Monthly GAAP Bulletin

January 2020 - Volume 2

Introduction

Dear Reader,

Grant Thornton in India is delighted to present 'Monthly GAAP Bulletin', a bulletin that summarises significant accounting, auditing and related updates. This publication has been compiled to meet the needs of dynamic Indian businesses and focuses on key developments in India and across the globe.

To access the source of information and complete details, you can click the hyperlinked text below each update.

We would be pleased to receive your valuable feedback. Please write to us at npsg@in.gt.com with your comments, questions or suggestions.

This edition covers updates for the month of December 2019. Abbreviations used are explained at the end of the publication.

Following is the index of updates covered in this bulletin:

Contents

A. India updates - Effective

B. India updates - Proposed

C. International updates – Effective

D. International updates – Proposed

a. IFRS updates

1 Exposure draft general presentation and disclosures

b. Auditing updates

1 Exposure draft of proposed statement on auditing standards

2 Concept Release: Potential approach to revisions to PCAOB quality control standards

3 Exposure draft on amendments to Rule 2-01, Qualifications of Accountants

A. India updates - Effective

a. Auditing updates

b. Regulatory updates

a. Auditing updates

1. Time limit of UDIN generation

The ICAI has issued an announcement to clarify that one-time relaxation of 30 days for generating UDIN on certificates/ reports/documents signed between 20 August 2019 to 31 December 2019 has lapsed on 31 December 2019.

Accordingly, from 1 Jan 2020 onwards, members will be required to generate UDIN, for all certificates/reports/ documents signed on or after 1 January 2020, within 15 days.

Click here for announcement.

b. Regulatory updates Companies Act updates

1. Due date for filing Form NFRA-2 by auditor of companies

The MCA had earlier extended the last date for filing Form NFRA-2, **annual return to be filed by auditor with the NFRA**, under rule 5 of the NFRA Rules, 2018 to 90 days from the date of publication of this form on website of the NFRA.

Click here for circular.

On 9 December 2019, Form NFRA-2 was published and accordingly, 90 days will be computed from such date.

2. Amendments approved in interest subvention scheme for MSMEs

The Ministry for Micro, Small and Medium Enterprises (MSMEs) and Road Transport & Highways, has approved the changes in the interest subvention scheme for MSMEs. Some improvements/ modifications, inter alia, are as below:

- Settlement of claims based on internal/concurrent auditor certificate and submission of statutory auditor's certificate once by 30 June 2020.
- The last date of submission of claims for half-yearly period ended 31 March 2019 was extended till 31 December 2019.
- Requirement of Udyog Aadhaar Number (UAN) is dispensed with for units eligible for GST.
- 50%of the estimated claim amount to be released to the eligible institutions based on data/information furnished by them along with the utilisation certificate duly certified by respective statutory auditors to be submitted by June 30, 2020.

Click here for press release.

3. Relaxation of additional fees and extension of last date of filing of various forms

The MCA has issued various circulars extending last date of filing a number of forms as given below and also relaxing the requirement of payment of additional fees, wherever applicable.

Due date for filing of e-forms AOC-4, **form for filing financial statement and other documents with the Registrar**, AOC-4 (CFS), **form for filing consolidated financial statements and other documents with the Registrar**, AOC-4 (XBRL), **form for filing XBRL document in respect of financial statement and other documents with the Registrar,** and e-form MGT-7, **form for filing annual return by a company**, is extended up to 31 January 2020 for companies having jurisdiction in the UT of Jammu, Kashmir and Ladakh without levy of additional fee.

Further, last date of filing of Form CRA-4, **form for filing cost audit report with the central government**, for all eligible companies for the FY 2018-19, without payment of additional fee, has been further extended till 29 February 2020. This extension is given for the entire process staring from 'preparation of annexures to the cost audit report' to 'submission of cost audit report by the cost auditor to the company' and finally 'filing of cost audit report by the company with the central government'.

Time limit for filing e-form No. BEN-2, **return to the Registrar in respect of declaration under section 90**, is extended up to 31 March 2020 without payment of additional fee and thereafter fee and additional fee will be payable. Consequent to such extension of the date of filing e-form No. BEN-2, date of filing of Form No. BEN-1, **declaration by the beneficial owner who holds or acquires significant beneficial ownership in shares**, is also construed accordingly.

Click here for circular on MGT-7 and AOC-4.

Click here for circular on CRA-4.

Click here for circular on BEN-1 and BEN-2.

4. The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2019

The President of India had promulgated **the Insolvency and Bankruptcy Code (Amendment) Ordinance, 2019** ('the Ordinance') on 28 December 2019.

This Ordinance introduced amendments that are proposed in the Insolvency and Bankruptcy Code (Second Amendment) Bill, 2019 introduced in the House of Parliament on 12 December 2019 but could not be taken up for consideration.

The Ordinance amend certain provisions of the Insolvency and Bankruptcy Code, 2016 ('the Code') and provides a time-bound process for resolving insolvency.

