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Principals of Forensic Accounting

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Agenda

- Introduction & Fundamental Principal
- Definition, Scope and uniqueness
- Understanding Financial Statements Frauds
- Common types of Frauds and Financial Crime
- Detection Techniques & Prevention Strategies
- Litigation Support & Expert Witness
- Case Studies and Learning

Introduction

- Use of Accounting skills to investigate a Financial Crime
- Implementation of robust framework to prevent Financial Crime
- It’s a para legal activity helping in effective delivery of justice.



Definition and Scope

- Forensic accounting is use of
  - Accounting
  - Auditing
  - Investigative
  - Legal (Psychological)
  - Data Analytical, Cyber Security
- skills to examine the financial statements of an organization



As per FAIS – ICAI

- Forensic Accounting is gathering and evaluation of evidence by a Professional to interpret and report findings before a Competent Authority
  - Gather facts and evidence
  - Financial transactions and operational arrangements
  - To report findings (Not Opinion)
  - Support Litigation

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Role of Forensic Professional

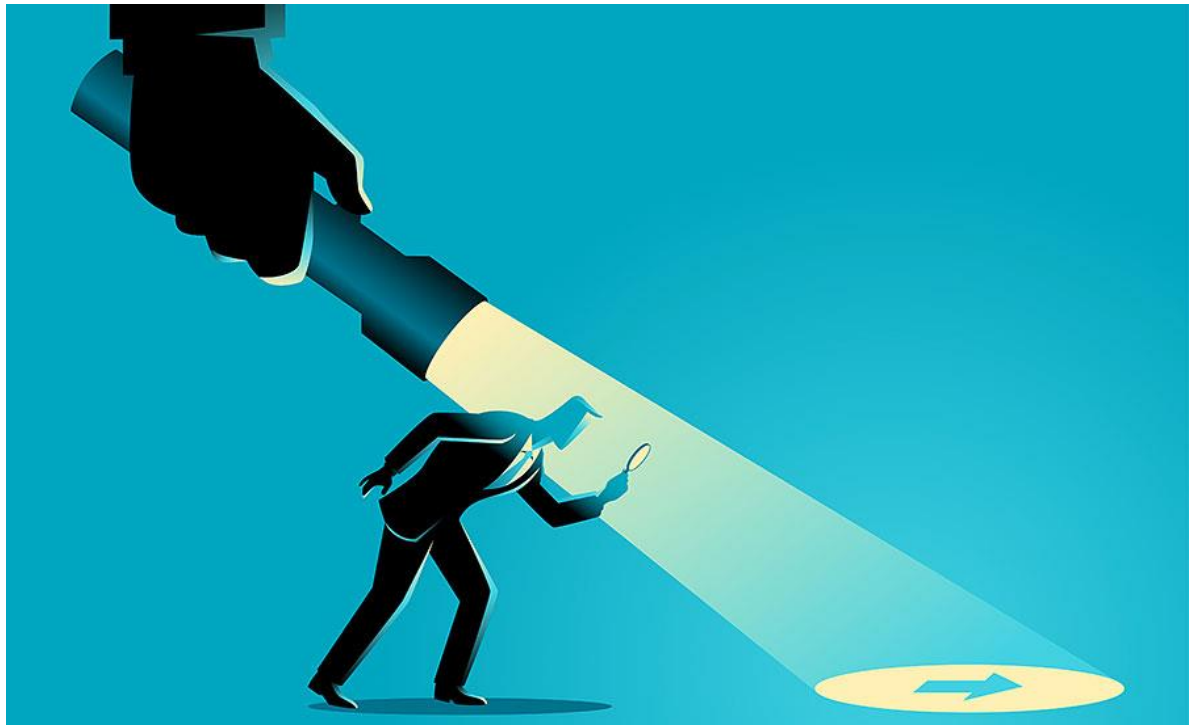
- Forensic Accounting
- Investigation
- Litigation Support
- Report writing
- Testifying



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Forensic Accounting – What's different

- Unlike Conventional Accounting/Auditing
  - Not Routine/ Recurring – On Call
  - No Mandate under any law
  - No Opinion
  - Only Statement of Facts
  - May be Adversarial
  - Onerous Burden of Proof
  - No Sampling
  - Testification before authority



Ethical Concerns

- Independence, Integrity and Objectivity
- Due Professional Care, skill and competence
- Confidentiality
- Seeker of Truth
- Respect for others' rights
- Facts and only Facts – No Opinion



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Financial Statement - Anomaly

- Books speak to professional
- Behavioral and financial indicators
- Financial and Non-Financial Techniques

Few Examples

- Building up of Debtors or Inventory
- Only Few Vendors favored
- Living beyond means

Detection Techniques

- Data Analysis
  - Ratios
  - Trend
  - Specialized Ratios (Benford – Benish)
- Digital Forensics
  - Email Analysis
  - Meta Data Analysis
- Transactional Analysis
  - Suspicious Transaction
  - Round Tripping
  - Journal Analysis
- Behavior Analysis
  - Life Style Audits
  - Employee/Vendor Audits
- Document Examination
  - Invoice Verification
  - Contract Verification
  - Signature Verification
- AI and ML
  - Predictive Modelling
  - Pattern Recognisation

Prevention Techniques

In addition to the Detection following will help

- Fear of detection – Deploying all the above
- Whistle blower Program
- Cross-Function Collaboration
- Implementation of AI techniques like CCM

