<u>Comments On Exposure Draft</u>

Exposure Draft of Annual Improvements to Ind AS (2024) - Corresponding to Annual Improvements to IFRS Standards Volume 11 issued by the IASB

<u>Accounting Standards that would be affected by the proposals</u>

The following table lists the Accounting Standards and accompanying guidance that would be affected by the proposed amendments

Accounting Standard	Subject of proposed amendments
IFRS 1 First-time Adoption of International Financial Reporting Standards	Hedge accounting by a first-time adopter
IFRS 7 Financial Instruments: Disclosures	Gain or loss on derecognition
Guidance on implementing IFRS 7 Financial Instruments: Disclosures	Disclosure of deferred difference between fair value and transaction price
IFRS 9 Financial Instruments	Derecognition of lease liabilities
IFRS 10 Consolidated Financial Statements	Determination of a 'de facto agent'
IAS 7 Statement of Cash Flows	Cost method

<u>Exception to the retrospective application of other IND AS</u>

Hedge accounting

An entity shall not reflect in its opening IFRS statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with IFRS 9 However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate as a hedged item in accordance with IFRSs an individual item within that net position

If, before the date of transition to IFRSs, an entity had designated a transaction as a hedge but the hedge does not meet the qualifying criteria conditions for hedge accounting the entity shall apply to discontinue hedge accounting. Transactions entered into before the date of transition to IFRSs shall not be retrospectively designated as hedges

Derecognition

Gain or loss on derecognition

Requires an entity to disclose the gain or loss on derecognition relating to financial assets in which the entity has continuing involvement. The entity shall disclose if a gain or loss on derecognition arose because the fair values of the components of the previously recognised asset were different from the fair value of the previously recognised asset as a whole. In that situation, the entity shall also disclose whether the fair value measurements included significant unobservable inputs that were not based on observable market data

Relationship with other parties

Such a relationship need not involve a contractual arrangement. A party is a de facto agent when the investor has, the ability to direct that party to act on the investor's behalf. A party might be a de facto agent when those that direct the activities of the investor have the ability to direct that party to act on the investor’s behalf. Investor shall consider its de facto agent’s decision-making rights and its indirect exposure, or rights, to variable returns through the de facto agent together with its own when assessing control of an investee

Basis for Conclusions on the proposed amendments to IFRS 10 Consolidated Financial Statements

Stakeholders informed the IASB that the requirements of Consolidated Financial Statements might, in some situations, be contradictory. It refers to ‘de facto agents’ as parties acting on the investor’s behalf and states that the determination of whether other parties are acting as de facto agents requires judgement.

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Derecognition of financial liabilities

A—**Derecognition of financial liabilities settled through electronic transfers**

• clarify that an entity uses settlement date accounting when recognising or derecognising financial assets and financial liabilities; and

• develop new requirements to permit an entity to deem a financial liability that is settled using an electronic payment system to be discharged before the settlement date if specified criteria are met. Applying the proposals, an entity would be permitted to derecognise a financial liability if and only if the entity has initiated the payment instruction and:

• The entity cannot withdraw, stop or cancel the payment instruction;

• The entity has no practical ability to access the cash to be used for settlement as a result of the payment instruction; and

• The settlement risk associated with the electronic payment system is insignificant.

The proposals would:

• provide a timely and effective response to stakeholders' concerns;

• be operable and mitigate the risk of unintended consequences; and

• lead to the consistent application of the derecognition requirements

Classification of financial assets

Specifically, to clarify the requirements on:

A Elements of interest in a basic lending arrangement

B Contractual terms that change the timing or amount of contractual cash flows

A—Elements of interest in a basic lending arrangement

To help an entity assess whether the interest it receives in an arrangement is consistent with a basic lending arrangement, to clarify that:

- the assessment of interest focuses on what an entity is being compensated for, rather than how much compensation an entity receives; and
- Contractual cash flows are inconsistent with a basic lending arrangement if:

o the cash flows include compensation for risks or market factors not typically considered basic lending risks or costs, even if such terms are common in the market; and

o the cash flows change in a way that is not aligned with the direction and magnitude of changes in lending risks or costs

