



Rajput Jain & Associates

Chartered Accountants

An ISO 9001:2008 Certified Firm

ABOUT RAJPUT JAIN & ASSOCIATES

Rajput Jain & Associates is a Chartered Accountants firm, with its headquarter situated at New Delhi (the capital of India). The firm has been set up by a group of young, enthusiastic, highly skilled and motivated professionals who have taken experience from top consulting firms and are extensively experienced in their chosen fields has providing a wide array of Accounting, Auditing, Taxation, Assurance and Business advisory services to various clients and their stakeholders.

focus at providing tailor made solutions to challenging problems of our clients, and perform with high quality and timely service.

Rajput Jain & Associates, a professional firm, offers its clients a full range of services, To serve better and to bring bucket of services under one roof, the firm has merged with its various Chartered Accountancy firms pioneer in diversified fields

Our main office is located at Delhi. Incidentally, Delhi is the Capital of India. Our other offices are in Mankapur & Moradabad (U.P.). We have associates all over India in big cities. All our offices are well equipped with latest technological support with updated reference materials. We have a large team of professionals other than our Core Team members to meet the requirements of our prospective clients including the existing ones. However, considering our commitment towards high quality services to our clients, our team keeps on growing with more and more associates having strong professional background with good exposure in the related areas of responsibility. Further to meet the growing demands of the fiercely competitive market we are constantly looking forward for team of associates comprising of highly skilled professionals to cater the needs ever increasing clientele.

**OUR CORE
COMPETENCIES**

*Regulatory
Compliance &
Representation*

*Setting up of
Offshore
Companies*

*RBI, FEMA &
FOREX Law
Compliance*

*Business
Setup in India*

*Statutory
Certification*

*Physical
Verification of
Assets &
Inventory*

*Accounting &
Outsourcing
Services*

*Payroll
Processing
Outsourcing*

*Internal
Auditing &
Statutory
Auditing*

*Corporate
finance*

*Income Tax,
Service Tax,
Excise Duty,
TDS, VAT etc
Compliances*

*International
Taxation &
Transfer
Pricing*

*Company
formation &
Secretarial
Compliance*

Agenda

Forensic Audit

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AN OVERVIEW

The number of fraudulent activities and ambiguous financial activities have been accelerating all over the world. Consequently, businesses are exposed to risks of fraudulent activities.

Forensic Auditing has established itself as dynamic and strategic tool in combating corruption, financial crimes and frauds through investigations and resolving allegations of fraud and embezzlement. Thus, a new area of auditing, known as Forensic Audit, was needed to detect the frauds in companies that suspected fraudulent transactions.

“Forensic” means “suitable for use in the court of law”. Bologna said that it is the application of financial skills and investigative mentality to unresolved issues, conducted within the context of the rules of evidence. As an emerging discipline, it encompasses financial expertise, fraud knowledge and a sound knowledge and understanding of business reality and the working of legal system.

AUDIT V/S. FORENSIC ACCOUNTING/FORENSIC AUDIT

Forensic Accounting/ Audit

- *In response to an event
- *Financial investigation
- *Finding used as evidence in court or to resolve disputes

Audit

- *Mandatory
- *Measures compliance with reporting standards
- Obtain reasonable assurance that financial statements are free of material misstatement In practice, there are difference in mind set between forensic accounting and audit:
- "Investigative mentality" vs. "professional scepticism". A forensic accountant will often require more extensive corroboration.
- A forensic accountant may focus more on seemingly immaterial transactions.

FORENSIC AUDITOR

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.

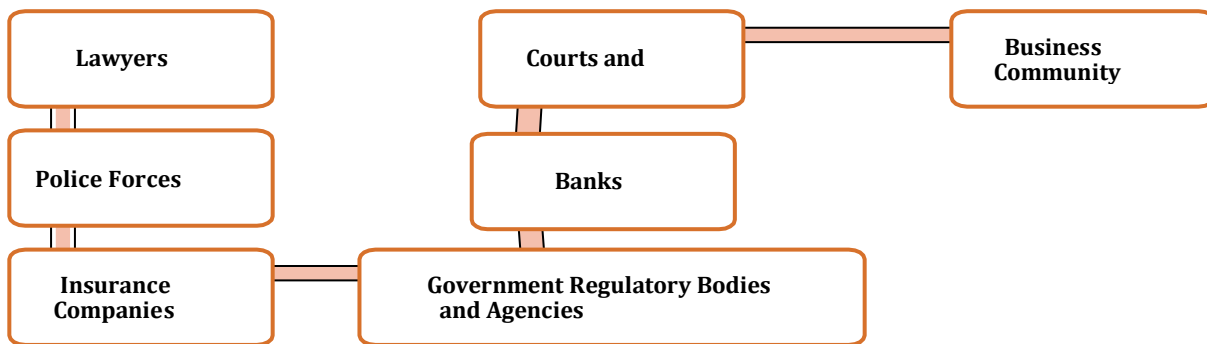
Forensic audits are highly specialized, and the work requires detailed knowledge of fraud investigation techniques and the legal framework.

