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Regulatory updates for the month of January 2023

15 February 2023

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Regulatory updates for January 2023

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

On 25 July 2022, the Securities and Exchange Board of India (SEBI) had introduced regulations pertaining to the Social Stock Exchange (SSE) by making amendments to various regulations. As per the amendments introduced, a Social Enterprise (SE), which is either registered with or has raised funds through an SSE, should submit an annual impact report to the SSE. The annual impact report must be audited by a social audit firm, employing social auditor(s). In this regard, the Institute of Chartered Accountants of India (ICAI) was entrusted with the responsibility of being the self-regulatory organisation for regulating the profession of social auditors.

On 14 January 2023, ICAI released 16 Social Audit Standards (SAS), each corresponding to a specific thematic area (as suggested by SEBI) which would qualify as eligible activities for the purpose of establishing primacy of social intent. Subsequently on 4 February 2023, ICAI also issued the Framework for SAS (framework) which provides basic principles for social audit of projects/programs/project-based activities and provides guidance on matters relating to preparation of social audit report.

Additionally, SEBI, on 17 January 2023 issued following amendments to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations):

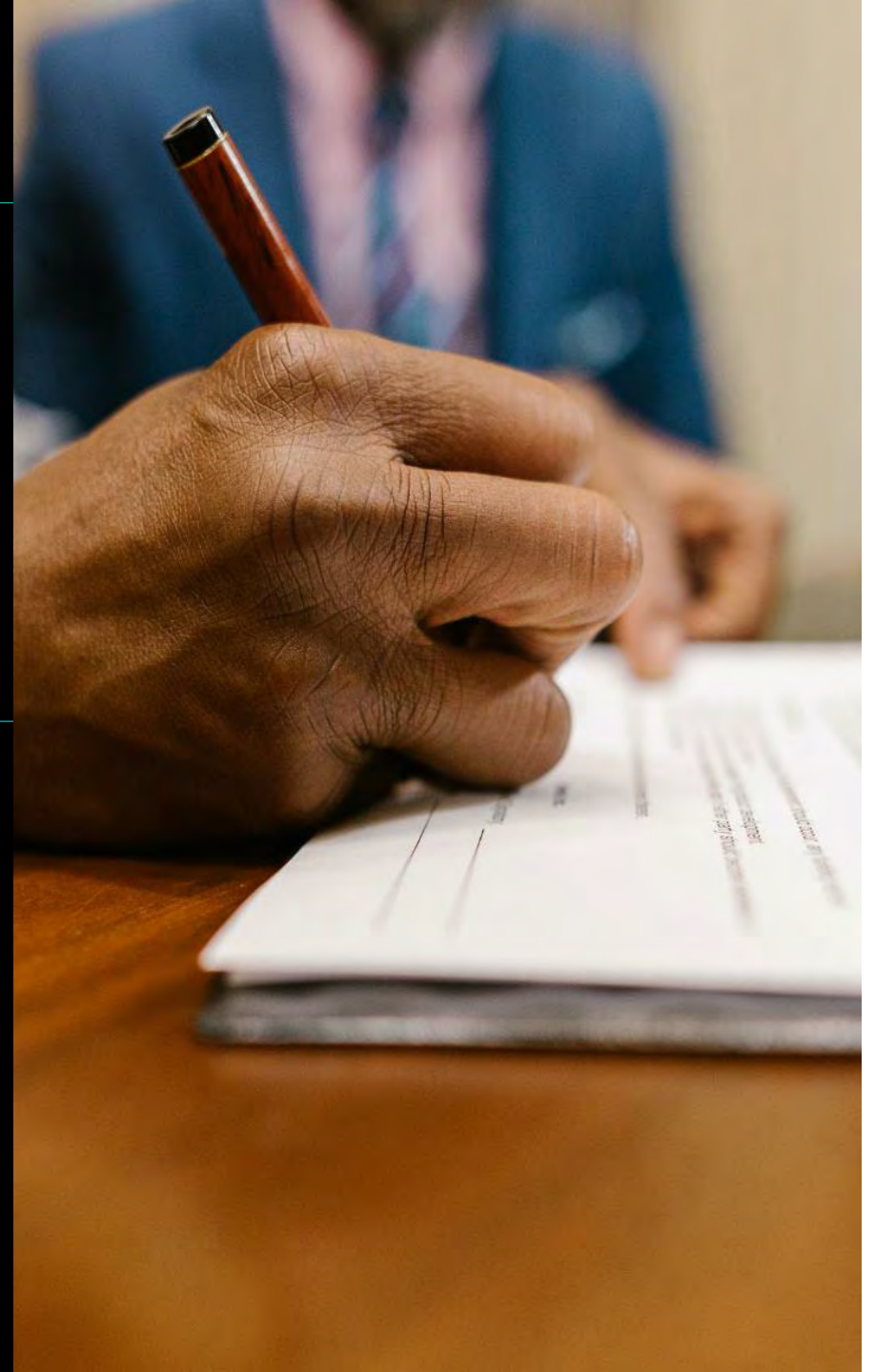
- Amendment in the definition of 'senior management'
- Shareholders' approvals for re-appointment of directors or managers
- Additional disclosures of subsidiaries in corporate governance reports
- REITs and InvITs to comply with the governance norms prescribed in their regulations

This issue of the regulatory updates publication covers some of the important updates on auditing and regulatory matters for the period from **1 January 2023 to 31 January 2023**. It also highlights some of the action points that auditors may consider when applying the relevant provisions.