—B. Contractual terms that change the timing or amount of contractual cash flows

To help entities assess whether such financial assets meet the SPPI requirement, to clarify that:

• An entity shall assess whether the contractually specified change would meet the SPPI requirement irrespective of the probability of the contingent event occurring;

• A change in contractual cash flows is consistent with a basic lending arrangement if the occurrence (or non-occurrence) of the contingent event is specific to the debtor; and

• The resulting contractual cash flows should represent neither an investment in the debtor nor an exposure to the performance of specified assets

Disclosures

—Investments in equity instruments designated at fair value through other comprehensive income

The proposed disclosure requirements are intended to help users of financial statements:

• to better evaluate the performance of equity investments designated using the OCI presentation option during the reporting period; and

• to differentiate between changes in fair value related to investments derecognised during the reporting period and changes in fair value related to investments held at the end of the reporting period.

Appropriate Audit Evidence

Sufficiency is the measure of the quantity of audit evidence. It is affected by the auditor's assessment of the risks of material misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also the quality of the audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate if it is of poor quality. Appropriateness is the measure of the quality of the audit evidence that is its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based.

Documentation

It is not necessary or practicable for the auditor to document every matter considered, or professional judgment made, in an audit. However, the auditor is required to prepare audit documentation that provides a sufficient and appropriate record of the basis for the auditor's report and provides evidence that the audit was planned and performed in accordance with the SA for LCE and applicable law or regulation.

Engagement Quality Management

The objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved such that the auditor has fulfilled the auditor's responsibilities, and has conducted the audit, in accordance with this standard and applicable legal and regulatory requirementsand the auditor's report issued is appropriate in the circumstances

Differences of opinion may arise within the engagement team, or between the engagement team and the engagement quality reviewer, or even with individuals performing activities within the firm's system of quality management such as those responsible for providing consultation. In considering matters related to differences of opinion, or difficult or contentious matters, the engagement partner may also consider whether the use of the SA for LCE continues to be appropriate.

Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements

In order to establish whether the preconditions for an audit are present, the auditor shall:

(a) Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable; and

(b) Obtain the agreement of management that it acknowledges and understands its responsibility:

(i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;

(ii) For such controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

(iii) To provide the auditor with:

a. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. Additional information that the auditor may request from management for the purpose of the audit; and

c. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Planning

Inherent risk, control risk, and detection risk are all important considerations that auditors must take into account when planning and performing an audit. By understanding these factors, auditors can better assess the risks associated with the engagement and tailor their audit procedures accordingly.

Risk Identification and Assessment

Risk identification and assessment is a process that involves identifying, analysing, and evaluating risks. It can be applied to a task, job, or process to identify potential hazards. Risk assessment is a key part of an overall risk management plan

Risk identification: This step is about identifying risks to the organization's objectives. In other words, risk identification is the process of listing potential project risks and their characteristics.

Risk assessment: This step centers around assessing the risks identified in terms of their likelihood and impact.

Responding to Assessed Risks of Material Misstatement

Risk Assessment Process

- Identifying risks relevant to financial reporting objectives, including risks of material misstatement due to fraud ("fraud risks");
- Assessing the likelihood and significance of misstatements resulting from those risks; and.
- Deciding about actions to address those risks.
- The audit team spends much of this phase performing the procedures outlined in the risk assessment phase. This involves obtaining confirmations, performing substantive tests, analytical procedures and inquiring with management.

Concluding

The conclusion should not be a summary of findings, but rather be a clear conclusion against the audit objective. The conclusion has to be expressed using a positive form

The Three-Part Approach to Closing the Audit Plan

1. Analyse audit performance and communicate results.
2. Evaluate the effectiveness of the audit plan and how results were achieved.
3. Identify how the current audit plan impacts next year's plan.
4. The case for a quarterly audit plan.

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