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Regulatory updates for the month of July 2022

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Regulatory updates for July 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

Some of the important updates include the issuance of the revised Guidance Note on the Companies (Auditor's) Report Order, 2020 (CARO 2020) (revised guidance note) by the Institute of Chartered Accountants of India (ICAI). The revised guidance note has modified the format of reporting for certain clauses and also refers to the disclosures to be provided as per Schedule III of the Companies Act, 2013.

Additionally, the Securities and Exchange Board of India (SEBI) notified the regulations pertaining to establishment of a social stock exchange by amending certain regulations.

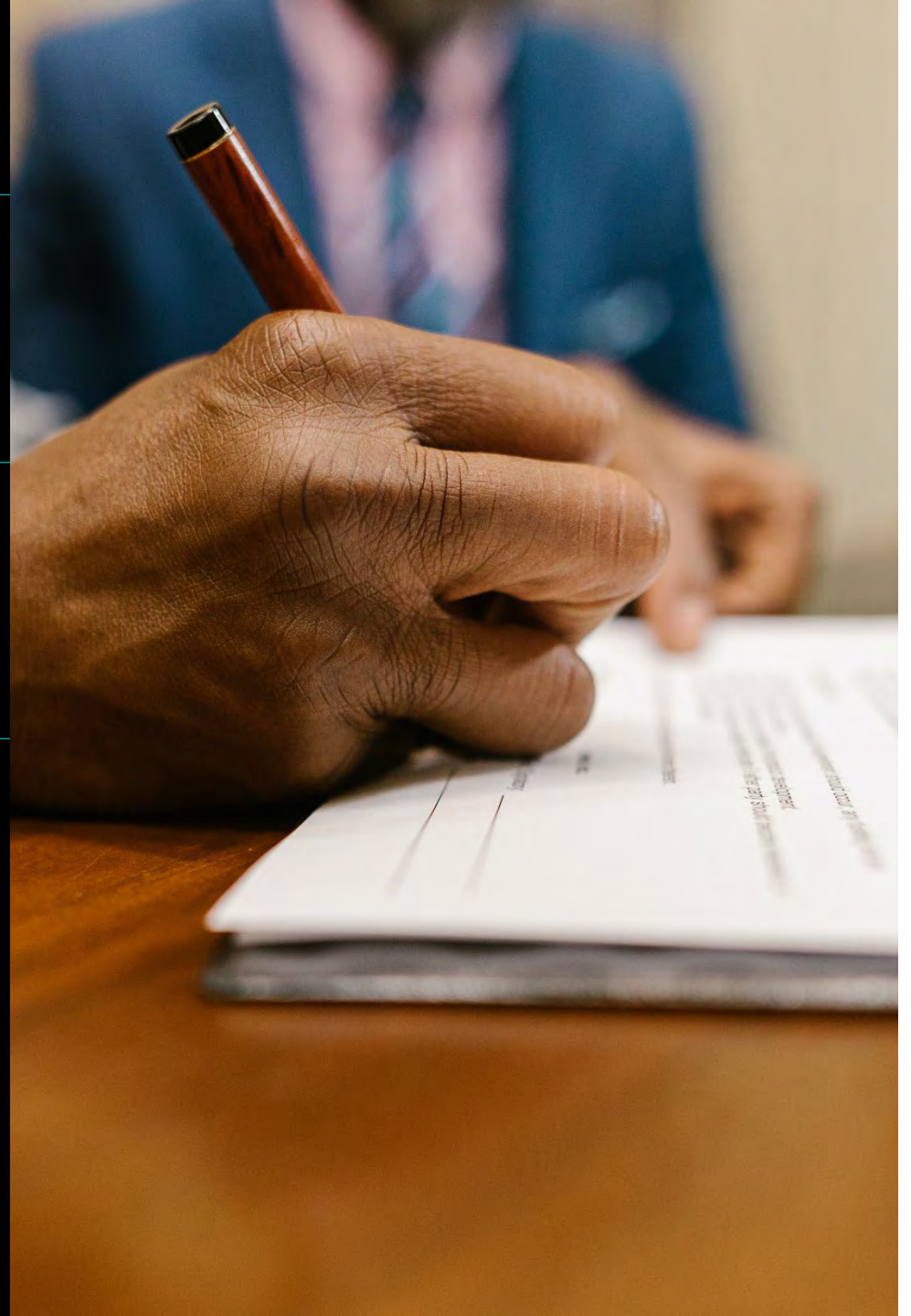
This issue of the regulatory updates publication covers some of the important updates on accounting, auditing and regulatory matters for the period from **1 July 2022 to 31 July 2022**. It also highlights some of the action points that auditors may consider when applying the relevant provisions.



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Updates from ICAI

ICAI issues a Technical Guide on financial statements of Limited Liability Partnerships (LLPs)

In June 2022, the Institute of Chartered Accountants of India (ICAI) had issued a Technical Guide on financial statements for non-corporate entities. However, Limited Liability Partnerships (LLPs) are not within the scope of the Technical Guide on financial statements for non-corporate entities. Thus, on 1 July 2022, ICAI issued a Technical Guide on financial statements of the Limited Liability Partnerships (LLPs) (Technical Guide). The objective of the Technical Guide is to provide guidance on the applicability of the Accounting Standards (AS) to the LLPs and to prescribe formats for the preparation of the financial statements for LLPs.

