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Foreword

As the impact of climate change becomes more pronounced and social inequality grows, customers, investors and other stakeholders expect companies to take responsibility. This has led to sustainability becoming a part of the core strategy of companies, so it can support the long-term viability of the businesses. The board/management are spending most of their time in sustainability reporting. Sustainability reporting is an emerging discipline encompassing the disclosure and communication of an entity's non -financial aspects - Environmental, Social, and Governance (ESG) performance and their impact on the businesses.

Everything we do leaves a carbon footprint, from the cars we drive, the food we consume, or the clothes we wear. Also, every business has processes, products or services that emit Greenhouse Gases (GHG) either directly or indirectly making decarbonisation as an element of the strategy in every organisation. Taking a proactive approach, many corporates, Public Sector Undertaking (PSUs) and private players alike, have adopted ambitious absolute/emission intensity reduction targets. GHGs include carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O) and fluorinated gases. The GHG emissions have been categorised into three categories Scope1, 2 and 3. Scope 1 includes direct emissions from owned or controlled sources, Scope 2 focusses on indirect emissions from purchased or acquired electricity, steam, heat and cooling, and Scope 3 includes all other indirect emissions that occur in a company's value chain.

A GHG Statement is a quantified statement of an entity's GHG emissions over a particular period. It also includes, where applicable, comparative information and explanatory notes, including a summary of significant quantification and reporting policies. Preparing a GHG statement in a structured format would help communicate the emission performance effectively and transparently. Independent audit of the same would help add credibility and ensure that the data is reliable. This edition of Accounting and Auditing Update (AAU) carries an article on GHG statements, which provides an overview of the key concepts relating to GHG statements and highlights key considerations relating to assurance of such statements.

In 2019, the International Auditing and Assurance Standards Board (IAASB) has issued revised International Standard on Auditing (ISA) 315, *Identifying and Assessing the Risks of Material Misstatement.* ISA 315 (Revised 2019) which is applicable for audits of financial statements of all entities for periods beginning on or after 15 December 2021. Subsequently in July 2022, the IAASB issued the First Time Implementation Guide on ISA 315 (Revised 2019) that focusses on the substantial changes as compared to erstwhile ISA 315.

An audit of financial statements is performed using a risk-based approach and therefore the provisions of ISA 315 (Revised 2019) are relevant for planning and conducting the audit. The revised standard addresses the concerns relating to erstwhile standard by providing a robust risk identification and assessment mechanism and significantly enhancing the auditor's considerations in relation to an entity's use of Information Technology (IT) and its impact on the audit. The revised standard also requires an auditor to obtain an understanding of the entity's control environment and how this forms a foundation for the rest of the entity's system of internal control. Our article aims to summarise key changes introduced by revised ISA 315 and highlights key considerations with respect to identification and assessment of material misstatement in the financial statements.

Recently, the Ministry of Corporate Affairs issued amendments to Companies (Corporate Social Responsibility Policy) Rules, 2014 (CSR Rules), to amend proviso relating to constitution of CSR committee, reducing the threshold to book an expenditure relating to impact assessment, etc. Also SEBI through its circular issued a detailed framework prescribing the minimum requirements to be followed by a Non-profit Organsiation (NPO) that would like to be registered/ listed on a Social Stock Exchange (SSE). Our regulatory updates article covers these and other important regulatory developments during the month.

We would be delighted to receive feedback/suggestions from you on the topics we should cover in the forthcoming editions of AAU.

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CHAPTER 1

Greenhouse gas statements

This article aims to:

- Provide an overview of the key concepts relating to greenhouse gas statements and
- Highlights key considerations relating to assurance of greenhouse gas statements.

Sustainability reporting is an emerging discipline encompassing the disclosure and communication of an entity's non-financial aspects - Environmental, Social, and Governance (ESG) performance and their impact on the businesses.

Governments across the globe are also gradually adopting measures which advise/mandate managing corporate footprint with regard to the responsibility of the businesses towards the environment.

Earlier this year, India also committed to achieving net zero emissions by 2070. In order to achieve such targets and mitigate the global risk of climate change, it is crucial to monitor our Greenhouse Gas (GHG) emission performance and work actively towards reducing the emissions.

Every business has processes, products or services that emit GHG either directly or indirectly. GHGs include carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O) and fluorinated gases. Many corporates, Public Sector Undertaking (PSUs) and private players alike, have adopted ambitious absolute/emission intensity reduction targets and are accounting their GHG emissions.

As expectations of the investors are rising, sustainability reporting is an area where board/management are spending most of their time. Specifically, from the financial reporting perspective, there is a need for connectivity between non-financial reporting and financial reporting. With regard to GHG statement, having it in a structured format would help communicate the emission performance effectively and transparently. Independent audit of the same would help add credibility and ensure that the data is reliable.

What is a GHG statement

A statement setting out constituent elements and quantifying an entity's GHG emissions for a period (sometimes known as an emissions inventory) and, where applicable, comparative information and explanatory notes including a summary of significant quantification and reporting policies. In short, a GHG statement is a quantified statement of an entity's GHG emissions over a particular period.

It also includes, where applicable, comparative information and explanatory notes, including a summary of significant quantification and reporting policies. An entity's GHG statement may also include a categorised listing of removals or emissions deductions. Emissions reported include:

- **Direct emissions (Scope 1 emissions):** Emissions from sources that are owned or controlled by the entity.

- **Indirect emissions:** These arise as a consequence of the activities of the entity but occur at sources that are owned or controlled by another entity. Indirect emissions include:
  - **Scope 2 emissions:** Emissions associated with energy that is transferred to and consumed by the entity.
  - **Scope 3 emissions:** All other indirect emissions.

The GHG statements can be prepared for one or more of the following reasons:

a. As part of regulatory disclosure regime

b. As part of an emission trading scheme, or

c. An entity may make voluntary emissions disclosures to inform investors and others. Voluntary disclosures may be, for example, published as a stand-alone document, included as part of a broader sustainability report or in an entity's annual report, or made to support inclusion in a 'carbon register.'

Similar to the financial statements, the basis of preparation of GHG statements should be clearly stated in the statement itself. As a general principle, reported information needs to be relevant, complete, consistent, transparent and accurate.

GHG statements may be prepared in accordance with established criteria, for example, Sustainability Accounting Standards Board standards, Global Reporting Initiative standards, regulation developed by a local jurisdiction, or in accordance with entity-developed criteria or a combination of established and entity-developed criteria.

Regulatory requirements in India

Currently, preparation of the GHG statement is not mandatory in India. Regulation 34 of the Securities Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) requires top 1,000 listed entities[1] to mandatorily submit Business Responsibility and Sustainability Report (BRSR)[2]. This requirement is applicable from financial year 2022-23.

Other companies i.e. listed companies (other than top 1,000) and companies which have listed their specified securities on the Small and Medium Enterprises (SME) exchange may voluntarily submit BRSR.

In addition to reporting on other aspects of ESG, BRSR also requires companies to provide details of air emissions and GHG emissions including the emission trend in absolute values and as an intensity.

Additionally, SEBI issued provisions relating to constitution of Social Stock Exchange (SSE) vide its notification dated 25 July 2022 and made related amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, SEBI Listing Regulations and and SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations). The amendment has been made to provide social enterprises with an additional avenue to raise funds. A Social Enterprise (SE) (i.e. either a Not-for-Profit Organisation (NPO) or a for profit social enterprise that meet the specified eligibility criteria) would be eligible to raise funds from the SSE provided such a social enterprise engages in any of the social activity from the specified list of broad activities. The list of activities includes ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest and wildlife conservation, etc.

