

**GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS**

**RAJYA SABHA
UNSTARRED QUESTION NO. 2295
ANSWERED ON TUESDAY, 21st MARCH 2023**

Responsibility of auditors in fraud

2295 Shri Anil Desai :

Will the Minister of Corporate Affairs be pleased to state:

- (a) whether it is a fact that in almost every major corporate financial irregularities/ fraud there is some major role played by the auditors of that corporate house to save money through illegal ways;
- (b) whether any action has so far been taken against the auditors/CAs for their role in the serious financial irregularities, if so, the details thereof ; and
- (c) whether Government will also consider bringing out any ethical guidelines for the auditors/CAs for observation, if so, the details thereof?

ANSWER

The Minister of State (Independent Charge) of the Ministry of Statistics and Program Implementation; Minister of State (Independent Charge) of the Ministry of Planning and Minister of State in the Ministry of Corporate Affairs.

(RAO INDERJIT SINGH)

(a) : Auditors are appointed u/s 139 of the Companies Act 2013. Section 143 (9) of the Companies Act 2013 requires the auditors to comply with the auditing standards. Auditing standards are prescribed by the Institute of Chartered Accountants of India. Failure to adhere to the auditing standards may include lack of due diligence in the performance of their duties, and is punishable under Section 147 and 450 of the Companies Act, 2013, the Chartered Accountants Act 1949 and other laws as may be applicable. During investigation in some matters, it has been observed that the auditors are also involved in the fraud along with the promoters and directors.

(b) : National Financial Reporting Authority (NFRA) has taken steps against the auditors for their role in serious financial irregularities in audit of IL&FS group companies and has issued four audit quality reports for the deficiencies observed. Further, NFRA has also issued three disciplinary orders in the matter of IL&FS group, but further action is stayed by the High Court. In addition, NFRA has also issued three disciplinary orders involving penalty and debarment against three Chartered Accountants in other matters.

Besides, Serious Fraud Investigation Office (SFIO) has also taken action against the Auditor/CAs for their roles in serious financial irregularities on the basis of the Investigation Report. SFIO has filed 80 complaints against the auditors before the Institute of Chartered Accountants of India and 13 applications against the auditors have been filed u/s 140 (5) of the Companies Act, 2013 before the NCLT during the last 5 financial years for removal of the auditors and debarring them from appointment as auditor of any company for a period of 5 years from the date of passing order and auditor shall also be liable for action under Section 447 of the Companies Act, 2013.

(c) : Section 143 (9) of the Companies Act 2013 requires the auditors to comply with the auditing standards. Para 14 read with para A14-A16 of Standard of Auditing 200 (SA 200), issued by the Institute of Chartered Accountants of India (ICAI) requires the auditors to adhere to the ethical requirements of the Code of Ethics issued by the ICAI while conducting the audit of financial statements.
