Public Consultation and Request for Comments

NFRA invites individuals and organisations to comment on all aspects of the proposals in respect of revision in SA 600 and, particularly, on the specific questions requested in this document. The revisions being proposed are to be applied to audits of Public Interest Entities (PIEs) that fall under Rule 3 of NFRA Rules 2018, **except Public Sector Enterprises, Public Sector Banks, Public Sector Insurance Entities, and their respective branches**.

It would be most helpful if the comments identify and clearly explain the issue or question to which they relate and if possible are supported by empirical data and a clear rationale. Those who disagree with any proposal are requested to describe their suggested alternative(s), supported by specific reasoning, and data as may be applicable.

It is requested that the comments in this regard to NFRA may be captioned as "Comments on proposed SA 600 (Revised)" for ease of reference.

The draft of the proposed SA 600 (Revised) can be accessed at link below:
https://cdnbbsr.s3waas.gov.in/s3e2ad76f2326fbc6b56a45a56c59fafdb/uploads/2024/09/202409171313688475.pdf

Last date for receiving the comments is **30 October 2024.**

Email	nfra-comments@nfra.gov.in captioned "Comments on proposed SA 600 (Revised)"
Postal	Captioned "Comments on proposed SA 600 (Revised)" to Secretary, National Financial Reporting Authority 7th-8th Floor, Hindustan Times House, 18-20, Kasturba Gandhi Marg, New Delhi 110001.

Purpose of this Public Consultation

This note covers the background and rationale for NFRA seeking public consultation regarding changes proposed in SA 600-Using the work of Another Auditor, on the lines of the corresponding international standard, ISA 600 issued by the International Auditing and Assurance Standards Board (IAASB), pursuant to the decisions taken in the 17th Meeting of the National Financial reporting Authority, held on 26.08.2024 (the record notes/minutes of Authority Meetings are available on NFRA website under 'Disclosures' tab). This Standard is applied in case of audit of companies which have subsidiaries and associates, with the holding company being audited by a principal or main auditor and the subsidiaries and/or associates by 'other' or 'component' auditors. The standard outlines the responsibilities of the principal auditor vis a vis those of the component auditor. Some of the largest corporations and companies with significant exposure to capital markets, investors, creditors and thereby involving huge public interest, operate through a network of subsidiaries, joint ventures, branches and associates which makes the requirements of this standard very significant. The quality of audit opinion on the consolidated financial statements (CFS), which is relied upon by investors, creditors and other stakeholders, hinges in significant part on how robust this standard is and how it is applied by auditors in discharge of their audit responsibilities.

The revisions being proposed are to be applied to audits of Public Interest Entities (PIEs) that fall under Rule 3 of NFRA Rules 2018, ***except Public Sector Enterprises, Public Sector Insurance Companies, Public Sector Banks and their respective branches.***

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Consultation Paper

1. Introduction

1.1 A high quality financial reporting framework is characterised by (a) Effective Independent High-Quality Accounting & Auditing Standards-setters, (b) High Quality Auditing Standards, (c) Active Regulatory Oversight, (d) Audit Firms with Effective Quality Controls World-wide and (e) Profession-wide Quality Assurance. The notification of the National Financial Reporting Authority (NFRA) in 2018 under Companies Act 2013 (CA 2013 or Act), as an independent standard setter and independent audit regulator, along with convergence of accounting standards (Ind AS) with the International Financial Reporting Standards (IFRS), were significant milestones in India's journey towards a high-quality financial reporting framework.

1.2 The Companies Act 2013 ushered in more financial discipline by according a 'Statutory' status to the Standards on Auditing (SAs) by way of incorporating following two sub-sections in section 143, which came into force from 01.04.2014.

a) Sub-section 9 of section 143 which states that every auditor ***shall*** comply with the auditing standards.
b) Sub-section 10 of Section 143 which states that the Central Government may prescribe the standards of auditing or any addendum thereto, as recommended by the Institute of Chartered Accountants of India (ICAI), in consultation with and after examination of the recommendations made by the National Financial Reporting Authority (NFRA).

   Proviso to above sub-section states that until the SAs are prescribed by the Central Government, the SAs or Standards specified by the ICAI shall be deemed to be auditing standards.

2. Background

2.1 Presently, the SAs have not yet been notified under the Act, and as per the proviso to section 143(10) of the Act, the standards specified by the ICAI in 2009 are in force. NFRA vide its letter dated 20.07.2021and 15.09.2021 had advised AASB, ICAI to review and update the entire set of auditing pronouncements in view of the changes in the statutory and legal framework in India. Ministry of Corporate Affairs (MCA) vide its letter dated 11.08.2021 also requested ICAI to submit a proposal to notify the SAs u/s 143 (10) of the Act. As per the ICAI, the Standards developed and promulgated by the Auditing and Assurance Standards Board (AASB) under the authority of the Council of the ICAI are in conformity with the corresponding International Standards (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB).

2.2 ICAI submitted the drafts of 35 SAs (which included SA 600) to NFRA in November 2022. It was observed that the SAs proposed by ICAI for consideration of NFRA did not consider several changes that had been made to the ISAs over last several years. Consequent to NFRA review and further correspondence with ICAI, exposure drafts (EDs) in respect of certain SAs and Standards on Quality Management (on lines of the International Standard on Quality Management-ISQM) were issued by the ICAI. However, regarding revision in SA 600 - Using the work of Another Auditor, on the lines of the corresponding International Standard ISA 600, ICAI stated that it has not adopted "ISA 600, Special Considerations — Audits of Group Financial Statements. (Including the Work of Component Auditors)".

3. NFRA's observations from enforcement cases relevant to the proposal

3.1 In course of its functioning and investigation into matters referred to NFRA by the Ministry of Corporate Affairs, GOI, Securities and Exchange Board of India, and cases taken up suo-moto by NFRA, the quality of audit in respect of Group audits (to which SA 600 is applicable) has been found to be severely deficient. In several cases of Public Interest Entities (PIEs), NFRA has observed severe deficiencies and lack of understanding on the part of the audit firms and auditors of their responsibilities in law, and improper application of the standards by the Principal and Other auditors. This has resulted in gross negligence and serious lack of due diligence by the auditors which is detrimental to the interests of the stakeholders in PIEs.

3.2 As examples, NFRA's orders in cases of Group Audits involving various companies (Reliance Capital Limited, Reliance Home Finance Limited, Reliance Commercial Finance Limited (together alleged fraud of ₹ 29,000 Crores), Coffee Day Global Limited (alleged fraud of ₹ 3500 Crores), Dewan Housing and Finance Limited (alleged fraud of ₹ 34,000 Crores), and audit quality review of IL&FS (which collapsed with a debt of ₹ 90,000 Crores) etc., which are in public domain (NFRA website), can be referred. A brief of the cases and the observed deficiencies is placed at annex 1 which essentially shows an improper application of SA 600, wherein a mechanical reliance was placed by the Principal Auditor on the work of the Other Auditor without assessing the special circumstances that required additional audit procedures. Annex 1 clearly brings out disadvantage that the users of the financial statements of these PIEs have thus been put to. Across the above cases, there were several obvious indications of siphoning off of funds through subsidiaries including promoter-controlled subsidiaries, non-consolidation of significant subsidiaries in the consolidated financial statements, non-performance of adequate audit procedures in the identification, assessment and conclusions of risk of material misstatement, failure to verify related party transactions etc. On non-reporting of fraud, in an instance, the Principal Auditor stated that 'they had no obligation to evaluate the fraud risk in any of the group companies' and 'they had no access to the books of the subsidiaries audited by the other auditors.' On evergreening of loans, they stated that while various transactions were noted between the group companies there was no evergreening in the company they audited.

4. NFRA's objective in proposing revision to SA 600 and NFRA's obligations under law with respect to Standards Setting

4.1 Amongst other statutory functions of NFRA under CA 2013, section 132 (2) of CA 2013 states that "Notwithstanding anything contained in any other law for the time being in force, the National Financial Reporting Authority shall— (a) make recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors, as the case may be; …".

4.2 Rule 4 (1) of NFRA Rules 2018, further reinforces the importance of standard setting, and provides for the objective of NFRA, '***The Authority shall protect the public interest and interest of investors, creditors and others associated*** with the companies and bodies corporate governed under rule 3 ***by establishing high quality standards of accounting and auditing***….".

4.3 Section 132 (2) (a) of CA 2013 read with Rule 4 (1) of NFRA Rules 2018 places establishment of high-quality standards of accounting and auditing in public interest as a core an obligation of NFRA and grants NFRA wide powers of recommending such standards to Central Government for notification.

4.4 An analysis of the group legal entity structure of 100 listed companies in the large cap and midcap category (excluding Banks/Insurance Entities) (annex 2) indicates that operations of many of these entities are being carried out through a large number of separate components in the form of subsidiaries, joint ventures and associates. 23 of these 100 had over 50 such components and 76 of these 100 companies had overseas components. These kinds of operating structures coupled with the statutory requirements for preparation of consolidated financial statements and its mandatory audit requires the participation of audit firms or individual auditors other than the Group Auditor.

4.5 Also, a broad review of Group Auditors' report of CFS of these 100 listed companies indicates a significant portion (above 50%) of net assets arising from the components; in case of 20 companies, the percentage is above 50%. Similarly, in case of 18 companies, the percentage of total assets and in case of 17 companies, the percentage of total revenue audited by component auditors was above 50% (annex 3).

4.6 Investor protection has also assumed greater importance today with there being 15.8 crore demat accounts which are growing at 24% per annum. The stake of retail investors through the route of Systematic Investment Plans (SIPs) of Mutual Funds is ever increasing. As of 30.06.2024, there are 19.10 Crore Mutual Funds investors. Latest data released by AMFI1 indicates that assets under management (AUM) of Mutual Funds has reached a gigantic size of Rs 61.15 lakh crores as of 30.06.2024 as against Rs 24.25 crores five years ago. During last five years (June 2019 – June 2024) 2 AUMs of Mutual Funds have depicted a growth rate of 152% as against 70% in Bank Deposits. Similarly, subscribers and assets under management (AUM) of National Pension Schemes, which is also a key stakeholder in Financial and Capital Markets, has grown significantly during the last five years. As per the bulletins of PFRDA[3], AUM has increased from Rs 3.38 lakh crores to Rs 12.14 lakh crores and the number of subscribers has grown from to 7.46 lakhs to 71 lakhs. The instances of audit failure as detailed in para 3 above and massive losses which the shareholders, banks, and other stakeholders had to suffer, bring out the need and urgency of revising SA 600 in accordance with the global standard. The proposed revision will go a long way in protecting the interest of retail and other investors, creditors such as banks and other financial institutions, and foreign investors.