Some of the key amendments are:

- **Restriction on persons allowed to make applications:** The Code restricts certain corporate debtors from making an application to initiate the insolvency resolution process. These include: (i) corporate debtors undergoing an insolvency resolution process, (ii) corporate debtors who have completed the resolution process 12 months before making the application, (iii) corporate debtors or financial creditors who have violated terms of the resolution plan, or (iv) corporate debtors in respect of whom a liquidation order has been passed. The Ordinance clarifies that such corporate debtors will be allowed to initiate the resolution process against other corporate debtors.
- **Liability for prior offences:** The resolution plan under the Code may result in change in the management or control of a corporate debtor to other persons. The Ordinance provides that the liability of a corporate debtor for an offence committed prior to the commencement of the corporate insolvency resolution process will cease, and the corporate debtor will not be prosecuted for such an offence from the date the resolution plan has been approved by the NCLT.

  The Ordinance also provides immunity to the corporate debtor from actions against their property, such as attachment, confiscation or liquidation of property, in such cases.
- **Minimum threshold for initiating the resolution process:** Minimum thresholds have been prescribed for certain classes of financial creditors for initiating the insolvency resolution process. In case of real estate projects, if an allottee (person to whom a plot, apartment, or building has been allotted or sold) wants to initiate the resolution process, the application can be filed jointly by at least 100 allottees of the same real estate project, or 10 per cent of the total allottees under that project, whichever is less. For other financial creditors, where the debt owed is either: (i) in the form of securities or deposits, or (ii) to a class of creditors, the application can be filed jointly by at least 100 creditors in the same class, or 10 per cent of the total number of such creditors in the same class, whichever is less.

Click here for press release.

Click here for Ordinance.

Click here for Code (amended upto 28 December 2019).

SEBI updates

1. Advisory on Exhibit B3 of SEBI's Circular dated 29 March 2019

The SEBI vide its circular dated 29 March 2019 issued the procedure and formats for limited review/audit report of the listed entity and those entities whose accounts are to be consolidated with the listed entity. Exhibit B3 of the above mentioned Circular pertains to **'Independent Auditor's Review Report on Review of Consolidated Unaudited Quarterly and Year to date Financial Results for banks'.**

Click here for circular.

This circular, inter alia, requires quantification of (a) total assets (b) total revenue (c) Total net profit/(loss) after tax (d) cash flows (net) with respect to branches of banks.

The ICAI consulted this point with the SEBI as members of the ICAI were facing implementation challenges while reporting above-mentioned information.

Accordingly, The ICAI has advised members that while reporting as per Exhibit B3, they need not report on net profit/(loss) after tax and cash flows of **branches** if such details are not contained in the financial statements.

This advisory has come into force with immediate effect (i.e., 11 December 2019).

Click here for advisory.

2. Review of investment norms for mutual funds for investment in debt and money market instruments

The SEBI issued a circular dated 1 October 2019 prescribing limits on investments by debt mutual fund schemes in debt and money market instruments of group companies of both the sponsor and the asset management company.

Click here for circular dated 1 October 2019.

The SEBI has now issued a circular dated 10 December 2019, amending paragraph E of the circular dated 1 October 2019 wherein it has prescribed the following additional provisions:

- The investments of mutual fund schemes in debt and money market instruments of group companies of both the sponsor and the asset management company of the mutual fund in excess of the limits specified therein, made on or before 1 October 2019 may be grandfathered till maturity date of such instruments. The maturity date of such instruments will be as applicable on 1 October 2019.
- All the AMCs will publish on their respective website a list of their group companies and those of their sponsor(s).
- The AMFI will publish on its website a list of all group companies along with names and identifier of the respective group that are considered for calculation of group exposure by mutual fund schemes and also the sector to which each company belongs.

The disclosures required in this circular will be made on first working day of each calendar quarter starting from 1 January 2020.

Click here for circular.

3. Management and advisory services by AMCs to Foreign Portfolio Investors (FPI)

The SEBI has issued a circular on 16 December 2019 which specify that the AMCs may provide management and advisory services in terms of Regulation 24(b), **restrictions on business activities of the asset management company,** of the SEBI (Mutual Funds) Regulations, 1996 to FPI falling under the categories of FPI as mentioned in the circular.

It further provides that agreement already entered by the AMCs on or before date of this circular to provide management and advisory services to such FPIs which do not fall under the specified categories, the AMCs may continue to provide the services for the period as mentioned in the agreement or one year from the date of this circular, whichever is earlier.

Click here for circular.

