

Date: 9th March, 2021



**VIRTUAL COACHING CLASSES
ORGANISED BY BOS, ICAI**

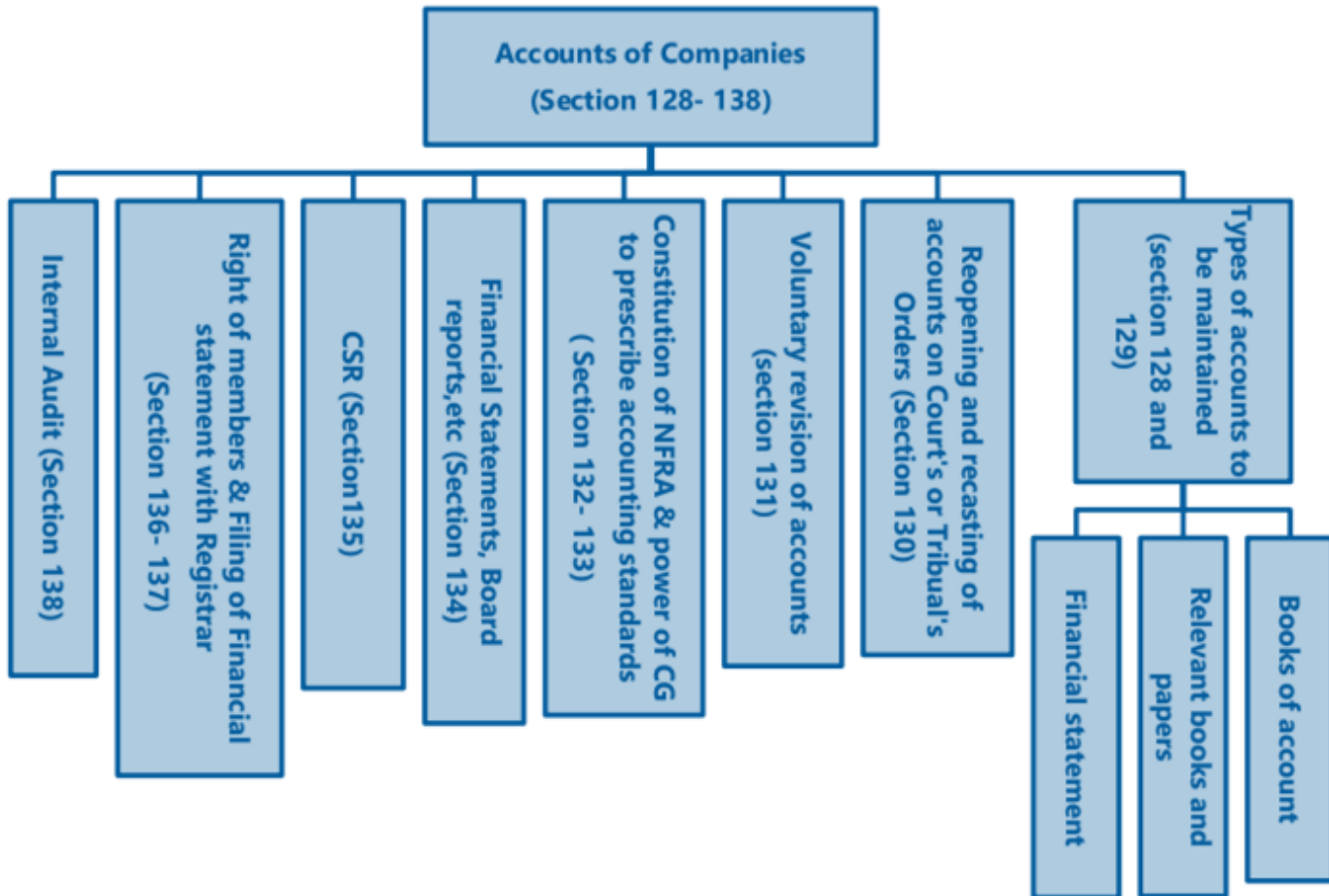
**INTERMEDIATE LEVEL
PAPER 2: CORPORATE AND OTHER LAWS**

Faculty: Ms. Sonali Shah

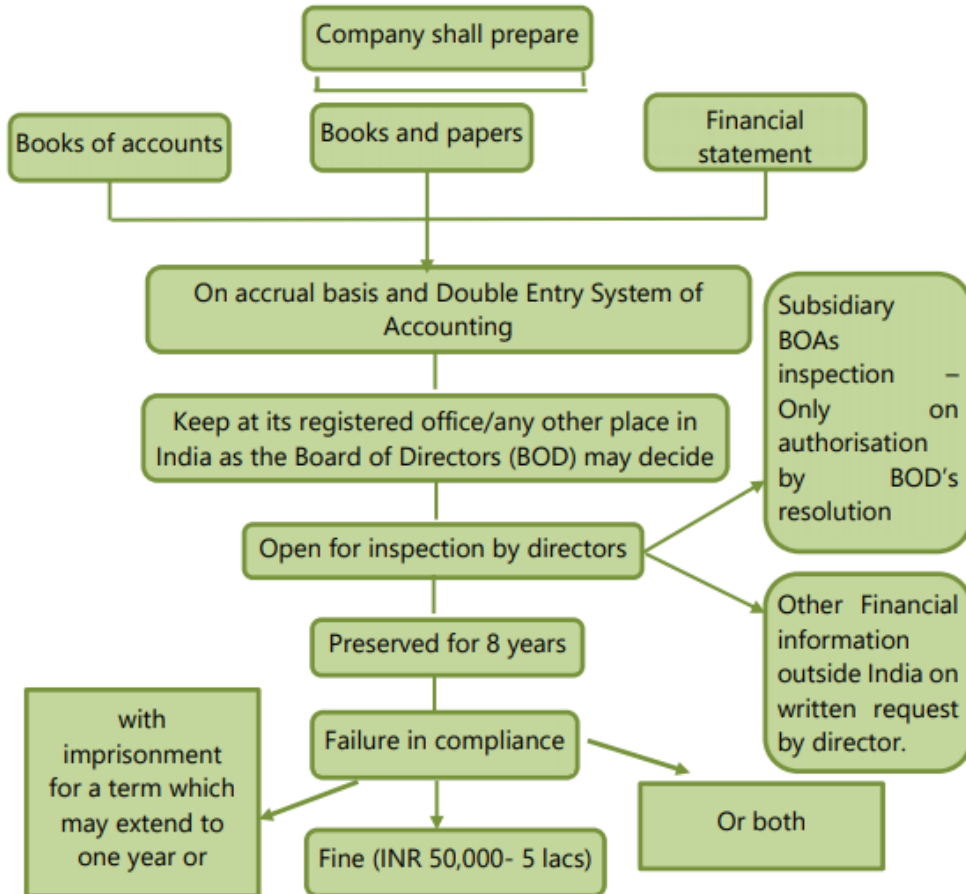
CH.9 ACCOUNTS OF COMPANIES

S. 128 To S. 138 of COMPANIES ACT 2013 READ WITH COMPANIES
ACCOUNTS RULE 2014

CHAPTER LAYOUT



REQUIREMENT OF KEEPING BOOKS OF ACCOUNT (SECTION 128)



Acc. To S. 128(1) Every company shall prepare **books of accounts** and other **relevant books and records** and **financial statement** for every financial year. These books of accounts should **give a true and fair view of the state of the affairs of the company**, including that of its branch office(s) and explain the transactions effected both at the registered office and its branches. These books of accounts must be kept on accrual basis and according to the double entry system of accounting.

