Accounting and Auditing Update

Issue no. 91/2024

February 2024

kpmg.com/in

Editorial

The statement of cash flows is a primary component of an entity's financial statements. It provides key information on company's financial strength, ability to generate cash and cash equivalents and the needs of the entity to utilise those cash flows to the users of financial statements. This not only helps a company in its budgeting matters, but also assists users of financial statements to make investment decisions (for investors)/lending decisions (for lenders).

Ind AS 7, *Statement of Cash Flows* prescribes certain disclosure requirements for an effective review of operating, investing, and financing activities of a company. As per the principle of Ind AS 7, cash flows are classified as either operating, financing or investing activities depending on their nature. But identifying the appropriate activity category for many types of cash flow transactions can be complex. Regulators have also provided observation relating to discrepancies in application of certain requirements. This edition of Accounting and Auditing Update (AAU) discusses some of the key areas that regulators have highlighted and provided improvement points relating to statement of cash flows. The article also discusses illustrative disclosures with the help of examples.

Interest income received on financial assets is required to be computed using the effective interest and recognised in the Statement of Profit and Loss. The accounting of interest income is governed by principles of Ind AS 109, *Financial Instruments*, Ind AS 107, *Financial Instruments: Disclosures* and Ind AS 1, *Presentation of Financial Statements*. *However*, where an entity temporarily invests funds borrowed for the construction of specific assets, treatment of such interest income to be evaluated considering the principles of Ind AS 23, *Borrowing Cost*. The Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) in its recent opinion deliberated on the accounting and presentation of the interest income earned on funds received by a company from the government authorities for a specific project temporarily invested by the company in bank deposits. Our article on this topic aims to discuss some of the key factors considered by the EAC while clarifying the accounting for interest income on funds invested that were received as borrowings for specific projects.

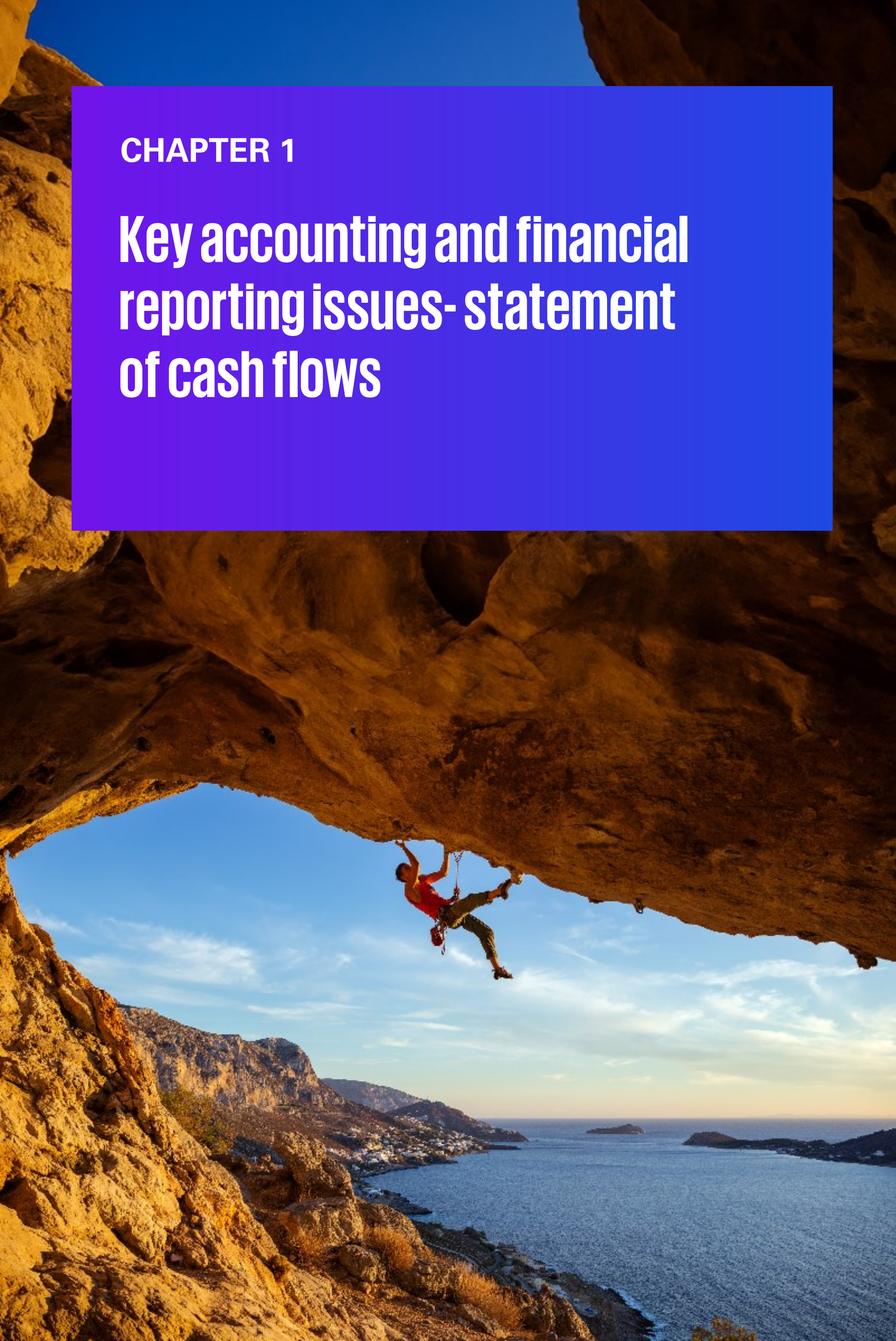
There have been various regulatory developments in India and internationally during the month. Recently, the central government has notified various provisions to enable listing of specific class of securities in permitted foreign jurisdictions such as the Companies (Listing of equity shares in permissible jurisdictions) Rules, 2024 (LEAP Rules) notified by the Ministry of Corporate Affairs (MCA), the Ministry of Finance amended the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 (NDI Rules) and issue of FAQs on Direct Listing Scheme. Further, the Securities Exchange Board of India (SEBI) extended the timeline for application of provisions relating to verification of market rumours under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulation). The Reserve Bank of India (RBI) has issued the guidelines on appointment/re-appointment of statutory auditors of State Co-operative Banks (StCBs) and Central Co-operative Banks (CCBs) (the guidelines). Our regulatory updates articles cover these and other important regulatory developments.

We would be delighted to receive feedback/suggestions from you on the topics we should cover in the forthcoming editions of AAU.

Sai Venkateshwaran
Partner - Assurance
KPMG in India

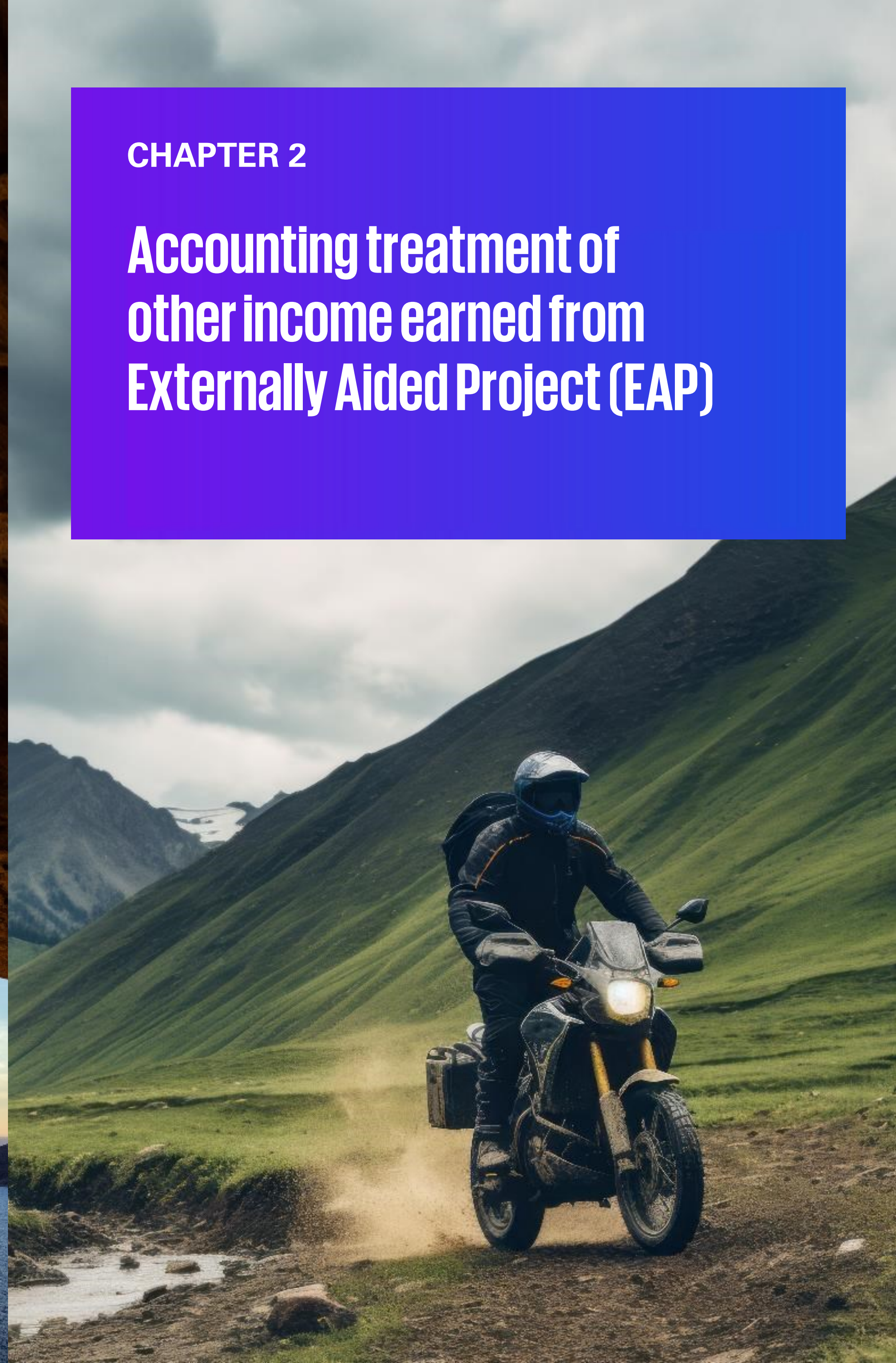
Ruchi Rastogi
Partner - Assurance
KPMG in India

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.



