

Fraud Risk, Big Data, Emerging Compliances

(Focus on Retail)



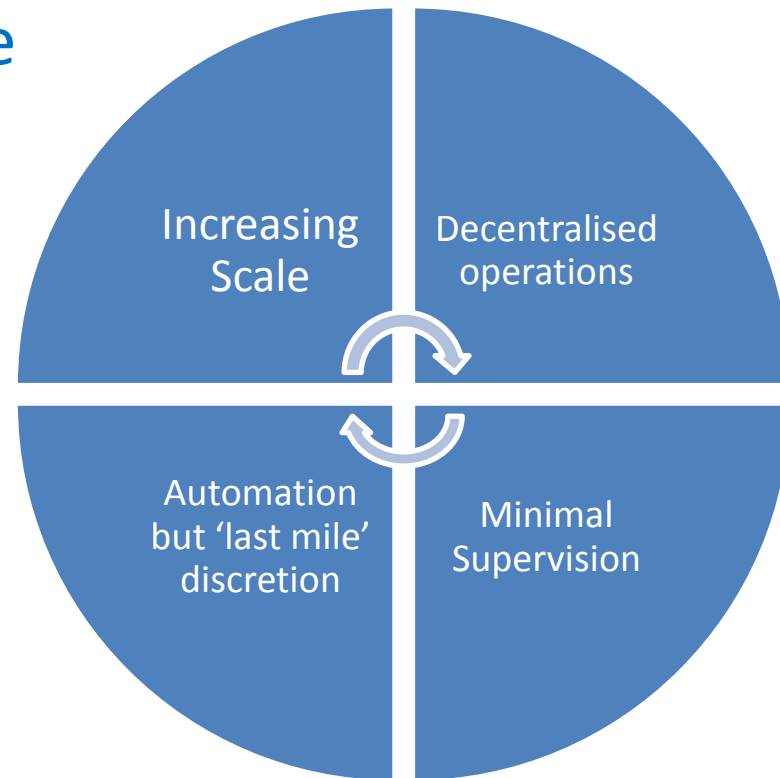
Natarajan.S
30.07.2016

Contents

Section Details	Slide No.
Fraud Risks -Overview	3-7
Big Data analytics –Perspectives	8-11
Big Data in Retail	12-16
Audit Approach- Using Analytics	17-20
Adoption in India-Big Data	21
Emerging Compliances and Reporting on Frauds	22-28

Fraud Risk - Overview

- Certain Business Imperatives increase fraud risks



Fraud Risks – Overview

Store Collections

- Cash related
- Credit sales/cheque sales
- Credit Notes/Gift Vouchers

Inventory

- Shrink/Defectives/Expiry
- Logistics
- Procurement related

Loyalty Cards

- Misuse by store staff
- Redemption frauds

Billing Related

- Incorrect prices
- Discounts

Fraud Risks – Overview

Sales & Supply Chain	Logistics & Distribution
<ul style="list-style-type: none">• Bulk Sales• Vendor related frauds• Loss of Margins	<ul style="list-style-type: none">• Transportation inefficiencies• Distribution/Warehousing-process gaps
Sales Promotions	Marketing (events/media)
<ul style="list-style-type: none">• Manipulation of trade promotion schemes	<ul style="list-style-type: none">• Manipulation of marketing spends
Payroll	Bribery/Corruption
<ul style="list-style-type: none">• Inclusion of ghost employees in payroll processing documents including salary• Ghost employees/Ex-employees included in sales incentive payouts/travel allowance/Dearness Allowance payouts	<ul style="list-style-type: none">• Improper payments various approving authorities• Appointment of third parties to make payments to obtain licences/permissions/sales orders• Misrepresentation of transactions in accounting records• Invoices submitted and paid for goods not received/services never performed

