

# Consultation Paper on Statutory Audit and Auditing Standards for Micro, Small and Medium Companies (MSMCs)

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India is unique among the big economies of the world in statutorily mandating compulsory audit for all companies, irrespective of their size and characteristics. In view of the significant role played by companies in India in the economic growth and development of the Nation, it is essential that the regulatory environment is conducive to support, and not burden, the growth in business and economic activities of these entities.

A preliminary analysis has been done by National Financial Reporting Authority (NFRA) on the key financial parameters of the companies registered in India from their MCA-21 filings and it is found that the fees paid to auditors by a large majority of Micro, Small and Medium Companies (MSMCs) are way below what an audit, when performed in compliance with the letter and spirit of the Standards of Auditing, would require.

Major economies of the world require statutory audit for small companies only in case some minimum criteria of public interest are satisfied. Even in India, income tax audit is now not compulsory where the turnover is Rs. 10 crore or less provided not more than 5% of the transactions are in cash. GST audit has also been completely done away with.

It is, therefore, appropriate to revisit the requirement of compulsory statutory audit for all companies irrespective of their size and/or public interest. NFRA has prepared a Consultation Paper explaining the issues involved and providing the data and information required for responding to the questions raised in an informed manner, with the objective to seek the comments/suggestions of the wider stakeholder group and the public at large on questions raised. The last date for receipt of comments is 10<sup>th</sup> November, 2021. The comments may be submitted by email at: [comments-tac.paper@nfra.gov.in](mailto:comments-tac.paper@nfra.gov.in)

NFRA's Consultation Paper on Statutory Audit and Auditing Standards for Micro, Small and Medium Companies (MSMCs) can be accessed on NFRA's website at:

<https://nfra.gov.in/sites/default/files/NFRAConsultationPaperMSMCs.pdf>

## **About NFRA**

National Financial Reporting Authority (NFRA) was established by the Central Government in October 2018 under Section 132(1) of the Companies Act, 2013. An important function of NFRA under section 132(2)(a) of the Companies Act, 2013 is to make recommendation to Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors.

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