

Forensic Audit

Case Studies

Opportunities for CA

By
CA Vikas Kumar

Forensic Audit – An introduction

The word forensic comes from the Latin word *forēnsis*, meaning "of or before the forum." Means;

- Relating to, used in, or appropriate for courts of law or for public discussion or argumentation.
- Relating to the use of science or technology in the investigation and establishment of facts or evidence in a court of law.

The integration of accounting, auditing and investigative skills yields the specialty known as Forensic Audit.

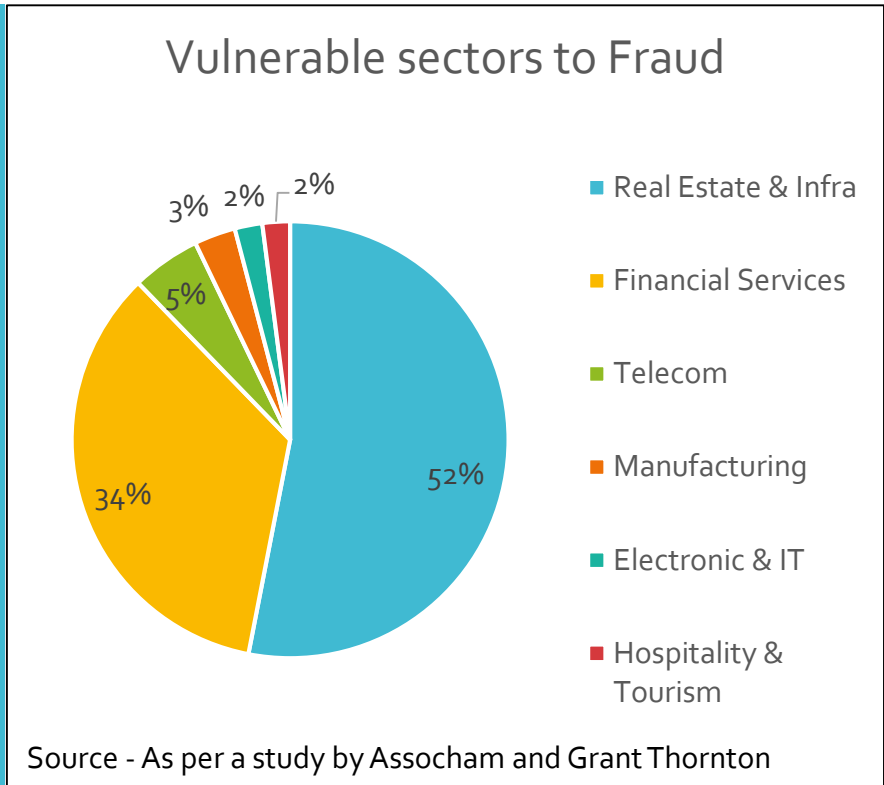
- ✓ study and interpretation of accounting evidence
- ✓ application of accounting methods to the tracking and collection of forensic evidence
- ✓ examination of documents and the interviewing of people to extract evidence
- ✓ for investigation and prosecution of criminal acts such as embezzlement or fraud



Forensic Audit – How different from Audit

Sr. No.	Particulars	Audit (Professional Skepticism)	Forensic Audit (Investigative mentality)
1	Objectives	Express an opinion as to 'True & Fair presentation.	Whether fraud has taken place.
2	Techniques	Substantive & Compliance. Sample based.	Investigative, substantive and in depth checking.
3	Period	Normally for a particular accounting period.	As agreed.
4	Verification of stock, estimation realizable value of assets, provisions, liability etc.	Relies on the Management certificate / Management Representation.	Independent verification of suspected / selected items where misappropriation is suspected.
5	Off balance sheet items (like contracts etc.)	Used to vouch the arithmetic accuracy & compliance with procedures.	Regulatory & propriety of these transactions / contracts are examined.
6	Adverse findings if any	Negative opinion or qualified opinion expressed with / without quantification.	Legal determination of fraud impact and identification of perpetrators depending on scope.

Why Fraud ?



