

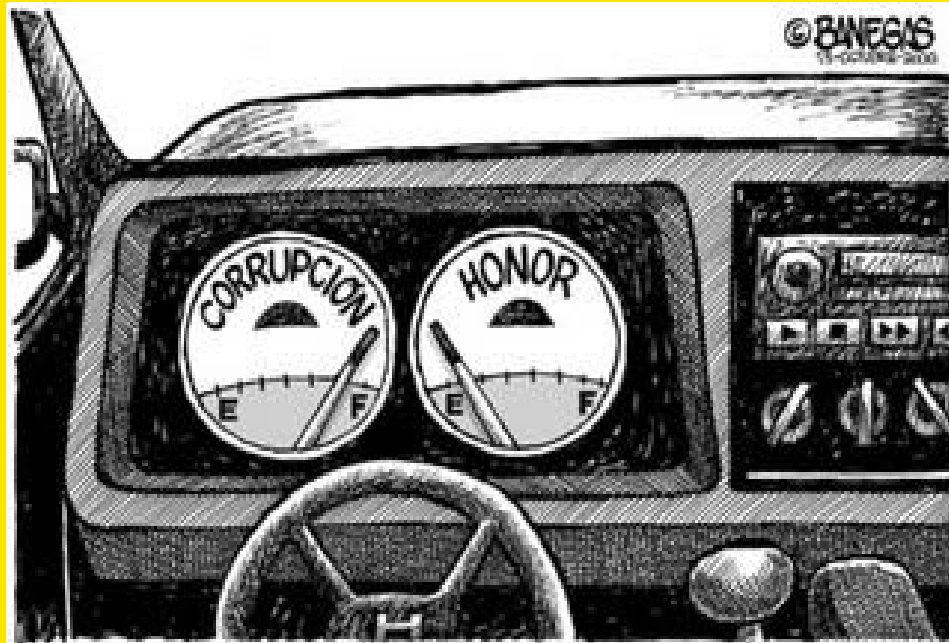
Case Studies

Fraud, Interviewing and Field Investigations

WIRC Seminar on Fraud & Forensic Accounting

March 11, 2017

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FRAUD-O-METER



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To note

- Some of the Information in this document has been collated from various sources from the public domain.
- This document has been prepared only for discussion purpose and should not be circulated or used for commercial purposes. The document should also not be construed as opinion provided /suggestions given for any particular situation.
- Reasonable effort has been made to ensure that the information provided in this document is current. Speaker however does not accept any liability that may arise due to reliance placed on this document without the written consent of the speaker
- Case studies / exhibits / examples are adaptations of real-life situation, any resemblance is purely for academic purposes, not for commercial purposes. Case studies discussed in the seminar are *imaginary* and at no point is there any direct or indirect implication of fraud in or by any entity referred to anywhere

Some rules

- No MBP, it is LBP
- Cell phones, discussions, breaks, tea-coffee



Setting the context

What is a red flag?

- § For participants to discuss
- § Illustrations will be shared and discussed
- § Slide left blank to take notes



Discussions for participants

Case study for participants (1 of 2)

Objective

- § Read the case, identify issues that should be investigated and develop worksteps

Time: 15 minutes to read, 15 minutes to share inputs

Background

- § Mr. Jaya Raman, a general counsel at Dabhoi Chains LLP (DC) has approached you about a problem that has emerged at its parts' manufacturing entity, Kenya Parts (KP).
- § DC is headquartered in India and has operations across 13 countries globally.
- § In 2014, DC formed a 50% JV called KP with Mr. Kumar, a Kenyan businessman. Mr. Kumar is an influential millionaire, especially in political circles, and is said to have made a fortune from his real estate business and other ventures
- § DC has received an anonymous letter on Friday evening containing allegations that Mr. Kumar, conducted has gained personal benefit through improper activities at KP. No documentation is provided by the whistle-blower

Case study for participants (2 of 2)

- § Mr. Raman wants to engage you to conduct an investigation into whistle-blowing allegations at KP.
- § Mr. Raman summarized the allegations as below:
 1. Mr. Kumar sold company assets to influential friends at throwaway prices – possibly a quid pro quo arrangement for approvals in real estate business
 2. Related entities of Mr. Kumar hired @ KP as suppliers and procurement of materials from such entities at inflated prices
 3. Quality products categorized as scrap and sold to a related entity of Mr. Kumar, which is into compete business
 4. Personal expenses of Mr. Kumar and family classified as business promotion expenses

Objective: Read the case, identify issues that should be investigated and develop worksteps to investigate



