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NFRA Consultation Paper for Audit and Auditing Standards for Micro, Small and Medium Companies (MSMCs)

The National Financial Regulatory Authority (NFRA) on **September 29, 2021** came up with a Consultation paper regarding **relaxation of Audit for Micro Small and Medium Companies (MSMCs)**. The views of various stakeholders were invited. The Consultation Paper mainly deals with issues such as providing exemption to MSMCs from Statutory Audit, Formulating separate Auditing Standard for MSMCs, whether the current threshold limits for CARO, ICFR (Internal Control over Financial Reporting) and the Statutory Audit need to be standardised. It is essential that the regulatory environment is conducive to support and not burden these MSMCs entities.

The preliminary analysis is based on the key financial parameters of the companies registered in India which have made their MCA -21 filings. The focus of the analysis is on Companies having Net Worth below 250 Crores. MSMCs as a category is used by NFRA in this paper keeping on mind that the threshold limit of Net Worth 250 Crores is critical for differentiating between AS and Ind AS. Most of the data used in this research conducted was based on statistics published by MCA.

The data analysed by NFRA shows that nearly 30 % of total registered company reported nil payment to auditor. Around 41% of the companies reported extremely small amount i.e. below Rs. 25000, this is very small as compared to the size of the companies. Around 44% of MSMC registered reported zero debt. So the analysis shows that majority of these companies are small in size and in terms of financial parameters.

The consultation paper also describes the auditing ecosystem of various economies across the globe. Countries such as United Kingdom, Singapore, Australia, USA and different member countries of European Union also have provided relaxation to Micro Small and Medium Companies. Thus, exempting these companies from mandatory audit will result in promoting ease of doing business for MSMCs.

The link for aforesaid Consultation Papers is mentioned below:

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

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