
[2023] 153 taxmann.com 735 (Article)

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Date of Publishing: August 30, 2023

Taxpayers vs NFRA



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In the modern economic landscape, financial transparency and accountability are essential pillars that underpin the stability and trustworthiness of financial markets. Governments across the globe have been striving to establish regulatory bodies to ensure transparency and maintain the trust of taxpayers. In India, the National Financial Reporting Authority (hereinafter referred as "**NFRA**")¹ was established under Section [132\(1\)](#) of the Companies Act, 2013 with the aim of regulating the auditing profession and ensuring compliance with accounting standards². The NFRA operates as an independent regulatory body, separate from other regulatory authorities, and is responsible for overseeing the quality of financial reporting by auditors.

Its primary objective is to enhance the quality and reliability of financial reporting, protect the interests of investors which include taxpayers such as individuals, businesses, corporations, partnerships, and other entities. The Taxpayer-NFRA relationship is a symbiotic one, where taxpayers benefit from the NFRA's oversight and enforcement actions, while the NFRA relies on taxpayers to provide accurate and complete financial information. Effective collaboration and communication between taxpayers and the NFRA are essential for maintaining transparency, accountability, and the overall integrity of the financial reporting ecosystem.

Prior to NFRA, the responsibility for regulating auditors and ensuring compliance with accounting standards rested with professional bodies such as the Institute of Chartered Accountants of India (ICAI). However, concerns were raised about the effectiveness of self-regulation, leading to the creation of an independent authority like the NFRA.

This Article will explore the roles and responsibilities of taxpayers and the NFRA, examines the potential conflicts that may arise between the two parties, and discusses the mechanisms available for resolving disputes. It also highlights the importance of transparency, accountability, and effective communication in maintaining a harmonious relationship between taxpayers and the NFRA.

Responsibilities of Taxpayers-

Taxpayer responsibilities refer to the obligations and duties that individuals and entities have in relation to their tax obligations. These responsibilities ensure compliance with tax laws and contribute to the functioning of the tax system. Some common taxpayer responsibilities include:

1. **Filing Tax Returns:** Taxpayers are responsible for accurately and timely filing their tax returns, providing complete and truthful information about their income, deductions, and other relevant details.
2. **Paying Taxes:** Taxpayers are responsible for paying the appropriate amount of taxes based on their income, assets, or other taxable activities.
3. **Record-Keeping:** Taxpayers are responsible for maintaining proper records and documentation to support their tax returns and claims. This includes keeping records of income, expenses, deductions, and other relevant financial information.
4. **Compliance with Tax Laws:** Taxpayers are responsible for understanding and complying with the applicable Tax Laws, Rules, and Regulations. This includes staying updated on changes in tax Laws, seeking professional advice if needed, and fulfilling all reporting and payment obligations.
5. **Cooperation with Tax Authorities:** Taxpayers are responsible for cooperating with tax authorities during audits, investigations, or inquiries. This includes providing requested information, responding to queries, and facilitating the tax assessment process. Role and

Responsibilities of the NFRA ³ -

The NFRA's regulatory mandate is to oversee the auditing profession and ensure compliance with accounting standards. Its primary responsibilities include:

1. **Setting Auditing Standards:** The NFRA is responsible for setting auditing standards and guidelines that auditors must follow while conducting audits. These standards aim to ensure the quality, accuracy, and reliability of financial reporting. ⁴
2. **Monitoring Auditors:** The NFRA monitors auditors to ensure their compliance with auditing standards and ethical requirements. It conducts inspections, reviews, and investigations to assess the quality of audits and identify instances of professional misconduct. ⁵
3. **Investigating Professional & other Misconduct⁶:** The NFRA investigates cases of professional misconduct by auditors, including violations of auditing standards, ethical breaches, or fraudulent practices. It has the authority to impose penalties, sanctions, or disciplinary actions against auditors found guilty of misconduct. ⁷

Taxpayers' Concerns

While the establishment of NFRA was a step towards ensuring accountability, some taxpayers have expressed concerns about the authority's powers and its potential impact on businesses, one of the primary concerns raised by taxpayers is the potential economic burden of NFRA regulations on businesses. Some of the key concerns raised by taxpayers include:

1. Increased Compliance Costs-

The NFRA Rules, 2018, introduce stringent reporting and auditing standards for certain classes of companies⁸. Taxpayers, especially businesses falling within the purview of these rules, express concerns about the significant compliance costs associated with meeting these regulatory requirements. The financial

burden of adhering to these rules, which includes costs related to enhanced reporting, audit procedures, and potential hiring of specialized personnel or consultants, can be substantial. This financial strain can lead to conflicts as businesses try to balance these costs with their growth and operational priorities.

