



Bombay Chartered Accountants' Society
Harnessing Talent and Providing Quality Service

7, Jolly Bhavan 2, Ground Floor, New Marine Lines, Mumbai - 400 020 • Tel. : + 91 22 6137 7600
Website : www.bcasonline.org • E-mail : bca@bcasonline.org



President
Manish Sampat
president@bcasonline.org
Vice President
Suhas Paranjpe
vp@bcasonline.org
Hon. Jt. Secretaries
Mihir Sheth
js@bcasonline.org
Samir Kapadia
js1@bcasonline.org
Hon. Treasurer
Abhay Mehta
treasurer@bcasonline.org

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The Ministry of Corporate Affairs

Sub.: - Representation on MCA Consultation paper

Bombay Chartered Accountants' Society welcomes this move of the Government to refine the provisions of the Companies Act, 2013, to provide greater Independence and Accountability on the shoulders of the Auditors.

We are happy to present a 13 points representation in the format as suggested by you and hope that the Government of India through the Ministry of Corporate Affairs shall come out with the suitable amendments in the Companies Act, 2013, so that an Auditor can discharge his/her responsibilities freely with integrity and in an objective manner. Being free from any influence while performing the audit is the essence of Auditors' Independence for the Auditors.

To eliminate all the self-interest threats, we at Bombay Chartered Accountants' Society have prepared the attached points for your kind consideration.

If given a chance for meeting in person an opportunity to explain the difficulties of the Auditors, we shall be happy to do the same as per your convenience.

Thanking You

Yours' Sincerely

CA Manish Sampat
President – BCAS

CA Himanshu Kishnadwala
Chairman – Accounting & Auditing Committee of BCAS

Contact Details

Name: CA Manish Sampat – President

Address: 7, Jolly Bhawan No. 2, New Marine Lines, Sir V P Thackersey Road, Churchgate, Mumbai – 400020

Mobile: - +91 9820010064

Representation on the Consultation Paper to examine the existing provisions of law and make suitable amendments therein to enhance audit independence and accountability

Sr. No.	Para Number	Suggestions from BCAS	Justification
1	1.3	<p>Section 143(3)(g) of the Companies Act, 2013 (“the 2013 Act”) along with revised Code of Ethics 2019 of the Institute of Chartered Accountants of India (“ICAI”) already prescribes a cap on per partner limit on audits of companies. This is reasonable and does not warrant any change.</p> <p>Further, there is no need for fixing a ceiling on number of partners which an audit firm can have as such reduction of partners can lead to quality of audit being affected. Further, the limits for number of partners are already prescribed in the Indian Partnership Act, 1932 / Limited Liability Partnership Act, 2008.</p> <p>There does not appear to be any need for creation and maintenance of panel of Auditors for Non-Government Companies.</p> <p>Technological advancement and reduction in the pricing of audit software and tools has reduced the barriers between Big 4 and local Indian Audit Firms.</p> <p>Further, involvement of local audit firms in joint audits of Public Interest Entities (PIEs) would help these firms in catching up with Big 4.</p>	<p>Globally the appointment / removal of Auditors are left to the wisdom of the Management / Shareholders and there is no precedence available for such appointments by Empanelment Agencies.</p> <p>Further, if there is a panel from which appointments are done, there is a possibility that the audits may be allotted to an audit firm which may be lacking expertise in the industry to which the company belongs or the size of the company. Further, there are enough checks in listed companies through SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015 (“the Listing Regulations”) and 2013 Act for the appointment of auditors.</p> <p>Other professions like legal or medical profession do not have any restrictions on number of cases handled. Auditors cannot be singled out for such limits.</p> <p>Rather than curtailing or fixing the number of audits which a partner or firm can conduct, focus and thrust should be more on quality of audit. Further, limiting the number of partners would certainly adversely impact the quality of the audits and would result in concentration of audits amongst few firms.</p> <p>In fact, to provide quality audit service with proper processes and audit tools, the firm size should have a minimum size and encouragement should be given for attaining the required size (with strict control on quality).</p>
2	2.4	<p>There is no need for enhancing the scope of non-audit services.</p>	<ol style="list-style-type: none"> 1. Section 144 of 2013 Act, prohibits a set of non-audit services. 2. The ICAI Code of Ethics 2019 already has checks and balances which places restrictions on several non audit services

