

## **ICAI raises concerns on fraud reporting in Companies Act**

***The regulatory body has also asked the corporate affairs ministry to relax the cap on number of audits per auditor.***

The accounting regulator Institute of Chartered Accountants of India (ICAI) has raised concerns over the demand of reporting every fraud to the Central government by auditors within 60 days under the new Companies Act.

The ICAI has also urged the ministry of corporate affairs to relax the cap on number of audits per auditor in a representation to the ministry.

“Reporting all frauds, even the ones which are as small as Rs 1,000 is our responsibility. It is a huge responsibility. Reporting all the frauds would be difficult as frauds can be committed by management or even external forces. How can we detect all of them?” ICAI president K Raghu told The Indian Express.

“This is for the first time that a such a responsibility of reporting on frauds directly to the central government has been given to statutory auditors, in addition to their existing reporting requirements to shareholders.” He further added that the institute has told the ministry that there should be a framework for fraud detection which should be in line with the existing auditing standards, as issued by the ICAI.

According to Auditing Standard 240, “In an audit, the auditor does not guarantee that material mis-statements, whether from fraud or error, will be detected.”

Also, the auditor is required to communicate the fraud information to management, and “those charged with governance and, in some circumstances, when so required by the laws and regulations, to regulatory and enforcement authorities also”. However, there is no requirement of directly reporting to the Central government.

“We have set up an expert committee to work on a guidance note on fraud to educate our members. This reporting requirement is quiet demanding from statutory auditors’ perspective. Across the world, fraud detection is a highly specialised job,” Raghu said.

According to Section 143(12) of the Companies Act, if an auditor comes across an offence involving fraud being committed against the company by management or employees, it will have to be reported to the Central government within 60 days. Also, before reporting it to the government, the incident would have to be brought to the notice of board or audit committee of the company and seek their reply within 45 days.

ICAI has also said that the cap of 20 audits per auditor should be relaxed to exclude private limited companies, small businesses and one person companies as the cap would cause undue hardship to both companies and auditors, and bring about increased costs.

*(Indian Express)*