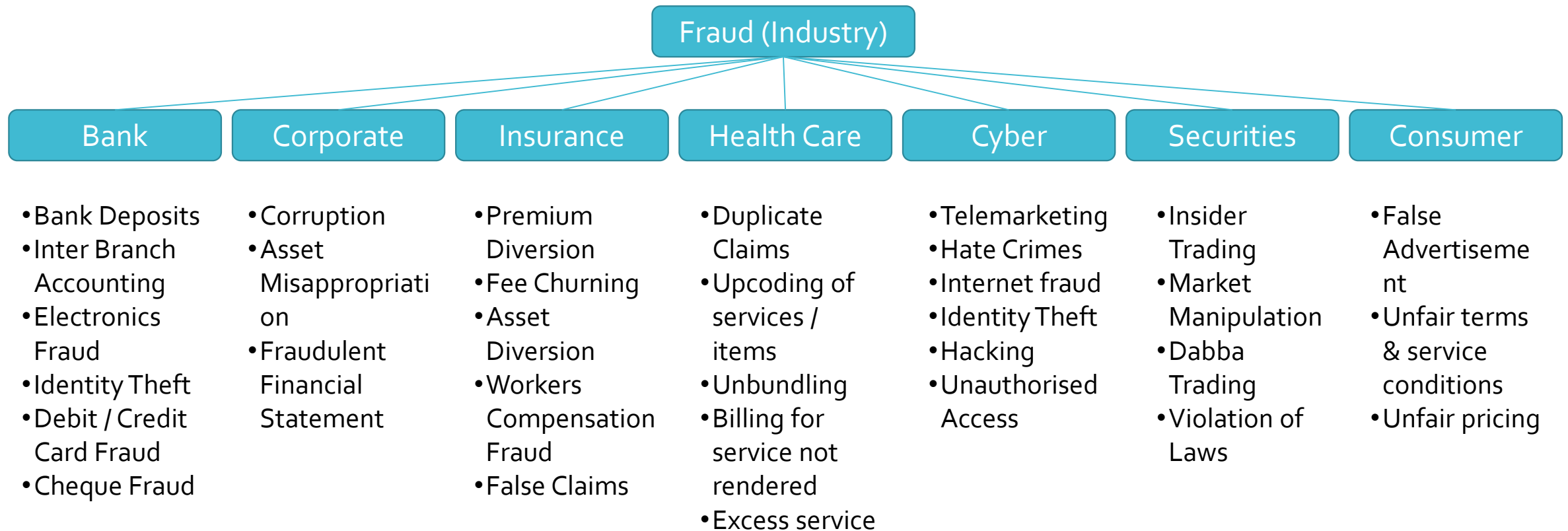
1. **Donald Cressey – Fraud Triangle** – Perceived Pressure, Perceived Opportunity & Rationalization.
2. **Wolf & Hermanson - Fraud Diamond** – Incentive, Opportunity, Rationalization & Capability.
3. **Crowe Horwath's – Fraud Pentagon** – Competence, Arrogance, Pressure. Opportunity, Rationalization.
4. **Steve Albrecht – Fraud Scale** - When situational pressures & perceived opportunities are high & personal integrity is low, occupational fraud is much more likely to happen than when the opposite is true. Perpetrators hard to profile & fraud difficult to predict.
5. **Fraud Circle** - fraud is Omni-present everywhere and wherever there will be money there will always be Frauds.
6. **Hollinger Clark Theory** - that everyone had a sense of their own worth, if they believe that they are not being fairly treated or adequately compensated, statistically the organization is at much higher risk of employee related frauds.

Theories

Fraud - Types

7 types of frauds according to Business Network's "Recognizing Fraud Indicators;"

- | | | | |
|--------------|-------------|---------------------------|------------------------|
| ✓ Embezzling | ✓ Stealing | ✓ Fictitious transactions | ✓ Conflict of interest |
| ✓ Bribes | ✓ Extortion | ✓ Kickbacks | |



Forensic Audit - Scope

A Forensic Auditor is often retained to **analyze, interpret, summarize and present complex financial** and business related issues in a manner which is both **understandable and properly supported**.
Forensic Accountants are trained to **look beyond the numbers** and deal with the **business reality of the situation**.

A Forensic Auditor is often involved in the following

Fraud Detection	Investigating and analyzing financial evidence, detecting financial frauds and tracing misappropriated funds.
Litigation Support	Assistance in obtaining necessary documentation, formulation of questions, review of testimony, review of the opposing expert's damages report and reporting on both the strengths and weaknesses of the positions taken, settlement discussion & negotiations, cross examination etc.
Computer Forensics	Developing computerized applications to assist in the recovery, analysis and presentation of financial evidence.
Fraud Prevention	Either reviewing internal controls to verify their adequacy or providing consultation in the development and implementation of an internal control framework aligned to an organization's risk profile.
Providing Expert Testimony	Assisting in legal proceedings, including testifying in court as an expert witness and preparing visual aids to support trial evidence.

Red Flag - Detection



Detection is, or ought to be, an exact science, and should be treated in the same cold and unemotional way.