Meaning of an LLP

An LLP is a body corporate formed and incorporated under the Limited Liability Partnership Act, 2008 (LLP Act). It is a corporate business form which gives the benefits of limited liability of a company and the flexibility of a partnership. Since an LLP contains elements of both 'a corporate structure' as well as 'a partnership firm structure', it is called a hybrid of a company and a partnership.

Applicability of the Technical Guide

This Technical Guide is recommended for the purpose of preparation of financial statements of the LLPs. However, the non-company entities which follow Ind AS are not required to follow this Technical Guide.

Key considerations

- **Applicability of AS:** Recently, the Limited Liability Partnership (Amendment) Act, 2021, has been issued which requires that standards of accounting, as recommended by ICAI may be prescribed by the Central Government in consultation with the National Financial Reporting Authority for a class or classes of LLPs. Currently, the Accounting Standards for LLPs are yet to be notified by the Central Government and, accordingly, for the purpose of preparation and presentation of the financial statements, the LLPs are required to apply Accounting Standards prescribed by the ICAI. For the purpose of determining the applicability of the accounting standards, LLPs have been classified into four levels:

- Level I entities (large size entities),
- Level II entities (medium size entities),
- Level III entities (small size entities), and
- Level IV entities (micro entities).

The criteria for entities to be classified as Level I, II, III and IV has been provided in Annexure I of the Technical Guide and applicability of AS and exemptions/relaxations to entities from applicability of certain AS have been given in Annexure 2¹.



¹ Level I entities are required to comply with all the Accounting Standards. Level II, Level III and Level IV entities have been granted certain exemptions/relaxations from compliance with the Accounting Standards.

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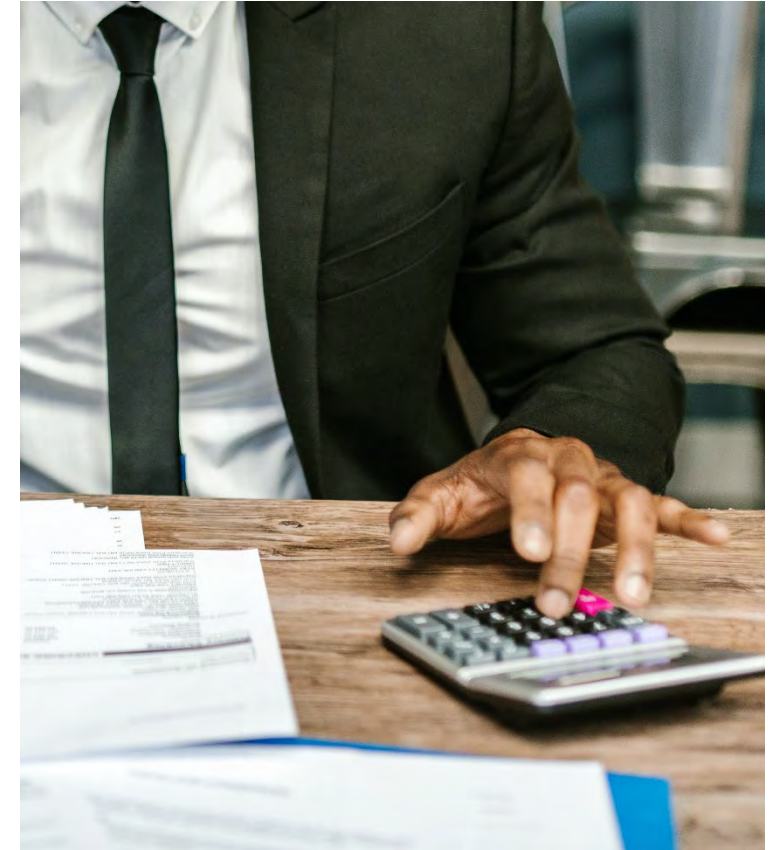


- **Format:** The Technical Guide has prescribed a format for the preparation of financial statements for LLPs. It seems to be in line with the format provided by Schedule III (Division I) to the Companies Act, 2013². However, it excludes items which are not relevant for LLPs such as:
 - i. Share capital details,
 - ii. Details of ageing schedule of trade receivables and payables,
 - iii. Details of cost of goods sold are required to be disclosed instead of details of cost of material consumed, purchase of stock in trade, etc.
 - iv. Disclosure of ratios, and
 - v. Additional regulatory information, etc.

To access the text of the Technical Guide for LLPs, please [click here](#)

Action Points for Auditors

- The Technical Guide is recommendatory in nature. However, auditors should actively engage with the LLPs and encourage them to understand and adopt the format for reporting and comply with the applicable Accounting Standards. This would help in bringing consistency and comparability in the presentation and disclosure of financial information reported by the LLP entities.
- Audit professionals should also note that this announcement supersedes the earlier announcement of the ICAI on 'Harmonisation of various differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government' issued in February 2008, to the extent it prescribes the criteria for classification of Non-company entities (Non-corporate entities) and applicability of Accounting Standards to non-company entities, and the Announcement 'Revision in the criteria for classifying Level II non-corporate entities' issued in January 2013.



² Division I of Schedule III to the Companies Act, 2013 prescribes the format of financial statements for a company required to comply with the Companies (Accounting Standards) Rules, 2021

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Updates from ICAI

ICAI issues Educational Material on Ind AS 34, *Interim Financial Reporting*

An interim financial report is a complete or condensed set of financial statements for an interim period which is shorter than a full financial year. Ind AS 34, *Interim Financial Reporting* prescribes the minimum content of an interim financial report and also specifies the applicable recognition and measurement principles.

