

Regulatory Impact Assessment (RIA) for revision of existing Accounting Standards

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In accordance with Rule 6 of National Financial Reporting Authority Rules, 2018, the Institute of Chartered Accountants of India (ICAI) has submitted to National Financial Reporting Authority (NFRA) an Approach Paper for revision of existing Accounting Standards of Companies that are not required to follow Indian Accounting Standards (Ind ASs). Alongwith the Approach Paper, the proposed texts of 18 revised Accounting Standards (ASs) out of a total of 32 revised ASs expected to be prescribed upon completion of this AS revision project was submitted by ICAI.

NFRA notes that most of the companies to which these proposed revised ASs will apply are Private Limited Companies. Many of the companies are of very small net worth or turnover or indebtedness or a combination of these. They would be mostly owned by small families, sometimes along with a small circle of friends and relatives. Therefore, public interest in the General Purpose Financial Statements (GPFSS) of these Companies would most likely be minimal. There are a number of Revised ASs which are very large and complex and may not be relevant and useful to the limited users of GPFSS of these Companies. The expected standard audit cost to perform reasonably good quality audit, performed in compliance with the letter and spirit of the Standards on Auditing (SAs) is significantly more than the presently reported audit fee ranges i.e., a very large percentage of AS Companies have reported Payment to Auditors of less than ₹ 25 thousand.

Based on the findings above, and persuaded by the limited extent of public interest in the GPFSS of AS Companies, and the need for enabling a regulatory environment conducive for their economic growth, NFRA has recommended to the ICAI that a Regulatory Impact Assessment be conducted of this revision proposal, duly including all the standard features of such a process, and, in particular, to take action as follows:

- a. The Approach Paper should be developed in a transparent manner after extensive nation-wide consultation with the primary stakeholders i.e., the Preparers – MSMCs (Micro, Small and Medium-size Companies) and Auditors - MSMPs (Micro, Small and Medium-size Practitioners). ICAI is requested to send NFRA the analysis of the public comments on the Approach Paper if the ICAI had performed any such public consultation in the past.
- b. Comprehensive study and research should be undertaken on the costs to the Preparers of compliance with these Revised ASs and their technical resource capacity, which should be evaluated against the likely benefits to all the stakeholders of AS Companies.
- c. ICAI should reconsider the Structure, Form and Contents of Revised ASs for AS Companies and align the same to the nature, size and complexity of the ASs, to their commercial needs, business size, capacity to comply with the prescribed standards, and relevance to their primary users.

ICAI's Approach Paper and NFRA's response to the ICAI Approach Paper have been posted on NFRA's website at:

<https://nfra.gov.in/sites/default/files/Letter%20to%20Secretary%20ICAI%20reg%20Recommendations%20of%20ICAI.pdf>

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