



NFRA to introduce Annual Transparency Report by the Audit Firms

Posted On: 16 JAN 2023 5:09PM by PIB Delhi

As a step towards enhancing the transparency about management and governance of audit firms and their internal policy framework to ensure high quality audits and preventing conflict of interest by maintaining independence, the National Financial Reporting Authority (NFRA) has published draft requirements regarding preparation and publication of Annual Transparency Report (ATR) by auditors/audit firms.

These ATR requirements are on the lines of the contemporary international best practices implemented by certain prominent Independent Audit Regulators in other jurisdictions. Rule 8(2) of the NFRA Rules 2018 empowers the NFRA to 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.

Indian companies have become significant constituents of the global economy and India has evolved as a global centre of excellence in the delivery of financial reporting and audit services to a large number of multi-national corporations raising expectations for sound and high quality codes and practices comparable to global benchmarks. In accordance with Rule 8(2) of the NFRA Rule 2018, NFRA intends prescribing publication of Annual Transparency Report containing certain critical information about the auditor's operational activities, management, governance and ownership structures, and policies and procedures necessary to deliver high-quality audits etc.

The information contained in the ATR will be useful to the Investors, Audit Committees, Independent Directors and public at large.

The ATR requirements are proposed to be implemented in a gradual manner for PIEs starting with Statutory Auditors of Top 1000 Listed Companies (by market capitalisation) with effect from the financial year ending on 31 March 2023. The ATR has to be published within three months from the end of each financial year.

NFRA has also decided to seek public comments/suggestions on the contents of the ATR by 16 February 2023.

More details are available at:

(https://nfra.gov.in/sites/default/files/Annual%20Transparency%20Report%20by%20Statutory%20Auditors%20of%20PIEs-Invitation%20for%20public%20comment_0.pdf)

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