Commonly observed challenges

Challenges to look out for

- § Analyzing the allegations / issues and deciding whether investigation is warranted
- § Meeting whistle-blower:
- § Reliability of the information of WB
- § Stakeholders to be roped in for the investigation (External Lawyers, Investigating Agency, In-house Legal Counsel etc.)
- § Defining the scope
- § Deciding on the ONE POINT OF CONTACT and person LEADING the investigation
- § Communication protocol
- § Maintaining PRIVILEGE
- § Timing and extent of DISCLOSURE
- § Site visits, fieldwork
- § Reliance on documentation
- § Information / documents stored at third party locations

Data preservation

Considerations in the issue of a Document / Information hold notice

Offices to be covered



Period to be covered



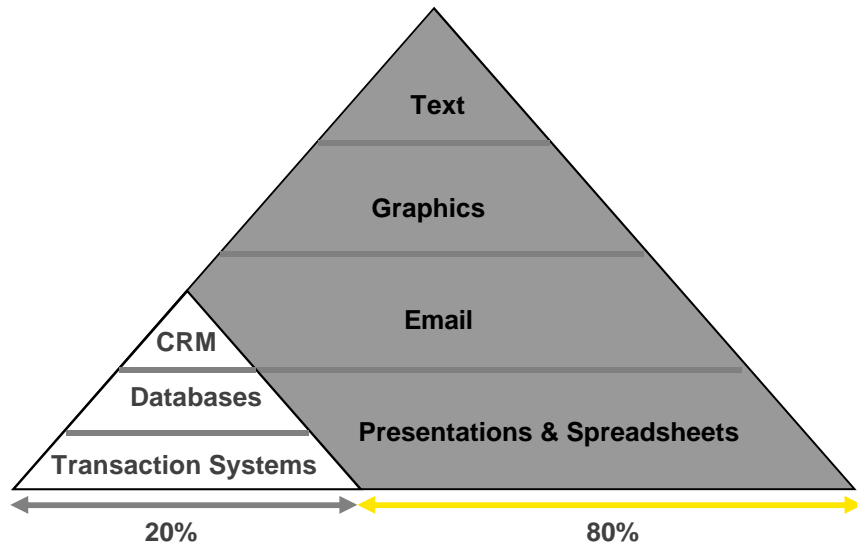
Employees to be covered



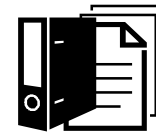
Chain of Custody of data



Data sources in today's organization



Databases and Archives



Transaction Records



Contracts and Agreements



Desktops



Laptops



Tablets and Phones



Storage Devices

First 48 hours of an investigation

- § Participants to share experiences
- § Slide left blank to take notes

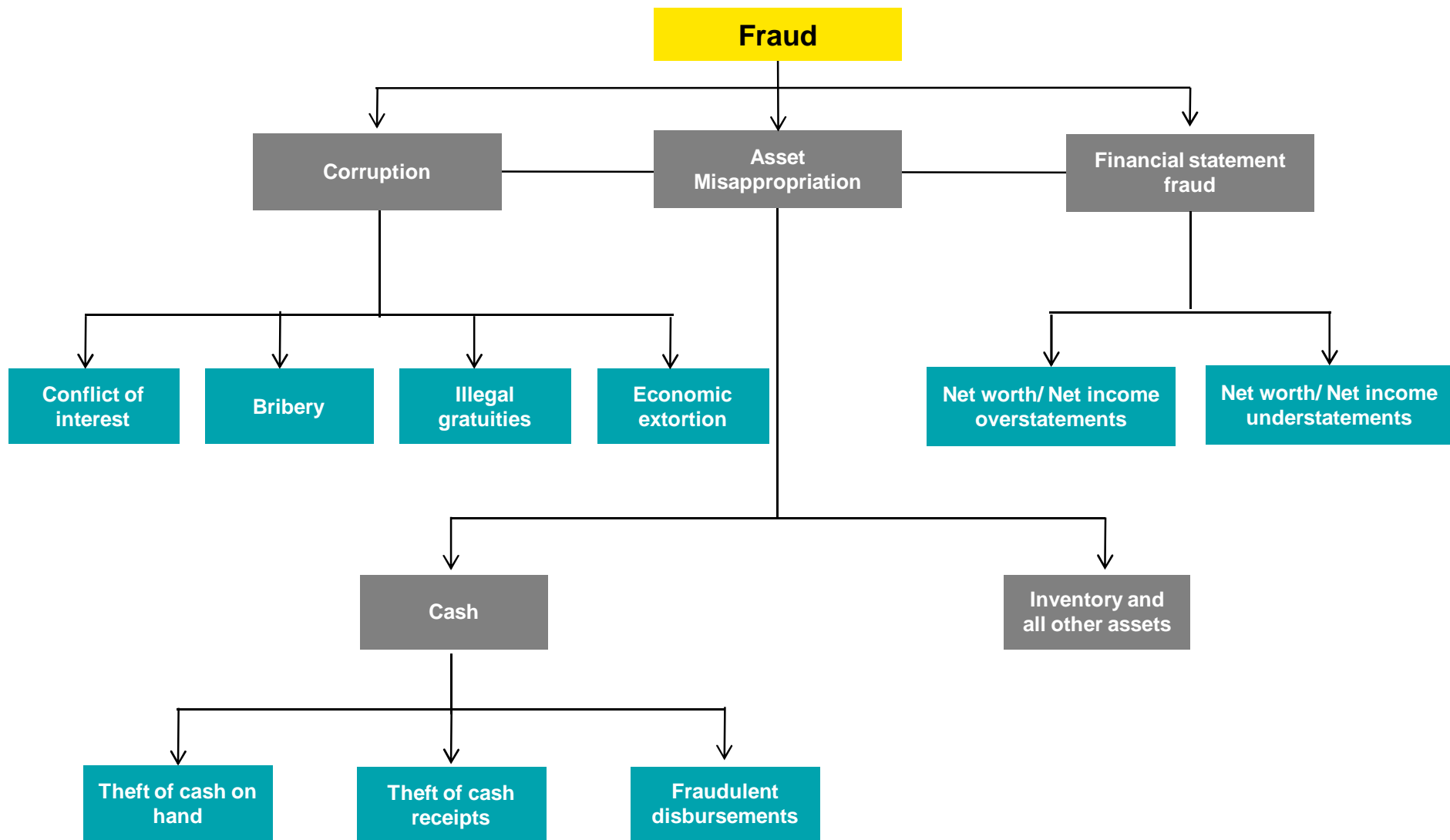


Recent trends

Journey from triangle to diamond

§ Slide left blank to take notes

Do you know which branch of the tree to focus?



Evolution of fraud over the years



Fraud trends

Position



Owner/ Executive

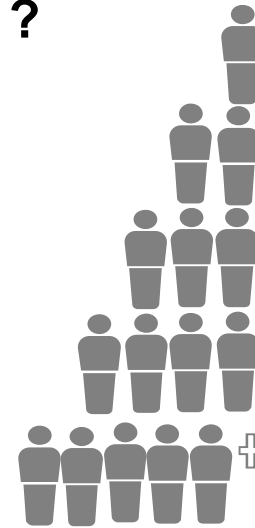


Manager



Employee

Join hands ?



\$ 65,000

\$ 150,000

\$ 220,000

\$ 294,000

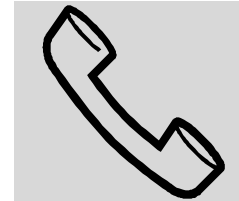
\$ 633,000



VICTIM ORGANIZATIONS THAT **LACKED ANTI-FRAUD CONTROLS** SUFFERED GREATER MEDIAN LOSSES—**IN FACT TWICE AS MUCH**



