

Bombay Chartered Accountants Society's comments to the National Financial Reporting Authority ('NFRA') on the proposed contents of the Annual Transparency Report ('ATR') of the auditor/audit firm of NFRA-regulated public interest entities.

February 24, 2023

To

The Secretary,

Government of India,

National Financial Reporting Authority,

New Delhi.

We value the opportunity to present our comments on NFRA's public consultation on the proposed contents of the ATR of the auditor/audit firm of NFRA-regulated public interest entities. Our comments are as under, and we hope the NFRA will find our comments constructive.

Primarily, we believe that such pathbreaking measure should not be introduced without a detailed deliberation with other regulators such as Institute of Chartered Accountants of India ('ICAI'), Securities and Exchange Board of India ('SEBI') and other stakeholders/contributors. Accordingly, as a preamble we would suggest a sub-group be formed of interested stakeholders with diverse representation to funnel the thought-process in a collaborative manner. At the least we would be glad to get an opportunity to meet you in-person and share our suggestions in this regard. We look forward to this opportunity for a personal representation.

I. WHY IS REPORT EVEN NECESSARY?

1. **NFRA does not specify** WHY the report is necessary in the Indian Context. It would be an expectation from a body which needs to display transparency to start with, about **why this information is necessary in public domain. Auditors are certainly public accountants, but they are not public entities.**
2. NFRA has seemingly justified, the idea by giving examples from other countries. However, many countries don't have this practice. For example – **USA**, which has the largest capital market, **doesn't require ATR or similar**, but only an annual return to be filed with the PCAOB (NFRA equivalent in USA). **UK**, which the NFRA seems to have relied upon, **doesn't require details of remuneration of partners and senior staff** and pricing amongst network firms. It would be important for NFRA to provide basis on which it is contemplating a ATR framework. A cause-effect study, cost-benefit study and an Indian contextual study would be a prime pre-requisite.
3. It appears that NFRA has loosely applied reports from several jurisdictions and extrapolated those practices. **NFRA** seems to have chosen a few reports from other countries but **added items that are not there in those countries**. It is not foresighted for a large country like India to ape so-called 'best practices' from other countries 'selectively' and then 'add our own toppings'. In the process we run a real risk of losing objectivity and thereto succumbing to a sub-optimal, confused and controlled ecosystem.

II. ATR Prevalence:

1. Just as UK FRC promotes ATR, the US doesn't have this report. **There are equal or more number of countries that do not have ATR equivalent.** These countries do not have reporting such as NFRA Form 2. US requires a report to PCAOB (Form 2), and that carries much of the information sought to be placed in public by ATR. Form 2 of PCAOB are available in public domain.

Without prejudice to the above, we offer our clause-wise comments for your kind perusal:

III. CLAUSEWISE COMMENTS:

Heading	Sr. No. of the form	Particulars	BCAS comments
Applicability	1	The Statutory Auditor (Audit Firm or Individual Auditor) of Public Interest Entities within the ambit of National Financial Reporting Authority (NFRA) shall prepare and publish an Annual Transparency Report for every financial year.	<ol style="list-style-type: none">1. Instead of publishing the report on the website of the Statutory Auditor, it should be made mandatory to present the requisite information mandatorily before the Audit Committee of every Board if the auditor is covered in the criteria prescribed by NFRA.2. This would ensure that the audit committee makes an informed decision considering facts on record while having discretion to decide what weightage they would give to various factors mentioned in the ATR.
Applicability	2	Financial Year means the period ending on the 31st day of March every year.	No comments
Applicability	3	This requirement is applicable to Statutory Auditors of Top 1000 Listed Companies (by market capitalisation) with effect from the financial year ending on 31 March 2023. Market Capitalisation for this purpose shall be based on the average market capitalisation published by the Association of Mutual Funds (AMFI) for the six months period of June - December of the immediately preceding financial year.	No comments