BOOKS OF ACCOUNT

“Books of account” as defined in Section 2(13) includes records maintained in respect of—

- all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
- all sales and purchases of goods and services by the company;
- the assets and liabilities of the company; and
- the items of cost as may be prescribed under section 148 (Cost Audit) of the Companies Act 2013 (“Act”) in the case of a company which belongs to any class of companies specified under that section

BOOKS OF ACCOUNT

“Book and paper” and “book or paper” as defined in Section 2(12) include:

- books of account,
- deeds,
- vouchers,
- writings,
- documents, minutes and registers

maintained on paper or in electronic form;

BOOKS OF ACCOUNT

Place of keeping books of account:

- **Registered office:** the books of account and other relevant books and papers and financial statements are kept at the **Registered office of the company.**
- **Any other place in India:** all or any of the books of accounts may be kept at any other place in India as the BOD may decide. In such a case, the company shall file with the Registrar a notice containing the full address of such other place. **The notice shall be filed within 7 days in form AOC-5. [proviso to 128(1)]**
- **Branch Office:** The branches of the company, if any, in India or outside India shall also keep the books of account in the same manner as specified in subsection (1), for the transaction effected at the branch office. Further the branch offices are required to send the proper summarized return at quarterly intervals to the company at its registered office and kept open to directors for inspection. **[S. 128(2)]**

MAINTENANCE OF BOOKS OF ACCOUNT IN ELECTRONIC FORM

A company has an option of keeping books of account or other relevant papers in **electronic mode as per Rule 3** of the Companies (Accounts) Rules, 2014. Rule 3 lays down the manner of books of account to be kept in electronic mode.

- Such **books of account or other relevant books or papers** maintained in electronic mode **shall remain accessible in India** so as to be usable for subsequent reference.
- (2) The information contained in the records shall **be retained completely in the format in which they were originally generated**, sent or received, or in a **format which shall present accurately the information generated**, sent or received and **the information contained in the electronic records shall remain complete and unaltered**.

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- (3) The **information received from branch offices shall not be altered** and shall be kept in a manner where it shall depict what was originally received from the branches.
 - (4) The information in the electronic record of the document shall be **capable of being displayed in a legible form.**
 - (5) There shall be a **proper system for storage, retrieval, display or printout of the electronic records** as the Audit Committee, if any, or the Board may deem appropriate and **such records shall not be disposed of or rendered unusable, unless permitted by law.** The **back-up** of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any, **shall be kept in servers physically located in India on a periodic basis.**

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- (6) The company shall **intimate to the Registrar** on an annual basis at the time of filing of financial statement following relevant information related to service provider—
 - (a) the name of the service provider;
 - (b) the internet protocol (IP) address of service provider;
 - (c) the location of the service provider (wherever applicable);
 - (d) where the books of account and other books and papers are maintained on cloud, such address as provided by the service provider.

X Ltd is a wholly owned subsidiary of Foreign Company. All the vouchers, papers and documents are kept in India. However the server of the accounting system is situated at location of the foreign company.

Has X Ltd contravened the provision of the Act ?

Ans: Rule 3 of Companies (Accounts) Rule 2014, requires back-up of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any, to be kept in servers physically located in India on a periodic basis

INSPECTION OF BOOK OF ACCOUNTS [S.128(3)]

S.128(3) reads as:

*(3) The books of account and other books and papers maintained by the company within India shall be **open for inspection at the registered office** of the company or at such other place in India **by any director during business hours**, and in the **case of financial information**, if any, maintained outside the country, copies of such financial information shall be maintained and produced for inspection by **any director subject to such conditions as may be prescribed**:*

Provided that the inspection in respect of any subsidiary of the company shall be done only by the person authorised in this behalf by a resolution of the Board of Directors.

INSPECTION OF BOOK OF ACCOUNTS [S.128(3)]

Provisions contained in Rule 4(4) of the Companies (Accounts) Rules, 2014.

Where any other financial information maintained outside the country is required by a director, the director shall furnish a request to the company setting out the full details of the financial information sought, the period for which such information is sought.

The company shall produce such financial information to the **director within fifteen days** of the date of receipt of the written request.

The Director can seek the information only individually and not by or through his attorney holder or agent or representative with respect to financial information maintained outside the country

INSPECTION OF BOOK OF ACCOUNTS [S.128(3)]

(4) Where an inspection is made under sub-section (3), the officers and other employees of the company shall give to the person making such inspection all assistance in connection with the inspection which the company may reasonably be expected to give.



PRESERVATION OF BOOKS OF ACCOUNTS

(5) The books of account of every company relating to a period of not less than eight financial years immediately preceding a financial year, or where the company had been in existence for a period less than eight years, in respect of all the preceding years together with the vouchers relevant to any entry in such books of account shall be kept in good order: Provided that where an investigation has been ordered in respect of the company under Chapter XIV, the Central Government may direct that the books of account may be kept for such longer period as it may deem fit



PERSON RESPONSIBLE AND PUNISHMENT [S.128(6)]

(6) If the managing director, the whole-time director in charge of finance, the Chief Financial Officer or any other person of a company charged by the Board with the duty of complying with the provisions of this section, contravenes such provisions, such managing director, whole-time director in charge of finance, Chief Financial Officer or such other person of the company shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees or with both.

