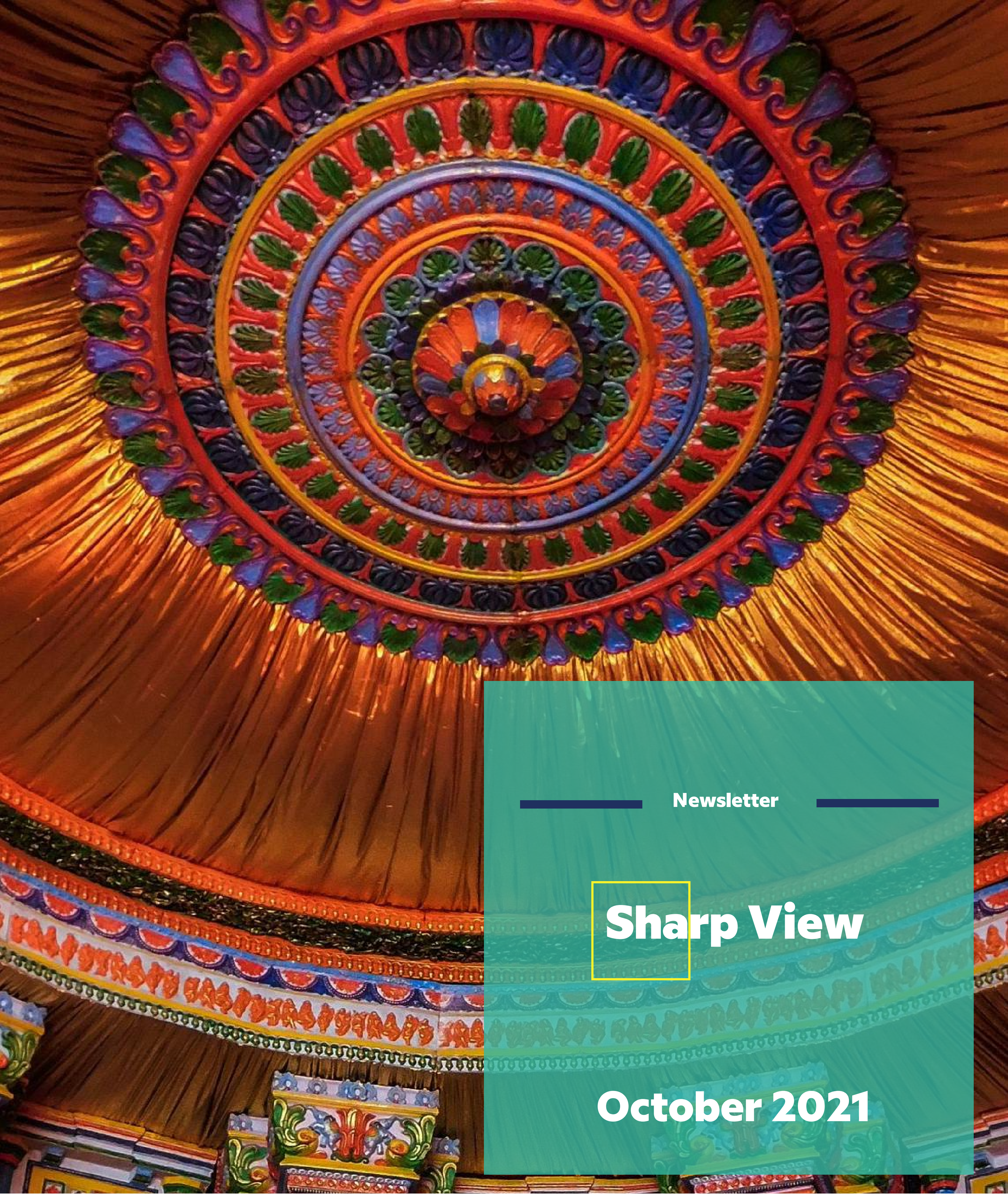


Newsletter

Sharp View

October 2021

SHARP & TANNAN

Assurance | Consulting | GRC | Taxation

Ahmedabad | Bengaluru | Chennai | Coimbatore | Delhi | Goa | Mumbai | Pune | Vadodara

October 21

October marks the beginning of Navaratri, a festival celebrated across India, followed by Dussehra and Diwali. October is ideal for harvesting the Kharif crops which are sown on the onset of the monsoon. Thus, Navaratri marks the beginning of prosperity in India in form of good agricultural produce and also a rise in consumer spending considering the festive season ahead.

India's current stock market indicators have witnessed some landmark highs, throughout the COVID spell. In fact, the stock market in India has hit all-time highs over and over again this year, on a contrary background to the worldwide stock markets struggling to get back to normalcy. To a common investor, the better the economic condition, the more would be the stock prices, indicating satisfactory performance of the economy in terms of production, agricultural produce, exports and overall positive sentiment. However, this might not be the case. India's stock market indices are moving upwards on the background of a relatively slow economic recovery. This shows that the overall market sentiment is positive; investors believe that the economy will post a double digit growth in the coming quarters. The common investor is however clueless as to why there is an inverse proportion between the state of the economy and the growing indices? It is now necessary that markets hold on to these gains without losing much of the ground in the coming few months thereby reassuring the stability and growth of the economy. Till then, let's wait, watch and be positive about it!

