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Auditor – Audit committee
interaction series issued by
NFRA

SEBI updates

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NFRA : Auditor – Audit committee interaction series



NFRA launched the Auditor-Audit Committee Interactions to enhance overall audit quality and to raise awareness about the importance of accounting and auditing standards and auditor responsibilities.

It draws the attention of the auditors to the potential questions the Audit Committees/Board of Directors may ask them.

Series 1: Accounting estimates and judgements

Preparation and presentation (including disclosures) of financial statements requires the management to make estimates and judgements.

- Part 1 deals with accounting estimates and judgements related to Expected Credit Loss (ECL)
- Part 2 deals with accounting estimates and judgements pertaining to the audit of Income taxes.

Series 2- Audit strategy and audit plan

Development of an effective Audit Strategy and Audit Plan is the critical starting phase of an audit of financial statements. It is intended to set the overall scope, timing and direction of audit so as to guide the preparation of detailed audit plan including completion of the auditor's risk assessment procedures and design of audit procedures responsive to assessed risks

Series 2 highlights key themes for interaction between auditor and TCWG/ Audit Committee.

Series 3 – Dealing with audit of related parties

Related party relationships and transactions have been a source of major frauds in the corporate history and some of the modus operandi continues to be seen in recent corporate frauds as well. Hence, these could be challenging requiring special attention by the Preparers, Audit Committee and the Auditors.

Refer Annexure for key themes

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Industry Standards on approval of RPT

- SEBI LODR Regulations* require Related Party Transactions (RPTs) to be approved by
 - the Audit Committee (AC) and,
 - where applicable, by the shareholders.
- On 14 February 2025, SEBI issued Industry Standards on 'Minimum information to be provided for Review of the Audit Committee and Shareholders for Approval of Related Party Transaction (RPT)' (RPT Industry Standard)
- On 15 March 2025, the National Stock Exchange of India (NSE) issued Frequently Asked Questions (FAQs) to provide clarification on the applicability of the RPT Industry Standards.
- On 21 March 2025, SEBI clarified that the effective date should be 1 July 2025.

Key considerations:



*Regulation 23(2), (3), and (4) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Applicability matrix

Type of transaction	Threshold	Balance Sheet/P&L items	Approvals required	Disclosure requirement
Material RPT	RPT which is concluded to be material under Regulation 23(1) and (1A) of the LODR Regulations.	Both	Audit Committee + Shareholders	Comprehensive disclosures
Other RPT, but which is with promoter or promoter group* or person/entity in which promoter or promoter group has concern or interest	Exceeds the lower of: <ul style="list-style-type: none"> Two per cent of turnover as per the last audited consolidated financial statements, Two per cent of net worth (if positive) as per the last audited consolidated financial statements, or Five per cent of the average of absolute profit/loss after tax over the last three years as per audited consolidated financial statements. 	Both	Audit Committee	Comprehensive disclosures
	Less than the threshold specified in above column	Balance sheet items	Audit Committee	Comprehensive disclosures
		P&L item		Limited disclosures
Residual RPT	Transaction(s) with a related party to be entered into individually or taken together with previous transactions during the financial year exceeds INR1 crore	Both	Audit Committee	Limited disclosures
	Transaction(s) with a related party to be entered into individually or taken together with previous transactions during the financial year less than INR1 crore			Minimum disclosures

*Promoter or promoter group shall be deemed to be concerned or interested in any person, if they in any way, whether directly or indirectly:

- Where the person is a body corporate, holds more than 2% shareholding or voting rights of that body corporate, or is a promoter, managing director, manager, Chief Executive Officer of that body corporate; or
- Where the person is a firm or other entity, the promoter(s) or the promoter group is a partner, owner or member, as the case may be.

Industry Standards on Regulation 30

- Regulation 30 of the Listing Regulations requires a listed entity that has listed specified securities, to provide disclosure of material events or information to the stock exchange in accordance with Para A and Para B of Part A of Schedule III of the Listing Regulations.
- In February 2025, SEBI issued a circular and issued 'Industry Standards on Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015' to provide guidance for effective implementation of the requirement to disclose material events or information

Key points from the Industry Standards:

- Last audited consolidated financial statements to mean the annual audited consolidated financial statements of the listed entity.
- List of sectoral regulators/enforcement authorities relevant for disclosure imposition of fine or penalty has been specified. Listed entities required to amend their materiality policy to include the list of sectoral regulators.
- Clarification relating to disclosure of fraud or default where the allegation of fraud does not involve the listed company or is not in relation to the affairs of such listed entity
- Disclosure of any communication from regulatory/statutory/judicial authorities, where such communication bears confidential information - Assessment of whether such communication bears any confidential information is the responsibility of the listed entity.
- Receipt of a show cause notice from any regulatory, statutory, enforcement authority would be disclosed upon application of the guidelines for materiality
- Explained the manner of calculation of the amount involved in litigation or disputes on cumulative basis.

