

# Role of FRRB as Improving Financial Reporting Practices

*The Institute, in light of the changing global scenario and experience gained therefrom, has felt the need for a separate, dedicated and independent wing which could undertake the review of the general-purpose financial statements of the enterprises with the objective to examine the financial reporting non-compliances therein. The idea was to ensure the quality financial reporting. Therefore, the Council of the Institute has set up the Financial Reporting Review Board (FRRB/ Board) in July 2002 with an objective to develop and maintain an environment of sound financial reporting practices and to improve transparency in reporting, which is important to promote investor confidence in audited financial statements. Read on...*



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FRRB comprises of the members from Central Council of the ICAI, Government nominees and representatives from Securities and Exchange Board of India (SEBI), office of Comptroller and Auditor General of India (C&AGI), Insurance Regulatory and Development Authority of India (IRDAI) and Central Board of Direct Taxes (CBDT) from time to time. Accordingly, the composition of the Board represents a broad spectrum of professional and regulatory experience. The Board comprises members with significant expertise in the field and they work under confidentiality covenants.

With the view to maintain the independence of the Board it neither co-opts the members nor the President, ICAI and Vice-President, ICAI are appointed as ex-officio members to the Board, unlike other committees of ICAI.

**Scope of work:** FRRB reviews the general-purpose financial statements of enterprises and auditor's report thereon 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 Board restricts its reviews to the published financial statements only and does not carry out re-audit or review how audit has been conducted by auditors concerned. The review conducted by the Board is neither a judicial proceeding nor the quasi-judicial proceeding.

### **Selection of enterprises for review:**

The Board reviews the general-purpose financial statements of various enterprises and the auditor's report thereon selected on following basis:

#### **i. Suo Moto**

For suo moto reviews, the enterprises are short-listed on the basis of the criteria decided by the Board. The required number of

enterprises are selected using random sampling method.

#### **ii. Special Cases**

- On the basis of reference made by regulatory bodies like, Ministry of Corporate Affairs, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Reserve Bank of India, Election Commission of India etc.
- Cases where serious accounting irregularities in the financial statements are reported in media.

**Review Process:** Three tier review mechanism is used by the Board for conducting the review process, i.e.,

**Stage 1:** Preliminary review by an independent Technical Reviewer empanelled with the Board.

**Stage 2:** Review of Preliminary Review Report of Technical Reviewer by Financial Reporting Review Group (FRRGs).

**Stage 3:** Finally, review of Financial Reporting Review Group's report along with Preliminary review report of a Technical Reviewer by the Financial Reporting Review Board (FRRB).

**Actions taken by FRRB based on Review:** The Board may take following actions based on the review of the financial statement with respect to:



Till date, FRRB has reviewed 986 Financial Statements of various enterprises selected on suo moto basis (757 cases) or as special cases (229 cases).

**Auditors:** In case of material non-compliance, which affect the true and fair view of the financial statements, such cases are referred to the Director (Discipline) of the ICAI for initiating appropriate action against the auditor.

However, in cases where FRRB observes that the non-compliances are not material and does not affect the true and fair view of financial statements, it brings such non-compliances to the attention of the concern auditor as a corrective measure. These advisories motivate the auditors to follow quality practices and highest sense of professionalism in carrying out their professional duties.

### **Management of the Enterprises:**

Informs irregularity, in case of material non-compliances, to the regulatory body viz. Ministry of Corporate Affairs (MCA), Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA), Election



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Commission of India (ECI) etc. relevant to the enterprise for appropriate action.

### **Statistics of review of general-purpose financial statements**

Till date, FRRB has reviewed 986 Financial Statements of various enterprises selected on suo moto basis (757 cases) or as special cases (229 cases). Out of these, the Board referred 165 cases to Director (Discipline) for further action of which 158 cases are sent to concerned regulators such as MCA, SEBI, IRDA. In 618 cases, advisories have been issued to the auditor of the enterprise to exercise greater care in future while discharging professional duties.

### **The Impact FRRB is Making:**

FRRB has been playing a vital role in strengthening of best accounting and auditing practices amongst the members and other stakeholders.

The Board reviews financial statements from compliance perspective and refers its finding not only to Director (Discipline) of ICAI but also to other regulators for taking appropriate action, wherever required.

The Board also sends advisories to the members of the Institute on non-compliances observed by it in the financial statement audited by such member which help the members in performing quality services in their subsequent engagements. The Board also conducts Awareness Programmes, Seminars, Workshops on topics related to financial reporting. The Board, on a regular basis, also posts commonly observed non-compliances under 'Did You Know' series on its Twitter handle in order to update the auditors as well as the preparers

of the Financial Statements.

The Board also compiles the non-compliances observed by it during the course of the review and releases them in the form of publications. Till now, three volumes of 'Study on Compliance of Financial Reporting Requirements' and one volume of 'Study on Compliance of Financial Reporting Requirements (Ind AS Framework)' have been released by the Board.

In this way, FRRB is a proactive self-regulatory mechanism within the ICAI to strengthen the financial reporting practices. After functioning for more than twenty years, the FRRB is firmly established as an important and influential tool to bring transparency in financial reporting. Its presence has been acknowledged by various quarters of the society be it members of the Institute or regulatory authorities. It is envisaged that the ongoing task of undertaking reviews by the Board would definitely be helpful in further strengthening of the accounting and financial reporting practices in the country.



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