

PROPOSED REVISION IN SA 600 FOR PUBLIC COMMENTS
SA 600 (REVISED), SPECIAL CONSIDERATIONS- AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK
OF COMPONENT AUDITORS)

Annex 1

NFRA's experience in enforcement cases-Group Audits

(a) **DHFL**, a Non-Banking Finance Company, was allegedly involved in siphoning off of approximately ₹ 34,000 crore of public money by the promoter directors, reportedly through the use of a fictitious branch. DHFL operated through a network of around 250 branches across various States in India.

NFRA's investigation revealed that the Principal Auditor (i) did not identify non-consolidation of a subsidiary resulting in an understatement of liability by ₹1901 crore in the consolidated financial statement, (ii) did not identify deficiencies in internal control relating to the most critical activity of a financial institution i.e., appraisal and sanction of loans at the head office level and branch level, (iii) failed to understand the entity's operating structure, group-wide internal control, and (iv) did not perform adequate audit procedures in the identification, assessment and conclusions of Risk of Material Misstatement (RoMM), (v) failed to verify the Related Party Transactions (RPT), and more importantly did not identify the components to be audited. The audit opinion issued by him was therefore without sufficient basis. The Principal Auditor did not assess the legal validity of the appointment of the large number of branch auditors upon whose work he relied upon. The work done by the branch auditors, which were many²², was similarly found deficient in application of auditing standards.

(b) **The IL&FS group**, which consisted of around 250 subsidiaries (listed as well as unlisted), associates and joint ventures as on 31st March 2018, operated in the infrastructure sector. As per books of accounts, the group's revenue was around ₹17,672 Crore with total assets of ₹115,814 Crore and total external liabilities of ₹106,543 Crore as on 31 March 2018. It reported a net loss of ₹1886 Crore (consolidated) and a profit of ₹584 crore (standalone) for the said period. **The audit quality reports in respect of IL&FS, ITNL and IFIN have been published on NFRA website.** Significant key observations by NFRA relevant to this discussion included inadequate coordination/discussion with component auditors at most stages of audit, discrepancies in the number of components as per CFS and mandatory filings in MCA 21 which were not assessed by the auditors, non-assessment of inclusion of unaudited financial statements of some components in the CFS by Management. In respect of the latter, the principal auditor stated that "..... preparation of consolidated financial statements (CFS) is the responsibility of management and accordingly, use of component's unaudited financial statements, considering the non-availability of audited financial statements, was also decision of management. As an auditor, we had no role to play in this regard. **As a holding company auditor, it is not in our realm to insist on the management that all components financial statements should be audited**".

(c) SEBI had referred a case to NFRA of a company that **had filed false declarations** with Registrar of Companies, Hyderabad ('RoC' hereafter) in respect of its turnover. The company was neither registered by the Service Tax/GST department nor had filed any Service Tax or GST Returns and yet the auditor had certified such financial statements. The company had disclosed in its annual reports that they were engaged in the Software business, when it was in the business of construction. 100 % of the revenue of the company was being generated from its foreign branch for which an auditor was appointed who was based in a third country. NFRA's examination revealed that there were significant violations in the financial statements with respect to revenue recognition policy, disclosures and foreign currency translations, no evidence of audit procedures performed by the principal auditor to conclude that the

²² NFRA took disciplinary action against approx. 30 branch auditors involved in over 200 branch audits

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work of the foreign branch auditor was in line with instructions conveyed by him. Responding to the charges, the principal auditor referred to the ICAI Code of Ethics and stated that —“...**The main auditors of an enterprise do not have right of access to the audit working papers of the branch auditors.** In the case of a Company, the statutory auditor has to consider the report of the branch auditor and has a right to seek clarifications and/or to visit the branch if he deems it necessary to do so for the performance of the duties as auditor..... Hence, from the above it can be inferred that appropriate procedures within the framework have been performed by us and there is no non-compliance.”

In another instance the principal auditor stated that “...sampling in audit is matter of professional judgment as a parent auditor we had informed about the significant risks and materiality in the instructions which were sent to the branch auditor, the review and audit, sampling was carried out by the branch auditor with regards to each financial captions of the branch.....It must be noted that we had received an audited financial statement from the auditor in ...(foreign branch auditor), that audit report does not contain any negative remarks about the balances under question. **We, being the parent auditor, relied on the audit report sent by the Branch Auditor and that was well within the purview of the standards of auditing and Companies Act, 2013.** There is no breach of any Standards of Auditing or any Law for the time being in force. Further, it also must be noted that the audit evidence collected by the branch auditor, will be with the branch auditor, they cannot be found in the audit file of parent auditor.’

(d) **Reliance Commercial Finance (RCL) Limited-** As per the Consolidated Financial Statements for FY 2018-19, RCL had loans from Banks of around ₹12,000 crore and other external borrowings of around ₹32,000 crores, consisting of debentures, commercial papers and pass-through certificates. RCL was a Core Investment Company (CIC) investing primarily in its group companies. RCL used the above loans and borrowing to extend loans and investments to other group companies. Reliance Home Finance Limited (RHFL) and Reliance Commercial Finance Limited (RCFL) are subsidiaries of Reliance Capital Limited (RCL), which are consolidated in the financial statements of RCL. One of the joint auditors of RCL reported suspected fraud regarding loans and investments amounting to approximately ₹12,571 crore. Despite the reporting of suspected fraud and the resignation by the joint auditor who reported fraud, the other Joint Auditor did not perform adequate procedures as required by the SAs. The material misstatements in the financial statements due to inadequate provision, unjustified valuation of loans and irrational business practices were concurred by them. All three companies were facing going concern issues and suspected fraud. While the RHFL auditor had qualified its report, the RCFL auditor had issued a clean report with a paragraph on going concern. The RCL auditor, who was the principal auditor, simply quoted these two reports of the component auditors and then issued an unmodified opinion on the standalone financial statements and a qualified opinion on consolidated financial statement, basing his conclusion on the RHFL's modified opinion alone.

