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Regulatory updates for the month of January 2022

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Regulatory updates for January 2022

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

Recently, the Institute of Chartered Accountants of India (ICAI) issued a revised guidance note on Schedule III for Divisions I, II and III, incorporating guidance for reporting under the revised clauses in Schedule III.

The Securities and Exchange Board of India (SEBI) provided certain clarifications on schemes of arrangements for listed entities. This issue of our regulatory updates publication covers some of the important updates on auditing and regulatory matters for the period from **1 January 2022 to 31 January 2022**. It also highlights some of the action points that auditors may consider when applying the relevant provisions.

Recap on key updates: During the financial year 2021-22, a number of important updates have been issued by various financial and regulatory bodies such as ICAI, SEBI, RBI, ICAI and other regulators. These updates have been summarised along with their applicability dates.

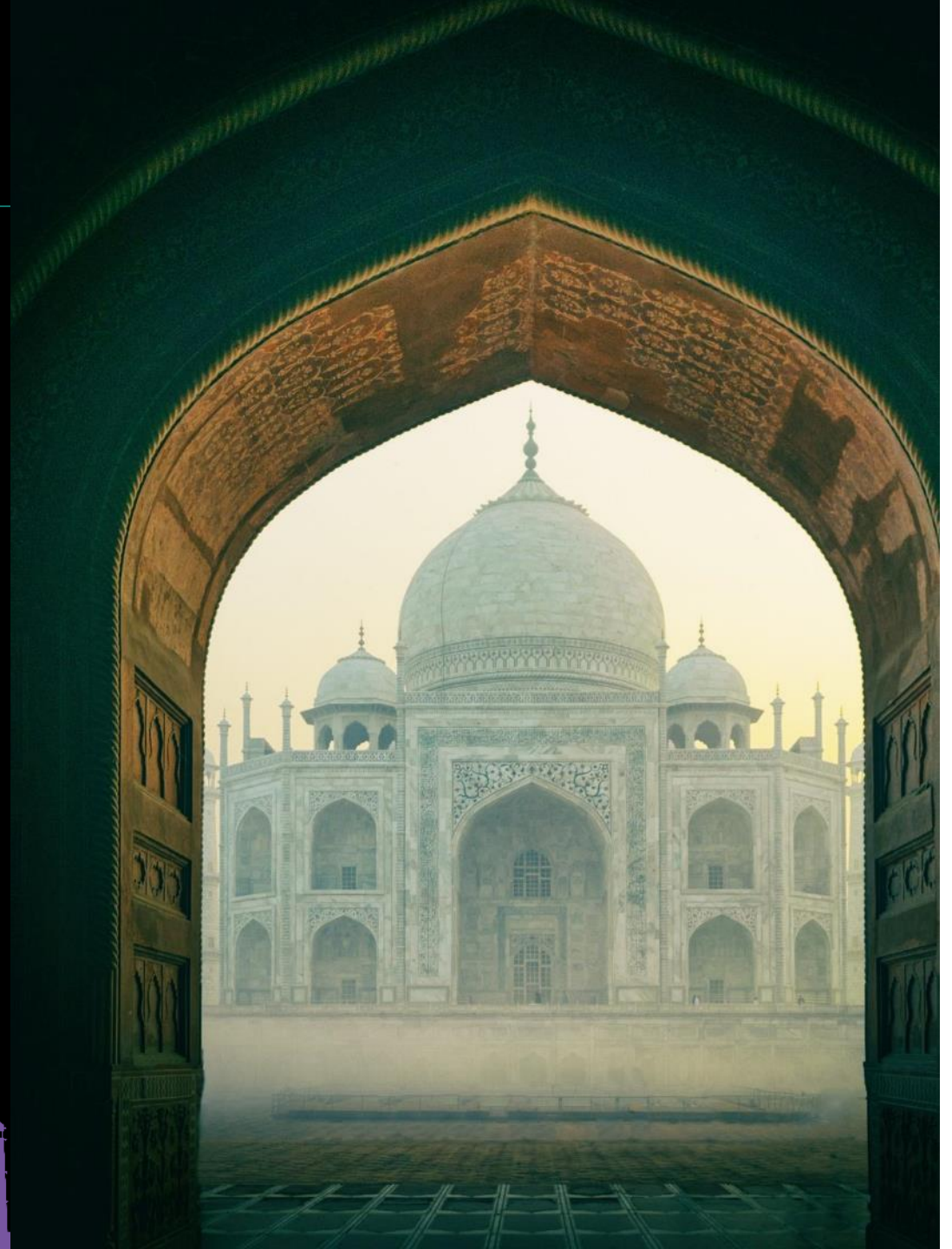


India update

01 Auditing updates

02 Regulatory updates

03 Recap on key updates



Updates from ICAI

Implementation Guide to SA 560, *Subsequent Events* and SA 210, *Agreeing the Terms of Audit Engagements*

The ICAI has released the following Implementation Guides (IG) on 15 January 2022:

- **Implementation Guide to SA 560, *Subsequent Events***: The IG provides a brief introduction and an overview of SA 560, illustrative checklist of audit procedures to be followed by auditors while applying SA 560 as well as illustrative examples. It also provides guidance on various implementation challenges (issues) pertaining to SA 560 in the form of Frequently Asked Questions (FAQs). Some of the key implementation challenges discussed pertain to :
 - a. **Matters excluded** : SA 560 does not deal with matters relating to the auditor's responsibilities regarding 'Other Information', as specified in SA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*. However, when the audited financial statements are included in other documents, subsequent to the issuance of the financial statements, these documents may bring to light a subsequent event that is within the scope of SA 560. The auditor

may have additional responsibilities relating to such subsequent events, for example, performing additional audit procedures upto the date of the document.