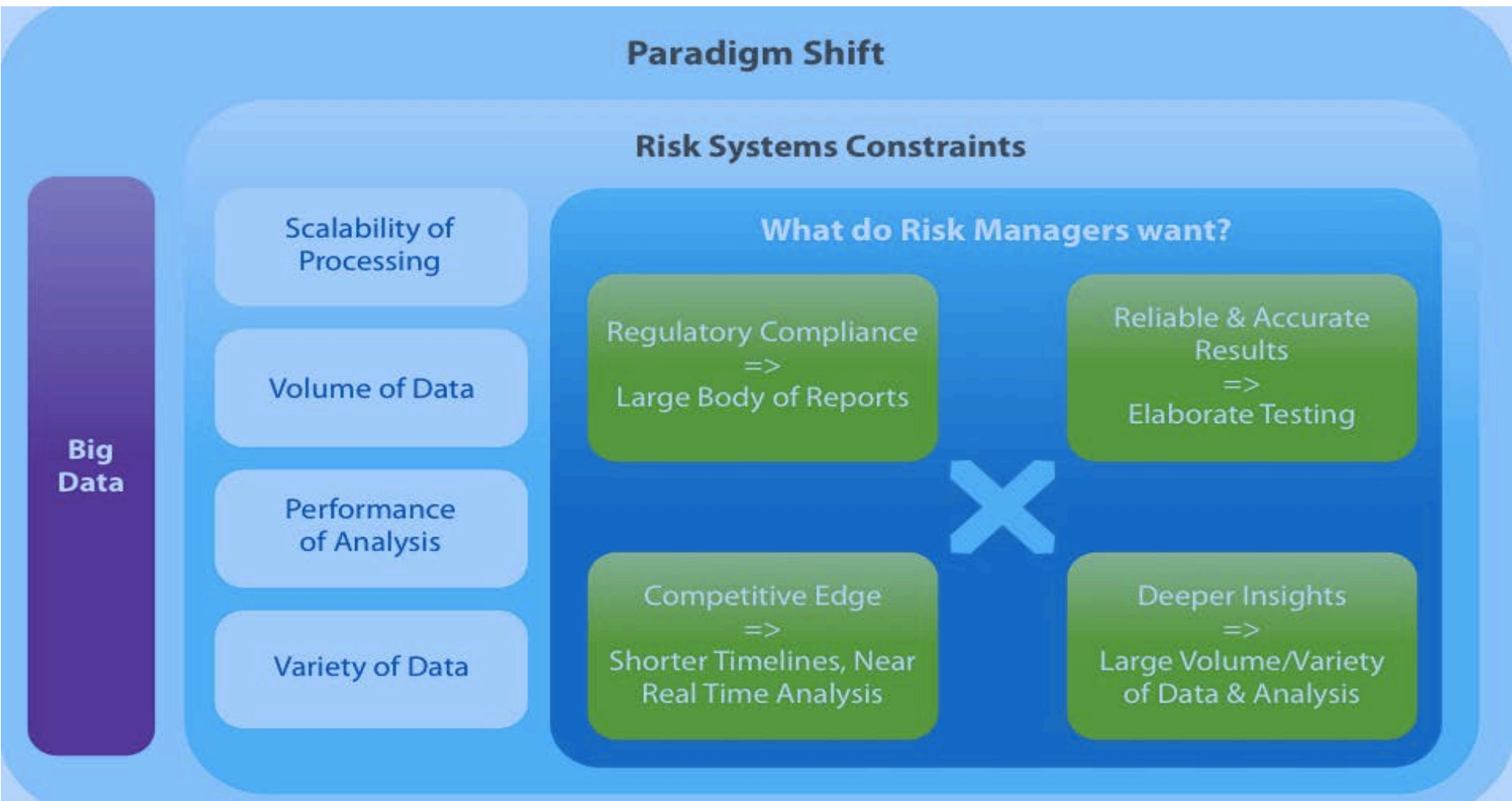
Fraud Risk - Overview

- Risk Management Cycle



- Faced with disruptive competition, businesses require deeper insight and scalable analytics through near real-time systems to mitigate risks.
- Risk Management is increasingly about deploying Big Data analytics to monitor and control risks.

- Risk Management Cycle (contd...)



Relevance of Big Data in Risk Management-extracted from TCS ERM presentation-published online

Big data analytics - Perspectives

- Legacy System Limitations

Extract , Transform, Load-calls
for workflows , not all are
automated

Data Warehousing- Volumes
hamper speed

Data Dredging
until “confession”

More Relevant for static data

Incapable of processing
unstructured data from ‘data
lakes’

Big data analytics - Perspectives

- How Big Data analytics is different ...