(e) **Coffee Day Enterprises Limited (CDEL)-** In respect of Audit of CFS of CDEL, the audit firm, the engagement partner (EP) and the Engagement Quality Control Partner (EQCR), did not perform appropriate additional audit procedures to obtain sufficient appropriate audit evidence to issue audit opinion on CFS. Though a substantial portion of financial information of the CFS was audited by the Other Auditors, the Principal Auditors did not properly evaluate whether their own participation was sufficient to be able to act as the Principal Auditor. The Auditors sought refuge in the provision of SA 600, relying on the work of auditors of the subsidiaries, while CDEL's investments in the subsidiaries of this company constituted a staggering figure of Rs 1,937 crores constituting 89% of the standalone balance sheet.

The additional procedures, wherever performed by the Principal Auditors, were also inadequate and deficient. The business rationale of unusually high amount of Rs 2,226 crores of the loans/advances

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given to a promoter-controlled entity which had no business connection with the listed company was not evaluated. CFS had Rs 842.49 crores of outstanding amounts receivable from this promoter held entity, a related party with very minimal business activities, but the Principal Auditors did not evaluate recoverability and the adequacy of the impairment allowance as per the applicable accounting standards; there was a pattern of diversion of funds of the listed entity, to promoters or entities controlled by the promoters through a web of intra group circular transfer of funds where the promoter held entity was used as a main conduit for transferring funds to promoter controlled entities. SA 600 provides that ***principal auditor would normally be entitled to rely upon the work of component auditors unless there are special circumstances to make it essential for him to visit the component and/or examine the books of accounts and other records of the said component.*** While NFRA noted that the company had diverted large amounts to its promoter entity (upwards of Rs 3500 crores) and the auditor had himself identified the matter of exposure of the group companies to the promoter company and recoverability of outstanding balances at year end as an important matter, the ***auditor stated that he relied upon the work of component auditors as ‘no such special circumstances came to his attention to trigger the requirement of SA 600’***

On non-reporting of fraud, the Principal Auditor stated that ‘they had no obligation to evaluate the fraud risk in any of the group companies’ and ‘they had no access to the books of the subsidiaries audited by the other auditors’. On evergreening of loans, they stated that while various transactions were noted between the group companies there was no evergreening in the company they audited.

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Annex 2

**Group Legal Entity Structure Overview of Top 100 Listed Companies
(Source: Notes to Consolidated Financial Statements 31.03.2023)**

Sr. No.	Company name	Category based on Market Cap	Total Subsidiaries, JVs & Associates	Total Subsidiaries	Total Associates	Total JVs	Total Overseas Subs, JVs & Associates
1	RELIANCE INDUSTRIES LTD	Large Cap	335	277	22	36	88
2	TATA CONSULTANCY SERVICES LTD.	Large Cap	52	52	0	0	46
3	HINDUSTAN UNILEVER LTD.,	Large Cap	15	14	0	1	2
4	INFOSYS LTD	Large Cap	98	98	0	0	94
5	ITC LTD	Large Cap	41	29	8	4	12
6	BHARTI AIRTEL LTD.	Large Cap	150	139	6	5	134
7	LARSEN & TOUBRO LIMITED	Large Cap	113	94	5	14	54
8	HCL TECHNOLOGIES LTD	Large Cap	124	124	0	0	115
9	ASIAN PAINTS LTD.	Large Cap	27	24	3	0	18
10	MARUTI SUZUKI INDIA LTD.	Large Cap	19	2	14	3	0
11	TITAN COMPANY LIMITED	Large Cap	10	9	1	0	6
12	ADANI ENTERPRISES LTD.	Large Cap	216	184	13	19	58
13	SUN PHARMACEUTICAL INDUSTRIES LTD.	Large Cap	59	59	0	0	46
14	ULTRATECH CEMENT LTD	Large Cap	14	6	7	1	3
15	AVENUE SUPERMARTS LIMITED	Large Cap	5	5	0	0	0
16	TATA MOTORS LTD.	Large Cap	105	90	13	2	83
17	OIL AND NATURAL GAS CORPORATION LTD	Large Cap	70	35	14	21	38
18	NTPC LIMITED	Large Cap	28	11	0	17	2
19	WIPRO LTD.,	Large Cap	66	65	1	0	57
20	MAHINDRA & MAHINDRA LTD.	Large Cap	124	96	12	16	49
21	POWER GRID CORPORATION OF INDIA LIMITED	Large Cap	54	42	0	12	1
22	ADANI PORTS AND SPECIAL ECONOMIC ZONE LTD	Large Cap	104	95	0	9	13
23	COAL INDIA LIMITED	Large Cap	16	11	0	5	1
24	ADANI GREEN ENERGY LIMITED	Large Cap	128	126	1	1	58
25	LTIMINDTREE LIMITED	Large Cap	29	29	0	0	26
26	TATA STEEL LIMITED	Large Cap	190	146	20	24	137
27	BAJAJ AUTO LIMITED	Large Cap	7	7	0	0	5
28	JIO FINANCIAL SERVICES LIMITED	Large Cap	9	6	3	0	0
29	HINDUSTAN AERONAUTICS LIMITED	Large Cap	9	3	0	6	0
30	ADANI POWER LIMITED	Large Cap	13	13	0	0	0
31	HINDUSTAN ZINC LTD.,	Large Cap	5	4	0	1	0
32	PIDILITE INDUSTRIES LTD.	Large Cap	38	31	7	0	20
33	GRASIM INDUSTRIES LTD.,	Large Cap	26	8	6	12	6
34	TECH MAHINDRA LIMITED	Large Cap	102	91	11	0	86
35	BRITANNIA INDUSTRIES LTD.,	Large Cap	32	25	6	1	14