Red Flags are sign or warning of any impending danger or inappropriate behaviour.

Financial Performance Red Flag

- Aggressive Goals and performance measures
- Unusual financial ratio in comparison to peers
- **Cash flow problem while profits are regularly reported**
- Similar audit adjustment yoy basis.

Accounting System Red Flag

- Unusual timing of the transaction
- Frequency of transaction.
- Unusual amount recorded
- **Questionable parties involved.**

Operational red flag

Do things run smoothly, minimizing the chance for errors and problems?
Are things managed in such a fashion that errors go unchecked and employees do whatever they want, whenever they want?

Behavioural Red Flag

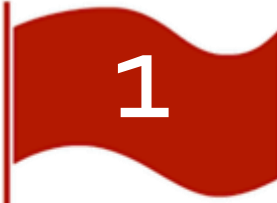
- **Living beyond means**
- Financial Difficulties
- Unusual close association with vendor / customer
- **Unwillingness to share duties**
- Wheeler Dealer attitude
- Irritability, suspiciousness etc.

Structural Red Flag

- Unmonitored Accounts
- Poorly supervised areas
- Size of transaction for added scrutiny
- Hiring procedures
- Advancement policies
- Disciplinary standards

Case Study 1

Background of Company	Textile Company engaged in Manufacturing of apparels
Type of Fraud	Financial mis-statement and siphoning of Funds
Persons Involved	Top Management of the Company
Fraudster's Methodology	Inflate sales, Inflate profits, Inflate stock figures, have higher borrowings from Banks and siphoning of funds through payments to shell companies



Inflated Sales

- ✓ Sales of the Company was higher than market leader in similar industry having pan India presence
 - ✓ Negligible Marketing and distribution cost
 - ✓ No arrangement with Transporters for distribution of products
-
- ✓ Improper Inventory Records
 - ✓ Inflated Stock figures
-
- ✓ Payment to Shell Companies
 - ✓ Huge purchases from local vendors with no track record

Case Study 1

Audit Methodology	Audit Result	Audit Result as per Forensic Audit
Verification of Sales process of the Company and ERP Controls	<ul style="list-style-type: none"> ✓ No Approved price list ✓ No ERP controls for booking of sales 	<ul style="list-style-type: none"> ✓ Booking of multiple sales entry on same day and time indicating bogus sales entries ✓ Using finance / marketing ERP id for booking sales / dispatch entry indicating that dispatches may be bogus ✓ Date and Time stamp of ERP entry on date other than actual dispatch date ✓ Repeated sales without receipt of payments / old dues indicating collusion between company and customer / dealers. May be paper companies.
Verification of Transport arrangements	<p>No Transport arrangement for delivery of products though company claimed to have pan India presence and inter-state sales / Transfers.</p>	<ul style="list-style-type: none"> ✓ Details of truck number not found on Delivery Challan ✓ Mismatch of Truck number as per invoice v/s Transporter's Monthly Bill ✓ No entry of trucks in Manual register maintained at the site indicating that no actual dispatches are made ✓ Truck number not matching with RTO website

Case Study 1

Audit Methodology	Audit Result	Audit Result as per Forensic Audit
Verification of KYC of Debtors	<ul style="list-style-type: none"> ✓ No KYC documents with the Company ✓ No process for fixing credit limit of the company ✓ Negative D&B Reports of export customers 	<ul style="list-style-type: none"> ✓ KYC obtained from public domain indicating that party is related with management of the company ✓ Surprise visit made indicated that sales parties are not operating from premises mentioned as per Sales invoice/ Delivery challans ✓ Financials of the Debtor company indicated that they didn't have resources to carry out such transactions.
Verification of KYC of Creditors	<ul style="list-style-type: none"> ✓ No KYC records maintained by the company 	<ul style="list-style-type: none"> ✓ Information's obtained from public domain indicated that Vendors belong to same group companies / debtors and are related with the promoter of the company. ✓ Visit to addresses of Vendors indicated that these are residential flats having no business activity. ✓ Audited Financials of the Vendors indicated mis-match of figures as per Vendor company vis a vis as reported by the company ✓ Few Vendors found on Hawala list of Vendors published by state sales tax authorities