Source data not in a siloed , prescriptive store

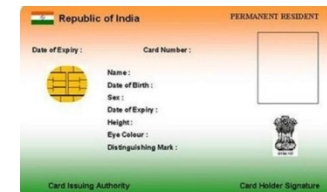
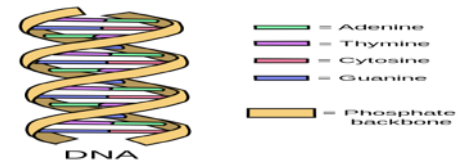
All types of data retained in their original formats

Allows users to run ad hoc queries, perform cross-source navigation and make analytical decisions-all based on real-time information.

Volume, Velocity, Variety

Big data analytics - Perspectives

- Examples of Big data analysis...
 - Search Engines on Research journals –to ‘trim’ contents to answer specific search
 - Genetic studies- Analyse samples to diagnose based on a database of probable outcomes
 - Online movie tickets – reduce the ‘clicks to book’
 - Aadhaar Card –Big Data and more



• Examples of Big data analysis(contd...)

The screenshot shows a web browser window with the URL www.compareraja.in/televisions/samsung-television-prices.html. The page features a search filter on the left, a main product grid, and a sidebar on the right.

Refine your search

Price: Rs. 4000 To Rs. 50000

Brand: Samsung (99)

Showing 1 - 20 Of 99 Products

Sort by: Popular

Product Name	Price	Rating
Samsung 22F5100 22 Inch Full HD LED Television	from Rs. 11,289 (3 stores)	115 Ratings
Samsung 40J5300 40 Inch Full HD Smart LED Television	from Rs. 44,490 (4 stores)	110 Ratings
Samsung 24H4003 24 Inch HD LED Television	from Rs. 12,090 (3 stores)	914 Ratings
Samsung UA32FH4003R 32 Inch HD LED Television	from Rs. 19,229 (4 stores)	441 Ratings

Television Price Lists

- Micromax Television Price List
- Samsung Television Price List
- LG Television Price List
- Panasonic Television Price List
- Sony Television Price List
- Philips Television Price List
- VU Television Price List
- Videocon Television Price List

Televisions By Type

- LED TV Price List
- HD TV Price List
- FULL HD TV Price List
- 4K Ultra HD TV Price List
- Smart TV Price List
- 3D TV Price List
- Curved TV Price List

www.compareraja.in/televisions/videocon-television-prices.html

Big Data in Retail

- 'ticket size' of customer – Basket analysis



- Drive revenue through suggestive assortments for every 'shopping segment'



- Personalised shopping experience – download customer tastes/preferences at the sales counter