Questions

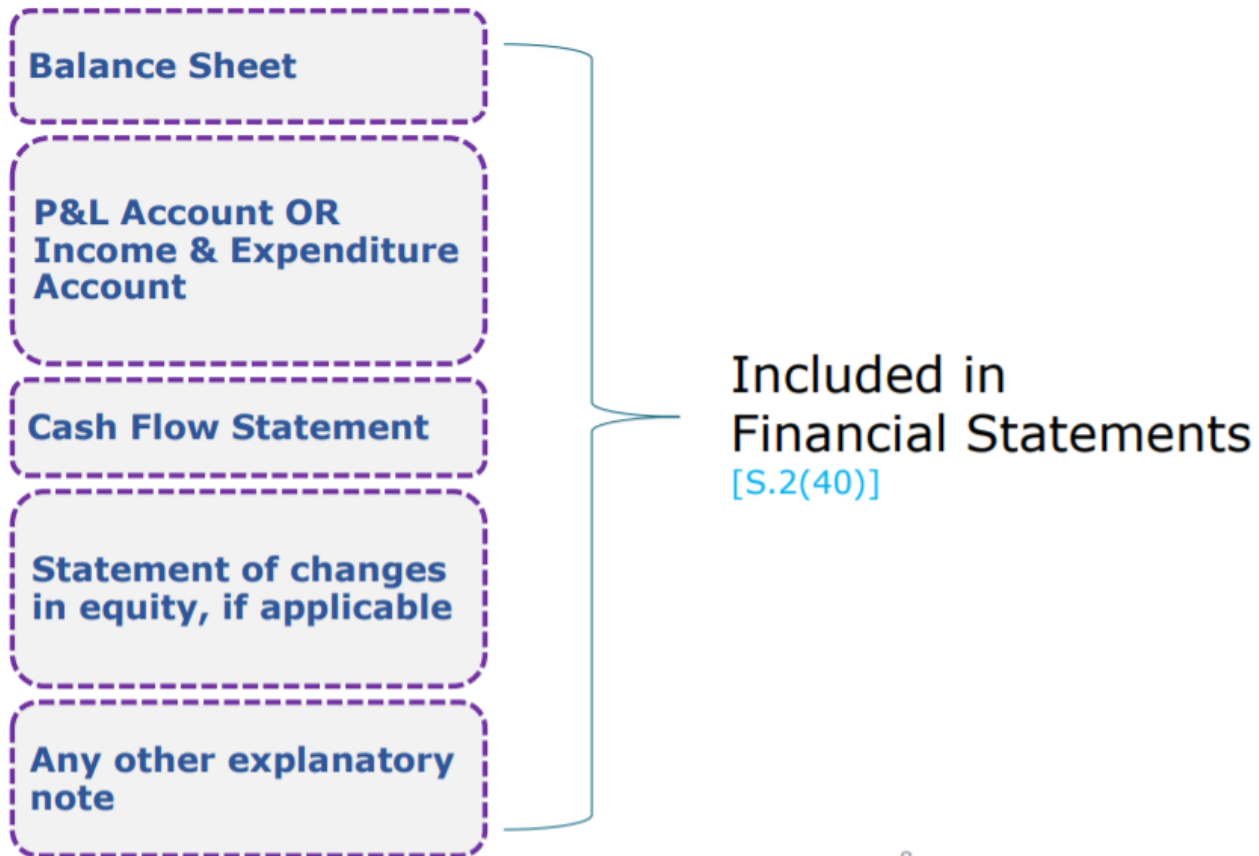
Q. : XYZ Ltd. wants to maintain its books of account on cash basis. Is this a valid act of XYZ Ltd?

Q. Ravi Limited maintained its books of accounts under Single Entry System of Accounting. Is it permitted under the provisions of the Companies Act, 2013?

Q. State the persons responsible for complying with the provisions regarding maintenance of Books of Accounts of a Company.

Q. Whether a Company can keep books of Accounts in electronic mode accessible only outside India

FINANCIAL STATEMENTS [S.129]



Financial statement include “cash flow statement” in case of companies except OPC, small company, dormant company, and private company if such company is a startup

FINANCIAL STATEMENTS

As per section 2(40), financial statement in relation to a company, includes—

- (i) a **balance sheet** as at the end of the financial year;
- (ii) a **profit and loss account**, or in the case of a company carrying on any activity not for profit, an **income and expenditure account** for the financial year;
- (iii) **cash flow statement** for the financial year;
- (iv) a **statement of changes in equity**, if applicable; and
- (v) **any explanatory note annexed** to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):

Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement;

FINANCIAL STATEMENTS

Exemption: For private companies, the proviso to section 2(40) shall be read as follows: “Provided that the financial statement, with respect to one person company, small company, dormant company and private company (if such private company is a start-up) may not include the cash flow statement;

Explanation – For the purposes of this Act, the term “**start-up**” or “**start-up company**” means a private company incorporated under the Companies Act, 2013 or the Companies Act, 1956 and recognised as start-up in accordance with the notification issued by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry.” The exceptions, modifications and adaptations shall be applicable to a private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar.

FINANCIAL STATEMENTS

S.129 reads as:

*(1) The financial statements shall **give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III:** [Schedule III contains general instructions for preparation of balance sheet and statement of profit and loss account.]*

Provided that the items contained in such financial statements shall be in accordance with the accounting standards:

*Provided further that **nothing contained in this sub-section shall apply to any insurance or banking company or any company engaged in the generation or supply of electricity, or to any other class of company for which a form of financial statement has been specified in or under the Act governing such class of company:***

Provided also that the financial statements shall not be treated as not disclosing a true and fair view of the state of affairs of the company, merely by reason of the fact that they do not disclose—

(a) in the case of an insurance company, any matters which are not required to be disclosed by the Insurance Act, 1938 (4 of 1938), or the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999);

(b) in the case of a banking company, any matters which are not required to be disclosed by the Banking Regulation Act, 1949 (10 of 1949);

(c) in the case of a company engaged in the generation or supply of electricity, any matters which are not required to be disclosed by the Electricity Act, 2003 (36 of 2003);

(d) in the case of a company governed by any other law for the time being in force, any matters which are not required to be disclosed by that law.

(2) At every annual general meeting of a company, the Board of Directors of the company shall lay before such meeting financial statements for the financial year.

CONSOLIDATED FINANCIAL STATEMENT

Section 129 (3) read with Rule 6 of the Principal Rules provides for the manner of consolidation of accounts pursuant to Schedule III of the Act, 2013 and the applicable Accounting Standards.

Section 129 requires a company having one or more subsidiary, to prepare consolidated financial statements of the company.

The term 'subsidiary' here includes an associate and JV companies.

The key purpose of preparing consolidated financial statements is reporting the financial condition and operating result of a consolidated business group, which is considered as a single entity comprised of more than one companies under a common control (also counting entities other than “companies”).

*(3) Where a company has one or more subsidiaries, it shall, in addition to financial statements provided under sub-section (2), prepare a **consolidated financial statement of the company and of all the subsidiaries** in the same form and manner as that of its own which shall also be laid before the annual general meeting of the company along with the laying of its financial statement under sub-section (2):*

Provided that the company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in such form as may be prescribed [For AOC-1. Rule 5]:

Provided further that the Central Government may provide for the consolidation of accounts of companies in such manner as may be prescribed.[Rule 6 of the Companies (Accounts) Rules, 2014]

Explanation - For the purposes of this sub-section, the word “subsidiary” shall include associate company and joint venture.

(4) The provisions of this Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, apply to the consolidated financial statements referred to in sub-section (3).

CONSOLIDATED FINANCIAL STATEMENTS

Rule 6 of the Companies (Accounts) Rules, 2014 provides for the consolidation of accounts of companies in the following manner:

Manner of consolidation of Accounts: The consolidation of financial statements of the company shall be made in accordance with the provisions of Schedule III of the Act and the applicable accounting standards.

In case where company is not required to prepare CFS: A company covered under sub-section (3) of section 129 which is not required to prepare **consolidated financial statements under the Accounting Standards**, it shall be sufficient if the company complies with provisions of consolidated financial statements provided in Schedule III of the Act.

CONSOLIDATED FINANCIAL STATEMENTS

Exemptions from preparation of CFS: preparation of consolidated financial statements by a company is not required if it meets the following conditions:

- (i) it is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting consolidated financial statements
- (ii) it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in or outside India; and
- (iii) its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which are in compliance with the applicable Accounting Standards.