4.7 Internationally, successive revisions in ISA 600 have brought in greater responsibilities for the lead auditor. As SA 600 impacts audit quality in listed companies, companies over certain financial thresholds, banking and insurance companies, all of which constitute public interest entities, its provisions need to stand the test of safeguarding overall 'public interest' and 'trust' in the financial sector in the country.

4.8 According to latest estimate by IMF, India will be contributing around 20% to the global economy over the next decade. Rating agencies like CRISIL, predict that by 2031 India will be

[1] Monthly Report June 2024 of Association of Mutual Funds in India (AMFI)
[2] Governor, Reserve Bank of India on 19.07.2024
[3] Pension Bulletins May 2024 & Aug 2014, Provident Fund Regulatory & Development Authority (PFRDA)

$7 Tn economy. Over the next five years, the Indian economy is expected to surpass that of Japan and Germany and become 3rd largest economy and have the 3rd largest Capital Market as well. Volume of capital market activity has grown from Rs 1.47 lakh crores in June 2019 to over Rs 4.12 lakh crores[4] as of June 2024.

4.9 Therefore, India's aspiration and objective to become a developed nation (Viksit Bharat) by 2047 and a leading economy over the next decade or so necessitates vibrant and deep capital and financial markets attracting both domestic and international participants, which in turn needs a financial reporting framework including standards and codes that are comparable to prevailing global standards and best practices.

4.10 The recent OM of Cabinet Secretariat, GOI, dated 26 July 2024 reiterates the need for incorporation of global benchmarks and best practices while preparing notes for cabinet/cabinet committees, also conveyed through OM of Cabinet Secretariat, GOI, dated 19 July 2022. It states that "*at the stage of conceptualising/formulating proposals related to policy matters. Schemes, programmes, projects etc, Ministries/Departments should examine global benchmark and best practices on the subject concerned. The objective should be to suitably incorporate global best practices and standards in policies, schemes, programmes, projects etc*".

4.11 Accordingly, and in keeping with NFRA's obligations in law to protect public interest and the interest of investors, creditors etc., the Authority is proposing improvements in the quality and rigour of the SA 600 (with conforming adjustments across other Standards as will be applicable) on audit of group financial statements on the lines of prevailing global standards. In India, SA 600 was issued by the ICAI in 2002 and has not been revised ever since, even when the corresponding global standard has undergone significant changes in public interest, in 2009 and then in 2023.

4.12 **The primary reason for proposing adoption of a revised Standard for group audits is to help safeguard public interest and investor protection, and the need for a standards framework that is robust enough to meet the challenges posed by complex financial systems today. The inherent complexity of group structures, as brought out in annex 1, cannot be handled by the 2002 version of SA 600 and the related provisions across other standards.**

5. Various Judicial and Parliamentary Committee pronouncements on need to converge with global standards, and recommendations of the Company Law Committee, 2022

5.1 Hon'ble Supreme Court[5] of India while dealing with a question whether AS 22 is ultra vires the provisions of Companies Act, Income Tax Act and Constitution of India, has said as follows:

> "57. India is an emerging economy. Globalization has helped India to achieve the GDP rate of around 8 to 9 per cent. However, with globalization, India is required

[4] SEBI Bulletin June 2024

[5] 19.11.2017 J. K. Industries Ltd. & Anr vs Union Of India & Ors. Also refer para 9 of the said judgment. Hon'ble Supreme Court in 2018 in S. Sukumar versus The Secretary, Institute of Chartered Accountants of India and Hon'ble High Court of Delhi in 2024 in W.P.(C) 11944/2021 & CM APPL. 12020/2024 etc.

to face challenges in various forms.Corporate India has been acquiring companies in India and abroad. Indian companies are partners in joint ventures. They are part of international consortium. Therefore, Indian Accounting Standards (IAS) have to harmonize and integrate with International Accounting Standards by which harmonization of various accounting policies, practices and principles could take place."

5.2 Hon'ble Supreme Court[6] of India while dealing with a question of regulatory mechanism over multinational accounting firms had said the following,

"53. Accordingly, we issue the following directions:

(i)……The Committee may also consider the need for an appropriate legislation on the pattern of Sarbanes Oxley Act, 2002 and Dodd Frank Wall Street Reform and Consumer Protection Act, 2010 in US or any other appropriate mechanism for oversight of profession of the auditors…."

5.3 Hon'ble Delhi High Court[7] while dealing with writ petittions of partners of Indian network firm of a MAF, **had emphasised the imporance of global best practices** as can be seen from extract of judgment reprodcued below. (Empashsis supplied)

"109. There is an imminent need, therefore, for –

(a)….

(b) Undertaking a consultation in order to clearly set out as the framework in which multinational accounting firms, whose presence is also necessary in India, can operate. Such firms also contribute in bringing global best practices to India with immense opportunities for youngsters. They also render services to Indian businesses even at a global scale. Thus, the provisions relating to licensing agreements, brand usage etc., also need to be looked into."

5.4 **The Parliamentary Standing Committees and Companies Bills (Emphasis supplied)**

a) Standing Committee on Finance – 21st Report of 15th Lok Sabha

"Need for change

3. … In the light of this background, modernization of corporate regulation governing setting up and running of enterprises, structures for sharing risk and reward, governance and accountability to the investors and other stakeholders and structural changes in the law commensurate **with global standards** have become critical for the maintenance and enhancement of a vibrant corporate sector and business environment.

4…. **Many Indian companies have become global** and expanded their operations beyond Indian borders with a spate of mergers and acquisitions abroad. Thus, the corporate form has not only contributed significantly to the growth of the national economy, but has helped Indian entrepreneurs to carve out a place for themselves

[6] 23.02.2018 S. Sukumar versus The Secretary, Institute of Chartered Accountants of India and Hon'ble High Court of Delhi in 2024 in W.P.(C) 11944/2021 & CM APPL. 12020/2024 etc.

[7] 03.07.2024 W.P.(C) 11944/2021 & CM APPL. 12020/2024 etc.

in the world economy as well. In the backdrop of these developments, a need was felt to help sustain this growth by putting in place a **legal framework that would enable the Indian corporate sector to operate in an environment of best international practices in a globally competitive manner, while fostering a positive environment for investment and growth."**

5.5 **Standing Committee on Finance – 57th Report of 15th Lok Sabha**

"Salient features of the Companies Bill 2011 (Page 17)

The Authority shall consider the International Financial Reporting Standards and other **internationally accepted accounting and auditing policies and standards** while making recommendations on such matters to the Central Government which will improve the competitiveness of our companies with other companies. The Authority is also proposed to be empowered with *quasi judicial* powers to ensure independent oversight over professionals."

5.6 **Recommendations of the Company Law Committee, March 2022**

(a) The Company Law Committee, 2022, which was chaired by the then Secretary, Corporate Affairs, GOI, and had members drawn from corporate sector, professionals, law and public policy, amongst its deliberations also held that the auditor of a holding company should comment on the true and fair view of each subsidiary company.

(d) The report states that the Committee discussed the issue of large number of cases of diversion of funds through subsidiary companies that are presently taking place and expressed the need for regulatory changes on this matter. The Committee viewed that since a holding company makes significant investment in its subsidiary companies, there should be proper oversight, especially on financial matters, of such subsidiary companies by the Board and the auditor of the holding company. The Committee was also informed about the existing auditing standards and practices. The Committee was of the view that suitable amendments may be required to ensure that the auditor of the holding company has been given assurance about the fairness of audit of each subsidiary company by the respective auditors. In addition, the auditor of the holding company may also be empowered to independently verify the accounts or part of accounts of any subsidiary company. The Committee stated that suitable amendments concerning these matters may be introduced after further examination and public consultation.

6. Provisions in law relevant to the proposal

6.1 In India, preparation of and audit of annual financial statements of all companies is mandatory. S. 129 (3) of CA 2013 requires the company which has subsidiaries or associates to prepare Consolidated Financial Statements (CFS) in addition to its Separate Financial Statements under s.129 (1) and lay it before the annual general meeting of the company. S.143 (2) requires the auditor to audit every financial statement laid before the company in its general meeting.

6.2 S.143 of CA 2013 also deals with audit of branch office of a company either by the auditor of the company or any other person[8] qualified to be to be an auditor of a company and appointed as such u/s 139 of CA 2013. Further, proviso to s.143 (1) empowers the auditor of a company to right of access to the records of all its subsidiaries and associate companies in relation to audit of CFS. S. 143 (3) (c) of CA 2013 states that the auditor's report shall also state whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than a company's auditor has been sent to him under the proviso to that sub-section ***and the manner in which he has dealt with it in preparing his report.*** Proviso to s. 143 (8) states that the branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report ***in such manner*** as he considers necessary.

6.3 The provisions in CA 1956 were also similar, which are also referenced as SA 600 is of 2002 vintage. With respect to branch audits, s. 228 (3) (c) of CA 1956 stated that the branch auditor shall prepare a report on the accounts of the branch office examined by him and forward the same to the company's auditor who shall in preparing the auditor's report, deal with the same in such manner as he considers necessary. Section 227 (3) of CA 1956 deals with the contents of an audit report. S.227 (3) (bb) states that the auditor has to report on 'whether the report on the accounts of any branch office audited under section 228 by a person other than the company's auditor has been forwarded to him as required by clause (c) of sub-section (3) of that section and how he has dealt with the same in preparing the auditor's report'.

7. Key aspects of SA 600 which are at variance with ISA 600 (2002) and with provisions in law

7.1 SA 600 was issued by the ICAI in April 1995 and revised in September 2002. This revised version is stated to be generally consistent, in all material respects, with ISA 600 (2002). However, the SA 600 is different even from ISA 600 (2002) in significant aspects, as discussed below.

(i) Degree of Responsibility of the Principal Auditor vis a vis the Component Auditor

7.2 **Division of responsibility was not a given in ISA 600 (2002); it was conditional**. ISA 600 (2002) stated that division of responsibility can arise *if the local regulations of some countries permit a principal auditor to base the audit opinion on the financial statements taken as a whole solely upon the report of another auditor regarding the audit of one or more components*.

7.3 NFRA's review of the provisions in both the Acts i.e., current CA 2013 Act[9] & erstwhile CA 1956 Act[10], shows that the Acts do not require the Principal Auditor to issue his audit opinion ***solely based*** on the audit report of the branch auditors (See para 4.2 and 4.3 above).