On 4 July 2022, ICAI released the Educational Material on Ind AS 34 (Educational Material). The Educational Material provides guidance in the form of Frequently Asked Questions (FAQs) on the practical issues that the preparers of the financial statements face while preparing condensed interim financial reports. Some of the key matters discussed in the Educational Material include:

- **Applicability of Ind AS 34:** Ind AS 34 does not specify the category of entities or how frequently the interim financial reports are required to be published. This is generally a matter for the relevant law and government regulations. Therefore, in the absence of any specific regulatory requirement or obligation, an entity is not required to publish interim financial information in compliance with Ind AS 34. However, an entity may choose to prepare the interim financial statements on a voluntary basis. Thus, Ind AS 34 applies only if an entity applying Ind AS in its annual financial statements is required or elects to publish an interim financial report in accordance with Ind AS.

- **Requirement to comply with all principles of Ind AS:** An entity's interim financial report can be described as complying with Ind ASs only if it meets all of the requirements of Ind AS 34. Accordingly, for an interim financial report to be compliant with Ind AS, it should not only apply the recognition and measurement principles of Ind AS in its interim financial report, but also provide all the disclosures required in Ind AS 34
- **Use of different accounting framework for preparing the interim and annual financial statements:** There may be cases where a reporting entity prepares its interim financial report that does not comply with either all or some of the requirements of Ind AS, however prepares its year-end financial statements in compliance with the requirements of Ind AS. Since each financial report, annual or interim, is evaluated on its own for conformity to Ind AS³, therefore, in the specified case it does not prevent the entity's annual financial statements from conforming to Ind AS. Such annual financial statements should be described to be in compliance with the requirements of Ind AS.
- **Condensed statement of cash flows in interim financial report:** The interim report should contain all information, explanation of events and transactions that is relevant to understand the changes in financial position and performance of an entity during the interim period. Information about cash flows help users to understand a reporting entity's operations, evaluate its financing and investing activities, assess its liquidity or solvency and interpret other information about financial performance. Accordingly, a condensed statement of cash flows should include all information that is relevant in understanding



³ Paragraph 2 of Ind AS 34

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an entity's ability to generate cash flows and the entity's needs to utilise those cash flows. A three-line presentation of operating, investing and financing activity in a condensed statement of cash flows alone is not expected to meet the requirements of Ind AS 34.

- **Third balance sheet in the interim financial statements:** Ind AS 34 does not include the requirements of Ind AS 1, *Presentation of Financial Statements* in respect of balance sheet as at the beginning of the preceding period when preparing condensed interim financial statements⁴. As a consequence, in condensed interim financial statements, it is not necessary to provide an additional balance sheet as at the beginning of the earliest comparative period presented (i.e., third balance sheet) where an entity has made a retrospective change in an accounting policy (or a retrospective restatement or a retrospective reclassification). However, an entity may present a third balance sheet on a voluntary basis.
- **Disclosure of additional information in the condensed interim financial statements:** As per Ind AS 34, condensed interim financial statements should include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required. Any additional information should also be included, if its omission would make the condensed interim financial statements misleading⁵. However, in deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality should be assessed in

relation to the interim period financial data⁶. If on assessment, the entity considers the information to be material, it should disclose the same irrespective of whether or not the same was presented in its last annual financial statements.

- **Treatment of certain items in an entity's interim financial statements:** The Educational Material has provided clarifications on treatment of certain items in an entity's financial statements. They are as follows:
 - **Revenue received and costs incurred on an uneven basis:** Revenues received (such as dividend income) and costs incurred (such as 60 per cent of annual advertising expense incurred in a particular month) on an uneven basis should not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the entity's financial year. Accordingly, these expenses and incomes should be recorded in the period in which they have been incurred.
 - **Reversal of impairment loss in interim financial statements:** Based on a combined reading of Ind AS 34 and Ind AS 36, *Impairment of Assets*, reversal of impairment of goodwill is prohibited in a subsequent period, be it annual or interim financial statements. However, reversal of impairment loss of other intangible assets is permitted in interim financial statements, provided all other requirements of Ind AS 36 are met.



⁴ As per paragraph 8 of Ind AS 34, the minimum components of an interim financial report include:

- a condensed balance sheet
- a condensed statement of profit and loss
- a condensed statement of changes in equity
- a condensed statement of cash flows, and
- selected explanatory notes

⁵ Paragraph 10 of Ind AS 34

⁶ Paragraph 23 of Ind AS 34

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- **Employee benefit expenses in interim financial statements:** An entity should determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period. Ind AS 19, *Employee Benefits* encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligation. For interim reporting purposes, reliable measurement is often obtainable by extrapolation of the latest actuarial valuation (where the actuarial valuation is obtained). The results of valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.
- **Income tax expense:** Income tax expense for the interim period is accrued using the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. The estimated average annual effective income tax rate is required to be re-estimated on a year-to-date basis at the end of each interim reporting period. In arriving at the interim period income tax expense, jurisdiction-wise profit before tax (PBT), income categories taxed at different rates need to be considered. The Educational Material has provided certain examples for computation of income tax expenses under different scenarios.

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

Action Points for Auditors

The Educational Material provides a wide range of examples and practical scenarios on applicability of Ind AS 34 and issues surrounding the preparation and presentation of condensed interim financial information.



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Updates from ICAI

ICAI issues revised Guidance Note on CARO 2020 (Revised 2022 Edition)

In July 2020, ICAI had issued the Guidance Note on the Companies (Auditor's Report) Order, 2020 (CARO 2020) (guidance note) to provide detailed guidance to auditors on the reporting requirements of CARO 2020.