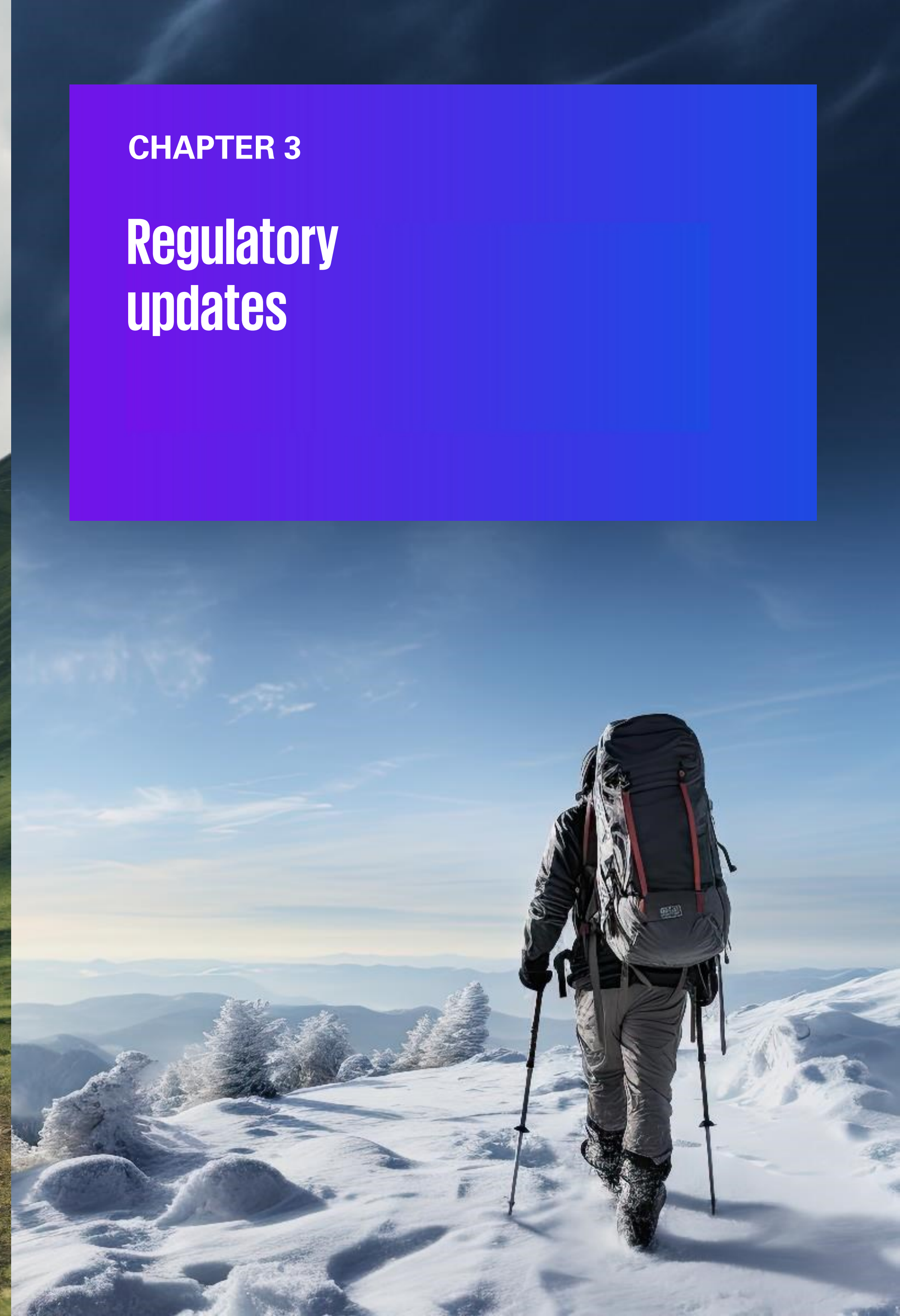
CHAPTER 1

Key accounting and financial reporting issues- statement of cash flows



CHAPTER 2

Accounting treatment of other income earned from Externally Aided Project (EAP)



CHAPTER 3

Regulatory updates

CHAPTER 1

Key accounting and financial reporting issues- statement of cash flows

Background

Information about cash flows of an entity is useful in providing users of financial statements with a basis to assess a company's financial strength, ability to generate cash and cash equivalents and the need of the entity to utilise those cash flows. This not only helps a company in its budgeting matters, but also assists users of financial statements to make investment decisions (for investors)/lending decisions (for lenders).

Ind AS 7, *Statement of Cash Flows* prescribes certain disclosure requirements for an effective review of operating, investing, and financing activities of a company. However, regulators have observed discrepancies in application of certain requirements. Accordingly, in this issue of key accounting and financial reporting issues, we will touch upon some of the key areas that regulators have highlighted and provided improvement points in the area of statement of cash flows. We have also provided illustrations of disclosures from thematic reviews performed by the Financial Reporting Council (FRC) and illustrative disclosures issued by KPMG in India in 2023.

Source

While preparing this article, we have referred to:

- The recent observations of the National Financial Reporting Authority (NFRA),
- The Report on Audit Quality Review issued by the Quality Review Board issued in October 2023,
- The Ind AS observations of the Financial Reporting Review Board (FRRB) of the Institute of Chartered Accountants of India (ICAI),
- Recent report of ICAI- 'Commonly found Errors in Reporting Practices' issued in January, 2024
- The report- Annual Review of Corporate Reporting (2022/23) issued by the Financial Reporting Council, and
- Recent ESMA[1] enforcement directions.

1. European Securities and Markets Authority.

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Key issues and recommendations pertaining to statement of cash flows

Some of the key issues and recommendations pertaining to statement of cash flows is given below:

Accounting policy and components of cash and cash equivalent:

- **Accounting policy:** Ind AS 1, *Presentation of Financial Statements*, requires the disclosure of material accounting policies[2]. Ind AS 1 also requires disclosure of judgements apart from those involving estimations that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Ind AS 7 does not contain detailed guidance on classification of many types of transactions. Given the range, complexity and size of transactions companies undertake, judgement will often be required, on classification of certain transactions in operating, investing, or financing activities. For example, a description of where contingent consideration is presented within the statement of cash flows.

Example disclosure

Acquisition related arrangements

The cash payments are reflected in the statement of cash flows partly in operating cash flows and partly within investing activities. The tax relief on these payments is reflected in the Group's Adjusting items as part of the tax charge. The part of each payment relating to the original estimate of the fair value of the contingent consideration on the acquisition of the XXX Healthcare joint venture in 2012 of £659 million is reported within investing activities in the statement of cash flows and the part of each payment relating to the increase in the liability since the acquisition is reported within operating cash flows.

(Source: Thematic review: Cash flow and liquidity disclosures, issued by the Financial Reporting Council in November 2020)

2. With effect from 1 April 2023, Ind AS 1 requires the disclosure of material accounting policies.

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

- **Components of cash and cash equivalent:** An accounting policy should provide details of what constitutes cash and cash equivalents for the purpose of the statement of cash flows. For example, Ind AS 7 considers bank overdrafts which are repayable on demand to be an integral part of the entity's cash management system, accordingly these are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. However, for the purpose of presentation in the balance sheet, the guidance note on Schedule III (Division II) requires bank overdraft to be disclosed as borrowings (and not part of cash and cash equivalent[3]).

  Similarly, a description of the terms of deposits, such as maturity, break clauses and interest rates, amounts of restricted cash and nature of restriction, etc. should be disclosed.

