



# IAS PARLIAMENT

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## Government's Plan on NFRA

### Why in news?

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Union government has approved the proposal to set up the National Financial Reporting Authority (NFRA).

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### What is the proposal about?

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- National Financial Reporting Authority (NFRA) is intended to serve as an independent regulator for the auditing profession.

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- Section 132 of the Companies Act, 2013 gives the Centre the power to set up such an authority.

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- According to it, NFRA can do the following:

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1. recommend to the Centre formulation of accounting and auditing standards and policies to be adopted by companies and auditors

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2. monitor and enforce such standards and policies

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3. oversee quality of services of the professions associated with the compliance of these standards and policies

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### What is the role of Companies Act in accounting?

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- The Companies Act casts a responsibility on auditors to see that corporate accounts are in order.
- Auditors can choose not to sign the accounts if their concerns are not addressed by the management.
- The Companies Act also allows auditors to report to the Centre if they believe an offence involving fraud is being committed.
- This could be by the company, by its officers or the employees.

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### **What are the powers of NFRA?**

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- NFRA will comprise a chairperson, three full-time members and a secretary.
- It can investigate into professional matters or misconduct of any member or a firm of chartered accountants.
- It can issue summons and examine on oath.
- It can also inspect any book, registers and documents of any professional/firms probed.
- It may impose penalties, and is even empowered to debar a member of a firm.

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### **What is the need?**

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- Across the world, there have been instances of scams involving the help of Auditors.
- In India, this situation is worse as there is no reliable audit regulator.
- Union government's recent move is to fill the reliability gap in audit

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regulation.

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- Setting up the NFRA indicates, to an extent, the lack of trust in ICAI (Institute of Chartered Accountants of India) to effectively address malpractices.

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## **What is the significance of NFRA?**

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- The NFRA was brought into the Companies Act on the specific recommendations of the Standing Committee on Finance.
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- Its jurisdiction will cover investigation of chartered accountants and their firms covering both listed and unlisted public companies.
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- The inherent regulatory role of the ICAI as provided for in the Chartered Accountants Act, 1969 will continue but its threshold limits will be modified.
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- NFRA could thus significantly help oversee the functioning of the Institute of Chartered Accountants of India (ICAI).
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- It will also ensure credibility in financial reporting.
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**Source: The Hindu**

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## **Quick Fact**

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## **Institute of Chartered Accountants of India**

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- The Institute of Chartered Accountants of India (ICAI) is a **statutory** body.

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