



NFRA Rules notified

13 December 2018

First Notes on

Financial reporting

Corporate law updates

Regulatory and other information

Disclosures

Sector

All

Banking and insurance

Information, communication, entertainment

Consumer and industrial markets

Infrastructure and government

Relevant to

All

Audit committee

CFO

Others

Transition

Immediately

Within the next three months

Post three months but within six months

Post six months

Forthcoming requirement

Background

The Companies Act, 2013 (2013 Act) empowered the Central Government (CG) to constitute National Financial Reporting Authority (NFRA) to advise on matters relating to both accounting and auditing standards as well as for other issues relating to monitoring and compliance of such standards. Accordingly, the Ministry of Corporate Affairs (MCA) appointed 1 October 2018 as the date of constitution of the NFRA.

Additionally, on 24 October 2018, MCA notified certain sub-sections of the Section 132. These sub-sections lay down the roles to be performed by NFRA. The roles are as follows:

- Make recommendations to the CG on the formulation of accounting and auditing standards for adoption by companies, class of companies or their auditors
- Monitor and enforce compliance with both accounting and auditing standards
- Oversee the quality of service of the professions associated with ensuring compliance with such standards, suggest measures required for improvement in quality of service and such other related prescribed matters.

New development

On 13 November 2018, MCA notified the NFRA Rules, 2018 (the Rules) and these are effective from 14 November 2018. These Rules lay down the procedure for NFRA to monitor and enforce compliance with both accounting and auditing standards, oversee the quality of service and undertake investigation of the auditors of the companies and bodies corporates that are governed by NFRA.

This edition of First Notes contains a brief summary of the Rules.

Summary of NFRA Rules

The table below provides a summary of the NFRA Rules :

Applicability on certain entities	<p>The entities which will come under the purview of NFRA are as follows:</p> <ol style="list-style-type: none"> a) Companies whose securities are listed on any stock exchange in India or outside India b) Unlisted public companies with paid-up capital of not less than INR500 crore or annual turnover of not less than INR1,000 crore or in aggregate, outstanding loans, debentures and deposits of not less than INR500 crore as on 31 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 those body corporates referred to it by the CG d) CG, in public interest, may refer any entity (i.e. a body corporate or a company) or person, or any class of entities or persons to NFRA, and e) A body corporate incorporated or registered outside India which is a subsidiary or an associate company of any company or body corporate incorporated or registered in India as referred to in (a) to (d) above and if the income or net worth of such a subsidiary or an associate company is more than 20 per cent of the consolidated income or consolidated net worth of such a company or the body corporate as referred to in (a) to (d) above. <p>The Rules further provide that a company or a body corporate would continue to be governed by NFRA for a period of three years after it ceases to be listed or its paid-up capital or turnover or aggregate of loans, debentures and deposits falls below the prescribed limit.</p> <p>Every existing body corporate, other than a company, governed by the NFRA rules would be required to furnish particulars of its auditors to NFRA in the specified form within 30 days of commencement of these Rules. Since these Rules came into effect from 14 November 2018, the requisite particulars are to be furnished by 13 December 2018.</p> <p>Also, bodies corporate which are not companies within the meaning of the 2013 Act, but are formed in India and are governed under these Rules would furnish particulars of their auditors within 15 days of such appointment being made.</p> <p>Further, a body corporate incorporated or registered outside India which is a subsidiary or an associate as explained in point (e) above, would also be required to provide details of appointment of its auditor in the specified form.</p>
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Functions and duties of NFRA	<p>The NFRA has been formed with the intent to protect the public interest and the interests of investors, creditors and others associated with the companies or bodies corporates governed by the Rules. Additionally, these Rules provide that NFRA would exercise an effective oversight of accounting functions performed by the companies and bodies corporate and auditing functions performed by auditors. The key functions and duties are as following:</p> <ul style="list-style-type: none"> • Maintain details of particulars of auditors appointed in the companies and bodies corporate • Recommend both accounting and auditing standards for approval by the CG • Monitor and enforce compliance with both accounting 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 • Promote awareness in relation to the compliance of both accounting and auditing standards • Co-operate with national and international organisations of independent audit regulators in establishing and overseeing adherence to both accounting and auditing standards. • Perform such other functions and duties as may be necessary or incidental to the above functions and duties.
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Annual return Auditors of the companies and bodies corporate are required to file a return with the NFRA on or before 30 April every year in a form to be specified by the CG.

Recommend both accounting and auditing standards NFRA would receive recommendations from the Institute of Chartered Accountants of India (ICAI) on proposals for either new accounting or auditing standards or for amendments to the existing accounting or auditing standards. It may seek additional information from ICAI on the recommendations received on such above standards, if required.

NFRA will thereafter make recommendations to the CG.

Monitor and enforce compliance with Accounting Standards (ASs)

To monitor and enforce compliance with AS by companies and bodies corporate, NFRA has the following powers:

- It may review the financial statements of companies and bodies corporate. If required, it is empowered to direct, by means of a written notice such a company, body corporate, or its auditor, to provide further information, explanation or any relevant document relating to such an entity within such time as may be specified in the notice
- It may require the personal presence of officers of the entity and its auditor for seeking such additional information or explanation
- It may publish its findings relating to non-compliances on its website and in such other manner as it considers fit
- It may decide to investigate or enforce an action, if it finds or has reason to believe that there may be a violation of any AS.