3. Unless the bank overdraft meets the offsetting conditions prescribed by Ind AS 32, Financial Instruments: Presentation

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Example disclosure of reconciliation of cash and cash equivalents and restrictions in use

Cash and cash equivalents

in lakh of INR		**3/31/2023**	3/31/2022
Balances with bank	*On current account* (Refer Note 1)	**50**	988
	Deposits with original maturity of less than three months (Refer Note 2)	**1,112**	511
Cheques, drafts on hand		**102**	-
Cash on hand		**25**	20
Cash and cash equivalent in the balance sheet		**1,289**	**1,519**
Bank overdrafts repayable on demand and used for cash management purposes		**(334)**	(282)
Cash and cash equivalent in the statement of cash flows		**955**	1,2936

Note 1: Bank balance includes INR7 lakh (31 March 2022: INR7 lakh) held in foreign country which are not freely remissible because of exchange restrictions.

Note 2: An amount of INR300 lakh included in demand deposits is subject to restrictions imposed by certain customers. While the amount can be withdrawn at any time from the bank without penalty, the agreements with the customers require the Group to keep an aggregate amount of INR300 lakh in a demand deposit account and to use it only for the purpose of meeting warranty claims arising in the next 12 months.

(Source: Illustrative Ind AS consolidated financial statements issued by KPMG in India in March 2023)

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Disclosure of cash flows from investing activities:

As per Ind AS 7, only expenditure that results in a recognised asset in the balance sheet is eligible for classification as investing activities. Accordingly, cash flows that do not result in a recognised asset within investing activities, such as acquisition expenses in a business combination or settlement of provisions should not form part of cash flows from investing activities.

Clarifications pertaining disclosure of specific transactions:

Some clarifications and best disclosures pertaining to cash flows from specific transactions are given below:

- **Material differences in amounts included in cash flows from amounts in notes:** Cash flows from investing activities should agree with the amounts presented in the notes to the financial statements (in such a case a reference to the note agreeing with amount presented in statement of cash flow should be provided). Where there are material differences, regulators have recommended to provide an explanation for the same (this may be done through a reconciliation).

Example disclosure of reconciliation between cash flows and notes

Cash flows from investing activities

Additions to property, plant equipment*	**(138.8)**	(128.6)
Movement in capital accounts	**2.4**	5.4
Payments to acquire property, plant and equipment	**(136.4)**	(123.2)

* This amount is as per the balance sheet notes

(Source: KPMG in India's analysis, 2024 read with 'Thematic review: Cash flow and liquidity disclosures', issued by the Financial Reporting Council in November 2020)

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

- **Acquisition and disposal of subsidiaries:** As per Ind AS 7, aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses should be presented separately and classified as investing activities. Where the impact of acquiring or disposing of a subsidiary or business is material, it is expected by regulators that the notes provide a breakdown of the impact on the statement of cash flow. A reference to such notes should be provided.

  The aggregate net cash flows from obtaining or losing control of subsidiaries and other businesses are presented separately as a single line item as part of investing activities, which includes the consideration paid by cash and cash equivalents, less any cash and cash equivalents held by the subsidiary at the time of acquisition. Separate cash outflows and inflows for the various net assets and liabilities acquired are not given.

  A subsequent purchase of an additional interest or a sale by a parent of a subsidiary's equity instruments that does not result in a loss of control is classified as cash flows from financing activities because such changes in ownership interests are accounted for as transactions with equity holders.

  Non-cash investing or financing transactions - e.g. shares issued as consideration in a business combination, or acquisition of assets via a lease - are not included in the statement of cash flows, but are disclosed to provide relevant information about investing and financing activities.

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

- **Deferred or contingent consideration:** Ind AS 7 does not contain detailed guidance on the classification of deferred and contingent consideration judgement would be required for presentation of cash outflows, considering the nature of the activity to which the cash outflow relates.
  - To the extent that the amount paid reflects the finance expense, classification consistent with interest paid may be appropriate,
  - To the extent that the amount paid reflects the settlement of the fair value of the consideration recognised on initial recognition, judgement would be required for classification of the cash outflow as investing activity or as financing activity.
- **Cash flows from discontinued operations:** Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations* requires disclosure of the net cash flows attributable to the operating, investing, and financing activities of discontinued operations. These disclosures may be presented either in the notes or in the financial statements. Ind AS 7 does not prescribe specific disclosures for cash flows from discontinued operations. Accordingly, there are a range of acceptable approaches, including:
  - Presenting cash flows from discontinued operations by category in the notes to the financial statements
  - Presenting cash flows from discontinued operations by category on the face of the statement of cash flow; and
  - Presenting cash flows from discontinued operations as a separate column within the statement of cash flow.

Example disclosure of cash flows from discontinued operations as a separate note

In August 2022, the Group sold its entire Packaging segment (see Note 5). Management committed to a plan to sell this segment early in 2022-23, following a strategic decision to place greater focus on the Group's key competencies – i.e. the manufacture of paper used in the printing industry, forestry and the manufacture of timber products.

A. Cash flows from (used in) discontinued operations

In lakh of INR	Note	**Year ended 31 March 2023**	Year ended 31 March 2022
Net cash used in operating activities		(225)	(910)
Net cash from investing activities	B	10,890	-
Net cash flows for the year		10,665	(910)

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

B. Effect of disposal on the financial position of the Group

In lakh of INR	Note	**Year ended 31 March 2023**
Property, plant and equipment		(7,986)
Inventories	B	(134)
Trade receivables		(3,955)
Cash and cash equivalents		(110)
Deferred tax liabilities	17(E)	110
Trade payables		1,921
Assets net of liabilities		**(10,154)**
Consideration received, satisfied in cash		11,000
Cash and cash equivalents disposed of		(110)
Net cash inflows#		**10,890**

This amount appears in the statement of cash flows as ‘Disposal of discontinued operation, net of cash and cash equivalents disposed of’ within investing activities

(Source: Illustrative Ind AS consolidated financial statements issued by KPMG in India in March 2023)

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

- **Cash flows from receipt of government grants:** Ind AS 7 does not provide any specific guidance on classification of cash flows from the receipt of government grants. Cash flows should be classified based on the nature of the activity to which they relate. For example, an entity may classify cash flows related to asset-related grants as investing activities and those related to income-related grants as operating activities because this reflects the nature of the related activities.
- **Cash flows related to capitalised interest:** Entities should ensure that total amount of interest paid is disclosed in the statement of cash flows, regardless of whether the related expense has been recognised in profit or loss or capitalised as borrowing costs. They should choose an accounting policy, to be applied consistently, to classify cash flows related to capitalised interest as follows:
  - As investing activities if the other cash payments to acquire the qualifying asset are reflected as investing activities; or
  - Consistently with interest cash flows that are not capitalised.

Disclosure of material non-cash transactions:

As per Ind AS 7, investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a statement of cash flows. Such transactions should be disclosed elsewhere in the financial statements in a way that provide all the relevant information about these investing and financing activities.

Example disclosure of material non-cash transactions as a separate note

Non-cash investing and financing activities

Particulars (Amounts in '000s)	**Note**	**2020**	2019
Acquisition of property, plant and equipment by means of a lease	17A	**3,500**	4,000
Acquisition of subsidiary by issue of ordinary shares	16B	**26,000**	0
Settlement of borrowings by issue of ordinary shares	16C	**18,000**	0

(Source: KPMG in India's analysis, 2024 read with 'Thematic review: Cash flow and liquidity disclosures', issued by the Financial Reporting Council in November 2020)

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

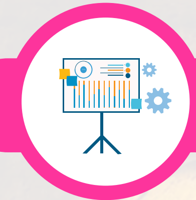
Disclosure of changes in liabilities arising from financing activities:

Paragraph 44A to 44E of Ind AS 7 require entities to provide disclosures that would enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both, changes arising from cash flows and non-cash changes. While the standard is not prescriptive, one of the methods recommended for providing such disclosure is to present a reconciliation between opening and closing balances in the balance sheet for liabilities arising from financing activities.

This has been an area where regulators have observed significant non-compliances[4], and hence it is necessary that entities be mindful while providing disclosures in accordance with the stipulated requirements.

4. Some of the errors observed include:
   - Derivative assets which were not hedging risks relating to borrowings, were incorrectly included as part of liabilities from financing activities
   - Inconsistencies between amounts presented in the statement of cash flows and the disclosure of changes in liabilities arising from financing activities
   - Non-cash amounts, such as assets purchased under finance leases and non-cash finance charges, incorrectly presented as cash flows.

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.



Other commonly observed errors and improvement points:

- As per Ind AS 7, all companies are required to prepare a cash flow. The terminology used for the same is statement of cash flows (and not statement of cash flow)
- As per Ind AS 7, entities are required to report separately, major classes of gross cash receipts and gross cash payments arising from investing and financing activities[5]. For example, proceeds and repayment of term loans, current borrowings, etc., purchase/sale of investments in subsidiaries, sale/ purchase of PPE.
- Cash flows arising from a hedging instrument should be classified as operating, investing, or financing activities, based on the classification of the cash flows arising from the hedged item.
- Cash flows from interest and dividends paid should be disclosed separately (and not together).
- Expense on account of provision for obsolescence of inventory should be considered as a non-cash item in the statement of cash flow.
- In accordance with Ind AS 7, dividend distribution tax should be disclosed as financing activities[6] (i.e. within the same classification as dividends to which they pertain).
- The effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency (for example on Exchange Earners Foreign Currency Account) should be reported as a separate part of reconciliation of changes in cash and cash equivalents.
- Capital advances cannot be considered as a part of revenue producing activities (and thus operating activities) therefore cash flows from or to capital advances should be disclosed under cash flows from investing activities.
- Interest expense or interest revenue accrued on borrowings or loans advanced respectively are different from cash outflow/inflows from financing activities/investing activities. Accordingly, actual interest paid/received should be disclosed in the statement of cash flow.

