



A study on forensic audit and regulatory perspective

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Abstract

Investigations into forensic auditing may reveal or corroborate a variety of unlawful behaviours. If there is a chance that the evidence acquired will be utilised in court, a forensic audit is usually used instead of a regular audit. The forensic audit process is comparable to a standard financial audit in that it involves planning, obtaining evidence, and drafting a report, but it also includes the possibility of a court appearance. In order to discover illegal acts such as syphoning of corporate funds, embezzlement, or fraud, a forensic auditor would need to combine accounting, auditing, and investigative abilities, as well as use technology and knowledge of the legal system to establish facts and evidence in court. Forensic audits are sometimes carried out to evaluate whether persons charged with fiduciary duties have been negligent. Forensic audit investigations are critical because they aid in the detection of business wrongdoings such as embezzlement, bribery, extortion, false transactions, kickbacks, and conflicts of interest. They can also assist in locating or identifying possible fraud. They're vital since fraud, bribery, and corruption cases are on the rise in India, necessitating the hiring of experts to protect and safeguard company interests. In order to combat white-collar crime in India, drastic reforms are required, and forensic audits can help. In this regard, the researcher discovered the importance of forensic audit and conducted this study.

Keywords: Forensic Audit, Fraud Detection. Corporate Fraud

Introduction

A court audit is a thorough investigation and investigation of a company's or individual's financial records to extract information that can be used in court. In the accounting industry, forensic testing is a specialty, and most large accounting firms have a forensic testing department. Forensic auditing requires accounting and auditing experience and expertise in the legal basis of forensic auditing. Forensic audits include a variety of investigative tasks. Forensic examinations can be conducted to prosecute someone for fraud, embezzlement, or other financial crime. As part of the forensic examination, the auditor can consult as a court expert. Forensic audits may also include matters unrelated to the criminal justice system.

Review of Literature

Kosmas Njanike & *et.al.* (2009) ^[1]. The performance of forensic auditing in detecting, investigating, and stopping financial institution crimes changed into determined of their observe. The intention of the observe changed into to decide to what quantity forensic auditors are able to gratifying this mandate, in addition to look at troubles that save you forensic auditors from progressing of their operations in growing nations. The significance of forensic auditing in banking operations changed into additionally tested. The facts for this observe changed into accumulated thru questionnaires, non-public interviews, and record examination. Thirty forensic auditors from 13 industrial banks, 4 constructing societies, and 4 audit agencies in Zimbabwe have been used with inside the observe. It changed into determined that forensic auditing departments have some of difficulties, one in every of that is a loss of resources.

F. I. Ehigiator, A. O. Enofe, and P. Omagbon (2015) ^[2] The effect of forensic audit on company fraud in Nigeria changed into investigated on this observe. The observe's intention is to parent out if there is a hyperlink among forensic audit and company fraud. The survey technique changed into used to accumulate enough number one facts, and questionnaires have been organized and circulated to collect the desired data, with the facts analysed the use of the IBM SPSS Statistics 21 normal least square (OLS) regression technique. Based on statistical research, the observe indicated that the use of forensic audit offerings on a normal foundation will extensively resource with inside the identification, prevention, and discount of fraud in and businesses.

Attempts to classify fraud have tested to be a hard venture for fraud experts. One faculty of wondering divides fraud into occupational and non-occupational categories (Singleton *et al*, 2006) ^[3], whilst some other divides it into public and personal area fraud (Comer, 2001) ^[4]. Another faculty, on the alternative hand, labeled fraud in step with the enterprise wherein it changed into dedicated, consisting of financial institution fraud and coverage fraud (Skalah *et al*, 2001) ^[6]. Management fraud, insider selling, funding fraud, and different comparable scams, in step with Lendemen (2003) ^[5], may be divided into company and non-company categories. The banking offerings enterprise changed into the point of interest of this research. From the conventional device of easy cheque fraud, wherein a fraudster might honestly faux his identification on a easy cheque with an normal pen, to extra state-of-the-art approaches, consisting of boost price fraud, which makes use of the Internet and laptop systems, financial institution frauds have advanced in nature and complexity (Singleton *et al*, 2006) ^[3].