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Updates from ICAI

SSAE 3000, Assurance Engagements on Sustainability Information

Globally, there has been an increased focus on sustainability reporting and investments in sustainable businesses. Accordingly, organizations are increasingly reporting on their broader performance and impact. However, with a view to deepen the investor's trust on the reported information, there is a need to provide assurance on the information reported. In India, presently, there is no authoritative guidance with respect to assurance engagements on sustainability information. Practitioners in India currently refer to the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

In this regard, on 12 September 2022, the Institute of Chartered Accountants of India (ICAI) had released an Exposure Draft on the Standard on Sustainability Assurance Engagements (SSAE) 3000, *Assurance Engagements on Sustainability Information* (ED). Based on the comments and representations received from different stakeholders, ICAI, on 10 January 2023, has issued the final standard – SSAE 3000, *Assurance Engagements on Sustainability Information*. Following are some of the key aspects that have been discussed:

- **Applicability and Effective Date:** SSAE 3000 would apply to a sole proprietorship or partnership firm registered with the ICAI on:

- A voluntary basis for assurance reports covering periods ending on 31 March 2023, and
- Mandatory basis for assurance reports covering periods ending on or after 31 March 2024.
- **Parties involved:** All assurance engagements would have at least three parties - the responsible party, the practitioner and the intended users. However, depending upon the circumstances of an engagement, there may also be a separate role defined for a measurer/evaluator, or the engaging party, as the case may be. The responsible party is responsible for identifying the underlying subject matter¹. The measurer/evaluator uses the criteria², so identified to measure or evaluate the underlying subject matter, resulting in subject matter information³. The engaging party agrees the terms of the engagement with the practitioner and the practitioner issues the assurance report for the intended users.

¹ Subject matter refers to the phenomenon that is measured or evaluated by applying criteria

² Criteria are the benchmarks used to measure or evaluate the underlying subject matter

³ Subject matter information refers to the outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter



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- **Scope:** There are two kinds of assurance engagements - attestation engagements⁴ and direct reporting engagements⁵. SSAE 3000 would apply only to the attestation engagements (both limited as well as reasonable assurance engagements). SSAE 3000 is an umbrella standard which applies to all assurance engagements on sustainability information. However, in case there is a subject matter information to which a specific assurance standard applies, e.g., Green House Gases (GHG) emissions, SSAE 3000 would apply in addition to the subject matter specific standard. Also, SSAE 3000 should be read in conjunction with the “Framework for Assurance Engagements” issued by the ICAI⁶.

- **Understanding the underlying subject matter:** The underlying subject matter, so identified by the entity should have the following two characteristics:

- It can be measured or evaluated against the relevant criteria, and
- It can be subject to procedures to gather information required for supporting the necessary assurance conclusion.

In order to understand the underlying subject matter and other significant issues, if any, the practitioner should make inquiries of the relevant parties regarding their knowledge of an actual, suspected or alleged intentional misstatement affecting the subject matter information, main findings of the internal audit function (if there is such a function) regarding the subject matter information, and whether an expert has prepared the subject matter information.

- **Materiality:** The practitioner should consider the appropriate materiality threshold for planning and performing the assurance engagement, determining the nature, timing and extent of procedures, as well as in evaluating that the subject matter information is free from any material misstatement. Various quantitative and qualitative factors which may be considered for determining materiality threshold include, the number of persons or entities affected by the underlying subject matter, the characteristics of the presentation adopted for the subject matter information when the applicable criteria allows for variations in that presentation, and so on.

⁴ An assurance engagement in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the practitioner in the assurance report. In an attestation engagement, the practitioner’s conclusion addresses whether the subject matter information is free from material misstatement. The practitioner’s conclusion may be phrased in terms of:

- The underlying subject matter and the applicable criteria,
- The subject matter information and the applicable criteria, or
- A statement made by the appropriate party.

⁵ An assurance engagement in which the practitioner measures or evaluates the underlying subject matter against the applicable criteria and the practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the practitioner’s conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.

⁶ In case of any conflicts between SSAE 3000 and the Framework for Assurance Engagements, SSAE 3000 would prevail



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- **Using the work of subject matter experts/another practitioner/internal auditor⁷:** The practitioner, while using the work of any subject matter expert, another practitioner or the internal auditor should evaluate the necessary competence, capabilities and objectivity level and perform relevant procedures to determine the adequacy of the work so performed for the engagement purposes.
- **Documentation:** The practitioner must prepare on a timely basis, the engagement documentation which provides a record of the basis for the assurance report, the nature, timing and extent of the procedures performed, evidence obtained, significant matters arising during the engagement, if any, conclusions reached, and the significant professional judgements made in reaching those conclusions.

Engagement documentation should be assembled in an engagement file on a timely basis after the date of the assurance report and should be retained for a period of **not less than five years** from the date of the assurance report.
- **Reporting:** The practitioner, based on the evaluation of the evidence obtained and conclusions reached, should issue an assurance report⁸ in writing. The report so issued should clearly express the practitioner's conclusion about the subject matter information. In this regard, SSAE 3000 has specified a list of basic elements that must be included in an assurance report and has also provided the illustrative formats of the assurance reports for reference purpose.



⁷ If the practitioner plans to use the work of the internal audit function, he/she should also evaluate the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors and whether it applies a systematic and disciplined approach, including quality control

⁸The assurance report should not be dated earlier than the date on which the practitioner has obtained the evidence on which his/her conclusion is based

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Further, it has been clarified that the assurance report should be signed by the practitioner (i.e., the engagement partner) in his/her personal name. In case a firm has been appointed as the practitioner, the report should be signed in the personal name of the practitioner as well as in the name of the firm. The partner/proprietor signing the assurance report must mention his/her ICAI membership number and also include the registration number of the firm, wherever applicable.

To access the text of SSAE 3000, please [click here](#)

Action Points for Auditors

Currently, many companies in India, while preparing their sustainability/ESG reports refer ISAE 3000. Thus, auditors should engage with such companies and communicate with them regarding the new standard issued which is based on ISAE 3000.



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Updates from ICAI

ICAI issues Social Audit Standards

On 25 July 2022, the Securities and Exchange Board of India (SEBI) had introduced regulations pertaining to the Social Stock Exchange (SSE)⁹ by making amendments to the following regulations:

- The SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations)¹⁰ by inserting a chapter on 'Social Stock Exchange',
- The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations)¹¹ by adding a chapter on 'Obligations of Social Enterprises', and
- The SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations)¹² by introducing changes in relation to social impact fund.