Assurance

Physical Inventory Count amid COVID Times

Physical verification of inventory assumes utmost importance and more so ever during the physical restrictions of the pandemic. Auditing Standard 501 casts a responsibility on the auditor to observe the PV carried out by the management in person. Ms. Sneha Suresh discusses the key concerns involved in the PV amid the COVID scenario and explains how the internal controls coupled with the use of technology helps in conducting the PV.

Assurance | Physical Inventory Count amid COVID Times (1/5)

The existence and valuation of the inventories are critical assertions in financial statements. Physical verification (PV), being a key internal financial control, enables the entity to ensure existence and also valuation (by recording damaged or obsolete inventory). Auditing Standard 501 (see below) casts a responsibility on the auditors to observe the PV carried out by the management in person. The auditor may increase the frequency of such observation of PV by taking into account the specific risks of material misstatements.

Standard on Auditing (SA) 501, "Audit Evidence—Specific Considerations for Selected Items" requires that the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:

a. attendance at PV, unless impracticable to

Evaluate management's instructions and procedures for recording and controlling the results of PV → Observe the performance of management's PV procedures → Inspect the inventory → Perform test of controls (perform test counts)

b. performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.

The Covid-19 pandemic had caused significant disruptions in the business operations of the companies posing significant accounting and auditing challenges. The pandemic outbreak made the PV challenging, owing to government-imposed restrictions, and thereby rendering the physical attendance by auditors impossible. The following possible situations that may have arisen due to outbreak are:

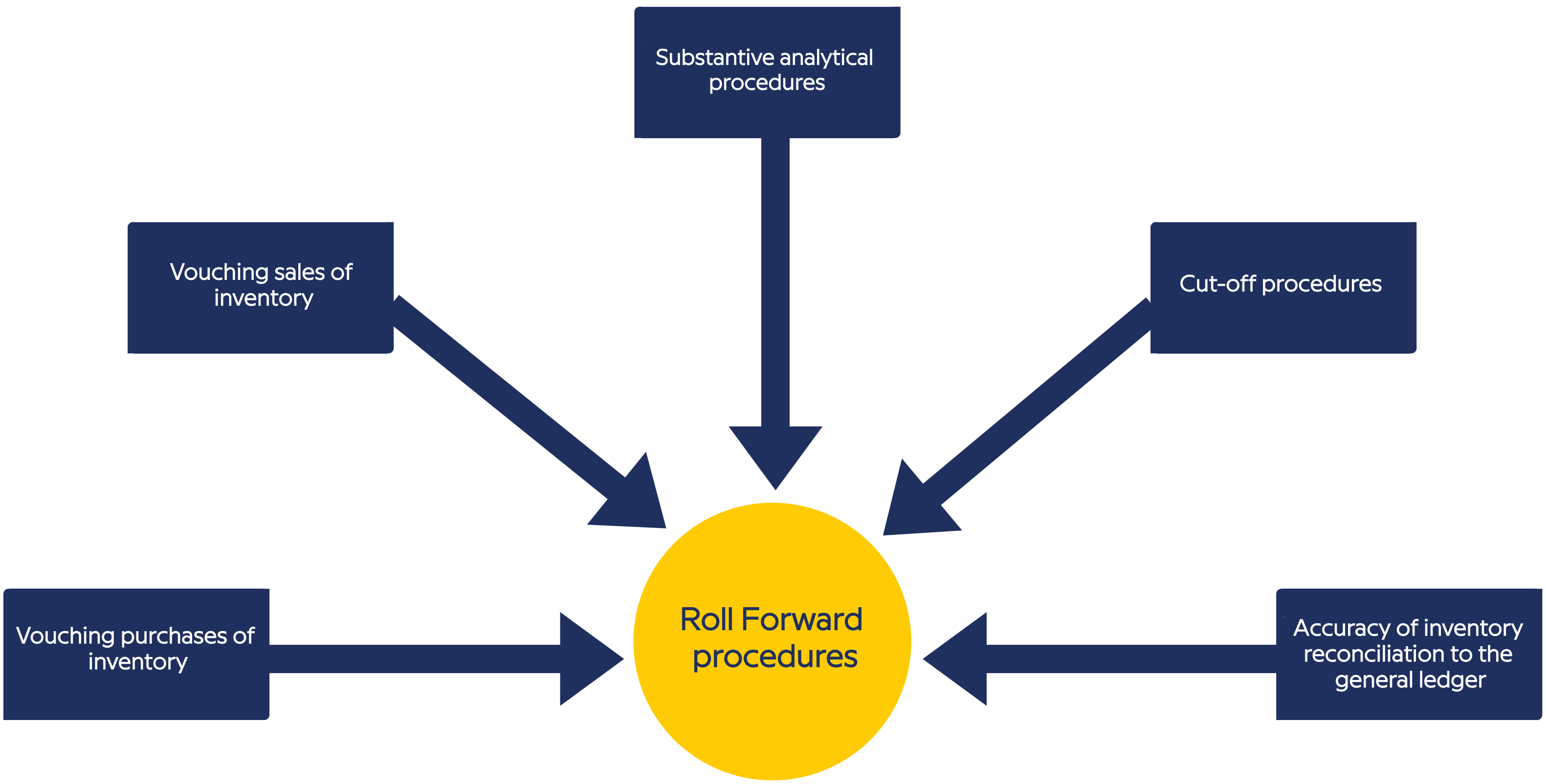
PV conducted at a date other than the close of financial statements	Impracticable for an auditor to attend the PV

PV conducted by the management at a date other than the date of financial statements

The management shall inform those charged with governance (TCWG) and auditors the reasons for not conducting the PV as on the date of financial statements, which may be due to the above restrictions. In such situations, the information relating to changes in inventory between the count date and date of financial statements would be crucial.