5. Ind AS 7 has specific conditions to be fulfilled in order to report cash flows on a net basis, which have been specified in paragraph 22.
6. As per Para 36 of IND AS 7, ….” when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate.

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

CHAPTER 2

Accounting treatment of other income earned from Externally Aided Project (EAP)

This article aims to:

Provide guidance on the accounting treatment of interest income earned on borrowed funds temporarily invested and covers a recent EAC opinion issued on the same topic.

Introduction

Ind AS 109, *Financial Instruments*, governs the accounting for interest income received on financial assets. As per Ind AS 109, interest income is required to be computed using the effective interest rate[1]. Further, based on the principles enunciated in Ind AS 107, *Financial Instruments: Disclosures* and Ind AS 1, *Presentation of Financial Statements*, interest revenue should be recognised in the Statement of Profit and Loss unless another Ind AS requires or permits otherwise.

Where an entity temporarily invests funds borrowed for the construction of specific assets[2], further analysis is required on treatment of interest income received on such investments – i.e. whether the interest income should be adjusted against borrowing cost to be capitalised or it should be recognised as interest income in the Statement of Profit and Loss. For this purpose, the company would additionally need to consider the principles of Ind AS 23, *Borrowing Cost*.

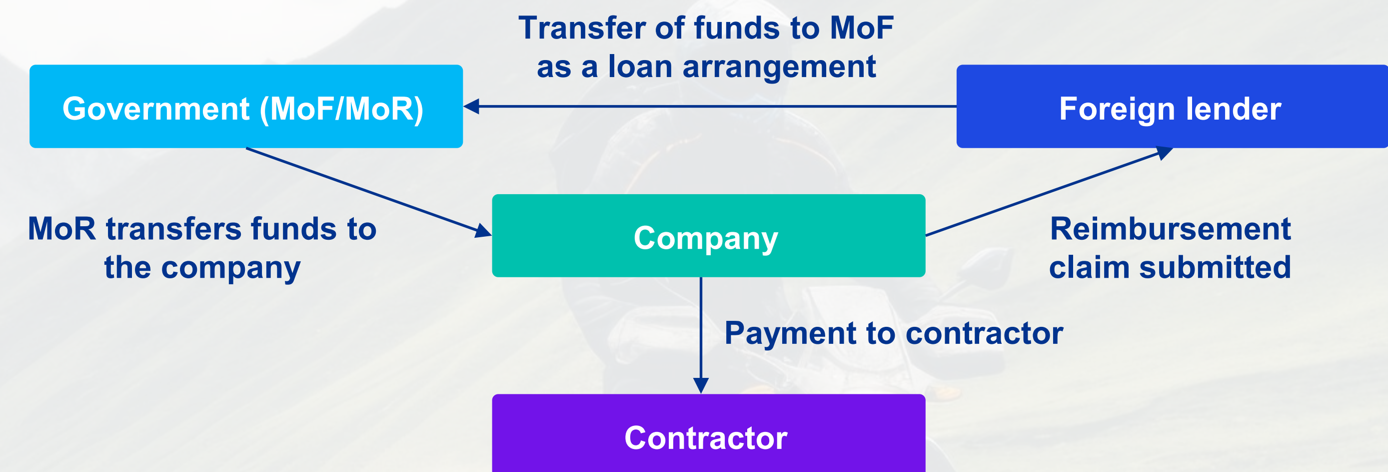
The Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) deliberated on the accounting and presentation of the interest income earned on funds received by a company (the Company) from the government authorities for a specific project (an Externally Aided Project (EAP)) temporarily invested by the company in bank deposits[3].

This article aims to discuss some of the key factors considered by the EAC while clarifying the accounting for interest income on funds invested that were received as borrowings for specific projects. It is pertinent to note that in this article, we have highlighted EAC's conclusion on accounting for interest income. Accordingly, other factors pertaining to the measurement or presentation of the loan received (recorded as a financial liability) have not been deliberated.

Facts of the case

The Company is engaged in the creation of a self-constructed asset (railway between two states) and will own the assets created as a part of the project. In order to finance the project, the Ministry of Finance (MoF) has availed a soft loan[4] from a foreign lender. The company has received EAP[5] funds from the government against the loan taken by the government from a foreign lender.

Figure 1 – Depiction of finance arrangement for the project



(Source: KPMG in India's analysis, 2024 read with EAC opinion)

1. The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.
2. Such investments would be in cases where the construction of that asset has not yet commenced or the borrowed funds are lying idle.
3. EAC opinion on Accounting treatment of other income (Bank Interest on Funds invested out of advance received from Ministry of Railways (MoR) termed as External Aided Project (EAP)) under Ind AS framework dated 8 May 2023 (the EAC opinion)
4. Soft loan is a loan where the interest charged on the loan is lower than the market interest rate. The difference between the market interest rate and the soft loan interest rate is given by the donor as a gift.
5. Certain infrastructure projects require the government to take external assistance to aid in augmenting the resources required for the execution of the project. The external assistance plays a significant role in the development process in the form of an additional source of development finance for the states. Such projects fall under the category of 'Externally Aided Projects'.

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Disbursement process explained

Step 1 - The Ministry of Railways (MoR) transfers funds to the company out of its budgetary resources.

Step 2 – The company incurs the expenditure and makes payments to contractor.

Step 3 – The company submits reimbursement claim to the foreign lender.

Step 4 – The foreign lender, after conducting its due diligence, remits funds to MoF. This helps in recouping the funds transferred by MoR to the company in step 1.

MoF pays interest on loan to the foreign lender as per the agreed terms. However, the terms and conditions between the company and MoF/MoR are pending finalization.

Currently, MoF and MoR do not charge any financing cost/borrowing costs on funds released to the company. Thus the company has presented the funds received as *'Other financial liabilities (at amortised cost)'* under the head 'Financial Liabilities – Non-current' with no consequential expenses in the financial statements.

Further, the amount received is invested temporarily in bank fixed deposits till it is utilised for the project which generates interest income.

The question under deliberation is whether the company should reduce interest income earned from the value of Capital Work in Progress (CWIP) or recognise it in the Statement of Profit and Loss.

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

A. Initial recognition of financial liability

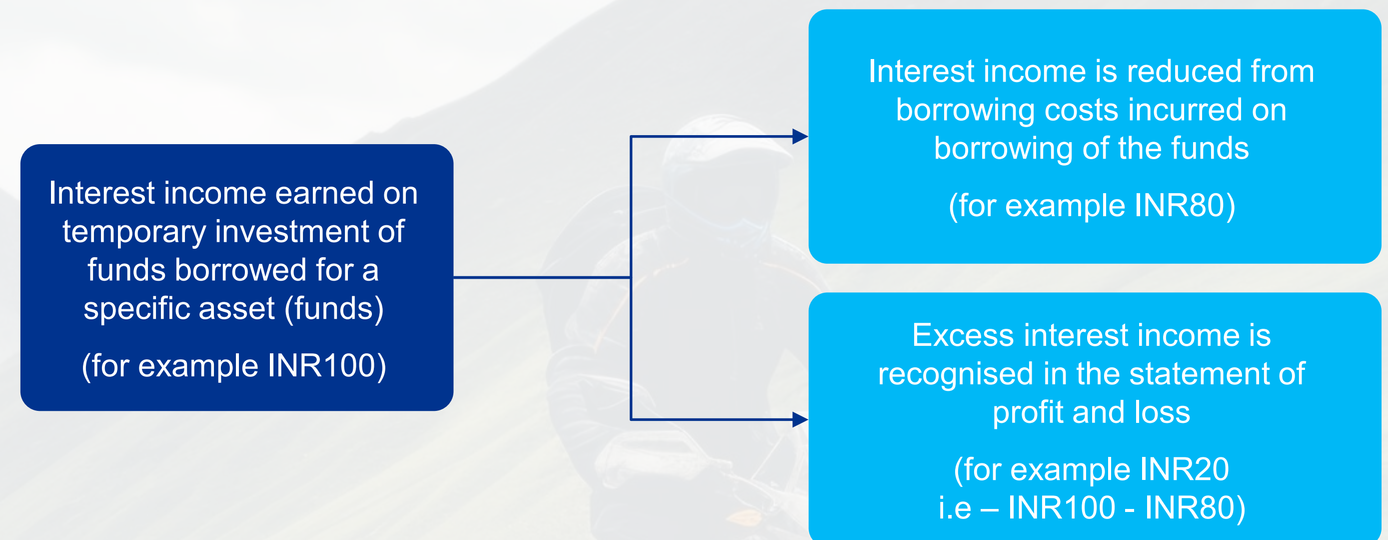
Ind AS 109 requires an entity to initially measure a financial liability at its fair value after being adjusted with the transaction costs that are directly attributable to the acquisition or issue of the financial liability. For example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash flows discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating.

