



**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

**DIGITAL ACCOUNTING AND ASSURANCE BOARD**

**AND**

**WESTERN INDIA REGIONAL COUNCIL**



**AN INTRODUCTION TO**

**THE ICAI**

**FORENSIC ACCOUNTING AND INVESTIGATION  
STANDARDS**

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# A Small Caveat – before we start!

- While I'm officially an advisor to the ICAI, and working on the FAIS project, I'm not making this presentation in any official capacity.
- The content is a combination of Official literature and personal material.
- All views I express here are in my personal capacity, and I take full responsibility for their accuracy.

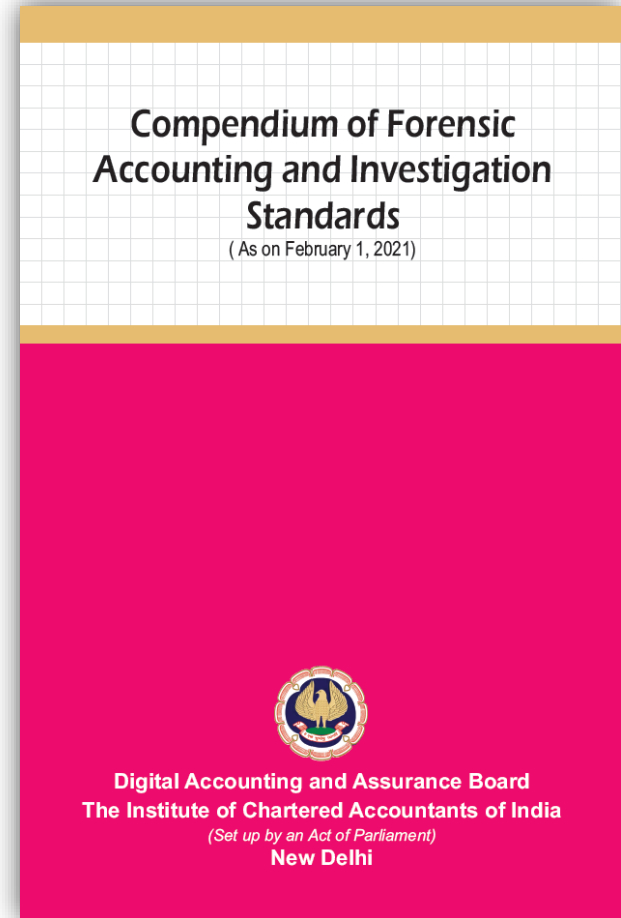
# A Small Assumption!

- Being a “Refresher Course”, there is an assumption being made that most of the participants have some number of years of experience in the twin domains of Forensic Accounting and Investigations.
- Hence the fundamentals and basic concepts will NOT be covered in detail



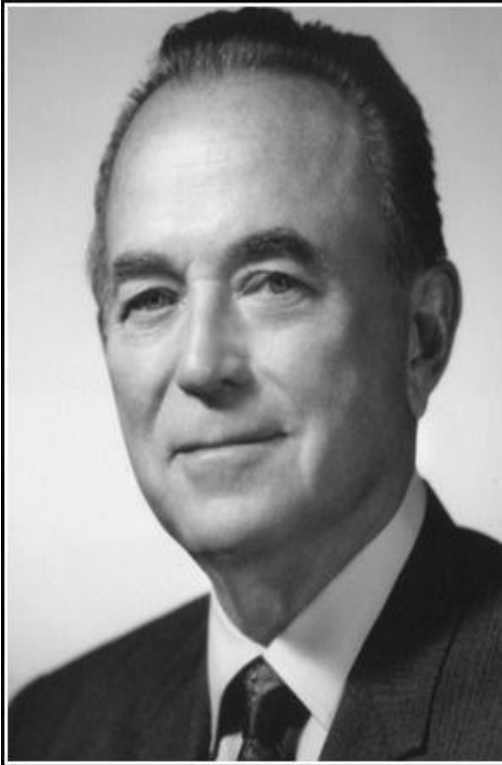
# Points of Discussion

1. Brief Background
2. FAIS Objectives
3. Status Update
4. Over-Arching Documents
  - Preface
  - Framework
  - Basic Principles
5. Overview of the Standards
6. Next Steps





# Key Objectives



The quality of a leader is reflected in  
the standards they set for  
themselves.

