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National Financial Reporting Authority

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The Ministry of Corporate Affairs has notified rules determining the jurisdiction, powers, function and duties of the **National Financial Reporting Authority (NFRA)**.

- The **Companies Act, 2013** provided for the creation of a National Financial Reporting Authority.
- Earlier, the Union Cabinet on March 1, 2018 approved the creation of a National Financial Reporting Authority (NFRA) as an **independent regulator** for the auditing profession, in an attempt to tighten regulatory oversight over chartered accountants and plug loopholes.

Background

- The need for establishing NFRA was felt in the wake of accounting scams and to establish an independent regulator for enforcement of auditing standards and ensuring the quality of audits.
- **Section 132 of the Companies Act 2013** gives the central government the power to set up such an authority.
- A **Parliamentary Standing Committee** had also **recommended** that the National Advisory Committee on Accounting Standards be institutionalized by setting up an NFRA.
- At present, Institute of Chartered Accountants of India (ICAI) is the auditing regulator. ICAI plays the **advisory role** with respect to accounting and auditing standards and policies.
- Setting up the NFRA indicates, to an extent, the lack of trust in ICAI to effectively address malpractices associated with accounting and auditing profession.
- The current regulator ICAI is against setting up of NFRA. ICAI is of the view that NFRA should not be given the power of investigation as the ICAI is doing the same work. Also, the multiplicity of regulators will not serve any purpose as steps suggested by the government for NFRA are already being undertaken by the institute.

Institute of Chartered Accountants of India

- The Institute of Chartered Accountants of India (ICAI) is a **statutory body**.
- It was established by **The Chartered Accountants Act, 1949**.
- The Institute functions under the administrative control of the **Ministry of Corporate Affairs**.
- It is aimed at **regulating the profession of Chartered Accountancy in the country**.

Key points

- NFRA will oversee the quality of service and undertake investigation of the auditors of **listed entities; unlisted entities with paid-up capital of not less than ₹500 crore or annual turnover of over ₹1,000 crore or those having aggregate loans, debentures or deposits of not less than ₹500 crore as of March 31 of the preceding financial year**. While ICAI retains jurisdiction of small listed companies.
- The NFRA will also have oversight over **auditors of banks, insurers, electricity firms and also those body corporates referred to it by the Centre**.
- It will investigate matters, **either suo moto or on a reference made to it by the Central Government**, of professional misconduct by chartered accountants (CA) or CA firms, impose penalty and debar the CA or CA firm for up to 10 years.
- Make recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors.
- Monitor and enforce the compliance with accounting standards and auditing standards in such manner as prescribed.
- Oversee the **quality of service of the professions** associated with ensuring compliance with such standards, and suggest measures required for improvement in quality of service and such other related matters. This will make Quality Review Board (QRB) redundant, which was mandated earlier to look into the quality of service rendered by auditors.
- The rules also provide for a **detailed procedure on disciplinary proceedings** that will be undertaken by the NFRA. It has mandated **time-bound disposal (90 days)** of the show cause notice through a summary procedure.
- The National Financial Reporting Authority shall consist of members **not exceeding fifteen part time and full-time members**.
- The chairperson and members, who are in full-time employment with National Financial Reporting Authority, shall not be associated with any audit firm (including related consultancy firms) during the course of their appointment and two years after ceasing to hold such appointment.

Benefits of establishing NFRA

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- With the constitution of NFRA, India is now eligible to become a member of the **International Forum of Independent Audit Regulators (IFIAR)**, which was denied until now for want of an independent audit oversight body in the country. This will enhance investor confidence as well as standing of India in the global arena.
 - Improvement in foreign/domestic investments.
 - Enhancement of economic growth.
 - Supporting the globalisation of business by meeting international practices.
 - Further development of auditing profession.
 - Establishment of NFRA will free resources for the ICAI to work on developing new and complex skills needed in the uncertain world of technology.

Way forward

- The NFRA has an uphill task of creating a structure and processes for effectively delivering on the complete range of functions like standards setting, professional development, quality monitoring and disciplining of medium and large-size audit firm. Moreover, disposal of disciplinary cases in 90 days, is going to be onerous and challenging task.
- The NFRA should keep its distance from ICAI. Otherwise, it will be yet another case of regulatory capture.
- For the NFRA to be effective, it should consist of independent experts with an impeccable record of integrity.
- The NFRA should also look at company secretaries who are currently governed by the Institute of Company Secretaries of India (ICSI) as they have an equally important role in examining rule compliance.
- There is no contradiction or overlap between NFRA and ICAI, as each of them has their exclusive jurisdiction. Hence, both should meaningfully co-exist and harness mutual synergies and complementarities.