Subsequently, certain amendments were made to the Schedule III to the Companies Act, 2013 (Schedule III). Therefore, with the objective of aligning the CARO 2020 with the additional disclosures introduced by the Schedule III, in June 2022, ICAI issued an Exposure Draft of the Guidance Note on CARO 2020. Based on the feedback received from various stakeholders, on 14 July 2022, ICAI released the Guidance Note on CARO 2020 (revised guidance note). Following are some of the key changes introduced:

a. Applicability:

- For evaluating applicability of the CARO 2020 for companies following IGAAP, total income should be considered as a criterion instead of total revenue. Therefore, this requirement is aligned for entities complying with both, Accounting Standards and Ind AS
- For evaluating applicability of CARO 2020 to NBFC companies, definition of Reserves and Surplus has been amended. The revised definition of Reserves and Surplus⁷ for entities following Division III of Schedule III is now aligned with the definition of Reserves and Surplus for entities following Division II of the Schedule III.

- b. Clause 3(iii)(c) – Regularity of repayment of principal and interests for loans granted:** This clause requires an auditor to report in respect of loans and advances in the nature of loans, with respect to the schedule of repayment of principal and interest and on regularity of such repayment. The revised guidance note has modified the reporting format and added an additional column for 'actual date of payment'. The said format is applicable for all the companies, whether or not their principal business is to give loans. The revised reporting format is given below:

Name of the Entity	Amount	Due date	Date of payment [NEW COLUMN]	Extent of delay	Remarks, if any

- c. Clause 3(iii)(e) – Evergreening of loans/advance in the nature of loans granted:** The revised guidance note has amended the reporting format by adding an additional column for gross amount of loans/advances in the nature of loan granted during the year to those parties where the overdue amount was settled by way of renewal or extension or fresh loan.

Name of the parties	Aggregate amount of loans or advances in the nature of loans granted during the year [NEW COLUMN]	Aggregate overdue amount settled by renewal or extension or by fresh loans granted to same parties	Percentage of the aggregate to the total loans or advances in the nature of loans granted during the year

⁷ As per the revised definition, Reserves and Surplus comprise of:

- Capital Reserve,
- Retained Earnings,
- Securities Premium, and
- Other Reserves.

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- d. **Clause 3(ix)(f) – Reporting on raising of loans against pledge of securities held in subsidiaries, etc.:** Auditors are currently required to report the loans raised by a company against a pledge of securities held in its subsidiaries, associates and joint ventures. As per the revised guidance note, companies would now be required to disclose the nature and carrying amount of the securities pledged, and cross reference it to the relevant note in the financial statements.
- e. **Clause (xix) – Reporting on material uncertainty:** Before amendment of the guidance note, auditors were required to review the liquidity ratios computed by the company and report on whether any material uncertainty exists as on the date of the audit report. However, as per the revised guidance note, auditors should now use the financial ratios⁸ as computed and disclosed by companies in accordance with the requirement of the Schedule III, instead of the liquidity ratios for reporting under this clause.

Apart from the aforementioned changes, other changes in the exposure draft are clarificatory in nature and provide reference to the Schedule III disclosures including the fact where the reporting requirement under the CARO 2020 is different from that in the Schedule III.

To access the text of the revised Guidance Note, please [click here](#)

Action Points for Auditors

In many clauses, the revised Guidance Note stipulates that auditors should review the disclosures given in the financial statements pertaining to the respective CARO clause, and accordingly provide their comments in the CARO 2020. However, in certain clauses, the reporting requirement under the CARO 2020 is different from that in the Schedule III. In such cases, professional judgement needs to be exercised by the auditors.



⁸ Schedule III (Division I and II) requires disclosure of the following financial ratios in the financial statements:

- Current ratio
- Debt-equity ratio
- Debt service coverage ratio
- Return on equity ratio
- Inventory turnover ratio
- Trade receivables turnover ratio
- Trade payables turnover ratio
- Net capital turnover ratio
- Net profit ratio
- Return on capital employed
- Return on investment

Schedule III (Division III) requires disclosure of the following financial ratios in the financial statements:

- Capital to risk-weighted asset ratio (CRAR)
- Tier I CRAR
- Tier II CRAR
- Liquidity Coverage Ratios

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Updates from SEBI

SEBI introduces regulations pertaining to Social Stock Exchange

The Government of India, vide its budget speech for FY 2019-20 had proposed to initiate steps towards creating a Social Stock Exchange⁹, under the regulatory ambit of the Securities and Exchange Board of India (SEBI).

Accordingly, in September 2019, SEBI constituted a Working Group (WG) to *inter alia* make recommendations with respect to possible structures and mechanism of an SSE within the securities market domain. Subsequently, in September 2020, SEBI constituted a Technical Group (TG)¹⁰ to recommend on matters related to the scope of work, eligibility criteria and regulation of social auditors.

Based on the recommendations of the WG and the TG, and the public comments received on the recommendations of the WG and the TG, on 25 July 2022, SEBI introduced regulations pertaining to SSE by making amendments to the following regulations:

- The SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations)¹¹ by inserting a chapter on 'Social Stock Exchange'
- The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations)¹² by adding a chapter on 'Obligations of a Social Enterprise', and
- The SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations)¹³.

