

18th February, 2020

Announcement

Sub: ICAI invites suggestions/comments from members on Consultation paper to examine the existing provisions of law and make suitable amendments therein to enhance audit independence and accountability by 12.00 Noon on 21st February, 2020.

The Ministry of Corporate Affairs, Government of India has issued a Consultation paper to examine the existing provisions of law and make suitable amendments therein to enhance audit independence and accountability wherein the comments have been invited by 28th February, 2020.

The Concept Paper interalia highlights that the concept of Auditor independence requires the auditor to carry out his or her work freely, with integrity and in an objective manner. Though auditor is appointed by the shareholders, effective power of their appointment and dismissal lies with the management. Hence, time and again, audit independence has been questioned, as to whether the auditor is really doing justice to the interest of shareholders. Also, the auditor's responsibility is not limited to shareholders, as audit report is a public document relied on to by various stakeholders, including Financial Institutions, Government and general public.

Further, it has been mentioned that broadly, the auditor's financial or other interest in client's business inappropriately is likely to influence his judgement/ behaviour and a conflict of interest may exist.

Considering the above, ICAI invites suggestions/comments from members on various questions framed in this regard **by 12.00 Noon on 21st February, 2020.**

A copy of the Consultative Paper is available at the link
http://www.mca.gov.in/Ministry/pdf/Comments_08022020.pdf

Members are requested to provide their comments at the following link:
<https://forms.gle/uwDoPdgEL7ucsYyy7>

A copy of the questionnaire on which you are requested to submit your views is enclosed here.

With Regards

Rakesh Sehgal
Acting Secretary, ICAI

The Ministry of Corporate Affairs (MCA) has issued Consultation paper on 8th February 2020 to examine the existing provisions of law and make suitable amendments therein to enhance audit independence and accountability inviting comments by 28th February 2020.

In this regard, the views of members are sought, specifically on the below, for ICAI to submit its views to MCA on the Consultative paper:

I. Regulatory Changes

1. Are any Regulatory changes required to further enhance the independence of Auditors?

(**Note:** Recent regulatory changes which includes, Rotation of Auditors, fixed tenor of audit appointments (5 years + 5 years), regulations on resignation of audit firms, prohibition of non-audit services u/s 144 of the Act, empowerment of institution of Audit committee and Independent Directors, etc. Further, ICAI Code of ethics, has requirements on audit partner rotation, cooling period, prohibition of several non-audit services, cap on fees of permitted non-audit services, etc)

II. Fees of Auditors

2. Do you agree that, fees should be based on reasonable estimates of time and expertise required?

(**Note:** ICAI has prescribed minimum fees for performance of work, which was revised in 2017. These fees are recommendatory in nature. For tenders, ICAI had issued guidelines on minimum fee requirement and tenders are monitored through Tender Monitoring group.)

III. Appointment of Auditors by External Authorities

3. Should the appointment of auditors be made by external authorities like CAG, RBI, NFRA, etc through an empanelment process for all companies or only Public Interest Entities (PIE)?

(Note: For State Owned Enterprises, the auditors are appointed through CAG Empanelment. ICAI has been seeking appointment of auditors for high Public Interest Entities like Public Sector Banks for which the Regulator needs to appoint auditors. However, Regulator has over time felt it appropriate that, banks require autonomy in functioning and auditor as service provider is to be appointed by banks concerned; also there is a view that Regulators have to oversee audits through inspections and if auditors are appointed by Regulators, the audit failures will be attributed to Regulator. All inspections carried out by Regulators are done through empaneled auditors and the inspection fees in most cases is paid by regulator or decided by regulator and paid by inspected firm. Except in cases of failed companies, where Regulators tend to appoint auditors, there is no global precedence of Auditors being appointed for Private Sector entities by third party empanelment agencies.)

IV. Restriction on number of partners/ audits in a firm

4. Should there be restrictions on:
 - a. the number of partners under one audit firm?
 - b. the number of audits under one audit firm/ Auditor?

