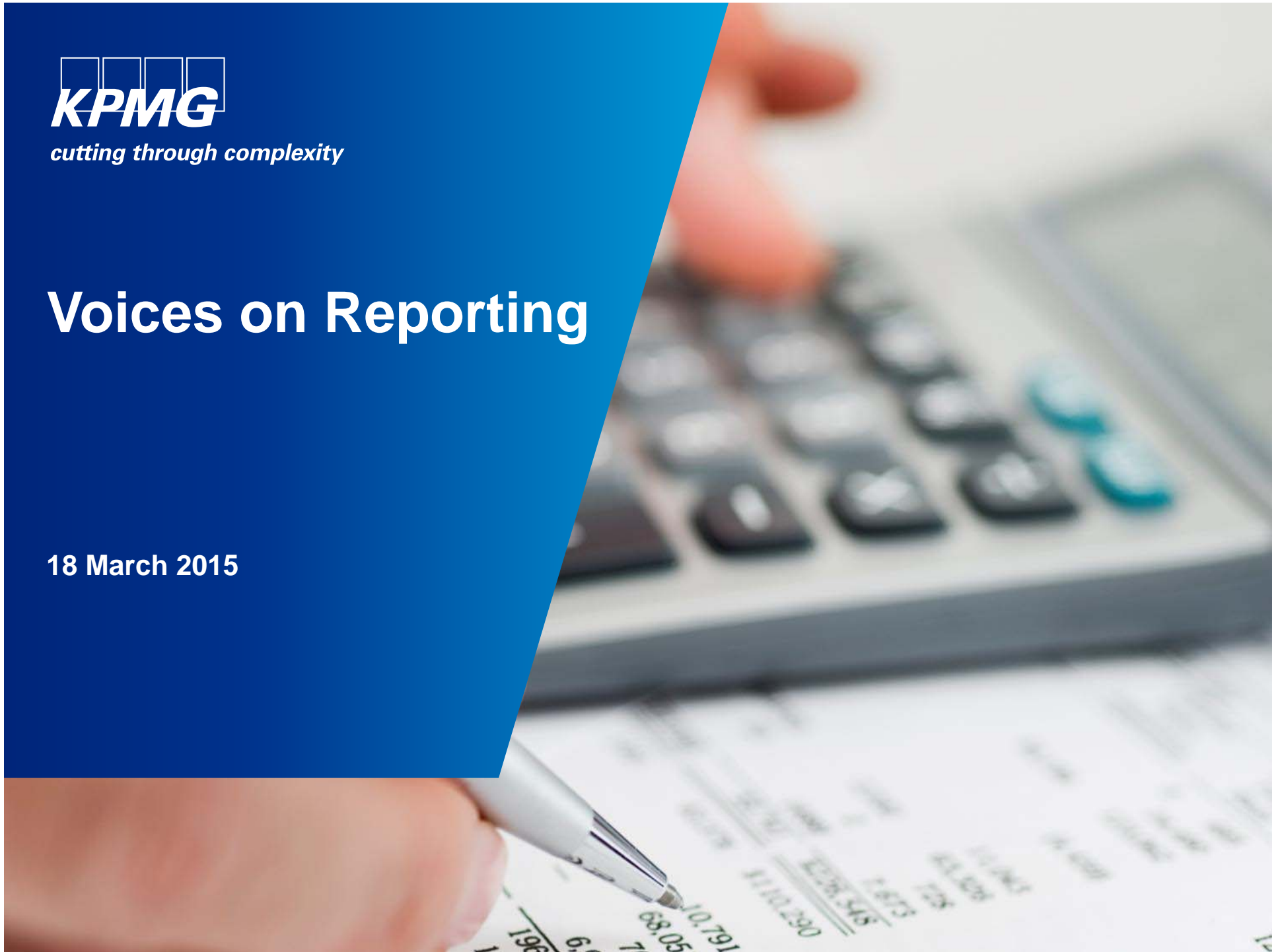


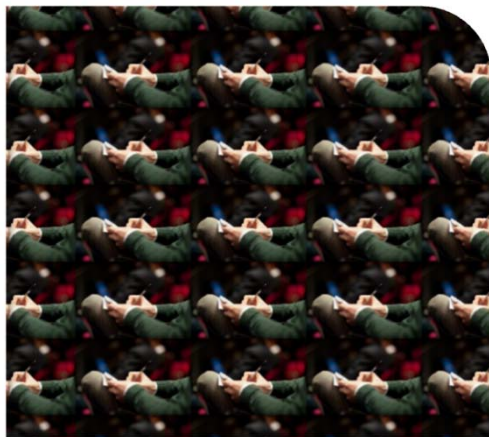


*cutting through complexity*

# Voices on Reporting

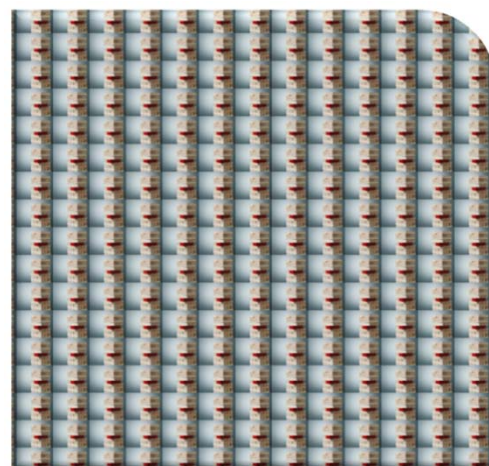
18 March 2015





Series of knowledge sharing calls

Covering current and emerging reporting issues



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Look out for our Accounting and Auditing Update, IFRS Notes and First Notes publications

# Your speakers

## Voices on Reporting



**Amit Somani**  
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1

**Overview of section 143(12) of the Companies Act, 2013**

2

Persons covered for reporting under section 143(12) of the Companies Act, 2013

3

Reporting on frauds in various scenarios

# Overview of section 143(12) of the Companies Act, 2013

Voices on Reporting

## Background

Section 143 of the Companies Act, 2013 (2013 Act) has been effective from 1 April 2014.

The Central Government seeks the support of auditors in bringing:

- transparency and
- discipline

in the corporate world to protect the interests of the shareholders and public at large.



# Overview of section 143(12) of the Companies Act, 2013

Voices on Reporting

## Section 143(12) requires that:

If an auditor of a company

- in the course of the performance of his duties as an auditor
- has reason to believe
- that an offence involving fraud is being or has been committed against the company
- by officers or employees of the company
- he shall immediately report the matter to the Central Government
- within such time and in such manner as may be prescribed (not later than 60 days).



# Responsibility of the management for prevention and detection of fraud

Voices on Reporting

Section 134(5) of the 2013 Act and Standard on Auditing (SA) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, mention that:

- Primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management
- Board's report to include a responsibility statement, *inter alia*, that the directors had taken proper and sufficient care for safeguarding the assets of the company and preventing and detecting fraud and other irregularities.



# Auditor responsibility for consideration of fraud in an audit of financial statements

Voices on Reporting

## Scope of the guidance note is as follows:

- Frauds detected '*in the course of performance of duties as an auditor*' implies in the course of performing an audit as per the Standards on Auditing
- An auditor has to consider the requirements of Standards on Auditing for assessing risk of fraud
- Reporting is applicable only when an auditor has evidence that fraud exists
- Fraud by officers or employees of the company and not by third parties such as, vendors and customers.





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Overview of section 143(12) of the Companies Act, 2013

