

ICAI provides clarity on auditor's fraud reporting norms

In a new guidance to auditors on reporting suspected frauds, ICAI has asked them to apply "professional skepticism" before flagging such cases to the government and take into account the measures already taken by the companies internally.

In a detailed guidance note on reporting on fraud by auditors under the Companies Act, the apex body of chartered accountants ICAI has said they should "apply professional skepticism" while dealing with such matters.

Under section 143(12) of the Act, statutory auditors are required to report to the central government about a fraud or suspected fraud committed against the company by the officers or employees of the firm.

The Institute of Chartered Accountants of India has said that such reporting needs to be done only if such frauds would have a material impact on the financial statements.

"In case a fraud has already been reported or has been identified/detected by the management or through the company's vigil/whistle blower mechanism and has been/is being remediated/dealt with by them and such case is informed to the auditor, the latter will not be required to report the same ...," ICAI said in the note issued recently.

This is because the auditor has not per se identified the fraud, it added.

According to the note, the auditor should apply "professional skepticism" to evaluate whether the fraud was indeed identified in all aspects by the management or through the company's whistle blower mechanism.

ICAI said that such an approach would help in making a between frauds identified due to matters raised by the auditor and those detected by company through its internal control mechanisms.

Price Waterhouse's Partner Sumit Seth said the guidance note provides clarity on various aspects about reporting of fraud by auditors.

He said: "It clarifies the definition of fraud, explains when and which frauds are to be reported, the manner of reporting including bringing in the concept of materiality which is fundamental to setting up an appropriate internal control system and audit.

"...an auditor will report frauds to central government only if he is the first person to identify/note such fraud."

(Economic Times)