

भारत सरकार / Government of India
राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण / National Financial Reporting Authority

7th Floor, Hindustan Times House,
Kasturba Gandhi Marg, New Delhi

Dated: 16.01.2023

Invitation for Comment

To

Statutory Auditors of the NFRA Regulated Public Interest Entities (PIEs)

Subject: Publication of Annual Transparency Reports (ATR) by Auditors/Audit Firms

Auditors have a critical role in the financial reporting supply chain of PIEs. Audit of financial reports of PIEs by Independent Auditor enhances the credibility and integrity of the general purpose financial reports of PIEs. Therefore, the need for high-quality comprehensive financial information covering both financial and non-financial aspects of PIEs cannot be overemphasised.

2. Regulators have been prescribing obligations for PIEs to provide high-quality comprehensive financial and non-financial information commensurate with the nature, size and complexity of their operations to the various stakeholders. The role and responsibilities of the independent auditors of such entities have also evolved significantly with focus on the need to build commensurate professional and operating capabilities within the auditing profession. Audit professionals have been augmenting their capabilities and resources including building a network or alliances of firms, domestically and globally, developing in-house multi-disciplinary professionals or professional units, delivering variety of non-audit services, increasing use of digital audit tools and techniques, separating management and governance structures and so on.

3. In this backdrop, Regulators and Oversight Authorities in some overseas jurisdictions¹ require audit firms carrying out audit of PIEs to prepare and publish information in the form of Transparency Reports on annual basis. Accordingly, the audit firms in those jurisdictions have been publishing the Transparency Reports²

4. Indian companies have become significant constituents of the global economy and India has evolved as global centre of excellence in the delivery of financial reporting and audit services to a large number of multi-national corporations raising expectations for sound and high-quality codes and practices comparable to global benchmarks.

¹ Refer Rule 13 of REGULATION (EU) No 537/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 April 2014 (EU Audit Regulation 2014) and Section 322 of Corporations Act 2001, Australia and Schedule 7A of Corporations Regulations 2001, Australia

² <https://www.pwc.co.uk/who-we-are/transparency-report.html>,
<https://www.pwc.com.pk/en/assets/document/Transparency%20Report%202022.pdf>,
https://www.ey.com/en_uk/about-us/transparency-report, https://www.ey.com/en_us/2022-ey-us-transparency-report, <https://assets.kpmg/content/dam/kpmg/uk/pdf/2022/02/kpmg-uk-transparency-report-2021-a.pdf>, <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/transparency-report-2021.pdf>, <https://www.bdo.com.au/en-au/about/about-bdo-in-australia/transparency>, <https://www2.deloitte.com/uk/en/pages/annual-review-2022/audit-transparency-report.html>

5. Rule 8(2) of the NFRA Rule 2018 empowers the NFRA to require an auditor to report on its governance practices and internal processes designed to promote audit quality, protect its reputation and reduce risks including risk of failure of the auditor and may take such action on the report as may be necessary. The Committee of Experts³ appointed by the Ministry of Corporate Affairs, Government of India in 2018 pursuant to Supreme Court⁴ direction had also recommended inclusion of similar requirement in respect of every auditor and audit firm operating in India as a part/member of an international network.

6. In accordance with Rule 8(2) of the NFRA Rule 2018, NFRA considers it appropriate to prescribe publication of Annual Transparency Report containing certain critical information about the auditor's operational activities, management, governance and ownership structures, policies and procedures necessary to deliver high-quality audits etc. This requirement of an annual transparency report will be implemented in a gradual manner across the audit profession engaged in the audit of PIEs falling within the purview of NFRA, starting with the auditors/audit firms performing audit of top 1000 listed companies (by market capitalisation) from the financial year ending 31 March 2023. Annexure to this document may be referred for the details of the reporting requirements.

7. NFRA requests views/comments of stakeholders on the contents of the Annual Transparency Report given in the annexure so that the suggestions of the stakeholders and public can be considered while finalising its contents.

The last date for receipt of comments is **16 February 2023**.
Email for receipt of comments: **nfra-comments@nfra.gov.in**

Sd/-
Secretary

³ Report of Committee of Experts-Findings and Recommendations on Regulating Audit Firms and the Networks (https://www.mca.gov.in/Ministry/pdf/2018_CommitteeExperts_Report_08112018.pdf)

⁴ *S. Sukumar v Institute of Chartered Accountants of India*, (2018) 14 SCC 360

Annexure

Contents of the Annual Transparency Report of the Auditor/Audit Firm of NFRA Regulated Public Interest Entities

Applicability

1. The Statutory Auditor (Audit Firm or Individual Auditor) of Public Interest Entities within the ambit of National Financial Reporting Authority (NFRA) shall prepare and publish an Annual Transparency Report for every financial year.

2. Financial Year means the period ending on the 31st day of March every year.

3. This requirement is applicable to Statutory Auditors of Top 1000 Listed Companies (by market capitalisation) with effect from the financial year ending on 31 March 2023. Market Capitalisation for this purpose shall be based on the average market capitalisation published by the Association of Mutual Funds (AMFI) for the six months period of June - December of the immediately preceding financial year.