Case Study 1

Audit Methodology	Audit Result	Audit Result as per Forensic Audit
Verification of Purchase process of the Company and ERP Controls	<ul style="list-style-type: none"> ✓ Absence of authorised purchase and vendor evaluation policy ✓ Absence of ID driven ERP controls ✓ No Inward register maintained at the sites ✓ High level of stock still purchases are made locally 	<ul style="list-style-type: none"> ✓ ERP records indicated that these purchases are recorded from same ERP id on same date and time indicating fictitious purchases ✓ No check-post stamp found on inter state purchases ✓ No Truck number found on Delivery Challans in most of the instances ✓ No entry found in Inward register for truck numbers found in Delivery Challan indicating bogus purchases ✓ Payment to creditors were made much earlier than payments received from Debtors
Verification of Statutory Records	<p>Huge Variance in figures reported as per cost audit report and as per income tax audit reports and as per VAT and Excise returns</p>	<ul style="list-style-type: none"> ✓ Reporting of trading sales as per VAT returns and Excise Returns as manufacturing sales in Financial statements / statements submitted to banks indicated fictitious sales.

Case Study 1

Audit Methodology	Audit Result	Audit Result as per Forensic Audit
Verification of Inventory Records	<ul style="list-style-type: none">✓ Absence of proper stock records✓ Absence of classification of stock in slow and non-moving stock	<ul style="list-style-type: none">✓ Purchase of stock though having unutilized opening stock indicates stock records are fictitious / bogus purchases✓ No Stock found on physical verification of stock✓ Stock shown at godowns not belonging to the company indicating fraudulent inventory records✓ Inventory not stacked properly to avoid physical verification of stock indicating mala fide intentions
Verification of Standard consumption	<ul style="list-style-type: none">✓ Incorrect standard consumption reported by the company as against consumption figures reported by the competitors✓ Trading sale reported by the company but not reflected in cost records	<ul style="list-style-type: none">✓ Company had indicated high standard consumption and wastages of Raw material stock.✓ Verification of records of competitors in similar industry revealed that actual consumption is very low.✓ Company has justified huge purchases with the help of higher standard consumption claimed

Case Study 2

Audit Methodology to find out Linked Parties

- ✓ Find out the **entities which are having heavy transactions** with the reporting Company in terms of sales, purchases, loans and advances given/taken, balances etc.
- ✓ In case employee list along with TDS deducted is not provided by the Company, we can directly validate the same from EPFO website.
- ✓ From the **MCA web site**, obtain the names of the **directors/partners of the selected Companies/LLP** and also obtain listing of directorships for each of the directors/partners to ascertain if there is **any common director** between company, vendor / customer and whether **any linkages can be established**
- ✓ Also needs to check if any of the **employees** of the company are also **director / shareholders / partner of such companies / LLPs**. For this validation of the employee database of the reporting Company with the directors of the transacting entities has to be done.
- ✓ EPFO Website - Perform **establishment search**. Search by name. Search with M/s before the name and without M/s before the name.



Case Study 2

Audit Methodology to find out Linked Parties

- ✓ EPFO Website - On display of results, click on the payment icon. On clicking this, the payments made by the Company on a monthly basis will be displayed with the date of payment, amount and number of beneficiaries.
- ✓ EPFO Website - Click on the number of beneficiaries. It will open the list of employee names. Save them separately and perform search on the same using the list of directors of transacting entities. Once the names are matching, the preliminary validation is done.
- ✓ If **DIN application** is downloaded, we can find various details like **PAN, address etc.** If DIN application is not downloaded, with the available details, we can go to **Find your PAN link and find out the PAN.**
- ✓ Once Preliminary validations are done - Go to MCA web site and click on **DIN/PAN verification** and put the DIN in the field. This will return the name of the person, father's name and date of birth. Keep this details ready and input the details in this page for DIN application



<http://www.mca.gov.in/DCAFODINPortal/dca/MyMCALogin.do?method=setDefaultProperty&mode=34>

Case Study 2

Audit Methodology to find out Linked Parties

- ✓ Find out the **Company TAN**. Go to know your tax credit page in the TRACES web site. Input the director's PAN and Company's TAN and select financial year, Quarter and select salary and click. This will display whether TDS is deducted by the Company on the directors of transacting companies for salary. If deductee records are found, this will establish the link.
- ✓ In case the transacting entities are not Companies, a perusal of KYC documents with the declared relatives list will help in arriving at the relationship. For this, we need the VAT registration, Partnership deed, etc. and the declaration given by the directors of the reporting company.
- ✓ Further, the **family tree** of the main promoter will help in establishing the linkages - Downloading the shareholder details of the transacting Companies and matching them with the names of family members and their addresses will establish that the family members/group Companies of main promoter are holding substantial shares in transacting Companies.
- ✓ **Election Roll** - In case the family tree is not readily available, search the name of the main promoter with the word "electoral roll". This will download the draft electoral roll relating to the address of the main promoters. Search on the surname and find out other family members with the relationship.