7.4 SA 600 further provides that when the auditor delegates work to assistants or uses work performed by other auditors and experts, he will continue to be responsible for forming and expressing his opinion on financial information. However, he will be **entitled** to rely on work

[8] In the case of foreign branch, it can be audited by an accountant or any other person duly qualified to act as an auditor of that branch in accordance with the laws of that foreign country.
[9] s. 143 (8) and s. 143 (3) (c) of CA 2013 and Rule 12 of the Companies (Audit and Auditor) Rules 2014
[10] s. 228 (3) (c) and s.227(3)(bb) of CA 1956

performed by others, provided he exercises adequate skill and care ***and is not aware of any reason to believe that he should not have so relied***. It states that the principal auditor ***would not be responsible in respect of the work entrusted to the other auditors, except in circumstances which should have aroused his suspicion about the reliability of the work performed by the other auditors.***

7.5 The exception clauses provided for in the Standard, as given above in ***bold italics*** above, left a lot of discretion at the hands of the Principal Auditor and even in cases where components auditors reported fraud and issues related to going concern, Principal Auditors have tried to take shelter behind these clauses.

7.6 Hence, the Standards are required to be updated to bring in clarity in auditors' other obligations with respect to audit of Group entities.

(ii) Assessment of Professional Competence of the Other Auditor

7.7 Assessment of competence is hinged in SA 600 on the other auditor also being a CA. The SA states that the principal auditor should consider the professional competence of the other auditor in the context of a specific assignment *if the other auditor is not a member of the ICAI.*

7.8 Competence and capability encompass not just being a CA, but relevant experience, understanding and adhering to quality control framework, ethical considerations, amongst other competencies. Internationally[11] also CPAs and such other professionals need to fulfil certain criteria that are laid down by the audit regulators in their countries (as seen in the US, UK, South Africa, Australia, Singapore etc) and must demonstrate competencies relevant to audit of PIEs, in addition to registration with the audit regulator.

7.9 Today as well, while qualification of CA is an eligibility condition for being appointed as an auditor, RBI, SEBI, IRDAI and CAG provide for other additional criteria like sectoral experience of firms, existence of specific skills sets, number of audit partners and their experience, presence of information system auditors in audit teams, etc., as part of the empanelment/selection criteria for auditors, as illustrated below.

a) Prudential Regulator for Banks and Financial Institutions viz. RBI, has laid down certain eligibility criteria such as minimum number of partners/professional staff, past experience of bank audits, standing of the firm, IS auditing skills etc.

b) Capital Market Regulator viz. SEBI, requires the statutory auditor of listed entity to be mandatorily subject to a peer review process of the ICAI and hold a 'Peer Review' Certificate issued by the Peer Review Board of the ICAI (this is a case of a CA reviewing the work of another CA)

c) Prudential Regulator for Insurance Entities viz. IRDAI, has also laid down certain eligibility criteria such as minimum number of partners/professional staff, past experience of bank audits, standing of the firm etc.

[11] As an example, Australia's competency standard can be viewed at https://download.asic.gov.au/media/3913960/auditing-competency-standard-final-august-2015.pdf.

7.10 In fact ISA 600 (2002) provided that even in the case when the principal auditor and other auditor are from affiliated firms, reliance on the competence of the other auditor was premised on some formal mechanisms, where 'the principal auditor and the other auditor may have a continuing, formal relationship providing for procedures **such as periodic inter-firm review, tests of operating policies and procedures and review of working papers of selected audits**.'

(iii) Sharing of work papers

7.11 SA 600, as it exists today, does not permit review of work papers of component auditors by the principal auditor. Such review of work papers was part of the provisions in the then international standard (ISA 600 of 2002) as it is an important enabling provision for the group auditor to assess sufficiency of audit work performed by component auditors in support of the audit opinion expressed on the group financial statements, given the risks that present in case of such companies.

7.12 One of the reasons cited by ICAI in respect of why ISA 600 is not adopted in India is that the Standard requires sharing of work papers between auditors, and sharing of work papers is not permitted in Chartered Accountants Act 1949. In this regard the relevant provisions are as below.

a) Clause (1) of the Second Schedule of the Act, PART I, Professional misconduct in relation to Chartered Accountants in Practice -states that a Chartered Accountant in Practice shall be deemed to be guilty of professional misconduct, "if he discloses confidential information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force".

b) This clause is not a bar to sharing work papers as SAs would be notified by the Government under s.143 (10) of CA 2013. At present too, the SAs issued by the ICAI have statutory status under s.143 (10) of CA 2013.

7.13 In respect of this issue, it is para 2.15.1.1 (v) of Code of Ethics (Revised 2020) issued by ICAI states that *an auditor is not required to provide the client or the other auditors of the same enterprise or its related enterprise such as a parent or a subsidiary, access to his audit working papers. The main auditors of an enterprise do not have right of access to the audit working papers of the branch auditors. In the case of a Company, the statutory auditor has to consider the report of the branch auditor and has a right to seek clarifications and/or to visit the branch if he deems it necessary to do so for the performance of the duties as auditor. An auditor can rely on the work of another auditor, without having any right of access to the audit working papers of the other auditor. For this purpose, the term 'auditor' includes 'internal auditor'.*

7.14 These provisions are not consistent with CA 2013. Instead, as discussed in paras above, the principal auditor has right of access to all records that aid him in fulfilling his responsibility under section 143 of CA 2013 (s.227 of CA 1956).

7.15 Provisions regarding review of work papers are essential for overall quality of audit and investor protection and aid the principal auditor in seeking sufficient and appropriate evidence of work done by branch auditors, in support of the principal auditor's overall opinion on the financial statements.

8. Basis for revision of ISA 600- IAASB[12]- paramountcy of public interest issues

8.1 Internationally, the standard on use of Other Auditor's work was issued four decades ago in July 1981 by the International Auditing Practices Committee, the predecessor of the IAASB. It was known as 'International Auditing Guidelines[13] (IAG) 5, Using the Work of an Other Auditor.[14] In 2002, the IAASB renamed it as ISA 600, Using the Work of Another Auditor.

a) As part of Clarity Project, new standard on group audits viz. ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) was developed and issued in 2009. Reportedly, it was developed in the wake of several significant frauds that involved multinational groups of companies, audited by multiple accounting firms[15].

b) The IAASB's project to revise the Standards began in 2015-16 when the feedback to IAASB Work Plan 2015-16 indicated issues and concerns relating to application of the ISA as well as auditor's performance. The concerns raised are summarised below[16].

- Application in case of Letter box audits (Companies incorporated in one jurisdiction but all operations in other country), situation where access to information is restricted (associates, joint ventures) and where shared services centres are used.

- Auditors' Performance in relation to the extent of the group auditor's involvement in the work of the component auditor, communication between the group auditor and the component auditor, application of the concept of component materiality and identification of a component in complex situations.

- Inspection findings by audit regulatory bodies and audit oversight bodies have consistently highlighted issues with respect to firms' quality control, and audits of group financial statements. The International Forum of Independent Audit Regulators (IFIAR) 2015 Survey of Inspection Findings continues to identify matters relating to Group Audits and Quality Control as areas with higher numbers of inspection findings on public interest entities (PIE) audits (including but not limited to adequacy of supervision and review and engagement quality control reviews).[17]

8.2 The project of ISA 600 (Revised) was undertaken to:

a) Clarify the scope of the standard, including explaining whether ISA 600 (Revised) applies to shared service centres, non-controlled entities and entities with branches or division;

[12] https://www.iaasb.org/consultations-projects/group-audits-isa-600

[13] In 1990-91, the title of IAPC auditing pronouncements changed from International Auditing Guidelines to International Standards on Auditing to give more authoritative to the auditing standards. Refer footnote 55.

[14] Page 10 of The IAPC's International Auditing Guidelines and its controversial IAG 13 on the auditor's report by Stephen A. Zeff

[15] Refer page 10 Evolution of Auditing Practice at Accounting Firms, PCAOB Release No. 2022-02 June 21,2022 Planning and Supervision of Audits Involving Other Auditors and Dividing Responsibility for the Audit with Another Accounting Firm

[16] Refer page 54 of the IAASB *Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits* (Dec. 2015)

[17] Refer para 5 of IAASB (Main Agenda 2016) ENHANCING AUDIT QUALITY: PROJECT PROPOSAL FOR THE REVISION OF THE IAASB'S INTERNATIONAL STANDARDS RELATING TO QUALITY CONTROL AND GROUP AUDITS

b) Clarify the interaction of ISA 600 (Revised) with other ISAs, including ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330;
c) Clarify how to address restrictions on access to people and information in a group audit, including restrictions on access to component management, those charged with governance of the component, component auditors, or information at the components;
d) Clarify how the concepts of materiality and aggregation risk apply in a group audit;
e) Strengthen the auditor's approach to planning and performance of a group audit by closer aligning the standard to the principles in ISA 315 (Revised 2019);
f) Enhance the documentation requirements by clarifying what the group auditor may need to document in different situations;
g) Emphasize the importance of professional skepticism in a group audit; and
h) Reinforcing the need for robust communication and interactions during the audit.

8.3 The IAASB stated that it was mindful that the standard needs to be scalable and adaptable to a variety of circumstances. In light of the evolving and increasingly more complex environments and ongoing implementation challenges in applying these standards, IAASB concluded that taking action on the topics of quality control and group audits would therefore be in the public interest. In 2015, IAASB undertook projects to address revisions of ISQC 1, ISA 220 and ISA 600, and consideration of other outputs as necessary, on a priority basis. A combined project proposal for quality control and group audits was developed because of the intrinsic links and crossover issues, at both the firm and engagement level, and also because of the interaction between management of quality at the firm level (i.e., ISQC 1) and at the engagement level (i.e., ISA 220).

8.4 The most significant public interest issues sought to be addressed included:
a) Fostering an appropriately independent and challenging skeptical mindset of the auditor—professional skepticism is a fundamental concept and core to audit quality.
b) Enhancing documentation of the auditor's judgments
c) Keeping the ISAs and ISCQ 1 fit for purpose
d) Encouraging proactive management of quality at the firm and engagement level—ISQC 1 and ISA 220
e) Exploring transparency and its role in audit quality— how firms provide transparency about how they support and achieve effective quality management.

