

Delhi HC quashes NFRA's show-cause notices against IL&FS and DHFL auditors

● Upholds the authority's constitutional validity

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INA SETBACK to the National Financial Reporting Authority (NFRA), the Delhi High Court quashed 11 show-cause notices issued by the authority against the auditors of IL&FS and DHFL on technical grounds.

The court ruled that NFRA did not act through properly constituted divisions as mandated under the Companies Act.

A source at NFRA said that this part of the judgment appears contrary to the judgment of the NCLAT (National Company Law Appellate Tribunal) in December 2023 wherein NCLAT had held that NFRA's executive body itself acts like a division which is in accordance to the law.

"This view of NCLAT was confirmed by the Supreme Court in its orders by which it dismissed the appeals against the NCLAT judgment.

"It appears that the Delhi High Court order has not



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taken cognisance of the doctrine of merger that would apply in these matters by virtue of the apex court rulings that it saw no reason to interfere in the NCLAT order," the source said.

Though, there's a scope for NFRA to revive these show-cause notices after taking "appropriate steps".

"We are currently examining our next course of action," the NFRA source said.

At the same time, the Delhi HC upheld the consti-

tutional validity of NFRA, which is an independent audit regulator for listed firms in India.

The court held that section 132 of the Companies Act (which establishes NFRA) is a necessary mechanism to enforce professional accountability in the audit profession.

"NFRA is a governing authority, that has been established to regulate and ensure the accountability of auditors and auditing firms in order to safeguard public interest," the court said.

In addition, the court said that NFRA has the exclusive authority to investigate allegations of misconduct and to bring even pending proceedings within the scope of its investigation.

"This judgement has provided clarity that NFRA is the only authority in the country to handle audit-related issues of the listed entities in cases prior to and after 2018, a year when the NFRA was formed.

"The ruling has further clarified that the NFRA is empowered to take disciplinary action against both the audit firms and the individual auditors/members of the firms in cases of professional misconduct," the source told *FE*.