

EDITORIAL

Organisations typically face a variety of fraud and misconduct risks. Like a more conventional entity-wide risk assessment, a fraud and misconduct risk assessment helps management understand the risks that are unique to the organisation's operations, identify gaps or weaknesses in control to mitigate those risks, and develop a practical plan for targeting the right resources and controls to reduce such risks. Management should seek to ensure that the risk assessment is conducted across the entire organisation, taking into consideration the entity's significant business units, processes and accounts. Auditing and monitoring systems are important tools that management can use to determine whether or not the organisation's controls are working as intended. They can also facilitate an effective governance process through the evaluation of other characteristics, including ethics and values, performance management, and the assessment and communication of risk.

In recent years banking processes are getting acquainted with the new digital technology domain. The risk of fraud and the cybersecurity threat is rising day by day. Banks and the Financial Institutions are becoming prone to the risk of numerous fraudulent activities. Banking sector regulators have been at the forefront of fraud mitigation strategies, prescribing frameworks that banks need to adopt to have a better view on fraud risks. Hence, Forensic Accounting is an attempt to achieve the goals of meeting the growing demand of the forensic accountants. The primary reason for choosing the banking sector is very simple. India has witnessed many frauds like Harshad Mehta, Ketan Parekh driven stock market frauds, CRB driven NBFC fraud and home trade driven rogue trading fraud. In the recent past, we have seen the frauds perpetrated by Vijay Mallya

or Nirav Modi who have damaged an internal banking system a lot. Hence, banks need to set up a mechanism to curb these frauds and prevent them in the first stage itself.

The number of bank fraud cases of Rs 500 crore or higher, reported by public sector banks or financial institutions, till June 2021 stood at 13, said the Ministry of Finance citing information from the Reserve Bank of India (RBI). These cases counted to 79 in 2019-20 and 73 in 2020-21. The Ministry also stated that unscrupulous borrowers commit frauds through fund diversion methods, fraudulent disposal of hypothecated stocks, the fraudulent discount of instruments, and criminal neglect and managerial failure by the borrowers. The RBI circular has also observed frauds taking place through forged instruments, fictitious accounts, manipulated account books, and fraudulent foreign exchange transactions, among others. The government has issued a 'Framework for the timely detection, reporting, investigation, etc., relating to large value bank frauds' to Public Sector Banks (PSBs). This is for the systemic and comprehensive checking of the legacy stock of their non-performing assets (NPAs). The government has established the National Financial Reporting Authority as an independent regulator to enforce the auditing standards and ensure the quality of audits.

Regulations are being regularly tightened to ensure monitoring, vigilance and disclosure mechanisms including whistle blowers' complaints. It is a universal truth that fraudsters are always a step ahead of regulators. We must accept that frauds are inevitable, and companies should lay down strong systems, processes, corporate governance practices and a robust recruitment process to ensure that the right people with integrity and value



systems are hired. It is also important to create awareness among employees through rigorous training mechanisms, as to areas exposed to fraud and ensure that frauds are impartially investigated and culprits are punished, in time.

Forensic Audit is an important tool to manage risk. Risks are unanticipated events that may affect the organization's ability to meet its key objectives. Thus, CMAs can apply Risk Mapping procedures to identify, analyze and quantify the risks interfering with the achievement of organizational objectives. They can set action plans to improve the risk management system to smooth the progress of the management. Since forensic accounting is a post-mortem approach, the CMAs have to measure output-input correlation, to find out the responsible input causing faulty/non-commensurate output. CMAs can play a major role in detecting and preventing corporate and banking frauds with their unique skills and emphasis on data analytics, technology, risk management and internal controls. They also play a role in establishing a culture where there is zero tolerance for unethical behaviour, through policies, practices and training. Indian Banks Association (IBA) has recognized Firms of Cost Accountants for Empanelment as Forensic Auditors for frauds. RBI has also given the power to CMAs for appearance as an Authorized Representative. The Board of Advanced Studies & Research of the Institute has recently introduced a *Diploma Course in Forensic Audit* for the capacity building of its members and students.

This issue presents a good number of articles on the cover story "*Forensic Audit: Tool for Fraud Detection and Prevention*" written by distinguished experts. We look forward to constructive feedback from our readers on the articles and overall development of the Journal. Please send your emails at editor@icmai.in. We thank all the contributors to this important issue and hope our readers will enjoy the articles.

Greetings and best wishes of the festive season ahead!!!