TOUGH STAND

Govt declines to defer SA 701 accounting standard

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New Delhi, April 30

THE MINISTRY OF corporate affairs (MCA) has decided not to extend the deadline for applicability of accounting standard SA 701 till March 31, 2020, despite a demand from the Institute of Chartered Accountants of India (ICAI). The ministry has stated that "enough time" was given to auditors to familiarise themselves with SA 701.

SA 701, which involves communicating key audit matters (KAM) in the independent auditor's report, was first issued by the ICAI in May 2016 and was applicable for audit of financial statements after April 1, 2017. But in March 2017, ICAI deferred it to April 1, 2018, adding that members need more time to comply. The standard applies to audit of financial statements of listed entities and circumstances when an auditor decides to communicate KAMs in his report. KAMs are issues that, in the auditor's judgement, are very important in the audit of financial statements.

In March, ICAI decided to defer its applicability, from April 2018 to April 2020, and communicated it to National Financial Reporting Authority (NFRA) for consideration. NFRA recommended that decision is not supported by justified and adequate reasoning and deferral should not be permitted.

Earlier this month, MCA told ICAI, "It is pertinent to mention here that at that time (2017) NFRA was not constituted and therefore the ICAI's decision was treated as final and not further examined". The ministry emphasised that almost two years, May 2016 to March 2018, was there for awareness building and training.

It stressed that SA 701 does not impose any new substantive procedural requirements on auditors. KAMs are chosen and picked out from matters already communicated and discussed with Those Charged With Governance (TCWG). Here auditor is only required to filter out KAM out of the matters discussed with the TCWG as matters of most significance in the audit.

A senior MCA official said SA 701 enhances communicative value of auditors report by providing more transparency about audit and additional information to users of financial statements to understand matters of critical importance. Here, stakeholders are largely public who make investments in listed companies. "It also provides additional information to users so as to enable them to understand an entity and areas of significant management judgement in audited financial statements," he added.

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Chartered accountants (CAs) largely had a mixed response to the development. Subramaniam R Iyer, a Delhi-based CA, said an auditor of a listed entity has great responsibility to complete, in a very limited time after year's closing, the tasks of audit, company auditor's report order (CARO) and opining on whether accounts are true and fair or whether his opinion is qualified or modified with reasons.

"Mandatory reporting on KAM by an auditor is as onerous as mandating management to disclose areas they focused on in the year. Substance over form needs to be invoked in all reportings. I feel this standard needs to be discussed in detail before being implemented in a hurried cavalier manner," he ruled.

However, Prateek Agarwal, a Partner (Audit & Assurance) at Nangia & Co, said SA 701 was seen as a significant introduction as it sought to open the door for users of financial statements of listed companies.

"Now users will have an insight with improved transparency and would be able to take informed decisions after considering related risks. It is going to increase the communicative value of an auditor report. We believe that communicating KAM to users of financial statements is extremely useful as it helps in communicating the pertinent areas of focus and the key judgements taken by the auditors relating to the audit," he noted.