Address by the Chairperson, Shri Nitin Gupta, National Financial Reporting Authority

Guest of Honour

It is a pleasure to join you at FraudCon 2026. I congratulate the ACFE India Chapter for bringing together such a diverse group of professionals — fraud examiners, forensic specialists, investigators, regulators, lawyers, auditors, compliance leaders and risk professionals.

Before I commence my address, I would like to give standard 'disclaimer of a Regulator' that the views expressed by me here are not necessarily the views or decisions of the NFRA or the Executive Body.

As we all know, Fraud does not remain confined within professional or institutional boundaries, and its prevention and detection cannot be the responsibility of any one profession or authority. A questionable transaction may:

- first be noticed by an accountant,
- flagged as an anomaly by an auditor,
- reported by an employee, or traced through digital evidence by a forensic specialist, and
- may ultimately require legal, regulatory or law-enforcement action.

Each participant sees a different part of the picture. **Our challenge is to connect these perspectives early enough to prevent damage from becoming irreversible.**

Cost of Fraud

Fraud is often discussed in terms of the money stolen. That is important, but the real cost is wider. It affects:

- the confidence of investors and lenders,
- raises the cost of capital,
- diverts the attention of boards and management, and
- in serious cases threatens the survival of the enterprise and the livelihoods of employees who had no part in the wrongdoing.

It also erodes confidence in financial information itself, raising questions about the effectiveness of boards, auditors, professionals and regulators alike. **Trust, in other words,**

is not an abstract value — it is an economic asset that shapes investment decisions and access to finance.

Fraud risk can never be reduced to zero, but organisations are not helpless. Governance, internal controls, professional scepticism, reporting mechanisms and culture all materially influence

- whether fraud occurs,
- how quickly it is detected, and
- how much damage it causes.

The question of culture

Organisational culture is often decisive. Most frauds do not begin with a spectacular event, they begin with a small compromise:

- an undocumented exception,
- a temporarily bypassed control,
- a target considered too important to miss, or
- a senior individual whose explanation is accepted without scrutiny.

Tolerated once, such behaviour becomes precedent, then practice; and once embedded, those who might otherwise raise concerns learn that silence is safer than challenge.

An effective anti-fraud environment must make it not only acceptable but legitimate to ask difficult questions.

Responsibilities of the Board

The primary responsibility for preventing and detecting fraud rests with the Board, in law as much as in principle.

Section 134(5) of the Companies Act, 2013 requires every Board, through its Directors' Responsibility Statement, to affirm that proper care has been taken for:

- the maintenance of adequate accounting records, and
- the prevention and detection of fraud, and,

for listed companies,

- that internal financial controls are in place and operating effectively.

The Board's report must separately disclose particulars of frauds reported by the statutory auditor under Section 143(12).

For listed entities, SEBI's Listing Obligations and Disclosure Requirements Regulations extend this further.

- Regulation 4 places on the Board the duty to ensure the integrity of the entity's accounting and financial reporting systems, including independent audit and adequate internal controls.
- Regulation 18 vests the Audit Committee with oversight of financial reporting and internal control systems, and the authority to investigate any matter within its terms of reference.

These are not annual formalities. **They are, in substance, a yearly certification that fraud risk has been overseen, not merely delegated downward and left unexamined.**

Whistleblower mechanism

Our law already gives us whistleblower mechanism infrastructure.

Section 177(9) of the Companies Act, read with Rule 7 of the Companies (Meetings of Board and its Powers) Rules, 2014, requires every listed company, and certain other prescribed companies, to establish a vigil mechanism for directors and employees to report genuine concerns, with adequate safeguards against victimisation and direct access to the chairperson of the Audit Committee in exceptional cases.

Regulation 22 of the SEBI LODR Regulations imposes a corresponding obligation on every listed entity.

A vigil mechanism that

- **exists only in policy,**
- **referred to in an annual report**
- **but unused in practice,**

satisfies the letter of the law without delivering the protection it was designed to provide.

Role of NFRA

At NFRA, we have consistently emphasised the responsibilities of auditors in relation to fraud. Auditors must

- maintain professional scepticism throughout the audit, notwithstanding their prior experience of management's honesty and integrity,
- have a disciplined state of mind that requires remaining alert to contradictory evidence and **not accepting a plausible explanation merely because it is confidently presented**.

The statutory basis is precise.