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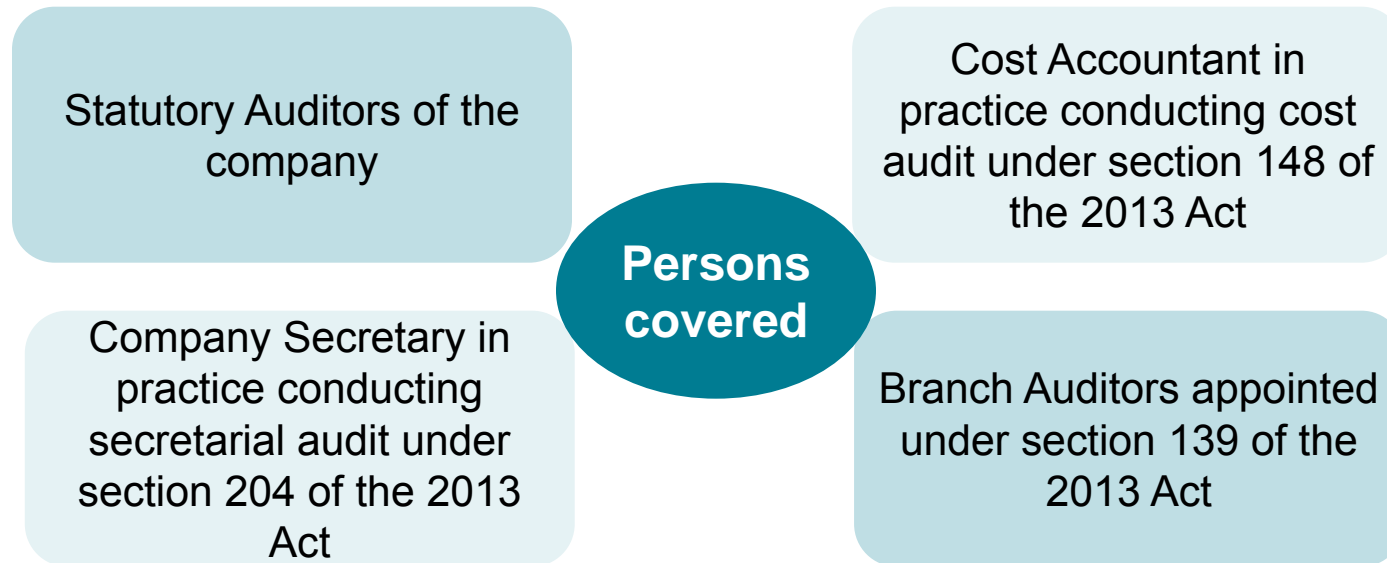
**Persons covered for reporting under section 143(12) of the Companies Act, 2013**

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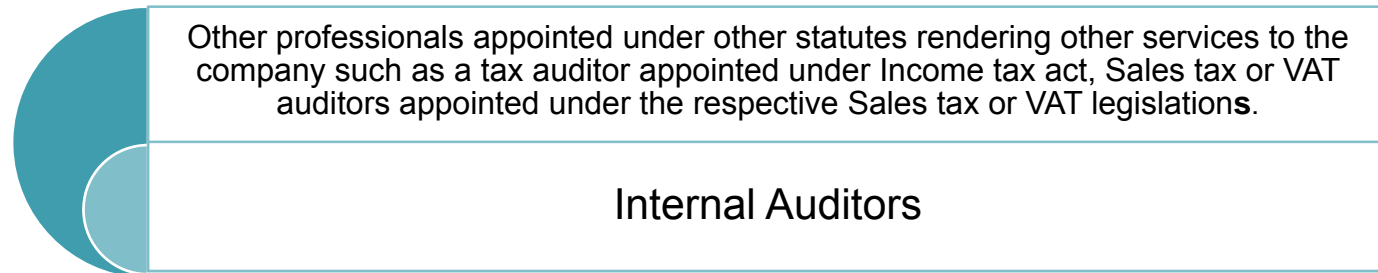
Reporting on frauds in various scenarios

# Persons covered for reporting under section 143(12) of the Companies Act, 2013

Voices on Reporting



## Persons not covered



Source: KPMG in India's analysis, 2015; Guidance Note on Reporting on Fraud under section 143(12) of the Companies Act, 2013 issued by The Institute of Chartered Accountants of India (ICAI).

1

Overview of section 143(12) of the Companies Act, 2013

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Persons covered for reporting under section 143(12) of the Companies Act, 2013

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**Reporting on frauds in various scenarios**

# Reporting on frauds in various scenarios

Voices on Reporting

**It would be an auditor's responsibility to report about frauds in the following scenarios:**

## **Fraud noted by an auditor first before the management**

- Report to the management first and then the Central Government.

## **While providing attest or non-attest services, audit/limited review of interim period financial statements/results**

- Exercise professional judgement to evaluate materiality of the information
- Uses or intends to use the information obtained in the course of attest or non-attest services when performing an audit under the 2013 Act.