Big Data in Retail

'Buy' function

Margin Analysis

Promo Schemes

Inventory
monitoring/seasonal
sales

Vendor
performance/Fill
rate

Big Data in Retail

'Move' function

Replenishment
planning

Logistics
Efficiency

Store Fill

'Picker'
efficiency

Big Data in Retail

'Sell' function

Stock right
products

'Black Dot'
SKUs-
better
monitoring

Optimal
Pricing

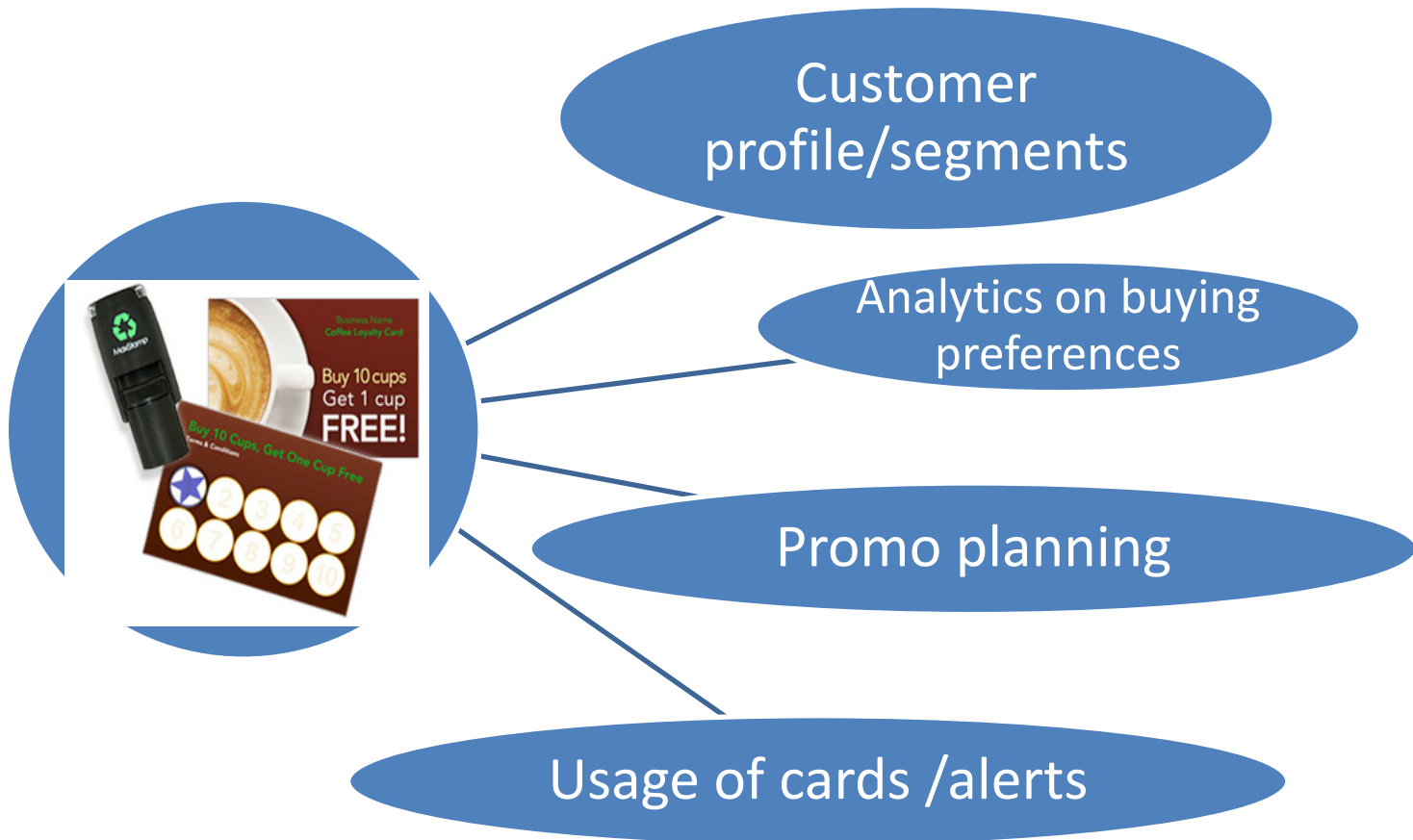
Optimise
Space
allocations

Monitor
Collections

POS traffic
/ efficiency

Big Data in Retail

- Loyalty plans



Audit Approach

- Audit Challenges

Increasing Digitisation of Audit Evidence



Dynamic IT environment

Need to Establish Reliability / Accuracy
in a Digital Ecosystem

Satisfy the mandated standards of
Proficiency and due professional care

Audit function has to adopt work plans which have significant emphasis on IT audits and transaction checks are essentially exceptions review through Data analytics.

Audit Approach

Audit of Procurement:

- Margin review
- Analytics on Purchase Order Prices
- VAT implications on Margins
- Incentive Claims/Credit Notes
- Transaction analysis
- Master Data checks

Audit Approach

Audit of Supply Chain function:

- Analytics is the primary tool to check :
 - Replenishment Parameters- DC and Stores
 - Lead time assumptions
 - Logistics efficiency
 - Inventory levels/Cycle count
 - Transaction analysis

