarified and updated definition of ET, IAASB has released a new fact sheet. The new fact sheet addresses the clarified definition and its possible impacts, including recognition of the fact that ETs may be organised in a variety of ways, including across different locations or by the activity they are performing. The fact sheet also includes a diagram that walks users through the specific inclusions and exclusions from the definition, as is given in the next page.



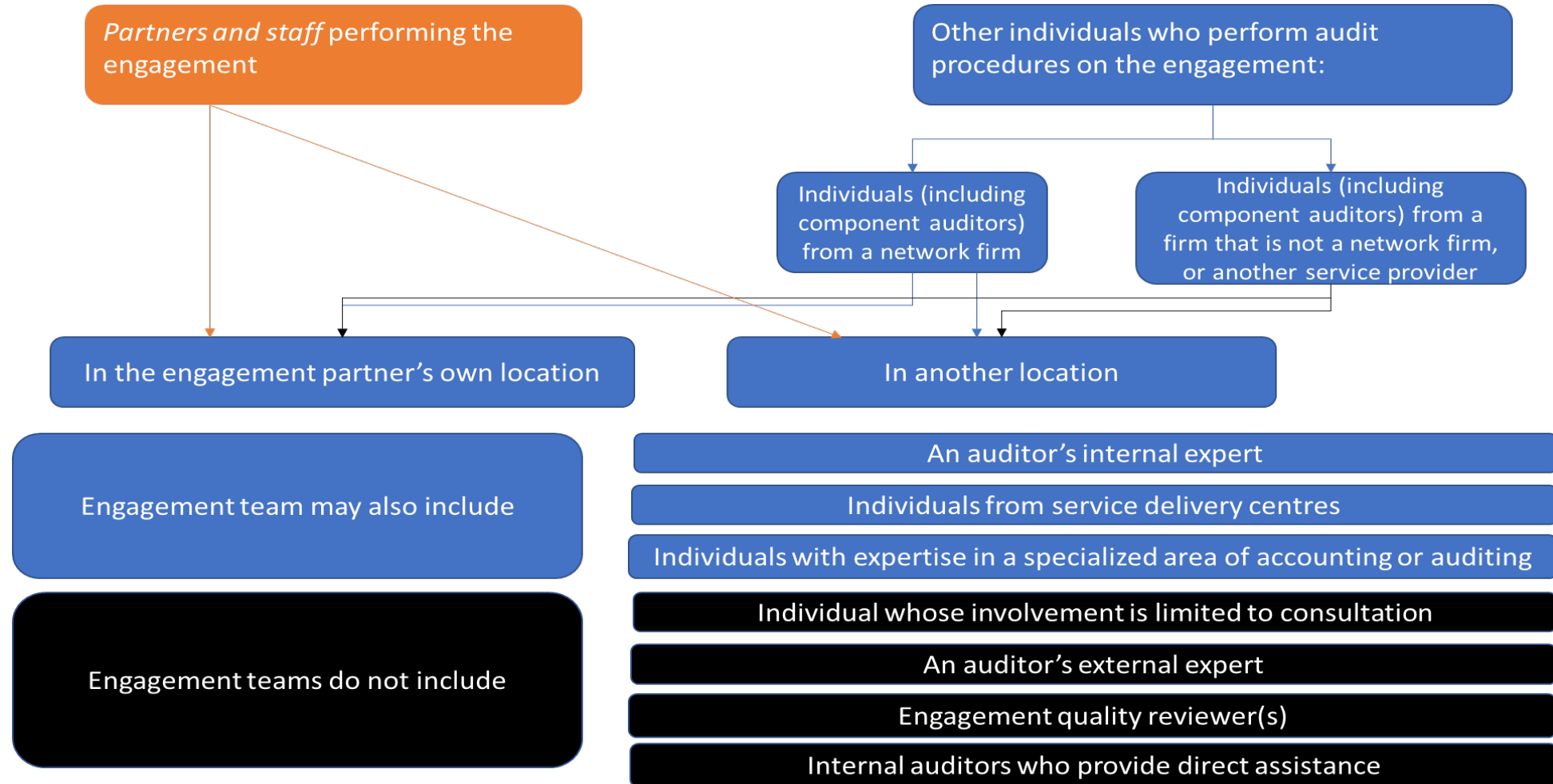
¹² ISA 620, *Using the Work of an Auditor's Expert*, paragraph 6(a), defines the term "auditor's expert".

¹³ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

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(Source: ISA 220 (Revised), Definition of Engagement Team, fact sheet issued by IAASB, May 2022)

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Action points for auditors

- In coordination with the IAASB, the International Ethics Standard Board for Accountants (IESBA) is undertaking a project to align the definition of ET in the Code with the revised definitions of the same term in ISA 220 (Revised) and ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*. The project is also addressing the implications of the change to the ET definition from an independence perspective. Thus, the auditors should consider the impact of the revised definition in conjunction with the IESBA proposals with regard to their independence requirements for audits to be conducted under ISAs. This might result in deployment of updated policies and procedures, awareness raising and training initiatives. Thus, auditors should evaluate the impact of the proposed changes on their overall policy framework.
- The definition of an engagement team under SA 220, *Quality Control for an Audit of Financial Statements* is different as compared to the definition of engagement team as defined in ISA 220. As per SA 220, engagement team includes *all personnel¹⁴ performing an engagement, including any experts contracted by the firm in connection with that engagement. The term "engagement team" excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of SA 610 (Revised).*

Auditors performing engagements in accordance with ISAs, or auditors acting as component auditors, in a group audit where the principal auditor is based in a country outside India and is required to comply with provisions of ISA 220 should take note of these amendments and comply with relevant independence requirements.



¹⁴ Personnel is further defined as 'partners and staff'.



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