# Reporting on frauds in various scenarios

Voices on Reporting

Frauds already reported by the management

Frauds already reported by other persons (Company Secretary and Cost Accountant)

No Reporting

But review the steps taken by the management

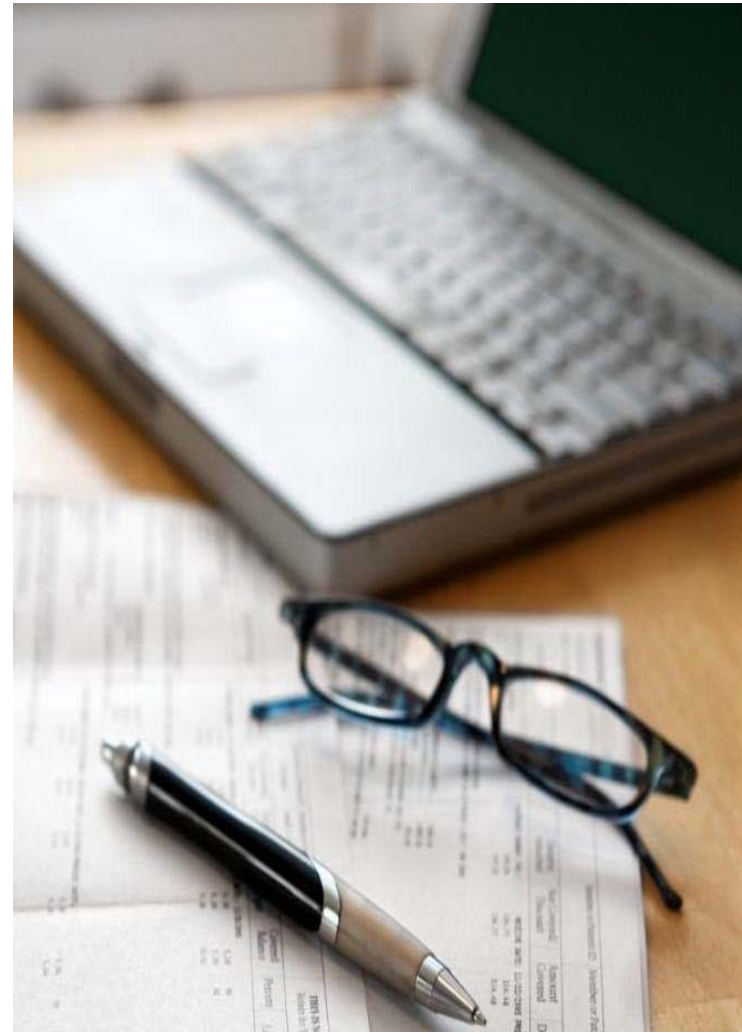
On dissatisfaction, state reasons and request the management to perform additional procedures

If additional procedures are not performed within 45 days of request, consider reporting the matter to the Central Government

Source: KPMG in India's analysis, 2015; Guidance Note on Reporting on Fraud under section 143(12) of the Companies Act, 2013 issued by The Institute of Chartered Accountants of India (ICAI).

### Reporting in case of Consolidated Financial Statements: for frauds in any subsidiary, joint venture or associate:

- An auditor of the parent company is not required to report on frauds under section 143(12) if frauds are not being or have not been committed against the parent company by the officers or employees of the parent company but relate to frauds in:
  - a component which is an Indian company as the auditor of that Indian company has the responsibility
  - a foreign corporate component that is not a company.
- An auditor of the parent company to report frauds in a component of the parent company only if:
  - fraud has been committed by employees or officers of the parent company and
  - such fraud is against the parent company.



### Reporting when fraud relates to periods prior to the 2013 Act became effective

- An auditor would report on fraud relating to earlier years under section 143(12) of the 2013 Act only if:
  - The suspected offence involving fraud is identified by the auditor in the course of performance of his duties as an auditor during the financial years beginning on or after 1 April 2014, and
  - To the extent that the same was not dealt with in the prior financial years either in the financial statements or in the audit report or in the Board's report under the Companies Act, 1956.



# Reporting on frauds in various scenarios

Voices on Reporting

## Reporting when fraud relates to Corruption, Bribery, Money Laundering and Non-compliance with other laws and regulations

- An auditor would report on fraud on the above matters under section 143(12) of the 2013 Act only if:
  - Such acts have been carried out by officers or employees of the company, and
  - Also take into account guidance in para 28 of SA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*.





### Reporting in case of fraud noted in an audit of a bank

- An auditor would report on fraud in this case under section 143(12) of the 2013 Act to:
  - the Reserve Bank of India in addition to the Chairman/Managing Director/Chief Executive of the concerned bank
  - if the bank is a company under the 2013 Act, then to the Central Government.