As per the amendments introduced, a Social Enterprise (SE)¹³, which is either registered with or has raised funds through an SSE, should submit an annual impact report to the SSE. The annual impact report must be audited by a social audit firm¹⁴, employing social auditor(s)¹⁵.

The ICAI has been entrusted with the responsibility of being the self-regulatory organization for regulating the profession of social auditors. Consequently, on 5 August 2022, ICAI had released an Exposure Draft (ED) on Compendium of Social Audit Standards (SAS).

Based on the comments and feedback received from various stakeholders, ICAI, on 14 January 2023 released the final version of the SAS (the standards). ICAI has prescribed total 16 standards, each corresponding to a specific thematic area (as suggested by SEBI) which would qualify as eligible activities for the purpose of establishing primacy of social intent. Subsequently on 4 February 2023, ICAI has issued the Framework for SAS (framework) which provides basic principles for social audit of projects/programs/project-based activities and provides guidance on matters relating to preparation of social audit report. The key requirements prescribed by the framework and the SAS issued by ICAI are as follows:

Applicability: The framework is applicable to engagements conducted by the social auditor, such as social audit (i.e., social impact assessment of a project/program of SEs), impact assessment (under the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021 and other similar assignments¹⁶.

⁹ An SSE means a separate segment of a recognised stock exchange having nationwide trading terminals, permitted to register Non-Profit Organisations (NPOs) and/or list the securities issued by NPOs in accordance with the provisions of the ICDR Regulations.

¹⁰ The amendments have been issued by the SEBI (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022 (ICDR Amendment Regulations)

¹¹ The amendments have been issued by the SEBI LODR (Fifth Amendment) Regulations, 2022 (LODR Amendment Regulations)

¹² The amendments have been issued by the SEBI AIF (Third Amendment) Regulations, 2022 (AIF Amendment Regulations)

¹³ An NPO or a For Profit Social Enterprise (FPSE), in order to be identified as an SE, must establish primacy of its social intent. In this regard, SEBI has prescribed 16 thematic areas which would qualify as eligible activities that meet the eligibility criteria specified in the ICDR Amendment Regulations. Additionally, an SE should have at least 67 per cent of its activities, qualifying as eligible activities through one or more of the following:

- at least 67 per cent of the immediately preceding three-year average of revenues comes from providing eligible activities to members of the target population,
- at least 67 per cent of the immediately preceding three-year average of expenditure has been incurred for providing eligible activities to members of the target population, and
- members of the target population to whom the eligible activities have been provided constitute at least 67 per cent of the immediately preceding three-year average of the total customer base and/or total number of beneficiaries.

¹⁴ Social audit firm means any entity which has employed social auditors and has a track record of minimum three years for conducting social impact assessment

¹⁵ Social auditor refers to an individual registered with a self-regulatory organisation under ICAI or such other agency, as may be specified by SEBI, who has qualified a certification programme conducted by the National Institute of Securities Market (NISM) and holds a valid certificate in this regard

¹⁶ Any other engagement(s) conducted by other auditor of an organisation e.g., statutory audit, internal audit, tax audit will not be under the scope of this Framework

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Elements of social audit engagement: The five elements of a social audit engagement are:

- A three-party relationship involving a social auditor, a responsible party (generally SE), and the intended user
- Project/programme/intervention to be covered
- Project monitoring framework
- Evidence
- A written report.

Planning, conducting and documenting social audit

engagements: The framework lists down the considerations for a social auditor while planning the audit, including understanding the entity and its environment, the responsibility of the social auditor when it uses the work of a field level research agency and/or subject matter expert and other matters. It also prescribes the steps for fieldwork process, which includes data collection and sampling and documentation of the work done.

A system of quality control: A social auditor/audit firm should establish a system of quality control which must include policies and procedures addressing each of the following elements:

- i. Leadership responsibilities for quality within the firm,
- ii. Ethical requirements,
- iii. Acceptance and continuance of client relationships and specific engagements,
- iv. Human resources,
- v. Engagement performance, and

vi. Monitoring.

The quality control policies and procedures should be documented and communicated to the firm's personnel on a timely basis.

Communication with TCWG: The social auditor should communicate with Those Charged With Governance (TCWG) in a timely manner on matters such as the following:

- The roles and responsibilities of the social auditor with respect to the social audit
- An overview of the planned scope, timing of the social audit
- Communicate timely observations arising from the social audit that are significant/relevant to the project/programme
- Deficiencies in internal control for programme implementation/management that the auditor has identified and in the social auditor's judgement are of sufficient importance to merit their respective attentions.

Materiality: A social auditor should consider materiality while assessing the overall impact of the project. Materiality should be considered in the context of various quantitative and qualitative factors, such as relative magnitude, the nature and extent of the effect of these factors on the evaluation or measurement of the subject matter, the interests of different stakeholders involved, and so on.



