

## About FRRB

The Financial Reporting Review Board (FRRB) was constituted by the Council of the ICAI in July 2002, comprising of the members of the Council of the Institute as well as representatives of various regulatory authorities. The primary function of the FRRB is to review the compliance inter alia with the reporting requirements of various applicable statutes, Accounting Standards and Auditing and Assurance Standards issued by the ICAI to improve the overall quality of General Purpose Financial statements.

The Board reviews general purpose financial statements and the auditors' reports thereon of certain randomly selected enterprises with a view to determine, to the extent possible:

- Compliance with the generally accepted accounting principles in the preparation and presentation of financial statements;
- Compliance with the disclosure requirements prescribed by regulatory bodies, statutes and rules and regulations relevant to the enterprise; and
- Compliance with the reporting obligations of the auditor.

The FRRB can review the general purpose financial statements of the enterprise and the auditor's report thereon either suo motu or on a reference made to it by any regulatory body like, the Reserve Bank, SEBI, IRDA, Ministry of Corporate Affairs, etc. The FRRB may also review general purpose financial statements of the enterprises and the auditor's report thereon relating to which serious accounting irregularities in the general purpose financial statements have been highlighted by the media reports.

The enterprises within the purview of the FRRB include:

- Enterprises whose debt or equity securities are listed on a recognised stock exchange in India;
- Public financial institutions and banks;
- Non-listed and other commercial enterprises having a turnover of Rs.50 crore or more; and
- such other category of enterprises which in the opinion of the Board make the public interest vulnerable due to susceptibility to non-compliance of generally accepted accounting principles in the preparation and presentation of financial statements, non-compliance of the disclosure requirements prescribed by regulatory bodies, statutes and rules and regulations relevant to the enterprise and non-compliance of the reporting obligations of the enterprise and the auditor.

For suo motu reviews, the FRRB decides every year, the number of companies to be reviewed in each Council year. The companies are short-listed on the basis of the criteria decided by the Board, from time to time, using the company database available from a nationally renowned source. After short-listing, the companies are sorted in the ascending order of turnover. From this list, the required number of companies is selected using scientific methods such as random sampling. In its reviews, the FRRB is assisted by its various Financial Reporting Review Groups (FRRGs) as well as Technical Reviewers. The preliminary review is conducted by the Technical Reviewers selected from the panel

maintained by the Board. On receipt of preliminary review reports of Technical Reviewers they are, thereafter considered and finalised by Financial Reporting Review Groups before the same are finally examined by the Board. The Technical Reviewers as well as the members of the FRRGs are adequately trained by the FRRB and work under strict confidentiality requirements.

In case the FRRB finds any non-compliance with the reporting requirements of various applicable statutes, Accounting Standards and Auditing and Assurance Standards, it refers the case to the Director (Discipline) to the Institute of Chartered Accountants of India for initiating action against the auditor under the Chartered Accountants Act, 1949. In so far as the management of the enterprise is concerned, pending the grant of relevant powers to the FRRB by the Central Government, the FRRB informs irregularity to the regulatory body relevant to the enterprise.

In cases where no material non-compliance and/or non-compliance affecting the true and fair view of financial statements are observed by the FRRB, and only immaterial non-compliance and/or non-compliance, which do not affect the true and fair view of financial statements are observed, the FRRB may not refer the case to the Director (Discipline) of the ICAI for initiating action against the auditor under the Chartered Accountants Act, 1949. In such cases, the FRRB would appropriately bring the non-compliance to the attention of the auditor and/or the enterprise concerned. Till March 2010, the FRRB has taken up the review of 411 enterprises, out of which 90 cases have been referred to the Director (Discipline) of the Institute and/ or to the relevant regulators and for 122 cases appropriate note on non-compliances have been issued to the auditors of the enterprises which have been observed by the Board during the review of the financial statements of such enterprises.

## **Role and Approach of FRRB**

Over the time, the FRRB has become an established mechanism for monitoring compliance by reporting enterprises. The Board reviews financial statements from compliance perspective and recommends appropriate action to Ministry of Corporate Affairs, SEBI and other regulators. It has recommended action to the authorities who need to initiate action where gross non-compliances are observed. The Ministry, too, has started the process of considering recommendations and initiating inquiry.

Since the FRRB, is recommending action to the various regulatory authorities including MCA, SEBI, C&AG, IRDA etc., therefore this is the single agency that is serving the purpose of improving transparency in financial reporting for all concerned regulators.

Further ICAI is the only body that issues Accounting Standards, Auditing Standards, Interpretations and Guidance Notes thereon, therefore they are better equipped with the background in which those pronouncements have been made. Thus, FRRB, a Committee of ICAI, is in a better position to review the non-compliances with the various reporting requirements in the financial statements. The autonomy of the Board could be greatly

enhanced if it is given more authority in terms of calling for additional information from the concerned auditors or management of the enterprises under review.

After functioning for more than six years, the Board has felt a lot of improvement in the overall quality of the general purpose financial statements, which in turn, has improved the quality of work executed by the members of the profession. The Board has initiated steps to augment strength of number of Technical Reviewers as well as Financial Reporting Review Groups. At present, the Board has empanelled 259 members as Technical Reviewers with the Board and 16 Financial Reporting Review Groups has been constituted to assist the Board. The Board often conducts the Training Programmes on regular basis to guide the technical reviewers on further enhancing their review skills of the General Purpose Financial Statements and to acquaint them with major non-compliance observed by the Board during the review of general-purpose financial statements of various companies. Till date, FRRB has conducted 10 Training Programmes as well as Seminars wherein 971 participants have been trained

The Board envisaged to improve the overall quality of General Purpose Financial statements which is important to the healthy functioning of business and markets and thus as making a significant contribution to the economy overall.