Chengalpattu District Branch of SIRC of ICAI
(Formerly known as Kanchipuram District Branch)

E- NewsLetter
JUNE 2022

ADDRESS :Flat No: 402, Fourth FloorNo.1A Periyalwar Street Sundaram Colony, East Tambaram, Chennai – 600059
Email chengalpattu@icai.org Ph : 044-22390098 Official Website www.chengai-icai.org
Follow us on Facebook https://www.facebook.com/ICAIchengalpattudistrictbranch/

Chengalpattu District Branch of SIRC of ICAI
Managing Committee Team

S No	Name	Positions	Photo	Phone No.
1	CA SATHIYANARAYANAN K R	CHAIRMAN		9840118712
2	CA SIVAGURUNATHAN T	VICE CHAIRMAN		9894517944
3	CA NARASIMMA RAGHAVAN R	SECRETARY		9840738963
4	CA PRIYA A	TREASURER		9840718073
5	CA MADHUMITHA R	SICASA CHAIRPERSON		9841956926
6	CA SHIVACHANDRA REDDY K	MC MEMBER		9841410909
7	CA AANAND P	MC MEMBER		9791119996
8	CA RAVICHANDRAN S	MC MEMBER		9840634996
9	CA SATHISH T S	MC MEMBER		9841543303

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ARTICLES INVITED FROM MEMBERS:

Note: Articles are invited from members for publishing in newsletter. The articles shall be either on the specific subject or a general article. Members can mail their article with Name, Membership Number, Mobile Number, Residential Address, Office Address & Photo to our Mail mentioned below

Note: The views expressed in the articles published are their own views and Chengalpattu District Branch does not endorse or take responsibility for the views expressed in the articles.

Contact us:

Branch Address: Flat No.402, Fourth Floor, No.1A, Periyalwar Street, Sundaram Colony, East Tambaram, Chennai - 600 059
Mail ID: chengalpattu@icai.org / Phone: 044-22390098
Website- www.chengai-icai.org

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CHENGALPATTU DISTRICT BRANCH OF SIRC OF ICAI

From the Chairman's Desk

Greetings to all the esteemed members,

The month of June is here and we will be celebrating the following big occasions:

- Our Branch Day on 20th of this month. I would take this opportunity to thank all the past and present members for their selfless service towards the growth of our branch.

- "All this bringing of the Mind into a higher state of vibration is included in one word of yoga" - Swami Vivekananda

International yoga day which is on 21st June is been celebrated in our premises with great enthusiasm and passion every year and I wish the same this year too.

- CA Day on 1st July will be celebrated with the same energy and enthusiasm by our branch. The details will be forwarded to our members by a separate mail.

The branch had been trying to reach out to our members through email communication of members and students programs and activities. Hope you all take note of the email sent by our branch.

Coming to last month programs, the Residential Refresher Course organised jointly with Pondicherry Branch held at Thekkady last month was a huge success. We express our sincere thanks to Pondicherry Branch Team and the members. Looking forward to more such events in the future

We had successfully conducted series of 3 hours workshop on Corporate Laws for FIVE days. We had brought in speakers from all over India and the virtual program has been appreciated on PAN India basis. A CPE meeting on Refunds under GST held on 28th of May at Branch premises. I take this opportunity to request your continued support for such programs during this month too.

CA. Sathiyanarayanan K R
Chairman
01.06.2022
BRANCH MOBILE NO: **8056244300**

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CODE OF ETHICS FOR CHARTERED ACCOUNTANTS

by CA. L. Sriram

The below article contains some of the FAQ's from the past CA Magazines, which affects small and medium auditors in general.

Q1. Whether a member holding Certificate of practice will be deemed to be in practice even if he is not serving any clients?
A.Yes, a member is deemed to be in practice, not only when he is actually engaged in the practice of accountancy, but also when he offers to render accountancy services, whether or not he in fact does so. (even a dormant auditor, who does not do any attest functions, but holding a Certificate of Practice will be covered by the code of ethics)

Q2. Whether a member can act as a Tax Auditor and Internal Auditor of an entity?
A. No, the Council has decided that an Internal auditor of an assessee, whether working with the organisation or an independently practicing Chartered Accountant, being an individual chartered accountant or a firm of chartered accountants, cannot be appointed as his Tax auditor.

Q3. Can a Concurrent Auditor of a Bank also undertake the assignment of quarterly review of the same bank?
A. No, the Concurrent Audit and the assignment of quarterly review of the same entity cannot be taken simultaneously as the concurrent audit is a kind of internal audit and the quarterly review is a kind of statutory audit undertaken simultaneously are prohibited under the provisions of the 'Guidance Note of Independence of Auditors'

Q4. Whether it is permissible for a member to mention himself as "GST Consultant"?
A. No, in terms of provisions of Clause (7) of Part-I of First Schedule to The Chartered Accountants Act, 1949, it is not permissible for a member to mention himself as GST Consultant.

Q5. Whether it is permissible for a Firm of Chartered Accountants to sponsor a Conference?
A. It is not permissible for a Firm of Chartered Accountants to sponsor a Conference. However, an individual member in practice can be a knowledge partner to such conference.

Q6. Whether members in practice can have a website only for the purpose of Tax services and Consultancy?

A. Yes, however it will be governed only by the website Guidelines issued by ICAI, notwithstanding that only tax services and consultancy are being offered

Q7. Whether a member in practice who is the statutory auditor of a bank can accept Stock audit/Inspection Audit of the same bank?
A. No, it is not permissible since stock audit/ inspection audit is kind of management function, which cannot be done simultaneously with the statutory audit.

Q8. Whether a member in service can represent before the Income Tax Authorities on behalf of other employees /colleagues of the company?
A. A member in service can appear as tax representative before tax authorities on behalf of the employer, but not on behalf of employees/colleagues.

Q9. Can a member in practice print QR (Quick Response) code on his visiting cards, facilitating easy access to information?
A. Yes, printing of QR Code on the visiting Cards is permissible, provided that it does not contain information that is not otherwise permissible to be printed on a visiting card.

Q10.Is it permissible for Chartered Accountants in practice to collectively have joint training session for their clients on GST?
A. Yes, it is permissible for two or more Chartered Accountants in practice collectively to have joint training session for their clients on GST, and share the fees collected from the clients thereof.

Q11. Whether there are any Know Your Client (KYC) Norms to be followed by members in practice?
A. Yes, members in practice are required to follow Know Your Client (KYC) Norms, which are mandatory w.e.f 1.1.2017. These are applicable for all attest functions. "Attest Functions" for this purpose include services pertaining to Audit, Review, Agreed upon Procedures and Compilation of Financial Statements. The KYC Norms are appearing at www.icai.org

Q12. Whether there are any "Know Your Clients'' norms for the members in practice? If, yes, to which assignments thereof are they applicable?
A. Yes, the institute has "Know Your Clients'' (KYC) norms for the members, these are applicable to all the attest functions. The detailed norms are mentioned below: KYC Norms The financial services industry globally is required to obtain information of their clients and comply with KYC norms. Keeping in mind the highest standards of Chartered Accountancy profession in India, the Council of ICAI thought it necessary to issue such norms to be observed by the members of the profession who are in practice.

