

NATIONAL FINANCIAL REPORTING AUTHORITY

The National Financial Reporting Authority (NFRA), one of the more recent entrants into the exclusive club of regulators, was set up on 01st October, 2018 by the Government of India under the Companies Act 2013

WHY?

The need for establishing NFRA arose on account of the need felt across various jurisdictions in the world, in the wake of accounting scams, to establish independent regulators, for enforcement of auditing standards and ensuring the quality of audits, and thereby, enhance investor and public confidence in financial disclosures of companies.

MANDATE

NFRA's mandate is to protect the public interest, and the interests of investors, creditors and users of corporate financial statements over which it has jurisdiction. NFRA has to achieve this objective by establishing high quality standards of accounting and auditing, and exercising effective oversight of accounting functions performed by companies, and auditing functions performed by auditors.

Audit Quality Reviews (AQRs) are an essential component of the method used by NFRA to monitor compliance with accounting and auditing standards. They also provide key inputs to the investigation and disciplinary proceedings activities of the NFRA.

Functions and Duties

The duties of the NFRA are to:

- 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 Rules 2018 provide that the Authority shall protect the public interest and the interests of investors, creditors and others associated with the companies or bodies corporate by establishing high quality standards of accounting and auditing and exercising effective oversight of accounting functions performed by the companies and bodies corporate and auditing functions performed by auditors.

The Authority shall have power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service and undertake investigation of the auditors of the following class of companies and bodies corporate, namely:-

- (a) Companies whose securities are listed on any stock exchange in India or outside India;
- (b) Unlisted public companies having paid-up capital of not less than rupees five hundred crores or having annual turnover of not less than rupees one thousand crores or having, in aggregate, outstanding loans, debentures and deposits of not less than rupees five hundred crores as on the 31st March of immediately preceding financial year;
- (c) Insurance companies, banking companies, companies engaged in the generation or supply of electricity, companies governed by any special Act for the time being in force or bodies corporate
- (d) Any body corporate or company or person, or any class of bodies corporate or companies or persons, on a reference made to the Authority by the Central Government in public interest; and
- (e) A body corporate incorporated or registered outside India, which is a subsidiary or associate company of any company or body corporate incorporated or registered in India as referred to in clauses (a) to (d), if the income or networth of such subsidiary or associate company exceeds twenty per cent. of the consolidated income or consolidated networth of such company or the body corporate, as the case may be, referred to in clauses (a) to (d).