

[TO BE PUBLISHED IN THE GAZETTE OF INDIA, EXTRAORDINARY, PART II,
SECTION 3, SUB-SECTION (i)]

GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS
NOTIFICATION

New Delhi, 13th November, 2018

G.S.R. _____(E). — In exercise of the powers conferred under sub-sections (2) and (4) of section 132, sub-section (1) of section 139 and sub-section (1) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following rules, namely :-

1. Short Title and Commencement.— (1) These rules may be called the National Financial Reporting Authority Rules, 2018.

(2) They shall come into force on the date of their publication in the Official Gazette.

2. Definitions.— (1) In these rules, unless the context otherwise requires,—

(a) “accounting standards” means the ‘accounting standards’ as defined in clause (2) of section 2 of the Act;

(b) “Act” means the Companies Act, 2013 (18 of 2013);

(c) “auditing standards” means the ‘auditing standards’ as defined in clause (7) of section 2 of the Act;

(d) “auditor” means an individual or a firm including a limited liability partnership incorporated under the Limited Liability Partnership Act, 2008 (6 of 2009) or any other Act for the time being in force, who has been appointed as an auditor of a company or a body corporate under section 139 of the Act or under any other Act for the time being in force;

- (e) "Authority" means the National Financial Reporting Authority constituted under sub-section (1) of section 132 of the Act;
 - (f) "chairperson" means the chairperson of the Authority;
 - (g) "Division" means a division established by the Authority for the purpose of organising and carrying out its functions and duties;
 - (h) "Form" means the Form annexed to these Rules;
 - (i) "full-time member" means a member who has been appointed as such under sub-section (3) of section 132 of the Act;
 - (j) "part-time member" means a member of the Authority other than a full-time member.
- (2) Words and expressions used and not defined in these rules but defined in the Act shall have the same meanings respectively assigned to them in the Act.

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 per cent. 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) Every existing body corporate other than a company governed by these rules, shall inform the Authority within thirty days of the commencement of these rules, in Form NFRA-1, the particulars of the auditor as on the date of commencement of these rules.

(3) Every body corporate, other than a company as defined in clause (20) of section 2, formed in India and governed under this rule shall, within fifteen days of appointment of an auditor under sub-section (1) of section 139, inform the Authority in Form NFRA-1, the particulars of the auditor appointed by such body corporate:

Provided that a body corporate governed under clause (e) of sub-rule (1) shall provide details of appointment of its auditor in Form NFRA-1.

(4) A company or a body corporate other than a company governed under this rule

shall continue to be governed by the Authority 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 limit stated therein.

4. Functions and duties of the Authority.— (1) The Authority shall protect the public interest and the interests of investors, creditors and others associated with the companies or bodies corporate governed under rule 3 by establishing high quality standards of accounting and auditing and exercising effective oversight of accounting functions performed by the companies and bodies corporate and auditing functions performed by auditors.

(2) In particular, and without prejudice to the generality of the foregoing, the Authority shall:—

- (a) maintain details of particulars of auditors appointed in the companies and bodies corporate specified in rule 3;
- (b) recommend accounting standards and auditing standards for approval by the Central Government;
- (c) monitor and enforce compliance with accounting standards and auditing standards;
- (d) 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;
- (e) promote awareness in relation to the compliance of accounting standards and auditing standards;
- (f) co-operate with national and international organisations of independent audit regulators in establishing and overseeing adherence to accounting standards and auditing standards; and

(g) perform such other functions and duties as may be necessary or incidental to the aforesaid functions and duties.

(3) The Central Government may, by notification, and subject to such conditions, limitations and restrictions as may be specified therein delegate any of its powers or functions under the Act, other than the power to make rules, to the Authority.

5. Annual return. Every auditor referred to in rule 3 shall file a return with the Authority on or before 30th April every year in such form as may be specified by the Central Government.

6. Recommending accounting standards and auditing standards.— (1) For the purpose of recommending accounting standards or auditing standards for approval by the Central Government, the Authority—

(a) shall receive recommendations from the Institute of Chartered Accountants of India on proposals for new accounting standards or auditing standards or for amendments to existing accounting standards or auditing standards;

(b) may seek additional information from the Institute of Chartered Accountants of India on the recommendations received under clause (a), if required.

(2) The Authority shall consider the recommendations and additional information in such manner as it deems fit before making recommendations to the Central Government.

7. Monitoring and enforcing compliance with accounting standards.— (1) For the purpose of monitoring and enforcing compliance with accounting standards under the Act by a company or a body corporate governed under rule 3, the Authority may review the financial statements of such company or body corporate, as the case may be, and if so required, direct such company or body corporate or its auditor by a written notice, to provide further information or explanation or any relevant documents relating to such company or body corporate, within such

reasonable time as may be specified in the notice.