- b. **Facts which become known to the auditor after the date of the auditor's report**: The IG on SA 560 provides various scenarios where facts become known to the auditor after the auditor's report but before the financial statements are issued, and in some cases, after the financial statements have been issued. The IG specifies the audit procedures required to be performed by an auditor in each of these scenarios.
- c. **Exception for management from amending the financial statements pursuant to a subsequent event**: In cases where the issuance of the financial statements for the succeeding period is imminent, management may not revise the previously issued financial statements which require amendment due to a subsequent event.
- d. **Dual dating**: Sometimes after completion of audit work, but before issuance of the audit report, a significant event comes to the audit team's attention. In light of this, dual dating refers to dating the audit report on completion of audit work along with an additional later date for disclosure of the impact of a subsequent

event. Its purpose is to provide a means of inserting important information in the financial statements, identified after audit work is complete and to inform users that the auditor takes full responsibility for all subsequent events only up to the end of audit work and for the specifically identified subsequent event. However, responsibility is not taken for other events that may have occurred after the end of audit work.



- e. **Subsequent events impacted by any pandemic or unforeseen circumstances:** An auditor determines the nature, timing and extent of audit procedures such that they are responsive to the auditor's risk assessment. While undertaking audit procedures for subsequent events, including events impacted by a pandemic, the auditor considers management's adjustments or disclosures including timelines used to distinguish between adjusting and non-adjusting events. It is also important to consider the effects of a pandemic as a factor in an entity's analysis of estimates required in the financial statements, including, but not limited to, estimates related to expected credit loss, inventory obsolescence, impairment analyses, variable and contingent compensation, etc. Therefore, judgement needs to be applied to determine whether the conditions existed at the date of the financial statements.
- f. **Factors to consider in a pandemic situation:** The IG on SA 560 provides examples of events or conditions that may be affected by or exist as a result of a pandemic. This includes events involving unforeseen circumstances, and which may be relevant for the auditor in determining whether subsequent events have occurred and reflected in

the financial statements (where applicable), such as, new commitments, borrowings, guarantees, invocation of force majeure clause, etc.

- g. **Auditor's responsibility where events of a pandemic become known after the date of the auditor's report:** The IG refers to para 10 of SA 560, which states that the auditor has no obligation to perform audit procedures regarding the financial statements after the date of the auditor's report. However, additional audit procedures will be required when a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend his/her report.
- h. **Revocation of Unique Document Identification Number (UDIN) on amendment of audit report:** When an auditor amends his/her audit report, the UDIN used for that audit report needs to be revoked in accordance with the FAQs on UDIN for practicing chartered accountants issued by ICAI. This revocation is required even if the management does not amend the financial statements.

- i. **Subsequent events related to changes in Internal Financial Controls over Financial Reporting (IFCoFR):** The auditor should inquire from management whether there were any changes in IFCoFR or factors that significantly impact IFCoFR, obtain written representations from management relating to such matters and consider implications, if any, on the audit report.

To access the text of ICAI notification on IG of SA 560, please [click here](#)



- **Implementation Guide to SA 210, Agreeing the Terms of Audit Engagements:** The IG provides a brief introduction and overview of SA 210, as well as a few illustrative clauses that can be considered to be included in engagement letters. It also provides guidance on various implementation challenges (issues) pertaining to SA 210 in the form of Frequently Asked Questions (FAQs). Some of the key implementation challenges discussed pertain to:

a. Changes in the terms of audit engagement:

Changes in the terms of audit engagements may be considered reasonable or unreasonable as under:

- Reasonable changes in terms:** A few examples of the changes in the terms of audit engagement that can be considered reasonable include, change in circumstances leading to significant change in ownership, significant change in the nature of the business, change in legal or regulatory requirements, etc.
- Unreasonable changes in the terms:** Changes in the terms of audit engagement that would be considered unreasonable include changes relating to information that is incorrect, incomplete or otherwise unsatisfactory. An example might be where the auditor is unable to obtain sufficient appropriate audit

evidence regarding receivables and the entity asks for the audit engagement to be changed to a review engagement to avoid a qualified opinion or a disclaimer of opinion

b. Separate engagement letter for a component: In certain cases, the auditor of the parent entity may also be the auditor of the component. The IG provides factors to be considered for a separate engagement letter in such cases. The factors are as follows:

- Who appoints the component auditor;
- Whether a separate auditor's report is to be issued on the component;
- Legal requirements in relation to audit appointments;
- Degree of ownership by parent; and
- Degree of independence of the component management from the parent entity

c. Engagement letter in case of a joint audit: Two or more auditors, that are appointed to conduct the audit jointly and report on the financial statements of the entity, should obtain a common engagement letter.