Skalah *et al*. (2001) ^[6] have been capin a position to differentiate among varieties of fraud: insider fraud and fraud dedicated with the aid of using different fraud criminals at the outside. Rogue traders, fraudulent loans, cord fraud, faked documents, identification robbery, and call for draught fraud are only some of the financial institution scams perpetrated with the aid of using insiders. Forgery and changed cheques, stolen cheques, cheque kitting, charge card fraud, booster cheque duplication and browsing of card data high financial institution fraud, fictitious financial institution 'inspector' fraudulent loans applications, impersonation and robbery of identification loans and boost price fraud, cash laundering, and 'lacking with inside the post' fraud are examples of fraud dedicated with the aid of using outsiders.

Statement of the Problem

According to the author, fraud is a hallmark of all organized civilizations around the world and is an anti-business activity that must be dealt with correctly and efficiently. He further explained that the company's success requires a workforce of that is psychologically relevant and reliable with effective management prior to employment. Fraud is considered a virus that spreads from employees of an organization to other economic activities, including government agencies. Therefore, in order for the economy to be stable and balanced, it is necessary to introduce anti-fraud viruses into the system. This completely eliminates fraud. In addition, management and employees need to be vigilant to detect and prevent fraud in the company. The term "forensic audit and corporate fraud" was coined to describe the challenges companies face, especially with regard to corporate fraud. Accountants and legal professionals develop alternatives to address statutory

audit failures and increased corporate crime to prevent, detect, and reduce misappropriation of corporate financial and non-financial assets doing. To that end I had to cooperate. A global threat known as fraud. Against this background, the survey should be able to answer the following questions:

1. What is the importance of forensic research?
2. Do Forensic Testing Have a Great Impact on Corporate Fraud Prevention?
3. Are regulatory agencies doing enough to curb fraud?

Objectives of the Study

Based on the above research questions the following objectives were framed for the present study.

1. Determine the significance of forensic audit.
2. To see whether forensic auditing can help a company prevent illegal activity.
3. To understand the role played by regulators

Significance of Forensic Audit

- A court accountant is more than just a calculator that happens to be working on criminal and civil cases. They have a wide range of skills. They need to be able to conduct research, use different computer programs, and communicate effectively. Some court accountants focus on certain fraud-prone areas, such as insurance and banking, and are familiar with the business practices associated with those areas.
- Court accountants are employed by most major accounting firms and need to investigate mergers and acquisitions, tax and white-collar crimes, support civil proceedings, professional audits, and even terrorism investigations. Court accountants work in many business areas, including public accounting, corporate and government.
- Associate illegal facts with the application of accounting concepts and methods. The results of quantifiable investigations, including casualty, damage, and resource assessments, are used to assist lawyers in prosecution.
- Forensic accounting is important for proceedings in a variety of areas, including stock exchange restrictions, value-changing strategies, item risk, shareholder claims, and contract breaches. Court accountants, sometimes referred to as court examiners or investigative professionals, are often required to submit proof of a master's degree in court.
- A court accountant is described as a surveyor, bookkeeper, legal and financial reporting expert hired to investigate potential fraudulent allegations within a company. Or someone who is hired by a company that simply wants to avoid deception. We also provide services in areas such as accounting, antitrust law, tort, investigation, valuation and general advice. Court accountants usually do not provide assessments, but the work done and the reports published often provide answers about how, where, what, why, and who. FA is making progress and will continue to make progress, leveraging innovation to help engagement distinguish between strange and irregular points. Court accountants have all used the pursuit of psychological warfare through separation, protection claims, damages claims, false proceedings, development, sovereignty checks, and investigation of financial records. During audits, many court accountants work closely with legal scholars and legal counsel, often acting as key observers during

proceedings.

- Forensic accounting is a combination of forensic science and accounting disciplines. The need for forensic accountants stems from the organization's review mechanism failing to detect certain flaws in the management framework. Forensic accounting is the type of accounting in which both general and criminal issues are dismantled, tested, questioned, and investigated before a fair and accurate report is produced. Court accounting plays an important role in the investigation of financial fraud and bureaucracy, just as court inspections and laboratory reports are essential to solve the mystery of murder and Dakoit in court. Anyway, forensic accounting covers a wide range of activities, and its misrepresentation is only a small part of the big picture.