Certain widely used GHG accounting and reporting standards

Following are the prevalent standards that organisations use to prepare their GHG statements:

- **Global Reporting Initiative (GRI):** Of the most widely used framework in the world is the GRI. GRI is an independent international organisation that has been working on corporate sustainability reporting. GRI standards comprises a group of modular reporting standards which are available for adoption by any organisation to report about its activities, initiatives and impacts on aspects related to sustainability. It is used in many countries to report sustainability.

  The GRI standards are developed in accordance with international labour practices and environmental requirements, such as, International Organisation for Standardisation (ISO). GRI reporting enables disclosure of information in a systematic and standard manner which is easily quantifiable and compared. Specifically, GRI 305: Emissions 2016 requires disclosures from organisations about their emissions-related impacts, and how they manage these impacts.

- **International Organisation for Standardisation (ISO):** ISO is a worldwide federation of national standards bodies. It has issued standards on environmental impact and health and safety risk management system. These standards also provide clarity and consistency for quantifying, monitoring, reporting and validating or verifying GHG emissions and removals to support sustainable development through a low-carbon economy and to benefit organisations, project proponents and interested parties worldwide.

  It provides principles and requirements for designing, developing, managing and reporting organisation-level GHG inventories. It also includes requirements and guidance on inventory quality management, reporting, internal auditing and the organisation's responsibilities in verification activities.

- **Greenhouse Gas Protocol (GHGP):** The GHGP provides standards, sector guidance, calculation tools and trainings for businesses and local and national governments. It has created a comprehensive, global, standardised framework for measuring and managing emissions.

The three main standards of GHGP are as follows:

- The Corporate Standard
- The Corporate Value Chain (Scope 3) Accounting and Reporting Standard
- The GHG Protocol Product Life Cycle Accounting and Reporting Standard (referred as Product standard).

1. Based on market capitalisation calculated as on 31 March of every financial year
2. The BRSR seeks disclosures from listed entities on their performance against the nine principles of the 'National Guidelines on Responsible Business Conduct' (NGBRCs) and reporting under each principle is divided into essential and leadership indicators. BRSR covers the ESG and sustainability aspects.

When a GHG statement is prepared in accordance with the standards of the GHGP, there are two commonly used bases of presentation:

- **Approach A:** GHG statement prepared in accordance with the Corporate Standard and the Scope 2 amendment
- **Approach B:** GHG statement prepared in accordance with all components of the GHGP.

The GHGP requires reporting a minimum of Scope 1 and Scope 2 emissions. It does not require disclosure of year-over-year comparative information. However, it does require disclosure of, for example, the year chosen as the base year, and an emissions profile over time that is consistent with and clarifies the chosen policy for making base year emissions recalculations. The level of disclosures required depends on whether the entity is following Approach A or Approach B. The GHGP distinguishes between the following three levels of disclosures:

- Required disclosures that are mandatory and can be omitted only if immaterial
- Disclosures that are recommended.
- Disclosures that are optional.

An entity's specific facts and circumstances influence the number of years of information presented. Management judgement may be applied to determine the extent of the disclosures.

Assurance of GHG statements

In India, audit is conducted in accordance with Standards on Auditing (SAs) issued by the Institute of Chartered Accountants of India (ICAI). ICAI has issued a Standard on Assurance Engagement (SAE) 3410, *Assurance Engagement on Greenhouse Gas Statements* in February 2021. SAE 3410 is equivalent to ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements* issued by the International Auditing and Assurance Standard Board (IAASB) of International Federation of Accountants (IFAC).

ISAE 3410 issued by IFAC have been effective from 30 September 2013. An engagement in accordance with ISAE 3410 must also comply with the requirements of ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information.*

About SAE 3410

SAE 3410 is a topic specific assurance standard which provides requirements and guidance specific to engagements on GHG statements. The objective of the engagement under SAE 3410 is to obtain either limited or reasonable assurance, as applicable, about whether the GHG statement is free from material misstatement, whether due to a fraud or an error.

GHG statements are assured to enhance the reliability of the emissions information being reported on. As stakeholders are demanding from companies a disclosure of their emissions information, they are also demanding assurance on these statements.

This SAE does not deal with or provide guidance with respect to:

a. Statements of emissions other than GHG emissions, for example, Nitrogen Oxides (NOx) and Sulphur Dioxide (SO2)

b. Other GHG-related information, such as product lifecycle footprints, hypothetical baseline information, and key performance indicators based on emissions data or

c. Instruments, processes or mechanisms, such as offset projects, used by other entities as emissions deductions.

An engagement in accordance with SAE 3410 should also comply with the Guidance Note on Reports or Certificates for Special Purposes.

Effective date

The effective date of application of SAE 3410 is as follows:

i. Voluntary basis for assurance reports covering periods ending on 31 March 2023

ii. Mandatory basis for assurance reports covering periods ending on or after 31 March 2024.

Approach under SAE 3410

The SAE 3410 engagement adopts a risk-based approach, regardless of whether it is a reasonable or limited assurance engagement. For all engagements performed under SAE 3410, the practitioner:

- Obtains an understanding of the entity and its environment, including the entity's internal control
- Identifies and assesses the risk of material misstatement in the GHG Statement
- Performs procedures to address the identified risks, and
- Reports in accordance with the practitioner's findings.

The SAE 3410 does not mandate the circumstances in which a reasonable or limited assurance engagement is undertaken; this will be determined by law or regulation, or the reason for the engagement.

What is reported in a GHG assurance engagement?

The assurance report issued under SAE 3410 would provide:

- For a reasonable assurance engagement, an opinion on whether the GHG statement has been prepared, in all material respects, in accordance with the applicable criteria.
- For a limited assurance engagement, a conclusion on whether anything has come to the practitioner's attention to make the practitioner believe that the GHG Statement has not been prepared, in all material respects, in accordance with the applicable criteria.
- In case of modified conclusion, the assurance report shall contain:
  - A section that provides a description of the matter(s) giving rise to the modification; and
  - A section that contains the practitioner's modified conclusion.

The SAE 3410 also provides illustrative examples of reports for both reasonable and limited assurance engagements.

Key considerations for the management relating to assurance of GHG statements

i. To assume the responsibility for the preparation of the GHG statement, including comparative information where appropriate.

ii. Provide all relevant information and access as agreed in the terms of engagement.

iii. Provide details regarding the entity's climate change objective and strategy, if any, and associated economic, regulatory, physical and reputational risks.

iv. Provide information with regard to the relevant industry, regulatory, and other external factors including the applicable criteria and nature of the operations included in the entity's organisational boundary and the framework of internal controls.

v. Inform the practitioner regarding the entity's selection and application of quantification methods, reporting policies and requirements of the applicable criteria relevant to estimates.

vi. Communicate to the practitioner all deficiencies in internal control and actual, suspected or alleged fraud or non-compliance with law or regulations, which are material and are relevant to the engagement of which the management is aware of.

Key considerations for a practitioner for obtaining an understanding of the entity and its environment

A practitioner would need to obtain an understanding of relevant industry, regulatory and other external factors affecting an entity and its environment. This will include an understanding of following topics:

Organisational boundary

An entity would need to determine which operations are owned or controlled by the entity and to be included in its GHG statement. This is known as determining the entity's organisational boundary. Determining an entity's organisational boundary may require the analysis of complex organisational structures such as joint ventures, partnerships, and trusts, and complex or unusual contractual relationships. For example, a facility may be owned by one party, operated by another, and process materials solely for another party.

