

## **Govt amends audit rules, rationalizes penalty provisions**

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NEW DELHI : The ministry of corporate affairs has amended the audit rules, rationalising the penalty provision for certain contraventions aimed at encouraging compliance, showed an official order.

The National Financial Reporting Authority (NFRA) amendment rules 2022 brought out by the corporate affairs ministry say that non-compliance will attract penalty of ₹5,000 and where the contravention is a continuing one, a further fine of ₹500 for everyday during the period of contravention. This applies to offences for which penalty is not specified elsewhere in the law.

The rule has been amended to drop a reference to section 450 of the Companies Act which specifies a cap of ₹200,000 in the case of a company and ₹50,000 for an officer in default or any other person for offences that persist.

While the reference to the upper limit for continued offence has been dropped, the fine specified in the new rules for the first instance of the breach and for each day of continued offence is less than the maximum that the law allows. Section 450 of the Companies Act allows a maximum of ₹10,000 at the first instance and ₹1000 for every day during the period in which the breach continues.

Industry executives welcomed the rationalisation of penalty provisions but said that audit professionals should not deviate from professional standards and compliance requirements. "Auditors are responsible for protecting public interest and their compliance with professional standards and regulatory requirements is paramount. The need to use penalty provisions should arise only in the rarest of cases," said Vijay Kapur, former director at the Institute of Chartered Accountants of India (ICAI).

The move comes at a time the government is contemplating giving NFRA more powers to step up compliance in the audit industry. The ministry recently came out with a discussion paper making a case for more restrictions on audit firms' engagement with certain clients.

Last year, NFRA disclosed the names of over a thousand statutory auditors—accounting for a large section of the audit profession in the country—who have not filed their annual returns. In the case of some of the entities associated with Infrastructure Leasing & Financial Services Ltd., the audit watchdog had taken strict action.