The key amendments have been discussed below:

A. Amendments to ICDR Regulations

The ICDR Amendment Regulations have inserted a new chapter, 'Chapter X-A, Social Stock Exchange' in the ICDR Regulations, which deals with various aspects of an SSE and introduces the concept of a Zero Coupon Zero Principal Instrument (ZCZP), which can be issued by Not for Profit Organisations (NPOs). Some of the key aspects pertaining to the SSE and ZCZP are as follows:

- **Meaning and Applicability:** According to the ICDR Amendment Regulations, a 'Social Stock Exchange' means a separate segment of a recognised stock exchange having nationwide trading terminals, permitted to register NPOs¹⁴ and/or list the securities issued by NPOs in accordance with the provisions of the ICDR Regulations. The provisions of Chapter X-A would apply to:
 - NPOs seeking to only get registered with an SSE,
 - NPOs seeking to get registered and raise funds through an SSE, and
 - For Profit Social Enterprises¹⁵ seeking to be identified as a Social Enterprise (SE)¹⁶ under the provisions of Chapter X-A of the ICDR Regulations.
- **Access to SSE:** An SSE would be accessible only to institutional and non-institutional investors. Other classes of investors, as SEBI deems fit may also be permitted to access the SSE.



⁹ The rationale for setting up the SSE is to enhance transparency and make available information about for-profit social enterprises or non-profit organisations in public domain, which would augment the flow of funds in favor of such enterprises.

¹⁰ The technical group was built upon the recommendations of the WG

¹¹ The amendments have been issued by the SEBI (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022 (ICDR Amendment Regulations)

¹² The amendments have been issued by the SEBI LODR (Fifth Amendment) Regulations, 2022 (LODR Amendment Regulations)

¹³ The amendments have been issued by the SEBI AIF (Third Amendment) Regulations, 2022 (AIF Amendment Regulations)

¹⁴ An NPO means a social enterprise, which is any of the following entities:

- A charitable trust registered under the Indian Trusts Act, 1882
- A charitable trust registered under the public trust statute of the relevant state
- A charitable society registered under the Societies Registration Act, 1860
- A company incorporated under section 8 of the Companies Act, 2013
- Any other entity as may be specified by SEBI

¹⁵ 'For Profit Social Enterprise' means a company or a body corporate operating for profit, which is a social enterprise for the purposes of the ICDR Regulations and does not include a company incorporated under section 8 of the Companies Act, 2013

¹⁶ A social enterprise means either a NPO or a For Profit Social Enterprise that meets the eligibility criteria specified in Chapter X-A;

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- **Governance of SSE:** Every SSE should constitute an SSE Governing Council to have an oversight on its functioning. The composition and terms of reference of the Governing Council would be specified by SEBI from time to time.
- **Eligibility conditions for being identified as a social enterprise¹⁷:** An NPO or a For Profit Social Enterprise (FPSE), in order to be identified as a social enterprise, must **establish primacy of its social intent** by engaging in activities such as eradicating hunger, poverty, malnutrition and inequality, promoting health care including mental healthcare, sanitation and making available safe drinking water, promoting education, employability and livelihoods, protection of national heritage, art and culture and so on. It should target underserved or less privileged population segments or regions recording lower performance in the development priorities of central or state governments.

Such an enterprise 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.

- **Registration with SSE:** An NPO that seeks to raise funds through an SSE should mandatorily register with an SSE¹⁸. The minimum requirements for registration would be specified by SEBI, the SSE may specify additional eligibility requirements.
- **Fund raising by social enterprises¹⁹:** A social enterprise may raise funds through the following means:
 - a. A NPO may raise funds on an SSE through:
 - Issuance of ZCZP instruments²⁰ to institutional investors and/or non-institutional investors,
 - Donations through Mutual Fund schemes as specified by SEBI, or
 - Any other means as specified by SEBI from time to time.
 - b. A FPSE may raise funds through:
 - Issuance of equity shares on the main board, Small and Medium Enterprises (SME) platform or innovators growth platform or equity shares issued to an AIF including a Social Impact Fund,
 - Issuance of debt securities, or
 - Any other means as specified by SEBI from time to time.
- **Other provisions:** In addition to the above provisions, Chapter X-A of the ICDR Regulations stipulates regulations for the following:
 - Cases when a social enterprise is not eligible to register or raise funds through a SSE or stock exchange
 - Eligibility for issuance of ZCZP instruments
 - Procedure for public and private issuance of ZCZP instruments
 - Contents of a fund-raising document
 - Other conditions relating to issuance of ZCZP instruments
 - Termination of listing of ZCZP instruments from SSE

To access the text of the ICDR Amendment Regulations, please [click here](#)



¹⁷ Corporate foundations, political or religious organizations or activities, professional or trade associations, infrastructure and housing companies, except affordable housing, are not eligible to be identified as a social enterprise.

¹⁸ A NPO may choose to register with a SSE and not raise funds through it.
¹⁹ A social enterprise would be eligible to register or raise funds through a Social Stock Exchange, subject to the restrictions specified in Para 292H of the Regulations.

²⁰ ZCZP instruments would have a specific tenure, they would be issued without any coupon and no principal amount would be payable on its maturity. Further, the public issuance of ZCZP instruments by a registered NPO in accordance with the ICDR Regulations would be deemed to be in compliance with Rule 19 of the Securities Contracts (Regulation) Rules, 1957.

