

**ERNAKULAM BRANCH OF SOUTHERN INDIA CHARTERED
ACCOUNTANTS STUDENTS' ASSOCIATION (SICASA)
OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**



CAPTURE

Chairperson's message



As I pen down my final message as the SICASA Chairperson of Ernakulam Branch of ICAI, I am overwhelmed with fond memories of my journey in that role. I am reminded of the day My Chairman informed me that I would be entrusted with the role of SICASA Chairperson of the branch for the year 2019 - 2020. An opportunity to interact with students was always a welcome activity.

The ITT, Advanced ITT, MCS, Orientation – all the compulsory courses was conducted during the month at the branch. Regular classes for the various examinations were also being carried out the branch. SICASA continued in its endeavour to provide the best education possible in our curriculum.

January 2020 was a month of cricket. The state level match was played at Trivandrum and Ernakulam SICASA also participated in the match. We conducted the intra firm match as a 2-day event in which 19 teams participated. The passion with which the students participated was a treat to the eyes.

SICASA also participated in the 71st Republic Day celebrations conducted at the branch where the flag was hoisted by the Chairman of Ernakulam Branch of SIRC of ICAI CA Sreenivasan P R. We reiterated our pledge to protect our pledged.

As they say, change is the only thing that is constant, after an eventful 2019, its time to move on now. I am thankful to every member of SICASA for their unstinted support and guidance during my tenure as the Chairperson of SICASA. Here I wish to tell that I am eternally grateful for getting the privilege to serve you. Wishing all those awaiting results all the very best. May you all have a wonderful and fruitful year ahead!

CA Deepa Varghese

Chairperson, Ernakulam Branch of SICASA of ICAI

Secretary's report



2019 and the past decade has moved on and here we are, facing the vibrant beginning of the 'roaring twenties' of the 21st century. Ernakulam SICASA wishes you all a very happy New Year! May this New Year bring joy and satisfaction to your life!

January was a power-packed month, with not a moment of rest from the enthralling experience that was Ekah. We had our cricket tournament, Freehit 2k20, where students brought on the spirit of the game at the crease. Lakshyans emerged worthy winners at the end of the 4-stage tourney. We are also proud to announce that Ernakulam SICASA bagged the first prize for the All-Kerala CA Students' Football tournament conducted by the Kozhikode branch of SICASA of ICAI. We can't help but be proud as a punch.

As the familiar saying reminds us; 'all good things must come to an end', January also marks the end of the tenure of this edition of Team SICASA. 2019-20 was a year worth remembering for us- the committee of 50-or-so eager CA students had a lot of hopes pinned to them and we believe we have not let those hopes down for most of the time. Right from the beginning, with the 'spread a smile' campaign, to the Students' Conference, Encore, Impetus, Freehit, Ekah and the SIRC regional conference, a lot was on the plates this year and as each event rolled out way better than we expected, we did not know we were making memories. The IVs, seminars, workshops and study circles conducted throughout the year enriched the knowledge base of the CA student fraternity, from practical and academic perspectives.

Now, the time has come for us to hand over the helms to another batch of industrious CA students who will take team SICASA to new heights. We wish you extend the same support and love you gave us to the next committee.

Jinu Baby

Secretary, Ernakulam Branch of SICASA of ICAI.

Editor's message

January is a month of fresh starts as the New Year rolls round. With a change in the calendar that hangs up on the walls, we find ourselves facing the various 'resolutions' we've been postponing since ages– most of them dying out within a couple of days. Yet, we do not stop planning or making resolutions despite this being the scenario and that is exactly what the New Year represents to most of us– Hope. Wishes of the New Year!



As ironic as it can get, January also hints that we are speeding towards the end of our tenure as Team SICASA for 2019-20. This journey with able leaders at the helm gave us a lifetime of memories to cherish. SICASA gave us evident proof that there is more to the life of a CA student than the strenuous work schedule and the demanding curriculum– something which it kept on iterating with each and every event, be it the Students' Conference, Encore or the Sports events. SICASA, particularly Ekah and the interbranch sports, also became a platform to meet and interact with members of our fraternity from different parts of the state.