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Sr. No.	Company name	Category based on Market Cap	Total Subsidiaries, JVs & Associates	Total Subsidiaries	Total Associates	Total JVs	Total Overseas Subs, JVs & Associates
36	GAIL (INDIA) LTD.	Large Cap	26	6	11	9	7
37	TRENT LTD [LAKME LTD]	Large Cap	9	6	2	1	1
38	MACROTECH DEVELOPERS LIMITED	Large Cap	45	24	21	0	24
39	POLYCAB INDIA LIMITED	Large Cap	9	8	0	1	1
40	ADANI TOTAL GAS LIMITED	Large Cap	4	2	0	2	0
41	TVS MOTOR COMPANY LTD.	Large Cap	24	16	8	0	10
42	APOLLO HOSPITALS ENTERPRISES LTD.,	Large Cap	26	20	4	2	2
43	REC LIMITED	Large Cap	17	1	16	0	0
44	MANKIND PHARMA LIMITED	Large Cap	40	32	5	3	4
45	MARICO LIMITED	Large Cap	16	16	0	0	13
46	SRF LTD.,	Large Cap	4	4	0	0	1
47	JINDAL STEEL & POWER LTD	Large Cap	89	83	2	4	61
48	BERGER PAINTS INDIA LTD	Large Cap	11	8	0	3	4
49	SAMVARDHANA MOTHERSON INTERNATIONAL LIMITED	Mid Cap	251	240	0	11	210
50	CG POWER AND INDUSTRIAL SOLUTIONS LIMITED	Mid Cap	19	19	0	0	15
51	ZYDUS LIFESCIENCES LIMITED	Mid Cap	45	45	0	0	30
52	JSW ENERGY LIMITED	Mid Cap	65	63	1	1	8
53	TUBE INVESTMENTS OF INDIA LTD	Mid Cap	26	24	1	1	18
54	BOSCH LTD	Mid Cap	5	2	2	1	0
55	MAX HEALTHCARE INSTITUTE LIMITED	Mid Cap	11	11	0	0	0
56	INDIAN HOTELS CO. LTD	Mid Cap	42	27	6	9	12
57	PI INDUSTRIES LIMITED	Mid Cap	8	6	1	1	1
58	ONE 97 COMMUNICATIONS LIMITED	Mid Cap	23	15	7	1	4
59	NHPC LIMITED	Mid Cap	8	6	0	2	0
60	VODAFONE IDEA LIMITED	Mid Cap	12	10	1	1	0
61	AUROBINDO PHARMA LTD.	Mid Cap	80	71	2	7	59
62	ASHOK LEYLAND LTD.,	Mid Cap	18	13	3	2	6
63	ASTRAL LIMITED	Mid Cap	7	4	2	1	2
64	BHARAT FORGE LTD	Mid Cap	17	12	3	2	4
65	BALKRISHNA INDUSTRIES LTD.,	Mid Cap	5	5	0	0	4
66	GODREJ PROPERTIES LIMITED	Mid Cap	80	34	46	0	46
67	L&T TECHNOLOGY SERVICES LIMITED	Mid Cap	9	9	0	0	5
68	ADANI WILMAR LIMITED	Mid Cap	6	3	0	3	0
69	M.R.F. LTD.,	Mid Cap	4	4	0	0	2
70	ADITYA BIRLA CAPITAL LTD	Mid Cap	20	17	3	0	0
71	BHARAT HEAVY ELECTRICALS LTD.,	Mid Cap	4	1	0	3	0
72	PERSISTENT SYSTEMS LIMITED	Mid Cap	30	30	0	0	0
73	CONTAINER CORPORATION OF INDIA LTD.	Mid Cap	16	4	2	10	1