8.5 The IAASB also explored what more can be done in ISA 600 in relation to component materiality and the concept of **aggregation risk.** ISA 600 (Revised) defines **Aggregation Risk** as follows: *Aggregation risk exists in all audits of financial statements but is particularly important to understand and address in a group audit because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components.* ***Generally, aggregation risk increases as the number of components increases at which audit procedures are performed separately, whether by component auditors or other members of the engagement team.***

International Adoption

8.6 Pursuant to the issue of ISA 600 (Revised) by IAASB, major jurisdictions across the globe (UK, EU-almost all of its member states, South Africa, Australia, New Zealand, Brazil, Canada, Malaysia and Singapore) have adopted/converged with ISA 600 (Revised) (refer annex 4). In the US as well, the Public Company Accounting Oversight Board (PCAOB),which issues Auditing Standards applicable to PIEs in the US, provides for Auditing Standard AS 1201-Supervision of the Audit Engagement, in which the lead auditor supervises the work of the other auditor. Very recently, it has approved additional provisions for division of responsibility through bringing in a Standard AS 1206, which in their note[18] applies to infrequent and uncommon situations, such as for an equity method investment or a late-year acquisition of a company audited by another auditor. This standard, AS 1206, is a choice given to the lead auditor in the uncommon situations cited above, but even that is based on certain significant determination involving qualitative and quantitative attributes, including a determination which states that '*In addition, in an audit that involves referred-to auditors (see AS 1206), the participation of the engagement partner's firm ordinarily is not sufficient for it to serve as lead auditor if the referred-to auditors, in aggregate, audit more than 50 percent of the company's assets or revenues' (details can be seen using link in footnote 18).*

9. Consultation with SEBI, RBI and CAG and their in-principle agreement

9.1 SEBI, while conveying their in-principle agreement, stated that CA 2013 recognised the need for having an independent audit regulator for improving the quality of accounting and audit in India. The standards issue by independent audit regulators which are aligned with international standards would lead to improvements in regulatory framework governing audit firms and associate de ethical requirements, therefore leading to better quality audits of financial statements of listed entities. SEBI stated that given inherent deficiencies in SA 600 as pointed out in NFRA letter, it is crucial to update and bring the Indian Standard (SA 600) on par with global standards (ISA 600). SEBI cited relevance of provisions in ISA 600 to even limited review of the audit of entities/companies whose accounts are to be consolidated with the listed entity in accordance with the SEBI (LODR) regulations 2015 and SEBI Master Circular dated July 11, 2023.

9.2 RBI stated that they agree in principle with NFRA's proposal to revise SA 600 in line with international standards. RBI's feedback is also presented in para 12.7 below. CAG suggested wide stakeholder consultation and a graded approach in alignment of SA 600 with ISA 600 (Revised).

10 Discussion on apprehension of concentration of audit

10.1 Though the revisions are intended with overall public interest in view and with a view to close the observed regulatory gaps and loopholes, some concerns have been raised that in the application of the provisions of these standards, the principal auditors may potentially insist that their network entities be appointed as auditors of significant components, thereby leading to concentration of audit in select audit firms.

10.2 **This is not an observed phenomenon and this line of thought undermines the right of the shareholders to appoint auditors or the role of the Audit Committees in the appointment of the auditors, as provided in Companies Act.**

10.3 **The apprehension that the revision in the Standards will lead to any kind of concentration is already mitigated in Law**. As per s.139 of CA 2013, the right of appointment of auditors vests with the shareholders. CA 2013 also entrusts the Audit Committees, under s.177, with making considered recommendations for appointment, remuneration and terms of appointment of auditors of the company, reviewing and monitoring auditor's independence and performance, and effectiveness of audit process.

[18] https://pcaobus.org/about/rules-rulemaking/rulemaking-dockets/docket-042-proposed-amendments-relating-to-the-supervision-of-audits-involving-other-auditors-and-proposed-auditing-standard

Section 141 (3) (g) of CA 2013 places a bar on a Chartered Accountant from being appointed auditor if the auditor is holding appointment as auditor of more than twenty companies at the date of appointment or reappointment. Further, as per clause 8 of the ICAI Council Guidelines 2008[19] there is ceiling of 30 company audits, whether in respect of private companies or other Companies excluding one person and dormant companies, per Chartered Accountant or per Partner in the firm.

10.4 **Moreover, the apprehension that this proposal may impact small and medium accounting and auditing firms on a large scale does not appear to be supported by any relevant data. On the contrary, the data obtained from CMIE and NSE, as explained below, suggests that any such apprehension is** misplaced.

The proposed revisions are to be applied to listed entities and PIEs under Rule 3 of NFRA Rules 2018, except Public Sector Banks, Public Sector Enterprises, Public Sector Insurance Companies and their subsidiaries respectively. At present, Rule 3 entities are audited by approximately 2500-3000 audit firms of whom 60-70 are big, medium sized audit firms and the majority are sole propreitorships or very small audit firms auditing one or two of these Public Interest Entities. Rule 3 entities itself comprise approximately 7850 companies, excluding PSBs and PSUs (source CMIE database).

A broad assessment of the number of subsidiaries and JVs etc of listed entities and unlisted entities in NFRA purview (excluding PSBs and PSUs), are approximately 24469 (CMIE data). This figure translates to approximately 1.5 percent of the total active companies which approximate 17,45,911 lakh (ref July 2024 bulletin of the Ministry of Corporate Affairs) which are required to be audited. Data from NSE (which sources data from MCA 21 and as available with NSE), states the number of listed holding companies and their subsidiaries/JVs/associates (listed and unlisted), is approximately 17,540. Therefore, the total number of entities under the NFRA domain and their subsidiaries (approximately) together account for only about 1.8% of the total active companies in the country.

Therefore, the above data from CMIE and NSE indicates that the proposed SA 600 (Revised) may impact a maximum of around 2 percent of the total approx. 17 lakh active companies, and the audit of around 98% of the companies may not be impacted by the revision in the Standard. In other words, there may not be any significant impact on the number of audits done by the small and medium audit firms. Therefore, the above data should put to rest any apprehension of audit concentration.

10.5 It is also relevant to recollect that the SA 220 already requires that *the engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to:*

(a) Perform the audit engagement in accordance with professional standards and regulatory and legal requirements; and

(b) Enable an auditor's report that is appropriate in the circumstances to be issued.

10.6 It is therefore logical and necessary that the same requirements of competency are present and evidenced in large mutilocation, multinational audits and the audit quality requirements are commensurate with the risks involved. The proposed revision reiterates

[19] Refer page 154-156 of Code of Ethics -Volume II (Revised 2020)

requirements of SA 220[20] and SA 315[21] in respect of Group Audits and consequently the obligations and role of Principal Auditors. It cannot be the case that skill, competency and audit effort be commensurate with the audit of smaller subsidiaries or associates but are permitted to be diluted in case of large complex entities that carry a higher risk of audit failures which can have a cascading effect on other sectors of the economy.

While it is expected that to undertake audit of large multi-location multinational companies and big corporations, there is a need for audit firms to operate with institutional capacity and required competency, it also does not seem appropriate to assume that the requirement of quality will stifle capacity and opportunity. In fact, it has the potential to foster growth, innovation and synergies in audit capacity, promote a natural coming together of talent, and elevate quality of audit.

10.7 **In view of the above and in view of the significant public interest , the revision in SA 600 is sought to be brought in for audits of Listed companies and Public Interest Entities covered in Rule 3 of NFRA Rules 2018, *except Public Sector Enterprises, Public Sector Insurance Entities and Public Sector Banks and their branches*.**

11. Public Consultation and Request for Comments

The proposed revised Standard can be accessed at link below:
https://cdnbbsr.s3waas.gov.in/s3e2ad76f2326fbc6b56a45a56c59fafdb/uploads/2024/09/202409171313688475.pdf

Key aspects of the proposed changes are also indicated in annex 5. Comments are requested on the proposed revisions. NFRA also requests views/comments of stakeholders on specific questions mentioned below in relation to the key issues mentioned above.

The revisions being proposed are to be applied to audits of PIEs that fall under Rule 3 of NFRA Rules 2018**, except Public Sector Enterprises, Public Sector Insurance Companies, Public Sector Banks and their respective branches**. Comments will be most helpful if they identify and clearly explain the issue or question to which they relate and are supported by empirical data and a clear rationale. Those who disagree with a proposal are requested to describe their suggested alternative(s), supported by specific reasoning and examples, as far as possible. Last date to receive comments is 30 October 2024.

Question No.	Particulars
1	*This consultation paper provides a discussion of the reasons and benefits of improving auditing standards on audit of Group Financial Statements. Are there additional concerns or aspects that NFRA should seek to address or consider?*
2	*Is the proposed draft solution, SA 600 (Revised), in view of the risks and benefits outlined above? If not, why not, and are there any alternative approaches?*
3	*As the proposed SA 600 (Revised) converges with ISA 600 (Revised), application guidance is already available. However, are there any particular areas of the*

[20] SA 220- Quality Control for an audit of financial statements.
[21] SA 315 Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and Its Environment

Question No.	Particulars
	proposed SA 600 (revised) where more clarifications, application material and guidance will be needed?
4	*Are there any other conforming or consequential amendments required in any other SAs, apart from those mentioned in the draft SA 600 (Revised), put out for public consultation?*
5	*The current proposal is to apply the revised requirements to audits of PIEs under Rule 3 of NFRA Rules 2018, except Public Sector Banks, Public Sector Insurance Companies, PSUs and their respective branches. What could be specific considerations in case of PSBs/PSUs/Pubic sector insurance companies and their branches that would need to be addressed going forward?*

The comments may be sent at:

Email	nfra-comments@nfra.gov.in captioned "Comments on proposed SA 600 (Revised)"
Postal	Captioned "Comments on proposed SA 600 (Revised)" to Secretary, National Financial Reporting Authority 7th-8th Floor, Hindustan Times House, 18-20, Kasturba Gandhi Marg, New Delhi 110001.

Annex 1

NFRA's experience in enforcement cases-Group Audits

(a) **DHFL**, a Non-Banking Finance Company, was allegedly involved in siphoning off of approximately ₹ 34,000 crore of public money by the promoter directors, reportedly through the use of a fictitious branch. DHFL operated through a network of around 250 branches across various States in India.

NFRA's investigation revealed that the Principal Auditor (i) did not identify non-consolidation of a subsidiary resulting in an understatement of liability by ₹1901 crore in the consolidated financial statement, (ii) did not identify deficiencies in internal control relating to the most critical activity of a financial institution i.e., appraisal and sanction of loans at the head office level and branch level, (iii) failed to understand the entity's operating structure, group-wide internal control, and (iv) did not perform adequate audit procedures in the identification, assessment and conclusions of Risk of Material Misstatement (RoMM), (v) failed to verify the Related Party Transactions (RPT), and more importantly did not identify the components to be audited. The audit opinion issued by him was therefore without sufficient basis. The Principal Auditor did not assess the legal validity of the appointment of the large number of branch auditors upon whose work he relied upon. The work done by the branch auditors, which were many[22], was similarly found deficient in application of auditing standards.