In the current case, the government is lending funds to the company with the terms and conditions related to the interest and repayment pending to be finalised. However, the company is measuring the said financial liabilities at amortised cost which requires the use of effective interest method.

From the above, it is concluded that the company should initially recognise a financial liability for the EAP funds by applying principles of Ind AS 109. Interest/ borrowing cost on such financial liability should be calculated using effective interest method as per the requirements of Ind AS 109.

B. Accounting treatment of interest income

The EAC noted that time deposits in which the borrowed funds were temporarily invested are financial assets. Accordingly, interest income on such assets would be computed in accordance with Ind AS 109, using the effective interest method. Furthermore, the EAC provided the following clarification with regard to accounting for interest income earned on temporary investment of funds borrowed for construction of a specific asset:



(KPMG in India's analysis, 2024, read with the EAC opinion)

Interest income to the extent of borrowing cost

Ind AS 23 states the following–

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as a part of the cost of the asset
- During construction stage, the borrowing cost is to be adjusted with the income generated from temporary investment of such borrowed funds

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

EAC's clarification- Thus in the current case, the EAC opined that, the interest income to the extent of the borrowing costs should be adjusted against the said borrowing costs. The borrowing cost is calculated using the effective interest method which is to be capitalised in the cost of the asset as per the requirements of Ind AS 23.

Surplus interest income earned over and above the borrowing cost

In order to conclude on the accounting treatment of excess interest income earned over and above the borrowing cost, the committee focused on the requirements of the Ind AS 107 along with Ind AS 1 and Ind AS 23.

Ind AS 107 and Ind AS 1 require interest revenue based on the effective interest method, related to financial asset measured at amortised cost, to be disclosed in the statement of profit and loss or notes.

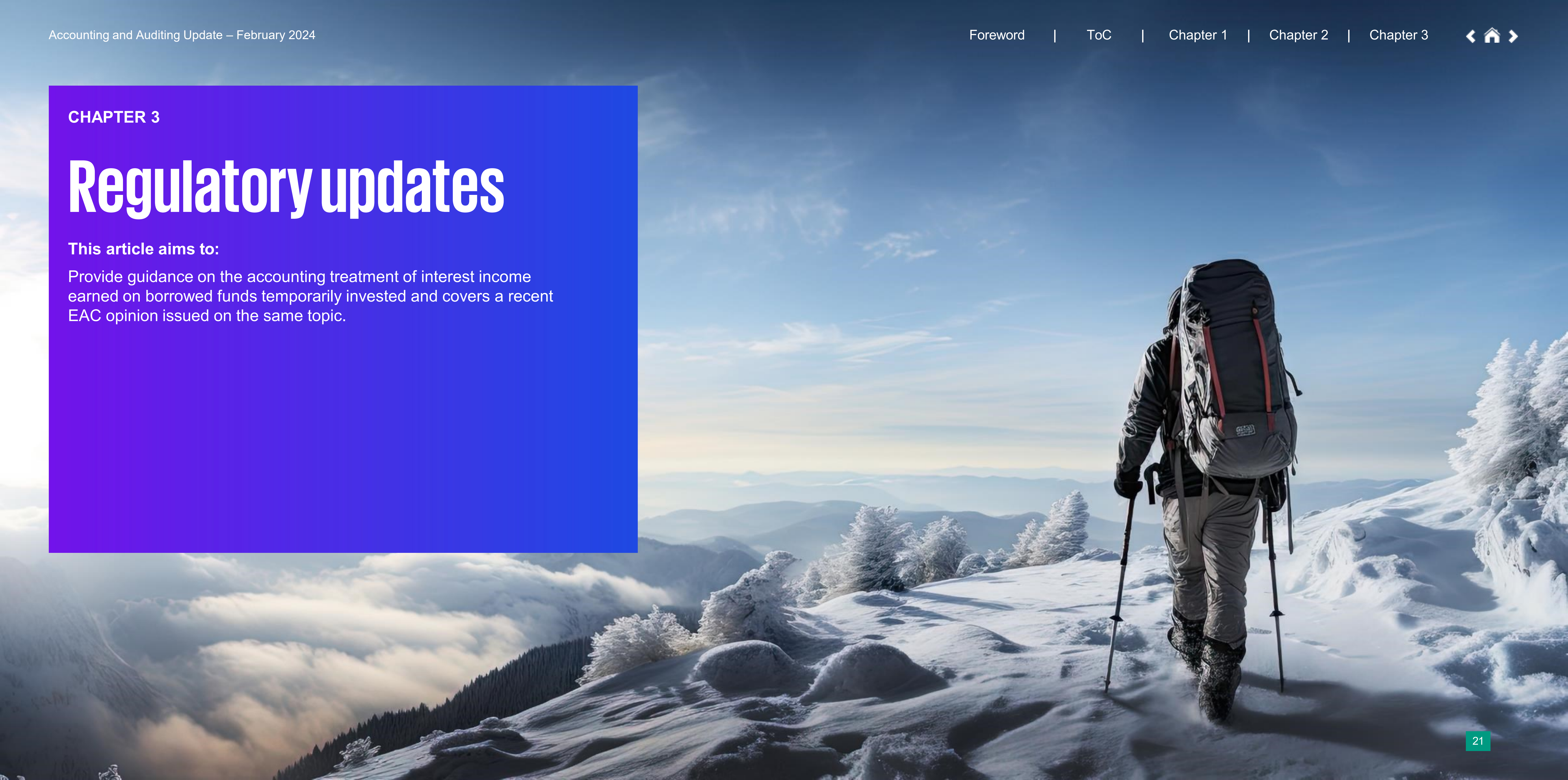
Ind AS 1 further states that interest revenue is to be a part of statement of profit and loss unless an Ind AS requires or permits otherwise.

Ind AS 23 requires adjustment of interest income against borrowing cost to be capitalised. However, it is silent on the accounting treatment of surplus income over and above the borrowing cost.

The committee noted that the excess interest income does not arise from activities necessary for bringing the asset in the required condition for it to be capable of operating in the manner intended by management. Therefore, it is not eligible for capitalization under Ind AS 16, *Property, Plant and Equipment.*

EAC's clarification- Based on the combined analysis above, the committee opined that the excess interest income should be recognised in the Statement of Profit and Loss as per the requirements of Ind AS 1 read with Ind AS 107.

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.



CHAPTER 3

Regulatory updates

This article aims to:

Provide guidance on the accounting treatment of interest income earned on borrowed funds temporarily invested and covers a recent EAC opinion issued on the same topic.

Listing of securities in foreign jurisdictions

Background

The Ministry of Corporate Affairs (MCA) through the Companies (Amendment) Act, 2020 amended Section 23 of the Companies Act, 2013 (2013 Act). The amendment enabled certain classes of public companies to issue specific class of securities for the purpose of listing on permitted stock exchanges in the prescribed foreign jurisdiction. In October 2023, MCA notified Section 23, thereby stipulating 30 October 2023 as the effective date for the applicability of this section.

Overview of recent developments

In this regard, recently the Central Government notified the following:

MCA Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules, 2024 (LEAP Rules)

The LEAP Rules provide a framework related to listing in permissible foreign jurisdictions. The key points under the framework relate to:

- Eligibility criteria for unlisted public companies
- List if ineligible companies
- Procedural aspects related to listing of securities on permitted stock exchanges in permissible foreign jurisdictions, and
- Compliance with Ind AS post listing by companies.

SEBI is also in the process of issuing the operational guidelines for listed public Indian companies

Ministry of Finance (MoF) notified the FEMA (Non-Debt Instruments) Amendment Rules, 2024 (NDI Rules)

The NDI rules aim to facilitate seamless overseas listing. These rules provide:

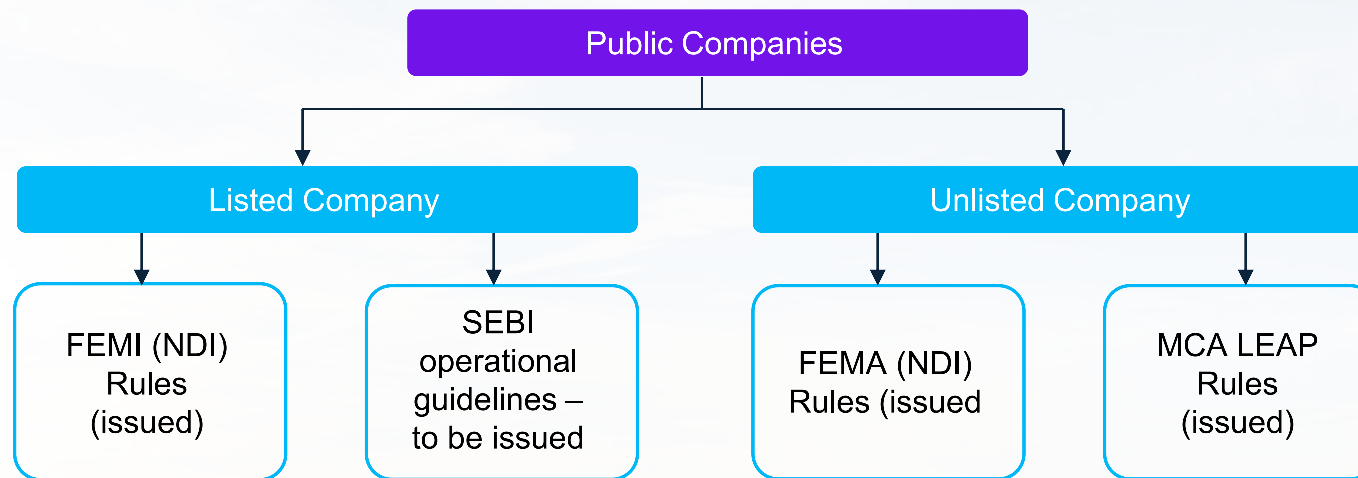
- Issue and listing conditions and requirements,
- Eligibility criteria for the public Indian company,
- Obligations of the public Indian companies, etc.

