



BOMBAY CHARTERED ACCOUNTANTS' SOCIETY

Dr. Ajay Bhushan Pandey
Chairperson
National Financial Reporting Authority (NFRA)
I-8-20, Kasturba Gandhi Marg, New Delhi - 110 001

Respected Chairperson Dr. Ajay Bhushan Pandeyji,

We on behalf of Bombay Chartered Accountants' Society ("BCAS"), take this opportunity to convey our gratitude for providing our Organisation, an opportunity to present before your honor and your team, our views and comments on Proposed SA 600 (Revised)–Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors).

We are enclosing herewith following:

1. Our Comments/Suggested Alternatives on the five questions forming part of the Proposed SA 600 (Revised) wherein views/specific comments are sought for from stakeholders.
2. Our Comments on the overall draft of the Proposed SA 600 (Revised).

We are of the view that the consultative approach to the proposed revisions provides stakeholders an opportunity to bring forth the practical challenges as well as enables them to gear up for equipping themselves for the upcoming changes.

We at BCAS always strive to provide constructive suggestions which in the long run would be for the benefit of the profession as well as the regulators who regulate the business and profession.

About BCAS :

The Bombay Chartered Accountants Society (BCAS) is the oldest voluntary association of Chartered Accountants, established 6 days after the establishment of ICAI. BCAS was established with the objective of knowledge sharing and enhancing the skills of CA members to supplement the objective of ICAI.

BCAS is a principle-centered and learning-oriented organisation promoting quality service and excellence in the profession of Chartered Accountancy. The organisation is a catalyst to bring out better and more effective Government policies & laws in order to have clean & efficient administration and governance.

We hope that our comments and suggested alternatives would add value to the consultative approach and be of assistance in finalizing SA 600 (Revised).

Thanks and Regards,

For Bombay Chartered Accountants' Society,

CA Anand Bathiya
President

CA Abhay Mehta
Chairman
Accounting & Auditing Committee

**Bombay Chartered Accountants' Society's Comments on Proposed SA
600 (Revised) -Special Considerations - Audits of Group Financial
Statements (Including the Work of Component Auditors)**

1. SA 600 (R) - Applicability to PIEs as per Rule 3 - Difficulties for other entities

NFRA has come out with the Exposure Draft (ED) on SA-600 (Revised), Special Considerations- Audits Of Group Financial Statements (Including The Work Of Component Auditors) to align with ISA-600. As per the Note on ED issued by NFRA, the revisions being proposed are to be applied to audits of Public Interest Entities (PIEs) that fall under Rule 3 of NFRA Rules 2018, except Public Sector Enterprises, Public Sector Banks, Public Sector Insurance Entities, and their respective branches. It is not clear whether the Revised Standard will apply to only PIEs or to all entities. If it is to apply only to PIEs, then will there be two sets of standards (Revised one for PIEs and existing one for other entities) for auditors to comply?

This may cause difficulties in RBI regulated as well as entities covered by CAG.

2. PIEs not defined:

As per the Note on ED issued by NFRA, the revisions being proposed are to be applied to audits of Public Interest Entities (PIEs) that fall under Rule 3 of NFRA Rules 2018, except Public Sector Enterprises, Public Sector Banks, Public Sector Insurance Entities, and their respective branches. However, PIEs have not been defined. It is suggested that PIEs should be clearly defined for the purpose of applicability of the Standard.

3. Quantitative Threshold needs to be set up for audit coverage of components:

So far as audit / limited review of the financial statements / financial information is concerned, for listed entities, SEBI LODR Guidelines, clearly provides quantitative threshold (80%) for mandatory coverage of components through audit / Limited review while reporting on consolidated financial statements by the Principal Auditor. However, there is no such threshold of coverage so far as non-listed entities are concerned which are

not within the purview of SEBI. The same leads to different / varied practices by the Company so far as auditing / review of components is concerned. It is imperative that some quantitative criteria / materiality threshold be specified for audit of the components.