Publication, Approval and Filing of Annual Transparency Report

4. The Annual Transparency Report shall be published on the website of the Statutory Auditor within three months from the end of the relevant financial year for which the report is required.

5. The Annual Transparency Report shall be approved by the persons required to approve the financial statements of the Statutory Auditor as per the law governing the Statutory Auditor or its governing body, if any. The Statutory Auditor shall file a copy of the Annual Transparency Report with NFRA before it is published on its website.

Contents of the Annual Transparency Report

6. A description of the Statutory Auditor's

- 6.1 Legal Structure
- 6.2 Ownership
- 6.3 Management Structure
- 6.4 Governance Structure

7. Details about the Network, if the Statutory Auditor is a member of any Network in India or Overseas

- 7.1 Description of the legal, operating structure and domicile of the Network
- 7.2 Whether the Network is subject to registration with and oversight of any professional accountancy body or independent regulator, in India or overseas.
- 7.3 Nature of the activities and services rendered by the Network
- 7.4 Name, Domicile and legal and operating structure of the other Members of the Network operating in India and overseas and nature of their activities
- 7.5 Total Income of the Network and the source of this income

8. Details about the Working Alliances, Collaborations, Licensing Arrangements, Knowledge/Resource Sharing Arrangements, if any, of the Statutory Auditor with any third party or organisation, in India or International

- 8.1 Name and Domicile of the entity with whom the Statutory Auditor has any Working Alliances, Collaborations, Licensing Arrangements, Knowledge/Resource Sharing Arrangements
- 8.2 Nature and Details of the Alliances, Collaborations and other Arrangements

9. Details and Descriptions of the Statutory Auditor's Policy and Procedures in

respect of the following areas. (Qualitative Commentary in this section should be supplemented by quantitative metrics)

- 9.1 Overall Internal Quality Control System
- 9.2 Monitoring and Ensuring Compliance with the Independence requirements for Independent Auditors
- 9.3 Acceptance and Continuation of Audit Clients
- 9.4 Audit Quality Control Mechanisms and Structures and its operating effectiveness
- 9.5 Brief description of Audit Methodology
- 9.6 Continuing Professional and Technical Education for all professional staff
- 9.7 Remuneration and Compensation of its Partners and Senior Staff
- 9.8 Transaction Pricing for Rendering Services to or Receiving Services among members of its network entities.
- 9.9 Date of the most recent internal review of its quality control mechanisms including compliance with Independence Requirements, results of this review and remedial actions to address the weaknesses and non-compliances, identified if any
- 9.10 Date of the most recent review of quality control system review by the NFRA

10 Name and identification number of the entities that are within the purview of NFRA and are audited by the Statutory Auditor and/or other members of its network, alliances and/or collaborations in India.

Sl.#	Name of Entity	Identification Number (e.g. Company Identification Number)
1	ABC	
2	XYZ	
3	DEF	

11 Information about the total revenue of the Statutory Auditor and its network firms

	Current year (₹ Thousands)		Previous Year (₹ Thousands)	
	Statutory Auditor	Member Firms of Network ¹	Statutory Auditor	Member Firms of Network ¹
(I) Total Revenue from Professional Services (II + III)				
(II) Statutory Audit² Fees				
a. <i>Earned from Audit Clients within NFRA Purview</i>				
b. <i>Earned from Other Clients</i>				
(III) Non-Audit Service Fees³ (Break up to be given as specified below*)				
a. <i>Earned from Audit Clients within NFRA purview</i>				
b. <i>Earned from Other Clients</i>				
*Breakup of Non-Audit Service Fees (A+ B+C)				
(A) Fees from Attestation/Assurance Services (a+b)				
<i>(a) fees from services rendered to Audit Clients within NFRA purview (i+ii)</i>				
<i>(i) fees from services to be rendered by Statutory Auditor only</i>				
<i>(ii) fess from services that can be rendered by any charetered accountant</i>				
<i>(b) fees from services rendered to other clients</i>				
(B)Fees from Taxation Services (i+ii)				
<i>(i) fees from taxation services rendered to Audit Clients within NFRA purview</i>				

	Current year (₹ Thousands)		Previous Year (₹ Thousands)	
	Statutory Auditor	Member Firms of Network ¹	Statutory Auditor	Member Firms of Network ¹
<i>(ii) fees from taxation services rendered to Other Clients</i>				
(C) Fees from Other Non-Audit Services (i+ii)				
<i>(i) fees from other non-audit services rendered to Audit Clients within NFRA purview</i>				
<i>(ii) fees from other non-audit services rendered to Other Clients</i>				

¹Information to be given here relates to Audit and Non-Audit Services rendered to entities within the NFRA purview or their holding company or subsidiary company, incorporated in India or overseas.

² Statutory Audit means the audit of financial statements performed by the auditor appointed under section 139 of the Companies Act 2013.

³Refer to Section 144 of the Companies Act 2013 for services not to be rendered directly or indirectly to the company or its holding company or subsidiary company.