

IL&FS will be new audit watchdog NFRA's first test case

Set up recently, NFRA has the powers to launch a suo motu investigation on suspected accounting irregularities. It is also empowered to penalise chartered accountants and audit firms

The crisis surrounding debt-laden Infrastructure Leasing & Financial Services (IL&FS) will be the first case for the newly constituted auditors' watchdog, National Financial Reporting Authority (NFRA).

“IL&FS will be a test case for NFRA,” a top government official told Moneycontrol adding that the authority is in the process of beginning its assessment of the role of auditors of the business conglomerate.

In March, the Cabinet approved the proposal of setting up of NFRA as an independent regulator for the chartered accountants, for enforcing their accounting and auditing standards, therefore, enhancing investor and public confidence in financial disclosures of companies.

This was also one of the key recommendations that was brought about by the Companies Act, 2013. The decision to set up auditor's watchdog came in with corporate scams coming out in the open, including the Nirav Modi's bank fraud that came to light in February, 2018.

The role of an auditor is crucial as it is supposed to provide a fair view of companies' annual accounts and its financial position, according to Companies Act, 2013. It also has the right to access records of all the subsidiaries of a particular company, and whether the financial statements comply with the accounting standards.

Last week, the government appointed former IAS officer R Sridharan as the first chief of NFRA.

NFRA has the power to investigate, either suo motu or if there is a reference made to it by the government, according to the rules released by ministry of corporate affairs (MCA). In addition, the authority also has the power to penalise any chartered accountant or an audit firm.

In case of individuals, fine up to Rs one lakh can be slapped, and it can be extended to five times of the fees received. For firms, the penalty amount will be Rs 10 lakhs, which can be extended to ten times of the fees received.

According to the rules, the authority can also debar the firm engaging in practice as member of the Institute of Chartered Accountant of India (ICAI).

The inherent regulatory role of ICAI will continue, especially with respect to audits pertaining to private and public unlisted companies' rules. It will continue with its advisory role on accounting and auditing standards by making its recommendations to NFRA.

Over the past two months, IL&FS has defaulted on payments and is sitting on total liabilities of Rs 91,000 crore. The crisis at IL&FS spilled over to bond and stock markets, with yields rising and stock prices tumbling.

According to an official statement from the finance ministry, the government noted that the consolidated financial statement of the IL&FS holding company and its subsidiaries exaggerated the value of their non-current assets by showing intangible assets worth over Rs. 20,000 crore.

On October 1, National Company Law Tribunal (NCLT) approved the takeover of IL&FS board by government nominees, saying mismanagement at the crisis-ridden financier makes it a fit case of supersession of the board.

(Money Control)