— *Ray Kroc* —

AZ QUOTES



# A Fundamental Change in Thought – before we start!

- An AUDIT is NOT the same as
  - A Forensic Accounting Assignment, or
  - A Fraud Investigation
- Hence FORENSIC AUDIT is a MISNOMER (Misleading Term)!
- Audits generally culminate with the expression of an Independent Opinion, which is not the case with Forensic Accounting and Investigations,
- These culminate with the reporting of Evidence Discovered. And, at most, Conclusions of any analysis work on evidence discovered.



# Reminder – Fraud definition

Definition of fraud as per Section 447 (1) Companies Act 2013

(j) “Fraud” in relation to affairs of a company or anybody corporate, includes

- any act, omission, concealment of any fact or abuse of position
- committed by any person or any other person with the connivance in any manner,
- with **intent to deceive**, to gain undue advantage from, or to injure
- the interests of, the company or its shareholders or its creditors or any other person,
- whether or not there is any wrongful gain or wrongful loss.

*(ii) “wrongful gain” means the gain by unlawful means of property to which the person gaining is not legally entitled;*

*(iii) “wrongful loss” means the loss by unlawful means of property to which the person losing is legally entitled.*



# Brief Background for FAIS

- ▶ Increasing number of Frauds and Irregularities
- ▶ Forensic “Audits” – become favoured means to unearth Financial Statement Irregularities
- ▶ Need felt at ICAI for Comprehensive set of Forensic Standards
- ▶ In July/August 2020, DAAB explores the possibility of drafting and issuing  
Forensic Accounting and Investigations Standards (FAIS)
- ▶ ICAI Council accepts proposal of the DAAB to issue mandatory Standards in this area, in order to:
  - ▶ Standardise/harmonise the process of conducting these assignments
  - ▶ Address the need to discover evidences subject to high level of scrutiny in a court of law
  - ▶ Develop ICAI Intellectual Property – only accounting body to do so
  - ▶ Capacity Building of Members (provide FAI service to Government and Law Enforcement Agencies)

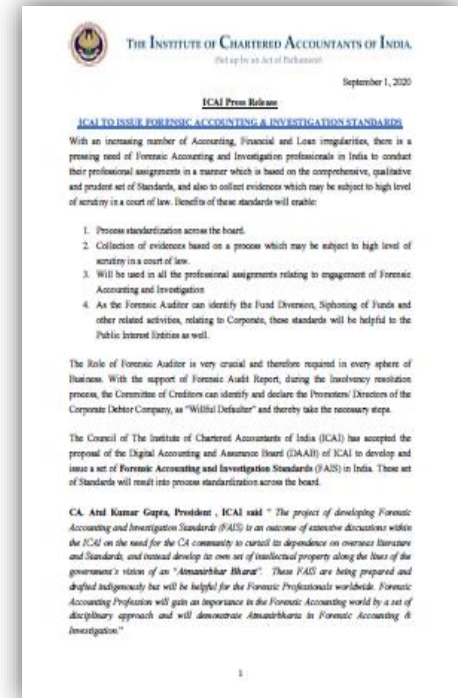


# Overview of FAIS Project

ICAI PRESS RELEASE

1<sup>st</sup> SEPT. '20

- ▶ Once the required approvals were in place, the formal launch took place with the Press Release on **1<sup>st</sup> September 2020**.
- ▶ A Detailed Project Plan with Full List of Standards, topics and broad contents, along with timelines for completion, formed the process.
- ▶ A team of 9 highly accomplished experts from the domain joined the team of 5 CCMs to form the FAIS Study Group, which met at least once every week for 5 months (30 meetings + 2 Workshops of 2 days each).
- ▶ Working Teams, one for each Standard (26 x 7 members) were formed to work parallelly in the drafting and review process (Total ~60 people).
- ▶ With a highly disciplined process of review, and an equally robust public exposure phase (30 days), each Standard took final shape.