Line vyast hai? Possibility of fraud detection



With Hotline



Without Hotline

Between 2011 and 2016 SEC has awarded US \$111 million to the whistle blowers of which US \$94 million were awarded in 2015 and 2016 itself

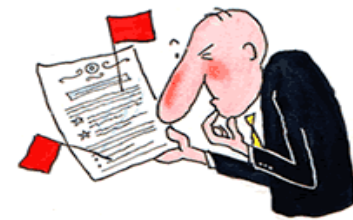
Trends

- § Early warning signals
- § Proactive monitoring
- § Use of technology
- § Artificial intelligence



Red flags and Case studies

Red flags to look out for



Commonly observed flags

- § Tips or complaints from employees or outsiders
- § Employees being dishonest with current or previous employers.
- § Theft or loss of files/data
- § High employee turnover
- § Google searches indicate something 'fishy'

Behavioral flags

- § No vacations taken ever
- § Help to support rejected !!
- § Custodian of data is over-protective
- § Sudden changes in lifestyle, such as increased drinking or partying or million \$ purchases
- § Employees with a huge personal obligation or expensive hobbies

Accounting Flags

- § Too rosy numbers v/s overall industry performance
- § Acquiring a non-core entity
- § Company is having cash flow issues
- § Non submission of records to regulators.
- § Delayed filing of returns, submissions to exchange boards
- § Unexplained inventory shortages or adjustments.
- § Unreconciled accounts/balances ('suspense accounts')
- § Unexplained end-of-period adjusting entries.
- § Financial statement trends/ratios do not make sense.
- § Related-party assets on the financial statements.
- § Suspicious journal entries

Other red flags

Case studies

- § Case studies shall be discussed
- § Slide left blank for taking notes during the session

Case studies

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Q&A



Thank you

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