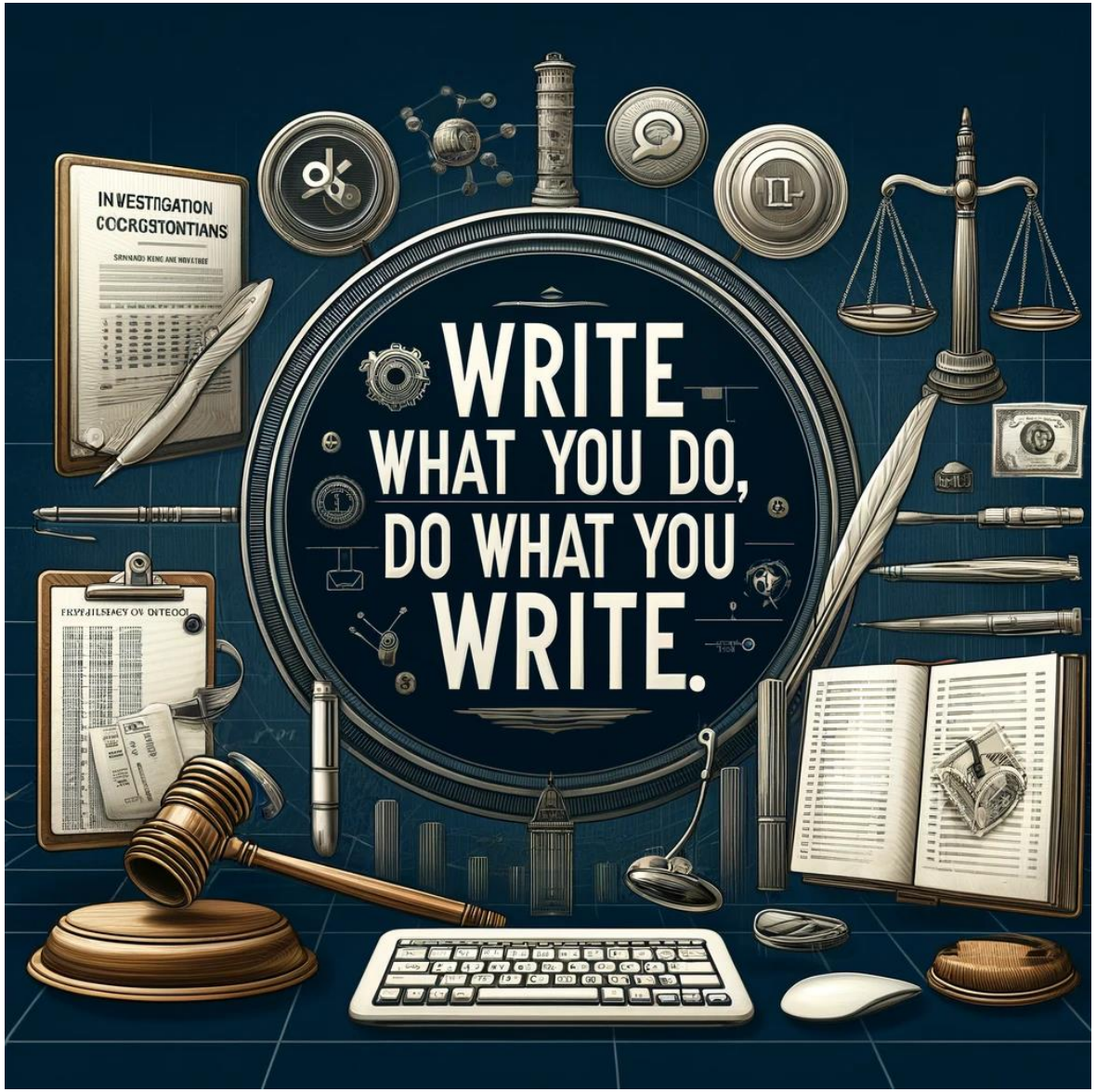
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Reporting

- Prepare the report presuming litigation
- Clear Crisp and concise
- Report to be tied to scope and deliverables
- Assumptions and Methodology to be clearly specified
- Annexures and exhibits to be clearly marked



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Testifying

- Be witness of the authority and not the client
- Testify in Professional Manner
- Refute or Confirm with Evidence
- Be a teacher – Simplify
- Never LIE



EPC Contractor - Investigation

- Understanding the client's business is the key to success in such Audits
- Efforts should be made to prepare the detailed process flowchart for mapping of all the activities
- Based on the identified activities, resource can be deployed, and manpower mapping done based on skill set available with Auditor.



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EPC Contract Investigation

- Linear measurement of steel is taken
- Based on weight of cross section of similar material, weight of entire material was extrapolated
- Relation between physical quantity of stock, its measurement and weight was understood by Audit team
- Value derived was value of stock on date of Audit. Further actual consumption was derived with help of measurement book.
- Theory of impossibility was used to explain that there cannot be savings of all three-principle item (Sand, Steel and Cement)



EPC Contract – Investigation

- At the best it is replacement of high-cost cement with low-cost sand so essentially sand consumption should increase instead of savings for low-cost item
- As scope was from beginning of the project, no opening stock existed so essentially Actual Consumption = Total Purchase – Closing stock.
- Actual Consumption compared with consumption figure from measurement book and theoretical consumption.
- As there was difference between Measurement book and Actual consumption, measurement book was ignored for further calculation.

o.	Description of Item	No	Length (L) m	Breadth (B) m	Depth/ Height (D/H)m	Quantity	Expl No

EPC Contractor – Investigation

- There was savings in Cement though not to the extent claimed and presented by site office
- There was excess consumption of Sand instead of savings
- Though there was very small savings in steel.
- However, due wastage of steel, which was not part of measurement book, it gave false report of savings of steel. Instead, there was excess consumption of steel.
- Total savings as presented by the Site office was reduced by 109% due to above adjustments. So essentially there was wastage rather than saving



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When conviction and determination prevent us from exploring alternative options, we limit our potential for thinking critically.



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