

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.

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- Auditors can choose not to sign the accounts if their concerns are not addressed by the management.

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- The Companies Act also allows auditors to report to the Centre if they believe an offence involving fraud is being committed.

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- 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.

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- It can investigate into professional matters or misconduct of any member or a firm of chartered accountants.

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- It can issue summons and examine on oath.

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- It can also inspect any book, registers and documents of any professional/firms probed.

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- 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.

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- In India, this situation is worse as there is no reliable audit regulator.

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- Union government's recent move is to fill the reliability gap in audit 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.
- Its jurisdiction will cover investigation of chartered accountants and their firms covering both listed and unlisted public companies.
- 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.
- NFRA could thus significantly help oversee the functioning of the Institute of Chartered Accountants of India (ICAI).
- 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.
- It was established by The **Chartered Accountants Act, 1949**.
- The Institute, functions under the administrative control of the **Ministry of**

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Corporate Affairs.

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- It is aimed at regulating the profession of Chartered Accountancy in the country.

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