Other ISF standards or guidance issued

- Industry Standards Note on Business Responsibility and Sustainability Report (BRSR) Core
- Industry Standards Note on verification of market rumours under Regulation 30(11) of LODR Regulations.
- Industry Standards on Key Performance Indicators (“KPIs”) Disclosures in the draft Offer Document and Offer Document

Amendments to Listing Regulations – BRSR updates

Assessment or assurance

Assessment or assurance applicability

- ‘Assessment or assurance’ instead of mandatory reasonable assurance in the following manner:
 - FY 2024-25 - Top 250 listed entities:
 - FY 2025-26 - Top 500 listed entities
 - FY 2026-27 - Top 1000 listed entities.
- ‘Assessment’ will be third-party assessment undertaken as per standards to be developed by the ISF in consultation with SEBI.

Value chain

Requirements for top 250 listed entities

- Voluntary disclosures from FY 2025-26 instead of the 'comply-and-explain' requirement.
- Voluntary disclosure for previous year comparatives for the first year of reporting
- Voluntary assessment or assurance for value chain disclosures from FY 2026-27.

Clarified scope of value chain

- Top upstream and downstream partners of a listed entity, individually comprising 2 per cent or more of the purchases and sales (by value). The listed entity may limit disclosure of value chain to cover 75 per cent of its purchases and sales (by value), respectively.
- Required to disclose the percentage of total sales and purchases covered by the value chain partners.

BRSR updates (cont.)

Other considerations

- **Expertise:** The board of the listed entity should ensure that the assessment or assurance provider of the BRSR Core has the necessary expertise
- **Independence:** To ensure that there is no conflict of interest with the assessment or assurance provider appointed for assuring the BRSR Core. Further, it should be ensured that the assessment or assurance provider or any of its associates do not sell its products or provide any non-audit/non-assurance related service including consulting services, to the listed entity or its group entities.
- **Green Credit Program:** Incorporate disclosure of green credits under leadership indicator of Principle 6 of BRSR, i.e. 'Business should respect and make efforts to protect and restore the environment'.

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RBI clarification: Treatment of Right-of-Use (ROU) Asset for Regulatory Capital Purpose

- Regulated entities shall not be required to deduct an ROU asset (created in terms of Ind AS 116, *Leases*) from Owned Fund/ CET 1 capital/Tier 1 capital (as the case may be), provided the underlying asset being taken on lease is a tangible asset.
- The ROU asset shall be risk-weighted at 100 per cent, consistent with the risk weight applied historically to the owned tangible assets.



Applicable, with immediate effect, to all Non-Banking Financial Companies (NBFCs) (including Housing Finance Companies) and Asset Reconstruction Companies implementing Companies (Indian Accounting Standards) Rules, 2015.

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IFRIC agenda decision

Disclosure of revenues and expenses for reportable segments

Apply IAS 1 and assess

- Whether the disclosure of information is **material in the context of its financial statements taken as a whole**.
- **Aggregation of information** in the financial statements.

Consider

- **Both qualitative and quantitative factors**, representing the nature or magnitude of information, or both, in assessing whether an item of income and expense is material; and
- Disclosure of item of income and expense without regard to whether that item is presented or disclosed applying a requirement **in IFRS Accounting Standards other than IAS 1**.



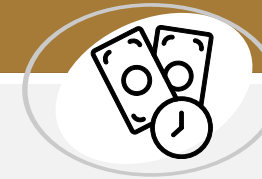
- Relevant for Ind AS financial statements also.

Updates to MSE suppliers' payment information order



Applicability

- Only specified companies which are having payments pending to any MSEs for **more than 45 days** from the date of acceptance or deemed acceptance of goods or services required to furnish MSME Form I



New disclosures

- Revised MSME Form I
- Comprehensive disclosures with respect to amounts due to MSEs along with **ageing of dues** as well.

