

**Press Information Bureau
Government of India
Cabinet**

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Cabinet approves Establishment of National Financial Reporting Authority

The Union Cabinet chaired by the Prime Minister Shri Narendra Modi has approved the proposal for establishment of National Financial Reporting Authority (NFRA) and creation of one post of Chairperson, three posts of full-time Members and one post of Secretary for NFRA.

The decision aims at establishment of NFRA as an independent regulator for the auditing profession which is one of the key changes brought in by the Companies Act, 2013. The inclusion of the provision in the Act was on the specific recommendations of the Standing Committee on Finance (in its 21st report).

Impact:

The decision is expected to result in improved foreign/domestic investments, enhancement of economic growth, supporting the globalisation of business by meeting international practices, and assist in further development of audit profession.

Jurisdiction:

The jurisdiction of NFRA for investigation of Chartered Accountants and their firms under section 132 of the Act would extend to listed companies and large unlisted public companies, the thresholds for which shall be prescribed in the Rules. The Central Government can also refer such other entities for investigation where public interest would be involved.

The inherent regulatory role of ICAI as provided for in the Chartered Accountants Act, 1949 shall continue in respect of its members in general and specifically with respect to audits pertaining to private limited companies, and public unlisted companies below the threshold limit to be notified in the rules.

The Quality Review Board (QRB) will also continue quality audit in respect of private limited companies, public unlisted companies below prescribed threshold and also with respect to audit of those companies that may be delegated to QRB by NFRA. Further, ICAI shall continue to play its advisory role with respect to accounting and auditing standards and policies by making its recommendations to NFRA.

Background:

The need for establishing NFRA has arisen on account of the need felt across various jurisdictions in the world, in the wake of accounting scams, to establish independent regulators, independent from those it regulates, for enforcement of auditing standards and ensuring the quality of audits to strengthen the independence of audit firms, quality of audits and, therefore, enhance investor and public confidence in financial disclosures of companies.

This document has been compiled as service to our clients. We recommend that you seek professional advice prior to initiating action on specific issues.

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