Frequently Asked Questions (FAQs) on Direct Listing Scheme

The FAQ provides key points relevant to understand the framework.

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Figure: Applicable Regulatory Framework (Section 23)



Companies (Listing of equity shares in permissible jurisdictions) Rules, 2024

On 24 January 2024, the MCA issued the Companies (Listing of equity shares in permissible jurisdictions) Rules, 2024 (LEAP Rules). The aim is to provide Indian companies with access to both global and domestic markets for raising capital.

An overview of the LEAP Rules is provided below:

Applicability

The rules would apply to listed and unlisted public companies which issue their securities for the purposes of listing on permitted stock exchanges[1] in permissible jurisdiction[2].

Eligibility

As per the LEAP Rules, the following companies are not eligible to issue equity shares for listing:

- Section 8 companies or a Nidhi company
- Companies limited by guarantee and also having share capital
- Companies having negative net worth
- Companies that have accepted deposits[3] from the public
- Companies that have defaulted in payment of dues to any bank, public financial institution, non-convertible debenture holder, or any other secured creditor
- In case the company has made an application to wind-up or has any pending proceeding against it for winding-up under the Insolvency and Bankruptcy Code, 2016
- Companies that have not filed their annual return under Section 92 or financial statements under Section 137 of the 2013 Act, within the specified period.

1. India International Exchange, NSE International Exchange
2. International Financial Services Centre in India
3. International Financial Services Centre in IndiaAs per Chapter V of the 2013 Act and rules made thereunder

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Listing procedure

An unlisted public company which is eligible and has no partly paid-up shares can issue equity shares, including, offer for sale of equity shares by existing shareholders, for the purposes of listing on a stock exchange in a permissible jurisdiction. It is required to file the prospectus with the Registrar of Companies (ROC) in e-form LEAP-1 along with the prescribed fees within seven days after the same has been finalised and filed in the permitted stock exchange. Additionally, companies would be required to comply with the requirements of the scheme and conditions specified by SEBI.

Ind AS compliance

Post listing, companies are required to comply with Ind AS in addition to any other applicable accounting standard, in preparation of their financial statements. Such financial statements would be filed before the concerned securities regulator or with the relevant stock exchange.

FEMA (Non-Debt Instruments) Amendment Rules, 2024

On 24 January 2024, the MoF amended the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 (NDI Rules). Some of the key amendments made to the NDI Rules are as follows:

- Definitions of 'International Exchange[4]', 'Listed Indian Company[5]' and 'Permissible Jurisdiction[6]' have been inserted in Section 2 of the rules.
- Chapter X has been introduced allowing a permissible holder to purchase or sell equity shares of a public Indian company which is listed or to be listed on an International Exchange under the Direct Listing of Equity Shares of Companies Incorporated in India on International Exchanges Scheme.
- Schedule XI has been inserted to provide specific provisions for Direct Listing of Equity Shares of Companies Incorporated in India on International Exchanges Scheme.

Following are some of the key points from Schedule XI:

a. **Eligibility:** A public Indian company or the existing shareholders can offer equity shares on an international exchange subject to compliance with the following conditions and other requirements laid down in the scheme:

   i. A public Indian company would be eligible to issue equity shares in permissible jurisdiction, if:

      a. The public Indian company, any of its promoters, promoter group or directors or selling shareholders are not debarred from accessing the capital market by the appropriate regulator

      b. None of the promoters or directors of the public Indian company is a promoter or director of any other Indian company which is debarred from accessing the capital market by the appropriate regulator

      c. The public Indian company or the holder offering equity shares is not a wilful defaulter

      d. The public Indian company is not under inspection or investigation under the provisions of 2013 Act

      e. None of the promoters or directors of the public Indian company or the holder offering equity shares is a fugitive economic offender.

4. 'International Exchange' shall mean permitted stock exchange in permissible jurisdictions which are listed at Schedule XI annexed to these rules
5. Listed Indian company' means an Indian company which has any of its equity instruments or debt instruments listed on a recognised stock exchange in India and on an International Exchange and the expression "unlisted Indian company" shall be construed accordingly
6. 'Permissible jurisdiction' means such jurisdiction as notified by the Central Government under Rule 9(3)(f) of Prevention of Money-laundering (Maintenance of Records) Rules, 2005

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

ii. Existing holders of the public Indian company would be eligible to offer shares, if

a. The public Indian company, any of its promoters, promoter group or directors or selling shareholders are not debarred from accessing the capital market by the appropriate regulator

b. None of the promoters or directors of the public Indian company is a promoter or director of any other Indian company which is debarred from accessing the capital market by the appropriate regulator

c. The public Indian company or the holder offering equity shares is not a wilful defaulter

d. The public Indian company is not under inspection or investigation under the provisions of 2013 Act

e. None of the promoters or directors of the public Indian company or the holder offering equity shares is a fugitive economic offender.

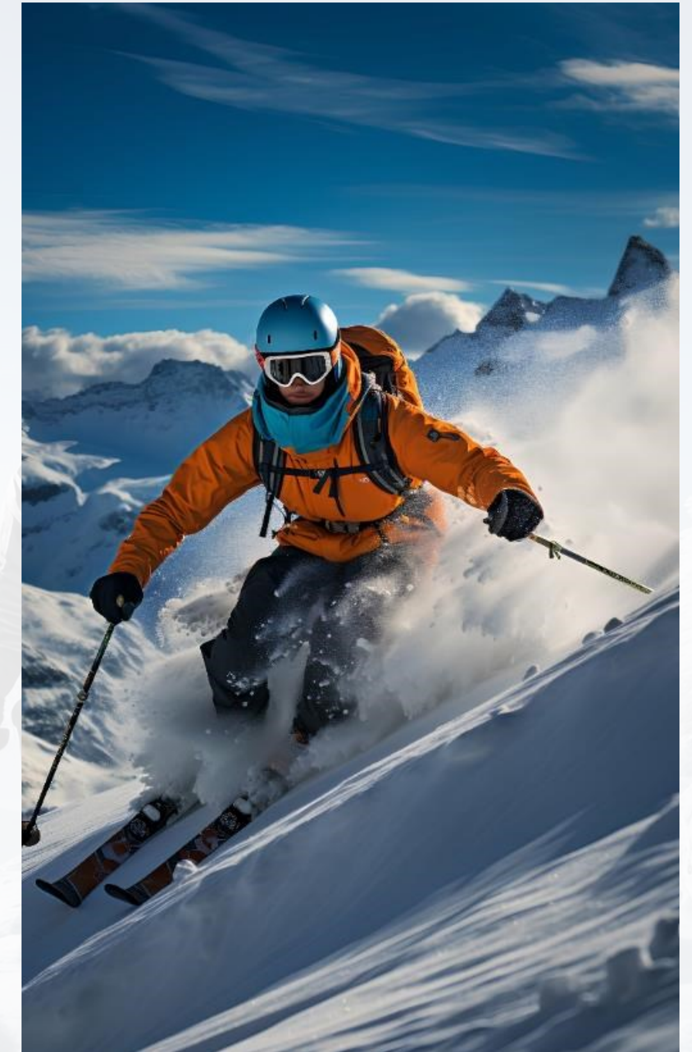
b. **Listing on international exchanges:** A public Indian company can issue equity shares or offer equity shares of existing shareholders on an International Exchange in dematerialised form and they should rank *pari passu* with equity shares listed on a recognised stock exchange in India, subject to the specified conditions. It is mandatory to obtain prior government approval, wherever applicable.

c. **Obligations of companies:** The public Indian company is required to ensure compliance with the extant laws[7] relating to issuance of equity shares, including requirements prescribed in the scheme. Further, Indian company should ensure that the aggregate of equity shares which may be issued or offered in a permissible jurisdiction, along with equity shares already held in India by persons resident outside India, should not exceed the sectoral or statutory limit on foreign holding specified under the Schedule I to NDI Rules.

d. **Voting rights:** In case of public Indian companies having their equity shares listed on an International Exchange, the voting rights should be exercised directly by the permissible holder or through their custodian in accordance with the voting instructions provided from such permissible holder.

e. **Pricing:** In case of equity shares issued by a listed company or offered by the existing shareholders of equity shares listed on a recognised stock exchange in India, the same should be issued at a price, not less than the price applicable to a corresponding mode of issuance of such equity shares to domestic investors under the applicable laws.