Materiality threshold may be based on Turnover, Profit, Assets, Cash Flows and off balance sheet items. Standard should have quantitative materiality threshold (say 80%) on various parameters such as assets, revenue, profit, cash flows, off balance sheet items for coverage of components of Unlisted Companies but covered by NFRA.

4. Need for sufficient awareness and time frame for implementation of the proposed standard:

While making ISA600 applicable, IAASB had given sufficient time frame (3 years) before making it applicable. However, there is no such time frame indicated in the ED. It is suggested that sufficient awareness be created and training be imparted (maybe jointly with ICAI) which requires sometime to be given for implementation of the revised standard for its understanding, deliberation and effective implementation by the auditors based on the international practice and considering the widespread coverage.

5. Rotation of Auditors:

At present, different regulators such as the RBI, IRDA, MCA (through the Companies Act, 2013), mandate different time limit for rotation of auditors (viz. 3 years for Bank auditors, 5 years for Insurance Companies and 5 + 5 years for other companies). In order to comply with the requirements of the existing standard, the Auditors of the Parent entity is required to effectively engage with the auditors of the component entities. In cases involving parent auditor and component auditor having different timelines of rotation, there may be practical challenges in coordination and effective communication and implementation of the requirements of the standard. This is another reason for providing sufficient time frame for actual application as groups could have entities where parent and component may be covered under different rotation mandates under applicable regulations.

6. **Increased Costs and time requirements for conducting group audits:**

Adhering to the requirements of the revised Standard will result in increased costs and duplication of work (same work may be performed by the Component auditor and Principal Auditor). Additional burden of responsibility of the work done by component auditor is cast upon the group auditor which is bound to result in duplication of work where group auditor will want to revisit and perhaps re-audit the work done by the component auditor/s. On this count the SA needs to focus rather on improved collaboration, clarity in terms of responsibility if deemed necessary by NFRA including additional reporting to MCA in case of groups by component auditors etc.

Timelines for reporting in respect of listed companies is pretty stringent at present under the SEBI Guidelines. If the responsibility of the Principal auditor is extended based on the circular / proposed revision in the standard, it will be difficult to meet the deadline and therefore, deadlines for issue of audit report / Limited Review (LR) should be suitably extended accordingly. In this regard, for the benefit of stakeholders, Management may be allowed to declare unaudited annual results considering that quarterly results including consolidated results are already available for 3 quarters.

7. **Whether SA 600 (Revised) indicate that Component Auditors are not responsible though the fraud has happened at a component level?**

Combined reading of ED and Circular indicates that Principal auditors will still be responsible for frauds at Component level even due to negligence of Component auditors. It is not clear whether Component auditors will also be responsible for gross negligence or for fraud at Component level. Clarity is also required as to whether both Principal and Component Auditors will be responsible and in what measure?

Further, if irregularities come to the attention of the Principal Auditor and the same has not been reported or ignored by him, only in such cases, the Principal Auditor should be held responsible for negligence. In every situation, categorization of delinquencies should be done and accountability should be clearly fixed on the principal auditor or component

auditor or both. To be fair and just, the one who was responsible should be held accountable, instead of making group auditor accountable for the work of component auditor. Where there are overlaps or items escaping both or believed to be done by the other in view of either of them, NFRA from its experience of frauds examined by them can make suitable guidance available along with ICAI

8. Sharing of work papers - clarity required for sharing between Principal Auditor & Component Auditor

At present, ICAI Code of Conduct as applicable to its members does not permit sharing of audit work papers between the auditors. As per the Companies Act, Principal Auditor has access to the books and vouchers of the Component entity, but not to the audit working papers of the component auditor. In the absence of such access, the Principal Auditor may not be able to effectively review the audit process and findings of the Component auditor.

