National Financial Reporting Authority (NFRA)

Syllabus subtopic: Statutory, regulatory and various quasi-judicial bodies

Context:

The National Financial Reporting Authority (NFRA) has issued Audit Quality Review (AQR) report of the statutory audit for the year 2017-18 of IL&FS Financial Services Limited (IFIN).

About the NFRA:

- The NFRA was constituted by the Government of India in 2018 under the Indian Companies Act, 2013.
- The need for establishing the 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.
- While many recommendations of the Companies Act came into force in 2014, the setting up of the NFRA was delayed due to discontent from the then regulator, the Institute of Chartered Accountants of India (ICAI).
- The ICAI is a statutory body set up in 1949. It regulates the profession of Chartered Accountancy in the country.
- It is a self-regulatory body and has had a monopoly on training and qualifying chartered accountants, giving them license to practice and regulating them including scrutinising audit quality.
- Across the globe, over 50 countries have moved away from self-regulatory professional accountant bodies (like ICAI) and created independent audit regulators (like NFRA).
- In India, the move to set up a new oversight body for the accounting and audit professions was approved by a parliamentary panel.
- After the Satyam scandal (2009), the Standing Committee on Finance proposed the concept of the NFRA for the first time.

Functions of the NFRA:
- Recommend accounting and auditing policies and standards to be adopted by companies for approval by the Central Government.
- Monitor and enforce compliance with accounting standards and auditing standards.
- Oversee the quality of service of the professions associated with ensuring compliance with such standards and suggest measures for improvement in the quality of service.
- Perform such other functions and duties as may be necessary or incidental to the aforesaid functions and duties.

**NFRA’s jurisdiction:**

- The 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.
- The ICAI retains the 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 a penalty and debar the CA or CA firm for up to 10 years.