In case of initial listing of equity shares by a public unlisted Indian company on the international exchange, the price of issue or transfer of equity shares is required to be determined by a book- building process as permitted by the said international exchange and should not be less than the fair market value under applicable rules or regulations under the Foreign Exchange Management Act, 1999 (FEMA Act).



7. The Securities Contracts (Regulation) Act,1956 (42 of 1956), the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Depositories Act, 1996 (22 of 1996), the Foreign Exchange Management Act,1999(42 of 1999), the Prevention of Money-laundering Act, 2002 (15 of 2003) or the Companies Act, 2013 (18 of 2013) and rules and regulations made thereunder

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

FAQs on Direct Listing Scheme

The government has provided certain clarifications through FAQs on Direct Listing Scheme (the Scheme). Some of the key takeaways from FAQs are provided below:

a. Objective

The Scheme provides a framework for issuing and listing of equity shares of public Indian companies on international exchanges. Prior to this, Indian companies were not allowed to issue or list equity shares abroad.

b. Eligible companies under the scheme

Under the Scheme, only public Indian companies, listed or unlisted, are allowed to issue and list their shares on an international stock exchange. As of now, the framework allows unlisted public Indian companies to list their shares on an international exchange. SEBI is in the process of issuing the operational guidelines for listed public Indian companies.

c. Private companies – scoped out

Private companies are not eligible to issue or list their equity shares on an international stock exchange through the Direct Listing Scheme. As per the 2013 Act, private companies cannot invite subscription from the public.

d. Permissible stock exchange and jurisdiction

Permissible Jurisdiction	Permitted Stock Exchange
International Financial Services Centre in India (IFSC)	India International Exchange
	NSE International Exchange

e. Prohibited companies

Public companies that fall under sectors that have been prohibited from Foreign Direct Investment (FDI), cannot issue or offer equity shares under the scheme.

f. Sectoral caps

The equity shares listed on the international exchanges will be counted towards the foreign holding of the company. Therefore, the condition of sectoral caps applies to public Indian companies participating in the scheme.

g. Clarification related to Indian residents and Non-Resident Indians (NRIs)

Indian residents cannot purchase or sell shares of an Indian company listed on an international exchange through the Scheme. NRIs are permitted to buy or sell shares of an Indian company listed on international exchange under this Scheme.

h. Investment from land bordering countries

Individuals/entities from land bordering countries can invest in shares of Indian companies listed internationally, with prior government approval.

i. Compliance with domestic rules

An Indian company which issues and lists its equity shares on an international exchange is required to comply with the extant laws of India relating to issuance of equity shares.

j. List on domestic exchange

It is not mandatory for an unlisted company intending to list on international exchanges to also list on domestic exchanges. However, there is no restriction on such companies to opt for listing on domestic as well as international exchanges.

(Source: MCA notification no. G.S.R. 61(E) dated 24 January 2024, Ministry of Finance notification no. S.O. 332(E) dated 24 January 2024 and FAQs on Direct Listing Scheme)

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Timeline extended for verification of market rumours

Regulation 30 (11) of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) requires prescribed listed companies, to confirm, deny or clarify market rumours. This requirement was applicable to the top 100 listed entities[8] by market capitalisation from 1 February 2024 and the top 250 listed entities with effect from 1 August 2024.

In December 2023, SEBI issued a Consultation Paper proposing a revised framework related to verification of market rumours regulations.

Subsequently, on 25 January 2024, SEBI issued a circular to extend the timeline for compliance of verification of market rumours by listed entities. The revised timelines for compliance are as follows:

- Top 100 listed entities – from 1 June 2024 *(earlier 1 February 2024)*
- Top 250 listed entities – from 1 December 2024 *(earlier 1 August 2024).*

For a detailed note on consultation paper, refer KPMG in India Accounting and Auditing Update Issue no. 90 – Chapter 3 'Regulatory Updates'.

(Source: SEBI circular no. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2024/7 dated 25 January 2024)

8. To be determined on the basis of market capitalisation, as at the end of the immediately preceding financial year.

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Addendum to the consultation paper on harmonising ICDR and LODR Regulations

With an aim to facilitate ease of doing business and harmonise the provisions of LODR Regulations and SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations), SEBI issued a consultation paper on 11 January 2024.

Subsequently, on 2 February 2024 the Expert Committee of SEBI has provided an additional recommendation under the ICDR Regulations relating to the requirement of security deposit in public/rights issue of equity shares.

The existing provisions require an issuer to deposit with the designated stock exchange, an amount calculated at the rate of one per cent of the issue size available for subscription to the public in the manner specified by SEBI and/or stock exchange. This security deposit was used to resolve post issue investor complaints. However, with various reforms such as Applications Supported by Blocked Amount (ASBA), Unified Payments Interface (UPI) etc., the concerns related to post-issue investor complaints do not arise.

Therefore, it has been proposed to remove the requirement of one per cent security deposit to reduce cost for the issuers.

For a detailed note on consultation paper on SEBI LODR and ICDR, refer KPMG in India Accounting and Auditing Update Issue no. 90 – Chapter 3 'Regulatory Updates'.

(Source: Addendum to SEBI consultation paper on Interim recommendations of the expert committee for facilitating ease of doing business and harmonisation of provisions of ICDR and LODR regulations issued on 2 February 2024)

Framework for Offer For Sale (OFS) of shares through stock exchange mechanism

In October 2023, SEBI issued a master circular specifying the comprehensive framework on Offer for Sale (OFS) of shares through the stock exchange mechanism. The said framework specifies the relevant provisions regarding offering of shares to employees by the promoters of the company. However, the existing procedure of OFS to employees of the eligible company is happening outside the stock exchange mechanism.

Based on feedback received, in order to enhance efficiency, SEBI issued a circular dated 23 January 2024, prescribing a detailed procedure through which the promoters can offer shares to the employees through the stock exchange mechanism. This alternative procedure will be an additional method to the already existing procedure of OFS to employees outside the exchange mechanism.

All recognised stock exchanges and clearing corporations are required to put in place the necessary systems and make amendments to relevant rules and regulations for the implementation of the newly introduced mechanism.

(Source: SEBI circular no. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/6 dated 23 January 2024)

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Guidelines on appointment/re-appointment of statutory auditors of co-operative banks

On 15 January 2024, the Reserve Bank of India (RBI) issued the guidelines on appointment/re-appointment of statutory auditors of State Co-operative Banks (StCBs) and Central Co-operative Banks (CCBs) (the guidelines). The guidelines mandate StCBs and CCBs to seek prior approval of RBI for appointment/re-appointment or removal of statutory auditors. The guidelines would be applicable to StCBs and CCBs with effect from 1 April 2024.

Some of the key aspects of the guidelines are discussed below:

Frequency of prior approval

Prior approval of RBI would be required before appointment/re-appointment/removal of statutory auditors. Further, banks would be required to seek prior approval from RBI for re-appointment of statutory auditors on an annual basis.

Eligibility and independence of auditors

The guidelines prescribe the following with respect to the eligibility and independence of auditors:

- The audit firm, proposed to be appointed should be duly qualified for appointment as auditor of a company in terms of Section 141[9] of the 2013 Act.
- Banks must assess the independence of auditors and conflict of interest, if any, should be appropriately raised to the National Bank for Agriculture and Rural Development (NABARD).
- Concurrent auditors of the bank should not be considered for appointment as the statutory auditors of the same bank. Further, the banks should ensure minimum gap of one year between the completion of one assignment and commencement of another assignment.
- The time gap between any non-audit work[10] undertaken by the statutory auditor for the appointing bank should be at least one year (both before the appointment and after completion of tenure as the statutory auditor). However, during its tenure as the statutory auditor, an audit firm may provide such services to the appointing bank which may not normally result in conflict of interest.
- The restrictions would also apply to an audit firm under the same network of firms or any other audit firm having common partner(s), as defined in Rule 6(3) of the Companies (Audit and Auditors) Rules, 2014.
- Consider the CISA/ISA/DISA[11] qualification of the auditor and their audit experience.

Tenure and rotation

The guidelines specify that:

- The statutory auditors would be appointed at a time for a period of one year only and would be reappointed annually for the succeeding two years. During such period, premature removal of the statutory auditors require prior approval of RBI
- An auditor/audit firm would not be eligible for appointment/re-appointment in the same bank for six years (two tenures) immediately after the completion of a full or part tenure[12].

9. Section 141 of the Companies Act, 2013 deals with eligibility, qualifications and disqualifications of auditors
10. Services mentioned in Section 144 of the Companies Act, 2013, internal assignments, special assignments.
11. Certified Information Systems Auditor (CISA)/Information Systems Audit (ISA)/Diploma in Information Systems Audit (DISA)
12. In case an auditor/audit firm has conducted audit of the bank for part-tenure (one or two years) and then is not re-appointed for the remainder tenure, it would not be eligible for re-appointment in the same bank for six years after the completion of part-tenure. However, audit firms can continue to undertake statutory audit of other banks

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Maximum number of audits

An audit firm can concurrently assume the statutory audit of a maximum of five banks (including not more than one StCB) in a year.