Forensic Auditors can be engaged in public practice or employed by insurance companies, banks, police forces, government agencies and other organizations.

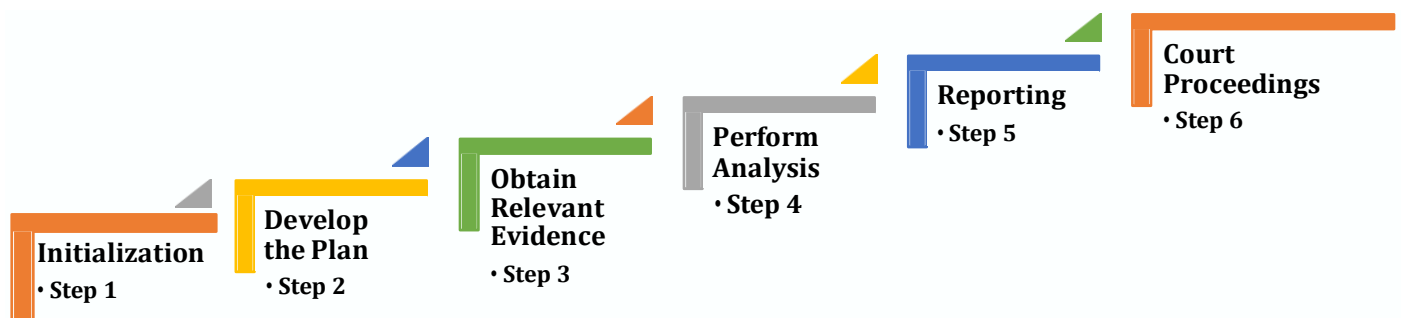
A Forensic Auditor is often involved in:

1. **Fraud Detection** : Investigating and analyzing financial evidence, detecting financial frauds and tracing misappropriated funds
2. **Computer Forensics** : Developing computerized applications to assist in the recovery, analysis and presentation of financial evidence;
3. **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
4. **Providing Expert Testimony** : Assisting in legal proceedings, including testifying in court as an expert witness and preparing visual aids to support trial evidence.

Who retains Forensic Auditors?



PROCESS OF FORENSIC AUDIT



Step-1 Initialization

It is vital to clarify and remove all doubts as to the real motive, purpose and utility of the assignment. It is helpful to meet the client to obtain an understanding of the important facts, players and issues at hand. A conflict check should be carried out as soon as the relevant parties are established. It is often useful to carry out a preliminary investigation prior to the development of a detailed plan of action. This will allow subsequent planning to be based upon a more complete

understanding of the issues.

Step-2 Develop the Plan

This plan will take into account the knowledge gained by meeting with the client and carrying out the initial investigation and will set out the objectives to be achieved and the methodology to be utilized to accomplish them.

Step-3 Obtain Relevant Evidence

The evidence should be sufficient to ultimately prove the identity of the fraudster(s), the mechanics of the fraud scheme, and the amount of financial loss suffered. It is important that the investigating team is skilled in collecting evidence that can be used in a court case, and in keeping a clear chain of custody until the evidence is presented in court. If any evidence is inconclusive or there are gaps in the chain of custody, then the evidence may be challenged in court, or even become inadmissible. Investigators must be alert to documents being falsified, damaged or destroyed by the suspect(s).

Step-4 Perform the Analysis

The actual analysis performed will be dependent upon the nature of the assignment and may involve:

- + calculating economic damages;
- + summarizing a large number of transactions;
- + performing a tracing of assets;
- + performing present value calculations utilizing appropriate discount rates;
- + performing a regression or sensitivity analysis;
- + utilizing a computerized application such as a spread sheet, data base or computer model; and
- + utilizing charts and graphics to explain the analysis.