- Standard on Auditing 240 requires the auditor to identify and assess the risks of material mis-statement due to fraud.
- Section 143(12) of the Companies Act, read with Rule 13 of the Companies (Audit and Auditors) Rules, 2014, goes further:
    - where the auditor has reason to believe a fraud of Rs 1 crore or more is being or has been committed by officers or employees, the auditor must report it to the Central Government within the prescribed time;
    - below that threshold, the auditor must report to the Audit Committee or Board within two days of acquiring knowledge of it.
- Section 143(13) protects an auditor who reports in good faith. This is a positive, individual and time-bound obligation, distinct from the audit opinion itself.

By our circular of 26 June 2023, NFRA has clarified this obligation: the statutory auditor is required to submit Form ADT-4 to the Central Government in respect of a fraud meeting Section 143(12) threshold **even where the auditor was not the first person to identify it,** and an auditor's resignation from an engagement does not, by itself, absolve a reporting obligation that has already arisen.

Auditors and forensic professionals

The audit and forensic professions have different mandates, and these differences should be respected.

- A statutory audit may not be an open-ended investigation into every possible fraud; its purpose is to **obtain reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error**.
- A forensic engagement, by contrast, is typically triggered by a specific allegation or concern, and is directed at establishing facts, tracing transactions and preserving evidence for legal or regulatory proceedings.

But different mandates need not mean disconnected responsibilities. **Auditors understand an entity's accounting systems, judgements and controls, and may be the first to notice inconsistencies or recurring weaknesses.**

Forensic professionals bring expertise in digital evidence, investigative interviewing, asset tracing and evidence preservation.

The audit trail and the evidence trail are not identical, but they cross over frequently: auditors may see patterns before a case is formally identified, and forensic professionals can explain the mechanism once suspicion has crystallised.

Clarity of roles, and connectivity of insight — that is the requirement.

Keeping up with technological advances

No discussion of fraud in 2026 is complete without technology. It is transforming both sides of the equation,

- giving professionals tools to analyse entire populations of transactions and support continuous monitoring,
- while fraudsters use artificial intelligence, synthetic identities, deepfakes and fabricated documents to operate at greater scale and sophistication.

Technology should expand professional judgement, not outsource it. An algorithm may flag a transaction, but a professional must understand why; a tool may rank risks, but someone must assess whether the output is consistent with other evidence. **Public trust cannot be built on a tool nobody can explain. Technology used in audit and fraud detection must therefore come with governance, clarity on data, validation, human review and accountability**.

Need for collaboration

- Auditors understand financial reporting risk;
- forensic professionals understand fraud schemes;
- data scientists understand algorithms;
- cybersecurity specialists understand systems;
- legal professionals understand evidentiary requirements.

I think that none of them, acting alone, has the complete answer and hence there is a need for collaboration.

High-quality financial reporting and effective assurance are not compliance requirements alone; these are economic infrastructure.

NFRA's statutory responsibilities include monitoring and enforcing compliance with accounting and auditing standards and overseeing the quality of the professions associated with financial reporting. But no regulator, however empowered, can build a strong and high-quality financial reporting ecosystem alone.

- Boards must set the tone and demonstrate that integrity is not negotiable;
- management must focus on truthfulness and not mere documentation exercises;
- audit committees must ask difficult questions themselves and pursue matters that remain unresolved;
- internal and statutory auditors must exercise scepticism and communicate concerns with clarity and courage;
- forensic professionals must bring rigour and evidentiary discipline;
- professional bodies must keep trainings current with emphasis on changing risks;
- regulators and law-enforcement authorities must coordinate within their respective mandates; and
- employees who raise concerns in good faith must be protected.

This is how an ecosystem becomes resilient. Each participant remains accountable for its own role, but insights, capabilities and emerging risks can be understood collectively.

I would encourage ACFE India and the audit fraternity to build a sustained programme of engagement beyond this conference such as joint capacity building, undertaking multi-disciplinary case studies, and structured dialogue as to how concerns should be escalated without compromising independence or confidentiality.

Ladies and gentlemen, I go back to my statement that the absence of fraud can never be guaranteed. But indifference to red flags, weak controls and fragmented professional responses are merely choices, but these must be changed. **India's Viksit Bharat 2047 vision requires capital and confidence/ trust in equal measure, built audit by audit, investigation by investigation, decision by decision.**

Together, the boards, audit fraternity, forensic professionals, regulators and professional institutions can build a high-quality financial ecosystem that is not only strong and efficient, but worthy of the confidence placed in it.

I congratulate the organisers once again and wish FraudCon 2026 every success. Thank you.