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8th November, 2024

To,
The Secretary,
National Financial Reporting Authority
7th-8th Floor, Hindustan Times House,
18-20, Kasturba Gandhi Marg,
New Delhi 110001.
Email: nfra-comments@nfra.gov.in

Dear Sir / Madam

Subject “Comments on proposed SA 600 (Revised)”

The Chamber of Tax Consultants, established in 1926, is one of the oldest non-profit organizations of tax practitioners, having Advocates, Chartered Accountants and Tax Practitioners as its members spread across Pan India. The Chamber is on the cusp of its Centenary year which will be commencing from July 2025. Many senior tax professionals who regularly appear before ITAT, High Courts and the Supreme Court are its Past Presidents. The Chamber has been making regular representations before various government agencies.

The Chamber regularly takes up initiatives to act as a bridge between stakeholders and concerned regulatory bodies in order to convey and help in resolving genuine grievances or effectively implement the laws. We would like to draw your attention on the following issue being faced by our members and community at large:

In response to the Note for public consultation dated 17th Sept 2024, (the Note'), the undersigned place for your kind consideration some of the concerns or aspects as also responses to specific questions mentioned in paragraph 11 of the Note and some suggested alternatives.

It is hoped that the contents of this brief communication will receive your apt attention.

Apologies for the delayed response in suggesting our feedback.

Thank you.

Yours faithfully

For THE CHAMBER OF TAX CONSULTANTS

**Sd/-
Vijay Bhatt
President**

**Sd/-
Ketan Vajani
Chairman
Law and Representation Committee**

**Sd/-
Apurva Shah
Co-Chairman**

General Feedback

1 Before providing the responses to the specific questions referred to in the Note, it is worthwhile summarizing some of the issues/consideration around proposed SA 600 (R):

1.1 The instances of lapses and deficiencies described in Annex 1 to the Note (e.g., DHFL, IL&FS, RCL or CDEL) do not, in our view, represent the general auditing profession but rather are kind of rare exceptions. These are also cases of Business failures (mingled with governance issues and ethical matters in carrying on of the businesses) hurting the investing community.

Based on the lapses and deficiencies listed, it appears that in these cases, the existing SA 600 was not properly applied and NFRA found them guilty, among other issues, for not adhering to the proper application of SA 600. Should our laws or Standards or Rules be framed driven by these extreme examples?

Worthwhile remembering the original draft of Companies Act, 2013 and Rules thereunder (being framed in backdrop of infamous 'Satyam' episode), where many provisions being very stringent and provided criminal proceedings for even procedural / technical lapses or deficiencies or delays. Most of such provisions had to be amended later after few years, realizing that business friendly environment was essential for encouraging businesses to set up Company form of entity.

It is not disputed that provisions pertaining Financial Reporting, Accounting & Auditing matters constantly need to be reviewed in the light of prevailing practices and for aligning the same towards improvement in quality of financial reporting as well as auditing.

1.2 The cases noted in Annex 1, in our humble view, are a weak execution of auditing standards and governance measures rather than failure of Auditing framework or Standards. Yet, if these cases are driving us towards bettering the auditing framework and standards, we welcome the same.

- 1.3 The entire framework of SAs, including SA 600 in its present form, when followed and implemented in spirit, has yielded good results. Annex 2 to the Note lists out group structures of many large and mid-cap companies, many of which are highly respected blue-chip companies known for their good governance and qualitative reporting which obviously can be regarded as offshoot of qualitative auditing.
- 1.4 As regards the coverage or Extent of Participation/Responsibility of Component Auditors (Annex 3), it is pertinent to note that sometimes it is regulatory requirement which affects such coverage of the group auditors. For example, recent RBI regulations do not permit audit of more than one RBI regulated entity in the group by the same audit firm. Further, the groups operating in various jurisdictions across the globe, need to comply with prevailing reporting and auditing framework in such different jurisdiction requiring component auditors.
- 1.5 The issue of public sector branch auditor's vis a vis statutory auditors of such entities is also an example in the case of coverage and extent of participation of Branch auditors; the group auditors of such entities would have tremendous onerous task in carrying out the additional procedures in such cases so as to be able to take responsibility of expressing audit opinion on entire set of CFS.
- 1.6 Vast number of subsidiaries or other allied entities in the group is often business driven decision necessitating such huge or complex group structure. The group auditors in such cases must place heavy reliance on the audit work and reports of the Component auditors albeit following the due procedure of group reporting framework and communication with component auditors.
- 1.7 The issue of concentration of audit in few large (or internationally networked Firms) is referred to in paragraph 10.4 of the Note. This is stated to be misplaced apprehension. It is humbly submitted that problem of concentration of audit related assignments in few large or leading audit firms cannot be overlooked. Why would any Principal firm (Group auditor) take up the responsibility of another firm, it will ask the Management that they would rather do the audit themselves instead of taking responsibility of another component auditor firm. This has actually been happening, and it will increase and

accentuate if revised SA 600 is implemented without any modifications. Such a scenario does not augur well for large number of other professional firms which are gearing up to the higher levels of Audit Quality & Documentation expected by NFRA.