Revised MSME classification criteria: Following are the revised limit with effect from 1 April 2025:

	Investment in plant and machinery or equipment	Turnover during the year
Micro Enterprise	INR2.5 crore	INR10 crore
Small Enterprise	INR25 crore	INR100 crore
Medium Enterprise	INR125 crore	INR500 crore

MSEs - Micro and Small Enterprises

MSME - Micro, Small and Medium Enterprises

Amendments to LODR Regulations

Related Party Transactions (RPTs)

Disclosure of material events or information

Filing and disclosures

Board of directors and audit committees

Promoters and controlling shareholders

Corporate governance requirements

BRSR updates

Other matters

Ind AS 117, *Insurance Contracts*-Overview

Replaces Ind AS 104,
Insurance Contracts

Effective 1 April 2024

Applies to all companies in
respect to insurance
contracts



Applicable **retrospectively**

Does not apply if an entity
is the **policyholder**

Evaluate implications on
existing contracts

Ind AS 117 – Key considerations



Notification by IRDAI

The Insurance Regulatory and Development Authority of India (IRDAI) has not prescribed Ind AS for insurance companies. Therefore, Ind AS 117 would not be applicable for statutory reporting for IRDAI registered insurance companies.



Applicability to consolidated financial statements*

The MCA through its notification dated 28 September 2024, permitted an insurer or insurance company to prepare its financial statements as per Ind AS 104 for the purpose of submitting information to their parent companies for consolidation, till the IRDAI has notified Ind AS 117.



Applicable to non-insurance companies

Non-insurance companies would need to evaluate the terms of their contracts to determine whether they meet the definition of an insurance contract. Some of the key contracts that should be examined for implications of Ind AS 117 include performance guarantee contracts, fixed-fee service contracts and group company warranties.



Scope exemptions

Ind AS 117 also provides scope exemptions to certain contracts such as certain warranties, employer's assets and liabilities, contingent consideration, policyholder, credit cards, etc.

* Other than banking companies.

Amendments to Ind AS 116 - Sale and leaseback with variable lease payments

Variable lease payments include variable payments that do not depend on an index or rate. New accounting model introduced for seller lessee under Ind AS 116, *Leases*.

Initial recognition of lease liability

Seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.

Subsequent accounting

After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it does not recognise any gain or loss relating to the right of use it retains.

Estimated lease payments

Estimated lease payments can be determined in a number of ways at the date of transaction– e.g. as ‘expected lease payments’ or as ‘equal periodic payments’ over the lease term.

Actual lease payments

The seller-lessee would reduce the lease liability as if the ‘lease payments’ estimated at the date of the transaction had been paid. It would recognise any difference between those lease payments and the amounts actually paid in profit or loss.



- The amendments are applicable from **1 April 2024**.
- Under Ind AS 8, a seller-lessee will need to apply the amendments **retrospectively** to sale-and-leaseback transactions entered into or **after the date of initial application of Ind AS 116** (i.e. since April 2019).

Annexures



Series 1, Part 1: Expected Credit Loss (ECL) under Ind AS 109

ECL approach

The ECL approach under Ind AS 109 involves recognising and measuring impairment losses for financial assets based on expected credit losses, rather than incurred losses.

ECL applies to all types of **financial assets**. Understanding the segmentation and relevant tests for different classes of financial assets is crucial.

Key themes for interaction highlighted by NFRA

1

Recognition and measurement related considerations including analysis of changes/trends of balances and communication of unusual movements

2

Internal control systems, subject matter experts and IT systems

3

Discussion on business rationale, any unusual transactions, etc.

4

Related party transactions, subsidiaries and associates, and use of management's experts