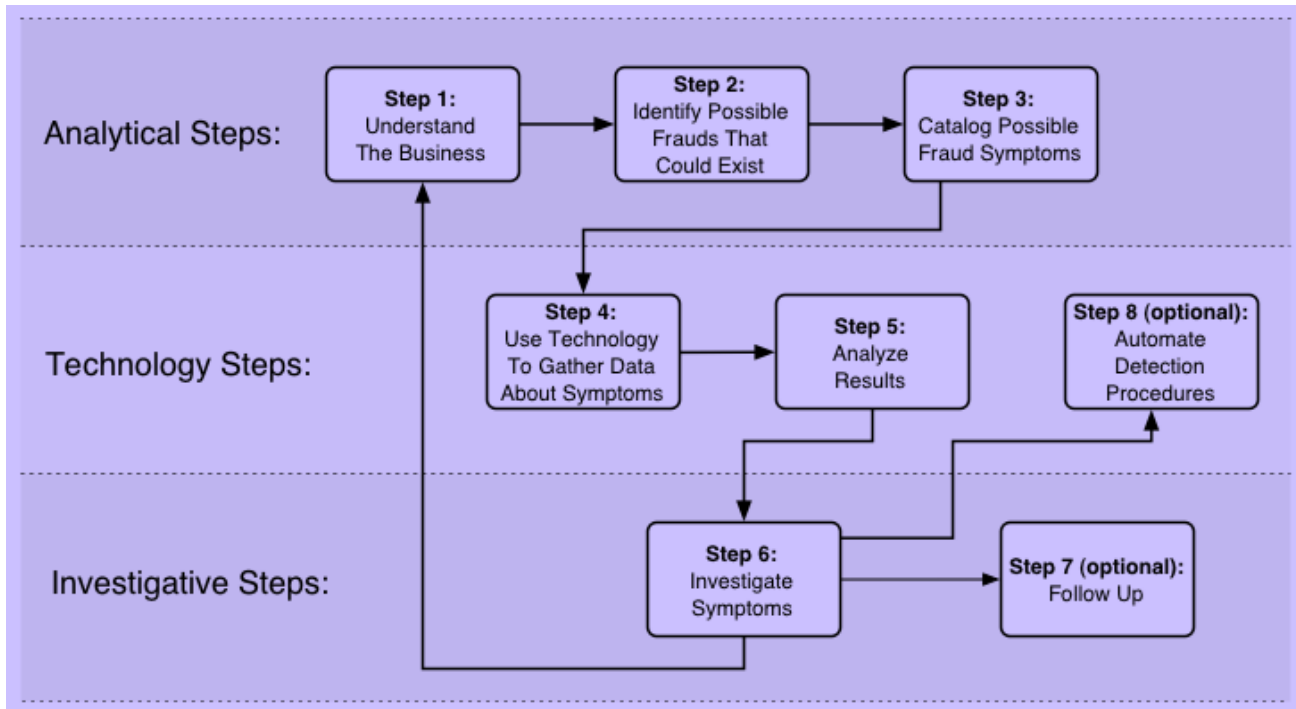
Step-5 Reporting

Issuing an audit report is the final step of a fraud audit. Auditors will include information detailing the fraudulent activity, if any has been found. The client will expect a report containing the findings of the investigation, including a summary of evidence and a conclusion as to the amount of loss suffered as a result of the fraud. The report may include sections on the nature of the assignment, scope of the investigation, approach utilized, limitations of scope and findings and/or opinions. The report will include schedules and graphics necessary to properly support and explain the findings.

Step-6 Court Proceedings

The investigation is likely to lead to legal proceedings against the suspect, and members of the investigative team will probably be involved in any resultant court case. The evidence gathered during the investigation will need to be presented at court, and team members may be called to court to describe the evidence they have gathered and to explain how the suspect was identified.

FORENSIC AUDIT TECHNIQUES



(I) General Audit Techniques:

- **Testing defenses:** A good initial forensic audit technique is to attempt to circumvent these defenses yourself. The weaknesses you find within the organizations control will most probably guide you down the sea path taken by suspected perpetrators. This technique requires you to attempt to put yourself in the shoes and think like your suspect.

