Challenges and opportunities for auditors in enhancing control reviews, special audits, and fraud detection mechanisms under tightened norms.

Another accounting issue: the bank failed to present its financial results properly.

Auditors fined and debarred in yet another accounting scam.

Promoters banned from stock markets.

Sounds familiar? These headlines are becoming increasingly common, and public concern is growing. Hardly a week passes without news of another corporate fraud. According to A Report to the Nations[i] by the Association of Certified Fraud Examiners (ACFE), organizations lose approximately 5% of their revenue to frauds each year. This finding is based on an analysis of 1,921 cases across 138 countries, categorizing occupational fraud into three primary types: asset misappropriation, corruption, and financial statement fraud.

Interestingly, while 89% of fraud cases involved asset misappropriation—with a median loss of $120,000; only 5% of the cases were financial statement frauds. However, the median loss in those cases was a staggering $766,000. Corruption accounted for 48% of the cases, with a median loss of $200,000. Clearly, financial statement frauds cause the greatest financial damage. In most of these cases, a failure of internal controls was cited as a key contributing factor.

Given these realities, it is no surprise that regulatory oversight has been significantly tightened worldwide, particularly in India. Besides increasing reporting requirements under CARO[ii] Indian Statutory auditors are now responsible for reporting on Internal Financial Controls (IFC) over financial reporting for companies above a certain threshold,

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[i] *https://www.acfe.com/-/media/files/acfe/pdfs/rttn/2024/2024-report-to-the-nations.pdf*

[ii] *Companies (Auditor's Report) Order, 2020*

similar to the Sarbanes-Oxley Act (SOX) in the United States and J-SOX in Japan. Scrutiny of regulators such as the NFRA has taken unimaginable heights. Several high-profile cases have led not only to substantial penalties but also to the suspension of auditing licenses, bringing a new level of seriousness to the profession.

There remains, however, a gap between public perception of auditors' roles and the actual scope of their responsibilities. The famous quote from the Kingston Cotton Mills Co. case (1896) that “an auditor is a watchdog, not a bloodhound,” may no longer reflect society’s expectations. Today, both the public and regulators expect auditors to take a more investigative approach.

While internal and concurrent auditors are expected to evaluate control effectiveness, their scope is generally defined by management, to whom they report. Special purpose audits are conducted with specific objectives in mind and typically don’t attract much public scrutiny.

Still, the old saying holds true: “The bigger the challenge, the greater the opportunity.” With increasing regulatory requirements, there is a growing demand for professionals in the auditing field. Experts are needed to manage compliance in an ever-evolving landscape. At the same time, technology is advancing at an unprecedented pace, creating a need for professionals with specialized skills. Recognizing this, top institutes across the country are now offering courses that train individuals to perform audits using artificial intelligence. A right time for youngsters to grab the opportunity, due to increased demand and low supply!!

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