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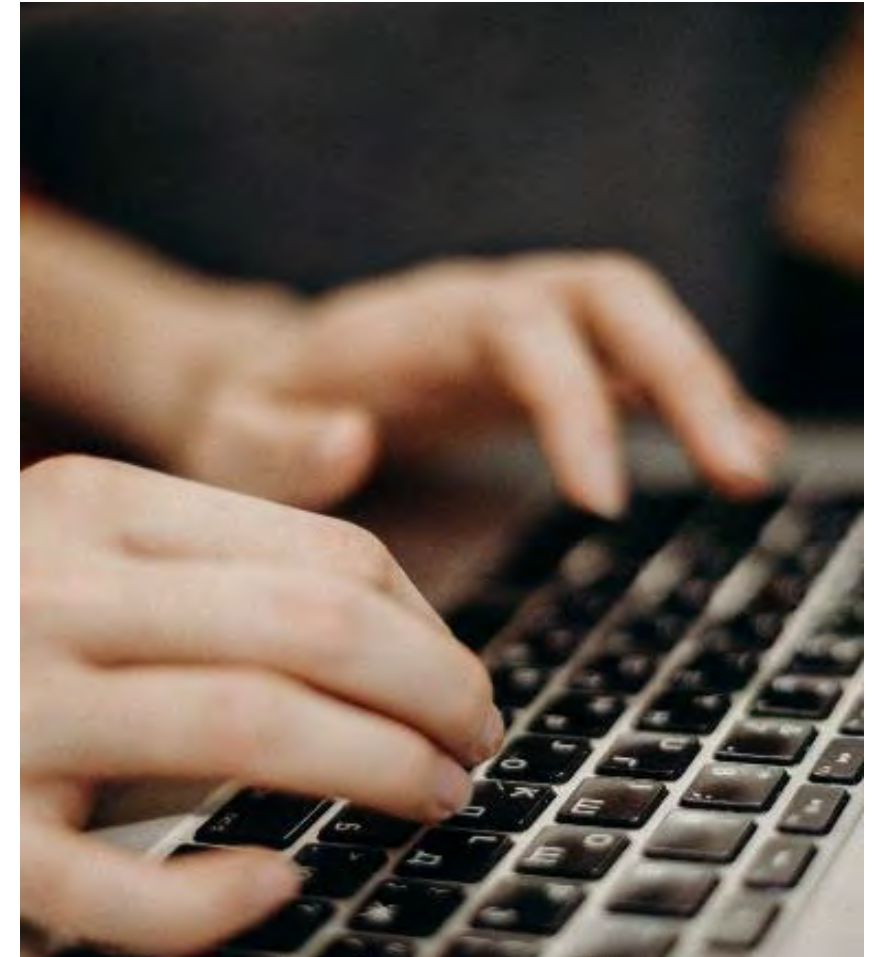


Use of technology: A social auditor should determine the usage and acceptability of technology for meeting the objectives, collecting and verifying evidence as well as validating impact measurements and assessments in case of social audit engagements.

Reporting – Social audit report: A social auditor needs to issue a written social audit report containing the findings from the assessment in terms of the impact created, gaps, if any, along with the recommendations for improvement. It should address the social impact assessment covered by the project that the intended users might be interested in. While the framework does not require a standardised format for reporting on all social audit engagements (i.e., social audit reports may be tailored to the area specific circumstances), it identifies certain basic elements which the social audit report should include.

Social audit standards: The amended ICDR Regulations prescribe 16 thematic areas which would qualify as eligible activities for the purpose of establishing primacy of social intent. Consequently, ICAI issued 16 SAS, each corresponding to a specific area. These are as follows:

Standard No	Standard name
SAS 100	Eradicating hunger, poverty, malnutrition and inequality
SAS 200	Promoting health care including mental healthcare, sanitation and making available safe drinking water
SAS 300	Promoting education, employability and livelihoods
SAS 400	Promoting gender equality, empowerment of women and LGBTQIA+ communities
SAS 500	Ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest and wildlife conservation
SAS 600	Protection of national heritage, art and culture
SAS 700	Training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports
SAS 800	Supporting incubators of Social Enterprises



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Standard No	Standard name
SAS 900	Supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building
SAS 1000	Promoting livelihoods for rural and urban poor including enhancing income of small and marginal farmers and workers in the non-farm sector
SAS 1100	Slum area development, affordable housing and other interventions to build sustainable and resilient cities
SAS 1200	Disaster management, including relief, rehabilitation and reconstruction activities
SAS 1300	Promotion of financial inclusion
SAS 1400	Facilitating access to land and property assets for disadvantaged communities
SAS 1500	Bridging the digital divide in internet and mobile phone access, addressing issues of misinformation and data protection
SAS 1600	Promoting welfare of migrants and displaced persons

The standards provide guidance on three key aspects:

- Objective and scope
- Process of social audit, including parameters related to collection of data, audit evidence and metrics for evaluation of a project/programme
- Assessment of challenges and limitations.

Effective date: The standards and framework are effective from the date of their hosting on the ICAI website, i.e., standards are effective from 14 January 2023, and the framework is effective from 4 February 2023.

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

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

Action Point For Auditors

- As per the amendments introduced by SEBI, social audit firms employing social auditors who have qualified the certification course conducted by the NISM would be allowed to conduct a social audit. With assurance on sustainability reporting gaining traction in recent times, auditors and other practitioners should keep a track of the eligibility requirements and other developments happening around this space
- Since sustainability reporting and assurance, in addition to the quantitative details, would take into consideration a host of qualitative metrics as well, auditors should focus on developing the necessary knowledge base and resources for understanding and evaluating the different parameters to carry out social audits in an effective and efficient manner.

Updates from SEBI

Relaxation from requirement of dispatching physical copies of annual reports

Regulation 36(1)(b)²⁰ of the SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015 (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, 2013²¹ to the shareholders who have not registered their email addresses with the company. Additionally, Regulation 58(1)(b)²² of the LODR Regulations requires companies with listed Non-Convertible Securities (NCS) to send the hard copy of their annual report to the holders of NCS who have not registered their email addresses with the company.

MCA, vide circular dated 28 December 2022 had extended the relaxations from dispatching of physical copies of financial statements for the Annual General Meetings (AGMs) conducted till 30 September 2023. 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 as well as holders of NCS. Accordingly, SEBI, vide two circulars, both dated 5 January 2023 has decided to extend the relaxation from complying with Regulation 36(1)(b) and Regulation 58(1)(b) of the LODR Regulations up to 30 September 2023 **(earlier this exemption was available till 31 December 2022)**.

However, it has been clarified that the notice of the AGM 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 been emphasized 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.