(b) **The IL&FS group**, which consisted of around 250 subsidiaries (listed as well as unlisted), associates and joint ventures as on 31st March 2018, operated in the infrastructure sector. As per books of accounts, the group's revenue was around ₹17,672 Crore with total assets of ₹115,814 Crore and total external liabilities of ₹106,543 Crore as on 31 March 2018. It reported a net loss of ₹1886 Crore (consolidated) and a profit of ₹584 crore (standalone) for the said period. **The audit quality reports in respect of IL&FS, ITNL and IFIN have been published on NFRA website.** Significant key observations by NFRA relevant to this discussion included inadequate coordination/discussion with component auditors at most stages of audit, discrepancies in the number of components as per CFS and mandatory filings in MCA 21 which were not assessed by the auditors, non-assessment of inclusion of unaudited financial statements of some components in the CFS by Management. In respect of the latter, the principal auditor stated that "…….. preparation of consolidated financial statements (CFS) is the responsibility of management and accordingly, use of component's unaudited financial statements, considering the non-availability of audited financial statements, was also decision of management. As an auditor, we had no role to play in this regard. **As a holding company auditor, it is not in our realm to insist on the management that all components financial statements should be audited".**

(c) SEBI had referred a case to NFRA of **a company** that **had filed false declarations** with Registrar of Companies, Hyderabad ('RoC' hereafter) in respect of its turnover. The company was neither registered by the Service Tax/GST department nor had filed any Service Tax or GST Returns and yet the auditor had certified such financial statements. The company had disclosed in its annual reports that they were engaged in the Software business, when it was in the business of construction. 100 % of the revenue of the company was being generated from its foreign branch for which an auditor was appointed who was based in a third country. NFRA's examination revealed that there were significant violations in the financial statements with respect to revenue recognition policy, disclosures and foreign currency translations, no evidence of audit procedures performed by the principal auditor to conclude that the

[22] NFRA took disciplinary action against approx. 30 branch auditors involved in over 200 branch audits

work of the foreign branch auditor was in line with instructions conveyed by him. Responding to the charges, the principal auditor referred to the ICAI Code of Ethics and stated that —"...**The main auditors of an enterprise do not have right of access to the audit working papers of the branch auditors.** In the case of a Company, the statutory auditor has to consider the report of the branch auditor and has a right to seek clarifications and/or to visit the branch if he deems it necessary to do so for the performance of the duties as auditor……... Hence, from the above it can be inferred that appropriate procedures within the framework have been performed by us and there is no non-compliance."

In another instance the principal auditor stated that "…sampling in audit is matter of professional judgment as a parent auditor we had informed about the significant risks and materiality in the instructions which were sent to the branch auditor, the review and audit, sampling was carried out by the branch auditor with regards to each financial captions of the branch.....It must be noted that we had received an audited financial statement from the auditor in ….(foreign branch auditor), that audit report does not contain any negative remarks about the balances under question. **We, being the parent auditor, relied on the audit report sent by the Branch Auditor and that was well within the purview of the standards of auditing and Companies Act, 2013.** There is no breach of any Standards of Auditing or any Law for the time being in force. Further, it also must be noted that the audit evidence collected by the branch auditor, will be with the branch auditor, they cannot be found in the audit file of parent auditor.'

(d) **Reliance Commercial Finance (RCL) Limited-** As per the Consolidated Financial Statements for FY 2018-19, RCL had loans from Banks of around ₹12,000 crore and other external borrowings of around ₹32,000 crores, consisting of debentures, commercial papers and pass-through certificates. RCL was a Core Investment Company (CIC) investing primarily in its group companies. RCL used the above loans and borrowing to extend loans and investments to other group companies. Reliance Home Finance Limited (RHFL) and Reliance Commercial Finance Limited (RCFL) are subsidiaries of Reliance Capital Limited (RCL), which are consolidated in the financial statements of RCL. One of the joint auditors of RCL reported suspected fraud regarding loans and investments amounting to approximately ₹12,571 crore. Despite the reporting of suspected fraud and the resignation by the joint auditor who reported fraud, the other Joint Auditor did not perform adequate procedures as required by the SAs. The material misstatements in the financial statements due to inadequate provision, unjustified valuation of loans and irrational business practices were concurred by them. All three companies were facing going concern issues and suspected fraud. While the RHFL auditor had qualified its report, the RCFL auditor had issued a clean report with a paragraph on going concern. The RCL auditor, who was the principal auditor, simply quoted these two reports of the component auditors and then issued an unmodified opinion on the standalone financial statements and a qualified opinion on consolidated financial statement, basing his conclusion on the RHFL's modified opinion alone.

(e) **Coffee Day Enterprises Limited (CDEL)-** In respect of Audit of CFS of CDEL, the audit firm, the engagement partner (EP) and the Engagement Quality Control Partner (EQCR), did not perform appropriate additional audit procedures to obtain sufficient appropriate audit evidence to issue audit opinion on CFS. Though a substantial portion of financial information of the CFS was audited by the Other Auditors, the Principal Auditors did not properly evaluate whether their own participation was sufficient to be able to act as the Principal Auditor. The Auditors sought refuge in the provision of SA 600, relying on the work of auditors of the subsidiaries, while CDEL's investments in the subsidiaries of this company constituted a staggering figure of Rs 1,937 crores constituting 89% of the standalone balance sheet.

The additional procedures, wherever performed by the Principal Auditors, were also inadequate and deficient. The business rationale of unusually high amount of Rs 2,226 crores of the loans/advances given to a promoter-controlled entity which had no business connection with the listed company was not evaluated. CFS had Rs 842.49 crores of outstanding amounts receivable from this promoter held entity, a related party with very minimal business activities, but the Principal Auditors did not evaluate recoverability and the adequacy of the impairment allowance as per the applicable accounting standards; there was a pattern of diversion of funds of the listed entity, to promoters or entities controlled by the promoters through a web of intra group circular transfer of funds where the promoter held entity was used as a main conduit for transferring funds to promoter controlled entities. SA 600 provides that ***principal auditor would normally be entitled to rely upon the work of component auditors*** *unless there are special circumstances to make it essential for him to visit the component and/or examine the books of accounts and other records of the said component*. While NFRA noted that the company had diverted large amounts to its promoter entity (upwards of Rs 3500 crores) and the auditor had himself identified the matter of exposure of the group companies to the promoter company and recoverability of outstanding balances at year end as an important matter, the ***auditor stated that he relied upon the work of component auditors as 'no such special circumstances came to his attention to trigger the requirement of*** **SA 600'**

On non-reporting of fraud, the Principal Auditor stated that 'they had no obligation to evaluate the fraud risk in any of the group companies' and 'they had no access to the books of the subsidiaries audited by the other auditors'. On evergreening of loans, they stated that while various transactions were noted between the group companies there was no evergreening in the company they audited.

Annex 2

Group Legal Entity Structure Overview of Top 100 Listed Companies (Source: Notes to Consolidated Financial Statements 31.03.2023)

Sr. No.	Company name	Category based on Market Cap	Total Subsidiaries, JVs & Associates	Total Subsidiaries	Total Associates	Total JVs	Total Overseas Subs, JVs & Associates
1	RELIANCE INDUSTRIES LTD	Large Cap	335	277	22	36	88
2	TATA CONSULTANCY SERVICES LTD.	Large Cap	52	52	0	0	46
3	HINDUSTAN UNILEVER LTD.,	Large Cap	15	14	0	1	2
4	INFOSYS LTD	Large Cap	98	98	0	0	94
5	ITC LTD	Large Cap	41	29	8	4	12
6	BHARTI AIRTEL LTD.	Large Cap	150	139	6	5	134
7	LARSEN & TOUBRO LIMITED	Large Cap	113	94	5	14	54
8	HCL TECHNOLOGIES LTD	Large Cap	124	124	0	0	115
9	ASIAN PAINTS LTD.	Large Cap	27	24	3	0	18
10	MARUTI SUZUKI INDIA LTD.	Large Cap	19	2	14	3	0
11	TITAN COMPANY LIMITED	Large Cap	10	9	1	0	6
12	ADANI ENTERPRISES LTD.	Large Cap	216	184	13	19	58
13	SUN PHARMACEUTICAL INDUSTRIES LTD.	Large Cap	59	59	0	0	46
14	ULTRATECH CEMENT LTD	Large Cap	14	6	7	1	3
15	AVENUE SUPERMARTS LIMITED	Large Cap	5	5	0	0	0
16	TATA MOTORS LTD.	Large Cap	105	90	13	2	83
17	OIL AND NATURAL GAS CORPORATION LTD	Large Cap	70	35	14	21	38
18	NTPC LIMITED	Large Cap	28	11	0	17	2
19	WIPRO LTD.,	Large Cap	66	65	1	0	57
20	MAHINDRA & MAHINDRA LTD.	Large Cap	124	96	12	16	49
21	POWER GRID CORPORATION OF INDIA LIMITED	Large Cap	54	42	0	12	1
22	ADANI PORTS AND SPECIAL ECONOMIC ZONE LTD	Large Cap	104	95	0	9	13
23	COAL INDIA LIMITED	Large Cap	16	11	0	5	1
24	ADANI GREEN ENERGY LIMITED	Large Cap	128	126	1	1	58
25	LTIMINDTREE LIMITED	Large Cap	29	29	0	0	26
26	TATA STEEL LIMITED	Large Cap	190	146	20	24	137
27	BAJAJ AUTO LIMITED	Large Cap	7	7	0	0	5
28	JIO FINANCIAL SERVICES LIMITED	Large Cap	9	6	3	0	0
29	HINDUSTAN AERONAUTICS LIMITED	Large Cap	9	3	0	6	0
30	ADANI POWER LIMITED	Large Cap	13	13	0	0	0
31	HINDUSTAN ZINC LTD.,	Large Cap	5	4	0	1	0
32	PIDILITE INDUSTRIES LTD.	Large Cap	38	31	7	0	20
33	GRASIM INDUSTRIES LTD.,	Large Cap	26	8	6	12	6
34	TECH MAHINDRA LIMITED	Large Cap	102	91	11	0	86
35	BRITANNIA INDUSTRIES LTD.,	Large Cap	32	25	6	1	14

PROPOSED REVISION IN SA 600 FOR PUBLIC COMMENTS
SA 600 (REVISED), SPECIAL CONSIDERATIONS- AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)