Auditor shall deliberate on whether the time gap between the reporting date and date of PV reflects the appropriate assessment of the physical condition of the inventory and perform roll-back procedures, when the PV happens at a later date from the date of financial statements or roll–forward procedures, where the PV happens at an interim date before the date of financial statements. This option is viable when the entity has a perpetual inventory counting system in place. The auditor's attention is required for the following factors:

Auditor shall consider whether roll forward/ back procedures could provide sufficient appropriate audit evidence, due to the lesser persuasiveness on account of longer time gaps.



Owing to the physical restrictions on movement the auditors may perform alternative audit procedures; to obtain audit evidence as to the exitence and condition of inventory. This is commonly performed either using technolgy in PV or outsourcing PV observation to a local professional.

Use of technology in PV

Auditors may observe the PV remotely via video call, by ensuring the security of the application, web or mobile based video-conferencing technologies such as Microsoft Teams, Facetime, WhatsApp, Zoom, etc. Virtual PV shall be used only in circumstances wherein the inventory items can be identified with a unique identification number so that there are no chances of replacement of inventory during/ after PV. Following are certain illustrative procedures while using the techcology for PV.

1. Trial video PV to understand the technological and practical constraints
2. Increase in sample size and following up on items tested at a later date
3. Complete recording of the video call
4. Ensuring live feeds by confirming visually with key staff and using voice technology to move the cameras to specified locations
5. Verify the unique Identification number & quantity counted and quality of stock
6. Identify the materials loaded in vehicles, the number of such vechicles and consider as Goods-In-Transit
7. Perform the same procedures as required in case of physically attending the count
8. Identify inventory items from floor to books and match using unique item number
9. Obtain management confirmation of final count for every item counted during PV

Outsourcing PV observation to a local professional

In case of a multi locational inventory position, the auditor may consider engaging professionals close to the inventory location in dicussion with the management, to perform the PV. Where practicable, auditor may virtually participate to assess the efficacy of the internal controls operating during the PV.

Independence and engagement formalities

- Communicate the planned use of the work of the professional with TCWG and management to obtain their concurrence in writing.
- Evaluate the competence, independence and objectivity of the professional.
- Inquire any relationship that may create a threat to the objectivity of the professional.

Execution

- Determine the nature, timing and extent of work to be assigned.
- Prepare and issue detailed instructions on the procedures, basis (qualitative and quantitative factors) and samples, preferably in the form of questionnaire.
- Put in touch the entity's personnel with the professional for sharing the required details for PV and for further coordination.

Deliverables

- Information on the deliverables such as inventory counting sheets, observations, conclusions to be prepared and provided after the PV.

Ascertaining the internal controls

Financial statement closure process as well as internal controls may have to be modified considering the pandemic situation. E.g. in absence of manpower, manual control may replace the existing automated control, substitution of personnel in place of the existing process owner for approving certain processes, etc. The auditor needs to be alert in assessing the efficacy of internal controls in such situations. The auditor shall understand and evaluate the new/modified controls in place and devise audit procedures/alternative audit procedures to place reliance on such controls. Longer the gap in the roll forward / back period, higher the number of samples to be tested to address the assertions. Accordingly, the auditors shall appropriately consider the impact of the aforesaid on their opinion on internal financial controls under section 143(3)(i) of the Companies Act, 2013.

A blanket approach?

Auditors do not follow a blanket approach to all their audit clients, particularly where the pandemic restrictions were not applicable. Auditors should exercise professional skepticism and consider whether inventory records and internal controls have deteriorated as a result of current events, including assessing any additional actions taken by the entity regarding its security.

Assurance | Physical Inventory Count amid COVID Times (5/5)

Auditor's Opinion	Limitation of Scope
▪ When alternative audit procedures provide sufficient appropriate audit evidence to conclude that inventory is free from material misstatement, the auditor's opinion need not be modified in respect of inventory. ▪ Auditor to exercise professional judgement and may report on the alternate audit procedures performed.	▪ When it is not possible to perform alternative audit procedures to obtain sufficient appropriate audit evidence in relation to material inventory balances, the auditor should modify the opinion in the auditor's report in accordance with SA 705 due to limitation of scope.

Further, CARO 2020 requires the auditors to comment on "Whether PV has been conducted at reasonable intervals by the management and whether the coverage and procedure of such PV is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account".

Way forward

Considering the experience gained from performing alternative audit procedures during the pandemic, the auditor needs to foresee the situation and plan for PV on a closer date prior/post the reporting date.

