

RJA

Rajput Jain & Associates
Chartered Accountants



**Forensic
Audit**

About Us

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 it 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.

FORENSIC AUDIT

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. With all of the recent corporate accounting scandals at Parmalat, Xerox Corporation, and Satyam Computer Services, and all the high profile corporate frauds at Enron, WorldCom, and HealthSouth followed by Bernie Madoff's colossal ponzi scheme, the media has made Forensic Accounting and Forensic Auditing into a growth industry.
- 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

- How is a forensic accounting analysis different from an audit?
- The general public believes that a financial auditor would detect a fraud if one were being perpetrated during the financial auditor's audit. The truth, however, is that the procedures for financial audits are designed to detect material misstatements, not immaterial frauds. While it is true that many of the financial statements and frauds could have, perhaps should have, been detected by financial auditors, the vast majority of frauds could not be detected with the use of financial audits. Reasons include the dependence of financial auditors on a sample and the auditors' reliance on examining the audit trail versus examining the events' and activities behind the documents.

Forensic Accounting

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

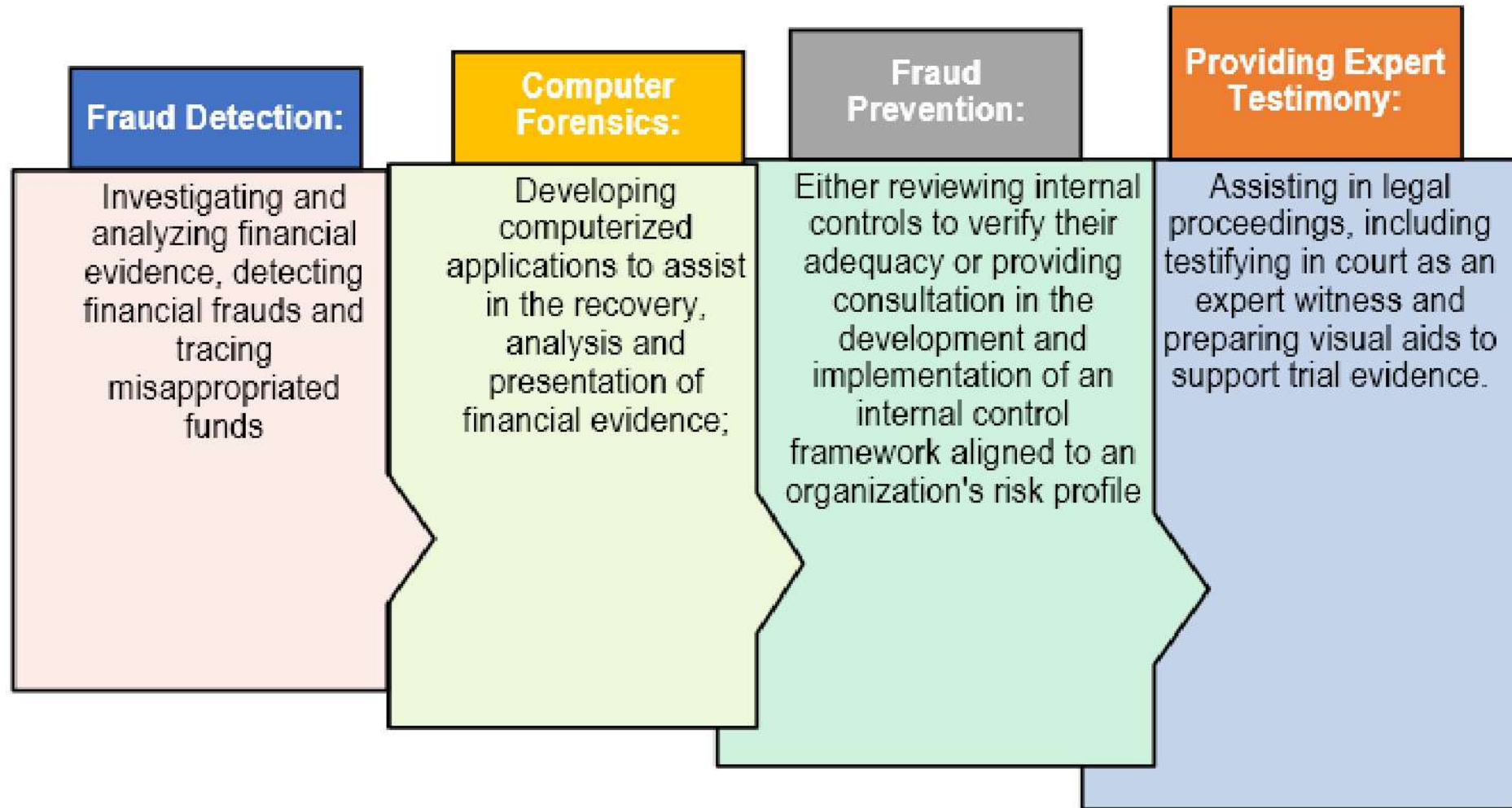
Audit

- *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 skepticism". A forensic accountant will often require more extensive corroboration.
- A forensic accountant may focus more on seemingly immaterial transactions.