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74	MPHASIS LIMITED	Mid Cap	35	35	0	0	32
75	APL APOLLO TUBES LIMITED	Mid Cap	6	6	0	0	2
76	OBEROI REALTY LIMITED	Mid Cap	24	14	0	10	0
77	NMDC LTD	Mid Cap	13	4	5	4	3
78	FSN E-COMMERCE VENTURES LIMITED	Mid Cap	14	13	1	0	3
79	HINDUSTAN PETROLEUM CORPORATION LTD	Mid Cap	20	4	3	13	1
80	DALMIA BHARAT LIMITED	Mid Cap	33	30	1	2	0
81	STEEL AUTHORITY OF INDIA LTD.,	Mid Cap	16	2	1	13	0
82	JINDAL STAINLESS LIMITED	Mid Cap	14	12	2	0	4
83	SUZLON ENERGY LTD.	Mid Cap	44	36	5	3	25
84	ACC LTD	Mid Cap	8	4	2	2	0
85	TORRENT POWER LIMITED	Mid Cap	17	17	0	0	0
86	UNO MINDA LIMITED	Mid Cap	38	22	4	12	6
87	GMR AIRPORTS INFRASTRUCTURE LIMITED	Mid Cap	106	86	6	14	26
88	ESCORTS KUBOTA LIMITED	Mid Cap	9	5	0	4	1
89	JUBILANT FOODWORKS LIMITED	Mid Cap	9	5	4	0	5
90	THE PHOENIX MILLS LTD.,	Mid Cap	41	36	5	0	0
91	KPIT TECHNOLOGIES LTD	Mid Cap	23	22	0	1	21
92	L&T FINANCE HOLDINGS LIMITED	Mid Cap	9	9	0	0	0
93	AIA ENGINEERING LTD.	Mid Cap	11	11	0	0	9
94	SONA BLW PRECISION FORGINGS LIMITED	Mid Cap	9	9	0	0	7
95	THERMAX LTD.	Mid Cap	27	25	2	0	16
96	COROMANDEL INTERNATIONAL LIMITED	Mid Cap	15	15	0	0	11
97	COFORGE LIMITED	Mid Cap	25	25	0	0	20
98	OIL INDIA LIMITED	Mid Cap	14	6	1	7	7
99	GUJARAT FLUOROCHEMICALS LIMITED	Mid Cap	9	8	0	1	6
100	RAIL VIKAS NIGAM LIMITED	Mid Cap	12	1	0	11	0

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Annex 3

Extent of Participation/Responsibility of Component Auditors in a sample of top Listed Companies

Source of Data: Independent Auditors Report and CFS for 31.03.2023

@ Amount of Assets^s Audited by Other Auditors/Total Assets x 100

Amount of Revenue Audited by Other Auditors/Total Revenue from Operations x 100

Company name	Category based on Market Cap	% Net Assets of Parent	% Net Assets of Components	% of assets audited by Other Auditors@	% of Revenue audited by Other Auditors#
THE PHOENIX MILLS LTD.,	Mid Cap	41.52	58.48	98.59	61.95
ADITYA BIRLA CAPITAL LTD	Mid Cap	63.96	36.04	97.36	100.49
COAL INDIA LIMITED	Large Cap	3.73	96.27	94.71	104.88
BAJAJ FINSERV LIMITED (31.12.2023)	Large Cap	11.31	88.69	90.98	75.19
ZYDUS LIFESCIENCES LIMITED	Mid Cap	77.87	22.13	87.01	66.38
TATA MOTORS LTD.	Large Cap	46.78	53.22	86.65	73.80
ADANI ENTERPRISES LTD.	Large Cap	26.00	74.00	78.31	50.56
AUROBINDO PHARMA LTD.	Mid Cap	66.71	33.29	69.50	65.97
TATA CHEMICALS LTD	Mid Cap	39.7	60.30	67.97	54.33
SUN PHARMACEUTICAL INDUSTRIES LTD.	Large Cap	40.00	60.00	66.71	33.14
ASHOK LEYLAND LTD.,	Mid Cap	98.50	1.50	65.43	17.57
HINDALCO INDUSTRIES LTD.	Large Cap	69.60	30.40	64.44	67.63
GRASIM INDUSTRIES LTD.,	Large Cap	37.53	62.47	63.53	27.16
MAHINDRA & MAHINDRA LTD.	Large Cap	76.92	23.08	62.31	32.77
LARSEN & TOUBRO LIMITED	Large Cap	80.08	19.92	56.65	24.35
OIL AND NATURAL GAS CORPORATION LTD	Large Cap	52.76	47.24	52.45	89.24
BHARAT FORGE LTD	Mid Cap	114.22	-14.22	50.12	65.00
STEEL AUTHORITY OF INDIA LTD.,	Mid Cap	95.24	4.76	46.96	38.25
ADANI PORTS AND SPECIAL ECONOMIC ZONE LTD	Large Cap	29.95	70.05	42.38	21.02
OIL INDIA LIMITED	Mid Cap	82.11	17.89	40.19	73.23
TVS MOTOR COMPANY LTD.	Large Cap	4.64	95.36	39.08	21.56
CIPLA LTD.,	Large Cap	105.26	-5.26	37.55	18.34
AIA ENGINEERING LTD.	Mid Cap	96.16	3.84	36.94	100.98
TATA STEEL LIMITED	Large Cap	130.77	-30.77	34.17	41.36
APL APOLLO TUBES LIMITED	Mid Cap	65.02	34.98	31.53	5.81
TUBE INVESTMENTS OF INDIA LTD	Mid Cap	72.00	28.00	31.37	9.50
MANKIND PHARMA LIMITED	Large Cap	104.69	-4.69	30.79	23.48
TECH MAHINDRA LIMITED	Large Cap	89.88	10.12	28.40	32.42
MARICO LIMITED	Large Cap	92.93	7.07	28.28	27.95
JIO FINANCIAL SERVICES LIMITED	Large Cap	21.08	78.92	26.94	0.00
COFORGE LIMITED	Mid Cap	17.55	82.45	26.10	8.39
CG POWER AND INDUSTRIAL SOLUTIONS LIMITED	Mid Cap	181.22	-81.22	25.75	7.86