Sr. No.	Company name	Category based on Market Cap	Total Subsidiaries, JVs & Associates	Total Subsidiaries	Total Associates	Total JVs	Total Overseas Subs, JVs & Associates
36	GAIL (INDIA) LTD.	Large Cap	26	6	11	9	7
37	TRENT LTD [LAKME LTD]	Large Cap	9	6	2	1	1
38	MACROTECH DEVELOPERS LIMITED	Large Cap	45	24	21	0	24
39	POLYCAB INDIA LIMITED	Large Cap	9	8	0	1	1
40	ADANI TOTAL GAS LIMITED	Large Cap	4	2	0	2	0
41	TVS MOTOR COMPANY LTD.	Large Cap	24	16	8	0	10
42	APOLLO HOSPITALS ENTERPRISES LTD.,	Large Cap	26	20	4	2	2
43	REC LIMITED	Large Cap	17	1	16	0	0
44	MANKIND PHARMA LIMITED	Large Cap	40	32	5	3	4
45	MARICO LIMITED	Large Cap	16	16	0	0	13
46	SRF LTD.,	Large Cap	4	4	0	0	1
47	JINDAL STEEL & POWER LTD	Large Cap	89	83	2	4	61
48	BERGER PAINTS INDIA LTD	Large Cap	11	8	0	3	4
49	SAMVARDHANA MOTHERSON INTERNATIONAL LIMITED	Mid Cap	251	240	0	11	210
50	CG POWER AND INDUSTRIAL SOLUTIONS LIMITED	Mid Cap	19	19	0	0	15
51	ZYDUS LIFESCIENCES LIMITED	Mid Cap	45	45	0	0	30
52	JSW ENERGY LIMITED	Mid Cap	65	63	1	1	8
53	TUBE INVESTMENTS OF INDIA LTD	Mid Cap	26	24	1	1	18
54	BOSCH LTD	Mid Cap	5	2	2	1	0
55	MAX HEALTHCARE INSTITUTE LIMITED	Mid Cap	11	11	0	0	0
56	INDIAN HOTELS CO. LTD	Mid Cap	42	27	6	9	12
57	PI INDUSTRIES LIMITED	Mid Cap	8	6	1	1	1
58	ONE 97 COMMUNICATIONS LIMITED	Mid Cap	23	15	7	1	4
59	NHPC LIMITED	Mid Cap	8	6	0	2	0
60	VODAFONE IDEA LIMITED	Mid Cap	12	10	1	1	0
61	AUROBINDO PHARMA LTD.	Mid Cap	80	71	2	7	59
62	ASHOK LEYLAND LTD.,	Mid Cap	18	13	3	2	6
63	ASTRAL LIMITED	Mid Cap	7	4	2	1	2
64	BHARAT FORGE LTD	Mid Cap	17	12	3	2	4
65	BALKRISHNA INDUSTRIES LTD.,	Mid Cap	5	5	0	0	4
66	GODREJ PROPERTIES LIMITED	Mid Cap	80	34	46	0	46
67	L&T TECHNOLOGY SERVICES LIMITED	Mid Cap	9	9	0	0	5
68	ADANI WILMAR LIMITED	Mid Cap	6	3	0	3	0
69	M.R.F. LTD.,	Mid Cap	4	4	0	0	2
70	ADITYA BIRLA CAPITAL LTD	Mid Cap	20	17	3	0	0
71	BHARAT HEAVY ELECTRICALS LTD.,	Mid Cap	4	1	0	3	0
72	PERSISTENT SYSTEMS LIMITED	Mid Cap	30	30	0	0	0
73	CONTAINER CORPORATION OF INDIA LTD.	Mid Cap	16	4	2	10	1

Sr. No.	Company name	Category based on Market Cap	Total Subsidiaries, JVs & Associates	Total Subsidiaries	Total Associates	Total JVs	Total Overseas Subs, JVs & Associates
74	MPHASIS LIMITED	Mid Cap	35	35	0	0	32
75	APL APOLLO TUBES LIMITED	Mid Cap	6	6	0	0	2
76	OBEROI REALTY LIMITED	Mid Cap	24	14	0	10	0
77	NMDC LTD	Mid Cap	13	4	5	4	3
78	FSN E-COMMERCE VENTURES LIMITED	Mid Cap	14	13	1	0	3
79	HINDUSTAN PETROLEUM CORPORATION LTD	Mid Cap	20	4	3	13	1
80	DALMIA BHARAT LIMITED	Mid Cap	33	30	1	2	0
81	STEEL AUTHORITY OF INDIA LTD.,	Mid Cap	16	2	1	13	0
82	JINDAL STAINLESS LIMITED	Mid Cap	14	12	2	0	4
83	SUZLON ENERGY LTD.	Mid Cap	44	36	5	3	25
84	ACC LTD	Mid Cap	8	4	2	2	0
85	TORRENT POWER LIMITED	Mid Cap	17	17	0	0	0
86	UNO MINDA LIMITED	Mid Cap	38	22	4	12	6
87	GMR AIRPORTS INFRASTRUCTURE LIMITED	Mid Cap	106	86	6	14	26
88	ESCORTS KUBOTA LIMITED	Mid Cap	9	5	0	4	1
89	JUBILANT FOODWORKS LIMITED	Mid Cap	9	5	4	0	5
90	THE PHOENIX MILLS LTD.,	Mid Cap	41	36	5	0	0
91	KPIT TECHNOLOGIES LTD	Mid Cap	23	22	0	1	21
92	L&T FINANCE HOLDINGS LIMITED	Mid Cap	9	9	0	0	0
93	AIA ENGINEERING LTD.	Mid Cap	11	11	0	0	9
94	SONA BLW PRECISION FORGINGS LIMITED	Mid Cap	9	9	0	0	7
95	THERMAX LTD.	Mid Cap	27	25	2	0	16
96	COROMANDEL INTERNATIONAL LIMITED	Mid Cap	15	15	0	0	11
97	COFORGE LIMITED	Mid Cap	25	25	0	0	20
98	OIL INDIA LIMITED	Mid Cap	14	6	1	7	7
99	GUJARAT FLUOROCHEMICALS LIMITED	Mid Cap	9	8	0	1	6
100	RAIL VIKAS NIGAM LIMITED	Mid Cap	12	1	0	11	0

Annex 3

Extent of Participation/Responsibility of Component Auditors in a sample of top Listed Companies

Source of Data: Independent Auditors Report and CFS for 31.03.2023
@ Amount of Assets[$] Audited by Other Auditors/Total Assets x 100
 # Amount of Revenue Audited by Other Auditors/Total Revenue from Operations x 100

Company name	Category based on Market Cap	% Net Assets of Parent	% Net Assets of Components	% of assets audited by Other Auditors@	% of Revenue audited by Other Auditors#
THE PHOENIX MILLS LTD.,	Mid Cap	41.52	58.48	98.59	61.95
ADITYA BIRLA CAPITAL LTD	Mid Cap	63.96	36.04	97.36	100.49
COAL INDIA LIMITED	Large Cap	3.73	96.27	94.71	104.88
BAJAJ FINSERV LIMITED (31.12.2023)	Large Cap	11.31	88.69	90.98	75.19
ZYDUS LIFESCIENCES LIMITED	Mid Cap	77.87	22.13	87.01	66.38
TATA MOTORS LTD.	Large Cap	46.78	53.22	86.65	73.80
ADANI ENTERPRISES LTD.	Large Cap	26.00	74.00	78.31	50.56
AUROBINDO PHARMA LTD.	Mid Cap	66.71	33.29	69.50	65.97
TATA CHEMICALS LTD	Mid Cap	39.7	60.30	67.97	54.33
SUN PHARMACEUTICAL INDUSTRIES LTD.	Large Cap	40.00	60.00	66.71	33.14
ASHOK LEYLAND LTD.,	Mid Cap	98.50	1.50	65.43	17.57
HINDALCO INDUSTRIES LTD.	Large Cap	69.60	30.40	64.44	67.63
GRASIM INDUSTRIES LTD.,	Large Cap	37.53	62.47	63.53	27.16
MAHINDRA & MAHINDRA LTD.	Large Cap	76.92	23.08	62.31	32.77
LARSEN & TOUBRO LIMITED	Large Cap	80.08	19.92	56.65	24.35
OIL AND NATURAL GAS CORPORATION LTD	Large Cap	52.76	47.24	52.45	89.24
BHARAT FORGE LTD	Mid Cap	114.22	-14.22	50.12	65.00
STEEL AUTHORITY OF INDIA LTD.,	Mid Cap	95.24	4.76	46.96	38.25
ADANI PORTS AND SPECIAL ECONOMIC ZONE LTD	Large Cap	29.95	70.05	42.38	21.02
OIL INDIA LIMITED	Mid Cap	82.11	17.89	40.19	73.23
TVS MOTOR COMPANY LTD.	Large Cap	4.64	95.36	39.08	21.56
CIPLA LTD.,	Large Cap	105.26	-5.26	37.55	18.34
AIA ENGINEERING LTD.	Mid Cap	96.16	3.84	36.94	100.98
TATA STEEL LIMITED	Large Cap	130.77	-30.77	34.17	41.36
APL APOLLO TUBES LIMITED	Mid Cap	65.02	34.98	31.53	5.81
TUBE INVESTMENTS OF INDIA LTD	Mid Cap	72.00	28.00	31.37	9.50
MANKIND PHARMA LIMITED	Large Cap	104.69	-4.69	30.79	23.48
TECH MAHINDRA LIMITED	Large Cap	89.88	10.12	28.40	32.42
MARICO LIMITED	Large Cap	92.93	7.07	28.28	27.95
JIO FINANCIAL SERVICES LIMITED	Large Cap	21.08	78.92	26.94	0.00
COFORGE LIMITED	Mid Cap	17.55	82.45	26.10	8.39
CG POWER AND INDUSTRIAL SOLUTIONS LIMITED	Mid Cap	181.22	-81.22	25.75	7.86