Regulatory landscape for forensic audit

A. IBC

With the implementation of the IBC and the CIRP procedure, the Resolution Professional (RP) was granted the authority and freedom to choose whether to request a transaction audit or a forensic audit, as he thought fit. Despite the fact that the IBC makes no mention of forensic auditing, it does allow for the audit and scrutiny of certain types of transactions, depending on whether they are with connected or unrelated parties. The circumstances in which a transaction audit may be performed are likewise up to the discretion of the RP. Furthermore, certain types of transactions can be set aside by the Adjudicating authority if they are deemed preferential, such as undervalued transactions to defraud creditors, extortionate credit transactions, and fraudulent transactions, which can be set aside by the Adjudicating authority on the basis of an application by the entity's Liquidator or RP.

B. RBI

The Forensic Audit also finds reference to fraud committed by unscrupulous borrowers in RBI/2015-16/75 DBS.CO.CFMC.BC.No.1/23.04.001/2015-16 dated July 01, 2015, in the Reserve Bank of India's notification, RBI/2015-16/75 DBS.CO.CFMC.BC.No.1/23.04.001/2015-16 dated July 01, 2015.

C. SEBI

According to a SEBI press release dated PR No 52/2020, SEBI has initiated audits of listed entities and will make disclosures without regard to materiality, including: i) the initiation of forensic audit (by whatever name called) along with the name of the entity initiating the forensic audit and the reasons for the same; and ii) the initiation of forensic audit (by whatever name called) along with the name of the entity initiating the forensic audit and the reasons for the same. ii) Final forensic audit report (other than those ordered by regulatory agencies), along with management comments, upon receipt by the listed entity.

D. SFIO

Under Section 212 of the Companies Act 2013, the SFIO has the authority to launch an investigation into the company's affairs, as allocated by the Central Government. In the case of some groups, such as Winsome Group, SFIO has also requested forensic audits, and they have experts with multi-disciplinary knowledge, usually from legal, accounting, and forensic departments, who aid to investigate and uncover fraud. Forensic auditing as a discipline has yet to take off, but

it should be encouraged and based on certain thresholds, so that once the threshold is crossed, the entity is automatically subjected to forensic auditing – this could be based on any of the parameters like turnover, PBT, or the size of the entity's assets.

Future Scenario

In the future, forensic accounting and auditing will almost certainly become mandatory, necessitating the development of professionals in this field. In India, the ICAI is currently offering a certificate in forensic auditing and fraud detection, while other institutes like as the ICAI and the ICSI are also working to improve capacity among their members. However, unlike statutory organisations, there is no national level certification accessible. CFE - Certified Fraud Examiner - is the globally recognised credential for a highly trained professional who may testify in court as an expert witness in an inquiry. Educational institutions must immediately form partnerships with overseas suppliers in order to increase professional competence at the undergraduate and graduate levels. The best bet would be to enrol in an independently recognised PG programme in Forensic Accounting and Auditing.

Suggestions

- As an administrative function, forensic auditing plays a part in the overall protection of bank assets. Forensic auditors are tasked with detecting any potential bank fraud and, if necessary, conducting investigations into the cases at hand, or at the very least suggesting effective measures to avoid such frauds from occurring. This can be effective in situations where the environment allows them to carry out their mandate by employing existing detective and investigative skills to combat bank fraud.
- The majority of forensic auditors come from the police force, with a handful from the banking industry. To analyse complicated fraud situations, forensic auditors are neither professionally or academically equipped. Being the best teacher with experience, the simplest bank fraud is successfully resolved and the practitioner is prosecuted.
- The majority of forensic auditors have more than 5 years of experience and are trained in-house. Bank fraud can range from complex and difficult to detect and investigate, to simple and easy to find and investigate, to complex and difficult to detect and investigate. Computer-related crimes, or crimes that use computers as a route of fraud, are one of the most difficult crimes to detect and investigate.

Conclusion

Harshad Mehta, Ketan Parekh, Sanjay Seth, and the late India bulls' outrageous tactics are still vivid in our minds. Whether its stock exchange extortion, bank fraud, or internet crime, scientific accounting has become an indispensable tool for investigation. In today's society, the need, role for a forensic accountant becomes even more important. Accountants are trained evaluators, and assessors of legal and financial records who are used to investigate and prevent fraudulent activity, alongside with other professionals in IT, digital technologies, Cyber security. They also provide accounting, damage, and examination of administrations. Forensic Accountants play an important role in insurance planning, extortion claims, development, distribution rights auditing,

and detecting fear mongering through budgetary articulations.

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