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VARUN BEVERAGES LIMITED	Large Cap	84.17	15.83	23.36	26.38
APOLLO HOSPITALS ENTERPRISES LTD.,	Large Cap	106.02	-6.02	23.19	25.84
TORRENT PHARMACEUTICALS LTD.	Large Cap	98.85	1.15	22.76	28.94
HINDUSTAN PETROLEUM CORPORATION LTD	Mid Cap	85.90	14.10	22.24	0.00
SRF LTD.,	Large Cap	90.00	10.00	21.38	19.39
DLF LIMITED	Large Cap	74.84	25.16	20.32	17.78
RELIANCE INDUSTRIES LTD	Large Cap	66.92	33.08	20.22	68.91
NHPC LIMITED	Mid Cap	75.64	24.36	19.63	14.55
JINDAL STEEL & POWER LTD	Large Cap	104.00	-4.00	19.55	9.62
BERGER PAINTS INDIA LTD	Large Cap	96.18	3.82	19.54	11.36
ADANI POWER LIMITED	Large Cap	147.00	-47.00	18.95	0.45
NTPC LIMITED	Large Cap	92.01	7.99	18.85	8.72
PERSISTENT SYSTEMS LIMITED	Mid Cap	77.79	22.21	18.74	11.75
JSW STEEL LIMITED	Large Cap	54.99	45.01	18.56	14.99
KPIT TECHNOLOGIES LTD	Mid Cap	83.19	16.81	18.53	15.79
FSN E-COMMERCE VENTURES LIMITED	Mid Cap	118.47	-18.47	18.43	11.06
ASTRAL LIMITED	Mid Cap	98.82	1.18	18.41	10.62
PIDILITE INDUSTRIES LTD.	Large Cap	82.24	17.76	17.52	10.64
INDIAN HOTELS CO. LTD	Mid Cap	99.53	0.47	15.95	5.44
VEDANTA LIMITED	Large Cap	172.00	-72.00	15.84	9.26
THERMAX LTD.	Mid Cap	83.14	16.86	15.66	6.47
DALMIA BHARAT LIMITED	Mid Cap	34.05	65.95	14.87	9.45
BIOCON LTD.	Mid Cap	50.00	50.00	14.48	0.07
ASIAN PAINTS LTD.	Large Cap	94.80	5.20	11.64	8.95
GAIL (INDIA) LTD.	Large Cap	85.48	14.52	11.64	23.70
ONE 97 COMMUNICATIONS LIMITED	Mid Cap	97.05	2.95	11.10	7.75
L&T TECHNOLOGY SERVICES LIMITED	Mid Cap	0.92	99.08	10.71	15.71
SUZLON ENERGY LTD.	Mid Cap	1.29	98.71	10.64	3.18
POWER GRID CORPORATION OF INDIA LIMITED	Large Cap	92.57	7.43	10.33	5.20
BRITANNIA INDUSTRIES LTD.,	Large Cap	82.19	17.81	9.99	4.91
TATA POWER CO. LTD	Large Cap	25.43	74.57	9.80	19.61
MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED	Mid Cap	88.54	11.46	9.21	14.35
DR. REDDY'S LABORATORIES LTD.,	Large Cap	87.92	12.08	9.12	13.41
INDIAN OIL CORPORATION LTD.	Large Cap	96.45%	99.04	8.74	10.86
JINDAL STAINLESS LIMITED	Mid Cap	95.73	4.27	8.29	11.61
ITC LTD	Large Cap	90.15	9.85	7.59	4.28
ADANI WILMAR LIMITED	Mid Cap	97.00	3.00	7.09	5.35
ULTRATECH CEMENT LTD	Large Cap	93.76	6.24	6.45	3.49
AJANTA PHARMA LTD.	Mid Cap	97.1	2.90	5.97	9.77

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Company name	Category based on Market Cap	% Net Assets of Parent	% Net Assets of Components	% of assets audited by Other Auditors@	% of Revenue audited by Other Auditors#
SIEMENS LTD.,	Large Cap	95.34	4.66	5.87	8.77
LTIMINDTREE LIMITED	Large Cap	96.38	3.62	5.25	6.06
PI INDUSTRIES LIMITED	Mid Cap	95.91	4.09	5.00	4.50
CONTAINER CORPORATION OF INDIA LTD.	Mid Cap	99.27	0.73	3.18	1.50
DIVI'S LABORATORIES LTD.	Large Cap	99.19	0.81	2.99	6.64
COROMANDEL INTERNATIONAL LIMITED	Mid Cap	96.00	4.00	2.53	0.30
MACROTECH DEVELOPERS LIMITED	Large Cap	98.80	1.20	2.28	0.43
TITAN COMPANY LIMITED	Large Cap	94.97	5.03	2.27	0.98
BALKRISHNA INDUSTRIES LTD.,	Mid Cap	99.88	0.12	1.76	4.90
EICHER MOTORS LTD.	Large Cap	84.03	15.97	1.61	2.69
TRENT LTD [LAKME LTD]	Large Cap	115.66	-15.66	1.42	1.28
M.R.F. LTD.,	Mid Cap	98.64	1.36	1.42	1.89
ESCORTS KUBOTA LIMITED	Mid Cap	103.08	-3.08	1.05	2.01
TORRENT POWER LIMITED	Mid Cap	95.93	4.07	0.97	0.02
JUBILANT FOODWORKS LIMITED	Mid Cap	105.27	-5.27	0.82	0.00
HINDUSTAN UNILEVER LTD.,	Large Cap	99.40	0.60	0.52	0.90
ACC LTD	Mid Cap	99.84	0.16	0.47	0.01
AVENUE SUPERMARTS LIMITED	Large Cap	98.33	1.67	0.41	0.29
MAX HEALTHCARE INSTITUTE LIMITED	Mid Cap	95.00	5.00	0.33	0.10
POLYCAB INDIA LIMITED	Large Cap	98.54	1.46	0.32	0.28
SCHAEFFLER INDIA LIMITED	Mid Cap	100.00	0.00	0.29	0.34
RAIL VIKAS NIGAM LIMITED	Mid Cap	73.07	26.93	0.28	0.09
ADANI TOTAL GAS LIMITED	Large Cap	99.77	0.23	0.16	0.00
REC LIMITED	Large Cap	99.24	0.76	0.15	0.78
HAVELLS INDIA LIMITED	Large Cap	100.00	0.00	0.13	0.25
OBEROI REALTY LIMITED	Mid Cap	62.80	37.20	0.11	0.00
MARUTI SUZUKI INDIA LTD.	Large Cap	97.72	2.28	0.07	0.08
HINDUSTAN AERONAUTICS LIMITED	Large Cap	99.42	0.58	0.07	0.05
PETRONET LNG LTD.	Mid Cap	96.73	3.27	0.03	0.00
BOSCH LTD	Mid Cap	100.00	0.00	0.00	0.00
HINDUSTAN ZINC LTD.,	Large Cap	100.08	-0.08	0.00	0.02
HCL TECHNOLOGIES LTD	Large Cap	48.50	51.50	0.00	0.00
WIPRO LTD.,	Large Cap	60.20	39.80	0.00	0.00
DABUR INDIA LTD.	Large Cap	66.59	33.41	0.00	0.00
UNO MINDA LIMITED	Mid Cap	75.01	24.99	0.00	0.00
TATA CONSULTANCY SERVICES LTD.	Large Cap	76.39	23.61	0.00	0.00
ADANI GREEN ENERGY LIMITED	Large Cap	77.00	23.00	0.00	0.00
INFOSYS LTD	Large Cap	80.97	19.03	0.00	0.00
BHARTI AIRTEL LTD.	Large Cap	101.84	-1.84	0.00	0.00
3M INDIA LTD.	Mid Cap	148.00	-48.00	0.00	0.00