9. Audit Quality - Examine Competency of Component Auditor:

Under the present legal framework under the Companies Act, 2013, the appointment of the Auditors at component level is made by the Board of Directors / Shareholders of such component entities and there is no mechanism to assess the Competency of the Component Auditor by the Principal Auditor. This coupled with limitation as regards sharing of work papers as mentioned above creates practical challenges for Principal Auditor. It is recommended that appointment of Component Auditors by the Management should be based on the stringent evaluation covering both qualitative and quantitative aspects. There should be standard procedure for assessing competency of Component Auditor at Board level / Audit Committee level of the Parent Company / Component entity. It should be ensured that Competency analysis should not become Competition analysis.

10. Lines of Defence - Management has a larger role to play:

The Management of the Company has the utmost and primary responsibility for installing appropriate internal controls for prevention and detection of frauds. As such,

Management has larger role to play to ensure that frauds do not occur. During the audit, the auditor tests the internal controls and conducts the risk assessment in accordance with the Standards on Auditing. Further, it is of utmost importance to differentiate between frauds and audit failures resulting in misstatement of financial statements resulting from Frauds or otherwise. So long as Auditor performs audit in accordance with applicable SAs, auditor should not be penalized for frauds perpetuated by the Management / other parties. Truth must hold up in various situations.

Further, Directors' Responsibility statement as incorporated in the Directors Report should be suitably revised to make the responsibility of the Management clearer with regard to the accuracy of the data submitted for audit and preparing the financial statements of the entity.

Responsibilities of Management / Audit Committee / Independent Directors / Internal Auditors or any other lines of defence should be clearly defined in the Governing Act.

11. Need for changing the regulatory environment to make the proposed Standard effective:

Based on the discussions above, it is important that before bringing in the revised standard, thorough review of existing legal framework (such as Companies Act, 2013, ICAI Code of Conduct, SEBI Regulations/ Guidelines / IRDA / RBI Regulations /Guidelines, CAG, etc.) surrounding the business entities should be done.

12. Clarification whether other matters Para will be required as per Guidance Note of ICAI & SEBI Requirements

Guidance Note (GN) on Consolidated Financial Statements issued by the ICAI requires auditors to include "Other matter" para while issuing the report on the Consolidated Financial Statements(refer Illustration 2 of Audit report format as given in the GN). The reporting under other matter para requires the Principal auditor to clearly mention the components not audited along with its quantitative parameters such as total assets, total revenue, cash flows, etc. so that users of the financial statements can clearly understand the impact of the components not audited by the Principal Auditor. Further, the Principal

Auditor clearly mentions in the said para that his opinion on the Consolidation Financial Statements so far as components included there in is based on the audit opinion issued by the Component Auditors. In view of the circular now issued by NFRA, making the Principal Auditors responsible for components, whether the Principal auditor can now give the Other Matter paragraph?. The said issue needs to be clarified by NFRA.

13. Practical challenges in respect of components in overseas jurisdiction as well as components being Associates/Joint Ventures:

In case of components in overseas jurisdiction, it may be difficult to coordinate and review the work papers, as they are not governed under the Indian Law / ICAI. Presently, ICAI does not permit networking / tie ups with overseas Firms of Accountants. The same acts as a major impediment / barrier. ICAI will need to change its position and permit an Indian firm of CAs to determine and recommend to the entity which firm can be appointed as auditor of the overseas component.

In case of Components being Associates/Joint Ventures, the exercise of control by the Holding Company may not be similar to that in a Subsidiary. This may lead to difficulties for the Group Auditor to evaluate the work of these Component Auditors.

14. SA-600(R) needs to be aligned with SA-299 on Joint auditors:

Under SA-299, in respect of audit work divided among the joint auditors, each joint auditor shall be responsible only for the work allocated to such joint auditor. However, all the joint auditors shall be jointly and severally responsible for matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors. As such, SA-600 needs to be aligned with SA-299 in view of circular issued by NFRA on SA-600 and ED on SA 600.

