

## **CORPORATE UPDATES**

### **NATIONAL FINANCIAL REPORTING AUTHORITY**

Section 132 of Companies Act 2013 mandates the Constitution of National Financial Reporting Authority

#### **INTRODUCTION**

The Central Government has constituted NFRA - National Financial Reporting Authority and also made rule to it effect which is notified on 13 November 2018. The NFRA have power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service or undertake investigation of the auditors.

#### **FOLLOWING OBSERVATIONS ON NFRA RULES:-**

##### **1. Which Companies are covered under NFRA rules and are required to file NFRA-1 Form?**

Following class of companies and bodies corporate on which NFRA rules is applicable, namely:-

1. Companies listed on any stock exchange in India or outside India;
2. Unlisted Public Companies fulfilling any one of the following condition as on 31<sup>st</sup> day of March of previous year;
  - Paid up capital of Rs 500 Crore or more
  - Turnover of more than 1000 Crore or more
  - Having outstanding Loan / Deposit / Debentures of 500 Crore or more
3. Insurance companies, banking companies, companies engaged in the generation or supply of electricity, companies governed by any special Act;
4. Reference made to the Authority by the central Government of any companies or class of companies;

5. 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 if the income or net worth of such subsidiary or associate company exceeds twenty per cent of the consolidated income or consolidated net worth.

## **2. What is the purpose of form NFRA 1?**

Every existing body corporate other than a company governed by these rules, shall inform the authority **within thirty days** of the commencement of these rules, in Form NFRA-1, **the particulars of the auditor** as on the date of commencement of these rules

Every Body corporate, other than a company as defined under section 2(20), formed in India and governed under this rule shall, **within 15 days of appointment** of an auditor under sub-section (1) of section 139, inform the Authority in Form NFRA-1, the particulars of the auditor appointed by such body corporate:

## **3. What are function and duties of NFRA?**

- To protect the public interest and the interests of investors, creditors and others associated.
- 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.
- To maintain details of particulars of auditors appointed in the companies and bodies corporate.
- To recommend accounting standards and auditing standards for approval by the Central Government.
- To monitor and enforce compliance with accounting standards and auditing standards.
- To 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.
- To promote awareness in relation to the compliance of accounting standards and auditing standards.
- To co-operate with national and international organizations of independent audit regulators in establishing and overseeing adherence to accounting standards and auditing standards.

## **4. Auditor to file Annual return**

As per rule 5, NFRA Rules, 2018 every auditor covered under rule 3 shall file a return with the Authority **on or before 30th April every year** in such form as may be specified by the Central Government.

**5. What are the powers of NFRA while Investigating Auditors?**

- NFRA can decide to undertake investigation into any matter on the basis of its compliance or oversight activities.
- Receive any reference from the Central Government for investigation into the matter of professional or other misconduct.
- Decide to undertake suo-moto investigation into any matter of professional or other misconduct.

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