**Q&A**

Guidance Note on Reporting on Fraud under section 143(12) of the Companies Act, 2013 issued by The Institute of Chartered Accountants of India (ICAI).

# KPMG in India's IFRS Institute: re-launched

Voices on Reporting

KPMG in India is pleased to re-launch IFRS Institute - a web-based platform, which seeks to act as a wide ranging site for information and updates on IFRS implementation in India.

The website provides information and resources to help board and audit committee members, executives, management, stakeholders and government representatives gain insights and access to thought leadership publications that are based on the evolving global financial reporting framework.



In addition to the proprietary KPMG content, the website provides links to several other sources of information related to IFRS and its implementation. The site can be accessed by all interested parties at no cost. Additionally, the site provides the facility to register as a member by providing certain minimal information.

To download KPMG content, become registered members of the website following few easy steps.

<https://www.in.kpmg.com/IFRS>

You can reach us for feedback and questions at [in-fmkpmgifsinst@kpmg.com](mailto:in-fmkpmgifsinst@kpmg.com)

# Introducing IFRS Notes

Voices on Reporting

Issue 2015/02



## **IFRS convergence – a reality now! MCA notifies Ind AS standards and implementation roadmap**

This issue of our IFRS Notes provides a high level analysis of the much awaited Indian Accounting Standards (Ind AS) that are converged with International Financial Reporting Standards (IFRS), which was finally notified by the Ministry of Corporate Affairs on 16 February 2015 .

The notification of these IFRS converged standards fills up significant gaps that exist in the current accounting guidance, and India can now claim to have financial reporting standards that are contemporary and virtually on par with the best global standards. This will in turn improve India's place in global rankings on corporate governance and transparency in financial reporting.

With the new Government at the Centre, there has been a flurry of activities which started off by the announcement in the Finance Minister's budget speech last year of an urgent need to converge with IFRS, which has now culminated with the notification of 39 Ind AS standards together with the implementation roadmap. With this notification, coupled with the progress made on finalising the Income Computation and Disclosure Standards (ICDS), the government has potentially addressed several hurdles which possibly led to deferment of Ind AS implementation in 2011.

Companies should make an impact assessment and engage with all stakeholders, both internal and external, to deal with their respective areas of impact and ensure a smooth transition.

# Topics discussed in AAU and First Notes

Voices on Reporting

## Accounting and Auditing update



### February 2015

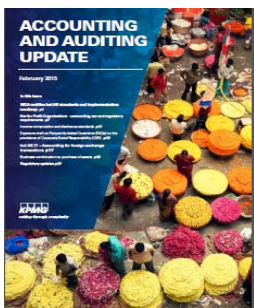
- MCA notifies Ind AS standards and implementation roadmap
- Overview of accounting, tax and regulatory requirements in case of Not for Profit Organisations
- Overview of Income Computation and Disclosure Standards (ICDS)
- Exposure draft on Frequently Asked Questions (FAQs) on the provisions of Corporate Social Responsibility (CSR)
- Ind AS 21- Accounting for foreign exchange transactions
- Business Combinations vs purchase of assets
- Regulatory updates

## First Notes

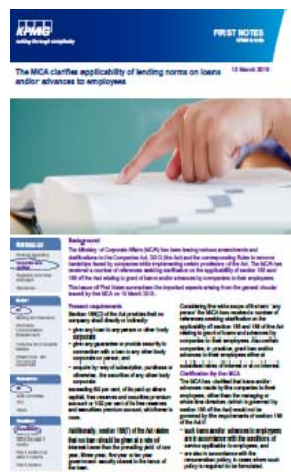


The Ministry of Corporate Affairs (MCA) has been issuing various amendments and clarifications in reference to the Companies Act, 2013 (the Act) and the corresponding Rules to remove hardships faced by companies while implementing certain provisions of the Act. The MCA has received a number of references seeking clarification on the applicability of section 185 and 186 of the Act relating to grant of loans and/or advances by companies to their employees. Our First Notes summarises the important aspects arising from the general circular issued by the MCA on 10 March 2015.

### Missed an issue of the Accounting and Auditing Update?



### Missed an issue of the First Notes?



Download from [www.kpmg.com/in](http://www.kpmg.com/in)

## Coming up next

March 2015

New issue of:

- Accounting and Auditing Update
- First Notes
- IFRS Notes



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# Thank you

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