We wish all the very best to the new batch of enterprising CA students who are going to take over Ernakulam SICASA. Once again, wishes of the New Year!

Signing off from the editor's desk,
Denita Mendez.

THE SICASA MONTHLY QUIZ- JANUARY

What is life without a little bit of fiction? Work out your grey matter as the January edition of the monthly quiz brings you fictional enterprises and brands. Congratulations to Ann Maria Davis (SRO0574345) for winning the previous Edition.

Mail us your answers to ekmsicasa@gmail.com before the 25th of February.

So, this month's questions:

1. Which fictional enterprise had its beginnings in 2013 when an entrepreneur from Thrissur had a plan to recycle the excreta of *Elephas maximus*?
2. It is widely believed that the name of this company is an acronym for 'American Company which makes everything'. Which is this company having an infamous reputation from its association with a 'wily coyote'?
3. Shakti Industries from the 2007 Maniratnam movie, Guru starring Abhishek Bachchan and Aishwarya Rai is inspired from which uber-famous Business House in India?
4. The logo of this corporation draws inspiration from real-life ammunition manufacturers Lockheed Martin and Northrop Grumman. Name this organisation headquartered in a towering skyscraper in New York City.
5. Genco Pura Olive Oil company, The largest exporter of Olive Oil in the USA at one point of time was set up to cover up the nefarious activities of which fictional Mafia House?

Answers in the next edition.

Answers to November edition: 1. Infosys 2. Saravana Bhavan 3. Kings XI Punjab 4. HMT 5. The Hindu.

Reporting on fraud

By Marya Ann Noby (SRO 0516261)



Introduction

Consideration of fraud in financial reporting and the auditor's responsibility on reporting on fraud has always been an integral part of an audit of financial statements carried out in accordance with the Standards on Auditing. Misstatements in the financial statements can arise from either fraud or error and the distinguishing factor between the two is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.

The auditor is required to consider fraud as a risk that could cause a material misstatement in the financial statements and plan and perform such procedures that mitigate the risk of material misstatement due to fraud. These requirements are specified in Standard on Auditing (SA) 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements".

Applicability of reporting requirement

In terms of provisions of Section 143(14) of the Companies Act 2013, the reporting requirement under Section 143(12) applies for statutory auditors of the company and also equally applies to the cost accountant in practice conducting cost audit under Section 148 of the Act as well as the company secretary in practice conducting secretarial audit under Section 204 of the Act.

However Section 143(12) does not apply to auditors appointed under other statutes for rendering services such as Tax Audit under the Income-tax Act, 1961, Sales Tax audit or VAT audit, internal auditors covered under Section 138.

When should a fraud be reported?

As per Section 143(12) of the Companies Act, if an auditor of a company, in the course of performance of his duties as statutory auditor, has reasons to believe and has knowledge that an offence of fraud has occurred, which involves or is expected to involve individually an amount of rupees one 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.

In case of a fraud involving lesser than rupees one crore, the auditor shall report the matter to Audit Committee constituted under section 177 or to the Board immediately and shall disclose the details about such frauds in the Board's report in such manner as may be prescribed."

Section 143(12) includes only fraud by officers or employees of the company which have an effect on the financial statements and does not include fraud by third parties such as vendors and customers.

Manner of Reporting Fraud

A. If fraud amount is Rs 1 crore or more:

(a) the auditor shall report to the Board or the Audit Committee, as the case may be, immediately but not later than two days of his knowledge of the fraud, seeking their reply or observations within forty-five 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 to the Central Government within fifteen 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 forty-five 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 email 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.