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Publication, Approval and Filing of Annual Transparency Report	4	The Annual Transparency Report shall be published on the website of the Statutory Auditor within three months from the end of the relevant financial year for which the report is required.	1. The ATR should be shared with the respective audit committee on a request basis only and not published on the website of the Statutory Auditor. Publishing the ATR on the website can have unintended consequences with sensitive data being available in public domain.
Publication, Approval and Filing of Annual Transparency Report	5	The Annual Transparency Report shall be approved by the persons required to approve the financial statements of the Statutory Auditor as per the law governing the Statutory Auditor or its governing body, if any. The Statutory Auditor shall file a copy of the Annual Transparency Report with NFRA before it is published on its website	1. Refer our comments in Sr.no. 1 above in respect of furnishing the information to audit committee.
Contents of the Annual Transparency Report	6	A description of the Statutory Auditor's 6.1 Legal Structure 6.2 Ownership 6.3 Management Structure 6.4 Governance Structure	<p>Suggested additions:</p> <ol style="list-style-type: none"> 1. If any firm is part of any network, the ownership of the network including the details of ultimate beneficial ownership, domestic and international should also be included which will ensure enhanced transparency. 2. The Statutory Auditor operates in compliance with applicable requirements of laws in India including FEMA, ICAI and SEBI. <p>Clarification required:</p> <ol style="list-style-type: none"> 3. The NFRA may consider defining\provide guidance on these terms rather than leaving them open for interpretation.

Heading	Sr. No. of the form	Particulars	BCAS comments
Contents of the Annual Transparency Report	7	<p>Details about the Network, if the Statutory Auditor is a member of any Network in India or Overseas:</p> <p>7.1 Description of the legal, operating structure and domicile of the Network</p> <p>7.2 Whether the Network is subject to registration with and oversight of any professional accountancy body or independent regulator, in India or overseas.</p> <p>7.3 Nature of the activities and services rendered by the Network</p> <p>7.4 Name, Domicile and legal and operating structure of the other Members of the Network operating in India and overseas and nature of their activities</p> <p>7.5 Total Income of the Network and the source of this income</p>	<p>Suggested additions:</p> <ol style="list-style-type: none"> 1. In case of a Statutory Auditor associated with an international network, details of fine, damages and cross-regulatory examinations being conducted by any other accounting regulatory body in any other country where the firm or its partner operates should be added. 2. Whether the Statutory Auditor shares client confidential data with any of the network members? 3. We support the qualitative information sought in respect of Network and Network/alliances and/or collaborations in India as per sr. no. 10. 4. Whether any of the network firms operate in India? Or provide, has provided services to audit clients of the Statutory Auditor? 5. Whether any network firms undertake activities in India that are not in compliance with rules and codes applicable to the Statutory Auditor? <p>Clarifications required:</p> <ol style="list-style-type: none"> 6. Define/clarify Network. Presently, ICAI has a definition as also IFAC.
Contents of the Annual Transparency Report	8	<p>Details about the Working Alliances, Collaborations, Licensing Arrangements, Knowledge/Resource Sharing Arrangements, if any, of the Statutory Auditor with any third party or organization, in India or International:</p>	<p>Clarifications required:</p> <ol style="list-style-type: none"> 1. Distinction to be carved out between 'network of controlled firms' and 'referral network'.

Heading	Sr. No. of the form	Particulars	BCAS comments
		<p>8.1 Name and Domicile of the entity with whom the Statutory Auditor has any Working Alliances, Collaborations, Licensing Arrangements, Knowledge/Resource Sharing Arrangements</p> <p>8.2 Nature and Details of the Alliances, Collaborations and other Arrangements</p>	