(2) The Authority may require the personal presence of the officers of the company or body corporate and its auditor for seeking additional information or explanation in connection with the review of the financial statements of such company or body corporate.

(3) The Authority shall publish its findings relating to non-compliances on its website and in such other manner as it considers fit, unless it has reasons not to do so in the public interest and it records the reasons in writing.

(4) Where the Authority finds or has reason to believe that any accounting standard has or may have been violated, it may decide on the further course of investigation or enforcement action through its concerned Division.

8. Monitoring and enforcing compliance with auditing standards.— (1) For the purpose of monitoring and enforcing compliance with auditing standards under the Act by a company or a body corporate governed under rule 3, the Authority may: –

- (a) review working papers (including audit plan and other audit documents) and communications related to the audit;
- (b) evaluate the sufficiency of the quality control system of the auditor and the manner of documentation of the system by the auditor; and
- (c) perform such other testing of the audit, supervisory, and quality control procedures of the auditor as may be considered necessary or appropriate.

(2) The Authority may require an auditor to report on its 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 such action on the report as may be necessary.

(3) The Authority 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.

(4) The Authority shall perform its monitoring and enforcement activities through its officers or experts with sufficient experience in audit of the relevant industry.

(5) The Authority shall publish its findings relating to non-compliances on its website and in such other manner as it considers fit, unless it has reasons not to do so in the public interest and it records the reasons in writing.

(6) The Authority shall not publish proprietary or confidential information, unless it has reasons to do so in the public interest and it records the reasons in writing.

(7) The Authority may send a separate report containing proprietary or confidential information to the Central Government for its information.

(8) Where the Authority finds or has reason to believe that any law or professional or other standard has or may have been violated by an auditor, it may decide on the further course of investigation or enforcement action through its concerned Division.

9. Overseeing the quality of service and suggesting measures for improvement.—

(1) On the basis of its review, the Authority may direct an auditor to take measures for improvement of audit quality including changes in their audit processes, quality control, and audit reports and specify a detailed plan with time-limits.

(2) It shall be the duty of the auditor to make the required improvements and send a report to the Authority explaining how it has complied with the directions made by the Authority.

(3) The Authority shall monitor the improvements made by the auditor and take such action as it deems fit depending on the progress made by the auditor.

(4) The Authority may refer cases with regard to overseeing the quality of service of

auditors of companies or bodies corporate referred to in rule 3 to the Quality Review Board constituted under the Chartered Accountants Act, 1949 (38 of 1949) or call for any report or information in respect of such auditors or companies or bodies corporate from such Board as it may deem appropriate.

(5) The Authority may take the assistance of experts for its oversight and monitoring activities.

10. Power to investigate.— (1) Where the Authority has-

- (a) received any reference from the Central Government for investigation into any matter of professional or other misconduct under sub-section (4) of section 132 of the Act;
- (b) decided to undertake investigation into any matter on the basis of its compliance or oversight activities; or
- (c) decided to undertake *suo motu* investigation into any matter of professional or other misconduct, after recording reasons in writing for this purpose,

it shall forward the matter to its Division dealing with enforcement for carrying out investigation and other action.

(2) If, during the investigation, the Authority has evidence to believe that any company or body corporate has not complied with the requirements under the Act or rules which involves or may involve fraud amounting to rupees one crore or more, it shall report its findings to the Central Government.

(3) On the commencement of these rules-

(a) the action in respect of cases of professional or other misconduct against auditors of companies referred to in rule 3 shall be initiated by Authority and no other institute or body shall initiate any such proceedings against such auditors:

Provided that no other institute or body shall initiate or continue any proceedings in such matters of misconduct where the Authority has initiated an investigation under this rule;

(b) the action in respect of cases of professional or other misconduct against auditors of companies or bodies corporate other than those referred to in rule 3 shall continue to be proceeded with by the Institute of Chartered Accountants of India as per provisions of the Chartered Accountants Act, 1949 and the regulations made thereunder.

11. Disciplinary proceedings.— (1) Based on the reference received from the Central Government or findings of its monitoring or enforcement or oversight activities, or on the basis of material otherwise available on record, if the Authority believes that sufficient cause exists to take actions permissible under sub-section (4) of section 132, it shall refer the matter to the concerned division, which shall cause a show-cause notice to be issued to the auditor.