In order to establish an organisational boundary, an entity may use the following:

- Laws or regulations as it may define the boundaries of the entity for reporting GHG emissions for regulatory purposes.
- Alignment of an entity's GHG statement with its consolidation policy applied in the financial statements.

Operational boundary

After an entity determines its organisational boundary, it needs to determine its operational boundaries. The operational boundary relates to which categories of Scope 1, 2 and 3 emissions will be included in the GHG statement.

Following disclosures may be necessary in voluntary reporting situations for intended users to understand the significant judgments made in preparing the GHG statement:

- Understanding significant quantification methods and reporting policies selected. A practitioner would need to understand the method used to determine which Scope 1 and Scope 2 emissions have been included in the GHG statement.
- Where some Scope 1 or Scope 2 emissions have been excluded, it is important that the explanatory notes to the GHG statement disclose the basis for determining which emissions are included and which are excluded, particularly if those that are included are not likely to be the largest for which the entity is responsible.
- While some criteria require the reporting of specific Scope 3 emissions, more commonly the inclusion of Scope 3 emissions is optional because it would be impracticable for nearly any entity to attempt to quantify the full extent of its indirect emissions as this includes all sources both up and down the entity's supply chain.

For some entities, reporting particular categories of Scope 3 emissions provides important information for intended users, for example, where an entity's Scope 3 emissions are considerably larger than its Scope 1 and Scope 2 emissions, as may be the case with many service sector entities. In these cases, the practitioner may consider it inappropriate to undertake an assurance engagement if significant Scope 3 emissions are not included in the GHG statement.

Uncertainty

The GHG quantification process can rarely be 100 per cent accurate due to scientific uncertainty and estimation (or measurement) uncertainty.

Scientific uncertainty arises because of incomplete scientific knowledge about the measurement of GHGs. Estimation (or measurement) uncertainty results from the measurement and calculation processes used to quantify emissions within the bounds of existing scientific knowledge. Estimation uncertainty may relate to the data on which an estimate is based (for example, it may relate to uncertainty inherent in measurement instruments used), or the method, including where applicable the model, used in making the estimate (sometimes known as parameter and model uncertainty, respectively). The degree of estimation uncertainty is often controllable by the entity.

Reducing the degree of estimation uncertainty may involve greater cost. The fact that quantifying an entity's emissions is subject to uncertainty does not mean that an entity's emissions are inappropriate as a subject matter.

For example, the applicable criteria may require Scope 2 emissions from electricity to be calculated by applying a 'prescribed emissions factor' to the number of kilowatt hours consumed. The prescribed emissions factor will be based on assumptions and models that may not hold true in all circumstances. However, as long as the assumptions and models are reasonable in the circumstances and adequately disclosed, information in the GHG statement will ordinarily be capable of being subjected to an assurance engagement.

Fraud risks and management bias

Misstatements in the GHG statement can arise from either a fraud or an error. The distinguishing factor between a fraud and an error is whether the underlying action that results in the misstatement of the GHG statement is intentional or unintentional. Incentives for intentional misstatement of the GHG statement may arise if, for example, those who are directly involved with, or have the opportunity to influence, the emissions reporting process have a significant portion of their compensation contingent upon achieving aggressive GHG targets.

Management bias may exist and indicators of management bias may arise from:

- Selection of policies as per the organiational boundary
- Changes in policies and practices from the prior year
- Selection of methods, assumptions and data used.

Materiality

While preparing and presenting GHG statement, the concept of materiality has to be considered. The concept of materiality generally includes that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of users taken on the basis of the GHG statement;
- Judgements about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
- Judgements about matters that are material to intended users of the GHG statement are based on a consideration of the common information needs of intended users as a group. Unless an engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

Other information

A GHG statement may be published with other information that is not covered by the practitioner's conclusion. For example, a GHG statement may be included as part of an entity's annual report or sustainability report, or included with other climate change-specific information such as:

- A strategic analysis, including a statement about the impact climate change has on the entity's strategic objectives.
- An explanation and qualitative assessment of current and anticipated significant risks and opportunities associated with climate change.
- Disclosures about the entity's actions, including its long-term and short-term plan to address climate change-related risks, opportunities and impacts.
- Disclosures about future outlook, including trends and factors related to climate change that are likely to affect the entity's strategy or the timescale over which achievement of the strategy is planned. A description of governance processes and the entity's resources that have been assigned to the identification, management and oversight of climate change-related issues.

Other areas

A practitioner would need to work with the entity to understand its base year, comparative information, subsequent events, climate change objectives and strategies, obtain an understanding of entity's internal control environment, etc.

Conclusion

Sustainability considerations have become significant aspect for investors while taking investment decisions, which has led to regulators across the world to focus on sustainability reporting. SAE 3410 helps strengthen assurance framework and is likely to build a bridge between sustainability related risks and corporate financial reporting. The newly implemented standard provides detailed guidance on audit methodology and processes and is an important development for both auditors and the companies.

CHAPTER 2

Assessment of material misstatement in the financial statements

This article aims to:

- Summarise key considerations while identifying and assessing the risk of material misstatements in an audit of financial statements.

Introduction

ISA 315 (Revised 2019), *Identifying and Assessment of Material Misstatement*, provides guidance with respect to audit procedures to be adopted to understand an entity and its environment, its applicable financial reporting framework and internal control system for identification and assessment of risk of material misstatements. The standard was revised by International Auditing and Assurance Standards Board (IAASB) in December 2019. Subsequently in July 2022, the IAASB issued the First Time Implementation Guide on ISA 315 (Revised 2019) that focusses on the substantial changes as compared to ISA 315 (Revised). Some of the key changes are as follows:

- An audit of financial statements is performed using a risk-based approach and therefore the principles of ISA 315 (Revised 2019) are relevant for planning and conducting the audit. The revised standard responds to the challenges and issues faced in the erstwhile standard and provides a robust risk identification and assessment mechanism.
- The revised standard would lead to revision to risk assessment procedures that would be performed by an auditor to encourage a consistent and robust risk assessment, which forms the foundation of an auditor's efforts to gather sufficient appropriate audit evidence.
- It emphases on potential benefits and implications on using automated tools and techniques by the entities. It also addresses audit considerations in relation to an entity that uses information technology.

The revised standard is effective for audits of financial statements for the periods beginning on or after 15 December 2021.

The following section summaries the key concepts in ISA 315 (Revised 2019) and First Time Implementation Guide on ISA 315.

Key concepts under ISA 315

Risk assessment procedures, scalability and information from other sources

Risk assessment procedures are audit procedures performed to identify and assess the risk of material misstatement, whether due to a fraud or an error. Although the risk assessment process is considered to be iterative and dynamic, the revised standard states that the nature and extent of the procedures will vary depending upon the nature and circumstances of the entity. Therefore, an auditor is expected to apply professional judgement to determine the nature and extent of risk assessment procedures.

Further, the revised standard emphasises that an unbiased approach shall be adopted for designing and performing such procedures in order to obtain sufficient and appropriate audit evidence. Thus, it is essential to apply professional skepticism to gather such an audit evidence. Information could be obtained from other sources:

i. Nature of the entity and business risks and what may have changed from previous periods could provide insights

ii. Integrity and ethical values of the management and Those Charged with Governance (TCWG)

iii. Applicable financial reporting framework and its application to the nature and circumstances of the entity.

