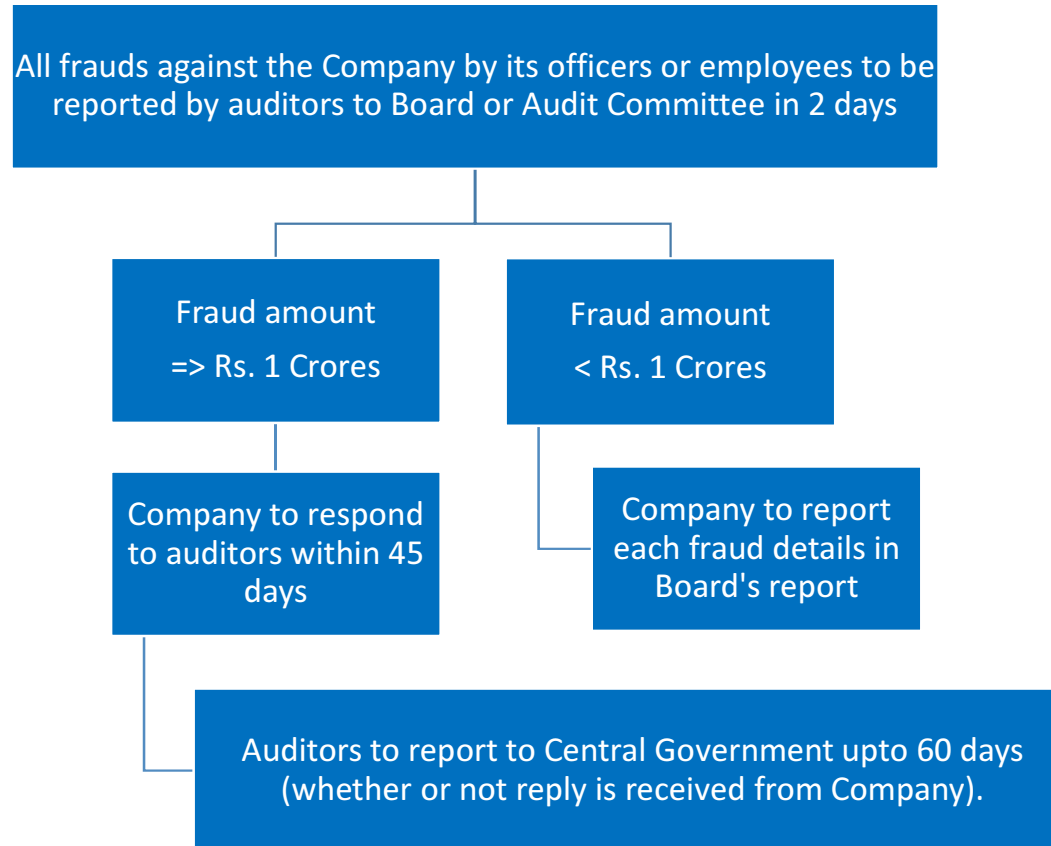


The Ministry of Corporate Affairs (MCA) has amended Rule 13 of the Companies (Audit and Auditors) Rules 2014 (notified on 14th December 2015) in respect of auditor's responsibility for reporting of fraud against the company by its officers or employees. As per the amendment, threshold limits is introduced and procedures to be followed are modified. The abstracts of the same is given below:



Existing provision	Amended provision	Our comments / views
<b>i) Specified the monetary limit for reporting of fraud by the auditor to the Central Government</b>		
<p>The auditor of the company, in the course of the performance of his duties as auditor, has sufficient reason to believe that an offence involving fraud is being or has been committed against the Company by officers or employees of the Company, than auditor shall report the matter to the Central Government.</p>	<p>If an auditor of a company, in the course of the performance of his duties as a statutory auditor, has a reason to believe that an offence of fraud which involves or is expected to involve individually an amount of <b>Rs. 1 Crores and above</b> is being or has been committed against the Company by its officers or employees should be reported to the Central Government.</p>	<ul style="list-style-type: none"> <li>• This is a positive development / change as frauds below the threshold limit need not be reported to the central government.</li> <li>• The MCA has laid down ceiling limit for reporting of fraud irrespective of the size of the Company.</li> <li>• The MCA may clarify the term 'individual frauds' and circumstances under which multiple frauds of similar nature / type could be aggregated to determine the limit of Rs. 1 crore.</li> <li>• It should be noted that the responsibility of reporting the fraud is</li> </ul>

Existing provision	Amended provision	Our comments / views
		only if the fraud has been identified by the auditor i.e. if the management has informed about the fraud to the auditor, then auditors are not required to report on the same to the board of directors / audit committee / central government.
<b>ii) Time limit of 2 days for reporting of fraud by the auditor to Audit Committee or Board</b>		
The auditor shall report the matter related to fraud (against the Company by its officers or employees) to the Board or the Audit Committee, as the case may be, immediately after auditor comes to knowledge of the fraud, seeking their reply or observations within 45 days.	The auditor shall report all fraud (against the Company by its officers or employees) to the Board or the Audit Committee within <b>2 days</b> of auditor's knowledge of the fraud. There is no change in time limit of 45 days for obtaining response from company.	<ul style="list-style-type: none"> <li>The time line of 2 days given to auditors for estimating the quantum of fraud is a herculean task. Practically, auditor would not be in a position to quantify the amount.</li> </ul>
<b>iii) Matters to be included while reporting the fraud to Audit Committee or Board where fraud amount is less than Rs. 1 Crores</b>		
Details to be reported was not specified.	In case of a fraud (committed against the Company by its officers or employees) involving lesser than Rs. 1 Crores, the auditor within 2 days shall report	<ul style="list-style-type: none"> <li>The auditor may not have the expertise to determine the intricacies of fraud and it would be pre-mature for auditors</li> </ul>

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Existing provision	Amended provision	Our comments / views
	<p>the matter to Audit Committee or to the Board specifying the following:-</p> <p>(a) Nature of Fraud with description;</p> <p>(b) Approximate amount involved: and</p> <p>(c) Parties involved.</p>	<p>to identify the parties involved in 2 days of knowledge of fraud.</p> <ul style="list-style-type: none"> <li>• The auditor would require legal assistance / advice from legal experts before initiating such a reporting.</li> <li>• Identification of all the parties involved may not be practical in a deep routed fraud.</li> </ul>
<b>iv) Matters to be included while reporting the fraud in the Board's Report where fraud amount is less than Rs. 1 Crores</b>		
No such requirements.	<p>In case of a fraud (against the Company by its officers or employees) involving lesser than Rs. 1 Crores, the following details of each of the fraud reported to the Audit Committee or the Board shall be disclosed in the Board's Report:</p> <p>(a) Nature of fraud with description</p> <p>(b) Approximate amount involved</p>	<ul style="list-style-type: none"> <li>• Details of each fraud below Rs. 1 Crores would now be available in the public domain and in the annual report of the Company.</li> <li>• Details of fraud for Rs. 1 Crores and above is not mandated to be reported under the Board's report, however as a</li> </ul>

Existing provision	Amended provision	Our comments / views
	(c) Parties involved, if remedial action not taken and (d) Remedial actions taken	better practice and corporate governance it may be included.

**Disclaimer:**

This document has been prepared as a service to the clients. We recommend you to seek professional advice before taking any action on the specific issues.