Therefore, to avail the exemption from preparation of consolidated financial statement-

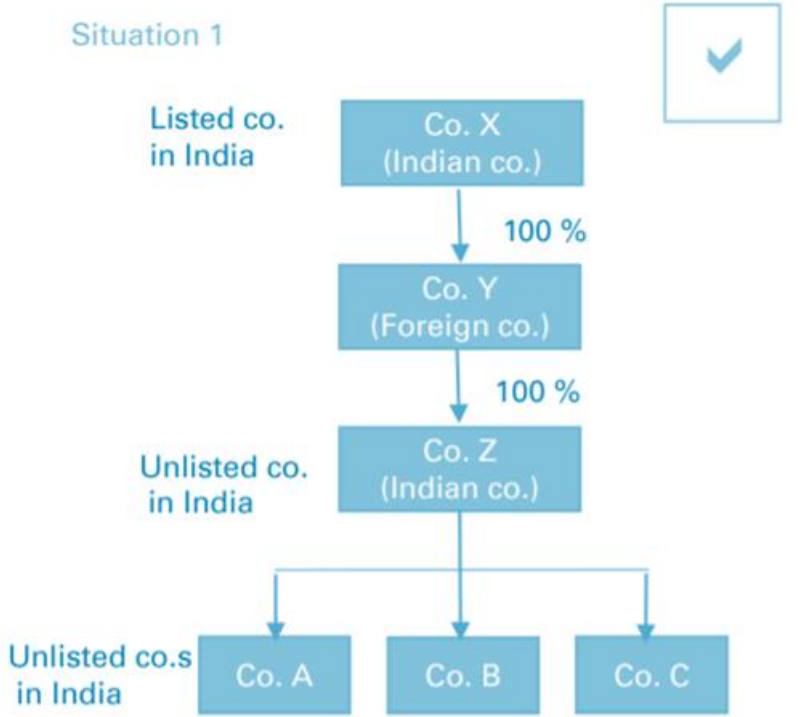
- The company should be a wholly or partly owned subsidiary of another company.
- a company must be an unlisted subsidiary; and should note in a process of listing on a Stock exchange in India or outside.
- Such subsidiary has given a written intimation to all the members over non preparation of CFS and has a proof of it and no objection has been received from members
- The ultimate or intermediary holding company of that company has filed CFS with ROC
- The CFS filed by holding co. complies with AS

CONSOLIDATED FINANCIAL STATEMENTS

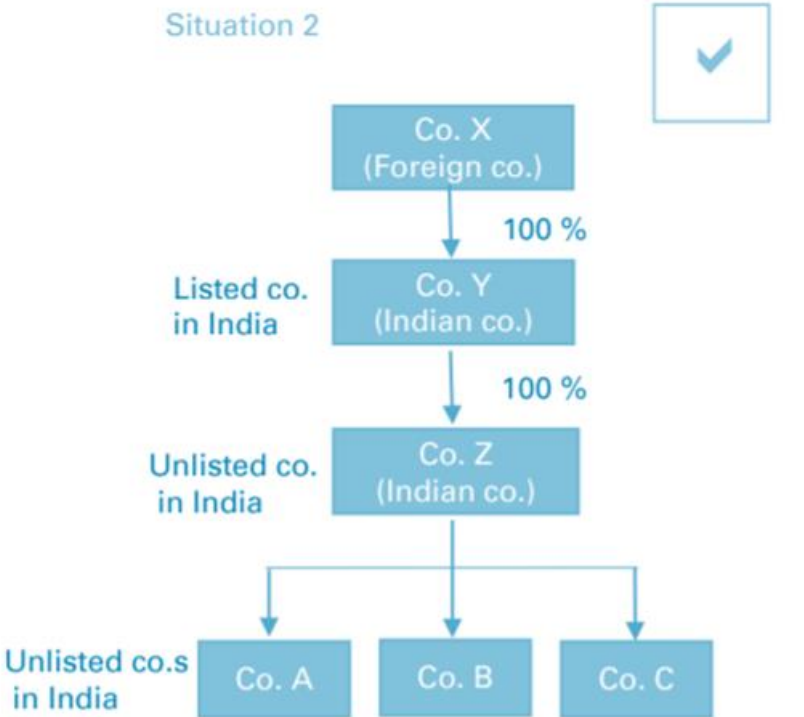
Provided also that nothing contained in this rule shall subject to any other law or regulation, apply for the financial year commencing from the 1st day of April, 2014 and ending on the 31st March, 2015, in case of a company which does not have a subsidiary or subsidiaries but has one or more associate companies or Joint ventures or both, for the consolidation of financial statement in respect of associate companies or joint ventures or both, as the case may be.

Explanation: The above proviso states that for a company which does not have a subsidiary or subsidiaries but has one or more associate companies or Joint Ventures or both will not be required to comply with this rule of consolidation of financial statements in respect of associate companies or joint ventures or both, as the case may be, only for the financial year commencing from the 1st day of April, 2014 and ending on the 31st day of March, 2015. Provided also that nothing in this rule shall apply in respect of consolidation of financial statement by a company having subsidiary or subsidiaries incorporated outside India commencing on or after 1st April 2014.

CONSOLIDATED FINANCIAL STATEMENTS



Co. Z can claim exemption and would not be required to file CFS with ROC if Co. X files CFS of the group with the ROC under applicable accounting standards.



Co. Z can claim exemption and would not be required to file CFS with ROC if Co. Y files CFS of its group with the ROC under applicable accounting standards.

Q. S1 Ltd is a wholly owned subsidiary of S Ltd. S Ltd is wholly owned subsidiary of H Ltd. Whether the S Ltd is required to prepares CFS, which is neither listed nor does intend to be listed and as H Ltd prepares the CFS in compliance with the applicable AS? Can S Ltd seek to be exempt from preparing CFS?

Answer: As per proviso to Rule 6 of Companies (Account) Rules, nothing in this rule shall apply in respect of preparation of consolidated financial statements by a company if it meets the following conditions:-

- it is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting consolidated financial statements;
- it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India; and
- its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which are in compliance with the applicable Accounting Standards

(5) Without prejudice to sub-section (1), where the financial statements of a company do not comply with the accounting standards referred to in sub-section (1), the company shall disclose in its financial statements, the deviation from the accounting standards, the reasons for such deviation and the financial effects, if any, arising out of such deviation.