Further, in a year, an audit firm cannot simultaneously take up the statutory audit of both StCB and CCBs operating in the same state. An audit firm can concurrently take up the statutory audit of a maximum of four commercial banks (including not more than one Public Sector Bank (PSB) or one All India Financial Institution[13] or RBI), eight Urban Co-operative Banks (UCBs), eight Non-Banking Financial Companies (NBFCs), and five StCBs/CCBs in a year.

Review of performance of auditors

Banks are required to review the performance of statutory auditors on an **annual basis** and any serious lapse/negligence should be reported to NABARD within two months from the completion of audit.

Other requirements

Banks are required to:

- Frame a Board-approved policy on appointment of statutory auditor and host the same on its website/public domain
- Formulate the necessary procedures for selection/appointment/re-appointment/removal of auditor.

(Source: RBI circular no RBI/2023-24/113 dated 15 January 2024)

13. NABARD, SIDBI, NaBFID, NHB, EXIM Bank

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Fixed remuneration for non-executive directors

Ind 2021, RBI issued a circular on corporate governance in banks specifying the fixed remuneration granted to Non-Executive Directors (NEDs) of banks. The ceiling of INR20 lakh per annum was specified in respect of remuneration of Non-Executive Directors (NEDs), other than the Chair of the Board.

Considering the crucial role of NEDs in efficient functioning of bank boards and its various committees and to further enable the banks to sufficiently attract qualified competent individuals on their Boards, RBI through its circular dated 9 February 2024, revised the aforementioned ceiling to INR30 lakh per annum.

Further, banks are required to make disclosure regarding the remuneration paid to the directors in their annual financial statements.

The instructions in this circular are effective from 9 February 2024.

(Source: RBI circular no. RBI/2023-24/121 dated 9 February 2024)

Automation of the internal compliance monitoring process

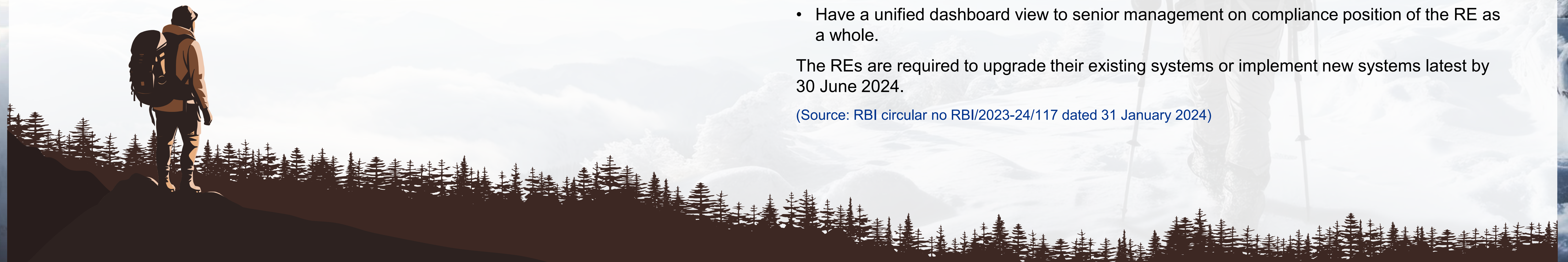
Recently, RBI conducted reviews of certain entities regarding their prevailing system for internal monitoring of compliance with regulatory instructions and the use of technology to support this function. As per the review, the automation of the compliance monitoring process in supervised entities is a work in progress. Therefore, RBI highlighted the need to implement comprehensive, integrated, enterprise-wide and workflow-based solutions/tools to enhance the effectiveness of this function.

Consequently, on 31 January 2024, RBI issued a circular directing the Regulated Entities (REs) to put in place a tool/solution that ensures the following:

- Effective communication and collaboration among all the stakeholders (by bringing business, compliance and Information Technology (IT) teams, senior management, etc. on one platform).
- Processes for identifying, assessing, monitoring and managing compliance requirements
- Escalation of issues of non-compliance
- Recording approval of competent authority for deviations/delay in compliance submission
- Have a unified dashboard view to senior management on compliance position of the RE as a whole.

The REs are required to upgrade their existing systems or implement new systems latest by 30 June 2024.

(Source: RBI circular no RBI/2023-24/117 dated 31 January 2024)



© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

ICAI issued revised standards on auditing

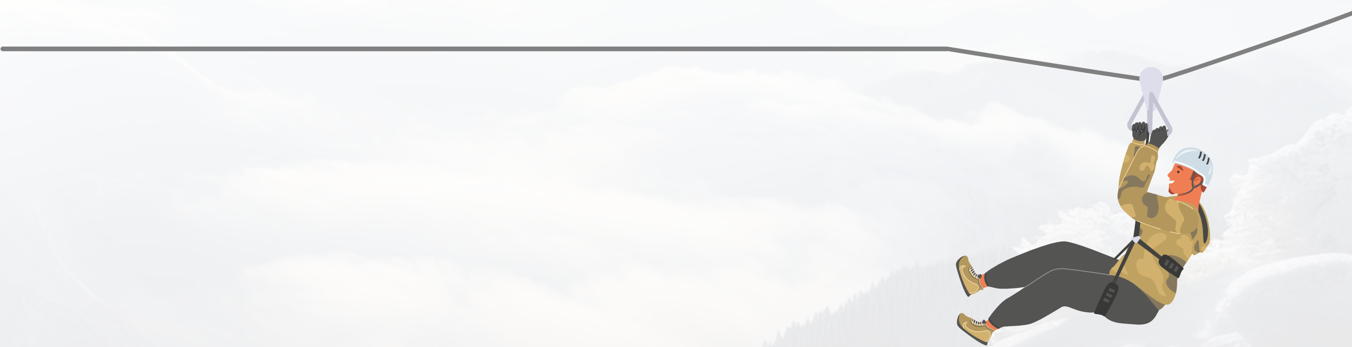
On 7 February 2024, the Institute of Chartered Accountants of India (ICAI) issued the following revised Standards on Auditing (SAs):

- SA 800(Revised): 'Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks'
- SA 805(Revised): 'Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement'
- SA 810(Revised): 'Engagements to Report on Summary Financial Statements'

The revised standards will be applicable to audits/engagements for financial years beginning on or after 1 April 2024.

The existing versions of SA 800, SA 805, and SA 810 will continue to be applicable for audits and engagements for the financial year 2023-24.

(Source: ICAI announcement dated 7 February 2024)



Proposed revisions to strengthen auditor's efforts related to fraud

Recently, the International Auditing and Assurance Standards Board (IAASB) proposed revisions to International Standard on Auditing (ISA) 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* with an aim to increase transparency about the auditors' responsibilities and fraud-related procedures in the auditor's report.

Some of the proposed revisions to the standard include:

- Clarified auditor's responsibilities relating to fraud in an audit.
- Emphasised professional skepticism to ensure auditors remain alert to possible fraud and exercise professional skepticism throughout an audit.
- Strengthened identification and assessment of risks of material misstatement due to fraud
- Clarified response to fraud or suspected fraud identified during the audit.
- Increased ongoing communication with management and those charged with governance about fraud.
- Increased transparency about auditors' responsibilities and fraud-related procedures in the auditor's report.
- Enhanced audit documentation requirements about fraud-related procedures.

The last date to provide comments on the proposed changes is 5 June 2024.

(Source: Proposed International Standard on Auditing 240 (Revised) issued by IAASB dated 6 February 2024)

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

First Notes

The Reserve Bank of India amends the classification and valuation norms for investments held by banks

Banks are currently required to follow the Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021 (2021 regulations) for the classification and valuation of their investment portfolio. With significant developments in the global standards on classification, measurement and valuation of investments (i.e. IFRS), the linkages with the capital adequacy framework as well as progress in the domestic financial markets, there was a need to review and update the 2021 regulations.
Accordingly, on 12 September 2023, the Reserve Bank of India (RBI) issued revised regulatory guidelines on investment classification and valuation - the Master Directions - Classification, Valuation and Operations of Investment Portfolio of Commercial Banks (Directions), 2023 (2023 guidelines). This issue of the First Notes provides an overview of the of the key changes in the 2023 guidelines and how these changes conform with Ind AS (which are largely aligned with IFRS).

To access the First Notes, please click here.

Voices on Reporting – Quarterly updates publication

On 24 January 2024, KPMG in India issued its Voices on Reporting – Quarterly updates publication (for the quarter ended 31 December 2023) which provides a summary of key financial reporting, Environment, Social and Governance (ESG) and regulatory updates from the Securities and Exchange Board of India (SEBI), the Ministry of Corporate Affairs (MCA), the Reserve Bank of India (RBI) and the Institute of Chartered Accountants of India (ICAI).

To access the publication, please click here.

Follow us on:
kpmg.com/in/socialmedia

Previous editions are available to download from:
kpmg.com/in

Feedback/queries can be sent to
aaupdate@kpmg.com

Introducing

'Askaquestion'
write to us at
aaupdate@kpmg.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

© 2024 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

This document is for e-communication only. (002_NEWS_0224_AP)