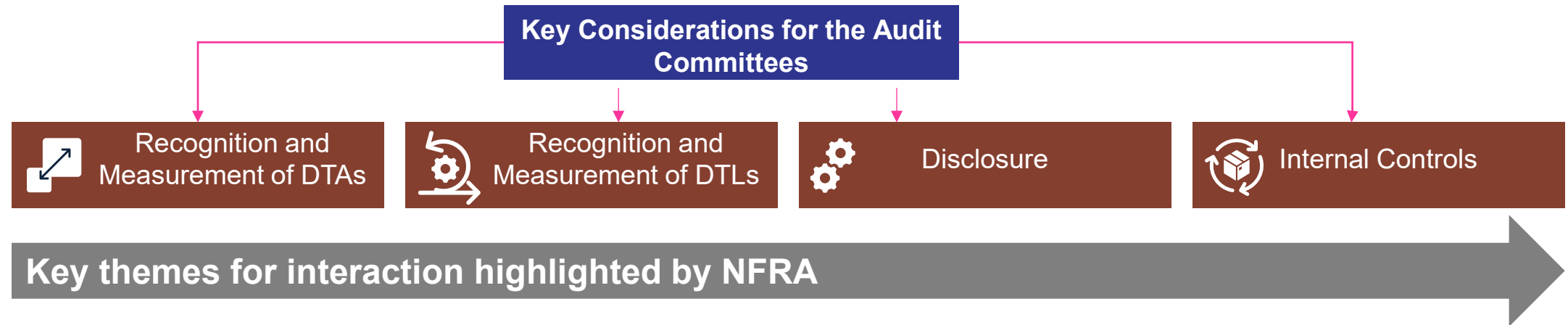
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Compliance with applicable accounting standards

6

Any regulatory guidance from policy makers, standard setters, etc.

Series 1, Part 2: Income taxes, under Ind AS 12



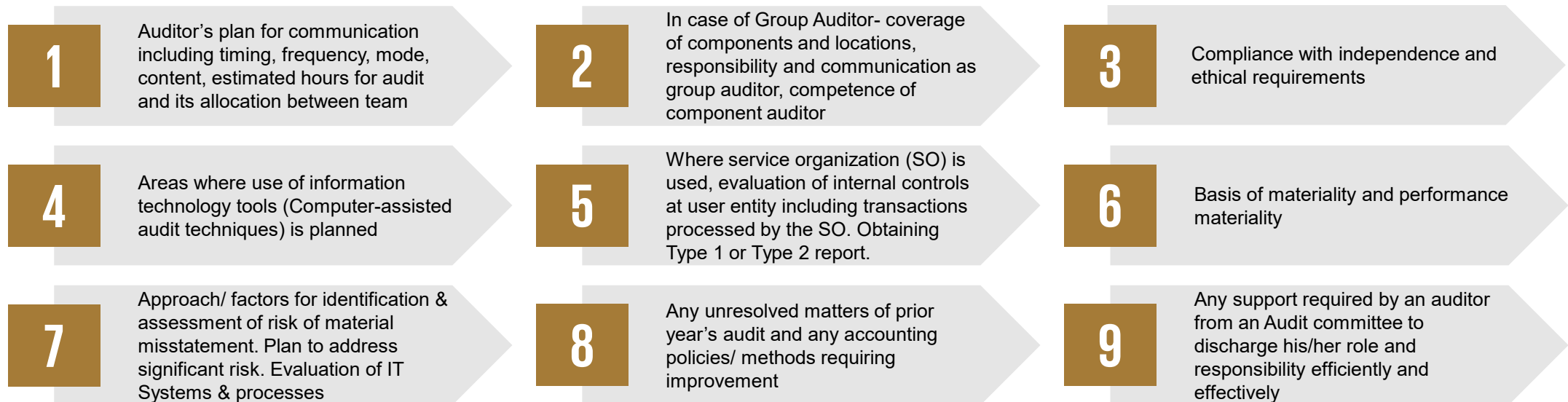
- 1 Identification of relevant Income Tax Laws enacted or substantively enacted at the reporting date, consistency with the expected manner of realisation of the asset
- 2 Any significant changes in tax laws, relevant interpretations/decisions or regulations that could impact the valuation of DTAs and DTLs
- 3 Key reconciling items reflected in the effective tax rate reconciliation
- 4 Internal controls over computation of current tax and deferred tax, identification of the taxable/deductible temporary differences, measurement of DTA and DTL
- 5 Verification of the assumptions underlying the calculations of Deferred taxes
- 6 Assessment of the probability of future taxable profits against which the DTA can be utilised
- 7 Professional competence, objectivity and independence of a management expert and verification of data used by the expert
- 8 Uncertain tax positions, impact of assessment orders received from the income tax authorities
- 9 Impact of uncertainties regarding a Company's basis of Going Concern on the future profitability to recover DTA

Series 2- Audit strategy and audit plan

Section 177 of the Companies Act, 2013 and Schedule II Part C of the Listing Regulations

The Companies Act, 2013 and SEBI require the Audit Committee to review and monitor the auditor's performance, independence, and effectiveness of audit process