# Overall Objectives

- ✓ CODIFY BEST PRACTICES
- ✓ CLARIFY EXPECTATIONS & ATTRIBUTES
- ✓ SET COMMON TERMINOLOGY (DEFINITIONS)
- ✓ SET BASIC QUALITY BENCHMARKS OF SERVICE
- ✓ HARMONISE & IMPROVE PERFORMANCE
- ✓ PROVIDE KNOWLEDGE & GUIDANCE
- ✓ SET AND EVALUATE LEVEL OF PERFORMANCE
- ✓ PROTECT THE ICAI BRAND



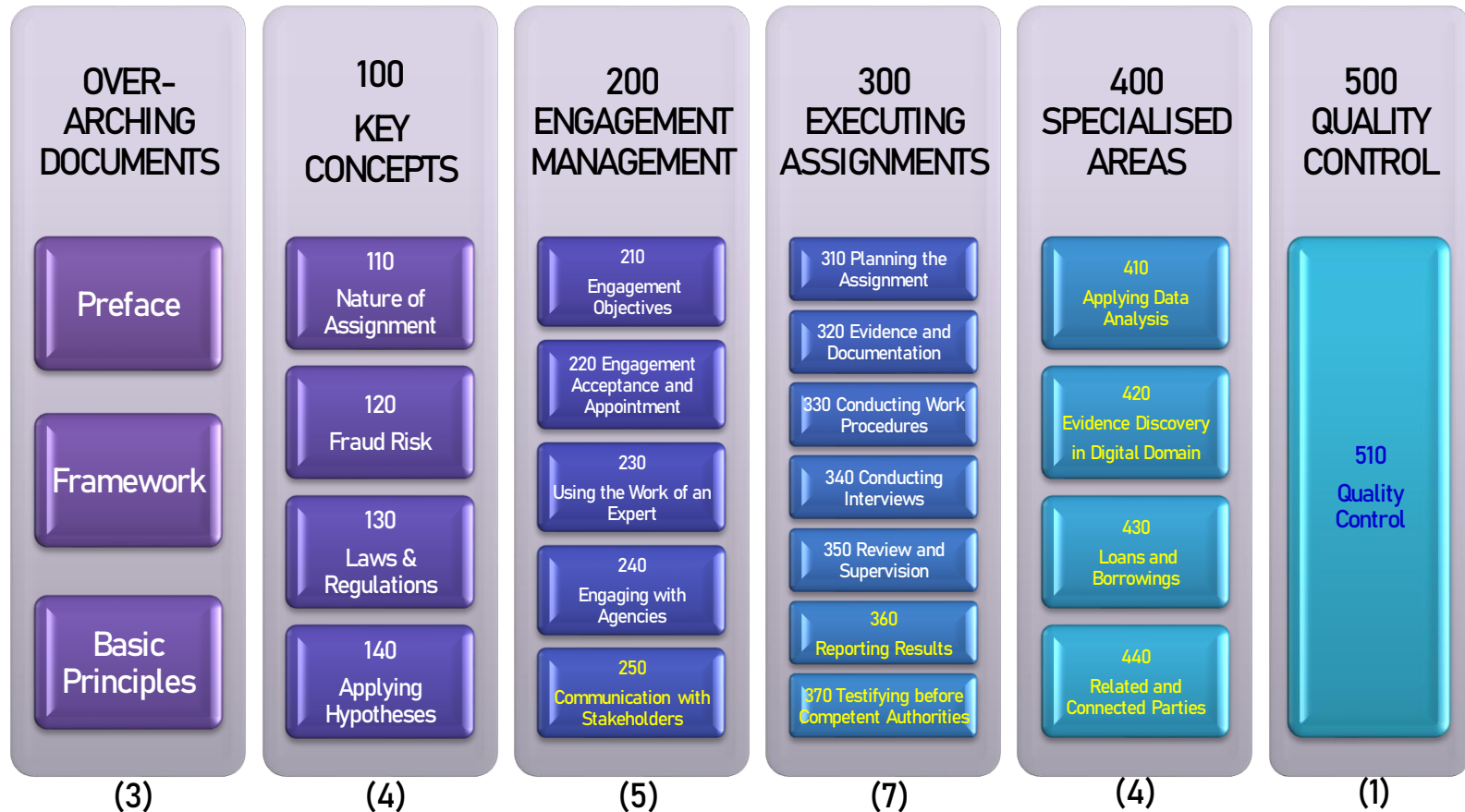


# Key Features of the FAIS

- ✓ Most comprehensive Standards issued for the first time by any accounting body in the world
- ✓ They cover many areas from key concepts to managing the engagement, to the whole process of executing assignments and also specialized areas like the digital domain
- ✓ They introduce new concepts like Applying Hypothesis
- ✓ They are principle based, hence provide adequate flexibility to address unique situations
- ✓ They will be Mandatory on members of the ICAI



# FAIS Status - Overview





# FAIS Applicability

## MANDATORY NATURE OF FAIS

- ✓ ALL ICAI MEMBERS \*
- ✓ ALL FAI ENGAGEMENTS
  - ▶ ANY LIMITATION ON THE APPLICABILITY OF THE STANDARD WILL BE MADE CLEAR IN THE STANDARD ITSELF

### \* NOTE:

- ✓ Currently, since anyone can conduct FAI assignments, ICAI cannot impose its Standards on others (non-members)
- ✓ However, over time, the Government may choose to make them mandatory on everyone conducting certain (defined) assignments  
(e.g., Listed Companies or Frauds over a certain amount)

## PRINCIPLE BASED

- ✓ The Standards outline the principles (outcome) of each subject matter
- ✓ They provide for WHAT is expected of the Professional, and not the HOW
- ✓ The HOW will come later in the form of Guidance Notes:
  - ✓ Implementation Guide
  - ✓ Technical Guide



# Over-Arching Docs

✓ PREFACE :

- Introduces the Standards
- Outlines the Process of Standard Setting



✓ FRAMEWORK:

- Sets the Structure of the FAIS
- Defines certain key terms
- Establishes a Fixed Format of 6 Sections



✓ BASIC PRINCIPLES:

- 5 Attribute Principles
- 5 Conduct Principles





# Standard Setting Methodology

## 1. DAAB selects Topic & Time-lines

- DAAB will identify the broad areas in which the FAIS need to be formulated and the priority in regard to selection thereof

## 2. Formation of Study Group to Draft & Review the Standards

- Participation by a cross section of members of the Institute
- If necessary, the Board may include an expert on the Study Groups(s)

## 3. Review of 1<sup>st</sup> Draft of FAIS by DAAB

- On the basis of the deliberations of the Board on the draft Standard, an Exposure Draft (ED) of the proposed Standard will be prepared for issuance to the Public

## 4. ED open for Inputs for 30 days

- Published in the Journal of the Institute and also hosted on the website of the Institute and the General Public
- Circulated to all the Council members, Past Presidents, Regional Councils, Branches and CPE Study Circles
- The ED is also circulated to government agencies and various external (regulatory) bodies



## 5. Finalise and submit to Council

- After taking into consideration the comments received on the Exposure Draft, the draft of the proposed Standard will be finalised by the Board and submitted for consideration of the Council of the Institute