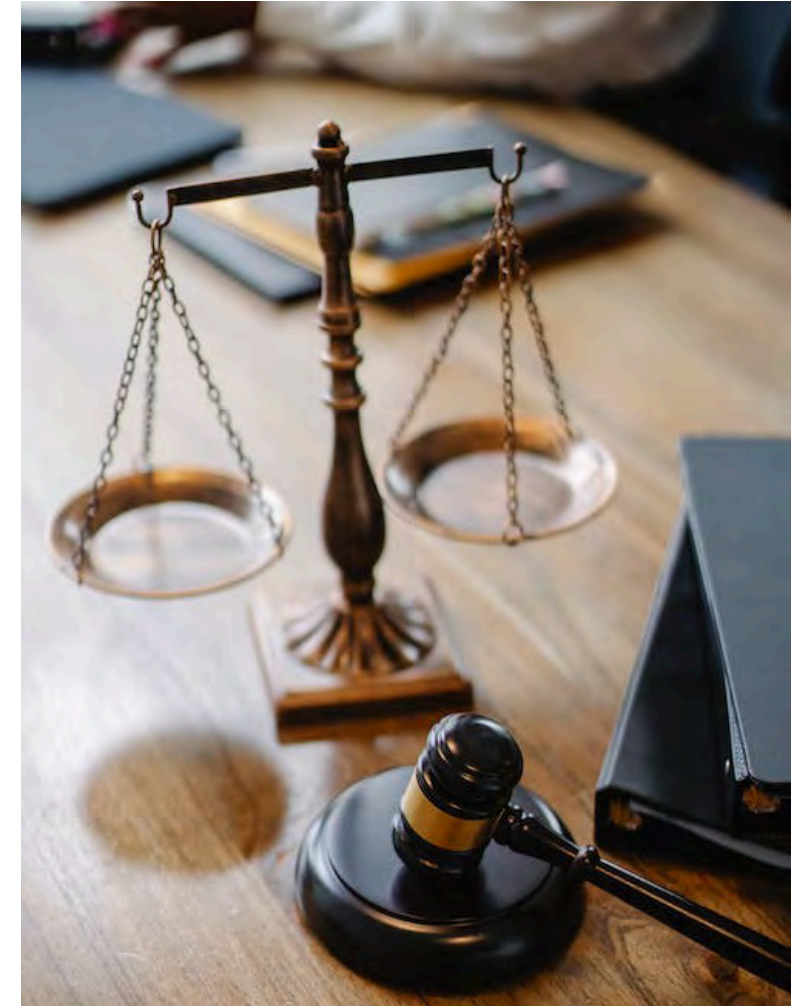
Effective date: The circular would come into effect on an immediate basis.

To access the text of the SEBI circulars, please click [1](#) and [2](#)

²⁰ Applicable to issuers of specified securities

²¹ 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.

²² Applicable to issuers of non-convertible securities



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SEBI issues amendments to the LODR Regulations

On 17 January 2023, SEBI issued the SEBI (LODR) Amendment Regulations, 2023 (the amendment). The key amendments introduced are with regard to the following:

Amendment in the definition of
'senior management'



Applicable from 17 January 2023

Shareholder approvals for re-
appointment of directors or
managers



Applicable from 17 January 2023

Additional disclosures of
subsidiaries in corporate
governance reports



Annual reports for FY 2022-23
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REITs and InvITs to comply with
the governance norms prescribed
in their regulations



Applicable from 1 April 2023



(Source: Foundation for Audit Quality's analysis, 2023 read with SEBI (LODR) Amendment Regulations, 2023)

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These amendments are further explained in the below paragraphs.

- **Amendment in the definition of ‘senior management’:** Regulation 16(1)(d) of the LODR Regulations defines ‘senior management’ as:

“officers/personnel of the listed entity who are members of its core management team excluding board of directors and normally this shall comprise all members of management one level below the chief executive officer/managing director/whole time director/manager (including chief executive officer/manager, in case they are not part of the board) and shall specifically include company secretary and chief financial officer”

In addition to the persons specifically mentioned in the definition above, the amendment has now also included the **functional heads** of a company within the definition of senior management.

- **Shareholder approvals for re-appointment of directors or managers:** Regulation 17(1C) of the LODR Regulations states that a listed entity should obtain an approval of the shareholders for appointing a person on the Board of Directors or as a manager at the next general meeting or within a period of three months from the date of appointment, whichever is earlier. It is to be noted that this provision was applicable only for appointment and not re-appointment of a person.

The amendments have now made the requirement to obtain shareholder approval within the stipulated timeline applicable even in case of **re-appointment** of a person on the Board of Directors or as a manager.

Further, the amendment has clarified that in case of a public sector company, the approval of the shareholders for appointment or re-appointment of a person on the Board of Directors or as a manager should be taken in the next general meeting (**i.e., the three months’ time period criteria has now been omitted for the appointment or reappointment in case of a public sector company**).



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- **Additional disclosures of subsidiaries in corporate governance reports:** Part C of Schedule V of the LODR Regulations prescribes the disclosures that are required to be made by a company in the corporate governance report of the company.

In addition to the existing disclosure requirements, companies should now disclose details of its material subsidiaries, including the date and place of incorporation and the name and date of appointment of the statutory auditors of such subsidiaries²³. This disclosure requirement would be applicable for the annual reports filed for the FY 2022-23 and thereafter.

- **REITs and InvITs to comply with the governance norms prescribed in their regulations:**

Explanation 4 to Regulation 15 of the LODR Regulations provides that in case of a High Value Debt Listed Entity (HVDLE)²⁴ which is a Real Estate Investment Trust (REIT) or an Infrastructure Investment Trust (InvIT), the Board of the manager or the investment manager of the REIT and InvIT respectively, should comply with the corporate governance provisions, as specified in the LODR Regulations.

The amendment has now removed this requirement and states that the corporate governance norms for REITs and InvITs should be aligned with the corresponding provisions of the SEBI (REIT) Regulations, 2014 and SEBI (InvIT) Regulations, 2014 respectively.

The amendment would be applicable w.e.f. 1 April 2023.

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

Action Point For Auditors:

Auditors should take note of the amendments introduced and evaluate their impact on the companies, particularly with regard to the additional disclosure requirements required in the corporate governance reports, as well as the revised corporate governance norms in case of REITs and Invites.



²³ This disclosure is required to be provided in the 'Other Disclosures' section of the corporate governance report which is prescribed by Part C(10) of Schedule V of the LODR Regulations

²⁴ HVDLEs are the entities that have listed non-convertible debt securities and have an outstanding value of listed non-convertible debt securities of INR500 crore and above.