- Early decision upon the course of action for performing the PV, in discussion with TCWG and Audit Committee
- Devising sampling methodology
- Evaluation of new / modified / alternate controls implemented to place reliance
- Preparation of detailed instructions and guidelines on the alternate audit procedures to be performed
- Suggesting implementation of perpetual Inventory records / performing cycle count procedures
- Measures to combat the challenges faced while performing the alternate audit procedures during the pandemic

Construction Industry Risks and Ways to Mitigate the Risks

Construction is a high-risk industry. Identifying and managing the construction risks is indeed challenging. Mr. Sagar Bapat takes you through the various risks of the construction industry and the effective ways to mitigate such risks.

Construction is a high-risk industry. Each project is unique and individualised, with its challenges and outcomes. The risk may take any form and at any stage of the construction process. Lack of risk mitigation can result in threats of managing the budgets, project schedules, ensuring profitability and efficiency. One of the trickiest parts of the construction process is identifying and managing the construction risks. With thorough planning and by adopting risk mitigation strategies, it is possible to minimise these risks.

Risk management is critical for every company. Having unknown risks can make a company vulnerable and unprepared for what's to come. A construction risk management process helps the project managers predict where threat can emerge and identify projects susceptible to cost overruns. With software and project management solutions, risk mitigation is easier than ever before. However, software is a tool; project managers must be familiar with construction risks and the ways to mitigate them.

Risks in the Construction Industry:

1. Lack of Skilled Workforce

The construction industry faces a skilled labour shortage, an ageing workforce, and an inflow of more and more inexperienced workers, thereby increasing injuries and accidents on job sites. This poses a challenge as the lack of the right labour at the right time for the right job results in low productivity.

To mitigate this risk, the construction industry now uses robotics to complete the vertical tasks like excavation, drywall installation, painting, and roofing. The risk of shifting the workforce can be reduced by using automated technology which achieves the following:

- Cuts down the labour expenses.
- Takes lesser time to accomplish a task by working in longer shifts and into the night.
- Performs tasks faster.

Another way to reduce the lack of skilled personnel is by implementing a resource management solution to minimise the risk of having employees "jump ship" and leave.

2. Construction Defects

A construction defect is a deformity in the design, workmanship, or materials used on a project that causes damage to a structure, person, or property. The most common construction defects to be aware of are:

- **Design defect** - This type of defect happens when a designer makes an error or omits something from the design of the home or building. If the defect is noticed during construction, it can be addressed through the change order process. If it is found after the building receives its occupancy certificate, it is often dealt with through the warranty process or a construction defect lawsuit.

- **Material defects** - This type of defect is more serious as it pertains to the actual building material. Generally, the manufacturer is the party that bears the responsibility, but this can lead to expensive repairs and the need to source new materials.

- **Workmanship Defects:** This is the most common type of construction defect. It can be large, structural problem or smaller problem, such as design. This happens when the contractor gets off track and fails to complete the project according to the approved plans, code requirements, or standards of care.

Ways to reduce the above defects:

- Project managers should work on the latest drawings.
- Good quality materials should be procured at the right time.
- Make the employees, the consultants and the contractors responsible for the defects and incorporate penalty clauses in the agreements.
- Contractors should be properly evaluated before allotting the work contracts.
- Conduct quality inspections at regular intervals.

3. Contractual Risks

Contractual risks are of two types:

- Risks involving legal accountability such as breaches of contract and infringements to intellectual property.
- Risk surrounding the image and operations of the business such as poor staff morale and negative public opinion about the company.

These risks are a prominent source of headaches for many businesses but are all preventable with proper assessment along with the implementation of pre-emptive measures.

Ways to reduce contractual risks:

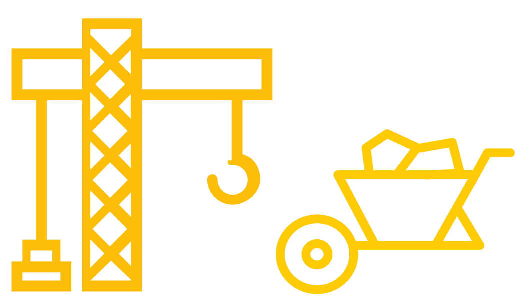
- Discuss with people from various sectors of the organisation to identify the potential risks.
- Insure the potential losses / assets to lessen the costs in case of any failure.
- Ensure the legitimacy of every agreement and document related to the entity / company.
- Build a relationship with financially stable companies.

4. Lack of Site Protection

Unattended and unprotected job sites can result in damage to frozen or leaking pipes and theft or vandalism of equipment and materials. Not all sites have extensive security on off-hours, and unattended job sites are susceptible to damage and vandalism. Ultimately, a fenced or well-lit site has a less likelihood of vandalism as compared to a site without any security.

Following are the ways to secure the job site:

- Increase lighting in off-hours.
- Making the employees aware about the employer's vigilance.
- Schedule the supplies only when needed.
- Minimise entry points to the site.



- Practice effective inventory management.
- Secure the perimeter with fencing.
- Strengthen online security.

5. Environmental Risks

It is important to consider the environmental conditions of the site because natural disasters do happen. If the job site is near a fault line, the project manager should consider the risk of earthquakes. It is hard to predict a natural disaster, but it is always better to be prepared. Natural disasters include but are not limited to:

- Hurricanes
- Earthquakes
- Floods
- Fires
- Lightning storms

Creating a disaster recovery plan may feel like a massive and complex undertaking in terms of cost and resources, however it mitigates the risks associated with men, machinery and materials.

