National Financial Reporting Authority (NFRA)

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In news– Recently, the National Financial Reporting Authority (NFRA) listed out criteria for quality review.

NIFRA's criteria for quality review-

- NFRA will choose companies for audit and financial reporting quality reviews based on the financial impact the entity has on the economy.
- After an extensive public consultation, NFRA said of the two criteria, **'external impact risk'** will get higher weightage, as it identifies and measures the financial impact a firm could have on the Indian economy and the environment.
- The other key criterion is **the risk of material misstatement,** which may escape the attention of auditors, or could be overlooked by auditors.
- External impact risk indicates how systemically important a business is and what is the impact it may have on the economy in case it fails.
- The risk of material misstatement reflects the level of governance standards, as well as the reputation and track record of the company's auditors.
- Well-governed firms are unlikely to figure in this review considering that the regulator's time and resources are finite.

About the National Financial Reporting Authority (NFRA)-

- NFRA was constituted on 01st October, 2018 by the Government of India under Sub Section (1) of **Section 132 of the Companies Act, 2013.**
- The NFRA is to be an **independent regulator overseeing the auditing profession, and its creation was first**

recommended by the Standing Committee on Finance in its 21st report.

Functions and Duties of NFRA-

- 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;
- Apart from setting the rules and regulations governing the audit sector, the NFRA will have the power to debar erring auditors or audit firms for up to 10 years and impose significant fines on them.
- As per rule 3 of the NFRA rules, 2018, **the Authority shall have the power to monitor and enforce compliance with accounting standards and auditing standards**, oversee the quality of service or undertake the investigation of such section of the auditors of the following class of companies and bodies corporate, namely:
- **Companies whose securities are listed on any stock exchange** in India or outside India.
- **Unlisted public companies having paid-up capital of not less than rupees five hundred crores** or having an 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 the immediately preceding financial year.
- **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 incorporated by an Act.

- **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

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 percent of the consolidated income or consolidated net worth of such company or the body corporate.