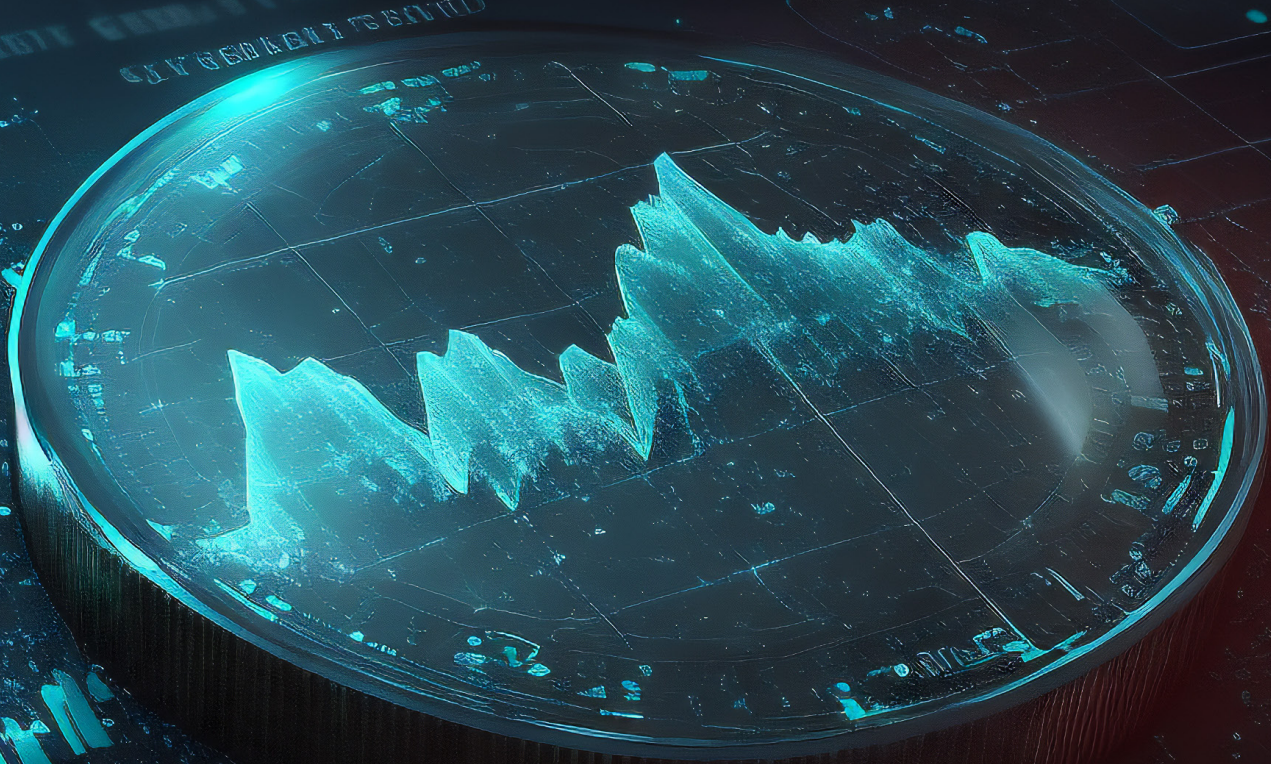


**NANGIA & CO LLP**



# **ASSURANCE GAZETTE**

July, 2025



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# Foreword

## ***“Welcome to the Assurance Gazette for July 2025 Edition.*”**

This edition explores the regulatory requirements introduced through the Industry Standards on Minimum Information to be Provided to the Audit Committee and Shareholders for Approval of Related Party Transactions and the related communication issued by NFRA in its Auditor Interactions Series 3. The NFRA publication focuses on the audit of related parties in the context of Ind AS 24, AS 18, and SA 550. Together, these developments set out clear expectations regarding disclosure, approval processes, and audit procedures for related party transactions. This circular establishes comprehensive standards on the minimum information to be provided for the review and approval of RPTs and outlines audit approaches to strengthen transparency, ensure regulatory compliance, and mitigate fraud risks.