4. SEBI (ICDR) (Sixth Amendment) Regulations, 2019

The SEBI has issued the SEBI (ICDR) (Sixth Amendment) Regulations, 2019 ('amended regulations'), to amend the SEBI (ICDR) Regulations, 2018 ('principal regulations'). These amended regulations are applicable to the draft letter of offer, letter of offer and abridged letter of offer filed on or after 31 December 2019 (date of publishing in Official Gazette). These amended regulations introduced the following major provisions:

- **Credit of rights entitlements and allotment of specified securities:** New regulation 77A introduced provides that rights entitlements will be credited to the demat account of the shareholders before the date of opening of the issue. Further, allotment of specified securities will be made in the dematerialised form only.
- **Disclosure in the draft letter of offer and letter of offer:** Issuer will be required to disclose the process of credit of rights entitlements in the demat account and renunciation thereof in both the letter of offer and the abridged letter of offer.
- **Issue-related advertisements:** Timelines for issue of advertisement in newspapers is reduced from '3 days' to '2

days' before the date of opening of the issue. Further, within such timelines issuer will also be required to intimate stock exchange regarding the issue for dissemination of their websites.

These amended regulations have come into force on 31 December 2019.

Click here for amended regulations.

5. SEBI (LODR) (Fifth Amendment) Regulations, 2019

The SEBI has issued the SEBI (LODR) (Fifth Amendment) Regulations, 2019 ('amended regulations'), to amend the SEBI (LODR) Regulations, 2015 ('principal regulations'). These amended regulations introduce the following amendments:

- **Extension of disclosure requirement of business responsibility report:** Applicability of business responsibility reporting is extended to top 1,000 listed entities by market capitalisation. As per existing provisions of the principal regulations top 500 listed entities based on market capitalisation are required to include business responsibility reporting as part of their annual report.
- Regulation 42 of the principal regulations, requires companies to give seven clear working days (i.e., excluding date of notice and record date) for setting a record date for specified purposes, such as declaration of dividend, issue of rights or bonus shares, etc. The time period allowed has now been reduced to three clear working days for setting record date in case of rights issues.

These amended regulations have come into force on 28 December 2019.

Click here for the amended regulations.

6. Framework for listing of commercial paper (CP)- Amendments

The SEBI had issued a circular dated 22 October 2019 to prescribe a framework for listing of CP, wherein it has laid down guidelines required to be complied with by the issuers of CPs and stock exchanges, at the time of listing and on a continuous basis. The aforesaid circular, inter alia, also prescribes by way of an annexure, disclosures to be provided along with the application for listing.

Click here for circular dated 22 October 2019.

One of the requirements of the aforesaid circular is regarding submission of latest audited financials, which should not be older than six months from the date of application for listing. In this regard, it has been clarified that the listed issuers (who have already listed their specified securities and/or NCDs and/or NCRPS) who are in compliance with the SEBI LODR Regulations, may file unaudited financials with limited review for the stub period in the current financial year, subject to making necessary disclosures in this regard including the risk factors.

The SEBI has now issued a circular dated 24 December 2019, to modify the aforesaid requirement by stating that the issuer may file unaudited financials with limited review for the stub period if such **issuers (who have outstanding listed CPs) are in compliance with Annexure II of the circular dated 22 October 2019.**

Also, the option to submit quarterly financial results that have been prepared for the purpose of consolidation of its parent company is introduced for issuers who are required to prepare such financial results.

Click here for circular dated 24 December 2019.

7. Guidelines for filing of placement memorandum-InvITs proposed to be listed

The SEBI has issued a circular dated 24 December 2019 to provide, inter alia, following clarifications for InvITs which are issuing units on private placement basis that are proposed to be listed:

- InvITs, wherein units are issued by way of private placement and which are proposed to be listed, will file a draft placement memorandum with the SEBI and stock exchange(s) through a merchant banker registered with the SEBI not less than 30 days prior to opening of the issue.
- The draft placement memorandum will contain disclosures as specified in Schedule III of the SEBI InvITs Regulations and the merchant banker will submit a due diligence certificate as per Form A (to the extent applicable) of Annexure I of the SEBI Circular date 11 May 2016 along with the draft placement memorandum. Click here for circular dated 11 May 2016.
- The SEBI may issue observations, if any, on the draft placement memorandum within 15 working days from the later of the following dates:
  - the date of receipt of the draft placement memorandum by the SEBI; or
  - the date of receipt of satisfactory reply from the issuer and/or merchant banker to the issue, where the SEBI has sought any clarification or additional information from them; or
  - the date of receipt of clarification or information from any regulator or agency, where the SEBI has sought any clarification or information from such regulator or agency; or
  - the date of receipt of a copy of in-principle approval letter issued by the stock exchange(s).

The circular has come into effect from 15 January 2020 for all InvITs issuing units on private placement basis and are proposed to be listed.

Click here for circular.

8. Stewardship Code for all MFs and all categories of AIFs, in relation to their investment in listed equities

The SEBI has issued the Stewardship Code vide its circular dated 24 December 2019 which is required to be mandatorily followed by all MFs and all categories of AIFs and are placed in Annex A of aforesaid circular.

These Stewardship Code aim to improve corporate governance in their investee companies so as to protect the interests of investors, which are the clients/ beneficiaries of such institutional investors, in such companies.