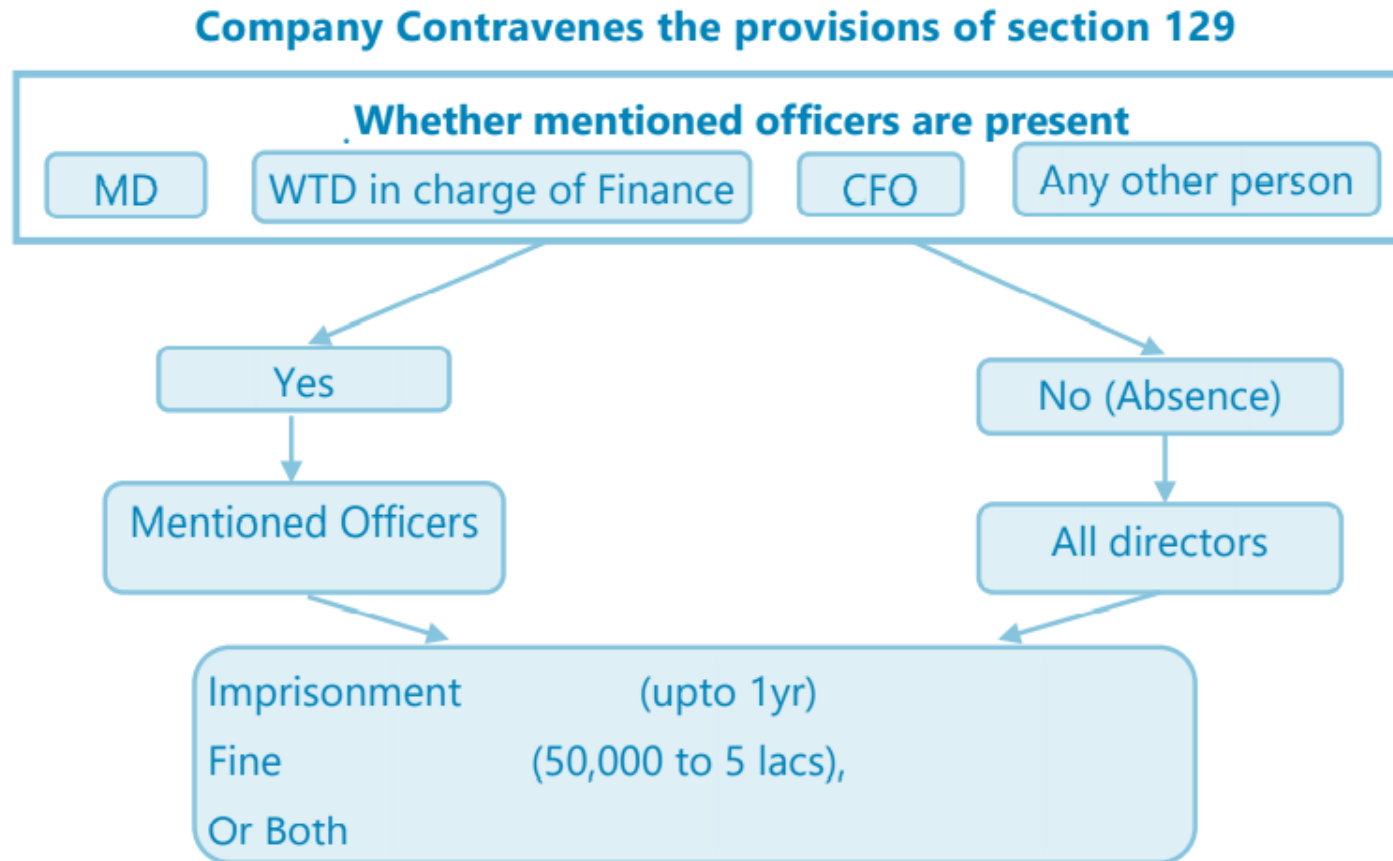
(6) The Central Government may, on its own or on an application by a class or classes of companies, by notification, exempt any class or classes of companies from complying with any of the requirements of this section or the rules made thereunder, if it is considered necessary to grant such exemption in the public interest and any such exemption may be granted either unconditionally or subject to such conditions as may be specified in the notification.

PENALTY FOR CONTRAVENTION OF SECTION 129

(7) If a company contravenes the provisions of this section, the managing director, the whole-time director in charge of finance, the Chief Financial Officer or any other person charged by the Board with the duty of complying with the requirements of this section and in the absence of any of the officers mentioned above, all the directors shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

Explanation.-- For the purposes of this section, except where the context otherwise requires, any reference to the financial statement shall include any notes annexed to or forming part of such financial statement, giving information required to be given and allowed to be given in the form of such notes under this Act.

PENALTY FOR CONTRAVENTION OF SECTION 129



RE-OPENING OF ACCOUNTS ON COURT'S OR TRIBUNAL ORDERS [SECTION 130]

*(1) A company shall not re-open its books of account and not recast its financial statements, **unless an application in this regard is made by the Central Government, the Income-tax authorities, the Securities and Exchange Board, any other statutory regulatory body or authority or any person concerned and an order is made by a court of competent jurisdiction or the Tribunal to the effect that—***

- (i) the relevant earlier accounts were prepared in **a fraudulent manner**; or*
- (ii) the affairs of the **company were mismanaged** during the relevant period, casting a doubt on the reliability of financial statements:*

RE-OPENING OF ACCOUNTS ON COURT'S OR TRIBUNAL ORDERS [SECTION 130]

Provided that the court or the Tribunal, as the case may be, shall give notice to the Central Government, the Income-tax authorities, the Securities and Exchange Board or any other statutory regulatory body or authority concerned or any other person concerned] and shall take into consideration the representations, if any, made by that Government or the authorities, Securities and Exchange Board or the body or authority concerned or the other person concerned before passing any order under this section.

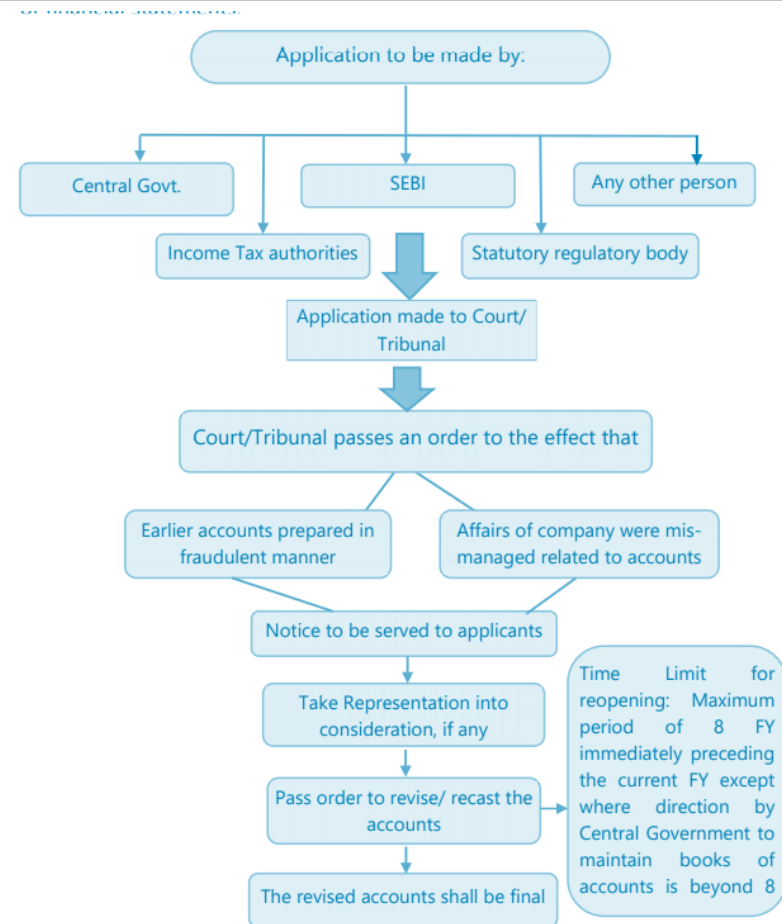
RE-OPENING OF ACCOUNTS ON COURT'S OR TRIBUNAL ORDERS [SECTION 130]

(2) Without prejudice to the provisions contained in this Act the accounts so revised or re-cast under sub-section (1) shall be final.

(3) No order shall be made under sub-section (1) in respect of re-opening of books of account relating to a period earlier than eight financial years immediately preceding the current financial year:

Provided that where a direction has been issued by the Central Government under the proviso to sub-section (5) of section 128 for keeping of books of account for a period longer than eight years, the books of account may be ordered to be re-opened within such longer period.