Audit Approach

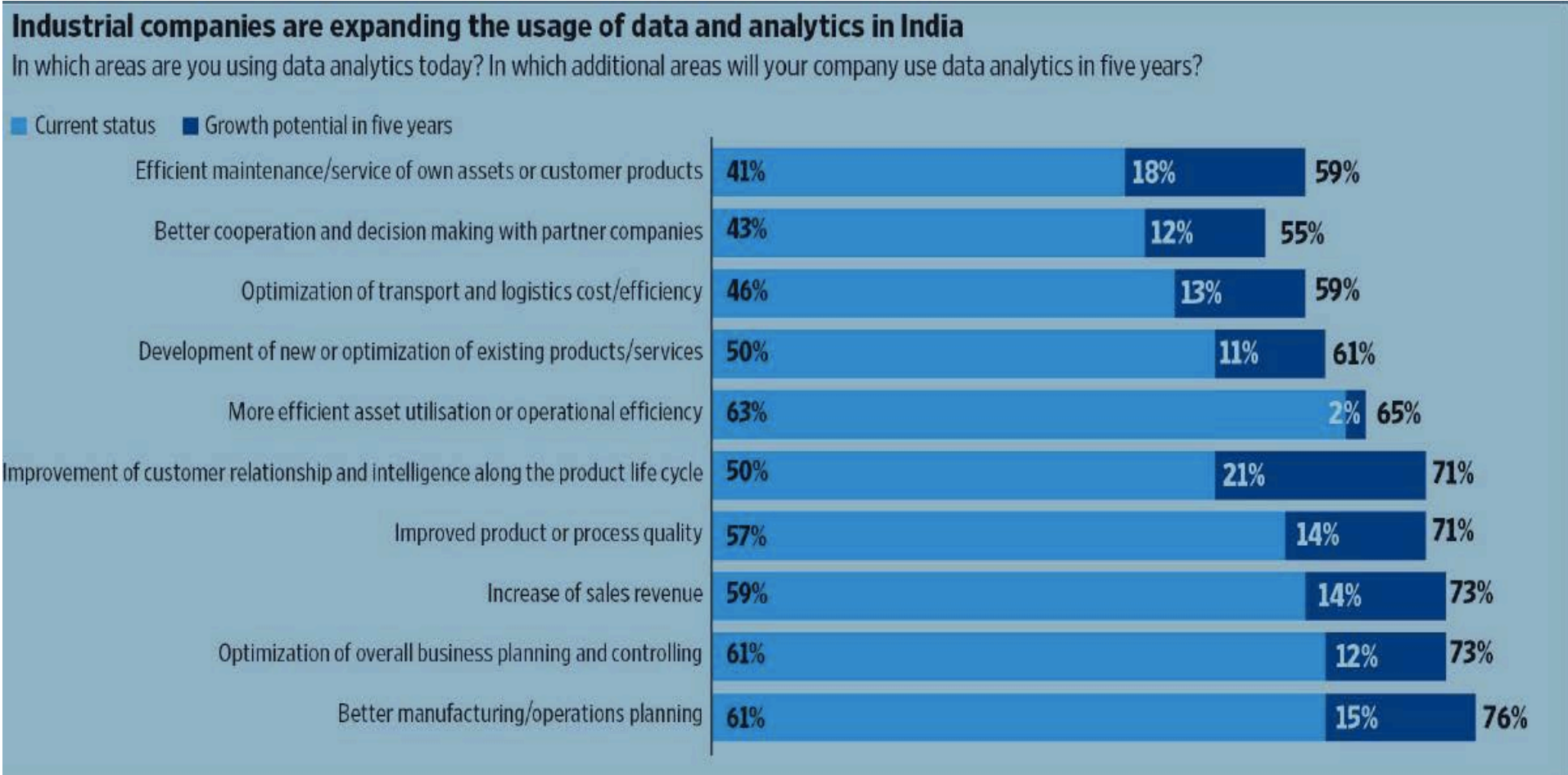
Audit of Store Operations:

Reviews are backed by Extensive Data Analytics on :

- Sales to collections – timelines, completeness, systemic gaps
- Billing related – Master data , data flow to ERP, transaction exceptions
- Markdown process , Scheme sales
- Loyalty Cards and Gift Cards

Big Data Adoption in India

- PWC Survey



Emerging Compliances

- Section 143 (12) of Companies Act mandates 'Auditors' of a company to report on 'fraud' noticed while performing the duties of auditor-effective for accounting years commencing on or after 1st April 2014.
- The meaning of fraud is defined in section-447 of the Act.
- The position 'Auditor' refers to :
 - ✓ Statutory Auditors
 - ✓ Cost Audit under Section-148
 - ✓ Branch Auditors-Section-139
 - ✓ Company Secretary – Section-204

Emerging Compliances

- As per ICAI guidance note, the following are the pre-requisites to reporting under Sec-143(12):
 - ✓ Detected in the course of performance of duties as auditor
 - ✓ Auditor has sufficient evidence that fraud exists
 - ✓ Fraud is committed by officers or employees of the company .
- One more bifurcation in reporting - frauds identified by auditor and those already identified by the company or attest reports under other enactments
- Guidance note has also given guidelines on reporting procedure basis the circular issued by Ministry of Corp.Affairs in Dec.'15

Reporting on fraud identified by Auditor

Fraud involves value => Rs.1 Crore.

