Dipen D Shah & Associates
CHARTERED ACCOUNTANTS

SUMMARY OF NFRA CIRCULAR

3RD OCTOBER 2024

01

Compliance with SA Requirements

- According to SA 200 (Para 18-23), auditors must comply with all relevant SAs. They cannot claim compliance unless they have followed all applicable standards.

02

Principal Auditor's Responsibility in Group Audits

- The principal auditor remains responsible for forming an opinion on the Group Financial Statements (GFS), even when using another auditor's work.

- Key Provisions from SA 600:
  - Para 5: The principal auditor should determine how the work of the component auditor will affect the audit.
  - Para 12: The principal auditor must perform sufficient procedures to ensure the work of the component auditor is adequate.

03

Tailoring Audit Procedures

- SA 200 emphasizes that auditors are responsible for determining the appropriate audit procedures, as audit circumstances vary widely. Simply following one SA does not exempt auditors from meeting the broader objectives of the audit.

04

Risk Assessment in Group Audits

- Under SA 600 (Para 9), the principal auditor must consider the risk of material misstatements in components audited by others. The principal auditor should apply SA 315 to assess risks, rather than relying solely on the component auditor's work.

05

Concomitant Responsibilities in Group Audits

- The principal auditor’s responsibilities under SA 600 must be read in conjunction with their obligations under the Companies Act and other relevant standards (SA 220, SA 230, SA 315, SA 320, SA 330, SA 450, and SA 701) to gather sufficient audit evidence for the GFS.

06

SEBI Circular (11th July 2023)

- As per SEBI guidelines, statutory auditors of listed entities must undertake a limited review of all entities consolidated with the listed entity, in accordance with the relevant accounting standard.

07

Work Paper Sharing Between Auditors

- Sharing work papers between component auditors and principal auditors is permissible and required for the principal auditor to fulfill their responsibilities under Section 143 of the Companies Act 2013.

08

Review of Component Auditor's Work

- Although SA 600 does not specifically mention reviewing component auditors' work papers, it may be necessary for the principal auditor to review them to assess adequacy, using professional judgment and skepticism, particularly if required under their statutory duties.

09

Professional Competence of Component Auditors

- SA 600 (Para 11) requires the principal auditor to assess the competence of other auditors. Even if the component auditor is an ICAI member, the principal auditor must still evaluate their competence for the specific assignment.

10

Responsibility for Consolidated Financial Statements

- The responsibility for accurate and complete consolidated financial statements rests with the management, board of directors of the holding company, and the principal auditors.

Conclusion

The NFRA clarifies that principal auditors cannot solely rely on SA 600 to avoid their statutory duties in verifying component accounts. Reliance on component auditors or obtaining a reliance letter does not absolve the principal auditor from their responsibility for the Group Financial Statements (GFS).

Thank you

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Competence Credibility Commitment