Key themes for interaction between auditor and TCWG/ Audit Committee highlighted by NFRA



Series 3 – Dealing with audit of related parties



Identification and completeness

- Management's understanding of the meaning of related parties is consistent with the definitions given in the Companies Act, 2013 (2013 Act), Ind AS 24 or AS 18, SA 550 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (Listing Regulations 2015).
- Risk assessment procedures performed by the auditor to understand the management controls established related to related party transactions/disclosures.
- Internal control processes established to verify the group structure (for any changes therein)
- Identification of individuals or entities that would be classified as 'connected parties' for the purpose of identifying transactions the purpose and effect of which is to benefit a related party (indirect transaction)
- Obtaining periodic confirmations from the directors, promoter group, large shareholders, review of shareholders' agreements and relevant contracts



Evaluation

- Determination of significant risk including fraud risk in related party relationships and transactions
- Evaluation of business rationale of significant related party transaction
- Evaluation of related party transaction conducted on terms equivalent to those prevailing in an arm's length transaction
- Ensure disclosure is complete and compliant with the 2013 Act, Listing Regulations and Ind AS 24/AS 18



Approvals

- Technology enabled database relevant systems, to generate an alert for Audit Committee's approvals/shareholders' approvals, as applicable
- Appropriate controls for monitoring of changes in contracts and evaluate whether the change is a material modification (as defined by the Audit Committee) of an existing contract.
- Exemption from obtaining Audit Committee's and Shareholders' approvals, necessity of obtaining ratification of related party transactions from the Audit Committee, etc.
- Audit procedures performed before reporting under CARO for compliance with Section 177 and 188 of the 2013 Act.
- Any significant variation between the value of proposed RPT approved by the Audit Committee and the actual value of RPT executed

Sources

1. NFRA Auditor – Audit committee interaction series 1 part 1 dated 10 January 2025
2. NFRA Auditor – Audit committee interaction series 1 part 2 dated 7 March 2025
3. NFRA Auditor – Audit committee interaction series 2 dated 28 March 2025
4. NFRA Auditor – Audit committee interaction series 3 dated 28 March 2025
5. SEBI Circular SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/18 on Industry Standards on “Minimum information to be provided for review of the audit committee and shareholders for approval of a related party transaction dates 14 February 2025 and SEBI circular CIRCULARSEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/37 dated 21 March 2025
6. The Industry Standards on “Minimum information to be provided for Review of the Audit Committee and Shareholders for Approval of Related Party Transaction (RPT) issued by Industry Standard Forum (ISF) comprising of ASSOCHAM, FICCI and CII dated 14 February 2025
7. SEBI Circular SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/25 on Industry Standards on Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 dated 25 February 2025 and Industry Standards Note on Regulation 30 of the LODR Regulations dated 27 February 2025
8. Industry Standards Note on Business Responsibility and Sustainability Report (BRSR) Core issued by ISF dated 20 December 2025
9. Industry Standards Note on verification of market rumours under Regulation 30(11) of LODR Regulations issued by dated 21 May 2025
10. Industry Standards on Key Performance Indicators (“KPIs”) Disclosures in the draft Offer Document and Offer Document dated 28 February 2025
11. SEBI notification on SEBI (Listing Obligations And Disclosure Requirements) (Amendment) Regulations, 2025 dated 27 March 2025
12. RBI notification RBI/2024-25/128 DOR.CAP.REC.No.68/21.01.002/2024-25 on Treatment of Right-of-Use (ROU) Asset for Regulatory Capital Purposes dated 21 March 2025
13. International Accounting Standards Board (IASB) IFRIC agenda decision on Disclosing revenue and expenses for reportable segments issued in July 2024
14. MCA notification on Specified Companies (Furnishing of information about payment to micro and small enterprise suppliers) Amendment Order, 2024 dated 15 July 2024 and Ministry of Micro, Small and Medium Enterprises notification S.O. 1364(E) dated 21 March 2025.
15. SEBI notification SEBI/LAD-NRO/GN/2024/218, SEBI (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2024 dated 12 December 2024.
16. Companies (Indian Accounting Standards) Amendment Rules, 2024 issued by MCA dated 12 August 2024.
17. Companies (Indian Accounting Standards) Second Amendment Rules, 2024 issued by MCA dated 9 September 2024.

Q&A



Thank you!

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Feedback/queries can be sent to in-fmcontact-us@bsraffiliates.com

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