The Stewardship Code has laid down following six principles:

- Institutional Investors should formulate a comprehensive policy on the discharge of their stewardship responsibilities, publicly disclose it, review and update it periodically.
- Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.
- Institutional investors should monitor their investee companies.
- Institutional investors should have a clear policy on intervention in their investee companies. Institutional investors should also have a clear policy for collaboration with other institutional investors where required, to preserve the interests of the ultimate investors, which should be disclosed.
- Institutional investors should have a clear policy on voting and disclosure of voting activity.
- Institutional investors should report periodically on their stewardship activities.

The Stewardship Code will be effective from financial year beginning 1 April 2020.

Click here for Stewardship Code.

9. Format on Statement of Deviation or Variation for proceeds of public issue, rights issue, preferential issue, QIP etc.

Regulations 32(1), 32(2) and 32(3) of the SEBI LODR Regulations require listed entity to submit to the stock exchange, a statement of deviation or variation, pursuant to review by the audit committee, on a quarterly basis for public issue, rights issue, preferential issue etc. indicating the following:

- deviations, if any, in the use of proceeds of public issue, rights issue, preferential issue etc. and
- the category wise variation between projected utilisation of funds and the actual utilisation of funds.

The SEBI has now issued a circular on 24 December 2019 to prescribe a format in **Annex A** to the circular for above-mentioned reporting to ensure uniformity in the format.

The disclosure to the stock exchange(s) will be made by the listed entities on **quarterly basis**, along with the declaration of financial results (within 45 days of end of each quarter/60 days from the end of the last quarter of the financial year) until such funds are fully utilised or the purpose for which these proceeds were raised has been achieved.

The first such submission will be made by the listed entities for the quarter ended 31 December 2019.

Click here for circular.

Other regulatory updates

1. Guidelines for 'on tap' Licensing of Small Finance Banks in the private sector

The RBI has issued revised **'Guidelines for 'on tap' Licensing of Small Finance Bank in the private sector.** RBI had last issued the Guidelines for Licensing of "Small Finance Banks" in the Private Sector on 27 November 2014. Click here for earlier guidelines.

Major changes introduced in these guidelines from the earlier issued guidelines are as follows:

- The licensing window will be open on-tap.
- Minimum paid-up voting equity capital/net-worth requirement will be INR 200 crore;
- For Primary (Urban) Co-operative Banks (UCBs), desirous of voluntarily transiting into Small Finance Banks (SFBs) initial requirement of net worth will be at INR 100 crore, which will have to be increased to INR 200 crore within five years from the date of commencement of business. Incidentally, the net-worth of all SFBs currently in operation is in excess of INR 200 crore.
- The SFBs will be given scheduled bank status immediately upon commencement of operations.
- The SFBs will have general permission to open banking outlets from the date of commencement of operations
- Payments Banks can apply for conversion into SFB after five years of operations, if they are otherwise eligible as per these guidelines.

Click here for Guidelines.

2. Income-tax (1st Amendment) Rules, 2020

The CBDT has issued the Income-tax (1st Amendment) Rules, 2020 on 3 January 2020 ('amended rules') to amend the Income-tax Rules, 1962 ('principal rules').

These amended rules have, inter-alia, notified Income Tax Return ('ITR') Forms for the Assessment Year 2020-21, and the existing Form Sahaj (ITR-1), and Form Sugam (ITR-4) have been substituted with the new Forms.

Further, as per the amended rules, taxpayers cannot file return of income either in Form ITR-1 or in Form ITR-4 if the taxpayer is a joint-owner in house property, and Form ITR-1 is also not valid for those individuals who have deposited more than INR 1 crore in bank account or have incurred INR 2 lakh or INR 1 lakh on foreign travel or electricity respectively.

These amended rules will come into force from 1 April 2020.

Click here for amended rules.

3. Guidelines on repatriation of dividends by insurance intermediaries having majority shareholding of foreign investors

The IRDAI issued the IRDAI (Insurance Intermediaries) (Amendment) Regulations, 2019, which allow 100% Foreign Direct Investment in insurance intermediaries and, inter-alia, require the insurance intermediary that has majority shareholding of foreign investors to take prior permission of the IRDAI for repatriating dividends.