- **Creation of a multi-disciplinary team** - A team should be created comprising of representatives from each department, i.e., members from the administrative department, the on-site project team and the management. The members so identified need to be assigned the designated roles, to identify all the possible vulnerabilities during a disaster.

- **Material planning** - Materials on site can become hazardous debris, if not stored properly. Such type of risks can be mitigated by ensuring that the materials are properly stored to prevent from heavy losses.

- **Cascading of emergency procedures** – Team should be kept aware and ready by discussing and cascading the emergency plan throughout the organisation. On-site hazards and persons to be informed of changes that might impact the safety of the sub-contractors and labourers should be considered. Reviewing of the company procedures with the sub-contractors as well as the suppliers should also be done.

- **Re-evaluate the recovery plan after the disaster has occurred and passed** - Once the natural disaster has passed, the first step is to ensure each member of the team is safe before visiting job sites to identify the occurred damage. Next, immediate steps to be taken to stabilise and secure on-project works. Lastly, repairs to be scheduled for the damage which has taken place.

6. Managing Change Orders

A change order is a specific type of documentation that is used to record an amendment to the original contract. Change orders consist of the additional work completed that is not specified in the contract. Contractors divide the change orders into two sections: the price of the work and the scope of work. The scope of work is necessary to determine the precise amount of materials, labour and time needed for the additional updates.

GRC | Construction Industry Risks and Ways to Mitigate the Risks (4/4)

Common causes for change order requests are:

- Incorrect estimate of a project.
- Team or the client reached an obstacle that shifted away from the original plan.
- Team or client is incapable of completing their deliverables within the allocated budget.
- Extreme weather or job site conditions causing delays in work.

Ways to reduce the change order requests:

- There should be proper coordination between the contractor and the design team.
- All clauses should be clearly stated in the contractual agreements / documents.
- Quality control processes should be established at all stages and levels of the project.
- In-person interactions should take place at regular intervals to help clear up miscommunications and keep everyone on the same page.

7. Miscommunications

Miscommunication can take place in any industry. Miscommunication in the construction industry can result in pushing back a project schedule and risking the overall success. Miscommunication can result in simultaneous delays in the schedule and the possibility of cost overruns. In terms of risk management, coordination complications are very crucial because it can lead to the wastage in terms of materials, labour and other resources.

Construction management software is an effective way to reduce coordination complications. They allow collaborative engagement through mobile technology and cloud-based accessibility. Implementing software into the management operations can help get subcontractors, contractors, and project managers. The benefits of using this software are as below:

- Reduce site visits for taking any decision.
- Track the progress of the job at any given point of time.
- Reduce rework.
- Prevent disputes.

8. Lack of Documentation

Document control is one of the construction industry's biggest risks. Proper documentation is one of the most tedious and time-consuming job. Construction projects require thousands of documents that would take laborious effort to sort through and file. In current scenario, contractors are transitioning from paper work to digitization. Also, construction software platforms use cloud-based technologies that allow to access any document at any given point of time, thereby reducing delays.

Following are the ways to improve the existing document management processes:

- Take an inventory of the present documentation.
- Adopt cloud-based software.
- Integrate the systems.
- Consider security solutions.
- Digitize and automate the processes.

Taxation

GST – Certain Clarifications Issued by CBIC

The 45th GST Council meeting announced various GST proposals. Mr. Shouvik Roy briefs the readers about certain important clarifications announced by the CBIC based on GST Council's proposals.

I. Clarification of the term 'Intermediary Services'

CBIC has clarified that in order to be called 'intermediary services' the following are the basic prerequisites.

1. Minimum three parties

- This arrangement requires a minimum of three parties, two of them transacting in the supply of goods or services or securities (the main supply) and one arranging or facilitating (the ancillary supply) to the said main supply.
- An activity between only two parties can, therefore, CANNOT be considered as an intermediary service. An intermediary essentially 'arranges or facilitates' another supply (the 'main supply') between two or more other persons and, does not himself provide the main supply.

2. Two distinct supplies

Ancillary supply is supply of intermediary service and is clearly separately identifiable and distinguished from the main supply.

3. Intermediary service provider to have the character of an agent, broker or any other similar person

- The use of the expression 'arranges or facilitates' in the definition of 'intermediary' suggests a subsidiary role/ supportive role for the intermediary.
- It must arrange or facilitate some other supply, which is the main supply.

4. Does not include a person who supplies such goods or services or both or securities on his own account

- Use of word 'such' refers to the main supply.
- Wherein the person supplies the main supply, either fully or partly, on principal to principal basis, the said supply cannot be covered under the scope of 'intermediary'.

5. Sub-contracting for a service is not an intermediary service

- The supplier of main service may decide to outsource the supply of the main service, either fully or partly, to one or more sub-contractors. Such sub-contractor provides the main supply and does not merely arrange or facilitate the main supply and therefore, clearly is not an intermediary.
- Provision for Place of Supply (POS) of 'intermediary services' under section 13 of the IGST Act shall be invoked only when either the location of supplier of intermediary services or location of the recipient of intermediary services is outside India.