The following sources of information can be used to perform the risk assessment procedures:

i. Interactions with management, TCWG, and other key entity personnel, such as internal auditors.

ii. External parties such as regulators (irrespective of the manner of obtaining the information i.e. either directly or indirectly)

iii. Publicly available information about the entity, for example, entity-issued press releases, materials for analysts or investor group meetings, analysts' reports or information about trading activity

iv. Information from acceptance or continuance activities performed by the auditor

v. Information from other engagements performed for the entity e.g. agreed upon procedures or assurance engagements, etc.

vi. Information from previous experience with the entity and previous audits

vii. Analytical procedures to identify inconsistencies, unusual transactions or events, and amounts, ratios, and trends that indicate matters that may have audit implications, etc.

viii. Observations and inspections.

The revised standard also places emphasis on conducting discussions among the audit engagement team regarding the applicable financial reporting framework and susceptibility of an entity's financial statements to material misstatement. This is likely to result in exchange of information about an entity's business risks, inherent risk factors, potential areas of material misstatements and planning the nature, timing and extent of the audit procedures.

Understanding of an entity and its environment and the applicable financial reporting framework

The management is responsible to ensure that an organisational structure is in place which provides an overview of the ownership and governance structure, business model, internal control system and should prepare the financial statements of the entity in accordance with the applicable and acceptable financial reporting framework. Further, the management may use various methods to measure the financial performance e.g. key performance indicators, period on period analysis, analysis of budgets and forecasts, employee incentive policy, comparison with competitors, etc.

The revised standard, emphasises that gaining an understanding of an entity, its environment and applicable financial reporting framework would enable an auditor to identify potential risk of material misstatement. The key considerations for an auditor are as follows:

i. Inquire about the entity's objectives, strategy and business model to understand the entity's business operations and risks.

ii. The complexity in entity's structure and its related parties can be identified and understood by enquiring about the entity's organisational and ownership structure.

iii. Obtaining an understanding of the entity's governance structure would provide an overview of the entity's system of internal control and would enable the auditor to identify any deficiencies.

iv. Obtain an understanding of the applicable financial reporting framework such as the accounting policy, significant classes of transactions, account balances and related disclosures in the financial statements, accounting of unusual or complex transactions and industry specific standards to identify the risk of misstatement in the preparation of financial statements.

v. Understand the management performance measures to understand how an entity operates from the management's point of view as that may help in identifying and assessing risks of material misstatement.

Consideration of inherent risk factors

A separate assessment of inherent risk and control is now required. Inherent risk factors are characteristics of events or conditions that affect susceptibility to misstatement, whether due to a fraud or an error, of an assertion about a class of transactions, account balance or disclosure, before consideration of controls. Such factors may be qualitative or quantitative and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors that affect the inherent risk.

Therefore, an auditor should assess the inherent risk factors to draw a linkage between the information obtained and the areas where a risk of material misstatement could possibly exist.

The ISAs also introduce the concept of 'spectrum of inherent risk' which is described as the degree to which the inherent risk varies. The spectrum of inherent risk would assist an auditor to assess the likelihood and magnitude of a possible misstatement on a range from lower to higher risk for the purpose of assessing risks of material misstatement.

System of internal control

'Controls' are policies or procedures that an entity establishes to achieve the control objectives of management or those charged with governance. A strong internal control system sets the tone of the management. Therefore, management should develop, implement and monitor an effective system of internal control in the entity and take remedial actions against deficiencies identified in the internal control system. The internal control system developed should be capable to adapt to the changes and circumstances of the business environment and therefore, there is a need for constant monitoring by the management.

The management should define the key areas of authority and responsibility, appropriate lines of reporting, policies and communications relating to appropriate business practices, knowledge, experience and training of key personnel and how the entity holds individuals accountable. Also, the management should determine what internal control is necessary to enable the preparation of the financial statements.

The standard stipulates that the system of internal control consists of the following five components:

a. Control environment

b. The entity's risk assessment process

c. The entity's process to monitor the system of internal control

d. The information system and communication and

e. Control activities.

The revised standard provides detailed guidance with respect to each of the components stated above. It is imperative for an auditor to understand each of the components of internal control and basis such understanding identify the controls relevant to the audit to evaluate the design and implementation of such controls. Further, appropriate action must be taken against any deficiencies identified that could impact of process of identification and assessment of risk of material misstatements.

An auditor must also perform inquiries with the appropriate individuals from the internal audit function to understand the internal control system and their deficiencies, if any, business risks, actual, suspected or alleged fraud. Management's response towards the findings of the internal auditor shall also be considered.

Use of Information Technology (IT)

There is a continuous evolution of IT, an entity's system of internal control are likely to contain automated elements as well. An entity's use of IT affects the manner in which the information relevant to the preparation of the financial statements in accordance with the applicable financial reporting framework is processed, stored and communicated. It further has an impact on the manner in which an entity's system of internal control is designed and implemented. The management shall be responsible to provide the IT infrastructure to the auditor to gain an understanding of IT environment.

Certain risks arise from the use of IT such as the risk of integrity of information, ineffective design and control of the information system, etc.

Therefore, the revised standard places emphasis on the understanding of the general IT controls and information processing controls of an entity which are defined below:

General IT controls

Controls over the entity's IT processes that support the continued proper operation of the IT environment, including the continued effective functioning of information processing controls and the integrity of information in an entity's information system.

Information processing system

is defined as controls relating to the processing of information in IT applications or manual information processes in the entity's information system that directly address risks to the integrity of information.

The revised standard also emphasises on the use of Automated Tools and Techniques (ATT) to obtain information for risk assessment. ATT consists of IT-enabled processes that involve the automation of methods and procedures, including the analysis of data using modelling and visualisation, robotic process automation, artificial intelligence and machine learning, and drone technology to observe or inspect assets. With the help of ATT, large volume of data can be analysed and assessed quickly and efficiently.

Identifying and assessing the risks of material misstatement

Risk of material misstatement should be identified and assessed by an auditor at financial statements and assertion level in order to determine the nature, timing and extent of audit procedures to be performed to obtain the audit evidence.

Risk of material misstatement is defined as the risk that the financial statements are materially misstated prior to the audit. the revision of the ISA 315 (Revised 2019) led to an insertion of an explanation in ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.* This revision now provides clarity regarding the threshold for a possible misstatement. As per the explanation, a risk of material misstatement exists when there is a reasonable possibility of:

a. A misstatement occurring (i.e. its likelihood); and

b. Being material if it were to occur (i.e. its magnitude).

Risk of material misstatement at the financial statements level refer to risks that relate pervasively to the financial statements as a whole, and potentially affect many assertions (e.g. if management are not competent this will affect the financial statements pervasively).

The revised standard also focuses on the need for identifying the risk at an assertion level wherein an auditor is required to determine relevant assertions and related significant classes of transactions, account balances and disclosure. Significant class of transactions, account balance or disclosure is one where there is one or more relevant assertions. Determining the significant classes of transactions, account balances and disclosures would assist an auditor in understanding the information system.