To access the text of ICAI notification on IG of SA 210, please [click here](#)



Action points for auditors

- Auditors should refer to the FAQs and examples mentioned in the Implementation Guides to SA 560 and SA 210 while applying these SAs to their audit engagements
- The checklist provided by ICAI in the IG to SA 560 should be customised by auditors based on the specific requirements of the audit engagements and may be included as part of their audit documentation
- The IG to SA 560 also specifies various examples of events and conditions that may be affected as a result of any pandemic, which may be relevant for auditors to determine their possible impact on the financial statements. For example, new commitments, borrowings, etc. entered into by the auditee as a result of the pandemic.
- Illustrative clauses of engagement letters included in the IG to SA 210 may be inserted in the audit engagement letters drafted by auditors, depending upon the terms and conditions of the engagement.



Auditing updates



Auditing updates

Regulatory updates

Recap on key updates

Guidance notes issued on Schedule III

The Ministry of Corporate Affairs (MCA) amended Schedule III of the Companies Act, 2013 on 24 March 2021. Schedule III provides general instructions for preparation of Financial Statements of a company classified under Division I (Indian GAAP), Division II (Ind AS) and Division III (Ind AS for Non-Banking Financial Companies (NBFCs)).

The ICAI through an announcement dated 24 January 2022 has revised the Guidance Notes on Schedule III to the Companies Act, 2013 (GN) for entities covered in Division I, Division II and Division III of the Schedule III respectively. The changes in the GN have largely been made to align the guidance given in the GN with the corresponding changes made by the MCA in Schedule III and CARO 2020. Some of the key guidance provided is on the next page.



Auditing updates



Auditing updates

Regulatory updates

Recap on key updates

Category	Guidance						
Disclosure of shareholding of promoter in a specified format	A company is now required to disclose shareholding of promoters in the format specified below:						
	Shares held by promoters at the end of the year				% Change during the year		
	S.No.	Promoter name	No. of shares	% of total shares			
	Total						
Trade payables ageing schedule	Consequent to the amendments introduced by the Schedule III, companies are now required to disclose the following ageing schedule for trade payables:						
	Particulars	Unbilled[#]	Not due[#]	Outstanding for following periods from due date of payment			Total*
				Less than 1 year	1-2 years	2-3 years	
	(i) MSME						
	(ii) Others						
(iii) Disputed dues –MSME							
(iv) Disputed dues – Others							
<p>[#] As per the guidance note, 'Unbilled' and 'Not due' columns are required to be added before the ageing columns to separately disclose the amount for unbilled payables and trade payables which are not due, respectively</p> <p>[*] As per the guidance note, 'Total' column should tie up to the amounts presented in the financial statements or notes</p>							

Auditing updates



Auditing updates

Regulatory updates

Recap on key updates

Category	Guidance								
Trade receivables ageing schedule	Consequent to the amendments introduced by the Schedule III, companies are now required to disclose the following ageing schedule for trade receivables:								
	Particulars	Unbilled receivable #	Not due#	Outstanding for following periods from due date of payment				Total*	
				Less than 6 months	6 months-1 year	1-2 years	2-3 years		More than 3 years
	(i) Undisputed Trade Receivables – considered good								
	(ii) Undisputed Trade Receivables – considered doubtful								
	(iii) Disputed Trade Receivables – considered good								
(iv) Disputed Trade Receivables – considered doubtful									
	# As per the guidance note, 'Unbilled' and 'Not due' columns are required to be added before the ageing columns to separately disclose the amount for unbilled receivables and trade receivables which are not due, respectively * As per the guidance note, 'Total' column should tie up to the amounts presented in the financial statements or notes								

Auditing updates



Auditing updates

Regulatory updates

Recap on key updates

Category	Guidance				
Property, Plant and Equipment (PPE)	Separate presentation of the amount of change due to revaluation should be provided, irrespective of whether such a change is 10 per cent or more, in order to comply with a broader presentation requirement of AS 10 (revised)/Ind AS 10.				
Capital work-in-progress (CWIP) ageing schedule/ completion schedule	Pursuant to the amendments introduced by the Schedule III, companies are required to disclose the CWIP ageing/completion schedule in relation to the 'original completion plan' determined. A company's 'original plan' shall be considered as that plan which is approved by the relevant approving authority and on the basis of which implementation progress is evaluated. Following ageing and completion formats have been specified in the Schedule III:				
	CWIP ageing schedule				
	CWIP	Amount in WIP for a period of			Total*
		Less than 1 year	1-2 years	2-3 years	More than 3 years
	Projects in progress				
	Projects temporarily suspended				
	* Total should tally with the CWIP amount in the balance sheet				
CWIP completion schedule					
<i>(To be given for CWIP whose completion is overdue or has exceeded its cost compared to its original plan following CWIP completion schedule)</i>					
CWIP	To be completed in			CWIP	
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
Project 1				Project 1	
Project 2				Project 2	