In light of this background, the Council of ICAI approved the following KYC Norms which are mandatory in nature and shall apply in all assignments pertaining to attest functions. Explanation: "Attest Functions" for the purpose of this Announcement will include services pertaining to Audit, Review, Agreed upon Procedures and Compilation of Financial Statements.

1. Where Client is an Individual/Proprietor

General Information
- Name of the Individual
- PAN No. or Aadhar Card No. of the Individual
- Business Description
- Copy of last Audited Financial Statement

Engagement Information
- Type of Engagement

2. Where Client is a Corporate Entity

General Information
- Name and Address of the Entity
- Business Description
- Name of the Parent Company in case of Subsidiary
- Copy of last Audited Financial Statement

Engagement Information
- Type of Engagement

Regulatory Information
- Company PAN No.
- Company Identification No.
- Directors' Names & Addresses
- Directors' Identification No.

3. Where Client is a Non-Corporate Entity

General Information
- Name and Address of the Entity
- Copy of PAN No.
- Business Description
- Partner's Names & Addresses (with their PAN/ Aadhar Card/DIN No.)
- Copy of last Audited Financial Statement

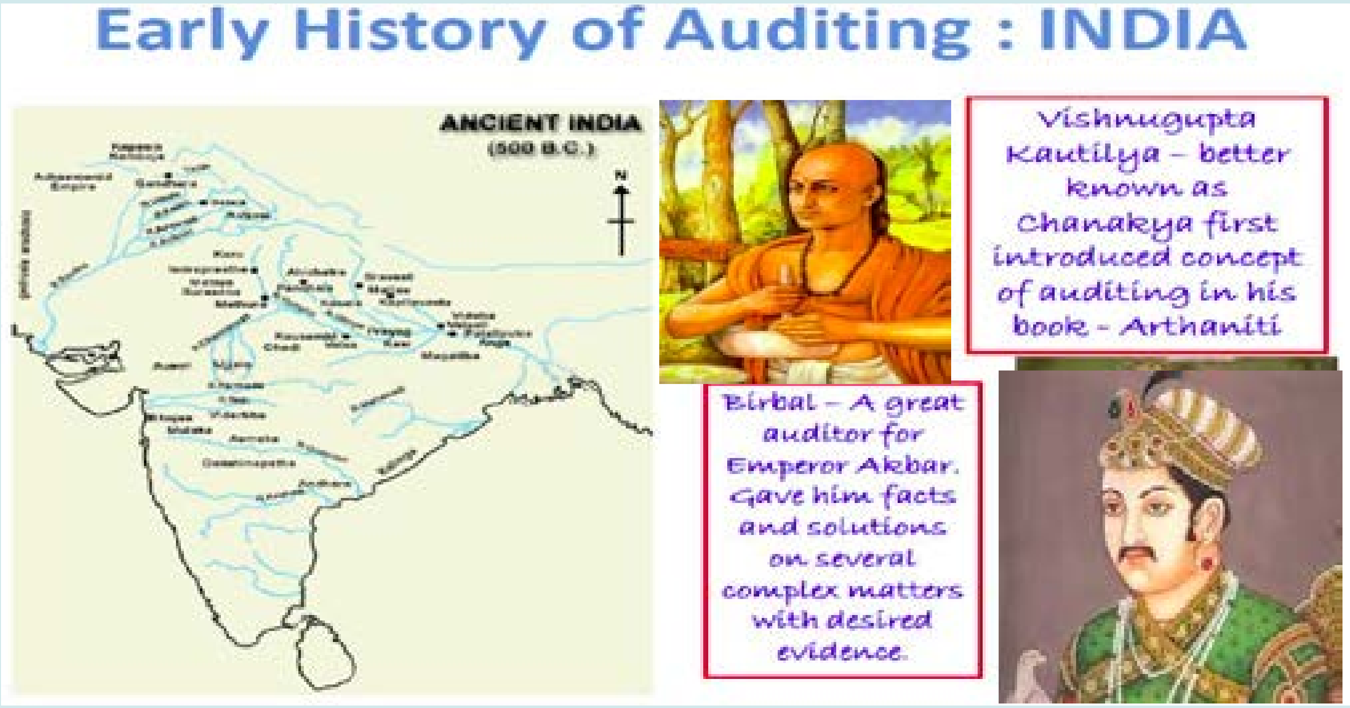
Engagement Information
- Type of Engagement

These KYC Norms shall be mandatorily applicable for engagements accepted on or after 1st January, 2017

Fraud Risk in Financial Statements

by CA. Vivek Agarwal

Important
"Audit not Documented is audit not done"



What is Fraud Risk

The possibility of the organization being subject to fraudulent activity

Risk of fraud which can be existent within organization's operations

What are Common Fraud Risk Factors

A business can lose a significant amount of assets due to fraud.

At an extreme level, the effects of fraud can even shut down a company.

Consequently, a business owner should make ongoing efforts to create an environment in which fraud is less likely to arise.

There are a number of factors that make it more likely that fraud will occur or is occurring in a business

Nature of Items

Size and value. If items that can be stolen are of high value in proportion to their size (such as diamonds), it is less risky to remove them from the premises. This is a particularly critical item if it is easy for employees to to remove assets without being detected.

Ease of resale. If there is a ready market for the resale of stolen goods (such as for most types of consumer electronics), this presents an increased temptation to engage in fraud.

Cash. If there is a large amount of bills and coins on hand, or cash in bank accounts, there is a very high risk of fraud. At a local level, a large balance in a petty cash box presents a considerable temptation to anyone who has access to it.

Nature of the Control Environment

Separation of duties. The risk of fraud declines dramatically if multiple employees are involved in different phases of a transaction, since fraud requires the collusion of at least two people. Thus, poorly-defined job descriptions and approval processes present a clear opportunity for fraud. This is a particular concern in smaller businesses that do not have enough employees to separate duties.

Safeguards. When assets are physically protected, they are much less likely to be stolen. This can involve fencing around the inventory storage area, a locked bin for maintenance supplies and tools, security guard stations, an employee badge system, and similar solutions.

Documentation. When there is no physical or electronic record of a transaction, employees can be reasonably assured of not being caught, and so are more inclined to engage in fraud. This is also the case when there is documentation, but the records can be easily modified.

Time off. When a business requires its employees to take the full amount of allocated time off, this keeps them from continuing to hide ongoing cases of fraud, and so is a natural deterrent.

Related party transactions. When there are numerous transactions with related parties, it is more likely that purchases and sales will be made at amounts that differ considerably from the market price.

Complexity. When the nature of a company's business involves very complex transactions, and especially ones involving estimates, it is easier for employees to manipulate the results of these transactions to report better results than is really the case.