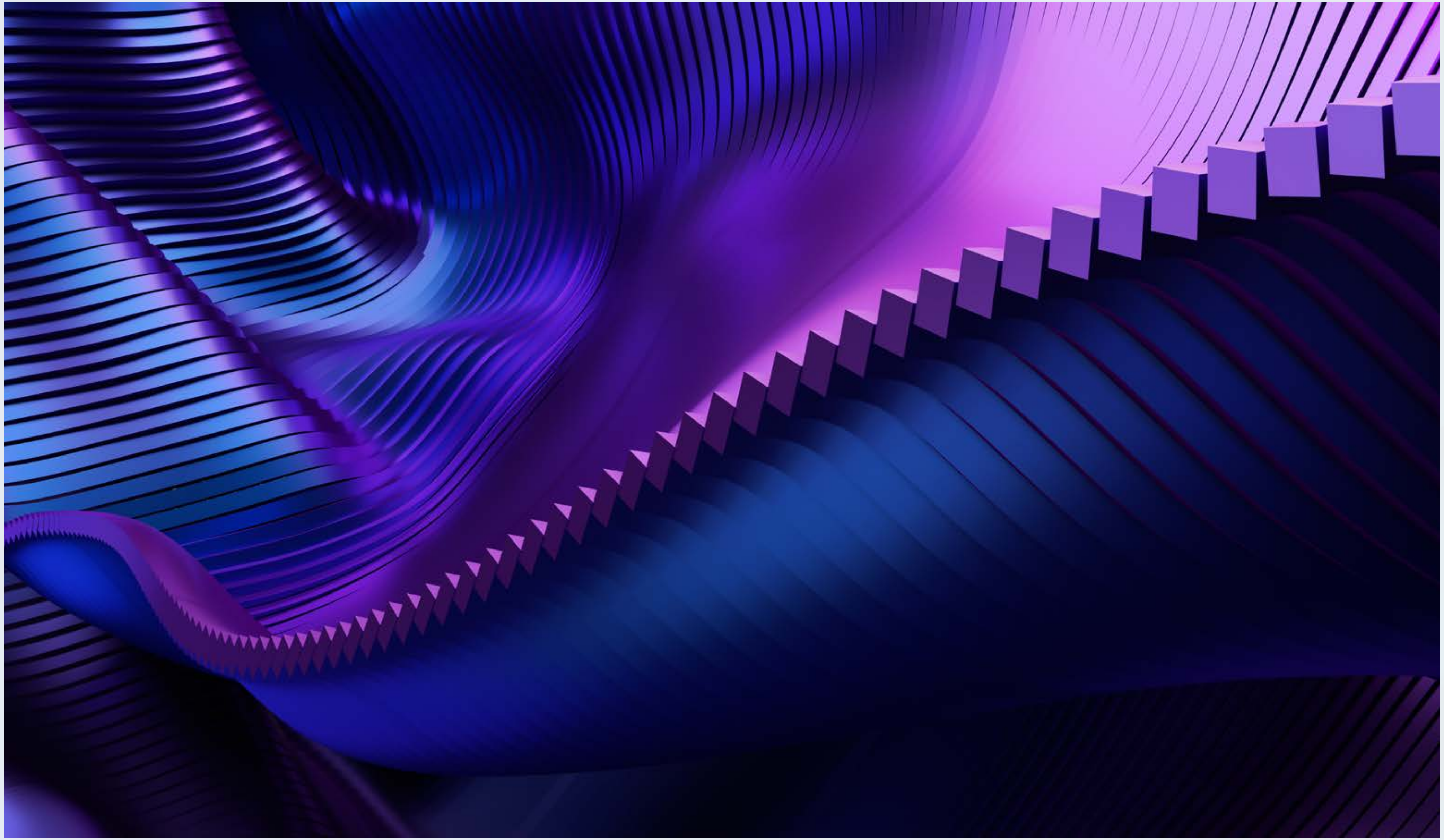
Additionally, the standard also intends to improve the completeness of the risk identification process by introducing the requirement of 'stand back' which is required when the auditor has performed the risk assessment procedures. This process requires an auditor to assess those classes of transactions, account balances and disclosures that are material (either quantitatively or qualitatively) but have not been identified as significant (i.e. risks of material misstatement have not been identified and therefore there are no relevant assertions). This procedure would ensure completeness of the significant classes of transactions, account balances and disclosures at the end of the risk assessment process.

Documentation

As audit documentation provides evidence of an auditor's exercise of professional skepticism, the revised standard has enhanced procedures to encourage behavioral change for auditors when undertaking audit procedures, as well as strengthened the documentation requirements. The standard states that, the documentation should consist of an auditor's understanding of the entity and its environment, the applicable financial reporting framework and each of the components of the entity's system of internal control. The documentation shall also include the source of information, risk assessment procedures performed, the risk of material misstatements identified and audit procedures performed.

The bottom line

The revised standard provides a stronger foundation for the audit, in particular better quality risk identification and assessment. This is expected to enhance audit procedures especially in the areas of IT controls and inherent risk factors post understanding an entity and its environment. Management of companies and TCWG should monitor the effectiveness of a company's internal financial controls and engage in a regular dialogue with internal and statutory auditors.



CHAPTER 3

Regulatory updates

Amendments to certain Rules to the Companies Act, 2013

The Ministry of Corporate Affairs (MCA) issued amendments to certain Rules to the Companies Act, 2013 (2013 Act). An overview of the amendments are as follows:

Amendments to Corporate Social Responsibility provisions

Section 135 of the 2013 Act and Companies (Corporate Social Responsibility Policy) Rules, 2014 (CSR Rules) prescribe the requirements and framework relating to Corporate Social Responsibility (CSR) for all the companies meeting the prescribed criteria.

Section 135 provides that all companies having net worth of INR500 crore or more, or turnover of INR1,000 crore or more or a net profit of INR5 crore or more during the immediately preceding financial year required to contribute two per cent of their profits for CSR purpose. Additionally, such companies are required to constitute a CSR committee consisting of three or more directors, out of which at least one director shall be an independent director. Section 135 also provides that if the amount to be spent by a company, does not exceed INR50 lakh, then such a company is not required to constitute a CSR Committee and the functions of such committee shall be discharged by the board of directors of that company.

On 20 September 2022, MCA issued the Companies (CSR Policy) Amendment Rules, 2022 thereby amending the Companies (CSR Policy) Rules, 2014. The key takeaways form the amendment are as follows:

- **Constitution of a CSR Committee:** A new proviso under Rule 3(1) has been inserted to provide that in case a company has any amount in its unspent CSR account, then such a company would constitute a CSR committee and also required to comply with all CSR provisions stipulated under Section 135(2) to 135(6)[1] of the 2013 Act.

  Currently, a company which ceases to meet the requirements of Section 135(1) of the 2013 Act, i.e. companies whose net worth, turnover, or net profit falls below the specified threshold, is not required to constitute a CSR Committee and comply with the provisions of Section 135(2) to 135(6) relating to CSR. The amendments have removed this provision. Therefore, now the provisions of Section 135 continue to apply to such companies.

- **Registered public trust and registered society can undertake CSR activities:** Rule 3(4) of the CSR Rules has been amended to provide that CSR activities can now be undertaken by a registered public trust or a registered society exempted under sub-clauses (iv), (v), (vi) or (via) of Section 10 (23C) of the Income-tax Act, 1961.

  Further, an explanation has been added to clarify the meaning of the term ‘entity’ to mean a statutory body constituted under an Act of Parliament or State legislature to undertake activities covered in Schedule VII of the 2013 Act.