Company name	Category based on Market Cap	% Net Assets of Parent	% Net Assets of Components	% of assets audited by Other Auditors@	% of Revenue audited by Other Auditors#
VARUN BEVERAGES LIMITED	Large Cap	84.17	15.83	23.36	26.38
APOLLO HOSPITALS ENTERPRISES LTD.,	Large Cap	106.02	-6.02	23.19	25.84
TORRENT PHARMACEUTICALS LTD.	Large Cap	98.85	1.15	22.76	28.94
HINDUSTAN PETROLEUM CORPORATION LTD	Mid Cap	85.90	14.10	22.24	0.00
SRF LTD.,	Large Cap	90.00	10.00	21.38	19.39
DLF LIMITED	Large Cap	74.84	25.16	20.32	17.78
RELIANCE INDUSTRIES LTD	Large Cap	66.92	33.08	20.22	68.91
NHPC LIMITED	Mid Cap	75.64	24.36	19.63	14.55
JINDAL STEEL & POWER LTD	Large Cap	104.00	-4.00	19.55	9.62
BERGER PAINTS INDIA LTD	Large Cap	96.18	3.82	19.54	11.36
ADANI POWER LIMITED	Large Cap	147.00	-47.00	18.95	0.45
NTPC LIMITED	Large Cap	92.01	7.99	18.85	8.72
PERSISTENT SYSTEMS LIMITED	Mid Cap	77.79	22.21	18.74	11.75
JSW STEEL LIMITED	Large Cap	54.99	45.01	18.56	14.99
KPIT TECHNOLOGIES LTD	Mid Cap	83.19	16.81	18.53	15.79
FSN E-COMMERCE VENTURES LIMITED	Mid Cap	118.47	-18.47	18.43	11.06
ASTRAL LIMITED	Mid Cap	98.82	1.18	18.41	10.62
PIDILITE INDUSTRIES LTD.	Large Cap	82.24	17.76	17.52	10.64
INDIAN HOTELS CO. LTD	Mid Cap	99.53	0.47	15.95	5.44
VEDANTA LIMITED	Large Cap	172.00	-72.00	15.84	9.26
THERMAX LTD.	Mid Cap	83.14	16.86	15.66	6.47
DALMIA BHARAT LIMITED	Mid Cap	34.05	65.95	14.87	9.45
BIOCON LTD.	Mid Cap	50.00	50.00	14.48	0.07
ASIAN PAINTS LTD.	Large Cap	94.80	5.20	11.64	8.95
GAIL (INDIA) LTD.	Large Cap	85.48	14.52	11.64	23.70
ONE 97 COMMUNICATIONS LIMITED	Mid Cap	97.05	2.95	11.10	7.75
L&T TECHNOLOGY SERVICES LIMITED	Mid Cap	0.92	99.08	10.71	15.71
SUZLON ENERGY LTD.	Mid Cap	1.29	98.71	10.64	3.18
POWER GRID CORPORATION OF INDIA LIMITED	Large Cap	92.57	7.43	10.33	5.20
BRITANNIA INDUSTRIES LTD.,	Large Cap	82.19	17.81	9.99	4.91
TATA POWER CO. LTD	Large Cap	25.43	74.57	9.80	19.61
MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED	Mid Cap	88.54	11.46	9.21	14.35
DR. REDDY'S LABORATORIES LTD.,	Large Cap	87.92	12.08	9.12	13.41
INDIAN OIL CORPORATION LTD.	Large Cap	96.45%	99.04	8.74	10.86
JINDAL STAINLESS LIMITED	Mid Cap	95.73	4.27	8.29	11.61
ITC LTD	Large Cap	90.15	9.85	7.59	4.28
ADANI WILMAR LIMITED	Mid Cap	97.00	3.00	7.09	5.35
ULTRATECH CEMENT LTD	Large Cap	93.76	6.24	6.45	3.49
AJANTA PHARMA LTD.	Mid Cap	97.1	2.90	5.97	9.77

Company name	Category based on Market Cap	% Net Assets of Parent	% Net Assets of Components	% of assets audited by Other Auditors@	% of Revenue audited by Other Auditors#
SIEMENS LTD.,	Large Cap	95.34	4.66	5.87	8.77
LTIMINDTREE LIMITED	Large Cap	96.38	3.62	5.25	6.06
PI INDUSTRIES LIMITED	Mid Cap	95.91	4.09	5.00	4.50
CONTAINER CORPORATION OF INDIA LTD.	Mid Cap	99.27	0.73	3.18	1.50
DIVI'S LABORATORIES LTD.	Large Cap	99.19	0.81	2.99	6.64
COROMANDEL INTERNATIONAL LIMITED	Mid Cap	96.00	4.00	2.53	0.30
MACROTECH DEVELOPERS LIMITED	Large Cap	98.80	1.20	2.28	0.43
TITAN COMPANY LIMITED	Large Cap	94.97	5.03	2.27	0.98
BALKRISHNA INDUSTRIES LTD.,	Mid Cap	99.88	0.12	1.76	4.90
EICHER MOTORS LTD.	Large Cap	84.03	15.97	1.61	2.69
TRENT LTD [LAKME LTD]	Large Cap	115.66	-15.66	1.42	1.28
M.R.F. LTD.,	Mid Cap	98.64	1.36	1.42	1.89
ESCORTS KUBOTA LIMITED	Mid Cap	103.08	-3.08	1.05	2.01
TORRENT POWER LIMITED	Mid Cap	95.93	4.07	0.97	0.02
JUBILANT FOODWORKS LIMITED	Mid Cap	105.27	-5.27	0.82	0.00
HINDUSTAN UNILEVER LTD.,	Large Cap	99.40	0.60	0.52	0.90
ACC LTD	Mid Cap	99.84	0.16	0.47	0.01
AVENUE SUPERMARTS LIMITED	Large Cap	98.33	1.67	0.41	0.29
MAX HEALTHCARE INSTITUTE LIMITED	Mid Cap	95.00	5.00	0.33	0.10
POLYCAB INDIA LIMITED	Large Cap	98.54	1.46	0.32	0.28
SCHAEFFLER INDIA LIMITED	Mid Cap	100.00	0.00	0.29	0.34
RAIL VIKAS NIGAM LIMITED	Mid Cap	73.07	26.93	0.28	0.09
ADANI TOTAL GAS LIMITED	Large Cap	99.77	0.23	0.16	0.00
REC LIMITED	Large Cap	99.24	0.76	0.15	0.78
HAVELLS INDIA LIMITED	Large Cap	100.00	0.00	0.13	0.25
OBEROI REALTY LIMITED	Mid Cap	62.80	37.20	0.11	0.00
MARUTI SUZUKI INDIA LTD.	Large Cap	97.72	2.28	0.07	0.08
HINDUSTAN AERONAUTICS LIMITED	Large Cap	99.42	0.58	0.07	0.05
PETRONET LNG LTD.	Mid Cap	96.73	3.27	0.03	0.00
BOSCH LTD	Mid Cap	100.00	0.00	0.00	0.00
HINDUSTAN ZINC LTD.,	Large Cap	100.08	-0.08	0.00	0.02
HCL TECHNOLOGIES LTD	Large Cap	48.50	51.50	0.00	0.00
WIPRO LTD.,	Large Cap	60.20	39.80	0.00	0.00
DABUR INDIA LTD.	Large Cap	66.59	33.41	0.00	0.00
UNO MINDA LIMITED	Mid Cap	75.01	24.99	0.00	0.00
TATA CONSULTANCY SERVICES LTD.	Large Cap	76.39	23.61	0.00	0.00
ADANI GREEN ENERGY LIMITED	Large Cap	77.00	23.00	0.00	0.00
INFOSYS LTD	Large Cap	80.97	19.03	0.00	0.00
BHARTI AIRTEL LTD.	Large Cap	101.84	-1.84	0.00	0.00
3M INDIA LTD.	Mid Cap	148.00	-48.00	0.00	0.00

Annex 4

Adoption of ISA 600 internationally

Jurisdiction	Title of Standard issued
EU	EU Audit Regulations 2014 (Article 9) permits EU Commission to adopt ISAs as per Article 26 of EU Directive 2006/43/EC. Currently, EU Commission has not adopted ISAs but its Study Report of Oct 2022[23] indicate almost all of its 28 members having adopted ISAs issued by the IAASB which includes countries such as Belgium, Germany, Italy, Ireland, Netherlands, Sweden,, Norway etc.
U.K.	ISA (UK) 600 (Revised September 2022) https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/auditing-standards/isa-uk-600/
South Africa	Since April 2006, IRBA has adopted the International Engagement Standards issued by the IAASB, as published in the successive IAASB Handbooks of International Quality Control, Auditing, Assurance, and Ethics Pronouncements https://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/auditing-standards-and-guides/handbooks-of-international-standards
Australia	ASA 600 Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors) *https://auasb.gov.au/standards-guidance/auasb-standards/auditing-standards/*
New Zealand	ISA (NZ) 600 Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) https://www.xrb.govt.nz/standards/assurance-standards/auditing-standards/
Brazil	Since 2005 CFC has adopted ISA, through a convergence process, as Brazilian auditing standards. The CFC and IBRACON, report that there is an ongoing system in place to incorporate new and revised ISA as they become available. As of 2022, the 2020 ISA version is being applied.
Canada	CAS 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) https://www.cpacanada.ca/business-and-accounting-resources/audit-and-assurance/canadian-auditing-standards-cas/publications/cas-600-group-audits-have-changed

[23] October 2022 Study on the Audit Directive (Directive 2006/43/EC as amended by Directive 2014/56/EU) and the Audit Regulation (Regulation (EU) 537/2014)

Jurisdiction	**Title of Standard issued**
Malaysia	ISA 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors). https://mia.org.my/wp-content/uploads/2022/09/ISA-600-Revised-Standard-and-Conforming-Amendments.pdf
Singapore	SSA 600 (Revised) Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) https://isca.org.sg/docs/default-source/audit-assurance/aa-standards/ssa-600-(revised)(jul-23)bbc80c34b3574dd797a64e3dba6a58a5.pdf?sfvrsn=469f4146_2

Annex 5

Key aspects of the proposed revisions to SA 600

(Below is a summary. For complete details please refer to provisions in draft SA 600 Revised also put forth for public consultation)

1. Scope and Objectives

(a) SA 600 (Revised) deals with special considerations that apply to an audit of group financial statements (GFS)[24]. More importantly, it deals with special considerations for the Group Auditor when another auditor/s called Component Auditor/s is/are involved in the audit of GFS. The requirements and guidance in this SA refer to, or expand on, the application of other relevant ISAs to a group audit, in particular SA 220 (Revised)[25], SA 230, SA 300, SA 315 (Revised 2019), and SA 330. SA 600 (Revised) is intended for all group audits, regardless of size or complexity.

(b) Group may be organized in variety of ways. For example, a group may be organized by legal or other entities (e.g., a parent and one or more subsidiaries, joint ventures, or investments accounted for by the equity method). Alternatively, the group may be organized by geography, by other economic units (including branches or divisions), or by functions or business activities.

(c) A Component Auditor may be required by statute or regulation to express an opinion on the financial statements of a component e.g. CA 2013 requires audit of separate financial statements of every company which may need to be consolidated into GFS of its parent company. When a component auditor is also performing or has completed an audit of the component financial statements, the group auditor may be able to use audit work performed on the component financial statements, provided the group auditor is satisfied that such work is appropriate for purposes of the group audit.The Group Auditor is required to comply with the requirements of this SA before he decides to use that audit opinion on separate financial statements for the audit of GFS of the Parent.