Heading	Sr. No. of the form	Particulars	BCAS comments
Contents of the Annual Transparency Report	9	<p>Details and Descriptions of the Statutory Auditor's Policy and Procedures in respect of the following areas. (Qualitative Commentary in this section should be supplemented by quantitative metrics)</p> <p>9.1 Overall Internal Quality Control System</p> <p>9.2 Monitoring and Ensuring Compliance with the Independence requirements for Independent Auditors</p> <p>9.3 Acceptance and Continuation of Audit Clients</p> <p>9.4 Audit Quality Control Mechanisms and Structures and its operating effectiveness</p> <p>9.5 Brief description of Audit Methodology</p> <p>9.6 Continuing Professional and Technical Education for all professional staff</p> <p>9.7 Remuneration and Compensation of its Partners and Senior Staff</p> <p>9.8 Transaction Pricing for Rendering Services to or Receiving Services among members of its network entities.</p> <p>9.9 Date of the most recent internal review of its quality control mechanisms including compliance with Independence Requirements, results of this review and remedial actions to address the weaknesses and non-compliances, identified if any</p> <p>9.10 Date of the most recent review of quality control system review by the NFRA</p>	<p>Suggested additions</p> <ol style="list-style-type: none"> 1. Compensation policy of the firm. Whether the audit partner\audit firm has any incentive linked to the provision of non-audit services by the Statutory Auditor\network firm? 2. ATR should include audit partner's professional qualification and experience. 3. The number of audit resignation and reasons for resignations for last 5 years. 4. Include section on professional mis-conduct including instances of disciplinary action taken against the auditor for last 5 years by any regulatory including global accounting regulators. 5. Whether the firm or any of its affiliates or the network firms are engaged in organizing awards /sponsoring corporates events. 6. There should be consistent format of ATR that should be explicitly followed by all Statutory Auditors. Statutory Auditors should not use the ATR as a publicity tool. The references of sample ATRs shared in the NFRA request for consultation (with hyper link in footnotes) depicts the marketing and promotional pages and does not give comparable information. 7. The Statutory Auditor should disclose detail of related party transactions and transactions with network firms. 8. Whether storage of audit files and confidential client data is controlled entirely by the Statutory Auditor? Whether the Statutory Auditor complies with data localization norms in relation to the storage of audit documentation in India? <p>Suggested deletions:</p>

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			<p>9. Quantitative information as per sr.no. 9.7 should be removed in respect of senior staff. Disclosure may be sought by providing range within which remuneration/compensation falls.</p>

Heading	Sr. No. of the form	Particulars	BCAS comments
Contents of the Annual Transparency Report	10	Name and identification number of the entities that are within the purview of NFRA and are audited by the Statutory Auditor and/or other members of its network, alliances and/or collaborations in India Sl.# Name of Entity Identification Number (e.g. Company Identification Number)	<ol style="list-style-type: none"> 1. Disclosures are in direct conflict with ICAI Code of Ethics. 2. Client details of the firm are already given to NFRA in Form NFRA2. 3. There will be duplication of information in case each of the firm part of network/alliance/collaboration also publishes the same information
Contents of the Annual Transparency Report	11	Information about the total revenue of the Statutory Auditor and its network firms (for current year and previous year)	<p>Suggested changes:</p> <ol style="list-style-type: none"> 1. We suggest that this information should be sought only in respect of network in India. 2. Without prejudice to the above, the break-up of revenue for the network firms in India and Outside India should be given separately.

We would like to take this opportunity to thank you for extending the timeframe for submission of our comments. We remain available to discuss the above suggestions at a date and time as convenient to you.

With warm regards,



Mihir Sheth
President

Bombay Chartered Accountants' Society

About BCAS:

BCAS is a uniquely positioned pan-India voluntary organization established in 1949, powered by the membership support of more than 9,000 Chartered Accountant members across 400+ cities\towns of India and is today a principle-centered, learning-oriented organization promoting quality service, networking and excellence in the profession of Chartered Accountancy by acting as a catalyst for bringing out better and more effective policies for cleaner and more efficient administration and governance. More at <http://bcasonline.org>.