In this edition we also highlights the Expert Advisory Committee’s (EAC) opinion on the consolidation of a wholly-owned Section 8 Company by a listed Sponsor Company under Ind AS 110. It clarifies that nonprofit status does not exempt consolidation where control exists, offering crucial guidance on CSR-linked entities and financial reporting obligations.

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# “Minimum information to be provided to the Audit Committee and Shareholders for approval of RPT”

*by SEBI and the related NFRA Communication*



## Introduction

Related party transactions (RPTs) pose significant governance and audit challenges due to their complexity and risk of conflicts of interest. To strengthen transparency, SEBI has issued Circular No. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/93 dated June 26, 2025 (the “Circular”), establishing standards for minimum disclosures to audit committees and shareholders. In parallel, NFRA’s Auditor Interactions Series 3 clarifies auditor responsibilities under Ind AS 24, AS 18, and SA 550 (the “NFRA interaction”). Together, these measures provide a comprehensive framework outlining how RPTs should be identified, approved, disclosed, and subjected to rigorous audit scrutiny.

## Key Highlights

The main focus is on the key regulatory changes, their practical implications for companies and auditors, and recommended practices for effective compliance with the new disclosure and governance requirements for related party transactions. Key highlights include:

### 1. Definition:

Companies Act 2013, defines following persons as related party:

Category	Description
Director/ Relative	A director or his relative
KMP/ Relative	Key managerial personnel (KMP) or his relative
Firm	A firm in which director, manager, or his relative is a partner
Private Company	A private company in which the director/ manager or his relative is a member/director
Public Company	A public company in which the director/ manager is a director and holds >2% of paid-up capital (with relatives)
Body Corporate (acting on advice)	Whose board/MD/Manager acts on directions/ advice of director/manager
Advisor (non-professional)	A person on whose advice director/manager acts (excluding advice given in professional capacity)
Corporate Relationships	(A) Holding/Subsidiary/Associate Company (B) Co-subsiary (C) Investing Company/Venturer
Others	As may be prescribed



## 2. Applicability

- The Circular applies to all listed entities
- **Effective Date:** This circular shall come into effect from **September 01, 2025**

## 3. SEBI Governance and Disclosure Norms for Related Party Transactions:

- As per Part A and Part B of Section III-B of the SEBI Master Circular dated November 11, 2024 ("Master Circular"), Regulations 23(2), (3), and (4) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations") mandate that related party transactions ("RPTs") must be approved by the Audit Committee and, if classified as material, also by the shareholders. The Master Circular further specifies the detailed information that listed entities are required to provide to the Audit Committee and shareholders, respectively, for their review and approval of such transactions.

## 4. As per LODR Regulation 23 (2), (3) and (4):

- All related party transactions (RPTs), including material modifications, must receive prior approval of the Audit Committee, comprising only independent directors. The Audit Committee is also required to define and disclose the term "material modifications" in the company's RPT policy. In cases where an RPT involves a subsidiary but not the listed entity, prior approval of the Audit Committee of the listed entity is still required if the value of such RPTs exceeds 10% of the consolidated turnover or, post April 1, 2023, 10% of the subsidiary's standalone turnover.

- The Audit Committee may grant omnibus approvals for repetitive transactions, subject to certain criteria and limits, and these approvals remain valid for one year. All material RPTs (and material modifications) require prior shareholder approval, and no related party can vote to approve such transactions. However, exemptions apply to listed subsidiaries subject to similar LODR provisions and also to resolution plans approved under the Insolvency Code.

## (A) Key Information to be Reviewed by the Audit Committee as per Part A of Section III-B of the SEBI Master Circular

- Type, material terms, and key particulars of the proposed transaction
- Name of related party and relationship with the listed entity or its subsidiary
- Specific tenure of the transaction
- Value of the transaction
- % of annual consolidated turnover (and subsidiary's standalone turnover, if applicable)
- If transaction involves loans/ICDs/advances/investments: source of funds, cost, terms, purpose
- Justification for why the transaction is in the interest of the listed entity
- Valuation/external report relied upon (if any)
- % of counterparty's consolidated turnover (voluntary disclosure)
- Any other relevant information
- Annual review of long-term or recurring RPTs
- Omnibus-approved material RPTs still require shareholder approval