Case Study 3 – Financial Mis Statement indicators

Inflating Financial Performance

Inflating Sales

- ✓ Dummy Sales specially High Seas Sales, Circular trading
- ✓ Related party sales & purchases
- ✓ Sales & Leaseback transactions - No ownership of assets
- ✓ Over-booking year end sales.

Inflating profits

- ✓ Under booking expenses,
- ✓ Booking of unrelated income,
- ✓ Inappropriate provisions.

Funds Manipulations

- ✓ Loans/Advances given to associate companies, related parties
- ✓ Investments in overseas acquisitions.
- ✓ Loans against pledge of company shares
- ✓ High Loans and Advances without movements
- ✓ Investments in unrelated ventures / companies, share application money
- ✓ Software inventory

- ✓ Accounting polices intended to increase financial position in short term – Percentage completion method including land value, depreciation, etc.
- ✓ Creating tangible value in the Financial Statement **only** through Non provisioning significant potential/actual liabilities. Non providing for bad debts, discounts.

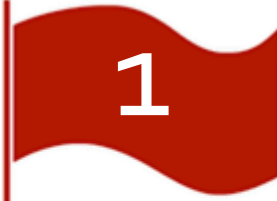
Credit Risk Analysis – Project Financing

Weak Documentation

- ✓ **Absence** of a proper **fixed assets register**.
- ✓ Usage of **old/scrap assets** on Modernization/Expansion but **shown as new assets**.
- ✓ **Purchase** of surrounding Land from related parties at **high prices**.
- ✓ Use of **stores & consumables and high value spares** in modernization / expansion and shown as **new assets**.
- ✓ **Capitalization of Administrative and other overheads** especially in case of **delayed projects**.
- ✓ **Improper capacity augmentations**. Composite capacity details mentioned rather than individual capacity. No installed capacity disclosed.
- ✓ **Lack of planned activity** chart. Only broad timelines rather than comprehensive activity chart.
- ✓ **Absence of detailed disbursement chart** making it easier for the Company to get funds disbursed for advances etc.
- ✓ **Project cost escalations without basis**
- ✓ **Weak** project management **teams/promoters background**.
- ✓ **Absence** of information on **statutory compliances**.
- ✓ **Lack of comparison** with national and international benchmarks

Case Study 4

Background of Company	Company engaged in Shipping Industry
Type of Fraud	Diversion of Funds
Persons Involved	Top Management of the Company
Fraudster's Methodology	Inflate Project Cost Figures, Trading transactions



Inflated Project Cost

- ✓ Company has shown disproportionate cost on Specific Project for which loan was sanctioned as compared to Physical growth of the Project.



Poor Vendor selection

- ✓ Vendor selected for Major Civil work without track record / technical evaluation
- ✓ Major Vendor was not named in LIE report submitted to the Banks at the time of Project Financing



No Records maintained

- ✓ No Records maintained indicating physical progress of the Project

Case Study 4

Audit Methodology	Audit Result	Audit Result as per Forensic Audit
Verification of Major Project cost and Vendor selection Process	Company had shown disproportionate cost on Project for which loan was disbursed as against physical growth of the Project	<ul style="list-style-type: none">✓ Poor Vendor selection was noticed. Major Civil work contract was given to linked party (not disclosed by the company) having no track records / technical capabilities✓ Linked party who was conducting civil work was also found to be customer of shipping company.✓ No progress report being maintained for work done by the contractor viz quality of steel used, thickness of steel used, quality of other materials used by the vendor weekly progress report etc. indicating mismatch in actual work carried out✓ No attendance records maintained at project site indicating mismatch in work done by contractor / vendors vis a vis shown by the company.

Case Study 4

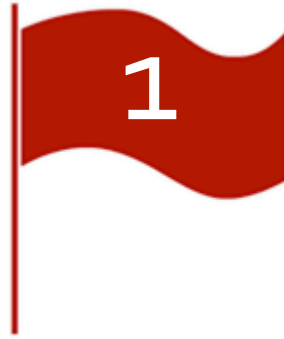
Audit Methodology	Audit Result	Audit Result as per Forensic Audit
Review of Major Capital advances	<ul style="list-style-type: none">✓ No progress report available for progress of project for which Capital Advances are made✓ No progress report available on status of project though capex advances are given long back	<ul style="list-style-type: none">✓ Company has given major capital advances to various companies for capex purchases✓ MCA record shows that major party to whom advance was given was linked party though not disclosed by the company✓ Such linked party was newly established and had no track record to carry out capex work✓ For other capex advances, Independent Balance confirmation activity revealed that no party exists at the address or balance mis-matches✓ Instances were also observed that advances were given for certain rights. On review of information and audited financials available from public domain, it was found that company had no such assets.✓ No litigations filed by company for non-delivery of capex materials