(Note: There is a ceiling on number of audits per auditor which has been mentioned in the Companies Act, 2013. The ICAI Code of Ethics has also prescribed limits on number of audits. Should there be a ceiling on both number of partners and total number of audits by a firm so that, firm sizes are capped to limit economic concentration.)

V. Non-Audit Services

5. Non-Audit Services:
 - a. What are the services other than section 144(a) to (h) of the Companies Act, 2013, which should be considered as Non-Audit services, not to be provided by the Auditor of that Company?
 - b. Should the restrictions on Non-Audit Services be applicable to Public Interest Entities only?
 - c. What are the terms that should be further introduced in the engagement letter so that the independence of the auditor can be enhanced and such engagement

letter form part of Form ADT-1 to confirm compliance with requirement of Section 144 of the Act?

(Note: Section 144 of Companies Act, prohibits a set of non-audit services. The ICAI Code of Ethics has always placed restriction on several non-audit services and also the extent to which a firm can take up non-audit services for a client. Moreover, Audit Committees are required to specifically approve any permitted non- audit services work assigned to an auditor)

VI. Joint Audit

6. Whether Joint Audit should be made mandatory for bigger Companies? In case, it is made mandatory, what should be threshold?

VII. Joint Audit

7. If the "other auditor" has concluded that the financial statements of the component (subsidiary, associate, joint venture) are free from material misstatement, whether the Holding Company's auditor can rely on the opinion and can conduct an independent review beyond the scope of SA 600?

(Note: SA 600 issued by ICAI, on "using work of other auditor" is a well- established standard and is same as International Standard on Audit, ISA 600, gives needful audit guidance on use of work of component auditors.)

VIII. Submission of Joint Audit submit the quarterly/half yearly returns by unlisted company whose parent company is a listed company

8. Should an unlisted company whose parent company is a listed company, be required to submit the quarterly/half yearly returns as applicable to SEBI?

(Note: Consolidated Financial Statements are considered to be the financial statements of the economic entity comprising its subsidiaries. The quarterly/ half years audited/ limited review includes the financials of the subsidiaries audited/reviewed, which are considered by Holding Company Auditors. Globally, where consolidated financial statements are presented, the standalone financial statements are exempt from reporting requirements).

IX. Concurrent Audit

9. Whether the Concurrent Audit is to be made mandatory in big listed Companies and what should be the criteria for determining such big listed companies and what aspects should be covered in such concurrent audit?

(Note: For these Companies, Internal audit which is usually carried on throughout the year is mandatory and there is a certification of Internal Financial Controls required by Auditors. Also, banks as per RBI directives conduct independent audit of the borrowers. Further, Audit committee has been tasked with responsibility to oversee internal audit and its effectiveness.)

X. Probability of Default

10. Whether an auditor shall disclose the Probability of default of each rated debt instrument for one-year, two- year and three-year in relation to both short term and long term? If yes, in what manner?

(Note: Ind AS 109, has exhaustive prescriptions on accounting for financial instruments including disclosures thereof. Further, the audit is for historical information subject to assessment of going concern. SA 570 issued by ICAI has prescriptions for auditor assessment of going concern and reporting of same in its absence.)

XI. Composite Audit Quality Index

11. Composite Audit Quality Index (CAQI):
- a. What qualitative and quantitative parameters should be included in such CAQI?
 - b. For which type of Companies, the CAQI should be mandated?

XII. Inspection of Audit Engagements

12. What is the feasibility and mechanism of the inspection of audit engagements?

(Note: ICAI is scaling its inspection process (on site and off site) through Peer Review (PRB), Financial Reporting Review (FRRB) and Quality Review (QRB). Recently, ICAI

has also set up Tax audit Quality Review Board for reviewing quality of tax audit engagements.)

XIII. Norms for resignation of Auditor for all types of Companies

13. Whether the conditions/regulations mentioned in the implementation guide of ICAI/regulations under SEBI regarding resignation of Auditor, be made mandatory for all types of Companies?

(**Note:** These were important for large Public Interest Entities and have been put in place).