The IRDAI has now issued guidelines on repatriation of dividends by such insurance intermediaries ('the Guidelines'). These Guidelines, inter alia, state the following:

- Above-mentioned application to the IRDAI will be made in Form RD-1, **Application for grant of permission for repatriation of dividends by insurance intermediary that has majority shareholdings by foreign investors,** notified in these guidelines.
- **Consideration by the IRDAI for granting permission:** The IRDAI should consider, inter alia, following points while considering the request made:
  - The insurance intermediary has a net-worth of 1.5 times of the statutorily required minimum paid-up capital as specified in the respective insurance intermediary regulations after the proposed dividend payout.
  - The insurance intermediary has not made any payments (other than dividends) beyond 10 per cent of the total expenses of the company in the financial year to related parties taken as a whole.
  - The IRDAI has not placed any restrictions on the insurance intermediary for declaration of dividends.
  - Proposed dividend will be payable out of the current year's profit.
- **Quantum of Dividend**
  - Dividend payout ratio should not exceed 75%. Dividend payout ratio will be calculated as a percentage of 'dividend payable in a year' (excluding dividend tax) to 'profit after tax during the year'.
  - In case the profit for the relevant period includes any extra-ordinary profits/income, the payout ratio will be computed after excluding such extra-ordinary items for reckoning compliance with prudential payout ratio.
  - The financial statements pertaining to the financial year for which the insurance intermediary is declaring a dividend should be free of any qualifications by the statutory auditors, which have an adverse bearing on the profit during that year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio.

Click here for guidelines.

B. India updates - Proposed

a. Accounting updates

a. Accounting updates

1. Exposure draft on conceptual framework for financial reporting under Ind AS

The ICAI had earlier issued framework for the preparation and presentation of financial statements in accordance with the Indian Accounting Standards' (Framework) which was based on old conceptual framework issued by the IASB.

The IASB in March 2018 issued the revised cnceptual famework for financial reporting (Conceptual Framework) replacing the previous version of the conceptual framework. The revised conceptual framework came into effect for the IASB and the IFRS interpretation committee immediately upon its issuance. For preparers and others, it is applicable from 1 January 2020, with earlier application permitted for preparers.

The ICAI has now issued an exposure draft of the conceptual framework for financial reporting under Ind AS (draft revised conceptual framework).

The draft revised conceptual framework incorporates specific chapters on measurements, presentation and disclosures and de-recognition. Another important change brought out is in the area of certain critical definitions, i.e., asset and liability and their recognition criteria. Additional clarification has been provided in some areas such as prudence, substance over form, stewardship and measurement uncertainty.

The draft revised conceptual framework will also result into consequential amendments in certain Ind AS, for references to the conceptual framework.

Last date for submission of comments is 29 February 2020.

Click here for announcement.

Click here for draft revised conceptual framework.

C. International updates – Effective

a. US GAAP updates

b. Auditing updates

a. US GAAP updates

1. ASU 2019-12: Simplifying the Accounting for Income Taxes - Income Taxes (Topic 740)

The FASB has issued ASU 2019-12: **Simplifying the Accounting for Income Taxes - Income Taxes (Topic 740)** as part of its initiative to reduce complexity in accounting standards. The amendments in this ASU removes specific exceptions to the general principles in Topic 740 - Income Taxes in GAAP.

This ASU simplify the accounting for income taxes by removing the exceptions as mentioned herein, including:

- Exception to the ability not to recognise a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary.
- Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.
- Exception to the incremental approach for intra-period tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income).
- Exception to the requirement to recognise a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment.

The ASU also improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for:

- Requiring that an entity recognise a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax.
- Requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognised and when it should be considered a separate transaction.
- Specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements. However, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority.
- Requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date.
- Making minor codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method

For public business entities, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after 15 December 2020. For all other entities, the amendments are effective for fiscal years beginning after 15 December 2021, and interim periods within fiscal years beginning after 15 December 2022. Early adoption of the amendments is permitted.

Click here for news.

Click here for ASU.

b. Auditing updates

1. ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement, and confirming and consequential amendments to other ISAs

The IAASB has issued ISA 315 (Revised 2019), **Identifying and Assessing Risks of Material Misstatement.**

The revised standard sets out clarified and enhanced requirements, and enhanced application material, to support the auditor's risk assessment process, intended to support more focused responses to the auditor's risk assessment in accordance with ISA 330, **the auditor's responses to assessed risks.**

Following are significant amendments introduced by the revised standard:

- **Obtaining an understanding;**

  i. Enhanced requirements relating to exercise of professional skepticism.

  ii. Clarification that the risk assessment process provides the basis for the identification and assessment of the risks of material misstatement, and the design of further audit procedures.

  iii. Separate focus on understanding the applicable financial reporting framework.

iv. **In respect of entity's system of internal control,** distinguishing nature of, and clarifying extent of, work needed for indirect and direct controls in the system of internal control. Further, clarifying which controls need to be identified for purpose of evaluating the design of a control, and determining whether the control has been implemented.

v. Other enhancements;

Scalability

- Principles-based requirements focused on 'what' needs to be done.
- Application material highlights proportionality and scalability considerations under a separate heading, illustrating scaling up for more complex situations and scaling down for less complex situations.

Using technology in the audit

- Considerations for using automated tools and techniques incorporated within the application material.
- Supporting Q&A from IAASB's Technology Working Group.

- Identifying and assessing risk of material misstatement

i. New concepts and definitions

– **Significant classes of transactions, account balances and disclosures and relevant assertions:** To assist with the identification and assessment of the risks of material misstatement.