- **CSR impact assessment expenditure:** As per Rule 8(3) of the CSR Rules, every company with average CSR obligation of INR10 crore or more (computed in accordance with section 135(5) of the 2013 Act) in three immediately preceding financial years, should undertake an impact assessment through an independent agency of CSR projects having outlays of INR1 crore or more.

  A company would be allowed to book an expenditure relating to impact assessment that does not exceed two per cent of the total CSR expenditure for that financial year or INR50 lakh, whichever is higher.

  Earlier, a company may book the expenditure incurred towards the impact assessment that does not exceed five per cent of the total CSR expenditure for that financial year or INR50 lakh, whichever is less.

- **Annual Report on CSR Activities:** The notification provides a revised format for the annual report on CSR activities to be attached to the board’s report for the financial year.

1. Section 135(2) to 135(6) deals with the formation and responsibilities of the CSR committee, the quantum of CSR spends and treatment of unutilised amount.

The above mentioned amendments are applicable from 20 September 2022.

(Source: MCA Notification No. G.S.R. 715(E) Companies (CSR Policy) Amendment Rules, 2022 dated 20 September 2022)

Amendment to Deposit Rules

Currently, Rule 16 of the Companies (Acceptance of Deposits) Rules, 2014 (Deposit Rules) provides that every company (other than a government company) should file with the registrar a return of deposits in Form DPT-3 on or before the 30 June of every year. This report would comprise information as on 31 March of that year duly audited by the auditor of the company.

On 29 August 2022, MCA issued the Companies (Acceptance of Deposits) Amendment Rules, 2022 and amended the Rule 16 of the Deposit Rules. The amendment provides that an auditor **should additionally submit a declaration, that forms part of the DPT-3 Form, certifying the information pertaining to the particulars of deposit and particulars of liquid assets.** The MCA has also revised Forms DPT-3 and DPT-4 in this regard.

(Emphasis added to highlight the changes)

The above amendments are effective from 29 August 2022.

(Source: MCA notification G.S.R. (E), Companies (Acceptance of Deposits) Amendment Rules, 2022 dated 29 August 2022)

Revised definition of a 'small company' under the 2013 Act

The MCA through its notification dated 15 September 2022 amended the Companies (Specification of definition details) Rules, 2014 to provide revised definition of a 'small company' under the 2013 Act. The revised definition is as follows:

A small company means a company, other than a public company, which meets both the given conditions:

a. Its paid up share capital does not exceed **INR4 crore** (earlier INR2 crore) or such higher amount as may be prescribed and which should not be more than INR10 crore, and

b. Its turnover as per profit and loss account for the immediately preceding financial year does not exceed **INR40 crore** (earlier INR20 crores) or such higher amount as may be prescribed), and which should not be more than INR100 crore.

(Emphasis added to highlight the changes)

The revised definition is effective from 15 September 2022. The revisions have been made with the objective of ease of doing business and to reduce the compliance burden on small companies.

(Source: MCA Notification No. G.S.R. 700(E), Companies (Specification of definition details) Amendment Rules, 2022 dated 15 September 2022)

Amendments relating to provisions of physical verification of registered office

On 18 August 2022, MCA issued amendments to the Companies (Incorporation) Rules, 2014 and inserted Rule 25B to provide for the process relating to physical verification of a company's registered office. The key takeaways from the new rule are as follows:

- Based on the information or documents available on MCA 21 portal, the Registrar of Companies (ROC) would conduct a physical verification in the presence of two independent witnesses in the locality in which the registered office is situated and can also seek the assistance of the local police for the same.
- A notice should be issued to the company and its directors for removal of the name of the company from the register of companies in accordance with the provisions of the 2013 Act in case ROC concludes that the company is not capable of receiving and acknowledging communications and notices.
- The notification also prescribes the format of the physical verification report.

The amendments are effective from 18 August 2022.

Subsequently, through a notification dated 24 August 2022, MCA amended the Companies (Removal of Names of Companies from the Register of Companies) Rules, 2016 thereby amending the forms to be filed in case the company is not carrying on any business or operation as per the physical verification conducted in accordance with Section 12(9) of the 2013 Act:

- Form SKT-1: Notice by registrar for removal of the name of the company
- Form SKT-5 and Form SKT-5A: Public Notice for removal of the name of the company

(Source – MCA notification no. GSR (E) dated 18 August 2022 and notification no. GSR 658(E) dated 24 August 2022)

Amendment to the Registration of Charges Rules

On 29 August 2022, MCA amended the Companies (Registration of Charges) Rules, 2014 by inserting Rule 13. Rule 13 relates to signing of e-forms for registration of charges by insolvency resolution professional, resolution professional, or liquidator for companies under resolution or liquidation. Additionally, following e-forms has been amended:

- **CHG-1:** Application of registration for creation, modification of charge (other than those related to debentures) including particulars of modification of charge by Asset Reconstruction Company in terms of Securitisation and Reconstruction Financial Assets and Enforcement Interest Act, 2002 (SARFAESI)
- **CHG-4:** Particulars of satisfaction of charge
- **CHG-8:** Application to Central Government for extension of time for filing particulars of registration of satisfaction of charge or for rectification of omission or misstatement of any particular in respect of creation/ modification/satisfaction of charge
- **CHG-9:** Application for registration of creation or modification of charge for debentures or rectification of particulars filed in respect of creation or modification of charge for debentures.

The above amendments are effective from 29 August 2022.

(Source: MCA notification G.S.R. (E), Companies (Registration of Charges) Second Amendment Rules, 2022 dated 29 August 2022)

SEBI updates

Framework on social stock exchange issued

On 25 July 2022, to incorporate provisions on Social Stock Exchange (SSE), the Securities Exchange Board of India (SEBI) has amended following regulations:

- SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations),
- SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) and
- SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations).

Subsequently, on 19 September 2022 through a circular, SEBI issued a detailed framework prescribing the minimum requirements to be followed on the SSE. The key considerations of the circular are as follows:

a. **Minimum requirements for registration of a Not for Profit Organisation (NPO) with the SSE:** The circular lays down the criteria for an NPO seeking registration as a Social Enterprise (SE) with the SSE.

b. **Minimum initial disclosure requirements for ZCZP instruments:** For raising funds through issuance of Zero Coupon Zero Principal (ZCZP) instruments, an NPO would need to file a draft and final fund raising documents. These documents should include information regarding the vision, target segment, strategy, governance structure, management, operations, financial statements of last three years, details of compliance and credibility, social impact, its risks and mitigation steps.

c. **Annual disclosures by an NPO:** An NPO registered on the SSE is required to provide disclosures annually to the SSE on matters specified by SEBI within 60 days from the end of the financial year. SEBI circular prescribes detailed disclosures with respect to the general, governance and financial aspects. Additionally, the circular also contains a guidance (Annexure I to the circular) with respect to each of these aspects.

d. **Annual Impact Report (AIR):** As per the LODR Regulations, an SE, which is either registered with or has raised funds through an SSE, should submit the AIR to the SSE in the format specified by SEBI. The AIR must be audited by a social audit firm employing social auditor(s). The SEBI circular provides general requirements as well as minimum disclosures to be provided in an AIR by all SEs registered with or have raised funds using SSE. The time limit in which it is to be submitted is 90 days from the end of the financial year.