Step 1

- Auditor to report to Board/Audit Committee (AC) within 2 days of knowledge of fraud
- Specify nature, description, approx. amount and parties involved

Step 2

- ACM/Board to reply within 45 days

Step 3

- Auditor to report to Central Government with Board /ACM response within 15 days thereof.

Reporting on fraud identified by Auditor

Report such fraud to Board/
Audit Committee (as
applicable)

- Within 2 days of knowledge
of fraud
- Specify nature, description,
approximate amount and
parties

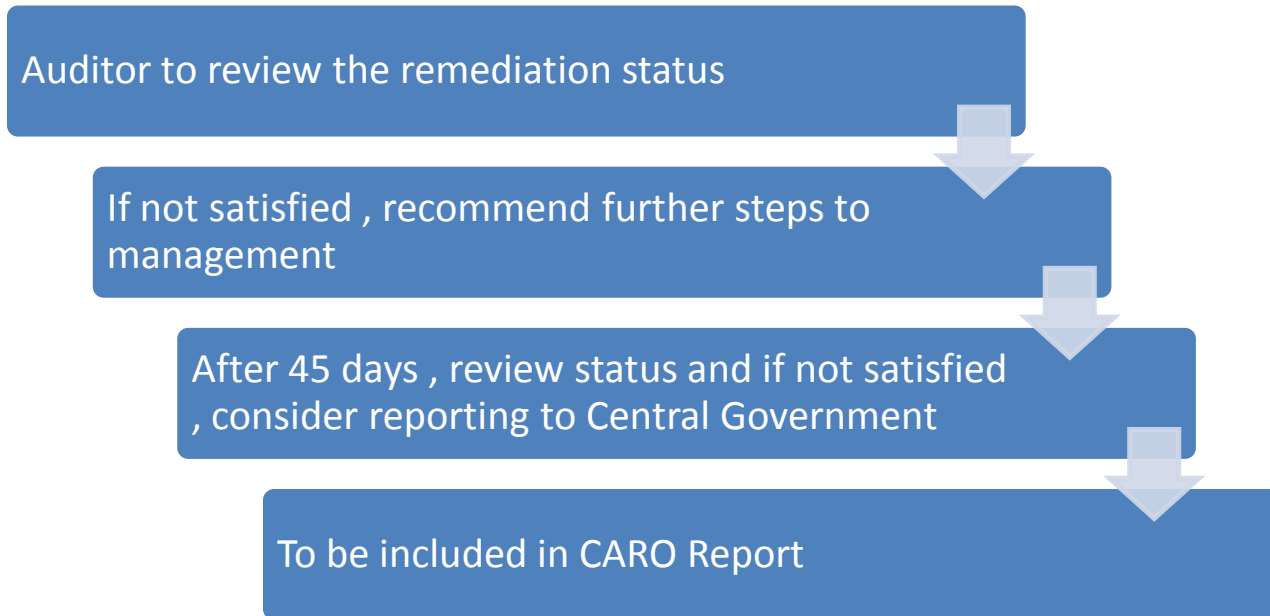
Fraud involves
involves value
less than
Rs. 1 crore

Board Report to disclose:

- nature of fraud,
- approximate amount
- parties involved and
- remedial action taken

Reporting on fraud detected by management

Fraud involves value = or > Rs.1 Crore



Fraud involves value < Rs.1 Crore → To be included in CARO Report

..Other points on reporting

- For frauds pertaining to years earlier than 1st April 2014 , auditor has to report only if:
 - ✓ the fraud is identified in the course of performance of duties for financial year commencing on or after 1st April 2014.
 - ✓ Report to the extent the same was not dealt with in the financial statement or Audit report of prior years
- For a banking company , the auditor has to report u/s-143(12) to the Reserve Bank apart from the Board and Central Government.

Reporting under section 143(3) of the Companies Act

- The section mandates Statutory auditors to report to shareholders on adequacy of Internal Controls on financial reporting
- The scope of review covers broadly the following :
 - ✓ Listing of risks and controls implemented for all processes impacting financial transactions
 - ✓ Evidence to be provided by company process owners that Controls are in place and working effectively as on review date.
 - ✓ So the section is a holistic check by auditors that company has adequate controls to prevent/detect fraud risks, if any, by internal staff or suppliers or customers.
- A separate report , similar to CARO, is issued by auditors forming part of Audit report to shareholders.

Thank You

Natarajan_s4@hotmail.com