Dominance. When a single individual is in a position to dominate the decisions of the management team, and especially when the board of directors is weak, this individual is more likely to engage in unsuitable behavior.

Turnover. When there is a high level of turnover among the management team and among employees in general, the institutional memory regarding how transactions are processed is weakened, resulting in less attention to controls.

Auditing. When there is no internal audit function, it is unlikely that incorrect or inappropriate transactions will be spotted or corrected.

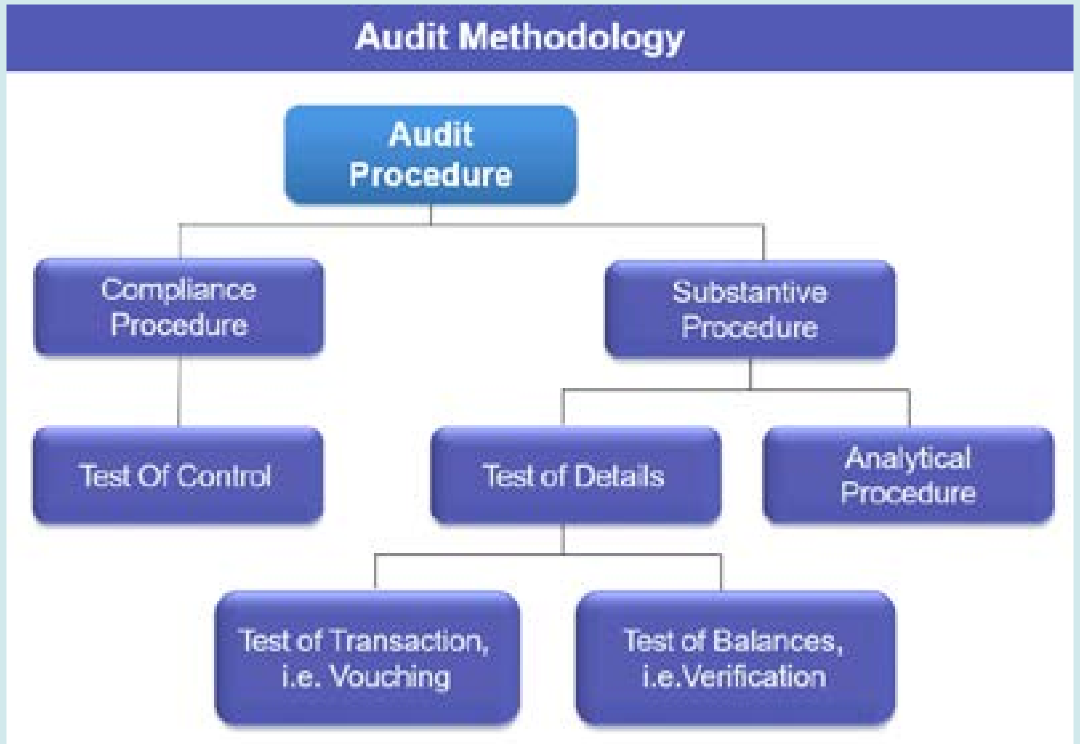
Pressures

Level of dissatisfaction. If the workforce is unhappy with the company, they will be more inclined to engage in fraud. Examples of such situations are when a layoff is imminent, benefits have been reduced, bonuses have been eliminated, promotions have been voided, and so forth.

Expectations. When there is pressure from outside investors to report certain financial results, or by management to meet certain performance targets (perhaps to earn bonuses), or to meet balance sheet goals to qualify for debt financing, there is a high risk of financial reporting fraud.

Guarantees. When the owners or members of management have guaranteed company debt, there will be strong pressure to report certain financial results in order to avoid triggering the guarantees.

What is the Requirements in Auditing Standards



Assertions

Assertion is defined in SA 315
They are Representations made by management
Embodied in financial statements.
Used to assess potential misstatements.

Compliance procedures & assertions tested by it

Meaning of Compliance Procedure
Compliance Procedures are tests designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in effect.

Assertions tested through Compliance Procedure
Existence
Effectiveness
Continuity

Substantive procedures & assertions tested by it

Meaning of Substantive Procedure
Substantive Procedures are tests designed to obtain evidence as to the completeness, accuracy and validity of the data produced by accounting system.

Assertions tested through Compliance Procedure

Completeness
Existence
Accuracy
Valuation
Presentation

Examples of Assertions

EXISTENCE
Through Stock Count on 31st March, we check EXISTENCE assertion of Stock.

COMPLETENESS
Through Cut off procedures we check COMPLETENESS assertion of Sales.

ACCURACY
Through TOD of Sales (Vouching), we check ACCURACY assertion of Sales.

VALUATION
Through NRV testing of inventory, we check VALUATION assertion of Stock.

PRESENTATION
Perusal of Related Party Disclosures as per AS-18, we check PRESENTATION assertion of Related Party Disclosures

SA 240
The Auditor's Responsibilities relating fraud in an Audit of Financial Statements.

SA 240 : The Auditor's Responsibilities relating fraud in an Audit of Financial Statements.	
Fraud Triangle	Factors causing fraud
Fraud Risk Factors	Fraudulent Financial Reporting Misappropriation of Assets
Auditor's responsibility	What is Auditor's responsibility in relation to Fraud?
Auditor's Risk Assessment Procedures	What are Auditor's risk Assessment Procedures?
Auditor's Responses to Assessed ROMM	What are Auditor's Responses to Assessed Risks of Material Misstatement Due to Fraud?
Withdrawal from Engagement	When should an Auditor consider withdrawal from Engagement?
Management Representations	Obtain Management Representations

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Fraud Vs Error

Definition of Fraud as per the standard

Fraud is an **intentional** act by one or more individuals among management, those charged with governance, employees, or third parties, involving the **use of deception** to obtain an unjust or illegal advantage.

Although fraud is a broad legal concept, the auditor is concerned with **fraud that causes** a material misstatement in the financial statements.

Two types of misstatements relevant to the auditor's consideration of fraud:

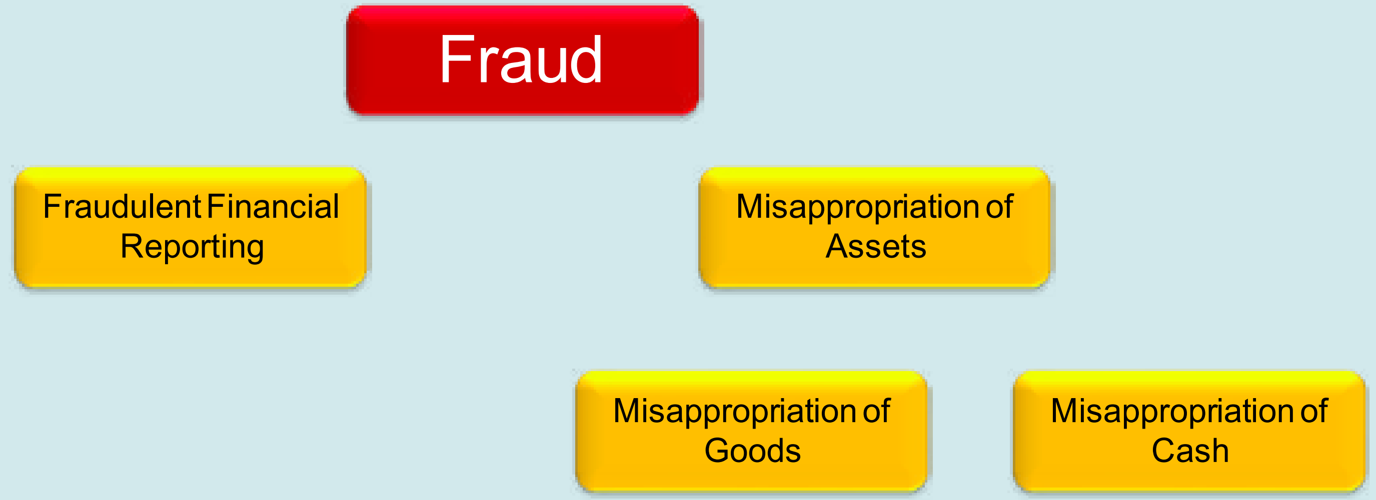
Misstatements resulting from fraudulent financial reporting

Misstatements resulting from misappropriation of assets.

CHARACTERISTICS OF FRAUD

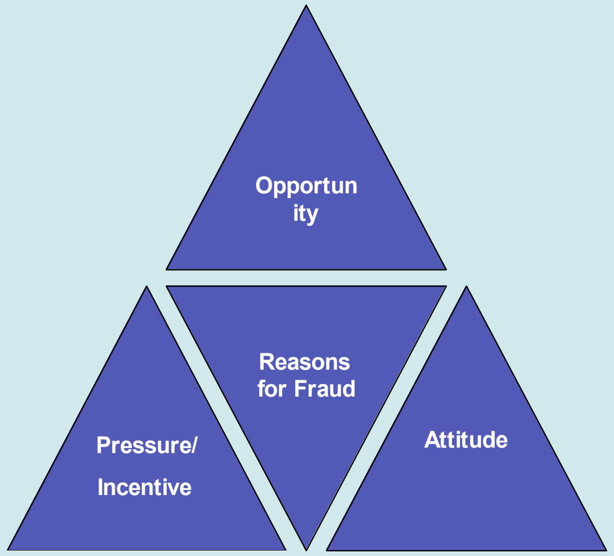
Fraud is Intentional - Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional

Fraud is a broad legal concept - The auditor is concerned with fraud that causes a material misstatement in the financial statements



The Fraud Triangle

Fraud, whether fraudulent financial reporting or misappropriation of assets, involves incentive or pressure to commit fraud, a perceived opportunity to do so and some rationalization of the act. For example:



Incentive or pressure to commit fraudulent financial reporting may exist when management is under pressure, from sources outside or inside the entity, to achieve an expected (and perhaps unrealistic) earnings target or financial outcome.

A perceived **opportunity** to commit fraud may exist when an individual believes internal control can be overridden, for example, because the individual is in a position of trust or has knowledge of specific deficiencies in internal control.

Individuals may be able to **rationalize** committing a fraudulent act. Some individuals possess an attitude, character or set of ethical values that allow them knowingly and intentionally to commit a dishonest act. However, even otherwise honest individuals can commit fraud in an environment that imposes sufficient pressure on them.

Fraudulent financial reporting

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Manipulation of Accounts: Detection of manipulation of accounts with a view to presenting a false state of affairs is a task requiring great tact and intelligence because generally management personnel in higher management cadre are associated with this type of fraud and this is perpetrated in methodical way. This type of fraud is generally committed:

to avoid incidence of income-tax or other taxes;
for declaring a dividend when there are insufficient profits;
to withhold declaration of dividend even when there is adequate profit (this is often done to manipulate the value of shares in stock market to make it possible for selected persons to acquire shares at a lower cost); and for receiving higher remuneration where managerial remuneration is payable by reference to profits.

There are numerous ways of committing this type of fraud. Some of the methods are given below:

inflating or suppressing purchases and expenses;
inflating or suppressing sales and other items of income,

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inflating or deflating the value of closing inventory;
failing to adjust outstanding liabilities or prepaid expenses; and
charging items of capital expenditure to revenue or by capitalising revenue expenses.

Fraudulent financial reporting
Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively.

Fraud can be committed by management overriding controls using such techniques as:
Fraudulent financial reporting
Recording fictitious journal entries, particularly close to the end of an accounting period, to manipulate operating results or achieve other objectives.

Inappropriately adjusting assumptions and changing judgments used to estimate account balances.

Omitting, advancing or delaying recognition in the financial statements of events and transactions that have occurred during the reporting period.

Concealing, or not disclosing, facts that could affect the amounts recorded in the financial statements.

Engaging in complex transactions that are structured to misrepresent the financial position or financial performance of the entity.

Altering records and terms related to significant and unusual transactions.

Misappropriation of Assets:

It involves the **theft** of an entity's assets and is often perpetrated by **employees** in relatively small and immaterial amounts. However, it can also involve **management** who are usually **more able to disguise or conceal misappropriations** in ways that are difficult to detect. Misappropriation of assets can be accomplished in a variety of ways including:

Embezzling receipts (for example, misappropriating collections on accounts receivable or diverting receipts in respect of written-off accounts to personal bank accounts).

Stealing physical assets or intellectual property (for example, stealing inventory for personal use or for sale, stealing scrap for resale, colluding with a competitor by disclosing technological data in return for payment).

Causing an entity to pay for goods and services not received (for example, payments to fictitious vendors, kickbacks paid by vendors to the entity's purchasing agents in return for inflating prices, payments to fictitious employees).

Using an entity's assets for personal use (for example, using the entity's assets as collateral for a personal loan or a loan to a related party).