– **Spectrum of inherent risk:** To assist the auditor in making a judgment, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement

– **Inherent risk factors:** To focus the auditor on the susceptibility of assertions to misstatement. These include: complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors.

- **Documentation** - Strengthened documentation requirements relating to the exercise of professional scepticism.
- Clarification of the 'threshold' for identifying 'possible' risks of material misstatement in ISA 200.

Further, this revised standard also introduces consequential amendments to 21 standards.

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

Click here for news.

Click here for revised standard.

2. Publication: CAMs Spotlight

The PCAOB has issued a publication **CAMs Spotlight** that focuses on observations for auditors and other key stakeholders from the PCAOB's inspection of audits of large accelerated filers with fiscal years ending on or after 30 June 2019, to analyse how auditors of these filers implemented the CAM requirements.

Click here for reading material.

3. AICPA's Auditing Standards Board issues news standard relating to Agreed-Upon Procedures Engagement and amended the description of the Concept of Materiality

The AICPA's Auditing Standards Board has issued following standards:

- SSAE No. 19, **Agreed-Upon Procedures Engagements:** This standard supersedes SSAE No. 18, **Attestation Standards: Clarification and Recodification** and AT-C section 215, Agreed-Upon Procedures Engagements. Further, it amends SSAE No. 18 AT-C section 105, Concepts Common to all Attestation Engagements.

  This is effective for agreed-upon procedures reports dated on or after 15 July 2021. Early implementation is permitted.

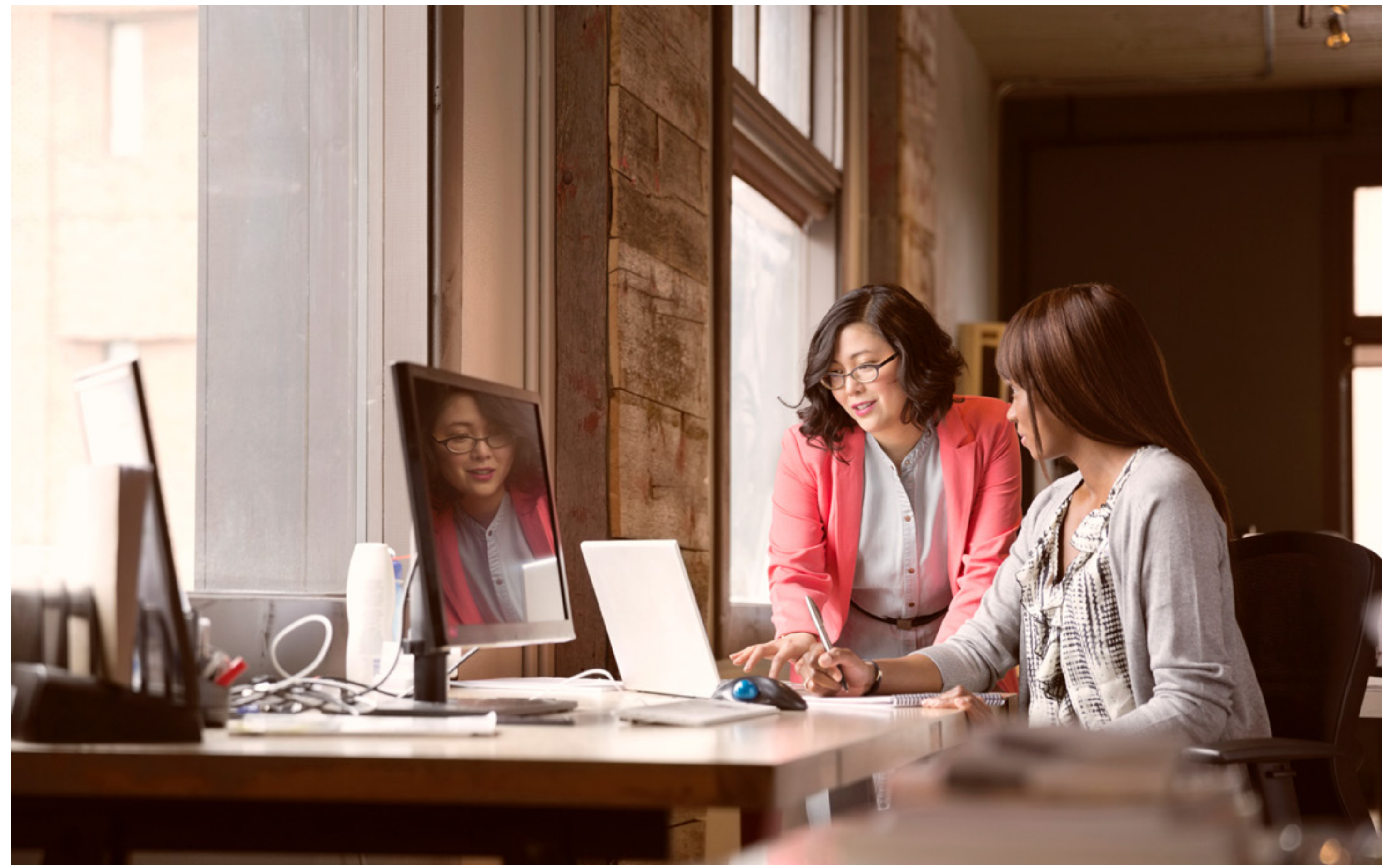
- SAS No. 138, **Amendments to the Description of the Concept of Materiality**, and SSAE No. 20, **Amendments to the Description of the Concept of Materiality**: These revised standards amend various AU-C and AT-C sections in AICPA professional standards. Earlier definition of materiality was consistent with the definition of materiality used by the IASB and the IAASB. Revised standard has amended definition to align the materiality concepts discussed in the AICPA professional standards with the definition of materiality used by the U.S. judicial system, the auditing standards of the PCAOB, the SEC, and the FASB.

