

# Audit regulator NFRA gets boost from court ruling

## HC Backs Provisions, Allows Action Against Audit Co, Partners

TIMES NEWS NETWORK

**New Delhi:** In a boost for the National Financial Reporting Authority (NFRA), the Delhi high court has upheld the provisions that allow action against the audit firm and its partners, along with the agency's retrospective jurisdiction, while dismissing petitions that questioned the reliance on audit files to prove professional misconduct.

Hearing a bunch of petitions from aggrieved audit firms and bodies, representing chartered accountants, a bench of Justices Yashwant Varma and Dharmesh Sharma, however, raised concerns over NFRA not constituting divisions to separate powers for audit quality review and disciplinary actions and sought fresh evaluation of findings in 11 cases, most dealing with IL&FS.

With the matter had been cleared by the National Com-

### TO MATCH GLOBAL STANDARDS

> Delhi High Court has dismissed petitions that questioned reliance on audit files to prove professional misconduct

> Court has raised concerns over National Financial Reporting Authority not constituting divisions to separate powers for audit quality review and disciplinary actions

> It has sought fresh evaluation of findings in 11 cases, most dealing with IL&FS

> HC has dismissed the stand that a firm should not be liable for actions of its partners



*It said:*

“In essence, the relationship between a firm and its members, while delivering auditing services is one of complete integration, where roles and responsibilities overlap to ensure the highest levels of professional service. The nature of such services does not permit a firm to distance itself from the actions of its partners...”

> It added that idea is to bring India's auditing and financial oversight framework in line with global standards

NFRA rules, ruling that the provision was neither an over-reach, nor was it arbitrary, but was necessary to maintain professional accountability.

Dismissing the stand that a firm should not be liable for the actions of its partners, the court said: “In essence, the relationship between a firm and its members, while delivering auditing services is one of complete integration, where roles and responsibilities overlap to ensure the highest levels of professional service. The nature of such services does not permit a firm to distance itself from the actions of its partners, especially when those actions are performed in furtherance of the firm's obligations.” It has affirmed that the intent of Parliament was to vest exclusive authority in the NFRA to investigate allegations of misconduct and to bring even pending proceedings within the scope of its investigation.

pany Law Appellate Tribunal in Dec 2023, NFRA may seek a review of the Delhi HC order on this aspect as the Supreme Court had also subsequently

looked into the issue.

In its 476-page order, the bench has upheld the constitutional validity of section 132 of the Companies Act and