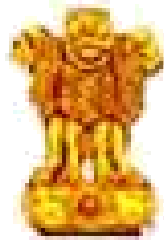




Reporting of Frauds by Auditor



**Ministry of
Corporate Affairs
Amendments**

**Omnibus approval of Audit Committee
for Related Party Transactions**



- ❖ After receiving feedback from various stakeholders the Companies (Amendment) Act, 2015 was enacted by the Parliament of India to address concerns/issues faced by various stakeholder and improve ease of doing business.
- ❖ Section 13 (Reporting of frauds by auditor) & Section 14 (Omnibus approval of Audit Committee for RPTs) of Companies (Amendment) Act, 2015 which were not notified, have now been notified and are effective from December 14, 2015.
- ❖ The Companies (Audit and Auditors) Amendment Rules, 2015 specify the threshold limits for material frauds which need to be reported to the Central Government.
- ❖ The Companies (Meeting of Board and its Powers) Second Amendment Rules, 2015 lay down the specific criteria , validity period, contents etc. for granting omnibus approval.
- ❖ This precursor provides analyzed update on key changes brought in by the Companies (Meeting of Board and its Powers) Second Amendment Rules, 2015 and Companies (Audit and Auditors) Amendment Rules, 2015.

REPORTING OF FRAUDS BY AUDITORS

Materiality thresholds for reporting of frauds to Central Government defined

- Only those offences or frauds which involve or are expected to involve **individually** an amount of “**Rs. 1 Crore or more**” need to be reported to Central Government

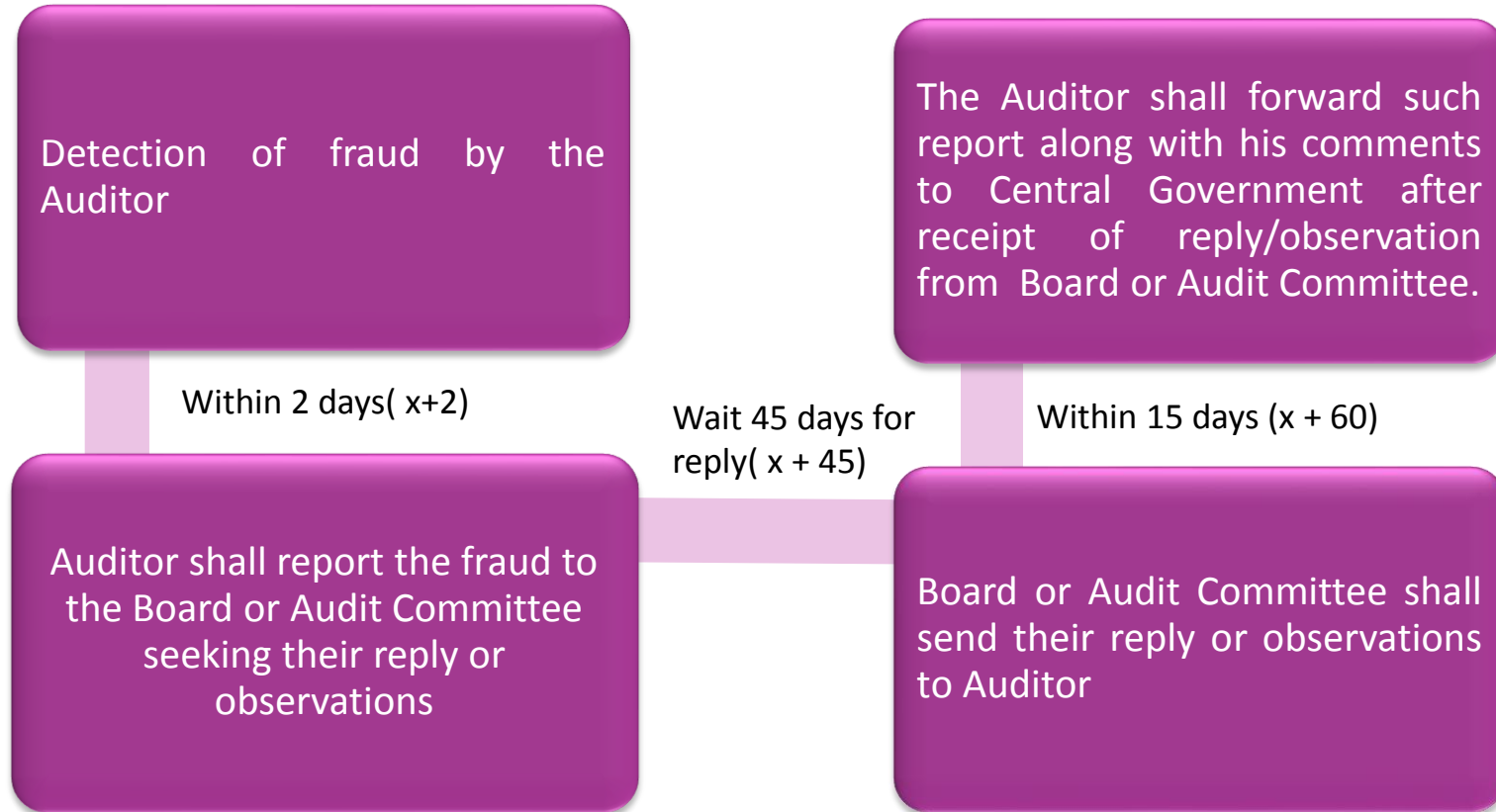
Ambiguity on what means immediately resolved