Illustration: A' is a manufacturer and supplier of computers based in USA and supplies its goods all over the world. As a part of this supply, 'A' is also required to provide customer care service to its customers to address their queries and complains related to the said supply of computers. 'A' decides to outsource the task of providing customer care services to a BPO firm, 'B'. 'B' provides customer care service to 'A' by interacting with the customers of 'A' and addressing / processing their queries / complains. 'B' charges 'A' for this service. 'B' is involved in supply of main service 'customer care service' to 'A', and therefore, 'B' is not an intermediary.

Publication Reference: Circular No 159/15/2021-GST dated 20 September 2021
https://www.cbic.gov.in/resources//htdocs-cbec/gst/Circular%20N%20159_14_2021_GST.pdf

II. Clarification relating to export of services

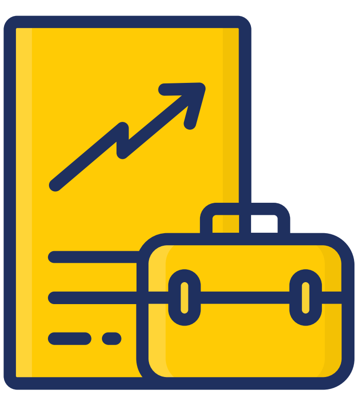
Present situation: Section 2(6)(v) of the IGST Act, 2017 defines 'export of services.' It also provides that the term 'exports' will not constitute the services provided by one establishment of a person to another establishment of the same person, (since they are treated as 'establishments of distinct persons' and hence taxable). Thus, supply of services by an establishment (say a branch) of a foreign company in India to another establishment (branch) of the same foreign company outside India will be treated as a 'supply between the establishments of distinct persons' and not as 'exports.'

The concern: A concern was raised that whether the supply of services by a subsidiary/sister concern/group concern, etc. of a foreign company in India, which is incorporated under the laws in India, to the foreign company incorporated under laws of a country outside India will be treated as an 'export' or merely a 'supply to the establishments of distinct persons')?

Analysis and clarification from CBIC:

- A company incorporated in India and a foreign company incorporated outside India, are separate 'persons' under the statute. Thus, two subsidiaries (one incorporated in India and another incorporated outside India) of a common foreign parent/holding company are statutorily separate legal entities for the purposes of GST Act.
- The supply of services by a subsidiary of a foreign company in India to another subsidiary outside India will qualify as 'export of services' and not as 'supply between merely two establishments of distinct persons.' This is because each entity is statutorily a separate legal entity in itself and not merely the establishments of distinct persons.
- The above circular seems to be in in line with the decision rendered by Gujarat High Court in the case of Linde Engineering India Pvt. Ltd. v. Union of India for the service tax period wherein the issue arose with respect to similar condition mentioned in Rule 2A of the Place of Provision of Service Rules, 2012 as in section 2(6)(v) of the IGST Act 2017.

Publication Reference: Circular No 161/17/2021-GST dated 20 September 2021
https://www.cbic.gov.in/resources//htdocs-cbec/gst/Circular%20N°%20161_14_2021_GST.pdf



III. Input Tax Credit in case of Debit Notes

- W.e.f. 1 January 2021, the date of issuance of debit note (and not the date of the underlying invoice) shall determine the relevant financial year for the purpose of availing input tax credit (ITC) under section 16(4) of CGST Act, 2017.

ITC availed in respect of debit note	Time-limit for availing ITC under section 16(4)
On or after 1 January 2021	Date of Debit Note
Before 1 January 2021	Date of Invoice

Illustrations:

Date of debit note	Date of invoices	Time-limit for availing ITC under section 16(4)
7 July 2021	16 March 2021	Date of debit note, since the debit note is issued after 1 January 2021.
10 November 2020	15 July 2019	The relevant FY for availment of ITC on the said debit note, *if availed on or after 1 January 2021*, (say availed in the GSTR 3 B of December 2020, filed on 20 January 2021) will be FY 2020-21 and accordingly, the registered person can avail ITC on the same till the due date of furnishing of FORM GSTR-3B for the month of September, 2021 or furnishing of the annual return for FY 2020-21, whichever is earlier. On the other hand, if the ITC has been availed in, say, the GSTR 3B of November 2020 filed on 20 December 2020, (before 1 January 2021) the old provisions of section 16(4) shall apply, i.e. the determining date for cut off will be date of invoice which is 15 July 2019 and FY is 2019-20. Here the last date will be 20 September 2020 (GSTR 3B due date for September 2020) or date of filing annual return of 2019-20, whichever is earlier.

IV. Other Clarifications

- It is clarified that a conjoint reading of rules 138A (1) and 138A (2) of CGST Rules, 2017 clearly indicates that there is no requirement to carry the physical copy of tax invoice in cases where e-invoice has been generated by the supplier and the production of the Quick Response (QR) code having an embedded Invoice Reference Number (IRN) electronically, for verification by the proper officer, would suffice.
- Refund of accumulated ITC under section 54(3) will be allowed on goods excluding those on which the export duty is leviable and actually paid at the time of export.