   The AIR should contain qualitative and quantitative aspects of the social impact generated by an entity, the project, or the solution for which the funds have been raised. In case of an NPO registered without listing any security, the AIR must cover the NPO's significant activities, intervention, programmes or projects during the year and the methodology for determination of significance must be explained. Further, the circular provides disclosure requirements to be included in an AIR submitted by an SE. The AIR must include information with respect to the following aspects:

   i. Strategic intent and planning

   ii. Approach

   iii. Impact score card.

   The SEBI circular contains a guidance (Annexure II to the circular) with respect to each of the above categories of disclosures.

e. **Statement of utilisation of funds:** The circular stipulates a time period for submission of the statement of utilisation of funds. As per the circular, an NPO must submit this statement within 45 days from the end of the quarter.

(Source: SEBI Circular No. SEBI/HO/CFD/PoD-1/P/CIR/2022/120 dated 19 September 2022)

FAQs issued by SEBI

SEBI issued two sets of Frequently Asked Questions (FAQs) relating to following:

a. **Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs)**

   SEBI has issued on FAQs on preferential issue of InvITs and REITs on 26 August 2022 in order to provide guidance to market participants. The FAQs provide guidance on the conditions to be satisfied for making a preferential issue of unit, the participants and limit on the number of investors in a preferential issue, SEBI approvals, pricing provision to be complied, etc.

b. **Credit Rating Agencies (CRA) and registration of a CRA**

   SEBI has issued on FAQs on CRA and registration of CAR on 30 August 2022 in order to provide guidance to market participants. The FAQs provide guidance on the concept of credit ratings and credit rating agency along with the requirements for registration of a CRA.

(Source: SEBI FAQs on Infrastructure Investment Trusts and Real Estate Investment Trusts dated 26 August 2022 and SEBI FAQs on Credit Rating Agencies and Registration of Credit Rating Agencies dated 30 August 2022)

RBI updates

RBI issued guidelines on digital lending

The Reserve Bank of India (RBI) issued guidelines on digital lending on 2 September 2022. The provisions of the circular shall be applicable to all Regulated Entities (REs) (i.e. all commercial banks, primary (urban) cooperative banks, district central cooperative banks and non-banking financial companies (including housing finance companies)) providing loans through the digital lending platforms.

The guidelines reiterate the concern that regulated entities should continue to comply master guidelines[2] on outsourcing with regard to their outsourcing arrangements entered into with a Lending Service Provider (LSP)/Digital Lending App (DLA). As per the guidelines, the REs are advised to ensure that the LSPs engaged by them and the DLAs (either of the RE or of the LSP engaged by the RE) comply with the guidelines stipulated in this circular.

The main focus areas of the guidelines are:

i. Customer protection and conduct requirements

ii. Technology and data requirement

iii. Regulatory framework.

The effective date for applicability of the guidelines is as follows:

i. **New loans disbursed:** The guidelines are applicable on an immediate basis (i.e. from 2 September 2022) to the existing customers availing fresh loans and to new customers getting onboarded.

ii. **Existing loans:** REs would be given time till 30 November 2022 to put in place adequate systems and processes to ensure that existing digital loans comply with the guidelines.

(Source: RBI Notification no. RBI/2022-23/111 DOR.CRE. REC.66/21.07.001/2022-23 dated 2 September 2022)

Overseas investment framework issued by Central Government and Reserve Bank of India

On 22 August 2022, Central Government issued the Foreign Exchange Management (Overseas Investment) Rules, 2022 (OI Rules) followed by issuance of Foreign Exchange Management (Overseas Investment) Regulations, 2022 (OI Regulations) and Foreign Exchange Management (Overseas Investment) Directions, 2022 (OI Directions) by the Reserve Bank of India (RBI).

The OI Rules supersedes the Foreign Exchange Management (Transfer or Issue of Any Foreign Security) Regulations, 2004 and the Foreign Exchange Management (Acquisition and Transfer of Immovable Property Outside India) Regulations, 2015. The revised framework aims to enhance the ease of doing business in India.

The framework introduces new definitions and provides clarity with respect to various existing definitions and also provide clarity in implementation of the rules.

The key consideration of the OI Rules and regulations are as follows:

1. A person resident in India having an account appearing as a Non-Performing Asset (NPA) or is classified as wilful defaulter or is under investigation by a financial sector regulator/ investigative agency is required to obtain a No-Objection Certificate (NOC) from the lender bank/regulatory body/investigative agency, before making financial commitment or undertaking disinvestment. However, if a lender bank/regulatory body/investigative agency does not provide the NOC within 60 days from the date of such request, then it would be presumed that such authorities do not have any objection.
2. Any Overseas Direct Investment (ODI) in startups shall not be made out of borrowed funds. Further, an ODI in start-ups can be made by an India entity only from internal accruals, whether from the Indian entity, group, or associate companies in India and in case of resident individuals, it can be made from own funds of such an individual
3. The transactions with respect to the issue and transfer of equity capital of a foreign entity between a person resident in India and a person resident outside India should be in compliance with the arm's length pricing by considering the valuation as per the internationally accepted pricing methodology for valuation. Further, any lending by an eligible person resident in India in debt/debt instrument of a foreign entity, to be backed up by a loan agreement and the rate of interest shall be charged at an arm's length basis.
4. As per the revised regulation, an Indian entity is not allowed to lend directly to its overseas Step Down Subsidiary (SDS). The India entity can issue guarantee, as per the guidelines, to any of its SDS in which it has acquired control through a foreign entity.
5. At the time of making a financial commitment or at any time thereafter, no person resident in India shall undertake such financial commitment in a foreign entity that has invested or invests into India, either directly or indirectly, resulting in a structure with more than two layers of subsidiaries.

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2. Para 2.6 of the Master Circular on "Loans and Advances – Statutory and Other restrictions" dated July 01, 2015; Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks issued vide Circular dated November 03, 2006 as amended from time to time; Para 120 and 120 A of "Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016" dated September 01, 2016, as amended from time to time; Para 106 and 106A of the 'Master Direction - Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016' both dated September 01, 2016, as amended from time to time; 'Guidelines for Managing Risk in Outsourcing of Financial Services by Co-operative Banks', dated June 28, 2021; Circular on 'Outsourcing of Financial Services - Responsibilities of regulated entities employing Recovery Agents' dated August 12, 2022, and other related instructions issued by the Reserve Bank from time to time.

6. The ODI investment criteria in financial services sector has been relaxed for sectors other than banking and insurance sectors. Therefore, as per the revised rules, the ODI investment criteria is now permissible to an entity not engaged in financial service sector, subject to three years profitability criteria.
7. A person resident in India can make an investment in a IFSC in the same manner as making an investment in a foreign entity. The criteria for three years profitability for overseas investment in financial services sector is not applicable to an Indian entity making ODI in IFSC.
8. Under the new framework, ODI in strategic sectors will be subject to an Indian entity obtaining necessary permissions from a competent authority. The restriction of having a limited liability structure for a foreign entity does not apply to entities with core activities in any strategic sector.

Also please read KPMG in India's Tax Flash News, New overseas investment framework under FEMA 1999 notified by Central Government and Reserve Bank of India dated 24 August 2022 for detailed overview of the OI framework.

(Source: Notification no. G.S.R. 646(E). issued by Ministry of Finance dated 22 August 2022, RBI Circular No. RBI/2022-2023/110 A.P. (DIR Series) Circular No.12 and FEMA 400/2022-RB dated 22 August 2022)

IRDAI updates

Appointment or continuation of common director of an insurance company

As per Section 48A of the Insurance Act, 1938, an insurance agent, intermediary, or insurance intermediary shall not to be a director in an insurance company. However, the Insurance Regulatory and Development Authority of India (IRDAI) may permit an agent, intermediary, or insurance intermediary to be on the board of an insurance company subject to such conditions or restrictions as it may impose to protect the interest of policyholders or to avoid conflict of interest.