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B. Amendments to LODR Regulations

Some of the key amendments specified in the LODR Amendment Regulations are as follows:

Applicability: The LODR Amendment Regulations inserted a chapter – ‘**Chapter IX-A, Obligations of social enterprises**’. The provisions of this chapter apply to:

- A FPSE whose designated securities are listed on the applicable segment of the Stock Exchange(s), and
- An NPO that is registered on the SSE(s).
- **Issuer of ZCZP instruments would be considered as a ‘listed entity’:** The LODR Amendment Regulations have added ZCZP instruments in the definition of ‘designated securities’, accordingly, an entity that issues a ZCZP instrument would be considered as a listed entity²¹ within the meaning of the LODR Regulations.
- **Disclosure requirements - applicable to FPSE:** A FPSE whose designated securities are listed on the Stock Exchange(s) should comply with the disclosure requirements contained in the LODR Regulations with respect to issuers whose specified securities are listed on the Main Board or the SME Exchange or the Innovators Growth Platform, as the case may be.
- **Disclosure requirements – applicable to NPO:** An NPO registered on the SSE(s), should make annual disclosures to the SSE(s) on matters specified by SEBI, within 60 days from the end of the financial year or within such period as may be prescribed.

Additionally, the SSE(s) may specify other matters that need to be disclosed by the NPO on an annual basis.

• Intimations and disclosures by social enterprise to SSEs or stock exchanges:

- **Materiality assessment:** A social enterprise whose designated securities are listed on the SSE(s) should disclose to the SSE(s) its policy for determination of materiality, duly approved by its board or management, as the case may be, as well as any event²² that may have a material impact on the planned achievement of outputs or outcomes. All such events should also be disclosed on the social enterprise’s website.
- **Details of Key Managerial Personnel:** The board and management of a social enterprise would authorise one or more of its KMP for determining materiality of an event or information for the purpose of making disclosures to the SSE or the stock exchange as the case may be. Details of such KMP should be communicated to the SSE or to the stock exchange.
- **Annual impact report:** A social enterprise, which is either registered with or has raised funds through an SSE should submit an annual impact report to the SSE in the format specified by SEBI²³. The annual impact report must be audited by a social audit firm employing social auditor(s)²⁴.
- **Statement of utilisation of funds:** A listed NPO should submit to the SSE(s) the following statement in respect of utilisation of the funds raised, on a quarterly basis:
 - a. Category-wise amount of monies raised,
 - b. Category-wise amount of monies utilised, and
 - c. Balance amount remaining unutilised²⁵.



²¹‘listed entity’ means an entity which has listed, on a recognised stock exchange(s), the designated securities issued by it or designated securities issued under schemes managed by it, in accordance with the listing agreement entered into between the entity and the recognised stock exchange(s).

²² The disclosure should be made not later than seven days or within such period as may be specified by SEBI, from the occurrence of the event and should comprise details of the event, including the potential impact of the event and the steps being taken by the social enterprise to address the same. Updates on this event should continue to be provided to the SSE on a regular basis till the time the event remains material.

²³ The SSE may prescribe additional parameters, on which a social enterprise needs to report on an annual basis.

²⁴ ‘Social Auditor’ means 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 program conducted by the National Institute of Securities Market and holds a valid certificate.

²⁵ The unutilised amount should be kept in a separate bank account.

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The statement of utilization of funds should be given till the time the issue proceeds have been fully utilised or the purpose for which they were raised, has been achieved.

To access the text of the LODR Amendment Regulations, please [click here](#)

C. Amendments to AIF Regulations

The AIF Amendment Regulations have specified provisions with regard to raising of funds by an AIF by way of a 'social impact fund'²⁶. Social impact fund has been defined as an AIF which invests primarily in securities, units or partnership interest of social ventures or securities of social enterprises and satisfies the social performance norms laid down by the fund. It issues "social units" to investors who agree to receive only social returns or benefits and no financial returns against their contribution. Some of the key amendments with respect to a social impact fund are given below:

- Each scheme of a social impact fund should have a corpus of at least five crore rupees,
- In case of a social impact fund which invests only in securities of NPOs registered or listed on a SSE, the minimum value of investment by an individual investor should be INR 2 lakh,
- Minimum grant that can be accepted for specific purpose from any person has reduced to INR 10 lakh (instead of the existing INR 20 lakh)

- A social impact fund launched exclusively for a NPO registered or listed on an SSE, would be permitted to deploy or invest 100 per cent of the investable funds in the securities of such NPOs.

To access the text of the AIF Amendment Regulations, please [click here](#)

The above amendments are effective from the date of publication in the Official Gazette (i.e., 25 July 2022).

Action Points for Auditors

- The introduction of an SSE is a step towards enhancing the transparency and augmenting funds towards social enterprises. Considering the various regulations around this area, auditors of NPOs and FPSE should engage with their auditee clients for further discussion on these matters, including the requirements and eligibility to list on SSE.
- The SEBI has introduced the concept of a 'social audit firm' and a 'social auditor'. A social auditor is an individual registered with a self-regulatory organisation under ICAI or any other prescribed agency. The auditor should also have qualified a certification program conducted by the National Institute of Securities Market (NISM) and hold a valid certificate. The social auditor will have the responsibility to review the annual impact report issued by a social enterprise. The ICAI is yet to provide further details regarding the organisation under ICAI and manner in which an individual needs to be registered under that organisation to be qualified as a social auditor. Members of the profession should watch this space for further updates.

- SEBI regulations have prescribed certain additional disclosure requirements to be made by NPOs and FPSEs to the SSE(s). Auditors should take these additional requirements into consideration while auditing the accounts of such enterprises.