Auditing updates



Auditing updates

Regulatory updates

Recap on key updates

Category	Guidance							
Undisclosed income (in line with CARO 2020)	As per the amendment introduced, details of undisclosed income need to be disclosed in the format as specified below. It covers transactions that were unrecorded in the books of account and which were surrendered or disclosed as income in the tax assessments under the Income Tax Act, 1961 in the form of returns filed. The guidance note has prescribed the following disclosures for undisclosed income:							
	Sr. No.	Assessment Year	Section of the Act	Amount disclosed in tax return	Transaction description along with value treated as income	Assessment status	Whether transaction recorded in books of accounts?	FY in which transaction is recorded
Loans or advances in the nature of loans granted to promoters, directors, KMPs and related parties (in line with CARO 2020)	As per the guidance note, whether an advance is in the nature of a loan, would depend upon the facts and circumstances of each case. Following disclosures are required to be made as per Schedule III where Loans or Advances (in the nature of loans) are granted to promoters, directors, KMPs and the related parties:							
	Type of borrower*		Amount of loan or advance in the nature of loan outstanding#		Percentage to the total Loans and Advances in the nature of loans			
	Promoters							
	Directors							
	KMPs							
Related parties								
* Relationship should be considered on the date of the loan								
# Amount should be outstanding as at the balance sheet date (gross amount without netting off)								
Note: Disclosures are required for previous periods as well								

Auditing updates



Auditing updates

Regulatory updates

Recap on key updates

Category	Guidance						
Borrowings not used for the specific purpose (in line with CARO 2020)	<ul style="list-style-type: none"> • Details of borrowings undertaken but not utilised for the intended purpose need to be disclosed • It is not necessary to establish a one-to-one relationship with the amount of borrowings and its utilisation • Amount deposited in common account and subsequent withdrawal from the account for the said purpose does not tantamount to non-utilisation 						
Title deeds of immovable property not held in the name of the company (in line with CARO 2020)	As per the schedule III, details of immovable property whose title deeds are not held in the name of the company have to be disclosed in the specified format:						
	Relevant line item in the Balance Sheet	Description of item of property	Gross carrying value	Title deeds held in the name of	Whether title deed holder is a promoter, director or relative of promoter/director or employee of promoter/director	Property held since which date	Reason for not being held in the name of the company
	PPE	Land & Building					
	Investment property	Land & Building					
	PPE retired from active use and held for disposal	Land & Building					
Others	Land & Building						
<i>Note: Items presented as inventory by companies carrying on real estate business will not fall under this clause</i>							

Auditing updates



Auditing updates

Regulatory updates

Recap on key updates

Category	Guidance													
Revaluation of PPE based on the valuation by a registered valuer (in line with CARO 2020)	Revaluation of PPE needs to be carried out based on the valuation report received from a registered valuer. In case, a company has not used registered valuer for such fair value/revaluation purposes, the fact needs to be disclosed in the financial statements.													
Details of benami property held (in line with CARO 2020)	<ul style="list-style-type: none"> Pursuant to the Schedule III amendments, companies now need to disclose details of any benami property held, along with benami proceedings initiated, if any Guidance from the Benami Property Transactions Act, 1988 (as amended in 2016) has been provided in line with CARO guidance. 													
Borrowings from banks or financial institutions on the basis of security of current assets (in line with CARO 2020)	Disclosure requirement shall apply if a company has borrowings 'during any point of time of the year' from banks or financial institutions on the basis of security of current assets. Illustrative disclosure format as specified in the Guidance Note:													
	<table border="1"> <thead> <tr> <th>Quarter</th> <th>Name of bank</th> <th>Particulars of Securities provided</th> <th>Amount as per books of account</th> <th>Amount as reported in the quarterly return/ statement</th> <th>Amount of difference</th> <th>Reason for material discrepancies</th> </tr> </thead> <tbody> <tr> <td>June 20XX</td> <td>Bank X</td> <td>Finished goods</td> <td>XX</td> <td>XX</td> <td>XX</td> <td></td> </tr> </tbody> </table>	Quarter	Name of bank	Particulars of Securities provided	Amount as per books of account	Amount as reported in the quarterly return/ statement	Amount of difference	Reason for material discrepancies	June 20XX	Bank X	Finished goods	XX	XX	XX
Quarter	Name of bank	Particulars of Securities provided	Amount as per books of account	Amount as reported in the quarterly return/ statement	Amount of difference	Reason for material discrepancies								
June 20XX	Bank X	Finished goods	XX	XX	XX									
Analytical ratios (in line with CARO 2020)	<ul style="list-style-type: none"> Consequent to the amendments introduced by the Schedule III, various analytical ratios like Current Ratio, Debt Equity Ratio, Debt Service Coverage Ratio now need to be disclosed by the companies. Ratios specific for division III – CRAR (Capital to risk weighted assets ratio), TIER I CRAR, TIER II CRAR and Liquidity coverage ratio. Ratios specific to division I and II – Current ratio, debt-equity ratio, net profit ratio , inventory turnover ratio etc. 													

Auditing updates



Auditing updates

Regulatory updates

Recap on key updates

Category	Guidance
Willful Defaulter (in line with CARO 2020)	Where a company is declared as a willful defaulter by any bank or financial institution or any other lender which has the power to declare so, following details are required to be disclosed: a. Date of declaration as willful defaulter; b. Details of defaults (amount and nature of defaults).

- To refer the text of ICAI Guidance Note of the Schedule III Division I, please [click here](#)
- To refer the text of ICAI Guidance Note of the Schedule III Division II, please [click here](#)
- To refer the text of ICAI Guidance Note of the Schedule III Division III, please [click here](#)

Action points for auditors

Schedule III provides general instructions for preparation of financial statements of a company. The GN issued by ICAI provides broad guidelines to deal with practical issues that may arise in the implementation of the Schedule III. MCA brought corresponding amendments in Schedule III to CARO 2020 to align management responsibilities on disclosures under the Schedule III with those of the statutory auditors under CARO 2020.