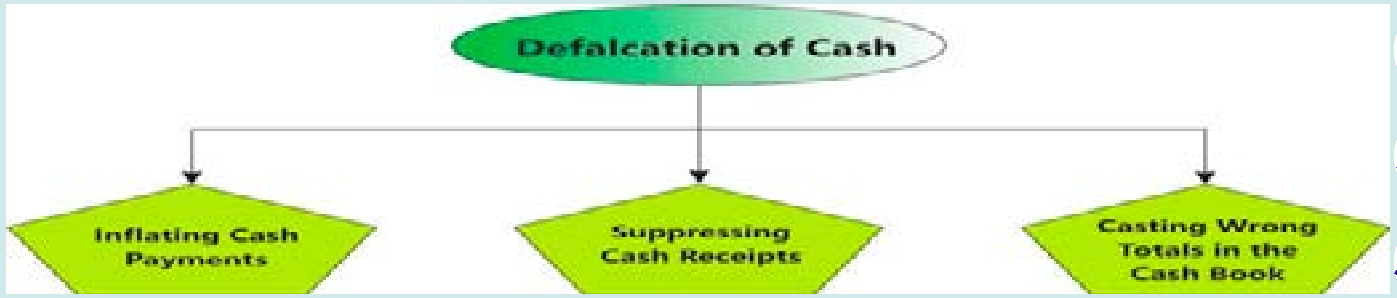
Misappropriation of Goods

Fraud in the form of misappropriation of goods is still more difficult to detect; for this management has to rely on various measures. Apart from the various requirements of **record keeping about the physical quantities** and their **periodic checks**, there must be rules and procedures for allowing persons inside the area where goods are kept. In addition there should be external security arrangements to see that no goods are taken out without proper authority. Goods can be anything in the premises; it may be **machinery**. It may even be the **daily necessities** of the office like stationery. The goods may be removed by subordinate employees or even by persons quite higher up in the management. Auditors can detect this by undertaking a **thorough and strenuous checking** of records followed by **physical verification process.** Also, by resorting to **intelligent ratio analysis**, auditors may be able to form an idea whether such fraud exists.

Therefore, it is clear from the above that the 'fraud' deals with intentional misrepresentation but, 'error', on the other hand, refers to **unintentional mistakes** in financial information.

Intentional errors are most difficult to detect and auditors generally devote greater attention to this type because out of long and sometimes unfortunate experience, auditors have developed a point of view that if they direct their procedures of discovering the more difficult intentional errors, they are reasonably certain to locate the more simple and far more common unintentional errors on the way.

Defalcation of Cash
Defalcation of cash has been found to perpetrate generally in the following ways:



(a) By inflating cash payments:

Examples of inflation of payments:
1. Making payments against fictitious vouchers.
2. Making payments against vouchers, the amounts whereof have been inflated.
3. Manipulating totals of wage rolls either by including therein names of dummy workers or by inflating them in any other manner.
4. Casting a larger totals for petty cash expenditure and adjusting the excess in the totals of the detailed columns so that cross totals show agreement.

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(b) By suppressing cash receipts:

Few techniques of how receipts are suppressed are:

1. **Teeming and Lading:** Amount received from a customer being misappropriated; also to prevent its detection the money received from another customer subsequently being credited to the account of the customer who has paid earlier. Similarly, moneys received from the customer who has paid thereafter being credited to the account of the second customer and such a practice is continued so that no one account is outstanding for payment for any length of time, which may lead the management to either send out a statement of account to him or communicate with him.

2. Adjusting unauthorised or fictitious rebates, allowances, discounts, etc. to customer' accounts and misappropriating amount paid by them.

3. Writing off as debts in respect of such balances against which cash has already been received but has been misappropriated.

4. Not accounting for cash sales fully.

5. Not accounting for miscellaneous receipts, e.g., sale of scrap, quarters allotted to the employees, etc.

6. Writing down asset values in entirety, selling them subsequently and misappropriating the proceeds.

(c) By casting wrong totals in the cash book.

What is Auditors responsibility ?

Obtain reasonable assurance that financial statements are free of material misstatements.

Subjected to:
- Inherent limitations of audit.
- Fraud - deliberately concealed so difficult to detect.

But exercise **Professional Skepticism.**

DETECTION OF FRAUD AND ERROR – DUTY OF AN AUDITOR

As per SA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements",

the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

It is important that management, with the oversight of TCWG place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.

This involves a commitment to creating a culture of honesty and ethical behavior which can be reinforced by an active oversight by those charged with governance.

1. An auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. As described in SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing," owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs.

2. The risk of not detecting a material misstatement resulting from fraud is higher than from error. This is because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. Such attempts at concealment may be even more difficult to detect when accompanied by collusion. Collusion may cause the auditor to believe that audit evidence is persuasive when it is, in fact, false. The auditor's ability to detect a fraud depends on factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. While the auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for the auditor to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error.

3. Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information or override control procedures designed to prevent similar frauds by other employees.

4. When obtaining reasonable assurance, the auditor is responsible for maintaining an attitude of professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud. The requirements in this SA are designed to assist the auditor in identifying and assessing the risks of material misstatement due to fraud and in designing procedures to detect such misstatement.

Fraud Risk Factors

Fraud Risk Factors : Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Implement Quality Control (QC) Procedures in every engagement to obtain reasonable assurance that

Audit complies with Professional Standards and Legal requirements

Audit Report issued is appropriate

I) Fraud Risk Factors Relating to Misstatements Resulting from Fraudulent Financial Reporting

A significant portion of management's compensation is represented by bonuses, stock options or other incentives, the value of which is contingent upon the entity achieving unduly aggressive targets for operating results, financial position or cash flow.

There is a high turnover of management, counsel or board members.

Frequent disputes with the current or a predecessor auditor on accounting, auditing or reporting matters.

Unreasonable demands on the auditor, including unreasonable time constraints regarding the completion of the audit or the issuance of the auditor's report.

There is a history of securities law violations, or claims against the entity or its management alleging fraud or violations of securities laws.

Significant pressure to obtain additional capital necessary to stay competitive, considering the financial position of the entity (including a need for funds to finance major research and development or capital expenditures).

II) Fraud Risk Factors Relating to Misstatements Resulting from Misappropriation of Assets

Large amounts of cash on hand or processed.

Inventory characteristics, such as small size combined with high value and high demand.

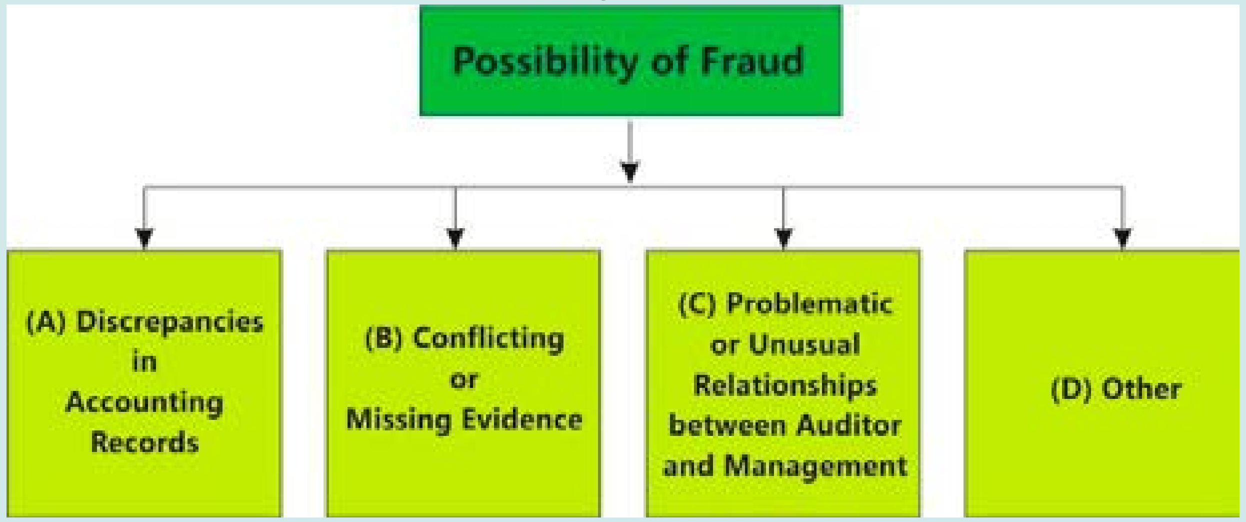
Lack of an appropriate segregation of duties or independent checks.

