

NFRA to introduce annual transparency report by audit firms

Introduction

Indian companies have become significant constituents of the global economy and India has evolved as a global centre of excellence in financial reporting and audit services delivery to a large number of multi-national corporations. This has raised the expectations of various stakeholders for sound and high-quality audit practices and codes, comparable to global benchmarks.

The role of auditors has evolved requiring the audit profession to build and maintain professional and operating capabilities within their firm. Many Indian audit firms have augmented their capabilities and resources by:

- Forming professional networks and alliances within India and abroad
- Developing in-house multidisciplinary professionals and services
- Delivering non-audit services
- Designing own digital tools and techniques in rendering the services

Hence, a need was felt to enhance the transparency of the management and governance of audit firms to ensure audit quality and preserve their independence.

Regulators in some countries have mandated auditors performing an audit of public interest entities ('PIE') to publish their transparency reports on an annual basis.

Transparency reporting of audit firms in India

In India, the National Financial Reporting Authority ('NFRA') has published the draft requirements and the contents of the proposed annual transparency report ('ATR'), inviting comments from the stakeholders by 16 February 2023.

Accordingly, ATR will be implemented in a gradual manner across the audit profession engaged in the audit of PIEs* falling within the purview of the NFRA.

Initially, NFRA has prescribed that the statutory auditors/audit firms performing audits of the top 1,000 listed companies by market capitalisation shall prepare and publish an annual transparency report ('ATR') from the financial year ('FY') ending 31 March 2023 and onwards.

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The statutory auditors need to file the ATR with NFRA and publish the same on their website within 3 months from the end of each FY.

The ATR captures information on the legal structure, ownership and management of the statutory auditor/audit firm, its alliance with any Indian or foreign network, the revenue of the statutory auditor and its network firms, and details about collaborations, licensing and knowledge-sharing arrangements in India or internationally.

Weblink

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

Therefore

Audit reports issued by independent auditors enhance the credibility and acceptance of the financial statements/reports of the auditees. Today, no corporations are completely local/domestic and so is the case with audit services. Though the statutory audit is a separate service regulated by various statutory bodies in India, the roles and responsibilities of the auditors go beyond the legal framework and auditors are engaged in various non-audit and consultancy services also. Technology and digital tools are at the forefront of providing customised non-audit services. The need here is to demarcate the statutory or assurance function from other services and preserve the auditor's independence. Hence, bringing the ATR regulations to India will ensure a seamless and professional rendering of audit services globally and simultaneously assure the stakeholders of the integrity and credibility of the financial statements.

* Note: According to NFRA Rules, 2018, PIEs are listed companies, unlisted companies with turnover of INR 1000 crore/paid-up capital of INR 500 crores and above, entities regulated by other regulations, e.g. banking, insurance, electricity companies, and foreign subsidiaries/associates of Indian companies (whose income/net worth exceeds 20% of the consolidated income/net worth of the company.)