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SEBI amends the definition of ‘change in control’ in various regulations

On 17 January 2023, SEBI notified the SEBI (Change in Control in Intermediaries) (Amendment) Regulations, 2023 (the amendment). The amendment has substituted the definition of “**change in control**” in the following Regulations:

- SEBI (Stock Brokers) Regulations, 1992
- SEBI (Merchant Bankers) Regulations, 1992
- SEBI (Debenture Trustees) Regulations, 1993
- SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993
- SEBI (Bankers to an Issue) Regulations, 1994
- SEBI (Custodian) Regulations, 1996
- SEBI (Credit Rating Agencies) Regulations, 1999
- SEBI (KYC (Know Your Client) Registration Agency) Regulations, 2011
- SEBI (Alternative Investment Funds) Regulations, 2012
- SEBI (Investment Advisers) Regulations, 2013
- SEBI (Research Analysts) Regulations, 2014
- SEBI (Depositories and Participants) Regulations, 2018
- SEBI (Portfolio Managers) Regulations, 2020
- SEBI (Vault Managers) Regulations, 2021

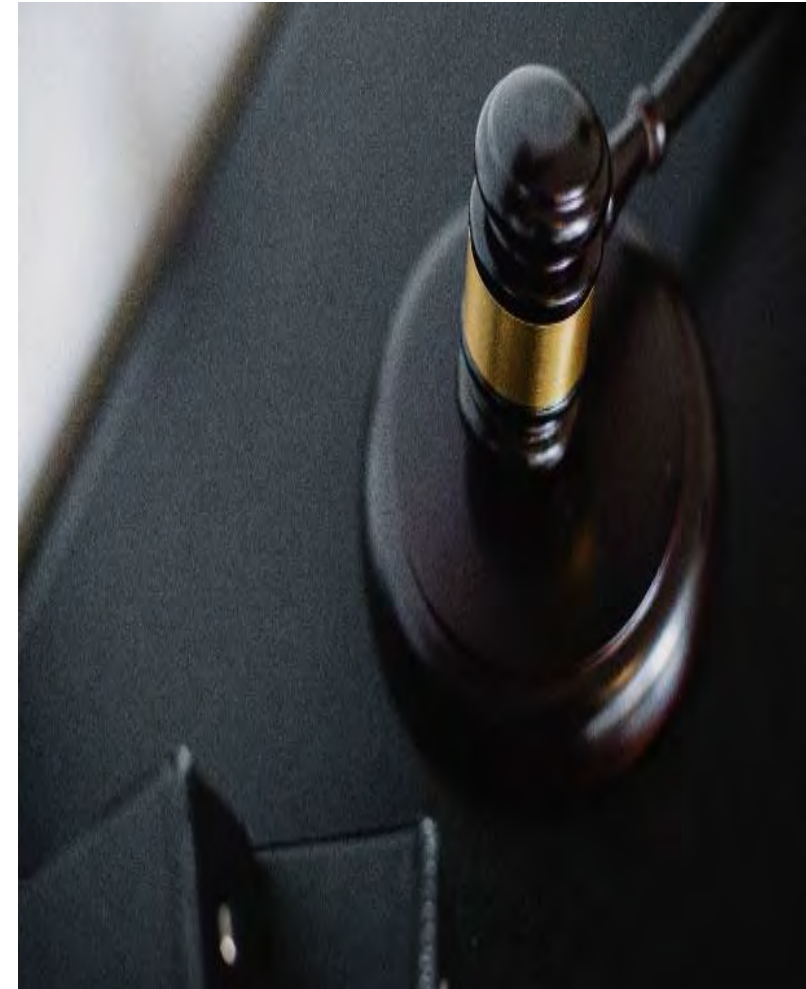
As per the revised definition, “change in control” refers to:

- i. *in case of a body corporate –*
 - A. *if its shares are listed on any recognised stock exchange, shall be construed with reference to the definition of control in terms of Regulations framed under Clause (h) of Sub-Section (2) of Section 11 of the Act²⁵,*
 - B. *if its shares are not listed on any recognised stock exchange, shall be construed with reference to the definition of control as provided in Sub-Section (27) of Section 2 of the Companies Act, 2013 (18 of 2013),*
- ii. *in a case other than that of a body corporate, shall be construed as any change in its legal formation or ownership or change in controlling interest.*

Explanation – For the purpose of Sub-Clause (ii), the expression “controlling interest” means an interest, direct or indirect, to the extent of not less than 50 per cent of voting rights or interest.

Effective date: The amendment is effective from the date of its publication in the Official Gazette, i.e., 17 January 2023.

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



²⁵ The Act refers to the SEBI Act, 1992

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Updates from IRDAI

Payment of profit related commission to non-executive directors

The Insurance Regulatory and Development Authority of India (IRDAI), vide a circular dated 2 September 2022 (2 September circular) had issued a framework for appointment of common director(s) on the board of an insurance company. One of the conditions that had been prescribed for the appointment or continuation of common director(s) was regarding the payment of remuneration to non-executive directors. The 2 September 2022 circular stated that insurers should not pay any remuneration to non-executive directors without prior approval of the IRDAI. However, sitting fees could be paid as per the applicable norms.