- 1.8 SEBI Listing Obligations & Disclosure Requirements (LODR) also requires the group auditors to follow specified additional procedures pertaining to portion of the group which is audited by other audit firms. [Regulation 33(8) of LODR].

These additional procedures as also the procedures contained in SA 600 in its present form, if considered inadequate or unsuitable for quality of audit of Group Financials, can be made more elaborate and extensive by amending these two requirements suitably to achieve the similar objectives of ensuring audit quality in the matter of group financials.

Adopting ISA 600 does not seem the only alternative for addressing such matters. The international standard considers the fact that in some jurisdictions the financial reporting and auditing framework may not exist and therefore the responsibilities of group auditors have been spelt out accordingly. India has adopted to reporting framework and auditing requirements by a practising chartered accountant. Both the group auditor and component auditor have gone through similar professional examination and are subjected to similar ethical and professional framework in carrying out of their audit assignments. Further wherever the sectoral regulators felt the need of prescribing the additional qualifications and/or eligibility for auditors, they have done so. (e.g. RBI, IRDA, CAG etc).

2 In the light of the above submissions, we now attempt to respond to the specific questions:

2.1 Are there additional concerns or aspects that NFRA should seek to address or consider?

- Applicability of SA 600 (R) only to Public Interest Entities (PIEs) or to all entities is not very clear.

- Practical guidance with appropriate case studies on the communication between group auditors and component auditors also needs to be included in the implementation guide of SA 600. The group reporting instructions, presently followed, can

be made more case specific and elaborative on explanations from component auditors in the matters of audit materiality, identification of risks of material misstatements in financials and steps to mitigate the same etc.

- The standard either (SA 600 or proposed revised version thereof) does not provide for quantitative threshold prescribing advisable coverage of components. SEBI LODR provides for such minimum quantitative threshold.
- Respective responsibilities of component auditors and principal auditors with reference to audit of component need to be clearly defined. Responsibilities relating to process, controls, key transactions of component should be with component auditors.

2.2 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?

- Absence of clarity about respective role and responsibility amongst group auditors & component auditors needs to be appropriately addressed. In our view, the responsibility of group auditors should be confined to irregularities which came to their notice (in course of their review/audit of group accounts) but which are not effectively dealt with in the report.
- The proposed draft will result in duplication of work in certain areas /aspects which will lead to increase in time & cost of audit services.
- Timelines for completion of audit of consolidated financial statements or results are stringent in case of listed entities. Relaxation in such timelines need to be explored.
- This Revised standard will not lead to avoidance of audit or business failures as has been brought out at international level also

2.3 As the proposed SA 600 (Revised) converges with ISA 600 (Revised), application guidance is already available. However, are there any particular areas of the proposed SA 600 (revised) where more clarifications, application material and guidance will be needed?

➤ Without prejudice to our views expressed in paragraph 1.8 above [that adoption of or convergence to current ISA 600 can be avoided by making suitable changes in SA 600 as well as regulation 33(8) of SEBI LODR], the following areas for clarifications and application material and guidance need to be considered:

- i. If adoption and/or convergence is decided, adequate time for transition from the present regime to revised one needs to be given. Noteworthy, that IAASB had also granted time of about three years for transition to Revised ISA 600.
- ii. The regulatory framework applicable to the entities preparing group financials (e.g. rotation of auditors being 3 years in some cases and 5 years or two terms of 5 years in some other cases and such other matters) need to be suitably amended for timelines, methodology and respective role allocation etc.
- iii. The specific areas like definition of PIEs etc need to be addressed in the guidance, which are not there in international literature.
- iv. NFRA / ICAI may come out with the Guidance note on the proposed standard to help auditors deal with practical challenges and the resultant approach for conducting group audit. One of the areas where more guidance can be issued is in the context of overseas components which sometimes deploy local Auditors.
- v. Guidance is also required for defining inter se responsibilities of Component Auditors and Principal Auditors and mechanism to be followed for coordination between them.
- vi. In case of Components being Associates/Joint Ventures, the exercise of control by the Holding Company may not be similar to that in a Subsidiary. This may lead to difficulties for the Group Auditor to evaluate the work of these Component Auditors.

2.4 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?

