

NFRA's reminder to fill gaps under two-way communication with Statutory Auditors

Vinod Kothari & Company
Practising Company Secretaries

Kolkata:

Aanjneyam
B42, Metropolitan Cooperative
Housing Society, Kolkata 700105
Phone: 033 4505 3992
Email:
kolkata@vinodkothari.com

New Delhi:

Ras Vilas, 501 & 501A,
Salcon
Rasvilas, District Centre,
Saket,
New Delhi - 110017
Phone: 011 4131 5340
Email:
delhi@vinodkothari.com

Mumbai:

403-406, Shreyas Chambers
175, D N Road, Fort
Mumbai - 400001
Phone: 022 4005 6953/ 6237
0959
Email:
mumbai@vinodkothari.com

Bengaluru:

4, Union Street, Infantry Rd,
Shivaji Nagar,
Bengaluru- 560001
Phone: 022 2261 4021/ 6237
0959
Email:
corplaw@vinodkothari.com

Reach us on social
media:



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Existing Regulatory framework

Indian Companies Act & Auditing Standards: Key Provisions

Section 134:

Board's Report:

Disclosure of certain matters and Director's Responsibility statement on financials

Section 177:

Audit Committee:

Monitor Auditor Independence, scrutinizes loans, approval of RPTs, evaluating financial controls and risk management systems

Schedule IV:

Independent Directors:

Professional Conduct and integrity of the financial control systems.

SA 230: Audit Documentation of Financial Statements.

SA 235: Auditor's role in fraud detection and communication.

SA 260 : Communication with TCWG (Those Charged with Governance)

SA 265: Communicating deficiencies in internal controls to TCWG

SA 450 : Evaluation of misstatement and communication with TCWG

SA 550: Auditor's responsibility on RPTs and communication with TCWG

SA 705 : Communication with TCWG on expectation of emphasis of matter Auditor's Report

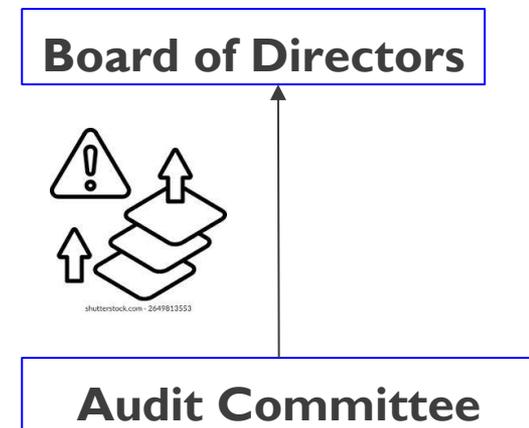
Section 143(9): Recognises auditor's responsibility while performing audit

NFRA's Overarching Powers

- Section 132 (4) of the CA, 2013
 - Powers of NFRA
 - Being a non-obstante clause
 - Overrides any other provisions for the time being in force
 - In relation to audit firms and their engagement partners
 - Has powers as that vested in a civil court under Code of Civil Procedure
 - Action in terms of
 - Imposition of penalty
 - Debarment from offering services

Who is TCWG?

- SA 260 revised (TCWG is defined to mean and contain the following elements in case of companies:
 - The person(s) with the responsibility
 - For *overseeing the strategic direction* of the entity and obligations related to the accountability of the entity
 - *Overseeing of the financial reporting process*
 - *May include* management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.
- Only the Audit Committee can be identified as such?
- Should it also be extended to the entire Board?
- Can certain concerned officials also be part of the TCWG?



Actionable for companies - NFRA Circular (1/2)

- Proper **identification** of TCWG.
- Ensure a **two way communication process** with the auditors.
 - Be it in writing and properly documented.
 - Frame policies and processes to implement these requirements.
- TCWG and auditor discuss at the start of the financial year:
 - Planned scope and timing of audit
 - Expectations of two-way communication, including expected agenda items.
- Prepare a documented **framework** for the purpose of communication with auditors.
- **Meetings with Auditors** - TCWG to meet with Auditors at least twice a year.
 - Once before the commencement of the audit.
 - Well in advance before the approval of financial statements by TCWG.
- **Where auditors request a meeting**
 - TCWG shall accede, or
 - Communicate reasons in writing for declining the request
 - Especially in cases where they have reason to believe the existence of fraud or;
 - Significant weaknesses in internal controls

Actionable for companies: NFRA Circular (2/2)

- During course of communication following to be kept in mind:
 - **Written communication** shall form part of:
 - audit work papers
 - part of the agenda and minutes of the Board or AC meeting held subsequently.
 - **Presentations in**
 - **bullet form alone**, or
 - communication by emails with a caveat of **'no comments from the other party is construed as acceptance'**
 - **is an unacceptable** form of communication.
 - Remarks or comments from TCWG or vice versa should be given on the subject matter raised.

Framework for the purpose of communication

- **Objective and purpose** of two communications.
- **Identification of nodal persons** for ensuring an effective two way communication.
- **Matters** to be communicated by TCWG relevant to the audit.
- **Summary of key SAs** requiring communication of specific matters with TCWG by the Auditors.
- **Policy and Process** of updating or escalating the matters to TCWG about the discussion and communication between:
 - Nodal officers of TCWG and Auditors.
 - Sub-groups of TCWG and Auditor
- TCWG and auditor **discuss at the start** of the financial year:
 - Planned **scope and timing** of audit
 - **Expectations of two-way communication**, including expected agenda items.
- **Expected Agenda** matters for the meetings.
- **Policy and process** of documenting and communicating the views/ instructions/ actions of TCWG on the significant matters communicated by the Auditors.
- **All significant communications shall be in writing** and formally acknowledged by both the Auditor and TCWG, either in the form of minutes of the meeting or letters.

CONTACT US

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B42, Metropolitan Cooperative
Housing Society, Kolkata 700105
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kolkata@vinodkothari.com

New Delhi:

Ras Vilas, 501 & 501A,
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Saket,
New Delhi - 110017
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Email:
delhi@vinodkothari.com

Mumbai:

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175, D N Road, Fort
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0959
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mumbai@vinodkothari.com

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4, Union Street, Infantry Rd,
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Bengaluru- 560001
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