Case Study 4

Audit Methodology	Audit Result	Audit Result as per Forensic Audit
Review of Trading Sales and purchases reported by shipping company	No Delivery challan, no Transporters invoices found	<ul style="list-style-type: none">✓ Trading purchase and sales parties also found in hawala party list as per Maharashtra sales tax web site✓ No documentary evidences found for movement of goods✓ No KYC documents found available with the company.✓ MCA records revealed that these trading sales and purchases are from same group companies indicating circular trading✓ Surprise visits to these addresses revealed that no business carried out from those addresses

Case Study 5

Background of Company	Toshiba Corp. Accounting Scandal (140 year old electronics conglomerate having head office in Japan)
Type of Fraud	Profits are overstated by USD 1.2 Billion between 2008 to 2014. Numbers were up to 3 times the actual numbers.
Persons Involved	Top Management of the Company
Fraudster's Methodology	Understatement of cost on Long Term Projects and Over Valuation of Inventory and over invoicing resulting into over statement of profit



Preliminary Assessment

Understand Background of the Company, various products of the market scenarios during audit period

- ✓ Aggressive Targets Set by the Company's top management
- ✓ Strong Sales and profits even during 2008 Global Recession
- ✓ Company culture that top management decision cannot be challenged indicates possibility of fraud driven by Top Management

Audit Methodology

Trend analysis, internal audit findings, process gaps, missing links from interview of employees including those who may have left the organization

Case Study 5



2

Company had outsourced manufacturing of computers to a partner. Company would buy back computers from partners once assembled by them. In order to inflate profits, company has oversold parts to the partner.

Audit Methodology

- ✓ Verifying ERP ids used for booking of sales and date and time of sales. ERP IDs of Finance / Marketing person used for booking sales may indicate bogus sales. Date and time will also help to unearth bogus entries such as Multiple sales entry during month end, during mid-night hours, on Sundays.
- ✓ Diligent review of repeated sales by company even though old dues are not received.
- ✓ Verify KYC and audited financial available from public domain of the partner to ensure that sales to single partner company is in-line with its size and Financial strength
- ✓ Trend analysis of number of parts sold to partner v/s number of computers sold by the company and past history

Case Study 5



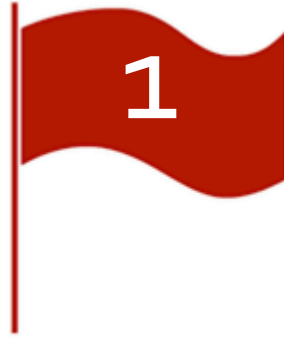
Company's Infrastructure division had purposefully understated costs of projects even though real costs are high.

Audit Methodology

- ✓ Review of inward and outward registers vis a vis receipts of materials as reported in accounting system
- ✓ Absence of real time entry of receipt of materials or absence of manual inward register will indicate major gap
- ✓ Monitoring of Various Capex projects with regards to mile stones fixed and actual physical progress report.
- ✓ Total Budgeted cost v/s actual cost monitoring
- ✓ Actual progress report along with test reports on quality of materials used
- ✓ Payments shown as advances

Case Study 6

Background of Company	Reebok Group Scandal (Renowned Athletic Footwear and apparel company's Indian Division)
Type of Fraud	Account misstatement and Cash loss to the company. Appx. Rs. 870 Crores
Persons Involved	Top Executives of the Company
Fraudster's Methodology	Booking fictitious invoices to inflate sales and profits, Secret warehouse transfer for siphoning of funds



Preliminary Assessment

- ✓ Employee lifestyle changes; expensive cards, jewellery, homes, clothes
- ✓ Refusal to take leave or sick leave
- ✓ Lack of segregation of duties in vulnerable area
- ✓ Management decisions are dominated by few individuals
- ✓ Weak internal control environment

Audit Methodology

Monitoring of Sales and despatch process, vendor / party evaluations, evaluation of suppliers.