²⁶ This was earlier referred to as a social venture fund, it has now been renamed as a social impact fund

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Updates from IAASB

IAASB proposes amendments to operationalise changes to the IESBA code that enhance transparency about independence

In April 2022, the International Ethics Standards Board for Accountants (IESBA) had released the revised definition of a 'Public Interest Entity' (PIE) together with other revised provisions in the International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code). The changes to the IESBA Code *inter alia* require firms to publicly disclose when the independence requirements for PIEs have been applied in an audit of financial statements.

In order to operationalise the changes stipulated in the IESBA Code, on 6 July 2022, the International Auditing and Assurance Standards Board (IAASB) issued an Exposure Draft (ED) on certain narrow scope amendments to International Standards on Auditing (ISA) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, and ISA 260 (Revised), *Communication with Those Charged with Governance*.

Proposed revisions to ISA 700 (Revised)

ISA 700 (Revised)²⁷ requires auditors to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code. However, currently, it does not require auditors to further specify whether differential independence requirements in the relevant ethical requirements that are applicable only to audits of financial statements of certain entities were applied, such as the independence requirements for PIEs in the IESBA Code.

In order to align the guidance specified in ISA 700 with the independence requirements prescribed by IESBA, IAASB has identified two approaches that would require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied. These are:

- A conditional requirement that applies only when the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied. If the condition is met, the auditor is required to indicate in the auditor's report that the relevant ethical requirements for independence for those entities were applied, or
- A non-conditional requirement that would apply in all circumstances when differential independence requirements for audits of financial statements of certain entities were applied, even if the relevant ethical requirements do not require the auditor to publicly disclose that such differential independence requirements were applied.

The IAASB has proposed amendments to ISA 700 (Revised) based on the conditional approach and has also proposed relevant application material.

Proposed revisions to ISA 260 (Revised)

ISA 260 (Revised) specifies the guidance regarding the communication of matters related to independence²⁸. Accordingly, in line with the above-mentioned amendments, IAASB opined that revisions to ISA 260 (Revised) would be necessary, in order to increase transparency with those charged with governance that differential independence requirements for certain entities have been applied. Accordingly, new application material has been proposed to ISA 260 (Revised) to correspond with the revisions to ISA 700 (Revised).



²⁷ Paragraph 28(c) of ISA 700 (Revised)

²⁸ In case of listed entities, paragraph 17(a) of ISA 260 (Revised) requires auditors to communicate with those charged with governance a statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.

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Comments on the ED have been requested by 4 October 2022.

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

To access the text of IESBA pronouncement on PIE provisions, please [click here](#)

Action Points for Auditors

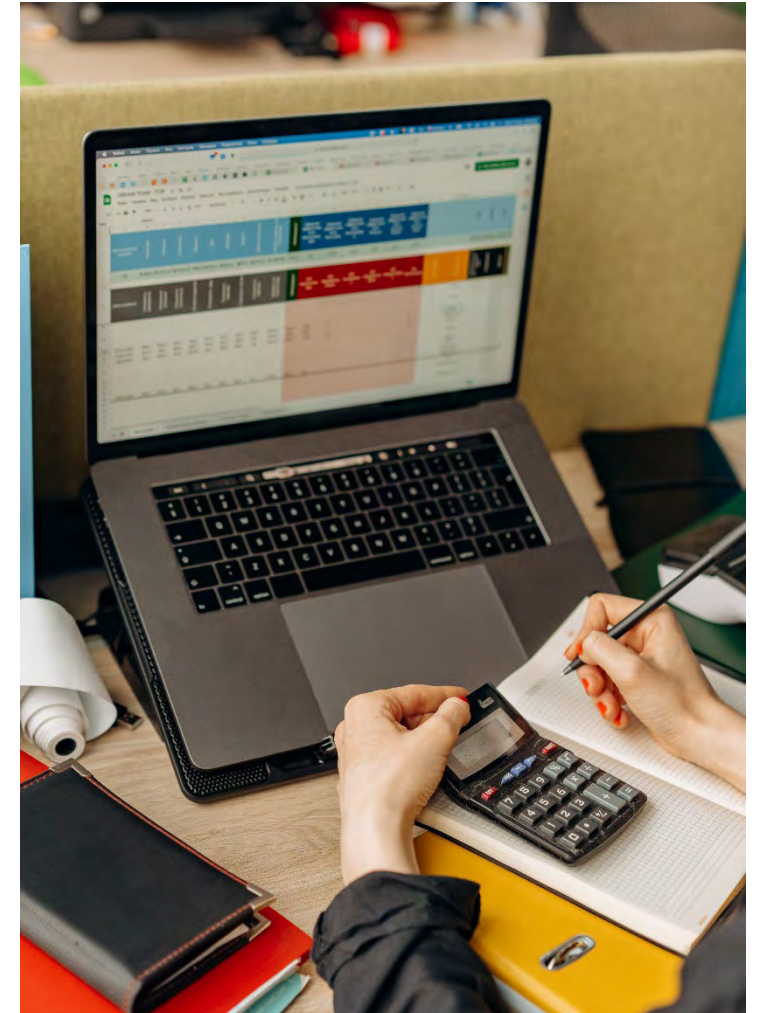
- The auditor's report is a key mechanism for communication to users of financial information about the audit that was carried out. Accordingly, the proposed revisions to ISA 700 (Revised) would enable consistency and comparability in auditor reporting globally. The IAASB is pursuing a project to consider a number of matters relevant to its standards arising from the finalisation of the IESBA's PIE provisions, including whether and how to address the transparency requirement noted above in the IAASB's standards. Since the standards on auditing applicable to audits in India are reasonably aligned with the ISAs, amendments in the ISAs may be adopted by the Indian regulators to be a part of the standards on auditing. Accordingly, auditors should watch this space for further developments.
- The proposed amendments are expected to impact the auditor's report, accordingly members of the profession are encouraged to utilise the comment period for providing their feedback and suggestions, while the regulations are in the initial stages of preparation.

