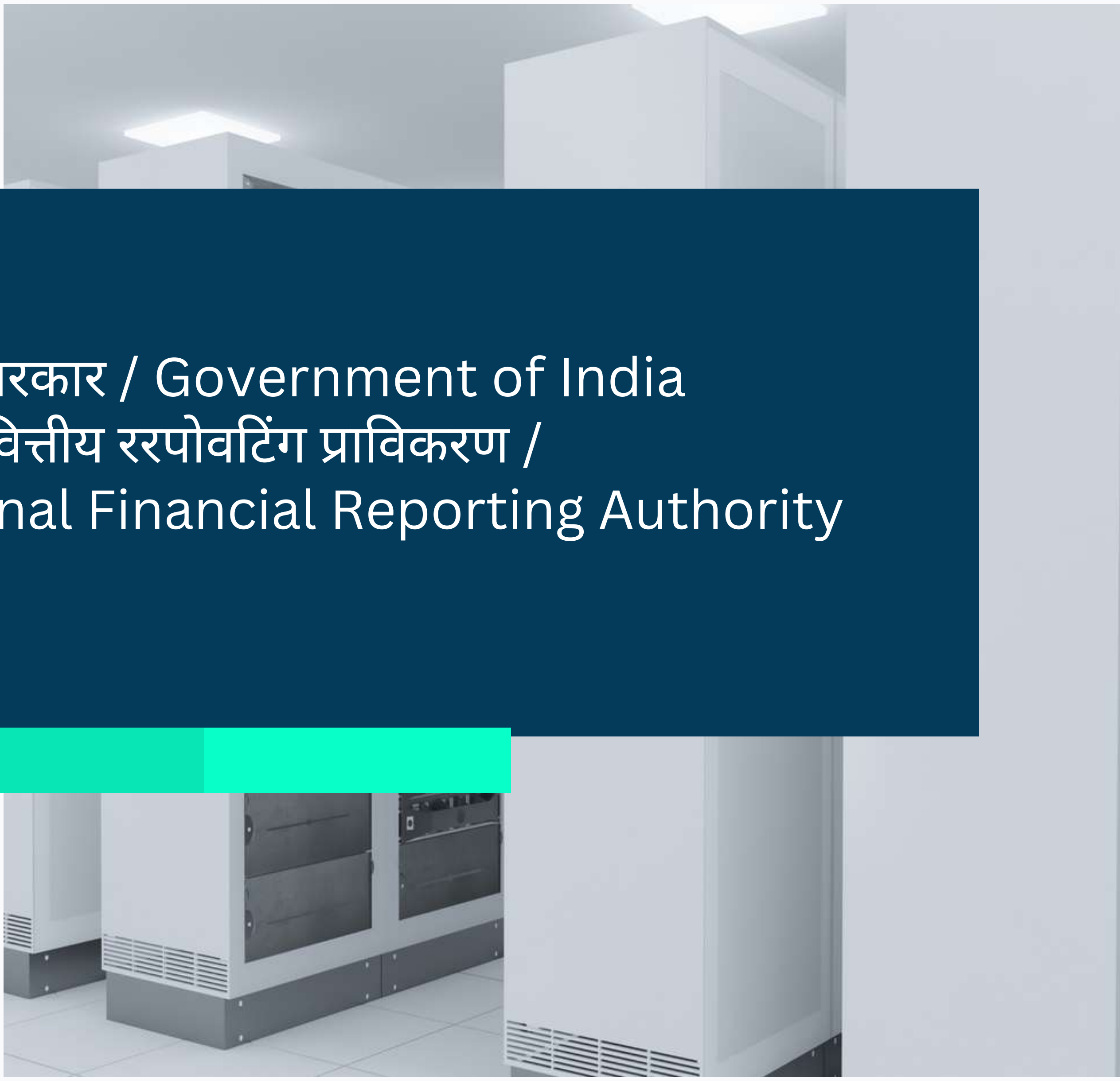
Dipen D Shah & Associates
CHARTERED ACCOUNTANTS



भारत सरकार / Government of India
राष्ट्रीय वित्तीय ररपोवटिंग प्राविकरण /
National Financial Reporting Authority

Summary of NFRA Circular Dated 26.06.2023

Addressing Statutory Auditors' Responsibilities
Regarding Fraud in Companies.

Key Points

The National Financial Reporting Authority (NFRA) has issued a circular to auditors of entities regulated by NFRA, highlighting their responsibilities concerning fraud reporting under the Companies Act, 2013 (CA 2013), along with relevant rules and auditing standards, including the Companies (Auditor's Report) Order (CARO).

Reporting Obligations Under CA 2013

- Auditors are mandated to report fraud or suspected fraud as per Section 143 (12) of CA 2013 and related rules.
- Rule 13 of the Companies (Audit and Auditors) Rules 2014 outlines the steps for auditors when fraud involving or expected to involve one crore or above is suspected.
- Reporting involves notifying the Board or Audit Committee and the Central Government in the form of a statement specified in Form ADT-4.

CARO Requirements

- Clause (xi) of Companies (Auditor's Report) Order, 2020, specifically mandates auditors to include statements relating to reporting of fraud in their reports.

Consequences for Auditors

- Section 140 (5) of CA 2013 outlines severe consequences for auditors engaged in fraudulent acts, including action under Section 447 and a five-year debarment.

Auditor’s Responsibilities as per SA 240

- SA 240, "The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements," requires auditors to maintain professional scepticism throughout the audit, acknowledging the potential for material misstatements due to fraud.

- Guidance in paras A59-A66 of SA 240 details communications to management, those charged with governance, and regulatory authorities regarding fraud/suspected fraud reporting.

Impact of Resignation

- The circular addresses a misconception among some auditors that resigning from an audit engagement absolves them of reporting obligations. A recent Supreme Court judgment (Union of India and Another versus Deloitte Haskins and Sells LLP & Anr CRIMINAL APPEAL NOS.2305-2307 OF 2022) clarifies that consequences under section 140 (5) of CA 2013 apply even to auditors who resign without reporting fraud/suspected fraud.

Reiteration of Provisions

- The circular reiterates provisions of the Act, relevant rules, and auditing standards related to reporting fraud and its consequences.

Statutory Auditor's Mandatory Steps

- Statutory auditors must report fraud promptly if they observe suspicious activities, transactions, or operating circumstances indicating potential offences by company officers or employees.
- Reporting involves initiating steps under Rule 13 of Companies (Audit and Auditors) Rules 2014, starting with reporting the matter to the Board/Audit Committee within two days of discovering the fraud.
- If fraud involves one crore or above and there is no reply from the Board/Audit Committee within 45 days, a report in Form ADT-4 must be forwarded to the Secretary, Ministry of Corporate Affairs, Government of India.

Professional Skepticism

- Statutory auditors are urged to exercise their own professional skepticism while evaluating fraud and should not be influenced by legal opinions provided by the company or its management.

Overall, the circular emphasizes the importance of auditors fulfilling their statutory responsibilities in reporting fraud and underscores the legal consequences for non-compliance. It also clarifies that resignation does not exempt auditors from the repercussions of fraudulent activities.

Thank you

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