- The auditor shall report the matter 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.
- The word “immediately” is now replaced to “immediately but not later than two days” which gives a definite timeline for reporting of frauds

Reporting requirements for non-material frauds prescribed

- A fraud that involves an amount lesser Rs. 1 Crore needs to be reported to the Board or Audit Committee specifying the following details:
 - (a) Nature of Fraud with description;
 - (b) Approximate amount involved; and
 - (c) Parties involved.
- Following details of non material frauds need to be disclosed in the **Board’s Report**:
 - (a) Nature of Fraud with description;
 - (b) Approximate Amount involved;
 - (c) Parties involved, if remedial action not taken; and
 - (d) Remedial actions taken.

TIMELINE FOR REPORTING OF FRAUDS TO CG

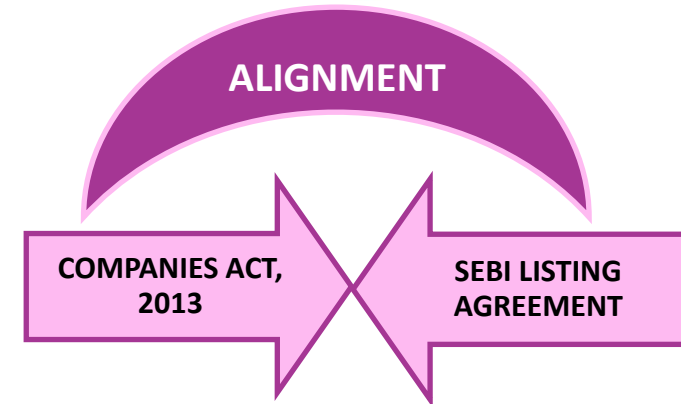


Note:

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 .

OMNIBUS APPROVAL OF AUDIT COMMITTEE FOR RPTs

- ❖ Audit Committee shall specify the criteria for making omnibus approval which shall be approved by the Board. The criteria shall specify:-
 - Maximum value of transactions, in aggregate, which can be allowed under the omnibus route in a year.
 - The maximum value per transaction which can be allowed.
 - Extent and manner of disclosures to be made to the Audit Committee at the time of seeking omnibus approval.



- ❖ Audit Committee shall satisfy itself the need for such omnibus approval & that such approval is in the interest of the company
- ❖ Validity period of such omnibus approval is **1 financial year** & fresh approval is required after expiry of financial year.
- ❖ Contents of Omnibus Approval:
 - the name/s of the related party, nature, duration and maximum amount of transaction that can be entered into,
 - the indicative base price / current contracted price and the formula for variation in the price if any and
 - such other conditions as the Audit Committee may deem fit.

In case the need for Related Party Transaction cannot be identified in advance and aforesaid details are not available, Audit Committee may grant omnibus approval subject to value of transaction not exceeding Rs.1 crore per transaction.
- ❖ **Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertaking of the Company**

Companies Act, 2013	LODR	Pantomath Comments
The criteria for granting omnibus approval to RPTs by Audit Committee shall require prior approval of Board.	Audit Committee shall lay down the criteria for granting the omnibus approval to RPTs in line with the policy on RPTs.	Listed entities are now required to get the criteria for granting omnibus approval approved by the Board
The criteria to specify:- <ul style="list-style-type: none"> ○ Max value of transactions, in aggregate ○ Max value per transaction ○ Information to be disclosed to the Audit Committee at the time of seeking omnibus approval. ○ Transaction for which omnibus approval cannot be granted 	NA	Criteria for granting omnibus approval adopted by Listed entities needs to be amended to align it with the requirements of Companies Act, 2013
Validity of the omnibus approval is for 1 financial year.	Validity of the omnibus approval is for 1 year.	Listed entities now need to renew omnibus approvals every financial year
Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertaking of the Company	NA	Possible loop hole plucked

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