Publication Reference: Circular No 160/16/2021-GST dated 20 September 2021
https://www.cbic.gov.in/resources//htdocs-cbec/gst/Circular%20N°%20160_14_2021_GST.pdf

Consulting

Fraud Risk Management

Fraud Risk Management assumes utmost significance in any business. In the past COSO had framed 5 internal control components, one of which was 'Risk Assessment.' Further, COSO published its 'Risk Management Guide' with 5 FRM principles. Mr. Sarang Pandya provides a snapshot of the FRM principles.

What is a fraud?

Fraud is an intentional act or omission by the perpetrator to deceive others with a view to gain an undue advantage to the perpetrator.

Dictionary meaning

- Wrongful or criminal deception intended to result in financial or personal gain.
- A person or thing intended to deceive others, typically by unjustifiably claiming or being credited with accomplishments or qualities.

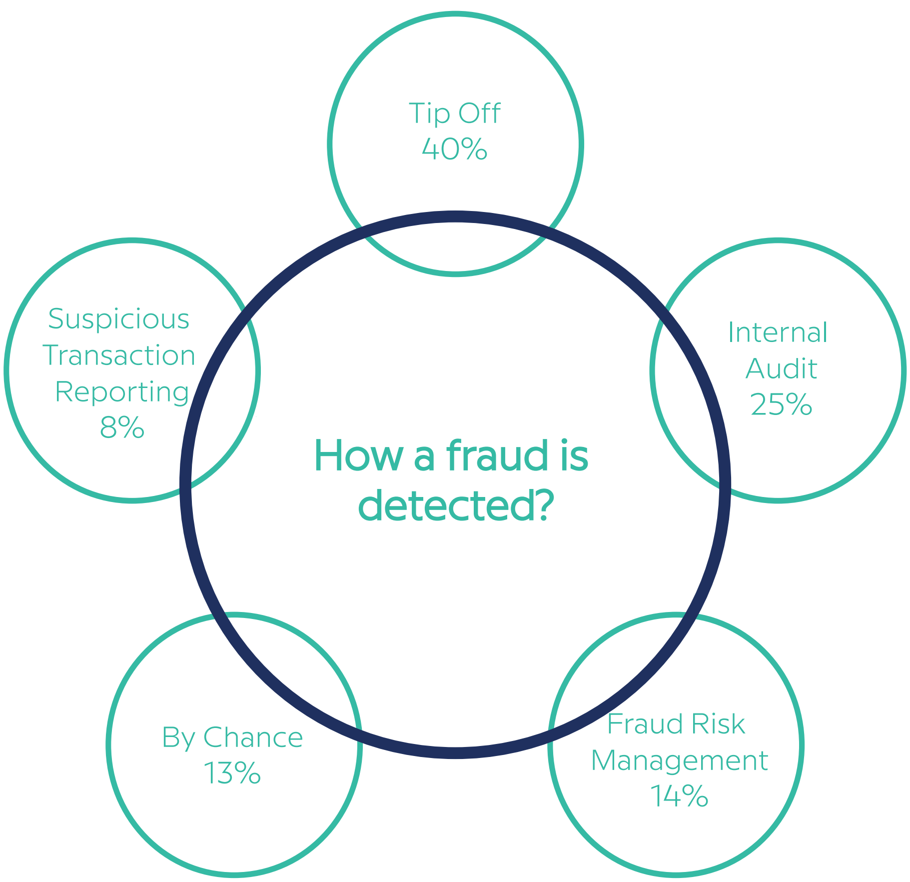
Legal meaning

- A knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment.
- A false representation of a matter of fact—whether by words or by conduct, by false or misleading allegations, or by concealment of what should have been disclosed—that deceives and is intended to deceive another so that the individual will act upon it to her or his legal injury.

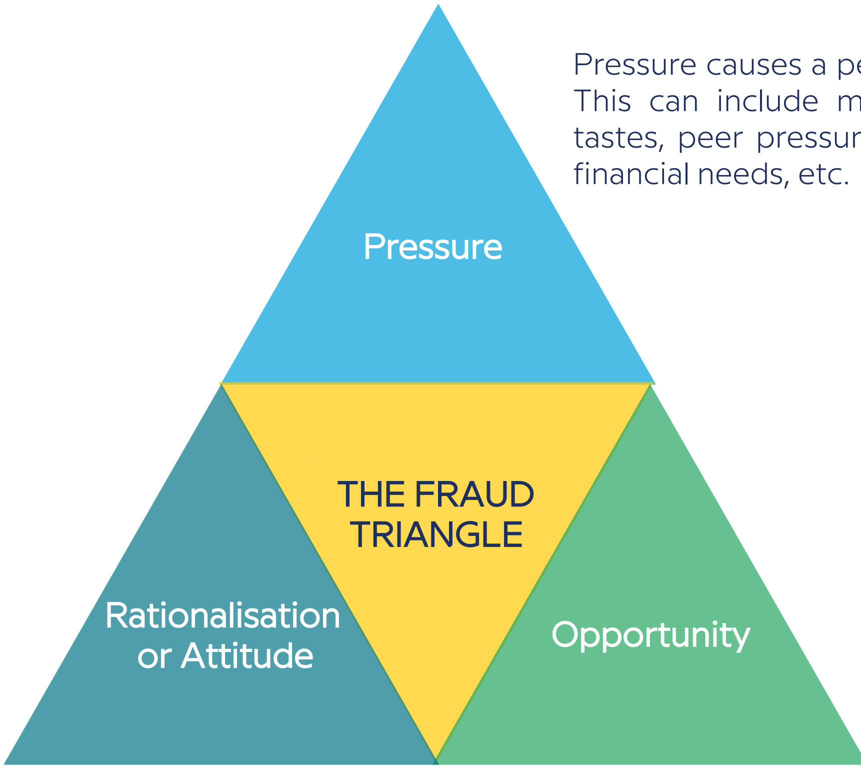
Fraud in an employer-employee relationship

- A form of employee misconduct where such an employee uses deceit to take (steal) or misuse his employer's resources.