(2) The show-cause notice shall be in writing, and shall, *inter alia*, state-

- (a) the provisions of the Act or rules under which it has been issued;
- (b) the details of the alleged facts;
- (c) the details of the evidence in support of the alleged facts;
- (d) the provisions of the Act, rules or the accounting standards or auditing standards thereunder allegedly violated, or the manner in which the public interest is allegedly affected;
- (e) the actions that the Authority proposes to take or the directions it proposes to issue if the allegations are established;
- (f) the time limit and the manner in which the auditor is required to respond to the show-cause notice;

- (g) the consequences of failure to respond to the show-cause notice; and
 - (h) the procedure to be followed for disposal of the show-cause notice.
- (3) The show-cause notice shall enclose copies of documents relied upon and extracts of relevant portions from the report of investigation or other records.
- (4) The show-cause notice shall be served on the auditor in the following manner, namely -
- (a) by sending it to the auditor at the address provided by him or provided by the Institute of Chartered Accountants of India (if required by the Authority) by registered post with acknowledgement due; or
 - (b) by an appropriate electronic means to the email address of the auditor provided by him or it or provided by the the Institute of Chartered Accountants of India (if required by the Authority):

Provided that where the auditor is a firm -

- (a) a notice to a firm shall be deemed to be a notice to all the partners or employees of that firm as on the date of service of notice;
 - (b) the notice shall call upon the firm to disclose the name or names of the partner or partners concerned who shall be responsible for answering the allegations;
 - (c) the partner whose name is disclosed by the firm shall be responsible for answering the notice against the firm, and if no partner, whether erstwhile or present, of the firm owns responsibility for the allegations made against the firm, then the firm as a whole shall be responsible for answering the allegations, and all the partners and employees of that firm as on the date of occurrence of alleged misconduct, shall be responsible for answering the allegations.
- (5) The Division shall dispose of the show-cause notice within a period of ninety days of the assignment through a summary procedure as may be specified by the

Authority, by a reasoned order in adherence to the principles of natural justice including where necessary or appropriate an opportunity of being heard in person, and after considering the submissions, if any, made by the auditor, the relevant facts and circumstances, and the material on record.

(6) The order disposing of a show-cause notice may provide for-

(a) no action;

(b) caution;

(c) action for imposing penalty against auditor under sub-clause (A) of clause (c) of sub-section (4) of section 132 or for debarring the auditor from engaging as such under sub-clause (B) of clause (c) of sub-section (4) of section 132 or both.

(7) The order passed under sub-rule (6) shall not become effective until thirty days have elapsed from the date of issue of the order unless the Division states otherwise in the order along with the reason for the same.

(8) The order passed under sub-rule (6) shall be served on the auditor in the manner specified in sub-rule (3) and a copy of the same shall be sent

(i) in all cases to - (a) the Central Government; and (b) the Institute of Chartered Accountants of India;

(ii) in the case of a company referred to in sub-section (5) of section 139 to the Comptroller and Auditor General of India;

(iii) in the case of a listed company to the Securities and Exchange Board of India;

(iv) in the case of a bank or a non-banking finance company to the Reserve Bank of India;

(v) in the case of an insurance company to the Insurance Regulatory and Development Authority of India;

(vi) in case the auditor is resident outside India to concerned regulator of such

country;

and the same shall be published on the website of the Authority.

12. Manner of enforcement of orders passed in disciplinary proceedings.—

(1) Where the order passed under rule 11 relates to imposition of a monetary penalty on any auditor, the auditor shall deposit the amount of penalty with the Authority within thirty days of the order:

Provided that where the auditor prefers an appeal against the order of the Authority, it shall deposit ten per cent. of the amount of the monetary penalty with the Appellate Tribunal.

(2) If, within thirty days of the order passed under rule 11, the auditor neither pays the penalty nor appeals against the order, the Authority shall, without prejudice to any other action, inform about such non-compliance to every company or body corporate (including those not covered by rule 3) in which the auditor is functioning as auditor and every such company or body corporate shall appoint a new auditor in accordance with the provisions of the Act.

(3) Where the order passed under rule 11 imposes a penalty on the auditor or debars the auditor from practice, the order shall be sent to every company or body corporate in which the auditor is functioning as auditor.

(4) Where the order passed under rule 11 debars the auditor from practice or the order under sub-rule (2) is passed, the order shall be sent to every company or body corporate (including those not covered by rule 3) in which the auditor is functioning as auditor and every such company or body corporate shall appoint a new auditor in accordance with the provisions of the Act.

13. Punishment in case of non-compliance.- If a company or any officer of a company or an auditor or any other person contravenes any of the provisions of

these rules, the company and every officer of the company who is in default or the auditor or such other person shall be punishable as per the provisions of section 450 of the Act.

14. Role of chairperson and full-time members.— All matters related to, investigation, monitoring, enforcement and disciplinary proceedings shall be examined and decided by the chairperson or any one or more of the full-time members, acting through one of the Divisions.

15. Advisory committees, study groups and task forces.— For the effective performance of its functions under the Act, the Authority may constitute advisory committees, study groups and task forces.