Poor physical safeguards over cash, investments, inventory or fixed assets

Lack of mandatory vacations for employees performing key control functions

Circumstances Relating to Possibility of Fraud

Examples of circumstances that indicate the possibility of fraud: The following are examples of circumstances that may indicate the possibility that the financial statements may contain a material misstatement resulting from fraud-



Circumstances Relating to Possibility of Fraud

(A) Discrepancies in the accounting records, including:

Transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification, or entity policy.

Unsupported or unauthorized balances or transactions.

Last-minute adjustments that significantly affect financial results.

Evidence of employees' access to systems and records inconsistent with that necessary to perform their authorized duties.

Tips or complaints to the auditor about alleged fraud.

(B) Conflicting or missing evidence, including:

Missing documents.

Documents that appear to have been altered.

Significant unexplained items on reconciliations.

Unusual discrepancies between the entity's records and confirmation replies.

Large numbers of credit entries and other adjustments made to accounts receivable records.

Missing or non-existent cancelled cheques in circumstances where cancelled cheques are ordinarily returned to the entity with the bank statement.

Missing inventory or physical assets of significant magnitude.

Unavailable or missing electronic evidence, inconsistent with the entity's record retention practices or policies

Circumstances Relating to Possibility of Fraud

(C) Problematic or unusual relationships between the auditor and management, including:

Denial of access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence might be sought.

Undue time pressures imposed by management to resolve complex or contentious issues.

Unusual delays by the entity in providing requested information.

Unwillingness to facilitate auditor access to key electronic files for testing through the use of computer-assisted audit techniques.

Denial of access to key IT operations staff and facilities, including security, operations, and systems development personnel.

An unwillingness to add or revise disclosures in the financial statements to make them more complete and understandable.

An unwillingness to address identified deficiencies in internal control on a timely basis.

(D) Other

Unwillingness by management to permit the auditor to meet privately with those charged with governance.

Accounting policies that appear to be at variance with industry norms.

Frequent changes in accounting estimates that do not appear to result from changed circumstances.

Tolerance of violations of the entity's Code of Conduct.

FRAUD REPORTING

Fraud Reporting - Section 143 (12) of the Co Act, 2013

Reporting to the Central Government: Section 143 (12) of the Co Act, 2013, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as may be prescribed, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed.

In this regard, Rule 13 of the Companies (Audit and Auditors) Rules, 2014 has been prescribed. Sub-rule (1) of the said rule states that if an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of ` 1 crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government.

The manner of reporting the matter to the Central Government is as follows:

a) the auditor shall report the matter to the Board or the Audit Committee, as the case may be, immediately but not later than **2 days** of his knowledge of the fraud, seeking their **reply or observations within 45 days;**

b) on receipt of such reply or observations, the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the **Central Government within 15 days** from the date of receipt of such reply or observations;

c) in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of 45 days, he shall **forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations;**

d) the report shall be sent to the **Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post** with Acknowledgement Due or by Speed Post followed by an e-mail in confirmation of the same;

e) the report shall be on the letter-head of the auditor containing postal address, e-mail address and contact telephone number or mobile number and be signed by the auditor with his seal and shall indicate his Membership Number; and

f) the report shall be in the form of a statement as specified in Form ADT-4.

II. Reporting to the Audit Committee or Board: Section 143 (12) of the Co Act, 2013 further prescribes that in case of a fraud involving lesser than the specified amount [i.e. less than ` 1 crore], the auditor shall report the matter to the **audit committee** constituted under

section 177 or to the Board in other cases within such time and in such manner as may be prescribed.
In this regard, sub-rule (3) of Rule 13 of the Companies (Audit and Auditors) Rules, 2014 states that in case of a fraud involving lesser than the amount specified in sub- rule (1) [i.e. less than ` 1 crore], the auditor shall report the matter to Audit Committee constituted under section 177 or to the Board immediately but not later than 2 days of his knowledge of the fraud and he shall report the matter specifying the following:

a) Nature of Fraud with description;

b) Approximate amount involved; and

c) Parties involved.

III Disclosure in the Board's Report: Section 143 (12) of the Co Act, 2013 furthermore prescribes that the companies, whose auditors have reported frauds under this sub-section (12) to the audit committee or the Board, but not reported to the Central Government, shall disclose the details about such frauds in the Board's report in such manner as may be prescribed.

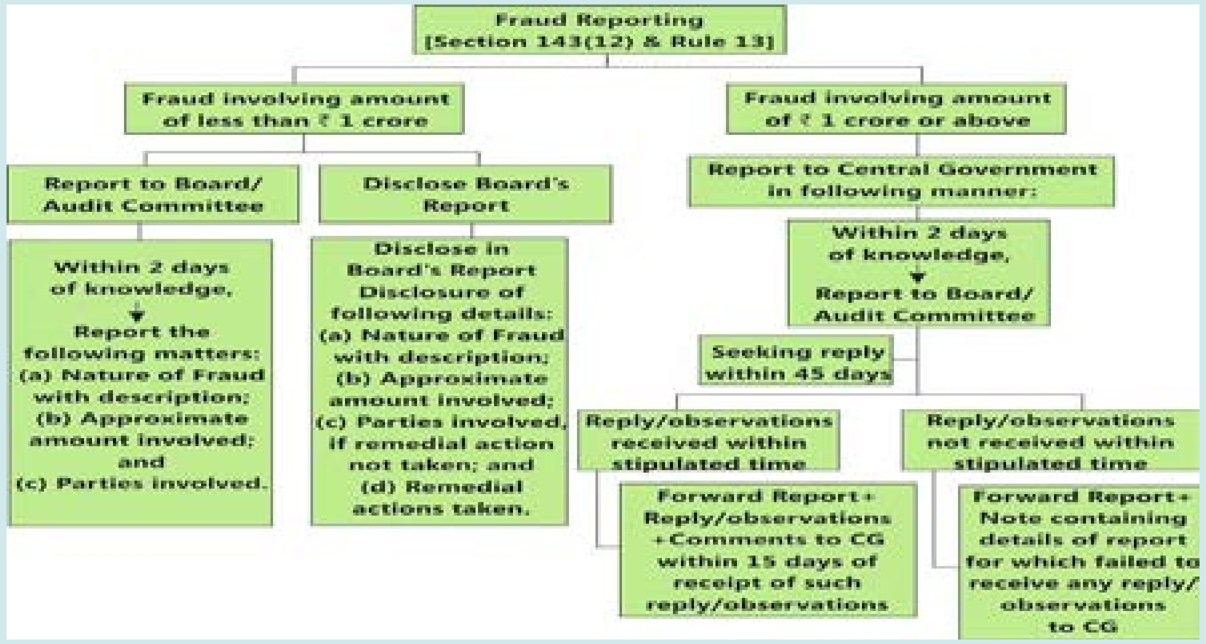
In this regard, sub-rule (4) of Rule 13 of the Companies (Audit and Auditors) Rules, 2014 states that the auditor is also required to disclose in the Board's Report the following details of each of the fraud reported to the Audit Committee or the Board under sub- rule (3) during the year:

a) Nature of Fraud with description;

b) Approximate Amount involved;

c) Parties involved, if remedial action not taken; and

d) Remedial actions



Sec 143 (13) of the Companies Act, 2013 safeguards the act of fraud reporting by the auditor if it is done in good faith. It states that no duty to which an auditor of a company may be subject to shall be regarded as having been contravened by reason of his reporting the matter above if it is done in good faith.

It is very important to note that these provisions shall also apply, ***mutatis mutandis***, to a cost auditor and a secretarial auditor during the performance of his duties under section 148 and section 204 respectively. If any auditor, cost accountant or company secretary in practice do not comply with the provisions of sub-section (12) of section 143, he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

Reporting on Frauds already detected and reported:

The auditor should apply professional skepticism to evaluate/verify that the fraud was indeed **identified/detected** in all aspects by the **management** or through the **company's vigil/whistle blower** mechanism so that distinction can be clearly made with respect to frauds identified/detected due to matters raised by the auditor vis-à-vis those identified/detected by the company through its internal control mechanism.

Since reporting on fraud under section 143(12) is required even by the cost auditor and the secretarial auditor of the company, it is possible that a suspected offence involving fraud may have been reported by them even before the auditor became aware of the fraud. Here too, if a suspected offence of fraud has already been reported under section 143(12) by such other person, and the auditor becomes aware of such suspected offence involving fraud, he need not report the same since he has not per se identified the suspected offence of fraud.

However, in case of a fraud which involves or is expected to involve individually, an **amount of ` 1 crore or more,** the auditor should review the steps taken by the management/TCWG with respect to the reported instance of suspected offence of fraud stated above, and if he is not satisfied with such steps, he should state the reasons for his dissatisfaction in writing and request the management/ those charged with governance to perform additional procedures to enable the auditor to satisfy himself that the matter has been appropriately addressed. If the management/those charged with governance fail to undertake appropriate additional procedures within 45 days of his request, the auditor would need to evaluate if he should report the matter to the Central Government in accordance with Rule 13 of the Companies (Audit and Auditors) Rules, 2014.

What is Auditor's risk Assessment Procedures ?

Professional Skepticism

Do not take client integrity and honesty for granted & audit evidence obtained suggests possibility of material misstatement due to fraud.

Do not take client integrity and honesty for granted

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Discussion Among the Engagement

Discuss susceptibility of financial statements to material misstatements due to fraud - how & where. Experienced team members share insights.

Evaluation of Fraud Risk Factors

Inquiries of management: Their process for identifying & responding to fraud risk

Inquiries of employees, In-house legal counsel, Chief Ethics Officer: Any knowledge about actual, suspected or alleged fraud affecting the entity.

Inquiries of internal auditors. • Inquiries of TCWG.

What is Auditor's Response to Assessed Risks of Material Misstatements Due to Fraud ?

Increase professional skepticism.

Assign proper audit personnel.

Evaluate selection & application of accounting policies.

Incorporating Unpredictability in audit procedures: Examples:

- Adjusting the timing of audit procedures from that otherwise expected
- Performing audit procedures at different locations or at locations on an unannounced basis.

Change in nature, timing and extent of audit procedures:

- Change nature to obtain more reliable/ relevant audit evidence or additional corroborative information.
- Physical observation/ inspection of certain assets.
- Use more CAATs.

Timing of substantive procedures:- May decide to perform near the year end also because of assessed risk of fraud.

Extent changed:-Increase sample size.

AUDITOR UNABLE TO CONTINUE THE ENGAGEMENT

If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:

Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;

Consider whether it is appropriate to withdraw from the engagement, where withdrawal is possible under applicable law or regulation; and

If the auditor withdraws:

Discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and

Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

When should an auditor consider withdrawal from engagement ?

Exceptional circumstances

Entity does not take the appropriate action regarding fraud that the auditor considers necessary in the circumstances, even when the fraud is not material to the financial statements;

Auditor's consideration of the risks of material misstatement due to fraud and the results of audit tests indicate a significant risk of material and pervasive fraud; or

Auditor has significant concern about the competence or integrity of management or those charged with governance.

Determine professional & legal responsibilities & reporting to

Appointing authority.

Regulator.

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UP COMING PROGRAMS

Date	Day	Program	Speaker
03rd June 2022	Friday	ABCD of Technology	CA. Naramishan Elangovan / CA. Amish Thakkar
04th June 2022	Saturday	Decoding of Direct Taxes	CA. Vivek Rajan V
11th June 2022	Saturday	Latest Judicial Pronouncements in Indirect Taxes	CA. Deepesh Kumar Jain
20th June 2022	Monday	Branch Day	
21st June 2022	Tuesday	International Yoga Day	
27th June 2022	Monday	MSME Program	Eminent Speaker
1st July 2022	Friday	CA Day	

The 6th Annual General Meeting of the Members of the Chengalpattu District Branch of SIRC of ICAI will be held in the month of July 2022. The detailed notice etc., for the said meeting will be sent by e-mail, in due course, to the members whose e-mail ids are on the records of the Branch. Members who have not furnished their e-mail ids are requested to provide their e-mail ids to enable the above notice being emailed to them also.

The said notice would be also displayed / hosted on the Notice Board and/or website of the Branch.