On 2 September 2022, IRDAI issued a framework for appointment and continuation of a common director representing an agent, intermediary, or insurance intermediary on the board of insurance company. The key takeaways from the circular are as follows:

- A common director can be appointed as a chairperson on the board of the insurance company/agent/intermediary/insurance intermediary provided necessary safeguards are in place to protect the interests of the policyholders and to avoid any conflict of interest that may arise on account of the appointment.
- An individual already acting or proposed to act as an executive director or a whole-time director on the board of the insurer/agent/ intermediary/insurance intermediary should not be appointed as a nominee/common director.
- The insurers are required to submit an annual certificate by 30 April of the succeeding financial year which shall be duly certified by the Chief Executive Officer (CEO) of the insurance company/agent/intermediary/ insurance intermediary conforming the compliance of the provisions of this circular.
- The circular also prescribes conditions to be filled with respect to appointment of a such a common director.

Subsequent to the above circular, IRDAI also issued a clarification on 13 September 2022 stating that the common director appointed should continue to hold directorship till the completion of the tenure of appointment and in case an individual is a nominee of a promoter of the insurer, such an individual can be appointed as an executive director or a whole-time director on the board of the insurer/agent/intermediary/ insurance intermediary.

(Source: IRDAI Circular no. IRDAI/F&I/CIR/MISC/183/9/2022 dated 2 September 2022 and Circular no. IRDAI/F&I/CIR/ MISC/191/9/2022 dated 13 September 2022)

IRDAI sets up expert committee on implementation of Ind AS/ IFRS in insurance sector

IRDAI has been working on implementation of Ind AS in insurance sector including implementing a new standard on insurance contracts in India which is equivalent of IFRS 17, *Insurance Contracts*. However, considering the operational complexities and concerns involved in the implementation of Ind AS/IFRS, the IRDAI has decided to create an expert committee involving ICAI, Institute of Actuaries of India (IAI) and insurance industry to address implementation issues of Ind AS/IFRS in insurance sector.

The expert committee shall provide recommendations on the best practices to be adopted for implementation of the standard in the insurance sector

(Source: IRDAI Circular no. IRDAI/IFRS/ORD/MISC/177 /08/2022 dated 22 August 2022)

ICAI updates

Announcement on external confirmations through third party vendors

External confirmation is an audit procedure performed by auditors in accordance with Standards on Auditing (SA) to obtain sufficient appropriate audit evidence audit evidence.

It was recently observed by the Institute of Chartered Accountants of India (ICAI) that auditors are facing various difficulties in obtaining external confirmations from banks. One of the major concern in this regard is that some banks are using services of third-party vendors to provide confirmations on their behalf to auditors.

ICAI noted that, use of such third-party vendors leads to the risk that the information provided by third-party vendors may not be authentic and complete. Further, it is not clear as to who will be responsible in case there is failure of Information Technology (IT) controls at the end of third-party vendors which may impact the integrity of information provided.

These factors raise a question as to who will be held responsible for authenticity and completeness of information provided to auditors, the concerned bank or such third party vendors. Presently, there is no legal framework/guidelines to deal with these aspects. Thus, auditors are exposed to serious risk, in case they use the confirmation from such third-party vendors as audit evidence.

(Source: ICAI announcement on External Confirmations through Third Party Vendors dated 7 Septmber 2022)

Exposure draft on sustainability assurance engagements

ICAI has issued an Exposure Draft (ED) on sustainability assurance engagement - SSAE 3000, *Assurance Engagements on Sustainability Information* on 12 September 2022. The ED draws reference from international standard on assurance engagements ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board (IAASB).

SSAE 3000 would be applicable for attestation of all assurance engagements on sustainability information. The standard deals with providing reasonable or limited assurance on sustainability information. The ED covers the following key aspects:

a. Conducting an assurance engagement in accordance with SSAEs
b. Quality control
c. Planning and performing the engagement
d. Execution
e. Completion and reporting.

The effective date of application of SSAE 3000 is as follows:

i. Voluntary basis for assurance reports covering periods ending on 31 March 2023
ii. Mandatory basis for assurance reports covering periods ending on or after 31 March 2024.

The ED is open for comments till 3 October 2022.

(Source: Exposure draft on standard on sustainability assurance engagements (SSAE 3000) issue by ICAI on 12 September 2022)

Evaluation of the audit quality maturity

ICAI formed Centre for Audit Quality (CAQ) to develop a framework for audit quality, to work on key elements of Audit Quality, to develop Audit Quality Maturity Model (AQMM) and to develop and promote Audit Quality Indicators (AQI).

On 13 September 2022, ICAI has issued the Audit Quality Maturity Model Version 1.0 (AQMM v1.0). This an evaluation model consisting of AQIs which will enable auditing firms to not only assess their current audit maturity level but also provide guidance to firms to improve their audit quality. The AQMM would be mandatory from 1 April 2023 to all firms (other than firms conducing only branch audits) auditing the following type of entities:

a. A listed entity or
b. Bank other than co-operative bank (except multi-state co-operative banks) or
c. Insurance company.

(ICAI announcement by Centre For Audit Quality Directorate dated 13 September 2022)

Exposure draft of AS 113, *Fair Value Measurement*

The ICAI has issued Accounting Standards (AS) notified under the Companies (Accounting Standards) Rules, 2021 which are applicable to entities to whom Indian Accounting Standards (Ind AS) are not applicable.

On the basis of the discussions held at various standard setting forums, ICAI has decided to revise the AS. Accordingly, the Accounting Standard Board (ASB) is currently working on the project for revision of these AS.

In this regard, ICAI has issued an Exposure Draft of revised AS 113, *Fair Value Measurement* by keeping Ind AS 113, *Fair Value Measurement* as the base.

The exposure draft of AS 113 covers the following aspects:

a. Applicability and scope of the standard
b. Framework for measuring fair value
c. Disclosure requirements.

(Source: Exposure draft of AS 113, Fair Value Measurements issued by ICAI on 19 September 2022)

First Notes

Social Audit Standard – Exposure Draft

Date comes here

On 25 July 2022, SEBI introduced provisions pertaining to the Social Stock Exchange (SSE) by amending certain regulations. The amendments introduced certain important concepts and definitions such as – Social Stock Exchange (SSE), social auditor, social audit firm, for profit social enterprise, Social Enterprises (SEs), etc.

Under the SSE framework, the Institute of Chartered Accountants of India (ICAI) has been entrusted with the responsibility of being the self-regulatory organisation for regulating the profession of social auditors. In this regard, on 5 August 2022, ICAI released an Exposure Draft (ED) on Compendium of Social Audit Standards (SAS).

This issue of the First Notes discussed key provisions relating to SSE and the framework of SAS issued by ICAI.

KPMG in India has scheduled a webinar on Thursday, 6 October 2022 from 4pm to 5pm to discuss the key financial reporting and regulatory matters that are expected to be relevant for the stakeholders for the quarter ended 30 September 2022.

Some of the key updates to be discussed are:

- Updates relating to social stock exchange
- BEPS - new global minimum top-up tax
- Other regulatory updates such as updates relating to the Companies Act, 2013.

For registration details, please click here.

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