**(B) Key information to be Provided to Shareholders as per Part B of Section III-B of the SEBI Master Circular**

- Summary of information submitted to Audit Committee (as above)
- Justification for why the transaction is in the interest of the listed entity
- If transaction involves loans/ICDs/advances/investments: source of funds, cost, terms, purpose
- Confirmation that valuation/external report (if any) will be shared via shareholders' email
- % of counterparty's consolidated turnover (voluntary disclosure)
- Any other relevant information



*Note: The Industry Standards Forum, comprising ASSOCHAM, CII, and FICCI, in consultation with SEBI, developed standards detailing the minimum information required for audit committee and shareholder approval of related party transactions.*

## Enhancing Auditor–Audit Committee Communication: NFRA Insights on Related Party Transactions

NFRA's Auditor–Audit Committee Interactions Series 3 issued on March 28, 2025 highlights key questions Audit Committees may ask auditors regarding related party relationships, transactions, and disclosures under Ind AS 24 and SA 550.

### Major Types of Related Party Transactions ("RPTs")



**Loans and advances**



**Investments**



**Exchanges of goods or services**



**Remuneration of key management personnel**

NFRA's inspections have exposed recurring issues—fund diversion, evergreening of loans, absence of arm's length basis, and override of controls.

### Management must:

- Identify all related party dealings.
- Measure outstanding balances and commitments.
- Determine when those items trigger disclosure requirements.
- Specify the precise content of those disclosures.

These processes demand special focus from preparers, Audit Committees, and auditors.





Illustrative potential questions auditors can expect from the Audit Committee regarding related party transactions under Ind AS 24 and SA 550:

- 1
- Has management’s understanding of “related party” been validated against the definitions in the Companies Act, 2013; Ind AS 24/AS 18; SA 550; and SEBI LODR Regulations?
- 2
- Have all related parties and related party transactions—including indirect relationships, promoter holdings, and any changes during the year—been identified?
- 3
- Is a technology enabled related party database maintained and integrated with other master data (e.g., vendor/customer records), and has its completeness been tested?
- 4
- Which risk assessment procedures were performed to evaluate management’s controls over identifying, authorizing, and disclosing related party transactions, especially those outside the normal course of business?
- 5
- Are formal, periodic reviews by finance, legal, and secretarial teams in place to catch unapproved or misclassified related party transactions, and have any errors discovered been remediated?
- 6
- What procedures were applied to determine which related party transactions posed significant risks of material misstatement or fraud?
- 7
- How were non routine or large related party transactions evaluated for commercial rationale and verified to be at arm’s length?
- 8
- Were fraud indicators—such as year end timing, use of non consolidated entities, or shell companies—identified, and what additional procedures were performed in response?
- 9
- Have all material related party transactions been approved by the Audit Committee (independent directors only) and, where required, ratified by shareholders?
- 10
- Does the company use automated alerts to flag transactions crossing materiality thresholds, and how was the effectiveness of these alerts tested?
- 11
- How was compliance with Sections 177 and 188 of the Companies Act, 2013; SEBI LODR requirements; and CARO reporting obligations verified prior to issuing the audit opinion?

Risks identified by NFRA and audit procedure to mitigate risk

Risk Indicator	Audit Process to Mitigate Risk
Evergreening of Loans	<ul style="list-style-type: none"><li>- Perform aging analysis and test repayment history</li><li>- Verify terms and ensure no rollover without proper assessment</li><li>- Review board approvals and rationale for loan extensions</li></ul>
Improper Revenue Recognition	<ul style="list-style-type: none"><li>- Test cut-off procedures and revenue timing</li><li>- Assess revenue contracts for performance obligations</li><li>- Evaluate estimates and judgment areas with skepticism</li></ul>
Lack of Board/ Audit Committee Approvals	<ul style="list-style-type: none"><li>- Review meeting minutes and resolutions</li><li>- Cross-check large transactions for necessary approvals</li><li>- Report deviations as part of audit observations</li></ul>
Incomplete or Misleading Disclosures	<ul style="list-style-type: none"><li>- Reconcile disclosures with underlying ledgers and confirmations</li><li>- Validate related party lists with statutory registers and promoter declarations</li><li>- Ensure compliance with Ind AS 24 and Schedule III</li></ul>
Unusual Transactions Benefiting Related Parties Indirectly	<ul style="list-style-type: none"><li>- Perform look-through testing of connected entities and layering</li><li>- Evaluate business rationale for non-routine transactions</li><li>- Identify red flags using transaction analytics and exception testing</li></ul>