Updates from MCA

Amendments to Section 403 (Fee for filing, etc.) (Companies (Amendment) Act) and Companies (Registration Office and Fees) Amendment Rules, 2022

The MCA has notified the second and third provisos to sub-section (1) of section 403 of the Companies Act, 2013 on 11 January 2022. As per these provisos, where there is a delay in submission, filing, registration or recording of the documents, facts or information required or authorised to be registered under the Companies Act, 2013, subject to any legal action or liability under the Companies Act, 2013, entities would need to pay additional fees, as is prescribed (refer notifications 1 and 2). These provisions would be effective from 1 July 2022. Further, revised fees have been notified for the delay in filing of forms other than for increase in nominal share capital under Section 92/137 of the Companies Act, 2013 or forms for filing charges (refer notification 3).

Relaxation on levy of additional fees

The MCA vide circular dated 14 February 2022 has provided a relaxation on levy of additional fees on annual financial statements/return filings for the financial year ended 31 March 2021. Therefore, no additional fees will be levied

- **Upto 15 March 2022**, for filing of e-forms AOC-4, AOC-4 (CFS), AOC-4 XBRL and AOC-4 (non-XBRL)

- **Upto 31 March 2022**, for filing forms MGT-7/MGT-7A

During the said period, only normal fees would be payable.

To access the text of the Companies (Amendment) Act, 2017, please [click here](#)

To access the text of the Companies (Amendment) Act, 2020, please [click here](#)

To access the text of MCA notifications, please click [1](#), [2](#) and [3](#)

To access the text of MCA circular dated 14 February 2022, please click [here](#)

Action points for auditors

The management is responsible for compliance with laws and regulations. Section 403 of the Companies Act, 2013 requires submission, filing, registration or recording of documents, facts or information on a timely basis, however an additional fee would be applicable in case of delay in filing of information. SA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* mentions that non-compliance with laws and regulations may result in fines, litigations or other consequences for an entity that may have a material effect on the financial statements. Thus, auditors should consider this in their audits of financial statements

Updates from SEBI

Clarification on scheme of arrangement by listed entities

On 16 November 2021, SEBI had issued certain amendments to its master circular (no. SEBI/HO/CFD/DIL1/CIR/ P/2020/249) dated 22 December 2020 which laid down the framework of schemes of arrangement by listed entities. The amendments *inter alia*, required a No Objection Certificate (NOC) from lending scheduled commercial banks/financial institutions/debenture trustees to be submitted with the stock exchanges before the scheme is sanctioned by the National Company Law Tribunal (NCLT).

Regulation 37(1) of the Listing Regulations requires a listed entity desirous of undertaking a scheme of arrangement or involved in a scheme of arrangement to file the draft scheme of arrangement with the stock exchange(s) for obtaining the no-objection letter, before filing such a scheme with any Court or Tribunal, in terms of requirements specified by the SEBI or stock exchange(s) from time to time.

2. Second and third proviso to clause (i) of section 80 of the Companies (Amendment) Act, 2017
3. Section 56 of the Companies (Amendment) Act, 2020

SEBI through a circular dated 3 January 2022 has clarified that the NOC required from lending scheduled commercial banks/financial institutions/debenture trustees should be submitted before the receipt of the no-objection letter from the stock exchange in terms of Regulation 37(1) of the Listing Regulations.

To access the text of master circular number SEBI/HO/CFD/DIL1/CIR/ P/2020/249, please [click here](#)

To access the text of circular dated 16 November 2021, please [click here](#)

To access the text of the circular dated 3 January 2022, please [click here](#)

SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2022

On 24 January 2022, SEBI notified certain amendments to the Listing Regulations, the key amendments are listed below:

- **Appointment of directors (Regulation 17):** As per the amendments, approval of shareholders is required for appointment of a person on the Board of Directors (BoD) **or as a manager** at the next general meeting or within a time period of three months from the date of appointment, whichever is earlier. **(Emphasis added**

to highlight the change)

Further, the amendments require that the appointment or a re-appointment of a person, including as a managing director, whole-time director or a manager, who was earlier rejected by the shareholders at a general meeting, shall be effected only with the prior approval of the shareholders. In this regard, the statement annexed to the notice to the shareholders under Section 102(1) of the Companies Act, 2013, shall contain a detailed explanation and justification by the Nomination and Remuneration Committee (NRC) and the BoD for recommending such a person for appointment or re-appointment.

- **Statement of deviation(s) or variation (Regulation 32):** Where the listed entity has appointed a monitoring agency to monitor the utilisation of proceeds of a public or rights issue, the monitoring report of such an agency shall be placed before the audit committee **on a quarterly basis** (earlier required on an annual basis), promptly upon its receipt.
- **Transfer or transmission or transposition of securities (Regulation 40):** Transmission or transposition of securities held in physical or dematerialised form shall be effected only in dematerialised form.

Effective date: The amendments are effective from the date of their publication in the official gazette i.e., 24 January 2022.

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

Action points for auditors

- Auditors that issue compliance certificate with regard to compliance of conditions of corporate governance by listed entities will need to verify whether:
 - Appointment of managers has taken place by obtaining the assent of shareholders within the prescribed timelines
 - A prior approval of shareholders has been obtained for appointment or reappointment of a person, including as a managing director, whole-time director or a manager, who was earlier rejected by the shareholders at a general meeting, along with a detailed explanation by the NRC and BoD for recommending such a person.