RE-OPENING OF ACCOUNTS ON COURT'S OR TRIBUNAL ORDERS [SECTION 130]



VOLUNTARY REVISION OF FINANCIAL STATEMENTS OR BOARD'S REPORT [SECTION 131]

*(1) If it appears to the directors of a company that--
(a) the financial statement of the company; or
(b) the report of the Board,*

*do not comply with the provisions of section 129 or section 134 **they may prepare revised financial statement or a revised report** in respect of any of the three preceding financial years after obtaining approval of the Tribunal on an application made by the company in such form and manner as may be prescribed and a copy of the order passed by the Tribunal shall be filed with the Registrar:*

VOLUNTARY REVISION OF FINANCIAL STATEMENTS OR BOARD'S REPORT [SECTION 131]

Provided that the Tribunal shall give notice to the Central Government and the Income-tax authorities and shall take into consideration the representations, if any, made by that Government or the authorities before passing any order under this section:

Provided further that such revised financial statement or report shall not be prepared or filed more than once in a financial year:

Provided also that the detailed reasons for revision of such financial statement or report shall also be disclosed in the Board's report in the relevant financial year in which such revision is being made.

VOLUNTARY REVISION OF FINANCIAL STATEMENTS OR BOARD'S REPORT [SECTION 131]

(2) Where copies of the previous financial statement or report have been sent out to members or delivered to the Registrar or laid before the company in general meeting, the revisions must be confined to--

(a) the correction in respect of which the previous financial statement or report do not comply with the provisions of section 129 or section 134; and

(b) the making of any necessary consequential alternation.

VOLUNTARY REVISION OF FINANCIAL STATEMENTS OR BOARD'S REPORT [SECTION 131]

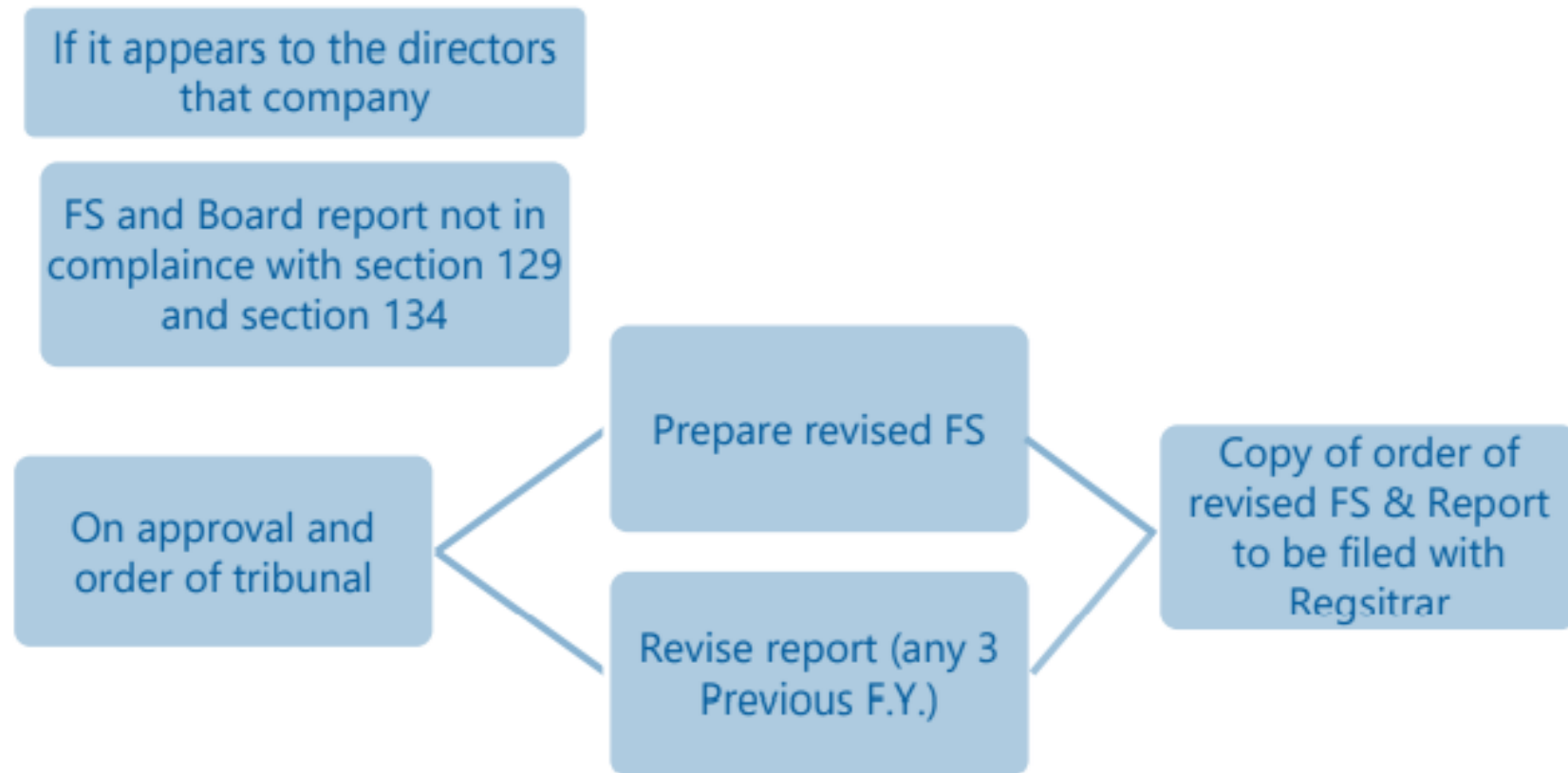
(3) The Central Government may make rules as to the application of the provisions of this Act in relation to revised financial statement or a revised director's report and such rules may, in particular--

(a) make different provisions according to which the previous financial statement or report are replaced or are supplemented by a document indicating the corrections to be made;

(b) make provisions with respect to the functions of the company's auditor in relation to the revised financial statement or report;

(c) require the directors to take such steps as may be prescribed

VOLUNTARY REVISION OF FINANCIAL STATEMENTS OR BOARD'S REPORT [SECTION 131]