IAASB issues a revised Implementation Guide for identifying and assessing the risks of material misstatement in an audit of financial statements

In December 2019, ISA 315, *Identifying and Assessing the Risks of Material Misstatement* was revised, with the aim to include a more robust and consistent risk identification and assessment framework. The revised standard set out enhanced requirements, in order to support the auditor's risk assessment process, intended to support more focused responses to the auditor's risk assessment in accordance with ISA 330, *The Auditor's Responses to Assessed Risks*. ISA 315 (Revised 2019) is effective for audits of financial statements for periods beginning on or after 15 December 2021.

In this regard, on 27 July 2022, IAASB released its First-Time Implementation Guide (IG) on ISA 315 (Revised 2019). The guide focuses on the more substantial changes that were made to ISA 315 (Revised 2019) and would help stakeholders understand and apply the revised standard as intended.

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



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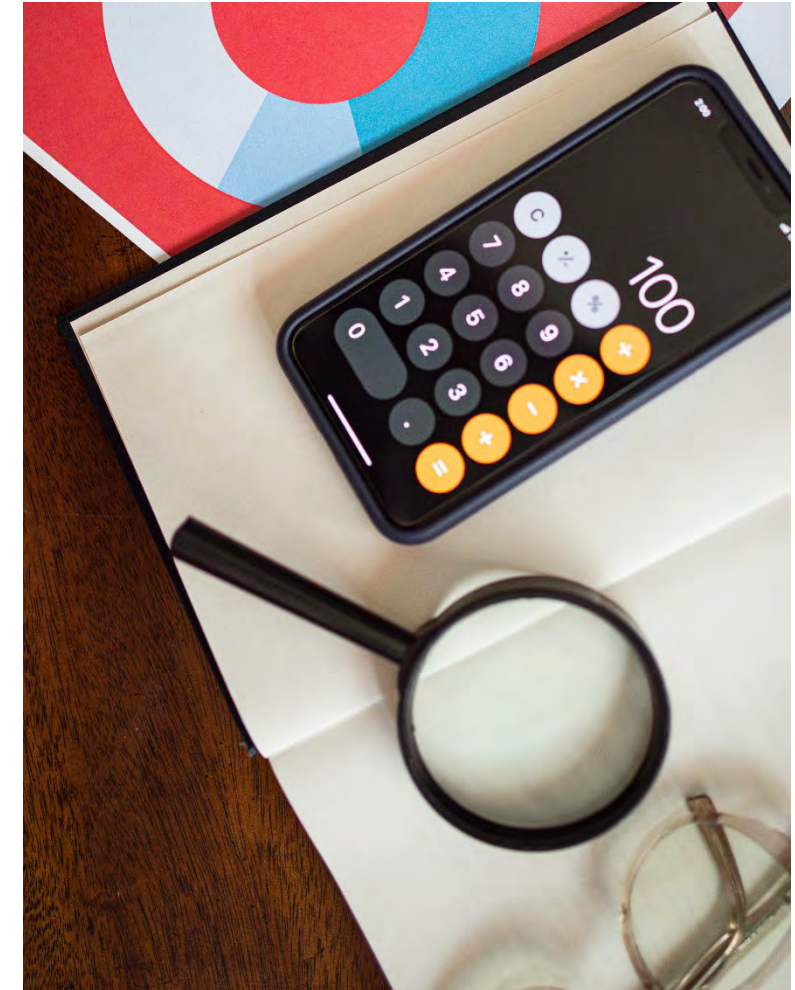
Auditing updates

ICAI publications



The table below provides an overview of some important publications released by the ICAI during the month:

Publication	Particulars
Study on Compliances in Reporting in Tax Audit Report	<p>With a view to improve the quality of tax audits, the Tax Audit Quality Review Board (TAQRB) of ICAI has issued a publication '<i>Study on Compliances in Reporting in Tax Audit Report</i>' to help and guide its members in enhancing and improving the quality of tax audit. The publication provides guidance with respect to Section 44AB of the Income Tax Act, 1961 as well as provides various practical examples and illustrations to explain different issues around Tax Audits.</p> <p>To access the text of the publication, please click here</p>
The Emerging role of Auditors and CFOs in addressing Risk Management: A New Perspective	<p>With the emergence of risk concerns such as the global pandemic, multiple economic and financial crisis along with a series of scandals across sectors, a strong need has been felt for the auditors and CFOs to manage these risks and establish the necessary controls within each business process. This has become all the more important due to the constant change in the risk landscape and continued technological advancements.</p> <p>Against this backdrop, ICAI, through its Research Committee undertook a research project on the mentioned topic and in July 2022, released its publication - <i>The Emerging role of Auditors and CFOs in - addressing Risk Management: A New Perspective</i>. The publication is expected to provide auditors, boards and senior management with recommendations and insights into a framework for effective risk management and Enterprise Risk Management (ERM) implementation.</p> <p>To access the text of the publication, please click here</p>





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