Regulatory updates



Auditing updates

Regulatory updates

Recap on key updates

Clarification regarding related party disclosures for High Value Debt Listed Entities (HVDLEs)

The Securities and Exchange Board of India (SEBI) recently amended regulation 23 of the SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015 (Listing Regulations) with regard to related party provisions. This regulation, *inter alia*, mandated entities with listed specified securities (i.e., equity shares and convertible securities) to submit to the stock exchanges disclosure of Related Party Transactions (RPTs) in the format specified by SEBI within the prescribed timelines. Recently, SEBI vide a circular dated 22 November 2021¹ prescribed the disclosure obligations, including the format to be used by issuers of specified securities for reporting of RPTs to stock exchange. This circular is applicable from 1 April 2022.

In addition to the issuers of specified securities, High Value Debt Listed Entities¹ (HVDLEs) are also required to submit the RPT disclosures (as prescribed under regulation 23 of the Listing regulations). This disclosure has to be provided along with the standalone financial results for half year on a 'comply or explain' basis up to 31 March 2023 and on a mandatory basis post 31 March 2023. However, the format to be used by HVDLEs for such disclosures was not specified. SEBI through a circular dated 7 January 2022 has clarified that the provisions of SEBI circular dated 22 November 2021 which specifies disclosure obligations of entities that have listed their specified securities in relation

to RPTs will be applicable to HVDLEs.

To access the text of amendments to Regulation 23 of Listing Regulations, please [click here](#)

To access the text of SEBI circular dated 22 November 2021, please [click here](#)

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

Action points for auditors

While performing audit procedures on related party transactions, auditors of HVDLEs could also refer to the half-yearly disclosures made to SEBI under regulation 23 of the Listing Regulations, to the documents and explanations submitted to the audit committees and shareholders with regard to the material related party transactions.

1. HVDLEs are those entities which have listed non-convertible debt securities and have an outstanding value of listed non-convertible debt securities of INR 500 crore and above. As per recent SEBI circulars, HVDLEs are required to comply with all corporate governance provisions on a 'comply or explain' basis upto 31 March 2023 and on a mandatory basis post that.



Amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018

On 14 January 2022, SEBI notified various amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018 (ICDR Regulations)⁴. These amendments to ICDR regulations (amendments) have been issued to tighten rules for an Initial Public Offering (IPO). Some of the key amendments include:

- **Cap on the usage of the issue proceeds for unidentified future acquisitions (Regulation 7):** The ICDR regulations specify the general conditions that need to be ensured by an issuer making an IPO. The amendments have introduced a cap on usage of issue proceeds, where issue has been raised for:
 - general corporate purposes and
 - such objects where the issuer has not identified acquisition or investment target.

The cap on the usage of issue proceeds as a percentage of the amount being raised by the issuer is as under:

- 35 per cent on an overall basis for both these purposes
- 25 per cent for objects where the issuer has not identified acquisition or investment target.

However, such limits would not apply if the proposed acquisition or strategic investment object has been identified and specific suitable disclosures about such acquisitions or investments are made in the draft offer document and the offer document (effective from 14 January 2022)

- **Restriction on the number of shares that can be offered for sale by significant shareholders: (Regulation 8A):** The amendments have inserted regulation 8A, which restricts the number of shares that can be offered for sale by certain shareholders, where draft offer document is being filed by an issuer without track record (i.e. under regulation 6(2) of the ICDR regulations). As per regulation 8A:
 - Sale by persons, holding more than 20 per cent of the pre-issue shareholding of the issuer, should not exceed 50 per cent of their respective pre-issue shareholding. Further, provisions of lock-in⁵ would be applicable to such shareholders
 - Sale by persons, holding less than 20 per cent of the pre-issue shareholding of the issuer, should not exceed 10 per cent of their respective pre-issue shareholding (effective from 14 January 2022)

- **Extension of anchor investors' lock-in period to 90 days in certain cases (Clause 10(j) of Schedule XIII-Part A):** Before amendment, the ICDR regulations mandated a 30 days lock-in period for shares allotted to the anchor investors from the date of allotment. The amendments now require a lock-in of 90 days on 50 per cent of the shares allotted to the anchor investors from the date of allotment. On the remaining 50 per cent of the shares allotted to the anchor investors, there would be a lock-in of 30 days from the date of allotment. (This amendment is effective from 1 April 2022 for issues opening on or after 1 April 2022)
- **Requirement of valuation report in certain circumstances (Regulation 166A- new regulation):** The amendments have inserted regulation 166A to the ICDR regulations. As per this regulation, in case of a preferential issue wherein there's a change in control or allotment of more than 5% of the post-issue share capital of the issuer company to an allottee, in a such case valuation report from a registered independent valuer would be required (effective from 14 January 2022)

⁴. The amendments have been issued by the SEBI (ICDR) Amendment Regulations, 2022.

⁵. Provisions of lock-in have been prescribed within regulation 17 of the ICDR regulations.