## 6. Council deliberates and Issues FINAL version of the FAIS



# Responses to EDs

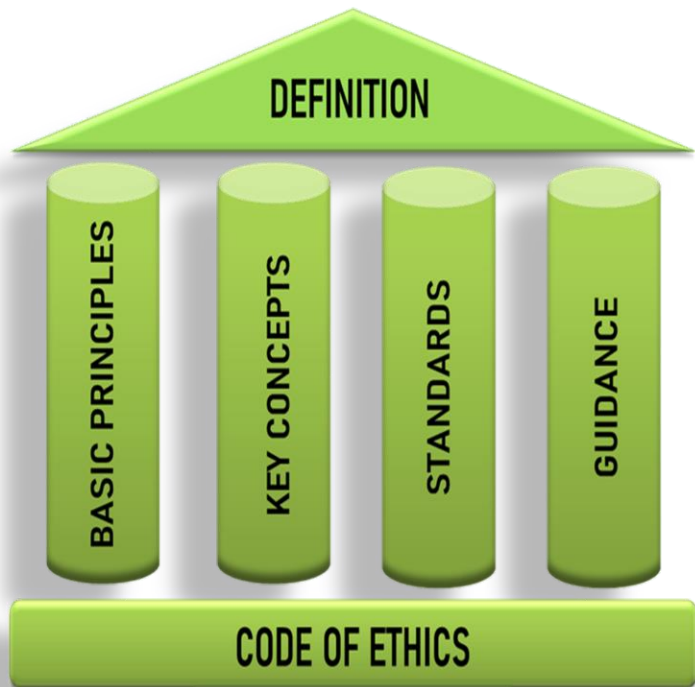
- ▶ Exposure Drafts (for the 16 Standards), were issued in three bursts,
  - 1<sup>st</sup> Release (1<sup>st</sup> September): 3 x Over arching Documents (Deadline 30<sup>th</sup> September)
  - 2<sup>nd</sup> Release (19<sup>th</sup> September): 4 x 100 series and 2 x 200 series (Deadline 18<sup>th</sup> October)
  - 3<sup>rd</sup> Release (9<sup>th</sup> October): 2 x 200 series and 5 x 300 series (Deadline 9<sup>th</sup> November)
- ▶ The responses have been moderate to good and includes SEBI, CAG, MCA, BCAS, Regional Offices.
- ▶ Personal intervention of Chairman and VC (including visits), helped to propagate the initiative and get decent responses.

SOURCES OF RESPONSES	1st EDs	2nd EDs	3rd EDs	TOTAL
Council members & ICAI Staff	2	2	0	4
Regional Councils and Teams	3	0	0	3
Members in Practice	19	15	9	43
Members in Industry	8	4	9	21
Governments & Regulators	5	0	0	5
Others	6	0	1	7
	43	21	19	83
SUMMARY OF RESPONSES RECEIVED				
OVER-Arch Documents	102			102
100 Series		68		68
200 Series		3	32	35
300 Series			27	27
	102	71	59	232





# Framework & Definitions



## KEY DEFINITIONS

- ✓ **Forensic Accounting** is discovery and evaluation of evidence by a professional to interpret and communicate findings suitable for a Court of law.
- ✓ **Investigation** is the systematic and critical examination of facts, records and documents for a specific purpose

## FIXED FORMAT FOR A STANDARD

1. Introduction & Scope: Brief background and scope of the Standard and its applicability.
2. Objective: Purpose of issuing the Standard and why it is required and essential.
3. Requirements: The desired outcome and what is critical to achieve the objective of the Standard.
4. Explanatory Comments: Explanation of certain parts of the Requirements which require clarity and elaboration, including defining key words or terms.
5. Documentation of Work Procedures: Indicative list of the nature of documentation which may be expected to demonstrate conformance to the Standards.
6. Effective Date: Date from which the Standard is to be applied and made mandatory.







# Basic Principles

1. Independence
2. Integrity and Objectivity
3. Due Professional Care
4. Confidentiality
5. Skills and Competence
6. Contextualisation of Situation
7. Primacy of Truth
8. Respecting Rights and Obligations
9. Separating facts from opinions
10. Quality and Continuous Improvement.

**ATTRIBUTES**

**CONDUCT**



# Series 100 Standards - Key Concepts

S. No.	FAIS No.	SUBJECT MATTER
1	110	Understanding the Nature of Engagement
2	120	Understanding Fraud Risk
3	130	Laws & Regulations
4	140	Applying Hypotheses



# 110 : Nature of Engagement

## NATURE OF ENGAGEMENTS

- ▶ Forensic Accounting
- ▶ Investigation
- ▶ Litigation support

## KEY PROVISIONS (REQUIREMENTS)

1. Understand the mandate, which shall not be an Audit
2. Where the mandate requires the application of accounting skills to discover evidence, the concept of **Forensic Accounting** shall apply
3. Where the mandate requires the need to discover and evaluate evidence for a specific purpose, such as to help establish possible fraudulent intent, and to identify possible suspects of fraud, the concept of **Investigation** shall apply
4. All stakeholders shall have clarity on the nature of the engagement, which can be a Forensic Accounting engagement, an Investigation, Litigation support, or a combination of any of the aforesaid, but **not an audit**



# 120 : Fraud Risk

## ESSENCE OF FRAUD RISK

FAI = possibility of fraudulent events or suspicious transactions.