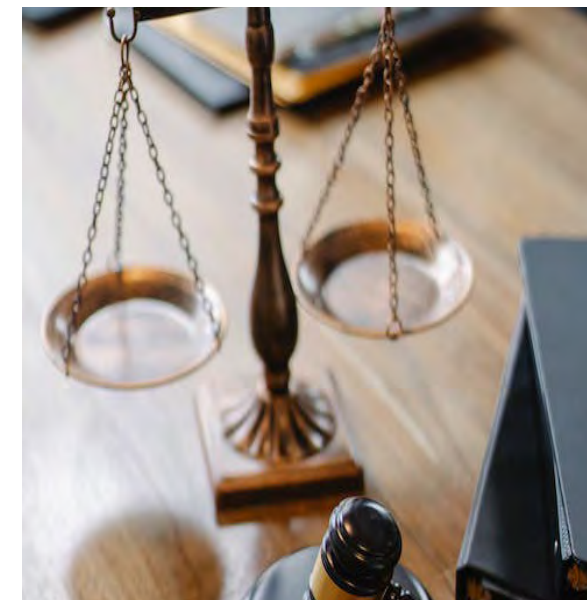
In order to further simplify the process for appointment/continuation of common director(s), IRDAI, vide a circular dated 30 January 2023 (30 January circular) has specified certain conditions subject to which the insurers would be permitted to pay profit related commission to the non-executive director(s). The conditions stipulated in the 30 January 2023 circular are as follows:

- The insurer has reported positive Profit After Tax (PAT) for the period for which the said commission is proposed to be paid
- The Board of the insurer has passed the resolution approving such payment

- The amount of payment of remuneration in the form of profit related commission to each of the non-executive director should not exceed the limits specified in the Guidelines on remuneration of non-executive directors and managing director/chief executive officer/whole-time directors of insurers, as amended from time to time
- Disclosures with regard to the said payment should be made in the financial statements for the respective financial year, and
- The insurer must comply with all other applicable laws in this regard.

Effective date: The provisions of the IRDAI circular are applicable with immediate effect.

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



Action Point For Auditors

- The Companies Act, 2013 permits companies to pay commission (which may be profit-linked) to its directors (both executive and non-executive directors). With this amendment, IRDAI has aligned the regulations pertaining to payment of profit-linked incentive with that prescribed in the Companies Act, 2013.
- Insurance companies which are paying remuneration to the non-executive directors should make the required disclosures with regard to the said payment in their financial statements for the respective financial year. Thus, auditors should take note of this requirement and engage with the insurance companies for making the required disclosures.

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The below table lists down the various discussion papers, consultation papers and exposure drafts issued by Indian and international regulators on matters pertaining to accounting, audit and other regulatory matters.

Regulator	Publication	Particulars
National Financial Reporting Authority (NFRA)	Invitation for comment – Publication of Annual Transparency Reports by auditors/audit firms	<p>NFRA requires auditors to publish Annual Transparency Report (ATR) containing certain critical information about the auditor's operational activities, management, governance and ownership structures, policies and procedures necessary to deliver high-quality audits etc.</p> <p>The NFRA aims to implement the requirement to publish an annual transparency report in a gradual manner, starting with auditors/audit firms performing audit of top 1,000 listed entities from financial year ending 31 March 2023.</p> <p>The NFRA has proposed that the ATR should be published on the website of the statutory auditor within three months from the end of the relevant financial year for which it is required.</p> <p>Further, it has been specified that the ATR must be approved by the persons required to approve the financial statements of the statutory auditor or its governing body, if any. A copy of the ATR should be filed with the NFRA before it is published on the website by the statutory auditor.</p> <p>The proposal is open for comments up to 16 February 2023.</p> <p>To access the text of the NFRA announcement, please click here</p>



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Regulator	Publication	Particulars
Reserve Bank of India (RBI)	Discussion paper – Expected Loss (EL)-based Approach for loan loss provisioning by banks	<p>At present, commercial banks in India, determine the provision for loan losses on the basis of an ‘incurred loss’ approach prescribed in the Prudential norms on Income Recognition, Asset Classification, and Provisioning pertaining to Advances issued by the Reserve Bank of India (RBI). However, it was observed that the incurred loss approach results in delay in recognition of the expected loss on financial assets due to which banks are required to make higher levels of provisions thereby affecting the resilience of banks and poses systemic risks.</p> <p>In this regard, on 16 January 2023, RBI issued a Discussion Paper on Expected Loss (EL) based approach for loan loss provisioning by banks which recommends that banks adopt an Expected Credit Loss (ECL) approach for loan loss provision. The discussion paper is applicable to all scheduled commercial banks other than small co-operative banks²⁶ and regional rural banks.</p> <p>While the discussion paper advocates the impairment loss approach as prescribed in Ind AS 109, <i>Financial Instruments</i>, there are certain differences between the RBI’s proposed framework for loan loss provision (RBIs framework) and Ind AS 109. This model would be supplemented by a prudential floor as a regulatory backstop.</p> <p>The comments on the discussion paper can be provided till 28 February 2023. Based on the comments received, the draft guidelines and subsequently, the final guidelines will be formulated. Further, as designing of the models would be a complex activity and significant time would be required to test them, RBI plans to provide sufficient time for implementation of the framework after issue of the final guidelines.</p> <p>To access the discussion paper, please click here</p>

²⁶ The threshold for determining a ‘small’ co-operative bank would be prescribed by RBI based on comments received by it.

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Regulator	Publication	Particulars
RBI	Discussion paper – Securitisation of stressed assets	<p>Securitisation involves the process of pooling loans and selling them to a Special Purpose Entity (SPE), which in turn issues securities backed by the loan pool.</p> <p>However, currently there is no such mechanism for the securitization of Non-Performing Assets (NPAs) through the SPE route. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI or the Act) provides guidance for the securitisation of NPAs, but these have to be undertaken by the Asset Reconstruction Companies (ARCs) licensed under the Act. Based on the feedback received from various stakeholders, RBI decided to enable the securitisation of NPAs as well, through the SPE route. This was followed by the RBI announcement dated 30 September 2022, wherein it stated that a Discussion Paper would be issued soon, specifying the relevant provisions of the Securitization of Stressed Assets Framework (SSAF).</p> <p>In this regard, on 25 January 2023, RBI has released the Discussion Paper on SSAF (the DP). Key aspects of the proposed framework include:</p> <ul style="list-style-type: none"> • Definition of 'stressed assets' eligible for securitisation under SSAF, • Assets eligible for SSAF, • Requirement of Minimum Risk Retention (MRR), • Regulatory framework with respect to SPE, resolution manager and other stakeholders, • Access of finance to resolution manager, • Capital treatment, • Due diligence requirements, • Credit enhancement, and • Valuation of securitisation notes under SSAF. <p>The DP is open for comments up to 28 February 2023.</p> <p>To access the text of the DP, please click here</p>