15. Other Points

(a) It is important to consider at this stage whether a more distributed audit responsibility as opposed to a more centralised audit responsibility is envisaged or even promoted by

this standard. The proposed SA 600 will result in more audit concentration. This will mean that a single auditor may be auditing the entire group of 30-300 companies. This will lead to a much larger concentration of overall audit risk with one partner/firm instead of a more divided as is the case with Components/Jt Audits. Such 'mono' or single centre/person emanating all audit responsibility could be detrimental when compared with multiple auditors which is advocated by the Reserve Bank of India in case of Banks and NBFCs.

(b) Instead of duplicating efforts, robust implementation of auditing standards and framework should be advocated with enough training for auditors through ICAI initiative with elaborate checklists to be prepared by component auditors. This will ensure the dependency of the audited financial statements of component entities by the group auditor.

Bombay Chartered Accountants' Society's - Replies to the Posers in the Draft of SA 600 (Revised) -Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)

Question No.	Particulars	Comments/Suggested Alternatives
1	This consultation paper provides a discussion of the reasons and benefits of improving auditing standards on audit of Group Financial Statements. Are there additional concerns or aspects that NFRA should seek to address or consider?	<p>There are number of concerns which are listed below:</p> <ol style="list-style-type: none"> 1. We believe that the Circular lays down what is to be done whereas the Proposed SA 600 (Revised) lays down the methodology. Is this understanding correct? 2. Whether Standard can create carve out for PIE entities? What about applicability to non-PIE entities as well those which are exempt like PSUs/PSBs, etc. 3. The Proposed Standard does not define PIE and its coverage. We suggest that PIE should be defined. 4. Sufficient awareness to be created and training to be imparted (maybe jointly with ICAI) which requires some time to be given for implementation of new Standard as has been the case with ISA-600. 5. Relevance of Other Matter Paragraph as per SA 705 regarding reliance on work of Component Auditors. 6. Clear demarcation of inter se responsibilities of Principal and Component auditors.
2	Is the proposed draft solution, SA 600 (Revised), in view of the risks and benefits outlined above? If not, why not, and are there any alternative approaches?	<ol style="list-style-type: none"> 1. The proposed draft, due to increased responsibility of auditors can result in duplication of work by the Component and Principal Auditor on certain areas /aspects which will lead to increase in cost of audit services.

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3	As the proposed SA 600 (Revised) converges with ISA 600 (Revised), application guidance is already available. However, are there any particular areas of the proposed SA 600 (revised) where more clarifications, application material and guidance will be needed?	<ol style="list-style-type: none"> 1. NFRA / ICAI may come out with the Guidance note on the proposed standard to help auditors deal with practical challenges and the resultant approach for conducting group audit. One of the areas where more guidance can be issued is in the context of overseas components which sometimes deploy local Auditors. 2. Guidance is also required for defining inter se responsibilities of Component Auditors and Principal Auditors and mechanism to be followed for coordination between them. 3. In case of Components being Associates/Joint Ventures, the exercise of control by the Holding Company may not be similar to that in a Subsidiary. This may lead to difficulties for the Group Auditor to evaluate the work of these Component Auditors.
4	Are there any other conforming or consequential amendments required in any other SAs, apart from those mentioned in the draft SA 600 (Revised), put out for public consultation?	<ol style="list-style-type: none"> 1. There is a need to amend SA 299 – Responsibilities of Joint Auditors to bring the same in line Proposed SA 600 (Revised). 2. Consequential amendments will be required under the Chartered Accountants Act, 1949 and other legal framework such as RBI Act, IRDA, SEBI Guidelines, CAG, etc. which provide for different terms of auditors. 3. Companies Act 2013 may also need to be suitably amended to clearly define the

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		responsibilities of Principal and Component Auditors, responsibility of Audit Committee, Board of Directors etc.
5	The current proposal is to apply the revised requirements to audits of PIEs under Rule 3 of NFRA Rules 2018, except Public Sector Banks, Public Sector Insurance Companies, PSUs and their respective branches. What could be specific considerations in case of PSBs/PSUs/Pubic sector insurance companies and their branches that would need to be addressed going forward?	Already covered in 1 above.