			<p>and also the extent to which a firm can take up non-audit services for a client.</p> <p>3. Audit Committees are required to specifically approve any permitted non-audit services work assigned to an auditor.</p>
3	3.4	<p>The practice of Joint Audits is already operational in audits of Banks, Insurance companies and PSUs. The same can be extended to other Public Interest Entities (PIEs) beyond a particular threshold based on net worth, turnover, etc. The threshold may be finalized in consultation with ICAI.</p>	<p>Joint Audits will also enable the small/ medium local Audit Firms to upgrade their skill set and serve the purpose of developing Indian professionals for 'Skill India' as targeted by the Government and give a fillip to the 'Make in India' initiative in the service sector. This will also make Indian Audit Firms future ready to also serve the International Diaspora of auditing. It should also be provided that the total fees are shared EQUALLY between all Joint Auditors</p>
4	4.3	<p>There is enough and detailed guidance given under SA 600 which allows Holding Company's Auditors to perform procedures to draw conclusions on the findings of the component Auditors. The 2013 Act also has provisions enabling the auditors of holding company to have access to subsidiary's records, if so warranted.</p>	<p>If any change is made in this, it will only benefit the bigger firms who may insist that audits for the entire group be only carried by the same firm.</p>
5	5.2	<p>There is no need for creation and maintenance of panel of Auditors for Non-Government Companies.</p>	<p>Globally the appointment / removal of Auditors are left to the wisdom of the Management / Shareholders and there is no precedence available for such appointments by Empanelment Agencies.</p> <p>Further, if there is a panel from which appointments are done, there is a possibility that the audits may be allotted to an audit firm which may be lacking expertise in the industry to which the company belongs or auditing the size of the company. Further, there are enough checks in listed companies through SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015 ("the Listing Regulations") and 2013 Act for the appointment of auditors.</p>
6	6.2	<p>The existing practice of filing ADT-1 with the required attachments (e.g. resolution appointing the auditors, auditors' declarations about their eligibility etc.) can be continued as filing of engagement letters would amount to too much</p>	<p>The guidelines regarding format and contents of the Engagement Letters are squarely covered under "SA-210-Agreeing the terms of Audit Engagement"</p>

		<p>policing. The engagement letters are in the nature of contractual agreements between the Auditor and the Auditee for which the Standards of auditing also give sufficient guidance and cannot be made public. The same are always available on inspection by NFRA, PRB, QRB.</p> <p>However, we suggest that the practice of placing such letters before the Audit Committee / Board of Directors (as applicable) may be introduced in this regard.</p>	
7	7.4	<p>There does not appear to be any need for further subjecting the big listed companies to Concurrent Audit as these Companies are already subject to Internal Audit besides Statutory Audit.</p>	<ol style="list-style-type: none"> 1. As per RBI directives, Banks conduct independent audit of the borrowers. Further, banks also tend to obtain utilization certificates from the auditors / Chartered Accountants. 2. Audit Committees in case of listed Companies are already tasked with the responsibility of overseeing internal audit and its effectiveness, review of borrowings / loans and investments etc. among other matters as mandated under the Act and under Listing Regulations”). 3. The scope of the Internal audit is decided by the Management and approved by the Audit Committee in case of listed Companies. Generally such scope <i>inter alia</i> includes review of borrowings and its utilization. It can be provided that such scope mandatorily includes review of utilization of borrowings.
8	8.3	<p>The existing ceilings mandated under Section 143 of the 2013 Act are reasonable and there is no need for curtailing / reducing the number of audits per Partner or Audit firm. Further, there is no need to reduce or fixing the number of partners in the audit firm which are governed by Partnership Act / Limited Liability Partnership Act which already prescribes the limit on number of partners.</p>	<p>Rather than curtailing or fixing the number of audits which a partner or firm can conduct, focus and thrust should be more on quality of audit. Further, limiting the number of partners would adversely impact the quality of the audits and would result in concentration of audits amongst few firms.</p>
9	9.4	<p>There is no need for mandating any additional disclosures for probability of default in the Auditors report.</p>	<p>Probability of default (PD) describes the likelihood of a default over a particular time horizon and provides an estimate of the likelihood that a borrower will be unable to meet its debt obligation.</p>

			Since Statutory Audit envisages examination of books of accounts and records on historical information, they are not equipped.
10	10.2	No, this would be too much of a burden without any commensurate benefit. In any case, SA 600 procedures do take care of such reporting.	Listed companies are already required to publish Standalone as well as Consolidated Financials every quarter. For this they have to include at least 90% of the values of the subsidiaries to be consolidated. For this purpose the Auditor of the Holding Company, already takes on record the Limited Review Financials from the Component Auditors.
11	11.4	It is a welcome thought to have a quality index – CAG already has quantitative parameters for the same. Though there could be lot of subjectivity involved, ICAI can develop and maintain such Composite Audit Quality Index. Inputs for the same can be drawn from reviews done by NFRA, PRB, FRRB, etc.	Presently, CAG / RBI / IRDA maintain the panel of auditors. Further, these panels have quantitative criterion which are considered while allotting the audits.
12	12.4	Inspection of audit engagements and audit firm level inspections are already in place through the process of Peer Review, Audit Quality Review and NFRA. There is no further need for separate inspection.	There are several checks and balances to check the quality of audit such as <ul style="list-style-type: none"> • Standards of Auditing (SAs) are to be followed as required by Section 143(10) of the Companies Act, 2013. • There is a Peer Review Process for monitoring audit quality. • For large companies there are Audit Quality Review wherein auditors' processes and working papers are also scrutinized by the Independent Quality Reviewer. • Now NFRA also has requisite powers to carry out the inspection of the audit process.
13	13.5	The present legal and regulatory requirements under the 2013 Act read with the relevant Standards on Auditing are robust enough to take care of situations arising out of resignations of Auditors. ICAI and SEBI have already laid down several restrictions and procedures for resignation of auditors.	ICAI restrictions are also applicable even to non PIEs and are sufficient to govern resignations.