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Regulator	Publication	Particulars
ICAI	Discussion paper – Exposure draft of Guidance note on audit of banks	<p>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.</p> <p>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 2023 edition of the guidance note is divided into two sections:</p> <p>Section A – Statutory Central Audit Section B – Bank Branch Audit</p> <p>It 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 2023.</p> <p>The ED is open for comments up to 12 February 2023.</p> <p>To access the text of the ED, please click here</p>



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Regulator	Publication	Particulars
ICAI	Discussion paper – Exposure Draft on Guidance Note on audit of charitable institutions under Section 12A of the Income-Tax Act, 1961	<p>ICAI, through the Direct Taxes Committee has issued an Exposure Draft (ED) on 'Guidance Note on audit of charitable institutions under Section 12A of the Income-Tax Act, 1961' (the guidance note). It is based on the law as amended by the Finance Act, 2022. The Guidance Note explains various important concepts, including:</p> <ul style="list-style-type: none"> • Audit and audit report under Section 12A(1)(b) • Audit under other laws • Scheme of exemption • Other relevant judicial precedents, etc. <p>The comment period on the ED ended on 25 January 2023. To access the text of the ED, please click here</p>
ICAI	Exposure draft of the International Non-Profit Accounting Guidance (INPAG) – Part I	<p>Over the years, NPOs have grown substantially in terms of their value and operations. Thus, it becomes imperative to ensure their accountability and transparency. Sound financial reporting is a step in this direction. At the international level, it has been recognized that the preparation of financial statements by NPOs is crucial for their accountability and decision-making and for enhancing the trust and confidence of the stakeholders in them. However, presently there are no international standards to guide the NPOs for preparing their financial statements.</p> <p>In this regard, recently, the first Exposure Draft (ED) of the International Non-Profit Accounting Guidance (INPAG) has been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for creating specific financial reporting guidance for the NPOs. The ED is open for comments up to 31 March 2023. Basis the feedback received from various stakeholders, two more EDs would be issued which would collectively comprise the INPAG.</p> <p>In order to contribute to the standard setting at the international level, the ED has also been hosted on ICAI's website for public comments with last date as 17 February 2023.</p> <p>To access the text of the ICAI announcement, please click here</p>

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Regulator	Publication	Particulars
IASB	Exposure Draft – on international tax reform	<p>In December 2021, the Organisation for Economic Co-operation and Development (OECD) published <i>Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS</i> (the Rules). The Rules were introduced with the objective to address the tax challenges arising from the digitisation of economy by ensuring that large multinational groups²⁷ pay a minimum amount of tax (i.e., 15 per cent) on income arising in each jurisdiction in which they operate.</p> <p>Over time, various concerns were raised by the stakeholders regarding the potential implications of the Rules. In particular, uncertainty over the accounting for deferred taxes arising from the Rules was identified as a key challenge area. Thus, in order to address these concerns, the International Accounting Standards Board (IASB), on 9 January 2023, issued an Exposure Draft (ED), <i>International Tax Reform – Pillar Two Model Rules (Proposed amendments to IAS 12)</i>. The ED proposed certain amendments to the International Accounting Standard (IAS) 12, <i>Income Taxes</i>. These include:</p> <p>A. Temporary exception to the accounting for deferred taxes arising from the implementation of the Rules: The ED proposes that an entity should not recognise or disclose information about deferred tax assets and liabilities arising from the implementation of the Rules. However, the entity should disclose the fact that it has applied this exception. The proposed exception²⁸ would be effective immediately upon issuance of the amendments and retrospectively in accordance with IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p> <p>B. Targeted disclosure requirements: The ED has also provided certain disclosure requirements for an entity in the periods in which the Rules are enacted or substantively enacted but are not yet in effect.</p> <p>These would be effective for the annual reporting periods beginning on or after 1 January 2023.</p> <p>The ED is open for comments up to 10 March 2023.</p> <p>To access the text of the ED, please click here</p>

²⁷ The minimum tax rate of 15 per cent would be applicable to multinational groups having consolidated revenues of EUR 750 million or more in at least two of the preceding four years.

²⁸ It is mandatory for the companies to apply this temporary exception.

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The table below provides an overview of some important publications released by various regulators during this month:

Regulator	Publication	Particulars
ICAI	Technical Guide on Digital Assurance	<p>Over the years, with an increase in the number of technology tools and automation, an abundant amount of information is available in the online mode upon which ICAI members may be required to report or certify. Thus, it is imperative for the auditors to be hands on with the various technological changes and implement the same in their audit procedures.</p> <p>In this regard, recently, ICAI released the Technical Guide on Digital Assurance (the technical guide). The technical guide has been prepared with the aim to aid members in adopting the enhanced use of technology in audit by implementing the use of digitally available audit evidence and information. This would further help in reducing the time taken for completing audit procedures.</p> <p>To access the text of the technical guide, please click here</p>



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Regulator	Publication	Particulars
IASB	Business Combination – Disclosures, Goodwill and Impairment (Project update)	<p>The IASB's 'Business Combinations – Disclosures, Goodwill and Impairment project' aims to help companies provide users of financial statements with more useful information about the mergers and acquisitions (business combinations) that companies make, at a reasonable cost.</p> <p>Recently, IASB, in its December 2022 meeting had made decisions on the following two topics:</p> <ul style="list-style-type: none">– how companies could disclose better information about the business combinations, and– whether to retain the impairment-only model to account for goodwill or to explore reintroducing the amortization of goodwill. <p>In this regard, recently, an 'In brief' article has been published by the IASB to explain the rationale for making these decisions and other related aspects before publishing an exposure draft of the concerned proposals.</p> <p>To access the text of the article, please click here</p>





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Registered office: Level 9, Spaze i-Tech Park, A1 Tower, Sector - 49, Sohna Road, Gurgaon, Haryana 122018

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