National Financial Reporting Authority

Why in news?

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Union Cabinet has approved the creation of a National Financial Reporting Authority (NFRA).

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What are the existing audit regulators in India?

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- At present Institute of Chartered Accountants of India (ICAI) is the auditing regulator.
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- ICAI plays the advisory role with respect to accounting and auditing standards and policies.
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- Listed public and private companies, Larger and Smaller unlisted companies are audited by the ICAI.
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- Quality Review Board (QRB) conduct quality audits for private limited companies, and public unlisted companies below the prescribed.
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What is NFRA?

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- National Financial Reporting Authority (NFRA) is to be an independent regulator overseeing the auditing profession.
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- The regulator will have a chairman, three full-time members, and one secretary. (The qualifications of these persons are yet to be decided).
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- NFRA can recommend formulation of accounting and auditing standards and polices which to be adopted by companies and auditors.

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- It can monitor and enforce such standards and policies to oversee quality of services of the professions.
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- NFRA would cover all listed companies and large unlisted companies, the benchmark size for which would be set down in the rules.
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What are the significant powers of NFRA?

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- It will have the power to debar erring auditors or audit firm for up to 10 years and impose significant fines on them.
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- NFRA will also have powers to impose a fine of less than Rs.1 lakh, but the amount can extend up to five times of the fees received in case of individuals.
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- NFRA would also have the power to refer cases to the QRB as and when it decided to do so.
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What is the account of creation of NFRA?

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- In India the audit profession had become very complacent in the idea that there would be no oversight.
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- The idea for an NFRA came following the Satyam scam in 2009, following which the Standing Committee on Finance recommended the creation of an audit regulator.
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- Following that many provisions of the Companies Act, 2013 came into force in 2014 but the setting up of the NFRA a key recommendation, was delayed.
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- The decision appears to have been prompted by recent Punjab National Bank fraud that went undetected by auditors.
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- The government is quite clear that the need for such a body is all the more important after several financial accounting scams.
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Source: The Hindu

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