CA Narasimma Raghavan R
Secretary
Chengalpattu District Branch of SIRC of ICAI

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Topic : Regional Refresher Course at Thekkady

Date: 6th & 7th May 2022

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Topic : Schedule III Amendments

Session-1

Speaker : CA. Bhavani Balasubramanian, Chennai

Date: 10.05.2022

Topic : Professional Opportunities for Chartered Accountants under Companies Act & SEBI

Session-2

Speaker : CA. Padmashree Crasto, Mumbai

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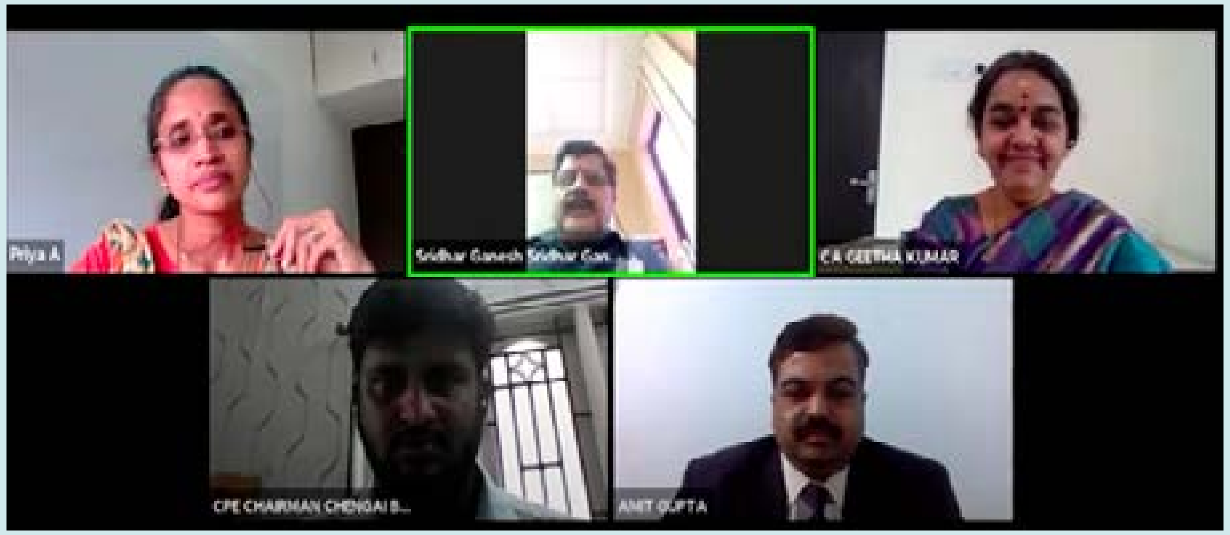
Topic : Overview of LLP - Incorporation to Closure

Session-1

Speaker : CA. Amit Gupta, Lucknow

Date: 11.05.2022

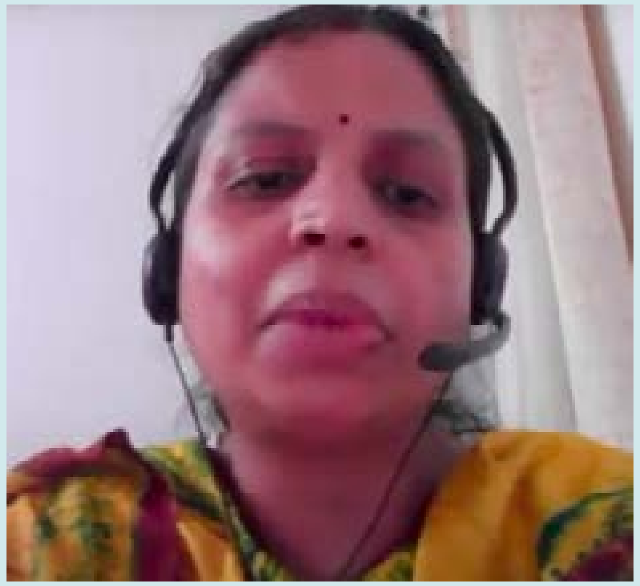


Topic : CSR Compliance and Amendments

Session-2

Speaker : CA. Ridhima Dubey, Delhi

Date: 11.05.2022



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Topic : Oppression and Mismanagement in Company Law

Session-1

Speaker : Adv. A.M. Sridharan, Chennai

Date: 12.05.2022

Topic : Keyguards in Audit Reporting

Session-2

Speaker : CA. Sripriya Kumar,

CCM, Chairperson, Corporate Laws & Corporate Governance Committee

Date: 12.05.2022

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Topic : CARO 2020, Corporate Governance, Role of Auditors

Session-1

Speaker : CA. Vivek Krishna Govind, Cochin

Date: 13.05.2022

Topic : Fraud Risks in Financial Statements

Session-2

Speaker : CA. Vivek Agarwal, Kolkata

Date: 13.05.2022

ADDRESS :Flat No: 402, Fourth FloorNo.1A Periyalwar Street Sundaram Colony, East Tambaram, Chennai – 600059

Email chengalpattu@icai.org Ph : 044-22390098 Official Website www.chengai-icai.org
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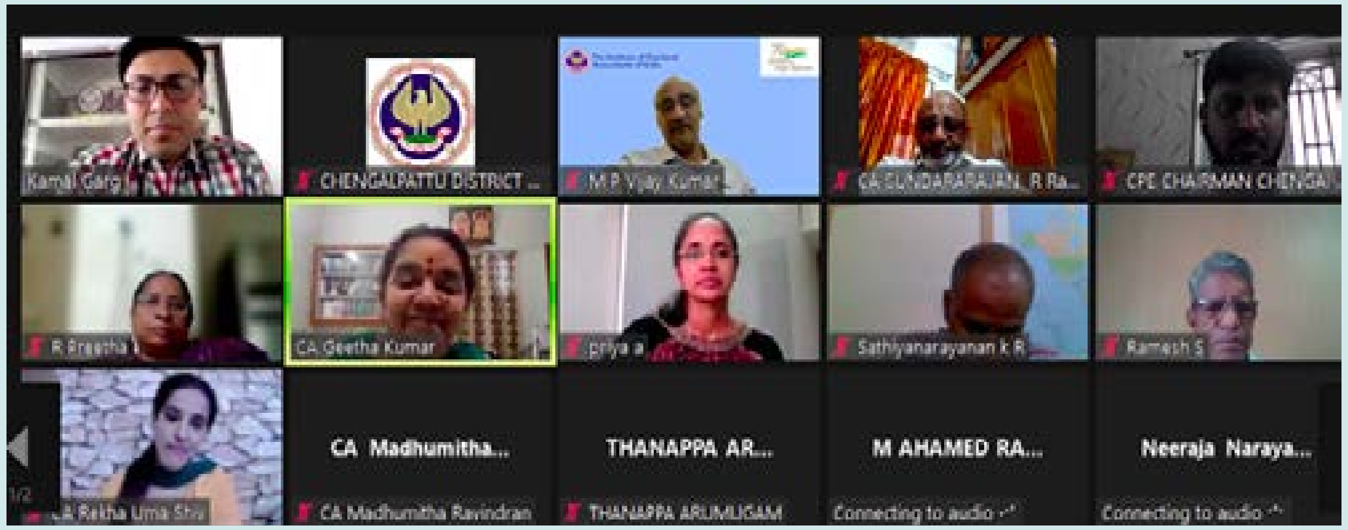
Topic : Recent Regulatory Mechanisms by ROC, Penalties and Late Fees in MCA E-Governance

Session-1

Speaker :CA. Kamal Garg, Delhi

Date: 14.05.2022



Topic : Exemptions to Private Limited Companies & OPCs

Session-2

Speaker : CA. S. Ramesh, Chennai

Date: 14.05.2022

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Topic : Refunds in GST

Speaker : CA. Srinivasan V

Date: 28.05. 2022

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Topic : Refunds in GST

Date: 28.05. 2022