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Annex 4

Adoption of ISA 600 internationally

Jurisdiction	Title of Standard issued
EU	EU Audit Regulations 2014 (Article 9) permits EU Commission to adopt ISAs as per Article 26 of EU Directive 2006/43/EC. Currently, EU Commission has not adopted ISAs but its Study Report of Oct 2022 ²³ indicate almost all of its 28 members having adopted ISAs issued by the IAASB which includes countries such as Belgium, Germany, Italy, Ireland, Netherlands, Sweden,, Norway etc.
U.K.	ISA (UK) 600 (Revised September 2022) https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/auditing-standards/isa-uk-600/
South Africa	Since April 2006, IRBA has adopted the International Engagement Standards issued by the IAASB, as published in the successive IAASB Handbooks of International Quality Control, Auditing, Assurance, and Ethics Pronouncements https://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/auditing-standards-and-guides/handbooks-of-international-standards
Australia	ASA 600 Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors) https://auasb.gov.au/standards-guidance/auasb-standards/auditing-standards/
New Zealand	ISA (NZ) 600 Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) https://www.xrb.govt.nz/standards/assurance-standards/auditing-standards/
Brazil	Since 2005 CFC has adopted ISA, through a convergence process, as Brazilian auditing standards. The CFC and IBRACON, report that there is an ongoing system in place to incorporate new and revised ISA as they become available. As of 2022, the 2020 ISA version is being applied.
Canada	CAS 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) https://www.cpacanada.ca/business-and-accounting-resources/audit-and-assurance/canadian-auditing-standards-cas/publications/cas-600-group-audits-have-changed

²³ October 2022 Study on the Audit Directive (Directive 2006/43/EC as amended by Directive 2014/56/EU) and the Audit Regulation (Regulation (EU) 537/2014)

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Jurisdiction	Title of Standard issued
Malaysia	ISA 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors). https://mia.org.my/wp-content/uploads/2022/09/ISA-600-Revised-Standard-and-Conforming-Amendments.pdf
Singapore	SSA 600 (Revised) Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) https://isca.org.sg/docs/default-source/audit-assurance/aa-standards/ssa-600-(revised)(jul-23)bbc80c34b3574dd797a64e3dba6a58a5.pdf?sfvrsn=469f4146_2

Key aspects of the proposed revisions to SA 600

(Below is a summary. For complete details please refer to provisions in draft SA 600 Revised also put forth for public consultation)

1. Scope and Objectives

- (a) SA 600 (Revised) deals with special considerations that apply to an audit of group financial statements (GFS)²⁴. More importantly, it deals with special considerations for the Group Auditor when another auditor/s called Component Auditor/s is/are involved in the audit of GFS. The requirements and guidance in this SA refer to, or expand on, the application of other relevant ISAs to a group audit, in particular SA 220 (Revised)²⁵, SA 230, SA 300, SA 315 (Revised 2019), and SA 330. SA 600 (Revised) is intended for all group audits, regardless of size or complexity.
- (b) Group may be organized in variety of ways. For example, a group may be organized by legal or other entities (e.g., a parent and one or more subsidiaries, joint ventures, or investments accounted for by the equity method). Alternatively, the group may be organized by geography, by other economic units (including branches or divisions), or by functions or business activities.
- (c) A Component Auditor may be required by statute or regulation to express an opinion on the financial statements of a component e.g. CA 2013 requires audit of separate financial statements of every company which may need to be consolidated into GFS of its parent company. When a component auditor is also performing or has completed an audit of the component financial statements, the group auditor may be able to use audit work performed on the component financial statements, provided the group auditor is satisfied that such work is appropriate for purposes of the group audit. The Group Auditor is required to comply with the requirements of this SA before he decides to use that audit opinion on separate financial statements for the audit of GFS of the Parent.
- (d) This SA recognises the fact that group information system and its financial reporting process may not be aligned with entity's organisation structure. e.g., an entity may have branches but its financial reporting process may not be branch-wise but business division wise or geography wise. Therefore, the Group Auditor will have to apply judgment to determine the Components based on facts and circumstances and may consider a group of branches or even legal entities or shared service centres as Components for the purpose of this SA.
- (e) Objectives of this SA are to (a) determine whether to act as Group Auditor or not, (b) communicate with Component Auditors on the scope, timing, nature and extent of their work and (c) to obtain sufficient appropriate audit evidence about the financial information of the component and consolidation process to check whether GFS are prepared in accordance with the applicable financial reporting framework. These aspects are discussed in greater details in the ensuing paragraphs.

