

Forensic Accounting and Non-Audit Services : Indian Context

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Abstract

The paper examines the issue of non-audit services (NAS) to audit clients and 'Auditor's independence' highlighting the issues pertaining to the present regulatory norms regarding the provision of NAS to audit clients in India. In the era when the audit environment is under scanner for wrong reasons, audit firms should be prohibited from rendering NAS. Joint provision of audit and NAS to the same client has become a debatable issue. Forensic accounting firms specialised and empowered to render NAS can prove to be an effective tool for bringing an end to the controversy over auditor's independence. The paper offers policy recommendations for recognising forensic accounting as a distinct profession to render NAS in India. It suggests necessary amendments and modifications in the Companies Act 2013; ICAI Act 1949 and Insolvency and Bankruptcy Code 2016. Paper seeks to draw the attention of policymakers to take appropriate regulatory measures for recognizing forensic accounting as an independent profession to render NAS.

JEL Code : M41, M42, M48

Keywords : Audit, NAS, Forensic, Accounting, Auditor's Independence, ICAI Act 1949; Bankruptcy Code 2016, Companies Act 2013, India

I. Introduction

1.1 *Forensic Accounting and Non-Audit Services*

THE INCREASED NUMBER OF frauds resulted in creation of a separate line of activity 'forensic accounting' (FA) in the accounting and auditing profession (DiGabriele, 2009). FA Professionals (FAPs) are deemed to have expertise in fraud prevention, detection, and deterrence. They are engaged to provide certain Non-Audit Services (NAS) like identification and assessment of risk, performance evaluation, management & tax consulting, financial statement preparation and review, assurance on organisation's accounting information system, and e-commerce operations. FAPs also provide attest

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to render NAS, certain regulatory modifications can be incorporated in the provisions of Companies Act 2013; Institute of Chartered Accountants of India Act 1949; Insolvency and Bankruptcy Code 2016. The suggested regulatory changes can be of immense help to policymakers. The necessity of developing distinct forensic accounting standard/s may also arise.

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Notes

- 1 as “any professional services provided to an issuer by a registered public accounting firm, other than those provided to an issuer in connection with an audit or a review of the financial statements of an issuer”.
- 2 It provides mandatory requirements and guidance for professional competency, independence, expert witness and evidentiary standards, false and misleading information and changes in opinion, quality controls, and professional fees.
- 3 Steinhoff International approached PwC for forensic investigation to examine the validity and recoverability of certain non-South African assets including historical cash equivalents worth €3bn (The Financial Times 2018, March 1). In General Electric, there were unprecedented oppositions from 35.1 percent of shareholders over the 100 years old association with KPMG and its predecessor firms. Two shareholders advisory service providers also recommended discontinuation of KPMG. However, the board argued for continuing with KPMG as replacement will be more expensive and disruptive (Ed Crooks, 2018, April 25).
- 4 As per Section 2(51) of the Companies Act 2013, key managerial personnel means the Chief Executive Officer or the managing director or the manager; the company secretary; the whole-time director; the Chief Financial Officer; and such other officer as may be prescribed.
- 5 As per Section 3(21) of IBC 2016, “information utility” means a person who is registered with the Board as an information utility under section 210
- 6 As per Section 3(9) of IBC 2016, Core Services means services rendered by an information utility for— (a) accepting electronic submission of financial information in such form and manner as may be specified; (b) safe and accurate recording of financial information; (c) authenticating and verifying the financial information submitted by a person; (d) providing access to information stored with the information utility to persons as may be specified.

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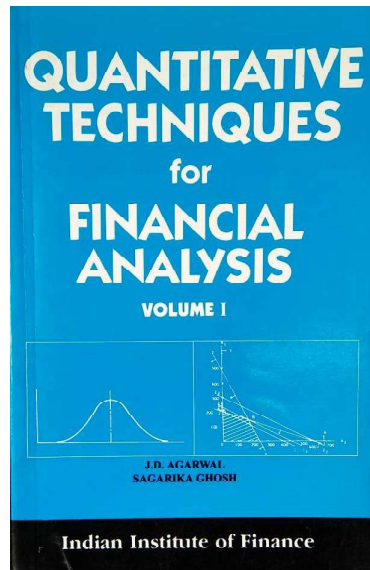
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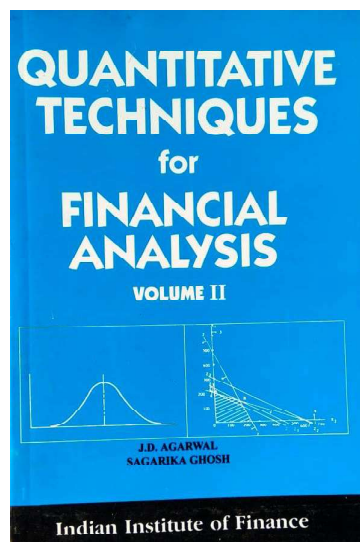
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