

Allow 'materiality' in fraud reporting obligations of statutory auditors: ICAI President

The CA Institute has urged the Corporate Affairs Ministry to allow the concept of "materiality" to the fraud reporting requirement now cast on statutory auditors.

The current legal provisions requiring a statutory auditor to report all frauds (without bringing in materiality) to the central government within 60 days of the fraud coming to his knowledge is "quite onerous", K Raghu, President, ICAI, told Business Line.

It would mean that even for a small fraud involving say 1000 in a large multi-locational enterprise could cast reporting responsibility on a statutory auditor, he said.

This is for the first time ever that a company law has mandated a statutory auditor to do direct reporting of frauds (to the central government) in addition to their existing responsibilities of reporting requirements to the shareholders of the company.

Simply put, the new company law envisages the metamorphosis of the statutory auditors from being a watchdog to a whistleblower, according to Raghu.

Raghu said that the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India (ICAI) has constituted an expert group to develop a guidance note at the earliest on 'fraud reporting'.

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