²⁴ Group Financial Statements defined here and Consolidated Financial Statements defined in Ind AS 110, Consolidated Financial Statements are not the same. The former includes audit of F/S of Branches/Divisions of the same legal entity whereas the latter includes only consolidation of F/S two or more separate legal entities i.e., Parent and Subsidiaries.

²⁵ In 2023, the ICAI had undertaken public consultation on four SAs viz. SA 220, SA 250, SA 315 and SA 540 and SQM 1 and 2 to revise those in line with the currently prevailing ISAs and ISQMs.

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2. **Group Auditor is Ultimately Responsible for Audit of GFS and Group Audit Report**

- (a) The Group Engagement Partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this SA. Even when the Group Engagement Partner is permitted to delegate or assign certain tasks to other members of the Engagement Team, he continues to be ultimately responsible for managing and achieving the audit quality.
- (b) The Group Engagement Partner is required to sufficiently involved throughout the group audit and in the work of the Component Auditor.
- (c) The Group Auditor shall not refer to the work of Component Auditor in the Audit Report unless it is required by the law or regulation.

3. **Acceptance and Continuance of Group Audit**

- (a) Before accepting or continuing the group audit engagement, the group engagement partner shall determine whether appropriate audit evidence²⁶ can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements. In applying SA 210²⁷, the group auditor shall obtain the agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with access to all information that is relevant audit of GFS and Unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence.
- (b) Terms of group audit engagement may require inclusion of additional matters such as unrestricted communication with Component Auditors, sharing of important communication between Component Management/TCWG and Component Auditors and between the entity/component and its regulators with the Group Auditor.

4. **Overall Group Audit Strategy and Group Audit Plan**

- (a) The group auditor is responsible for overall group audit strategy and group audit plan. In doing so, the Group Auditor is responsible for the following.
- (b) Determining components at which the audit work will be performed
- (c) Involvement of Component Auditor in the risk assessment procedures and designing the appropriate audit steps to respond to RoMM
- (d) Component Auditors compliance with Ethical requirements including Independence related. Group Engagement Partner is responsible to communicate ethical requirements including independence standards to the Component Auditors and obtain their confirmation of compliance thereof. These requirements from group audit perspectives could be different from the ones applicable to audit of components performed for local jurisdiction's statutory purposes. E.g. it will be necessary to communicate and obtain confirmation of with compliance requirements of Indian Standards & Codes to overseas component auditors involved in audit of GFS of Indian entity.

²⁶ As mentioned in pre-paras, NFRA has observed instances of audit firms, both Group Auditor and Component Auditor, withdrawing from audit engagements due to potential for inadequacy

²⁷ SA 210, *Agreeing the Terms of Audit Engagements*

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- (e) Engagement Resources- Component Auditors competence, capability & adequacy of time. Group Engagement Partner is required to evaluate the professional competence and capability such as skill sets, industry specific knowledge of the Component Auditors. Also, the availability of sufficient time of the Component Auditors for performing the component audits needs to be evaluated. Paragraphs A62-A71 provides guidance for the Group Engagement Partner's evaluation.
5. Engagement Performance
- (a) Group Engagement Partner is responsible for determining the nature, timing and extent of direction, supervision and review of the Component Auditors work. Paragraphs A72 -A77 provide detailed guidance in this regard. Paragraph A76 provides different ways in which the group auditor may take responsibility for directing, supervising and reviewing the work of component auditors. Paragraph A76 draws attention to requirement of SA 220 (Revised) regarding Group Engagement Partner's responsibility to review work papers of certain areas like significant matters and significant judgments of the Engagement Team.
6. Communications with Component Auditors
- (a) Group Auditor is required to communicate to the Component Auditor of the respective responsibilities and expectations. Paragraphs A78-87 lay down specific further guidance and emphasise timely and effective two-way communication between the Group Auditor and Component Auditors.
7. Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control (Para 30-36)
- (a) SA 600 (Revised) places obligations on the Group Auditor to comply with the requirements of SA 315 (Revised)²⁸ understand the Group's Operating Environment, Legal & Operating Structure, Business and Regulatory environment, Applicable Financial Reporting Framework, Group Internal Control, Consolidation Process etc. at Group Audit level. Para A88 to 107 provide comprehensive guidance and emphasise significance of understanding aspects such as group legal structure, business model, commonality of control, centralised activities like use of shared service centres, IT infrastructure, Group-wide instructions on financial reporting etc. This is a substantial improvement over the guidance available in current SA 600.
8. Where the Component Auditor is involved, the SA 600 (Revised) requires timely two-way communication of between two in relation to the following:
- a) Matters relating to risk of material misstatements to the group audit and GFS;
 - b) Related party relationships and transactions; and
 - c) Events or transactions that affect going concern of the group.
9. Group-wide Identification and Assessment of the Risks of Material Misstatement (RoMM). The Group auditor is responsible identifying and assessing the ROMM for the GFS and he shall evaluate whether the procedures performed by both of them i.e., Group Auditor and Component Auditor. SA 600 (Revised) highlights the benefits of involvement of the Component Auditor's

²⁸ SA 315 (Revised), IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

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in the process of identification and assessment of ROMM at Component level due to their direct knowledge and experience of the components they will be auditing.