2. Disproportionate Impact on SMEs-

Small and medium-sized enterprises (hereinafter referred to as "**SMEs**") are particularly affected by the NFRA Rules and Regulations, as they often lack the resources and infrastructure to navigate complex regulatory landscapes. The rules may impose a disproportionately higher burden on SMEs compared to larger corporations. This can hinder the growth and innovation potential of SMEs, which are crucial contributors to economic development and employment generation. The conflict arises from the potential stifling of these entities' growth due to the regulatory demands of the NFRA.

3. Dual Financial Commitment-

Rule 11 of the NFRA Rule, 2018⁹, requires the auditor to deposit the amount of the monetary penalty with the NFRA within thirty days of the initial order. This is followed by an additional requirement as per Rule 12 of the NFRA Rules, 2018¹⁰, where if the auditor opts to appeal the order, they must deposit ten percent of the monetary penalty with the Appellate Tribunal¹¹. This dual financial obligation can prove onerous, especially for SMEs audit firms or individual auditors. This can significantly affect auditors' financial stability, the obligation to deposit a substantial amount of money within a short period can strain their cash flow, disrupt their financial planning, and potentially create challenges in meeting ongoing professional commitments.

Mechanisms for Resolving Taxpayers Concern

- (a) **Internal Dispute Resolution Mechanisms:** The NFRA should establish internal mechanisms for taxpayers to raise concerns and resolve disputes. This can include a dedicated helpline, online portals, or a complaint resolution process. Timely and effective resolution of disputes can help maintain a positive relationship between taxpayers and the NFRA.
- (b) **Legal Remedies for Taxpayers:** Taxpayers have the right to seek legal remedies if they suffer financial losses due to negligence or misconduct by auditors. They can file lawsuits against auditors or the NFRA, seeking compensation for damages incurred.
- (c) **Mediation and Arbitration:** Mediation and arbitration can be effective alternative dispute resolution mechanisms for resolving conflicts between taxpayers and the NFRA. These processes provide a neutral platform for both parties to discuss their concerns and reach a mutually acceptable resolution.

Importance of Transparency and Accountability

Transparency in Financial Reporting Transparency in financial reporting is crucial for maintaining trust between taxpayers and the NFRA. The NFRA should ensure that auditors provide accurate and reliable information, and taxpayers should have access to this information to make informed decisions.

The NFRA should be accountable for its actions and decisions. It should provide clear justifications for its regulatory decisions and be open to feedback and criticism. Regular communication with taxpayers can help build trust and ensure accountability.

Effective communication and collaboration between taxpayers and the NFRA are essential for maintaining a harmonious relationship. The NFRA should proactively engage with taxpayers, address their concerns, and provide timely updates on regulatory developments.

CONCLUSION

The establishment of NFRA is a significant step towards enhancing transparency and accountability in financial reporting. However, it is crucial to strike a balance between ensuring accountability and maintaining a conducive environment for businesses to thrive. While NFRA's powers are necessary to curb financial irregularities, it is equally important to address taxpayers' concerns. The authority should focus on creating a transparent and fair regulatory framework that encourages compliance without unduly burdening businesses.

Collaboration between tax authorities, standard-setting bodies, and companies is essential to harmonize tax laws and accounting standards, ensuring accurate and reliable financial reporting. By addressing these challenges, we can create a more transparent and equitable financial reporting environment for all stakeholders.

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- [1.](#) Section [132\(1\)](#) of Companies Act, 2013.
 - [2.](#) Rule 2(c) of the NFRA Rules, 2018.
 - [3.](#) Rule 4 of NFRA Rules, 2018, which states the "Functions and duties of the Authority".
 - [4.](#) Rule 6 of NFRA Rules, 2018, which states the "Recommending accounting standards and auditing standards".
 - [5.](#) Rule 8 of NFRA Rules, 2018, which states "Monitoring and enforcing compliance with auditing standards".
 - [6.](#) Section [22](#) of the Chartered Accountants Act, 1949 (38 of 1949).
 - [7.](#) Rule 10 of NFRA Rules, 2018, which states the "Power to Investigate".
 - [8.](#) Rule 3 of the NFRA Rules, 2018, which states the "Classes of companies and bodies corporate governed by the Authority".
 - [9.](#) Rule 11 of the NFRA Rules, 2018, state the provision regarding "Disciplinary Proceedings".
 - [10.](#) Rule 12 of the NFRA Rules, 2018, state the provision regarding "Manner of enforcement of orders passed in disciplinary proceedings".
 - [11.](#) Rule 12 (1) of the NFRA Rules, 2018
 - [12.](#) Majesty legal is a LAW FIRM established in 2013 by Ms. Mahi Yadav. Objective of this Article is to provide insights on law, statutes and is personal in nature, not to be deemed as legal advice.