- **Requirement of reasoned recommendation from a committee of independent directors wherein preferential issue results in change in control of the issuer (Regulation 166A- new regulation):** The amendments have inserted regulation 166A to the ICDR regulations. As per this regulation, in case of a preferential issue wherein there's a change in control of the issuer, a committee of independent directors would be required to provide a recommendation along with their comments on all the aspects of preferential issue. Also, voting pattern of such a committee would be required to be disclosed to the shareholders (effective from 14 January 2022)
- **Utilisation of funds of the issue to be monitored by credit rating agencies (Regulation 41(2)):** As per the amendments, credit rating agencies would now be permitted to act as the monitoring agency with respect to the utilisation of the funds of the issue, instead of Scheduled Commercial Banks and Public Financial Institutions, as specified earlier. In addition to this, the monitoring agency would submit its report to the issuer on a quarterly basis, till 100% (earlier 95%) of the proceeds of the issue, excluding the proceeds raised for general corporate purposes, have been utilised (effective from 14 January 2022)
- **Certificates to be issued by practicing company secretary (Regulation 163(2)):** Certificate issued by a practicing company secretary is required to be placed before the general meeting of the shareholders considering the proposed preferential issue, certifying that the issue is being made in accordance with requirements of the ICDR regulations. (earlier, certificate was required to be issued by the statutory auditor of the issuer) (effective from 14 January 2022)
- **Audits permitted by a Chartered Accountant (Schedule VI):** As per ICDR regulations, the audited Consolidated Financial Statements (CFS) of the issuer and certified proforma financial statements of material subsidiaries or businesses material to the issuer are required to be disclosed in the offer document in certain cases. The audit or certification as prescribed was earlier required to be done by the statutory auditor of the issuer. The amendments now require the audit or certification (as the case may be) to be done by either the statutory auditor(s) or **Chartered Accountants** who hold a valid certificate issued by the Peer Review Board of ICAI (effective from 14 January 2022).

Effective date: These amendments are effective from the date of their publication in the official gazette, i.e. 14 January 2022. Certain amendments as prescribed in the circular would be effective from 1 April 2022 for issues opening on or after 1 April 2022.

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

Action points for auditors

The amendments have brought a significant change in the scope of work of statutory auditors, mainly due to:

- Practicing company secretaries are now required to issue certificate to shareholders under the ICDR regulations, certifying that the issue is being made in accordance with requirements of the ICDR regulations.
- Any Chartered Accountant (whether or not the Chartered Accountant is appointed as a statutory auditor of the issuer) with a valid certificate issued by the Peer review board of ICAI can audit and certify the financial statements disclosed in the offer document

Consultation paper on Environmental, Social and Governance (ESG) Rating Providers for Securities Markets

ESG rating providers (ERP) are typically not subject to regulatory oversight at present, this could lead to lack of trust in such ESG ratings. Therefore, there arises an imperative need, to ensure that the providers of such products operate in a transparent and regulated environment that balances the needs of all stakeholders.

SEBI, through a consultation paper, is seeking public comments on a proposed regulatory framework to regulate ERPs and oversight there on. This consultation paper follows a series of discussions held with multiple stakeholders, including global and national ERPs, credit rating agencies, mutual funds offering ESG schemes, and research/audit firms.

Comments on this consultation paper are invited upto 10 March 2022

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

Action points for auditors

Auditors may emphasise the importance of this consultation paper to their clients, as ESG ratings will now be permitted to be obtained only from accredited ERPs, and products offered by ERPs would be as proposed in the consultation paper.

Updates from CBDT

Extension of timelines for filing income-tax returns and reports of audit for AY 2021-22

The Central Board of Direct Taxes (CBDT) through a circular dated 11 January 2022 has further extended the timelines for various compliances under the Income-Tax Act, 1961 (IT Act).

Particulars	Due date	Revised timeline
Report of audit under any provision of the IT Act for the Previous Year (PY) 2020-21	30 September 2021/ 31 October 2021	15 February 2022
Report from an accountant by persons entering into international transaction or specified domestic transaction under Section 92E of the IT Act for PY2020-21	31 October 2021	15 February 2022
Return of income under Section 139(1) of the IT Act for Assessment Year (AY) 2021-22	31 October 2021/ 30 November 2021	15 March 2022

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

Action points for auditors

Chartered Accountants that are in the process of filing income tax returns, or performing audits under the Income Tax Act, 1961 and under transfer pricing regulations should take note of the revised timelines.

Recap on key updates



Auditing updates

Regulatory updates

Recap on key updates

During the financial year 2021-22, a number of important updates have been issued by various financial and regulatory bodies such as ICAI, SEBI, RBI, ICAI and other regulators. These updates have been summarized below along with their applicability dates.

Updates from MCA

Applicability of CARO 2020

(Effective 1 April 2021)



In February 2020, MCA issued the [Companies \(Auditor's Report\) Order, 2020 \(CARO 2020\)](#), making it applicable for auditors of prescribed class of companies. It is effective for financial years [commencing on or after 1 April 2021](#).

CARO 2020 has added several new clauses and revised certain existing clauses of CARO 2016. Reporting on CARO requires application of judgement, accordingly ICAI has released a [guidance note for reporting under CARO](#).

Revision to Schedule III

(Effective 1 April 2021)



On 24 March 2021, MCA issued certain [amendments to Schedule III](#) of the Companies Act, 2013 in Divisions I, II and III. The amendments in Schedule III are largely driven by requirements relating to CARO 2020. ICAI has issued guidance notes for amendments in [Division I](#), [Division II](#) and [Division III](#).