- Suitable amendment in SA's dealing with fraud risk assessment (SA 240) and auditors' response to identified risks (SA 315) also need to be considered so as to clearly cast the responsibility about these matters on group or component auditors.

Specific Feedback

Our Feedback on Annexure 5

Sr. No.	Broad Section	Broad Requirements of the section	CTC Suggestion
1	Scope and Objectives	<p>(a) SA 600 (Revised) deals with special considerations that apply to an audit of group financial statements (GFS). 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)250, 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.</p> <p>(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.</p>	None

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| | | <p>(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.</p> <p>(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.</p> <p>(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</p> | |
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		<p>information of the component and consolidation 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.</p>	
2	<p>Group Auditor is Ultimately Responsible for Audit of GFS and Group Audit Report</p>	<p>(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.</p> <p>(b) The Group Engagement Partner is required to sufficiently involved throughout the group audit and in the work of the Component Auditor.</p> <p>(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.</p>	<p>Group auditors will not be performing detailed audit of component. He will be reviewing WP of component auditor and carrying out other procedures as per SA 600(R). Hence component auditors should be primarily responsible for audit of component. Group auditor should refer work of component auditors while he may not mention that he has solely relied on work of component auditors. Along with reliance on work of component auditors, group auditor may also mention</p>

			about other procedures performed by him like currently reference of Regulation 33(8) of SEBI LODR is mentioned.
3	Acceptance and Continuance of Group Audit	<p>(a) Before accepting or continuing the group audit engagement, the group engagement partner shall determine whether appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements. In applying SA 210, 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.</p> <p>(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.</p>	Whilst Subsidiaries will be in the Control of the Group, but Associates & Joint Ventures will not be in absolute control of the group, leading to Information challenge
4	Overall Group Audit Strategy	(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.	It is practically impossible to assess the competence of

	and Group Audit Plan	<p>(b) Determining components at which the audit work will be performed</p> <p>(c) Involvement of Component Auditor in the risk assessment procedures and designing the appropriate audit steps to respond to Room</p> <p>(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.</p> <p>(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.</p>	resources of components auditors. Hence this para should not be included in final version.
5	Engagement Performance	Group Engagement Partner is responsible for determining the nature, timing and extent of direction, supervision and review of the	This should be left to Component Auditors

		<p>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.</p>	
6	<p>Communications with Component Auditors</p>	<p>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.</p>	None
7	<p>Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group’s System of Internal Control</p>	<p>SA 600 (Revised) places obligations on the Group Auditor to comply with the requirements of SA 315 (Revised) 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.</p>	None

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.	None
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 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.	Primary responsibility of compliance with other SA is with component auditors. Group auditors should perform procedures to ensure that component auditors have complied with applicable SAs
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	None

		performance materiality and provide guidance to address the aggregation risk.	
11	Responding to ROMM	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.	Primary responsibility of compliance with other SA is with component auditors. Group auditors should perform procedures to ensure that component auditors have complied with applicable SAs
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	None

		(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	<p>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.</p> <ul style="list-style-type: none"> • 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 	None
14	The Group Auditor shall evaluate the need for review	<p>(a) extent of Component Auditors involvement in the risk assessment procedures.</p> <p>(b) significant judgments made by and findings of the Component Auditors.</p>	It is practically impossible to assess the competence and capabilities of

	of additional documentation of the component auditor based on	(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	components auditors. Hence this para should not be included in final version.
15	The Group Auditor shall also determine whether additional audit procedures are required to be performed by either of them		None
16	Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained 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: <ul style="list-style-type: none"> • 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 	Primary responsibility of compliance with other SA is with component auditors. Group auditors should perform procedures to ensure that component auditors have complied with applicable SAs

17	The Group Auditor's documentation shall include	<p>(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.</p> <p>(b) The basis for determining components, component performance materiality and clearly trivial amounts.</p> <p>(c) Evaluation and determination of competence and capabilities of the competent auditor.</p> <p>(d) Key elements of the group's internal control.</p> <p>(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.</p> <p>(f) Communication with component auditor (g) Evaluation of the findings and conclusion of the component auditor.</p>	None
18	Group Audit documentation comprises the audit files of the group auditor and that of the component auditor.	<p>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).</p>	<p>Primary responsibility of compliance with other SA is with component auditors. Group auditors should perform procedures to ensure that component auditors have complied with applicable SAs, accordingly only relevant documentation need to</p>

			be prepared and retain by Group Auditors.
19	Communication with Group Management and Those Charged with Governance of the Group	<p>The Group Auditor shall communicate with the TCWG of the group about the following:</p> <ul style="list-style-type: none"> • 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 	Communication with TCWG of respective components may not be practical. Group auditors need to communicate with TCWG, the parent co who is responsible for overall group management.