- ✓ Define Fraud & its Characteristics (fraud triangle)
- ✓ Define Risk
- ✓ Fraud Risk = concepts of risk applied in a fraud scenario

## KEY PROVISIONS (REQUIREMENTS)

1. Undertake a preliminary fraud risk understanding of the areas and processes relevant to the subject matter of engagement to understand the nature and complexity of the engagement and to assign appropriate skill sets.
2. Prioritize work to help identify Fraud Indicators to focus on areas most vulnerable to fraud.
3. Professional shall give due consideration to matters indicating fraud risk when reporting findings of the work completed.



# 130 : Laws and Regulations

## ESSENCE OF STANDARD

Professional appointment  
can be:

- ✓ in accordance with some specific law or regulation.
- ✓ through a contractual arrangement with the Client.

## KEY PROVISIONS (REQUIREMENTS)

1. The objectives of the engagement are in line with the provisions of those laws and regulations.
2. Any mandate, agreed with the stakeholders through a contractual arrangement, shall be consistent with the relevant laws and regulations.
3. Engagements to be conducting in line with various laws and regulations.
4. The Professional shall implement a process driven approach to assist in identifying any significant deviations with laws and regulations.
5. On complex and important matters, the Professional may seek expert legal advice.
6. Principle of Natural Justice be given due importance.



# 140 : Applying Hypotheses

## CONCEPT OF HYPOTHESIS

- ▶ A hypothesis is assumed theory, which needs to be proven or rejected.
- ▶ Differently applied for:
  - ✓ Forensic Accounting
  - ✓ Investigations

## KEY PROVISIONS (REQUIREMENTS)

1. Understand and apply concepts of hypothesis to help validate the possibility of potential violations or exceptions.
2. Design the forensic accounting and investigation methodologies in accordance with considered hypotheses to ensure a methodical and reliable approach.
3. Hypotheses generated to be flexible, evolving and include new or alternate hypotheses to validate or reject them in order to prove or disprove a larger theory or assumption, such as the modus operandi.
4. After concluding an investigation, the Professional shall be in a position to either prove, disprove, or not prove the theory as formulated.



# Series 200 Standards - Engagement Management

S. No.	FAIS No.	SUBJECT MATTER
1	210	Engagement Objectives
2	220	Engagement Acceptance and Appointment
3	230	Using the work of an Expert
4	240	Engaging with Agencies
5	250	Communication with Stakeholders



# 210 : Engagement Objectives

## ESSENCE OF STANDARD

What is the purpose and objectives of the engagement:

- ✓ Forensic Accounting
- ✓ Investigation
- ✓ Litigation support

## KEY PROVISIONS (REQUIREMENTS)

1. Understand and document the main purpose of the engagement.
2. Scope shall be defined in line with the objectives.
3. Expected outcome is in line with the objectives and the defined scope.
4. The objective shall not be designed to commit to any particular outcome, however, Professional can draw reasonable conclusions based on the evidence discovered.





# 210 : Engagement Objectives

## (A) FORENSIC ACCOUNTING SERVICES:

**POSSIBLE OBJECTIVE:** Forensic Accounting aims to highlight any accounting or legal violations, regulatory deviations or contractual breaches through ascertainment of facts and discovery of evidences suitable for a Court of law. The focus area is critical examination of transactions, funds and balances in the books of account or with third parties.

### *NATURE OF SERVICES (Indicative List)*

- 1 Financial Statement manipulations
- 2 Fund diversions/Asset tracing
- 3 Anti-Money laundering
- 4 Licence Fees/Dues/Tax Evasion
- 5 Related party transactions/valuations
- 6 Valuations/Estimations of loss/damage
- 7 Suspicious transactions under IBC (Insolvency and Bankruptcy Code)

## (B) INVESTIGATION SERVICES:

**POSSIBLE OBJECTIVE:** The purpose of the Investigation is to examine facts and circumstances and discover evidence to prove or disprove hypotheses formulated regarding alleged legal violations, unethical conduct or the possibility of a fraud by suspected individuals.