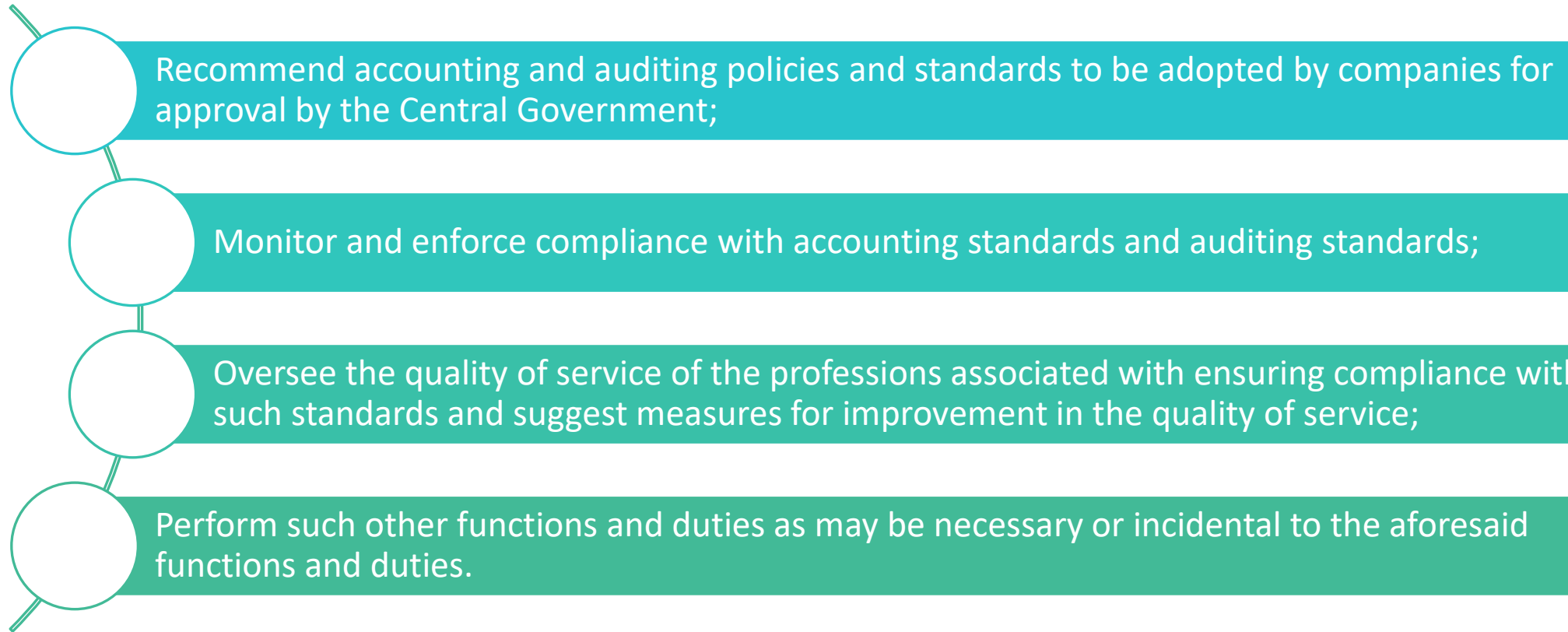
NFRA

The National Financial Reporting Authority (NFRA) is a body constituted under the provisions of Section 132 of the Companies Act, 2013. The constitution of this authority is effective from 1st October 2018. The aim of the Central Government in this regard appears to be:

- Setting up of a separate and independent regulatory body to assist in the framing and enforcement of legislation relating to accounting & auditing and
- Improving investor and public confidence in the financial reporting of an entity.

The Centre has appointed former IAS officer Rangachari Sridharan as chairperson of NFRA.

FUNCTIONS AND DUTIES OF NFRA

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- 1. Recommend accounting and auditing policies and standards to be adopted by companies for approval by the Central Government;
 - 2. Monitor and enforce compliance with accounting standards and auditing standards;
 - 3. 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;
 - 4. Perform such other functions and duties as may be necessary or incidental to the aforesaid functions and duties.

COMPOSITION OF NFRA

The Companies Act requires the NFRA to have a

- Chairperson who shall be a person of eminence and having expertise in accountancy, auditing, finance or law to be appointed by the Central Government and
- a maximum of 15 members consisting of part time and full time members.
- Provided that the terms and conditions and the manner of appointment of the chairperson and members shall be such as may be prescribed.

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- Provided further that the chairperson and members shall make a declaration to the Central Government in the prescribed form regarding no conflict of interest or lack of independence in respect of his or their appointment.
 - Provided also that the chairperson and members, who are in full-time employment with NFRA shall not be associated with any audit firm (including related consultancy firms) during the course of their appointment and two years after ceasing to hold such appointment.

DIVISION OF NFRA

NFRA shall perform its functions through such division as may be prescribed.

Each division of the National Financial Reporting Authority shall be presided over by the Chairperson or a full-time Member authorised by the Chairperson.

There shall be an executive body of the National Financial Reporting Authority consisting of the Chairperson and full-time Members of such Authority for efficient discharge of its functions under subsection

POWERS OF NFRA

Power to investigate, either suo moto or on a reference made to it by the Central Government, for such class of bodies corporate or persons, in such manner as may be prescribed **into the matters of professional or other misconduct** committed by any member or firm of chartered accountants, registered under the Chartered Accountants Act, 1949.

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

POWERS OF NFRA

have the same powers as are vested in a civil court under the Code of Civil Procedure, 1908, while trying a suit, in respect of the following matters, namely:—

- (i) discovery and production of books of account and other documents, at such place and at such time as may be specified by the NFRA;
- (ii) summoning and enforcing the attendance of persons and examining them on oath;
- (iii) inspection of any books, registers and other documents of any person referred to in clause (b) at any place;
- (iv) issuing commissions for examination of witnesses or documents;

where professional or other misconduct is proved, the NFRA shall have the power to make order for—

- (A) imposing penalty of
 - (I) not less than one lakh rupees, but which may extend to five times of the fees received, in case of individuals; and
 - (II) not less than five lakh rupees, but which may extend to ten times of the fees received, in case of firms;

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- (B) debarring the member or the firm from
 - I. being appointed as an auditor or internal auditor or undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate; or
 - II. performing any valuation as provided under section 247,
for a minimum period of six months or such higher period not exceeding ten years as may be determined by the National Financial Reporting Authority.
 - Explanation — For the purposes of this sub-section, the expression "professional or other misconduct" shall have the same meaning assigned to it as given under section 22 of the Chartered Accountants Act, 1949.

NFRA

Appeal against orders of NFRA: Any person aggrieved by any order of the National Financial Reporting Authority issued under clause (c) of sub-section (4), may prefer an appeal before the Appellate Tribunal in such manner and on payment of such fee as may be prescribed.

Meetings of NFRA :The National Financial Reporting Authority shall meet at such times and places and shall observe such rules of procedure in regard to the transaction of business at its meetings in such manner as may be prescribed.

Secretary and other employees: The Central Government may appoint a secretary and such other employees as it may consider necessary for the efficient performance of functions by the National Financial Reporting Authority under this Act and the terms and conditions of service of the secretary and employees shall be such as may be prescribed

NFRA

Head office of NFRA The head office of the NFRA shall be at New Delhi and the NFRA may, meet at such other places in India as it deems fit.

Maintenance of books by NFRA The NFRA shall cause to be maintained such books of account and other books in relation to its accounts in such form and in such manner as the Central Government may, in consultation with the Comptroller and Auditor-General of India prescribe.

Audit of account of NFRA The accounts of the NFRA shall be audited by the CAG of India at such intervals as may be specified by him and such accounts as certified by the CAG of India together with the audit report thereon shall be forwarded annually to the Central Government by the NFRA

ANNUAL REPORT - NFRA

The National Financial Reporting Authority shall prepare in such form and at such time for each financial year as may be prescribed its annual report giving a full account of its activities during the financial year and forward a copy thereof to the Central Government and the Central Government shall cause the annual report and the audit report given by the Comptroller and Auditor-General of India to be laid before each House of Parliament.