16. Financial reporting advocacy and education.— The Authority shall take suitable measures for the promotion of awareness and significance of accounting standards, auditing standards, auditors' responsibilities, audit quality and such other matters through education, training, seminars, workshops, conferences and publicity.

17. Confidentiality and security of information.— (1) The Authority and all persons and organisations associated with it shall maintain complete confidentiality and security of the information provided to them for the purpose of the work of the Authority.

(2) The Authority may enter into such contractual arrangements as may be necessary in order to maintain complete confidentiality and security of the information.

18. Avoidance of conflict of interest.— (1) The Authority shall not enter into any contract, arrangement or relationship or participate in any event that may, or is likely to be perceived to, interfere with its ability to perform its functions and duties in an effective, fair and reasonable manner.

(2) In particular the Authority or any person associated with it shall not receive any funds, assets, donations, favours, gifts or sponsorships from any source other than the Central Government and shall not enter into any liabilities, obligations or commitments except as permitted by the Central Government.

19. International associations and international assistance.— (1) The Authority may become a member of regional or international associations of independent audit regulators and standard-setters on such terms as it deems fit.

(2) The Authority may provide assistance to, or receive assistance from, foreign independent audit regulators in investigation of an auditor in accordance with Indian laws on such terms as it deems fit.

FORM NFRA-1

[Pursuant to section 132 of the Companies Act, 2013 and Rule 3(2) and 3(3) of the National Financial Reporting Authority Rules, 2018]



Notice to the Authority by a body corporate regarding its auditor

Form language English Hindi

Refer instruction kit for Filing the form.

Auditor of a body corporate functioning as on the date of commencement of the Rules

Auditor of a body corporate referred to in rule 3(3)

Auditor of a foreign body corporate referred to in proviso to rule 3(3)

1.(a) *Identity number of body corporate

(b) Global Location Number(GLN)

2. (a) Name of the body corporate

(b) Address of the Registered Office
of the Body Corporate

(c) *email id of the body corporate

3. *Whether joint auditors have been appointed O Yes O No

*Number of auditor(s) appointed

I. (a) *Category of auditor Individual Auditor's firm

(b) *Income-tax permanent account number of auditor or auditor's firm

(c) *Name of the auditor or auditor's firm

(d) *Membership number of auditor or auditor's firm registration number

(e) *Address of the auditor or auditor's firm

Line I

Line II

*City

*State

Country

*Pin code

*e-mail ID of the auditor or auditor's firm

(f) *Period of accounts for which appointed From (DD/MM/YYYY)

To (DD/MM/YYYY)

(g) *Number of financial year(s) to which appointment relates

(h) *Whether the appointment of auditor, if being appointed in India, is within the limits specified in section 141(3)(g) Yes No

(i) Specify the tenure of previous appointment(s) of the auditor or auditor's firm or its member in the same company in which audit was conducted.

*Number of financial year(s)

S. No.	Person appointed as auditor	Financial year Start date	Financial year End date

4. (a) *Whether auditor(s) have been appointed in Annual general meeting (AGM) Yes No

(b) If yes, date of AGM (DD/MM/YYYY)

5. *Date of appointment (DD/MM/YYYY)

6. (a) *Whether auditor is appointed due to casual vacancy in the office of auditor

Yes No

(b) *Person vacated the office Individual Auditor's firm

(c) *Mention the membership number of auditor or Registration number of auditor's firm who has vacated the office

(d) *Mention the date of such vacancy

(e) *Reasons of the casual vacancy

Attachments

- Copy of the intimation sent by body corporate
- *Copy of written consent given by auditor;
- *Copy of resolution passed by the body corporate;
- Copy of the letter of appointment from C&AG
- Copy of the order of the Tribunal
- Optional attachments, if any.

Attach
Attach
Attach
Attach
Attach
Attach

List of attachments

Declaration

I am authorized by the Board of Directors of the body corporate vide resolution number

dated* to sign this form and declare that all the relevant requirements of Companies Act, 2013 and rules made thereunder in respect of the subject matter of this form and matters incidental thereto have been complied with. I also declare that all the information given herein above is true, correct and complete including the attachments to this form and nothing material has been suppressed.

DSC Box

***To be digitally signed by**

*Designation

*Director identification number of the director; or

DIN or PAN of the manager/CEO/CFO; or

Membership number of the Company Secretary

Note: Attention is also drawn to provisions of Section 448 of the Companies Act which provide for punishment for false statement.

Modify

Check Form

Prescrutiny

Submit

This eForm has been taken on file maintained by the registrar of companies through electronic mode and on the basis of statement of correctness given by the company



13/11/2018

[F. No. 1/4/2016 CL-I, Part-I]
K.V.R. MURTY, Joint Secretary