10. Group Materiality and Component Performance Materiality. The Group Auditor shall determine, and also communicate to component auditor, the performance materiality and the threshold above which misstatements identified in the component financial information are to be communicated to the group auditor. Paragraphs A116 – 123 elaborate the concept of component performance materiality and provide guidance to address the aggregation risk.
11. Responding to ROMM (Para 37 -44). In some cases, there will be a need for further audit procedures to respond to ROMM either centrally (e.g. Shared Service Centres) or at individual component level. Responsibility to determine the nature, extent, timing and location where these procedures will be performed, will be that of the Group Auditor. There may be situations of a large number of components whose financial information is individually immaterial but material in the aggregate to the group financial statements. In such cases the Group Auditor his professional judgment for further audit procedures either centrally or at selected component level by using analytical review procedures or automated tools and techniques. In case of areas assessed as higher ROMM or as Significant Risk, the Group Auditor shall evaluate the appropriateness of the design and performance of those further audit procedures. Paragraphs A124 -139 provide comprehensive guidance in these audit areas.
12. Consolidation Process. The Group Auditor is responsible for evaluating
 - (a) completeness of the entities and business units included in the CFS as required under Applicable Financial Reporting Framework;
 - (b) completeness and appropriateness of consolidation adjustments and reclassifications for area such as intra-group balances/transactions, accounting policy differences and accounting period differences;
 - (c) possible management bias in management judgments; and
 - (d) whether the financial information audited and communicated by the Component Auditor is the one that is included in CFS.
13. Evaluating the Component Auditor's Communications and the Adequacy of Their Work (Para 45-48)
 - (a) The Group Auditor shall request and the component auditor shall communicate his findings on matters relevant to the conclusions on the group audit. Therefore, it is not just the component auditor's audit report on the F/S of the component but there are a number of specific areas, such as given below, upon which the component auditor shall communicate.
 - Whether Component Auditor has performed the procedures requested by the Group Auditor;
 - Whether the Component Auditor has complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement;
 - Information about instances of non-compliance with laws or regulations;
 - Corrected and uncorrected misstatements of the component financial information identified by the Component Auditor;
 - Indicators of possible management bias;
 - Description of any deficiencies in the system of internal control identified in connection with the audit procedures performed; and
 - Fraud or suspected fraud involving component management, employees

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14. The Group Auditor shall evaluate the need for review of additional documentation of the component auditor based on the following:
 - (a) extent of Component Auditors involvement in the risk assessment procedures ;
 - (b) significant judgments made by and findings of the Component Auditors;
 - (c) competence and capabilities of the component auditor; and
 - (d) whether both of them subject to common policies and procedures for review of audit documentation.
15. The Group Auditor shall also determine whether additional audit procedures are required to be performed by either of them.
16. Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained (Para 51-52) and Documentation (Para 59)
 - (a) One of the critical aspects in the evaluation of sufficiency and appropriateness of audit evidence is the supervision of audit work of Engagement Team and review of their work papers. SA 220 (Revised) requires the Engagement Partner to review the audit documentation.
 - (b) According to this SA, evaluation of sufficiency and appropriateness of audit evidence obtained by the Component Auditors can be based on the following:
 - Component Auditors' communication of overall findings and conclusions
 - Group Auditor's direction and supervision of the Component Auditors, and review of their work including review of their additional documentation
17. The Group Auditor's documentation shall include the following.
 - (a) Significant matters relating to restrictions on access to information and people which were considered before accepting or continuing with the engagement or those arose subsequently.
 - (b) The basis for determining components, component performance materiality and clearly trivial amounts.
 - (c) Evaluation and determination of competence and capabilities of the competent auditor.
 - (d) Key elements of the group's internal control.
 - (e) The nature, timing and extent of the group auditor's direction and supervision of component auditors and the review of their work, including, review of additional documentation of component auditor.
 - (f) Communication with component auditor
 - (g) Evaluation of the findings and conclusion of the component auditor.
18. Group Audit documentation comprises the audit files of the group auditor and that of the component auditor. Group Auditor may provide specific instructions to component auditor regarding final assembly of audit files and their retention. However, Component auditor audit documentation ordinarily need not be replicated in the group auditor's audit file. The Group Auditor may decide to summarize, replicate or retain copies of certain component auditor documentation in the group auditor's audit file to supplement the description of a particular matter in communications from the Component Auditor, including the matters required to be communicated by SA 600 (Revised).
19. Communication with Group Management and Those Charged with Governance of the Group
The Group Auditor shall communicate with the TCWG of the group about the following:
 - ❖ Overview of the work performed at the components and nature/extent of group auditor's involvement in the component auditor's work;

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- ❖ Areas of concern on the quality of the work of the component auditors;
 - ❖ Scope limitations on the group audit;
 - ❖ Fraud or suspected fraud; and
 - ❖ Deficiencies in the internal financial control.
-