CLASSES OF COMPANIES & BODY CORPORATE GOVERNED BY NFRA

As per NFRA rules, NFRA 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. Rule 3 of NFRA Rules provides for the classes of companies and bodies corporate governed by the NFRA. These include:

- a) companies whose securities are listed on any stock exchange in India or outside India; (listed companies)

CLASSES OF COMPANIES & BODY CORPORATE GOVERNED BY NFRA

- **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;

CLASSES OF COMPANIES & BODY CORPORATE GOVERNED BY NFRA

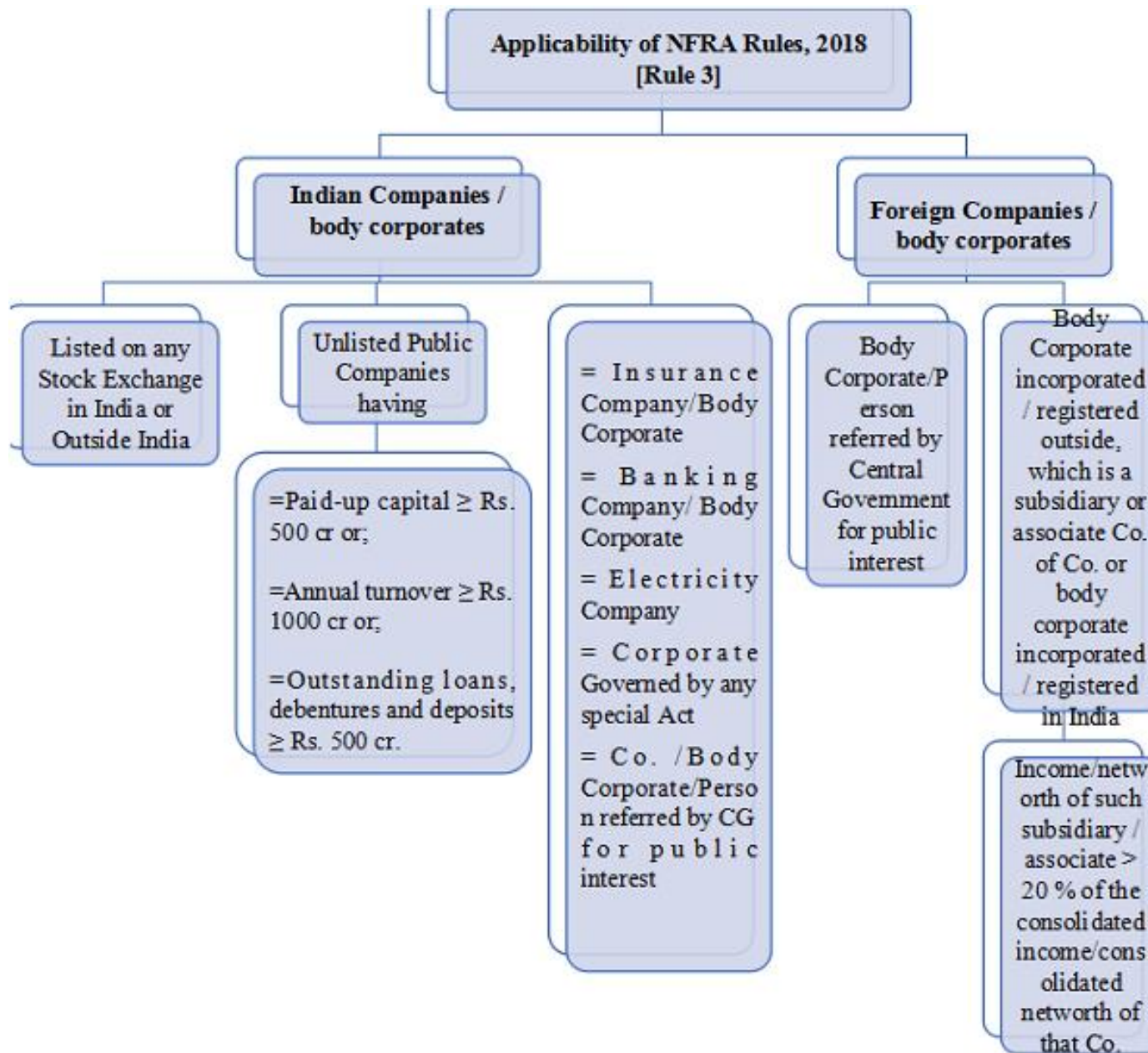
- **c) insurance companies, banking companies, companies engaged in the generation or supply of electricity**, companies governed by any special Act for the time being in force or bodies corporate incorporated by an Act in accordance with clauses (b), (c), (d), (e) and (f) of section 1 (4) of the Companies Act, 2013;
- Explanation.- For the purpose of this clause, “banking company” includes ‘corresponding new bank’ as defined in section 2 (d) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and section 2(b) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 and ‘subsidiary bank’ as defined in section 2(k) of the State Bank of India (Subsidiary Bank) Act, 1959.

CLASSES OF COMPANIES & BODY CORPORATE GOVERNED BY NFRA

d) any body corporate or company or person, or any class of bodies corporate or companies or persons, **on a reference made to the NFRA by the Central Government in public interest; and**

e) a **body corporate which is**

- 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) above,
- if the **income or networth** of such subsidiary or associate company **exceeds 20%** 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) above.



Non-Applicability of Rules

1. Unlisted Private Companies; unless referred by CG to the authority in public interest
2. Unlisted public companies with paid-up capital or turnover or aggregate of loans, debentures and deposits below the limit stated in Rule 3(1) and

COMPLIANCE REQUIREMENT

A. Every **existing body corporate** other than a company governed by these rules, shall inform the NFRA within 30 days of the commencement of NFRA rules, in Form NFRA-1, the particulars of the auditor as on the date of commencement of these rules.

B. *Every body corporate (excluding companies as defined under section 2(20), which are not required to file this form) 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**.

C. A company or a body corporate other than a company governed under NFRA Rules shall continue to be governed by the NFRA for a period of 3 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[i.e. mentioned in points (a) to (e) above].

SUMMARY OF COMPLIANCE

<p>Initial or one time disclosure on the commencement of the Rules</p>	<p>Body corporates, excluding companies, shall within 30 days from the date of deployment of this form on the website, shall inform the Authority about the particulars of the auditors, in form NFRA-1; Note: Cos. covered by the Rules are not required to file any form.</p>
<p>Disclosures on the appointment of the Auditors</p>	<p>Every body corpoarte shall within 15 days of appointment of an auditor, inform the Authority about the particulars of the auditors appointed by the body corporate, in form NFRA-1; Note: Companies as defined under section 2(20) are not required to file any form.</p>

PENALTY

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.**

PENALTY

Section 450: Punishment Where No Specific Penalty or Punishment is provided.

If a company or any officer of a company or any other person contravenes any of the provisions of this Act or the rules made thereunder, or any condition, limitation or restriction subject to which any approval, sanction, consent, confirmation, recognition, direction or exemption in relation to any matter has been accorded, given or granted, and for which no penalty or punishment is provided elsewhere in this Act, the company and every officer of the company who is in default or such other person shall be punishable with fine which may extend to ten thousand rupees, and where the contravention is continuing one, with a further fine which may extend to one thousand rupees for every day after the first during which the contravention continues.



THANK YOU