This revised SAS is effective for audits of financial statements for the periods ending on or after 15 December 2020. Further, this revised SSAE is effective for practitioners' examination reports dated, on or after 15 December 2020.

Click here for SSAE 19.

Click here for SAS 138.

Click here for SSAE 20.



D. International updates - Proposed

a. IFRS updates

b. Auditing updates

a. IFRS updates

1. Exposure draft general presentation and disclosures

The IASB has issued an exposure draft on **general presentation and disclosures** for comments. This exposure draft has proposed improvements to the way information is communicated in the financial statements, with a focus on financial performance.

The exposure draft will require more comparable information in the statement of profit or loss and a more disciplined and transparent approach to the reporting of management-defined performance measures (non-GAAP).

The exposure draft includes:

- Proposal to replace IAS 1, **Presentation of Financial Statements**, with a new standard that would comprise:

  a. new requirements on presentation and disclosures in the financial statements

  b. requirements brought forward from IAS 1 with only limited changes to the wordings. (These changes are not intended to modify any requirements.)

- proposed consequential amendments to other standards

  a. IAS 7, **Statement of Cash Flows**

  b. IFRS 12, **Disclosure of Interests in Other Entities**

  c. IAS 33, **Earnings per Share**

  d. IAS 34, **Interim Financial Reporting**

  e. IAS 8, **Accounting Policies, Changes in Accounting Estimates and Errors** to include some requirements from IAS 1; and

  f. IFRS 7 **Financial Instruments: Disclosures** to include some requirements from IAS 1

Last date for submission of comments is 30 June 2020.

Click here for news.

Click here for exposure draft.

ICAI has also invited comments on the exposure draft. This announcement also states that consequential changes of this exposure draft will also be considered in Ind AS 1, **Presentation of Financial Statements**.

Click here for announcement.

b. Auditing updates

1. Exposure draft of proposed Statement on auditing standards

AICPA's Auditing Standards Board has issued exposure draft of **Proposed Statement on Auditing Standards, Amendments to AU-C Sections 725, 730, 930, 935, and 940**.

This exposure draft proposes to amend the following SASs:

- No. 117, **Compliance Audits,** as amended (AICPA, Professional Standards, AU-C sec. 935)
- No. 119, **Supplementary Information in Relation to the Financial Statements as a Whole, as amended** (AICPA, Professional Standards, AU-C sec. 725)
- No. 120, **Required Supplementary Information, as amended** (AICPA, Professional Standards, AU-C sec. 730)
- No. 122, **Statements on Auditing Standards: Clarification and Recodification, as amended**, section 930, Interim Financial Information (AICPA, Professional Standards, AU-C sec. 930)
- No. 130, **An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements, as amended** (AICPA, Professional Standards, AU-C sec. 940)

In addition to this, certain AU-C sections have been proposed to be revised to reflect practice issues that have arisen since the most recent revisions to these AU-C sections.

Last date for submission of comments is 10 February 2020.

Click here for exposure draft.

2. Concept Release: Potential approach to revisions to PCAOB quality control standards

The PCAOB is seeking public comments on a potential approach to revising the PCAOB's quality control standards. This potential approach is based on the proposed ISQM 1 as a starting point and covers potential differences between proposed ISQM 1 and future PCAOB quality control standard, as appropriate, for firms that are subject to the PCAOB standards and rules.

Last date for submission of comments is 16 March 2020.

Click here for news.

Click here for release.

3. Exposure draft on amendments to Rule 2-01, Qualifications of Accountants

The SEC has issued an exposure draft proposing amendments to update certain auditor independence requirements. The amendments focus the independence analysis so that the relationships and services that would not pose threats to an auditor's objectivity and impartiality, do not trigger non-substantive rule breaches or potentially time consuming audit committee review of non-substantive matters.