(II) Statistical & Mathematical Techniques:

- **Trend Analysis:** An expense or event within a business that would be analogous to a snowy day in the middle of summer is worth investigating. Careful review of your subject organization's historical norms is necessary in *order* for you to be able to discern the outlier event should it arise within your investigation.
- **Ratio Analysis:** Another useful fraud detection technique is the calculation of data analysis ratios for key numeric fields. Like financial ratios that give indications of the financial health of a company, data analysis ratios report on the fraud health by identifying possible symptoms of fraud.

(III) Technology based /Digital Forensics Techniques:

Every transaction leaves a digital footprint in today's computer-driven society. Close scrutiny of relevant emails, accounting records, phone logs and target hard drives is a requisite facet of any modern forensic audit. Before taking steps such as obtaining data from email etc. the forensic auditor should take appropriate legal advice so that it doesn't amount to invasion of privacy. Digital investigations can become quite complex and require support from trained digital

investigators. However, many open-source digital forensics tools are now available to assist you in this phase of the investigation.

(IV) **Computer Assisted Auditing Techniques (CAATs):** Changing patterns of businesses, regulatory framework, scarcity of resources at auditors' disposal on one side and the ever increasing mountainous data on other hand is making audit a complex process. Use of CAATs is, thus, indispensable to the Auditors and forensic auditors. Computer-assisted audit techniques (CAATs) or computer-assisted audit tools and techniques (CAATTs) are computer programs that the auditors use as part of the audit procedures to process data of audit significance contained in a client's information systems, without depending on him.

(V) **Generalised Audit Software (GAS):** Generalized Audit Software (GAS) is a class of CAATs that allows auditors to undertake data extraction, querying, manipulation, summarization and analytical tasks. GAS focuses on the fully exploiting the data available in the entity's application systems in the pursuit of audit objectives. GAS support auditors by allowing them to examine the entity's data easily, flexibly, independently and interactively in data based auditing.

Using GAS, an auditor can formulate a range of alternative hypotheses for a particular potential misstatement in the subject matter and then test those hypotheses immediately. "What if" scenarios can be developed with the results and the auditors can examine the generated report rapidly. Currently, the latest versions of GAS include the Audit Command Language (ACL), Interactive Data Extraction and Analysis (IDEA) and Panaudit.

(VI) **Common Software Tool (CST):** Due to shortcomings of GASs, CSTs have become popular over a period. Spreadsheets (like MS Excel, Lotus, etc.), RDBMS (like MS Access, etc.) and Report writers (like Crystal reports, etc.) are few examples of CSTs. Their widespread acceptability is due to its instant availability and lower costs. While spreadsheets may be extremely easy to use due to its simplicity and versatility, other CSTs may need some practice.

Whether one uses GAS or CST, it is imperative that the auditor is aware about the manner and processes that have led to the data generation, the control environment revolving around the data and the source from where the data samples are imported into the GAS/CST.

(VII) **Data Mining Techniques:** It is a set of assisted techniques designed to automatically mine large volumes of data for new, hidden or unexpected information or patterns.

Data mining techniques are categorized in three ways: Discovery, Predictive modeling and Deviation and Link analysis. It discovers the usual knowledge or patterns in data, without a predefined idea or hypothesis about what the pattern may be, i.e. without any prior knowledge of fraud. It explains various affinities, association, trends and variations in the form of conditional logic.

FORENSIC AUDIT REPORT

A Report is a statement of collected & considered facts, so drawn up as to give clear and concise information to persons who are not already in possession of the full facts of the subject matter of the report.

The Forensic Audit Report is nothing but statements of observation gathered & considered while proving conclusive evidence. It is a medium through which an auditor expresses his opinion under audit. It is an important part of the audit as it provides the results of the audit conducted by the auditor.

Points to keep in mind while reporting:

| | |
|-----------------------------------|---|
| Clear thinking: | <ul style="list-style-type: none">✓ To whom the report is directed✓ Purpose and aim✓ Cool and calm thinking to have logical and coherent presentation✓ Pattern of presentation |
| Keep the reader uppermost in mind | <ul style="list-style-type: none">✓ Translate technical matters to layman's language✓ To visualize the reader's viewpoint |
| Unbiased approach | <ul style="list-style-type: none">✓ To mention the view point of the auditee |
| Impact of the report | <ul style="list-style-type: none">✓ What be the probable reaction to reporting whether action or decision will follow in quickest possible time or to be treated as of academic interest only.✓ To remember the universal saying - "don't jump to conclusions" |

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