Case Study 6



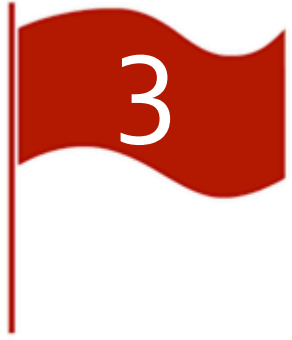
2

Company has billed materials but were not despatched and sold later on to other parties and cash from such sales was retained by top executive of the company. These products were stored in secret warehouse (owned by companies belonging to top executive of the company) till the time the same was finally despatched.

Audit Methodology

- ✓ To verify mechanism for real time entry for dispatch of materials. Absence of real time mechanism to book dispatches or absence of manual outward register may indicate potential fraud
- ✓ Critical study of delivery documents such as delivery challan, transporter's invoice, check post stamps on inter state sales, confirmation from customers indicating delivery of materials
- ✓ Review of payment history of customers and direct inquiry for delayed payments. Inquiry on repeated sales when no payments are received against earlier dispatches will also reveal details relating to potential fraud

Case Study 6



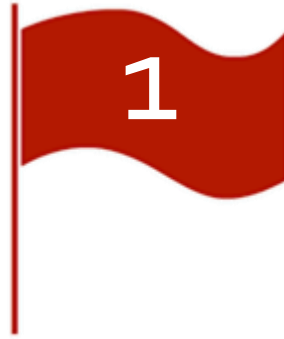
Non-accounting of sales return and storing them In secret warehouse and circular Trading

Audit Methodology

- ✓ Independent balance confirmations (including transaction confirmations) from the parties
- ✓ Diligent review of non-payments including surprise visits to various dealers and customers
- ✓ Verification of KYC and audited financials of customers / dealers as available in public domain to identify if parties are related with company / officials of the company and whether they have financial strength

Case Study 7

Background of Company	Tool Manufacturing Co. (Produces tools and cutting disks based in India.)
Type of Fraud	Diversion of Funds
Persons Involved	Top Executive of Company. Concealed from owners (MNC)
Fraudster's Methodology	Manipulation with the bank statements to conceal siphoning of funds. Same Personnel to authorise Purchase orders and effecting bank payments . Export refunds not accounted for.



Preliminary Assessment

- ✓ **No segregation of duties and excessive powers to single person**

Audit Methodology:

- ✓ The delegation of power needs to be checked based on the principles of segregation of duties and conflict of Interests.
- ✓ To identify potential risk due to lack of segregation of duties / controls and audit of potential risk areas.

Case Study 7



2

Different payee as per Bank Book and Bank statement resulted into diversion of Funds – Company had paid into personal account of CFO and his relatives and booked such payments as paid to vendors (fictitious and other invoices). The Bank statement downloaded from bank sites modified through PDF writer and kept in record for audit.

Audit Methodology:

- ✓ Legitimate bank statements needs to be obtained and name of payee appearing in the same needs to be cross verified with name of payee as per Bank Book.
- ✓ Bank statements in original should be obtained or should be downloaded in front of auditors.

Case Study 7



3

Refund received from Excise not Accounted for – A payment matching with refund amount was made and debit and credit entry appearing in bank statement was treated as contra entries.

Audit Methodology:

- ✓ Correspondence from departments needs to be reviewed along with the returns submitted by the company. Such returns should be downloaded by auditors directly from the official website.
- ✓ Auditors can also perform Forensic tests on documents provided to check for alteration, reasonableness and genuineness

Case Study 7



Booking of Import Purchases deferred to book foreign exchange losses to divert funds/ actual profits

Audit Methodology:

- ✓ Booking of import purchases needs to be cross verified with material receipt documents not only to match the amount but also to verify date of booking of Imports / Purchases and to justify the losses booked.
- ✓ Auditor can also use space-time dimensional technique for data evaluation. Repeated delays in recording of similar type of Purchases (imports) transactions and booking for exchange losses with out any effort to hedge foreign exchange exposure would help forensic auditors in arriving at conclusion.

Case Study 7



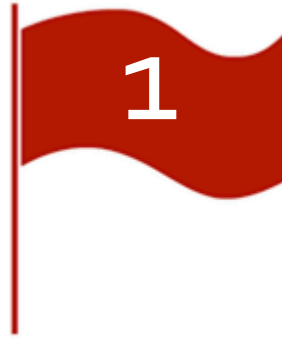
Purchases not routed through Purchase register but was routed through Journal Vouchers and thus was not selected in audit samples. Payments for purchases booked through JV were diverted to personal accounts. The difference between purchase register and purchases as per profit and loss account explained as purchase expenses i.e. freight, custom, brokerage etc.