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

If fraud amount is less than Rs 1 crore

The auditor shall report the matter to Audit Committee constituted under section 177 or to the Board immediately but not later than two days of his knowledge of the fraud and he shall report the matter specifying the nature of the fraud with description, approximate amount involved, parties engaged and remedial actions taken.

Reporting of Fraud under CARO 2016

As per Clause 3 (x) of Companies (Auditor's Report) Order, 2016 (CARO 2016) if any fraud by the company or any fraud on the company by its officers and employees has been noticed or reported during the year, the nature and the amount involved is to be indicated.

Can the Auditor apply the Concept of Materiality for Reporting on Fraud?

The concept of materiality is fundamental for setting up an appropriate system of internal control, preparation of financial statements and its audit. Fraud results in misstatement of financial statements. SA 240 states that in evaluating and disposing the misstatements identified, the auditor should consider the requirements of SA 450 "Evaluation of Misstatements Identified during the Audit".

SA 450 considers the concept of materiality in classifying the manner of disposition of misstatements, including those arising from fraud. Misstatements arising from fraud, will need to be communicated to the management or those charged with governance as required under SA 450 and also reported as per Rule 13 of the Companies (Audit and Auditors) Amendment Rules, 2015.

Where the amount is not quantifiable, the auditor should apply professional judgement to estimate the likelihood of the amount exceeding the limit of Rupees One Crore prescribed for reporting to the Central Government. For this purpose it can be based on management estimate or reasonable range of estimate made by the auditor.

Reporting of frauds already detected by the Management

Section 143(12) envisages the auditor to report to the Audit Committee or to the Board of Directors and thereafter, where applicable, to the Central Government an offence of fraud in the company by its officers or employees only if he is the first person to identify such instance in the course of performance of his duties as an auditor.

Accordingly, in case a fraud has already been reported or has been detected by the management or through the company's vigil/whistle blower mechanism and has been remediated with by them and such case is informed to the auditor, he will not be required to report the same under Section 143(12) since he has not per se identified the fraud, but it should be reported under CARO 2016.

The auditor should apply professional skepticism to evaluate that the fraud was indeed identified 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 due to matters raised by the auditor vis-à-vis those identified by the company through its internal control mechanism.

Reporting on Suspected Offence Involving Fraud in case of Consolidated Financial Statements

The auditor of the parent company is not required to report on frauds under Section 143(12) if they are not being or have not been committed in the parent company by the officers or employees of the parent company but relate to frauds in:

- a) A component that is an Indian company, since the auditor of that Indian company is required to report on suspected offence involving frauds under Section 143 (12) in respect of such company
- b) A foreign corporate component or a component that is not a company since the component auditors' of such components are not covered under Section 143(12).

However, the auditor of the parent company in India will be required to report on suspected offence involving frauds in the components of the parent company, if the suspected offence of fraud in the component is being or has been committed by employees or officers of the parent company and if such suspected offence involving fraud in the component is against the parent company, if:

- a) the principal auditor detects such suspected offence involving fraud in the component "in the course of the performance of his duties as an auditor" of the consolidated financial statements; or
- b) the principal auditor is directly informed of such a suspected offence involving fraud in the component by the component auditor and the management had not identified/is not aware of such suspected offence involving fraud in the component; or
- c) a component that is not a company since the component auditors of such components are not covered under Section 143(12).

Reporting under Section 143(12) when the Suspected Offence Involving Fraud relates to periods prior to coming into effect of the 2013 Act Requirements

In case of fraud relating to earlier years to which the Companies Act, 1956 was applicable, reporting under Section 143(12) will arise only if the suspected offence of 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 April 1, 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.

Should the Auditor Report under Section 143(12) in case of Corruption, Bribery, Money Laundering and Non-compliance with other Laws and Regulations?

With respect to reporting under Section 143(12), consequent to corruption, bribery, money laundering and other intentional non-compliance with other laws and regulations, the auditor should consider whether such acts have been carried out by officers or employees of the company for the purpose of reporting and also take into account the requirements of SA 250.