### *NATURE OF SERVICES (Indicative List)*

- 1 Fraud investigations (including Cyber frauds)
- 2 Insurance/Personal injury claims
- 3 Ethical/Code of Conduct violations
- 4 Whistle-blower complaints/POSH (Prevention of Sexual Harassment) allegations
- 5 Asset theft/Bribery/Corruption
- 6 Data breach/theft of Intellectual Property

## (C) LITIGATION SUPPORT SERVICES:

**POSSIBLE OBJECTIVE:** Provide testimony in a Court of Law, based on Forensic Accounting and Investigation (FAI) expertise and/or to help facilitate some resolution to legal disputes based on facts/circumstances and FAI expertise.

### *NATURE OF SERVICES (Indicative List)*

- 1 Fact Witness
- 2 Expert Witness
- 3 Alternate Dispute Resolution



# 220 : Engagement Acceptance and Appointment

## ESSENCE OF STANDARD

- ▶ Engagements come with a degree of sensitivity and inherent risk.
- ▶ Conduct:
  - ✓ Preliminary procedures; and
  - ✓ Due diligence

## KEY PROVISIONS (REQUIREMENTS)

1. Undertake preliminary procedures aimed at getting an understanding about the nature and complexity of the engagement.
2. Conduct a due diligence directed to gain an assessment of the inherent risks of accepting the engagement.
3. Identify all key stakeholders, the individuals covered under the scope and the direct and indirect users of the engagement report.
4. A written Engagement Letter shall be signed, or a Letter of Appointment (in the case of Government Agencies) obtained to confirm the terms of appointment.



# 230 : Using the work of an Expert

## ESSENCE OF STANDARD

- ▶ **Expert:** Person possessing special skills or domain expertise, along with relevant experience and expertise in a particular area, field or discipline.
- ▶ Profession should seek assistance, and place reliance on the work of an expert.

## KEY PROVISIONS (REQUIREMENTS)

1. The Professional to make a determination of using the work of an Expert.
2. Professional to seek the authority to select, appoint and engage the Expert, or evaluate the independence and objectivity of the Expert appointed by others.
3. The Professional shall evaluate the qualifications and credentials of the Expert.
4. Professional shall participate in defining the scope and expected deliverables for the work to be conducted by the Expert.
5. The Professional shall evaluate the adequacy of the work conducted by the Expert to ensure evidence discovered constitutes sufficient and reliable evidence to support the overall conclusions.
6. The Professional to retain ultimate responsibility for conclusions of the Expert.



# 240 : Engaging with Agencies

## ESSENCE OF STANDARD

- ▶ Required to work closely with various Agencies
- ▶ Defines agency as:
  - Law Enforcement Agencies
  - Regulatory Bodies
  - Adjudicating Authorities

## KEY PROVISIONS (REQUIREMENTS)

1. Agree on the objectives, scope and planned procedures of the engagement with the Agencies
2. Gain understanding of the applicable laws and regulations governing the respective agency.
3. Comply with Basic Principles with special emphasis on Independence, Objectivity, Integrity, Confidentiality.
4. Be aware of roles and responsibilities in presentation of facts before the Agencies.
5. Due professional care to be taken with regards to communication with Agencies.



# Series 300 Standards - Executing Assignments

S. No.	FAIS No.	SUBJECT MATTER
1	310	Planning the Assignment
2	320	Evidence and Documentation
3	330	Conducting Work Procedures
4	340	Conducting Interviews
5	350	Review and Supervision
6	360	Reporting Results
7	370	Testifying before Competent Authorities



# 310 : Planning the Assignment

## INTRODUCTION

- ▶ Distinguish between:
  - ✓ Engagement: An overall contractual mandate between the Professional and the appointing stakeholder.
  - ✓ Assignment: A part of the engagement or a specific group of tasks.

## KEY PROVISIONS (REQUIREMENTS)

1. Planning to follow a laid down process.
2. The planning activities to contain key elements required to achieve objectives:
  - (a) Knowledge of the relevant business and environment
  - (b) Risk considerations
  - (c) Discussion with the Stakeholders
  - (d) Technology deployment
  - (e) Resource allocation
3. Work methodology to be established (including any hypotheses formulated), together with the depth and nature of procedures to be conducted.
4. Relevant elements of the plan to be communicated to the identified stakeholders, on a need-to-know basis.