Audit Methodology:

- ✓ Purchases claimed in profit and loss account needs to be cross verified by purchase register and reconciliation needs to be examined by auditors diligently.
- ✓ USFRD testing method is best suited to identify source of purchases from financial statement presented to auditors and to perform substantive testing from deviations found.

Case Study 8

Background of Company	One of the Private Bank in India
Type of Fraud	Diversion of fund
Persons Involved	Employee of the Bank
Fraudster's Methodology	Fraudster (branch employee) was given employee card by the Bank to deal with its customers Fraudster manipulated SEBI Circular and asked customers to deposit investment amount in its Bank account owned by him disguised as Banks Account for Investments



Preliminary Indicators:-

NIL

Audit Methodology:

Review of various accounts maintained with banks to identify reasons for sharp increase / movement in deposit amounts

Case Study 8

2

Employee of the Private Bank convinced customers of banks to Invest in bogus Scheme having high returns. Employee gave his own bank account number to customers in pretext of Bank's Account number. Employee also generated forged bank slips and statements to duped customers.

Employee had received call from Bank to sought clarification on sudden increase in account balance, on which employee satisfied the caller saying that he has received amount on big property deal.

Audit Methodology

- ✓ To monitor sharp increase in deposit amount in any single bank account and identify reasons and obtain supporting documents thereof.
- ✓ Since Normal auditing technique would fail in such case, Forensic auditing technique such as tests of reasonableness / test of absurdity can be applied by the caller / Forensic auditor to identify such fraud case such as probing reason why deposit of amount in bank account from more than one source is coming whereas property deal would be executed with one party etc. can lead to desired approach.

Opportunities for CA

- ✓ Typical situations where the audit findings have revealed certain anomalies and there is a suspicion of fraud or error.
- ✓ This kind of assignment is a regular investigation and needs no elaboration
- ✓ Such investigations could cover cash embezzlements, asset losses, revenue leakages through inflated or replicated invoices, suppression of income, inflation of liabilities, deflation of receivables and the list could go on and on.



- ✓ Investigations in respect of violations under any provision under the Income Tax Act, Companies Act.
- ✓ Police, CBI, CID and the Economic Offences wing could need service
- ✓ Such services could include determination of claims from investors of all kinds, assessment of funds lost or misappropriated, non-compliance of prescribed procedures, bank frauds and any other economic offence where knowledge of accounting, record-keeping and relevant applicable laws could be useful.

Opportunities for CA

- ✓ Insider - manipulate funds, loans, and apply teeming and lading between favored accounts.
- ✓ Outsider - furnishing fabricated, duplicated or altered demand drafts, cheques, bills of exchange, and other negotiable instruments
- ✓ Inflating inventories or providing substandard or spurious stocks with little or no value.
- ✓ Pre facility audits to ensure that funds are going into safe and reliable hands



- ✓ New or untested financing schemes.
- ✓ Pre disbursement checks
- ✓ Fraud Investigation and Risk / Control Reviews

Opportunities for CA

- ✓ Loss of stocks and loss of profits of large values, particularly exceeding Rs 5 crores are usually surveyed in detail by most insurance companies.
- ✓ Loss valuers
- ✓ Arbitrators
- ✓ Empanelment as forensic expert for claims
- ✓ Allied services



- ✓ Compliance to specific guidelines or directives for use of fund.
- ✓ End use of funds.
- ✓ Cases relating to professional negligence.
- ✓ Arbitration service
- ✓ Dispute settlement

Opportunities for CA

- ✓ Fraud prevention, deterrence and detective measures.
- ✓ Build more stringent internal controls to prevent chances of fraud
- ✓ Implementing strict policy for punishment and zero tolerance attitude
- ✓ Keep some indicators so as to raise red flags
- ✓ Helping Frame Ethics and Whistle blowing Policies



- ✓ Conducting Zero fraud tolerance training programs.
- ✓ Training for basic data analysis to detect indications of fraud
- ✓ Working with Universities offering degrees in forensics to develop research material and participating as faculty in areas of financial forensics.
- ✓ Partnering with NASSCOM to establish testing and compliance standards for IT firms engaged in software development as well for the outsourcing industry.

Disclaimer

- ✓ Information's presented in this case study are sourced from new media and other information's available from public domain. Since the case scenario being build merely for academic purpose, it may include fictional situations created for better presentation purpose and no hence no liability is assumed for information's and figures reported in this presentation.
- ✓ Cases quoted in this presentation are only for academic research purpose for private study group and should not be referred or copied by any party for any other purpose.
- ✓ Case study includes hypothetical scenarios.

Any Questions

Thank You