(d) This SA recognises the fact that group information system and its financial reporting process may not be aligned with entity's organisation structure. e.g., an entity may have branches but its financial reporting process may not be branch-wise but business division wise or geography wise. Therefore, the Group Auditor will have to apply judgment to determine the Components based on facts and circumstances and may consider a group of branches or even legal entities or shared service centres as Components for the purpose of this SA.

(e) Objectives of this SA are to (a) determine whether to act as Group Auditor or not, (b) communicate with Component Auditors on the scope, timing, nature and extent of their work and (c) to obtain sufficient appropriate audit evidence about the financial information of the component and consoldiation process to check whether GFS are prepared in accordance with the applicable financial reporting framework. These aspects are discussed in greater details in the ensuing paragraphs.

[24] Group Financial Statements defined here and Consolidated Financial Statements defined in Ind AS 110, Consolidated Financial Statements are not the same. The former includes audit of F/S of Branches/Divisions of the same legal entity whereas the latter includes only consolidation of F/S two or more separate legal entities i.e., Parent and Subsidiaries.

[25] In 2023, the ICAI had undertaken public consultation on four SAs viz. SA 220, SA 250, SA 315 and SA 540 and SQM 1 and 2 to revise those in line with the currently prevailing ISAs and ISQMs.

2. **Group Auditor is Ultimately Responsible for Audit of GFS and Group Audit Report**

(a) The Group Engagement Partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this SA. Even when the Group Engagement Partner is permitted to delegate or assign certain tasks to other members

of the Engagement Team, he continues to be ultimately responsible for managing and achieving the audit quality.

(b) The Group Engagement Partner is required to sufficiently involved throughout the group audit and in the work of the Component Auditor.

(c) The Group Auditor shall not refer to the work of Component Auditor in the Audit Report unless it is required by the law or regulation.

3. **Acceptance and Continuance of Group Audit**

(a) Before accepting or continuing the group audit engagement, the group engagement partner shall determine whether appropriate audit evidence[26] can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements. In applying SA 210[27], the group auditor shall obtain the agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with access to all information that is relevant audit of GFS and Unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence.

(b) Terms of group audit engagement may require inclusion of additional matters such as unrestricted communication with Component Auditors, sharing of important communication between Component Management/TCWG and Component Auditors and between the entity/component and its regulators with the Group Auditor.

4. **Overall Group Audit Strategy and Group Audit Plan**

(a) The group auditor is responsible for overall group audit strategy and group audit plan. In doing so, the Group Auditor is responsible for the following.

(b) Determining components at which the audit work will be performed

(c) Involvement of Component Auditor in the risk assessment procedures and designing the appropriate audit steps to respond to RoMM

(d) Component Auditors compliance with Ethical requirements including Independence related. Group Engagement Partner is responsible to communicate ethical requirements including independence standards to the Component Auditors and obtain their confirmation of compliance thereof. These requirements from group audit perspectives could be different from the ones applicable to audit of components performed for local jurisdiction’s statutory purposes. E.g. it will be necessary to communicate and obtain confirmation of with compliance requirements of Indian Standards & Codes to overseas component auditors involved in audit of GFS of Indian entity.

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[26] As mentioned in pre-paras, NFRA has observed instances of audit firms, both Group Auditor and Component Auditor, withdrawing from audit engagements due to potential for inadequacy

[27] SA 210, *Agreeing the Terms of Audit Engagements*

(e) Engagement Resources- Component Auditors competence, capability & adequacy of time. Group Engagement Partner is required to evaluate the professional competence and capability such as skill sets, industry specific knowledge of the Component Auditors. Also, the availability of sufficient time of the Component Auditors for performing the component audits needs to be evaluated. Paragraphs A62-A71 provides guidance for the Group Engagement Partner's evaluation.

5. Engagement Performance

(a) Group Engagement Partner is responsible for determining the nature, timing and extent of direction, supervision and review of the Component Auditors work. Paragraphs A72 -A77 provide detailed guidance in this regard. Paragraph A76 provides different ways in which the group auditor may take responsibility for directing, supervising and reviewing the work of component auditors. Paragraph A76 draws attention to requirement of SA 220 (Revised) regarding Group Engagement Partner's responsibility to review work papers of certain areas like significant matters and significant judgments of the Engagement Team.

6. Communications with Component Auditors

(a) Group Auditor is required to communicate to the Component Auditor of the respective responsibilities and expectations. Paragraphs A78-87 lay down specific further guidance and emphasise timely and effective two-way communication between the Group Auditor and Component Auditors.

7. Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control (Para 30-36)

(a) SA 600 (Revised) places obligations on the Group Auditor to comply with the requirements of SA 315 (Revised)[28] understand the Group's Operating Environment, Legal & Operating Structure, Business and Regulatory environment, Applicable Financial Reporting Framework, Group Internal Control, Consolidation Process etc. at Group Audit level. Para A88 to 107 provide comprehensive guidance and emphasise significance of understanding aspects such as group legal structure, business model, commonality of control, centralised activities like use of shared service centres, IT infrastructure, Group-wide instructions on financial reporting etc. This is a substantial improvement over the guidance available in current SA 600.

8. Where the Component Auditor is involved, the SA 600 (Revised) requires timely two-way communication of between two in relation to the following:

a) Matters relating to risk of material misstatements to the group audit and GFS;
b) Related party relationships and transactions; and
c) Events or transactions that affect going concern of the group.

9. Group-wide Identification and Assessment of the Risks of Material Misstatement (RoMM). The Group auditor is responsible identifying and assessing the ROMM for the GFS and he shall evaluate whether the procedures performed by both of them i.e., Group Auditor and Component Auditor. SA 600 (Revised) highlights the benefits of involvement of the Component Auditor's

[28] SA 315 (Revised), IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

in the process of identification and assessment of ROMM at Component level due to their direct knowledge and experience of the components they will be auditing.

10. Group Materiality and Component Performance Materiality. The Group Auditor shall determine, and also communicate to component auditor, the performance materiality and the threshold above which misstatements identified in the component financial information are to be communicated to the group auditor. Paragraphs A116 – 123 elaborate the concept of component performance materiality and provide guidance to address the aggregation risk.

11. Responding to ROMM (Para 37 -44). In some cases, there will be a need for further audit procedures to respond to ROMM either centrally (e.g. Shared Service Centres) or at individual component level. Responsibility to determine the nature, extent, timing and location where these procedures will be performed, will be that of the Group Auditor. There may be situations of a large number of components whose financial information is individually immaterial but material in the aggregate to the group financial statements. In such cases the Group Auditor his professional judgment for further audit procedures either centrally or at selected component level by using analytical review procedures or automated tools and techniques. In case of areas assessed as higher ROMM or as Significant Risk, the Group Auditor shall evaluate the appropriateness of the design and performance of those further audit procedures. Paragraphs A124 -139 provide comprehensive guidance in these audit areas.

12. Consolidation Process. The Group Auditor is responsible for evaluating
(a) completeness of the entities and business units included in the CFS as required under Applicable Financial Reporting Framework;
(b) completeness and appropriateness of consolidation adjustments and reclassifications for area such as intra-group balances/transactions, accounting policy differences and accounting period differences;
(c) possible management bias in management judgments; and
(d) whether the financial information audited and communicated by the Component Auditor is the one that is included in CFS.

13. Evaluating the Component Auditor’s Communications and the Adequacy of Their Work (Para 45-48)

(a) The Group Auditor shall request and the component auditor shall communicate his findings on matters relevant to the conclusions on the group audit. Therefore, it is not just the component auditor’s audit report on the F/S of the component but there are a number of specific areas, such as given below, upon which the component auditor shall communicate.

- Whether Component Auditor has performed the procedures requested by the Group Auditor;
- Whether the Component Auditor has complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement;
- Information about instances of non-compliance with laws or regulations;
- Corrected and uncorrected misstatements of the component financial information identified by the Component Auditor;
- Indicators of possible management bias;
- Description of any deficiencies in the system of internal control identified in connection with the audit procedures performed; and
- Fraud or suspected fraud involving component management, employees

14. The Group Auditor shall evaluate the need for review of additional documentation of the component auditor based on the following:
(a) extent of Component Auditors involvement in the risk assessment procedures ;
(b) significant judgments made by and findings of the Component Auditors;
(c) competence and capabilities of the component auditor; and
(d) whether both of them subject to common policies and procedures for review of audit documentation.

15. The Group Auditor shall also determine whether additional audit procedures are required to be performed by either of them.

16. Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained (Para 51-52) and Documentation (Para 59)

(a) One of the critical aspects in the evaluation of sufficiency and appropriateness of audit evidence is the supervision of audit work of Engagement Team and review of their work papers. SA 220 (Revised) requires the Engagement Partner to review the audit documentation.
(b) According to this SA, evaluation of sufficiency and appropriateness of audit evidence obtained by the Component Auditors can be based on the following;
- Component Auditors' communication of overall findings and conclusions
- Group Auditor's direction and supervision of the Component Auditors, and review of their work including review of their additional documentation

17. The Group Auditor's documentation shall include the following.
(a) Significant matters relating to restrictions on access to information and people which were considered before accepting or continuing with the engagement or those arose subsequently.
(b) The basis for determining components, component performance materiality and clearly trivial amounts.
(c) Evaluation and determination of competence and capabilities of the competent auditor.
(d) Key elements of the group's internal control.
(e) The nature, timing and extent of the group auditor's direction and supervision of component auditors and the review of their work, including, review of additional documentation of component auditor.
(f) Communication with component auditor
(g) Evaluation of the findings and conclusion of the component auditor.

18. Group Audit documentation comprises the audit files of the group auditor and that of the component auditor. Group Auditor may provide specific instructions to component auditor regarding final assembly of audit files and their retention. However, Component auditor audit documentation ordinarily need not be replicated in the group auditor's audit file. The Group Auditor may decide to summarize, replicate or retain copies of certain component auditor documentation in the group auditor's audit file to supplement the description of a particular matter in communications from the Component Auditor, including the matters required to be communicated by SA 600 (Revised).

19. Communication with Group Management and Those Charged with Governance of the Group
The Group Auditor shall communicate with the TCWG of the group about the following:
❖ Overview of the work performed at the components and nature/extent of group auditor's involvement in the component auditor's work;

- Areas of concern on the quality of the work of the component auditors;
- Scope limitations on the group audit;
- Fraud or suspected fraud; and
- Deficiencies in the internal financial control.