

**GOVERNMENT OF INDIA  
MINISTRY OF CORPORATE AFFAIRS**

**LOK SABHA  
UNSTARRED QUESTION NO. 3535  
ANSWERED ON MONDAY THE 16<sup>TH</sup> MARCH, 2020  
[PHALGUNA 26, 1941 (SAKA)]**

**ESTABLISHMENT OF NFRA**

**QUESTION**

**3535. DR. SHASHI THAROOR:**

**Will the Minister of CORPORATE AFFAIRS  
be pleased to state:**

कारपोरेट कार्य मंत्री

- (a) whether the creation of National Financial Reporting Authority (NFRA) in October 2018, has resulted in presence of two similar Accounting Regulatory Bodies in India, the other being the Institute of Chartered Accountants of India (ICAI);
- (b) if so, the details thereof including the purpose for having duplicate authorities with similar objectives; and
- (c) if not, the details thereof including the key differences between the roles and responsibilities of NFRA and ICAI in major areas?

**ANSWER**

**THE MINISTER OF STATE FOR FINANCE AND CORPORATE AFFAIRS** (SHRI ANURAG SINGH THAKUR)

वित्त एवं कारपोरेट कार्य मंत्रालय में राज्य मंत्री

(श्री अनुराग सिंह ठाकुर)

(a) to (c):- NFRA and ICAI are not two similar accounting regulatory bodies. The respective roles and areas of functioning of the NFRA and ICAI are different. The Central Government has constituted National Financial Reporting Authority (NFRA) to provide for matters relating to formulation of accounting and auditing standards and compliance thereof under the Companies Act, 2013. Section 132 (2) of the Act provides that the NFRA shall perform the following functions:-

- “(a) make recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors, as the case may be;
- (b) monitor and enforce the compliance with accounting standards and auditing standards in such manner as may be prescribed;
- (c) oversee the quality of service of the professions associated with ensuring compliance with such standards, and suggest measures

**required for improvement in quality of service and such other related matters as may be prescribed; and**

**(d) perform such other functions relating to clauses (a), (b) and (c) as may be Prescribed”.**

**Further, Rule 3 of NFRA Rules, 2018 provides the classes of companies on which NFRA shall have jurisdiction and accordingly provides as under:-**

**“3. Classes of companies and bodies corporate governed by the Authority.—**

**(1) The Authority shall have power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service under sub-section (2) of section 132 or undertake investigation under sub-section (4) of such section of the auditors of the following class of companies and bodies corporate, namely:-**

**(a) companies whose securities are listed on any stock exchange in India or outside India;**

**(b) unlisted public companies having paid-up capital of not less than rupees five hundred crores or having 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 immediately preceding financial year;**

**(c) 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 in accordance with clauses (b), (c), (d), (e) and (f) of sub-section (4) of section 1 of the Act;**

**(d) 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**

**(e) 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 as referred to in clauses (a) to (d), if the income or networth of such subsidiary or associate company exceeds twenty percent of the consolidated income or consolidated networth of such company or the body corporate, as the case may be, referred to in clauses (a) to (d).”**

**2. Section 132(4) provides that the NFRA shall have the power to investigate, either suo motu or on a reference made to it by the Central Government, for such class of bodies corporate or persons, in such manner as may be prescribed into the matters of professional or other misconduct committed by any member or firm of chartered accountants, registered under the Chartered Accountants Act, 1949. Further, where professional or other misconduct is proved, the NFRA shall have the power to make order for-**

**(A) imposing penalty of—**

- (I) not less than one lakh rupees, but which may extend to five times of the fees received, in case of individuals; and**
- (II) not less than five lakh rupees, but which may extend to ten times of the fees received, in case of firms;**

**(B) debarring the member or the firm from—**

**I. being appointed as an auditor or internal auditor or undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate; or**

**II. performing any valuation as provided under section 247,**

**for a minimum period of six months or such higher period not exceeding ten years as may be determined by the National Financial Reporting Authority.**

**3. In view of above, it may be noted that the inherent regulatory role of ICAI as provided for in the Chartered Accountants Act, 1949 shall continue and it will continue with its core functions of conducting qualifying Examinations for becoming a Chartered Accountant under the Chartered Accountant Act, 1949, registering qualified candidates, issuing certificate of practice, execute memoranda of understanding and mutual recognition agreements with its counterpart bodies in other countries, and finally, regulate audit quality. The Accounting Standards Board (ASB) of ICAI will continue to perform its functions and give its recommendations on formulation and modification of accounting standards through the NFRA to the Government, instead of through the National Advisory Committee on Accounting Standards (NACAS) as done earlier which was a body established under the Companies Act, 1956.**

**Similarly, the Auditing and Assurance Standards Board (AASB) of ICAI will also continue to perform its role and shall submit its recommendations on Auditing Standards to the Government through NFRA. 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. ICAI will continue to exercise disciplinary control over the auditors of all companies which are not being covered by NFRA. Further, Section 132 (4) of the Companies Act, 2013 has a non-obstante clause and hence NFRA shall have no over-lapping effect on any other law in force. Therefore, there is no conflict between the jurisdictions of ICAI under the Chartered Accountants Act, 1949 and NFRA under the Companies Act, 2013 as their functions and jurisdiction are distinct.**

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