Should frauds identified during Limited Review, performance of Attested and Permitted Non-attested services be reported?

If an offence of fraud in the company by its officers or employees that is identified by the auditor in the course of providing attest or non-attest services is of such amounts as specified in Rule 13 of the Companies (Audit and Auditors) Amendment Rules, 2015 and if the auditor uses or intends to use the information when performing his audit under the 2013 Act, then in such cases, the matter may become reportable under Section 143(12).

With respect to reporting under Section 143(12), consequent to corruption, bribery, money laundering and other intentional non-compliance with other laws and regulations, the auditor should consider whether such acts have been carried out by officers or employees of the company for the purpose of reporting and also take into account the requirements of SA 250.

Should frauds identified during Limited Review, performance of Attested and Permitted Non-attested services be reported?

If an offence of fraud in the company by its officers or employees that is identified by the auditor in the course of providing attest or non-attest services is of such amounts as specified in Rule 13 of the Companies (Audit and Auditors) Amendment Rules, 2015 and if the auditor uses or intends to use the information when performing his audit under the 2013 Act, then in such cases, the matter may become reportable under Section 143(12).

Punishment to auditor for non reporting of fraud under Section 143(12)

It may be noted that the proviso to Section 147(2) in the context of punishment to auditors for contravention with the provisions, inter alia, of Section 143 of the 2013 Act, states, "if an auditor has contravened such provisions knowingly or wilfully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees."

Conclusion

Auditor has the responsibility to report any fraud by the company or to the company in accordance with CARO 2016. In addition to that provisions contained in Section 143(12) of the Companies Act 2013 should be followed along with Standards on Auditing relating to fraud. Accordingly, auditors are required to exercise due care and diligence while performing their attest functions.

A scene to remember...



Every day, we wake up to news of mishaps targeting senior citizens, particularly those living alone. Android Kunjappan Version 5.25, in such a perspective, is something which can be called as speculative fiction. The sci-fi dramedy is, however, not the usual story of an old man and his robot, but that of a father and son.

The movie begins with a rather disturbing CCTV footage and quickly jumps over to a rural locale near Payyannur. Bhaskara Pothuval had lost his wife years back when his son was in second grade. Since then, his life has been limited to the raising of young Subramanian, who has turned out to be an engineer. However, stepping into the old age, Pothuval does not want his son to leave his beyond his sight. He plays along for a while, until he gets an offer from Russia and has no option but to snap the umbilical cord. Pothuval, irritatingly old school, dislikes the use of electronic equipments and detests the hiring of domestic helps he even insists that they should be from his caste. Left without a choice, Subramanian brings home his company's robot. The film deals with the evolution of the bond between Pothuval and the bot, fondly christened by the locals as 'Kunjappan'.

One of the most striking scenes in the film is in the early half, when Poduval, skeptic towards the newcomer, denies his offers of assistance and proceeds to cook his own food. The bot scans through the plate of okra (Lady's fingers) his master is slicing and calls out the presence of worms in the vegetable. The process continues for each and every okra Poduval picks up. Irrate, the master leaves the plate of vegetables in the kitchen and proceeds to have dinner — a bowl of plain gruel. In the meantime, the robot cleans and purges the okra of worms, cooks a dish and serves it to the frustrated Poduval, who finds the dish exceeding his expectations, establishing a bond of trust between them.

Prima facie, this scene might mean nothing beyond a dinner, but deep down, it emphasizes the adage 'the way to a man's heart is through his belly'. It also shows that the beginning of every bond, be it professional or one of friendship, is in trust. It does not fail to express the loneliness and frustration faced by the old man. All in all, the short interaction offers insights to the later events of the film. A must-watch!

Lens...

Chronicling the SICASA events of November 2019



▲ Freehit 2k20: some snaps ▲
▼ From the study circle held during the month ▼