This exposure draft is proposing to amend the definition of an affiliate of the audit client to address certain affiliate relationships in common control scenarios and the definition of investment company complex, shorten the look-back period for domestic first time filers in assessing compliance with the independence requirements, add certain student loans and minimise consumer loans to the categorical exclusions from independence-impairing lending relationships, replace the reference to 'substantial stockholders' in the business relationship rule with the concept of beneficial owners with significant influence, introduce a transition framework for merger and acquisition transactions to consider whether an auditor's independence is impaired, and make certain other updates.

The comments are to be submitted within 60 days after the proposal is published in the Federal Register.

Click here for press release.

Click here for exposure draft.

Abbreviations used in this publication

AASB	Auditing and Assurance Standards Board
AICPA	American Institute of Certified Public Accountants
AIFs	Alternative Investment Funds
AMCs	Asset Management Companies
AMFI	Association of Mutual Funds in India
ASU	Accounting Standards Update
CAMs	Critical Audit Matters
CBDT	Central Board of Direct Taxes
CP	Commercial Paper
FASB	Financial Accounting Standards Board
FPI	Foreign Portfolio Investors
FY	Financial Year
GAAP	Generally Accepted Accounting Principle
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAI	Institute of Chartered Accountants of India
ICDR	Issue of Capital and Disclosure Requirements
IFRS	International Financial Reporting Standards
Ind AS	Indian Accounting Standards
InvIT	Infrastructure Investment Trust
IRDAI	Insurance Regulatory and Development Authority of India
ISA	International Standard on Auditing
ISQM	International standard on quality management
LODR	Listing Obligations and Disclosure Requirements
MCA	Ministry of Corporate Affairs
MF	Mutual Fund
MSME	Micro, Small and Medium Enterprises
NCD	Non-convertible debt securities
NCRPS	Non-convertible redeemable preference shares
NCLT	National Company Law Tribunal
NFRA	National Financial Reporting Authority
PCAOB	Public Company Accounting Oversight Board
QIP	Qualified institutional placement
Q&A	Question and Answer
RBI	Reserve Bank of India
SAS	Statement on Auditing Standards
SEBI	Securities and Exchange Board of India
SEBI ICDR Regulations	SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (as amended)
SEBI LODR Regulations	SEBI (Listing obligations and disclosure requirements) Regulations, 2015 (as amended)
SEBI InvITs Regulations	SEBI (Infrastructure Investment Trusts) Regulations, 2014 (Last amended on
SEC	U.S. Securities and Exchange Commission
SSAE	Statement on Standards for Attestation Engagements
UDIN	Unique Document Identification Number

Contact us

To know more, please visit www.grantthornton.in or contact any of our offices as mentioned below:

NEW DELHI
National Office
Outer Circle, L 41 Connaught Circus
New Delhi 110001
T +91 11 4278 7070

NEW DELHI
6th floor
Worldmark 2 Aerocity
New Delhi 110037
T +91 11 4952 7400

AHMEDABAD
7th Floor,
Heritage Chambers,
Nr. Azad Society, Nehru Nagar,
Ahmedabad - 380015

BENGALURU
5th Floor, 65/2, Block A,
Bagmane Tridib, Bagmane Tech Park,
C V Raman Nagar, Bengaluru - 560093
T +91 80 4243 0700

CHANDIGARH
B-406A, 4th Floor , L&T Elante Office Building
Industrial Area Phase I
Chandigarh 160002
T +91 172 4338 000

CHENNAI
7th Floor, Prestige Polygon
471, Anna Salai, Teynampet
Chennai - 600 018
T +91 44 4294 0000

DEHRADUN
Suite no. 2211, 2nd floor Building 2000,
Michigan Avenue, Doon Express Business Park
Subhash Nagar, Dehradun - 248002
T +91 135 2646 500

GURGAON
21st Floor, DLF Square
Jacaranda Marg
DLF Phase II, Gurgaon 122002
T +91 124 462 8000

HYDERABAD
7th Floor, Block III
White House, Kundan Bagh, Begumpet
Hyderabad 500016
T +91 40 6630 8200

KOCHI
6th Floor, Modayil Centre point
Warriam road junction
M. G. Road, Kochi 682016
T +91 484 406 4541

KOLKATA
10C Hungerford Street
5th Floor
Kolkata 700017
T +91 33 4050 8000

MUMBAI
16th Floor, Tower II, Indiabulls Finance Centre
SB Marg, Prabhadevi (W)
Mumbai 400013
T +91 22 6626 2600

MUMBAI
Kaledonia, 1st Floor,
C Wing (Opposite J&J office)
Sahar Road, Andheri East,
Mumbai - 400 069

NOIDA
Plot No. 19A, 7th Floor
Sector – 16A
Noida 201301
T +91 120 4855 900

PUNE
3rd Floor, Unit No 309 to 312
West Wing, Nyati Unitree Nagar Road,
Yerwada, Pune- 411006
T +91 20 6744 8800

For more information or for any queries, write to us at npsg@in.gt.com

Follow us @GrantThorntonIN