Monitor and enforce compliance with auditing standards

To monitor and enforce compliance with auditing standards by auditors of the companies and bodies corporate, NFRA has the following powers:

- It may review work papers (including audit plan and other audit documents), communications related to audit, evaluate the sufficiency of the quality control system of the auditor, the manner of documentation of the system by the auditor, perform such other testing of the audit, supervisory and quality control procedures of the auditor as may be considered necessary or appropriate
- It may require an auditor to report on his/her governance practices and internal processes designed to promote audit quality, protect its reputation and reduce risks including risk of failure of the auditor and may take necessary action on such report
- It may seek additional information or may require the personal presence of the auditor for seeking additional information or explanation in connection with the conduct of an audit
- It would perform its monitoring and enforcement activities through its officers or experts with sufficient experience in audit of the relevant industry
- It may publish its findings relating to such non-compliances on its website, however, it would ordinarily not publish proprietary or confidential information
- It may decide on the further course of investigation or enforcement action, where it finds or has reason to believe that any law or professional or other standard has or may have been violated by an auditor.

Powers to investigate

NFRA has been empowered with wide powers of investigation into any matter of professional or other misconduct under the 2013 Act on a reference made to it by the CG. It may also decide to undertake investigation into any matter on the basis of its compliance or oversight activities.

Further, it has been empowered to undertake *suo motu* investigation into any matter of professional or other misconduct, after recording reasons in writing for this purpose

If during investigation, it has evidence to believe that an entity has not complied with the requirements under the 2013 Act or rules which involve or may involve fraud of INR1 crore or more then it would need to report its findings to the CG.

On the commencement of these Rules, the action in respect of cases of professional or other misconduct against auditors of companies would be initiated by NFRA and no other institute or body would initiate any such proceedings against such auditors. Further, no other institute or body would initiate or continue any proceedings in such matters of misconduct where the NFRA has initiated investigation under these Rules. However, the action in respect of cases of professional or other misconduct against auditors of companies or bodies corporate other than those that are referred to in the Rules would continue to be proceeded with the ICAI as per the provisions of the Chartered Accountants Act, 1949 and regulations made thereunder.

Punishment in case of non-compliance

The punishment for contravention of Rules for the company, every officer of the company who is in default, auditor or such other person would be in accordance with the provisions of Section 450 of the 2013 Act.

Section 450 lays down punishment in cases where no specific punishment has been provided under other specific provisions of the 2013 Act. It provides punishment with a fine which may extend to INR10,000 and where the contravention is a continuing one, with a further fine which may extend to INR1,000 for every day after the first day during which the contravention continues.

Additionally, NFRA has the same powers as are vested in a Civil Court for discovery/ production of information, summoning, inspections, examination of witnesses or documents.

Where professional or other misconduct is proved, NFRA has powers to make order for:

- imposing of penalty (minimum INR1 lakh to maximum of five times of the fee received, in case of individuals)
- imposing of penalty (minimum INR10 lakh to maximum 10 times of the fee received in case of a firm), or
- debar the auditor (member or the firm for minimum 6 months to maximum 10 years) from engaging itself from practice as member of the ICAI.

The penal provisions would also apply to the firm and not just the individual partner.

Our comments

NFRA has been formed to regulate companies, bodies corporate and auditors. It would also recommend both accounting and auditing standards to the CG. In addition, it is also empowered to investigate and also initiate disciplinary proceedings against auditors, if required.

The bottom line

Companies and their auditors should take note of these Rules notified by MCA and provide information about appointment of auditors within the specified timelines.



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Clarification on applicability date of formats for financial results and intimation of reasons for delay in submission of financial results

7 December 2018

Schedule III to the Companies Act, 2013 (2013 Act) provides general instructions for presentation of financial statements of a company under both Accounting Standards (AS) and Indian Accounting Standards (Ind AS). Schedule III has three parts.

This issue of IFRS Notes provide insights on clarification issued by the National Stock Exchange of India Limited (NSE) and the BSE Limited (BSE) regarding applicability date of the notification on amendments to Schedule III (issued on 11 October 2018). Additionally, the IFRS Notes highlights SEBI's requirement regarding intimation of reasons for delay in submission of financial results.

Missed an issue of Accounting and Auditing Update or First Notes



Issue no. 28 – November 2018

The topics covered in this issue are:

- IFRS 16, *Leases* : Impact on the IT sector
- Impact of the new revenue standard on the healthcare sector
- Accounting for goodwill under Ind AS
- Classification of financial instruments with prepayment features
- Regulatory updates

MCA further amends Companies Act, 2013 through an ordinance



28 November 2018

Background

The Government of India constituted a committee¹ to review the existing framework dealing with offences under the Companies Act, 2013 (2013 Act) and related matters. The committee was required to make recommendations to promote better corporate compliance. The committee submitted its report on 27 August 2018.

New development

On 2 November 2018, the Ministry of Law and Justice issued the Companies (Amendment) Ordinance, 2018 (ordinance) and amended the 2013 Act based on the recommendations of the committee. The ordinance is effective from 2 November 2018.

This issue of First Notes provides an overview of the key amendments made by the ordinance to the provisions of the 2013 Act.



Voices on Reporting

KPMG in India is pleased to present Voices on Reporting – a series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

In a special session held on 12 December 2018, we discussed significant areas of impact of Ind AS 115, *Revenue from Contracts with Customers* and IFRS 16, *Leases* on the transport, leisure and sports sector.

Click here to access the [audio recording](#) (mp3) and [presentation](#) (pdf).

Feedback/queries can be sent to aaupdate@kpmg.com

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