# 320 : Evidence and Documentation

## ESSENCE OF STANDARD

- ▶ Discover appropriate and reliable evidence and maintain relevant and sufficient documentation :
  - ✓ “Evidence” information, written or oral, or contained in electronic form.
  - ✓ “Documentation” aggregate of all evidences discovered along with written record of work procedures conducted, conclusions reached and reported.

## KEY PROVISIONS (REQUIREMENTS)

1. Obtain evidence from reliable sources and ensure evidence discovered is appropriate to the objectives of the assignment and suitable in the court of law.
2. Relevant and sufficient documentation is maintained explaining the manner in which the evidence was discovered, reviewed, recorded and stored.
3. Ownership and custody of the documentation shall remain with the Professionals.



# 330 : Conducting Work Procedures

## ESSENCE OF STANDARD

- ▶ Work Procedures refer activities to discover reliable and appropriate evidence in order to prove or disprove formulated hypotheses.
- ▶ Work Procedures are generally conducted in phases:
  - ✓ Phase 1: behind the scenes where there is little interaction with the individuals involved, and
  - ✓ Phase 2: where there is a need to engage with the relevant Stakeholders.

## KEY PROVISIONS (REQUIREMENTS)

1. Develop Work Procedures in line with the agreed scope and objectives.
2. Evaluate deploying relevant tools, techniques and processes for discovering evidence.
3. Pay due attention to Fraud Indicators.
4. Consider the formulation and testing of hypotheses to discover reliable and appropriate evidences.
5. Assess the need for any change in methodology (e.g., engaging experts).
6. Duly document the details of the work performed, the outcome of each Work Procedure, limitations faced, and the conclusions drawn thereupon.
7. Communicate with the Stakeholders the progress of the assignment.





# 340 : Conducting Interviews

## ESSENCE OF STANDARD

- ▶ Documentary evidences to be corroborated with statements from individuals.
- ▶ Interview refers to a structured meeting with individuals, for eliciting information.

## KEY PROVISIONS (REQUIREMENTS)

1. Interviews shall be conducted after due preparation and planning.
2. The interviewer to develop a methodology, which includes essential steps to conduct an effective interview.
3. The Professional conducting or participating in the interview shall maintain confidentiality regarding the details and outcome of the interview.
4. Interviews shall be conducted within the defined scope of work. Any interviews considered necessary by the Professional, but excluded from the scope for any reason, shall be mentioned in the report.



# 350 : Review and Supervision

## ESSENCE OF STANDARD

- ▶ Review, examination of work performed and documentation.
- ▶ Supervision, oversight of the team and provision of guidance.

## KEY PROVISIONS (REQUIREMENTS)

1. Apply best judgement for periodicity and extent of review and supervision.
2. Nature of review and supervision will vary, exercise oversight on activities being performed.
3. Review the plan during the assignment to evaluate if circumstances have changed significantly to revisit plan.
4. Work procedures conducted, and the working papers prepared, to be reviewed by the supervisor.
5. Identify matters for consideration.




# Series 400 Standards – Specialised Areas

S. No.	FAIS No.	SUBJECT MATTER
1	410	Applying Data Analysis
2	420	Evidence and Documentation
3	430	Conducting Work Procedures
4	440	Conducting Interviews




# Next Steps

- ▶ DAAB to issue the remaining 7 Standards
- ▶ Monitor and track FAIS implementation
- ▶ Draft and Issue Guidance Notes to support the FAIS
- ▶ Update the FAFD (Forensic Accounting and Fraud Detection) Certificate Course based on the FAIS
- ▶ Empanel FAFD Trainers and conduct a Faculty Program
- ▶ Relaunch the Revised FAFD Certificate Course with new faculty
- ▶ Continue to review and revise the FAIS



## RAISE YOUR STANDARDS

Any time you sincerely want to make a change, the first thing you must do is to raise your standards





Any Questions?

Thank You!