

New Companies Act drives demand for forensic audits

Forensic audit is emerging as a big-ticket business for accounting firms.

Two developments are responsible. One, some high-profile frauds in the limelight over recent months. Two, changes in the approach of regulators, allied to provisions in the new Companies Act, which put more accountability on both independent directors and auditors.

So, all big accounting companies are strengthening their forensic audit teams and investing more into these. Ernst & Young (EY), for instance, has very aggressive plans on this. It already has one of the largest teams for this, of 450 people; it plans to add 150 in 2014-15.

FINDING FRAUDS

WHY IS THE SCOPE WIDENING?

After the NSEL crisis, promoters are ordering forensic audits of their firms to ensure there is no NSEL-like employee fraud

Independent directors, now seen as watchdogs, prefer firms to go for these

Rising bad loans will make banks want forensic audit of defaulters to ensure promoters haven't siphoned off funds

To comply with the Foreign Corrupt Practices Act, foreign companies might go for forensic audit of the books of their Indian arms or firms they intend to invest in

WHO ARE PREPARING TO CASH IN?

The big four accounting firms are already into forensic audits. Others like BDO India and Grant Thornton are also strengthening their forensic divisions

PricewaterhouseCoopers (PwC) has a team of nearly 200 people for this, raising its headcount fourfold in the past six months. Its spokesperson said: "We are looking at hiring another 75-100 people over the next one year to strengthen our team further." PwC has picked Dinesh Anand as its leader for forensic services, from KPMG.

BDO India and Grant Thornton were also strengthening their forensic teams or retraining their internal strength of chartered accountants, said their spokespersons.

Forensic audit has also come into public discussion after the payments scam at NSEL, the spot exchange promoted by Financial Technologies Indian Ltd (FTIL). The Forward Markets Commission had ordered forensic audits of NSEL and one special audit of Multi Commodity Exchange, also promoted by FT; the economic offences wing of the police here are getting the books of brokers thought to be involved in the NSEL scam forensically audited. As the probe gets wider, more of such audits are possible.

An old-time forensic auditor, now a mentor for upcoming certified fraud examiners, said on condition of anonymity that he'd come across several cases where companies or promoters were approaching audit firms for getting their accounts forensically audited, to ensure an NSEL-like fraud was not happening in their own firm.

The new Companies Act also directs companies and independent directors (IDs) to increase the safeguards against fraud. These have also been defined for the first time in this Act. Arpinder Singh, head of forensic practices at Ernst & Young Global, says: "With these provisions, every company would have to have pro-active fraud risk management policies." He also advises IDs, also seen as having a whistle-blower role, to document all that they don't find in order, and to document all the objections they raise.

Piyush Vora, the partner heading forensic practices at BDO India, says we might also be seeing an increase in forensic audits because more and more banks would order these on the books of companies that had approached them for corporate debt restructuring. For, they need to check if the losses are because of genuine commercial reasons or because promoters have played around with funds. Vora sees 2014-15 as a year of non-performing assets, which means more debt restructuring and so on.

Dolphy Dsouza, partner in a member firm of E&Y, said: "The auditors' role is also coming under scrutiny because they will now be regulated by the new National Financial Reporting Authority and heavy penalties have been prescribed for auditors if they fail in their duties." All these things mean IDs will tilt towards getting forensic audits of the accounts and auditors shall have to be vigilant.

(Business Standard)