Additional disclosures in auditors' report (Effective 1 April 2021)



On 24 March 2021, MCA [amended the Companies \(Audit and Auditors\) Rules, 2014](#), thereby requiring additional matters to be reported in audit report under 'Other matter' paragraph. The matters include:

- Management representation on funds advanced, loaned to or invested in by an entity or received by an entity for further advancement, etc.; and such representation is not materially misstated
- Dividend declared and paid during the year is in compliance with the Companies Act, 2013

Recap on key updates



Auditing updates

Regulatory updates

Recap on key updates

Updates from MCA (cont.)

Manner of maintaining books of account in electronic mode and auditor's responsibility to report thereon



(Effective 1 April 2022)

On 24 March 2021, MCA issued amendments to provisions of [Companies \(Accounts\) Rules, 2014](#) and [Companies \(Audit and Auditors\) Rules, 2014](#) under the Companies Act, 2013. As per the amendments:

- **Companies** that use accounting software for maintaining books of account, should use such software which has feature of **recording audit trail** of each transaction, creates an **edit log** of each change made in books of account and ensures **audit trail is not disabled**
- **Auditor** needs to report whether the company has **used** an accounting software having a **feature of recording audit trail**, the audit trail feature has been **operated throughout the year** for all transactions recorded, audit trail feature has **not been tampered with**, and audit trail has been **preserved by the company** as per statutory requirements.

The requirements for [maintaining the software with audit trail feature](#) and [auditors responsibility to report thereon](#) are effective for the financial year commencing on or after 1 April 2022.

Updates from SEBI

Revisions in related party provisions



(Effective 1 April 2022 and 1 April 2023)

On 9 November 2021, SEBI notified amendments to the Listing regulations on related parties and Related Party Transactions (RPTs) vide [SEBI \(Listing Obligations and Disclosure Requirement\) \(Sixth Amendment\) Regulations, 2021](#). Subsequently, on [22 November 2021](#) and [7 January 2022](#), SEBI issued a circular specifying the disclosure obligations of listed entities (including HVDLEs) with respect to RPTs. The amendments mainly pertain to:

- Revising the definition of related parties and RPTs
 - Audit committee's approval mechanism for RPTs and information to provided to audit committees
 - Materiality threshold and shareholder's approval for RPT
 - Enhanced disclosures, including revised format prescribed for submitting RPTs to stock exchanges on a six-monthly basis
- Certain amendments will be effective 1 April 2023, and others will be effective 1 April 2022.

Updates from MCA

Updates from SEBI

Updates from Reserve Bank of India (RBI)

Recap on key updates



Auditing updates

Regulatory updates

Recap on key updates

Updates from SEBI (cont.)

BRSR
*(Voluntary for
FY 21-22 and
mandatory from
FY 22-23)*



On 10 May 2021, SEBI notified the [Business Responsibility and Sustainable Reporting \(BRSR\)](#) provisions which is applicable to top 1,000 listed entities based on market capitalisation.

As per the notification, top 1,000 listed entities by market capitalisation may voluntarily report on BRSR (in place of the extant Business Responsibility Report (BRR)) as part of their annual report for financial years 2021-22. However, it would be mandatory to report on BRSR for financial year 2022-23 and onwards.

**Corporate
governance for
HVDLEs**
*(Mandatory from
1 April 2023)*



On 7 September 2021, SEBI notified amendments to [issuers of Non-Convertible securities](#). Most of the amendments pertaining to financial reporting and enhanced disclosures to stock exchanges, debenture trustees and on the website were applicable on an immediate basis.

However, corporate governance provisions for High Value Debt Listed Entities (HVDLEs) are applicable on a 'comply or explain basis' up to 31 March 2023, and on a mandatory basis with effect from 1 April 2023.

**Ind AS for mutual
funds**
*(Effective
1 April 2023)*



On 25 January 2022, SEBI vide a notification issued the [SEBI \(Mutual Funds\) \(Amendment\) Regulations, 2022](#). As per this notification, the financial statements and accounts of mutual fund schemes will be prepared in accordance with Indian Accounting Standards (Ind AS). In case of conflict between Ind AS and the MF Regulations, requirements specified under the mutual fund regulations should be followed by asset management companies. Additionally, SEBI vide a circular dated [4 February 2022](#) mandated certain guidelines on accounting with respect Ind AS for mutual funds (guidelines). The guidelines also provide specific formats of financial statements to be prepared for the mutual fund schemes under Ind AS. This circular is effective **1 April 2023**.

Recap on key updates



Auditing updates

Regulatory updates

Recap on key updates

Updates from Reserve Bank of India (RBI)

Scale-based regulation for NBFCs
(Effective 1 Apr 2022/
1 October 2022)



On 22 October 2021, RBI issued guidelines on a [scale-based regulation for NBFCs](#). The scale-based regulatory approach renders the regulation and supervision of NBFCs to be a function of their size, activity and perceived riskiness.

As per the scale-based regulation, NBFCs would be structured in the top layer, upper layer, middle layer and bottom layer.

These guidelines would apply from 1 October 2022. The instructions relating to ceiling on IPO funding would apply from 1 April 2022.



Updates from MCA

Updates from SEBI

Updates from Reserve Bank of India (RBI)



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