Nangia’s Take

The evolving regulatory landscape surrounding RPTs underscores the need for enhanced governance, transparency, and audit rigor. The Circular dated June 26, 2025, along with NFRA interaction, collectively establishes clear expectations for companies and auditors regarding the identification, approval, and disclosure of RPTs. These regulations emphasize the importance of robust internal controls, timely audit committee and shareholder approvals, and comprehensive disclosures aligned with Ind AS 24, AS 18, and SA 550. The Industry Standards Forum, in collaboration with SEBI, has further specified the minimum information to be provided to both the Audit Committee and shareholders. NFRA has raised concerns on fund diversion, evergreening of loans, and control overrides—calling for increased professional skepticism, validation of arm’s length terms, and monitoring of indirect transactions. Adoption of a risk-based, technology-enabled compliance approach can enhance oversight, reduce RPT-related risks, and improve audit quality, governance standards, and stakeholder trust.



# Summary of Expert Advisory Committee Opinion – Consolidation of a Section 8 Company



The EAC addresses a query regarding whether a listed Sponsor Company is required to consolidate the financial statements of its wholly-owned Section 8 Company (a not-for-profit company under the Companies Act, 2013), in accordance with Indian Accounting Standard (Ind AS) 110.

## Background

The Section 8 Company was established in 2021 with objectives related to CSR activities such as eradicating hunger, promoting healthcare and education, environmental sustainability, gender equality, and rural development. It is 100% funded by the Sponsor Company, which is a listed entity, and includes among its directors the Sponsor Company's CEO.

Historically, the Sponsor Company has consolidated the Section 8 Company's financials up to 31 March 2023. However, it sought clarification on whether this is mandatory going forward, given that the Section 8 Company operates independently and does not provide any commercial or financial returns to the Sponsor Company.

## Querist's Position

The Sponsor Company believes that consolidation is not required, arguing:

- It lacks control over the Section 8 Company's operations.
- It has no rights to variable returns, financial or otherwise.
- The Section 8 Company is merely an entity through which CSR funds are routed.

## Committee's Analysis

The Expert Advisory Committee (EAC) assessed this under Ind AS 110, which mandates consolidation when an entity controls another. Control requires all three elements:



**Power** over the investee.



**Exposure or rights to variable returns** from the investee.



**Ability to use power** to affect the investor's returns.



The EAC concluded that:

**Power:** The Sponsor Company has de facto power. It owns 100% of the equity, can appoint/remove board members (including having its CEO as a director), and can influence operational decisions.

**Variable Returns:** While direct financial returns are prohibited under Section 8 regulations, Ind AS 110 defines returns broadly. These include:

- **Reputational benefits** and **CSR compliance**.
- **Avoidance of penalties** for CSR non-compliance.
- **Synergistic and intangible benefits**, such as enhanced market perception, brand value, and operational association.

**Linkage:** The Sponsor Company can influence how CSR funds are utilized, and its reputation and compliance status are directly affected by the Section 8 Company's activities.

Thus, despite the non-profit status of the Section 8 Company, the Sponsor Company has sufficient power and is exposed to variable returns (in a broader sense), and hence, controls the Section 8 Company under Ind AS 110.

## EAC's Opinion

The EAC concluded that the Sponsor Company **must continue consolidating** the financial statements of the Section 8 Company under Ind AS 110. The fact that it is a not-for-profit entity does **not exempt** it from consolidation requirements. Accordingly, the Sponsor Company **cannot change** its position retrospectively for financial statements up to FY 2022-23.



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