Detection of Fraud



The Fraud Triangle



Pressure causes a person to commit fraud. This can include medical bills, expensive tastes, peer pressures, influence, constant financial needs, etc.

Rationalisation means the clarification given by the employee for justifying the fraudulent activity which varies from case to case and person to person. Some examples include:

- I didn't get the increment.
- Others are also doing it.
- A colleague is favoured, etc.

This is the ability to commit fraud. The fraudsters believe that their activities would not get detected. Opportunities are created with weak internal controls, poor management, etc.

Common Types of Frauds

Financial Frauds	• Manipulation, falsification, alteration of accounting records, misrepresentation or intentional omission of amounts, misapplication of accounting principles, intentionally false, misleading or omitted disclosures.
Misappropriation of Assets	• Theft of tangible assets by internal or external parties, sale of proprietary information, causing improper payments.
Corruption	• Making or receiving improper payments, offering bribes to public or private officials, receiving bribes, kickbacks or other payments, aiding and abetting fraud by others.

Fraud Risk Management

COSO Framework

The COSO 'Internal Control–Integrated Framework' is a leading and widely accepted framework across the globe for designing, and implementing the internal controls and for assessing the effectiveness of such controls for business organisations.

In the past COSO has framed 5 internal control components, one of which is 'Risk assessment.' One of the principles under the risk assessment component is that, the organisation considers the potential of fraud in assessing the risks to the achievement of objectives.'

In 2016, COSO published its 'Risk Management Guide' and published 5 Fraud Risk Management (FRM) principles which are fully consistent with the earlier 17 principles.

The table below shows the COSO 2013 internal control components and 5 new FRM principles and their inter-applicability.

COSO Internal Control Component	COSO Additional Principles (As per the FRM Guide)
Control Environment	The organisation establishes and communicates its FRM program that demonstrates the expectations of the BOD and senior management and their commitment to high integrity and ethical values regarding managing the fraud risk.
Risk Assessment	The organisation performs comprehensive fraud risk assessments to identify specific fraud schemes and risks, assess their likelihood and significance, evaluate existing fraud control activities, and implement actions to mitigate residual fraud risks.
Control Activities	The organisation selects, develops and deploys preventive and detective fraud control activities to mitigate the risks of fraud events occurring or not bring detected in a timely manner.
Information & Communication	The organisation establishes a communication process to obtain information about potential fraud and deploys a coordinated approach to investigation and corrective action to address fraud appropriately and in a timely manner.
Monitoring Activities	The organisation selects, develops and performs ongoing evaluations to ascertain whether each of the five principles of FRM is present and functioning and communicates FRM program deficiencies in a timely manner to parties responsible for taking corrective action, including senior management and BOD.

FRM Principles

All organisations are susceptible to the risk of fraud. However, implementation of the FRM principles will maximise the likelihood that the fraud will either be detected or prevented in a timely manner and will create a strong fraud deterrence effect.

Consulting | Fraud Risk Management (4/4)

The responsibility of managing the fraud risk is on board of directors (BOD), top management and personnel at all the hierarchies of the organisation, including every level of management, staff, and internal auditors.

In particular, they are expected to understand:

- how the organisation is responding to heightened risks and regulations, as well as public and stakeholder scrutiny;
- what form of FRM program the organisation has in place;
- how the FRM program identifies fraud risks;
- what it is doing to better prevent fraud / detect it sooner; and
- which process is in place to investigate fraud and to take corrective actions. The fraud risk assessment (FRA) is designed to help address these complex issues.

The FRA recommends ways in which governing boards, senior management, staff at all levels, and internal auditors can deter fraud in their organisation. Fraud deterrence is a process of eliminating the factors that may cause occurrence of the fraud. Deterrence is achieved when an organisation implements a FRM process that:

- Establishes a visible and rigorous fraud governance process.
- Creates a transparent and sound anti-fraud culture.
- Includes a thorough FRA periodically.
- Designs, implements, and maintains preventive and detective fraud control processes and procedures.
- Takes swift action in response to allegations of fraud, including, wherever appropriate, actions against those involved in wrongdoing.

The FRM provides implementation guidance that defines the principles and points of focus for FRM and describes how organisations of various sizes and types can establish their own FRM programs.

Best Practices

By adopting the COSO fraud risk management principles, and carrying out the fraud risk assessment periodically, an organisation can minimise the risk of fraud and prevent/deter the occurrence of fraud. The earlier an organisation adopts the implementation of the FRM principles the lesser it will be vulnerable to fraud risks.

Ahmedabad

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Phone: (91) 9820284854

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