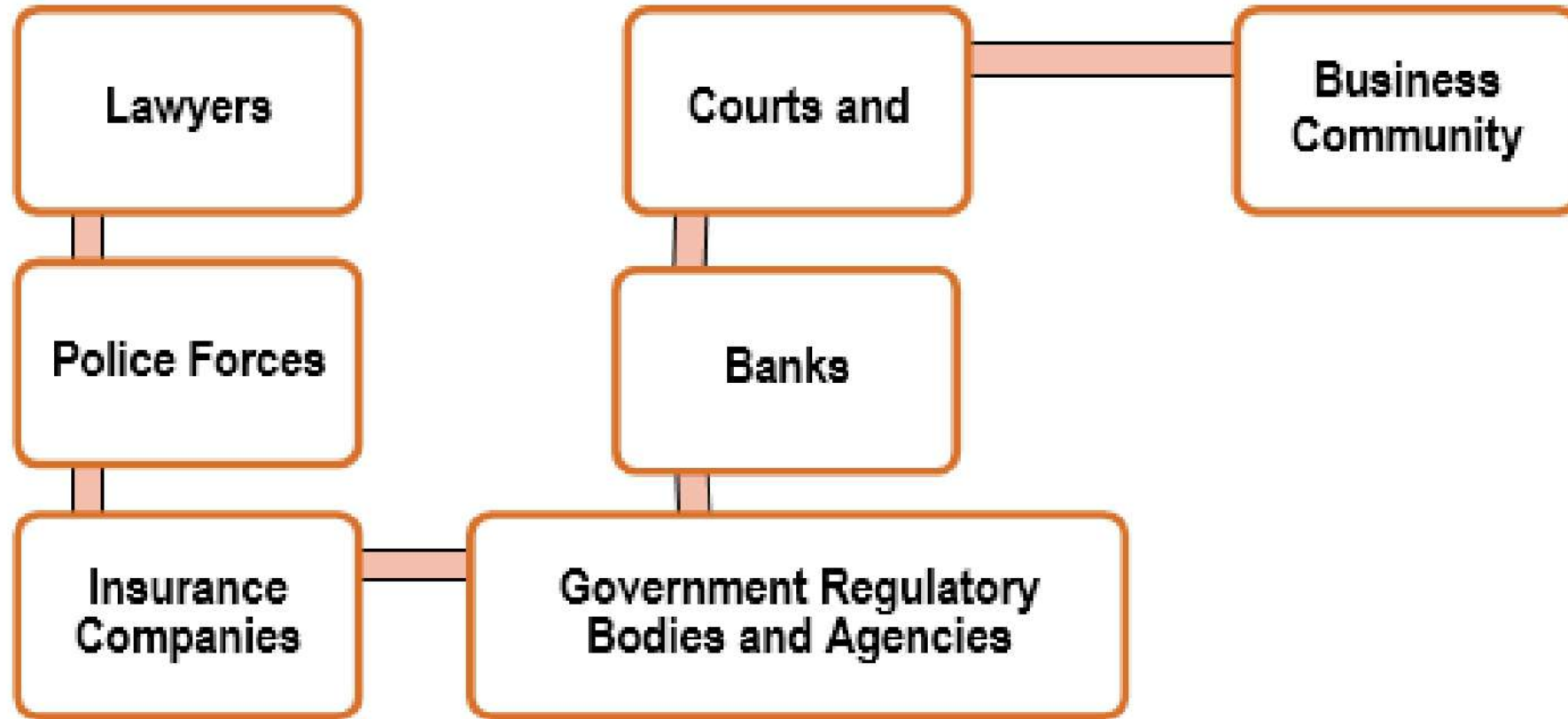
FORENSIC AUDITOR

- 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 Accountants are trained to look beyond the numbers and deal with the business reality of the situation.
- A Forensic Auditor must initially consider whether his/her firm has the necessary skills and experience to accept the work. 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:



Who retains Forensic Auditors?



Importance of Forensic Auditors

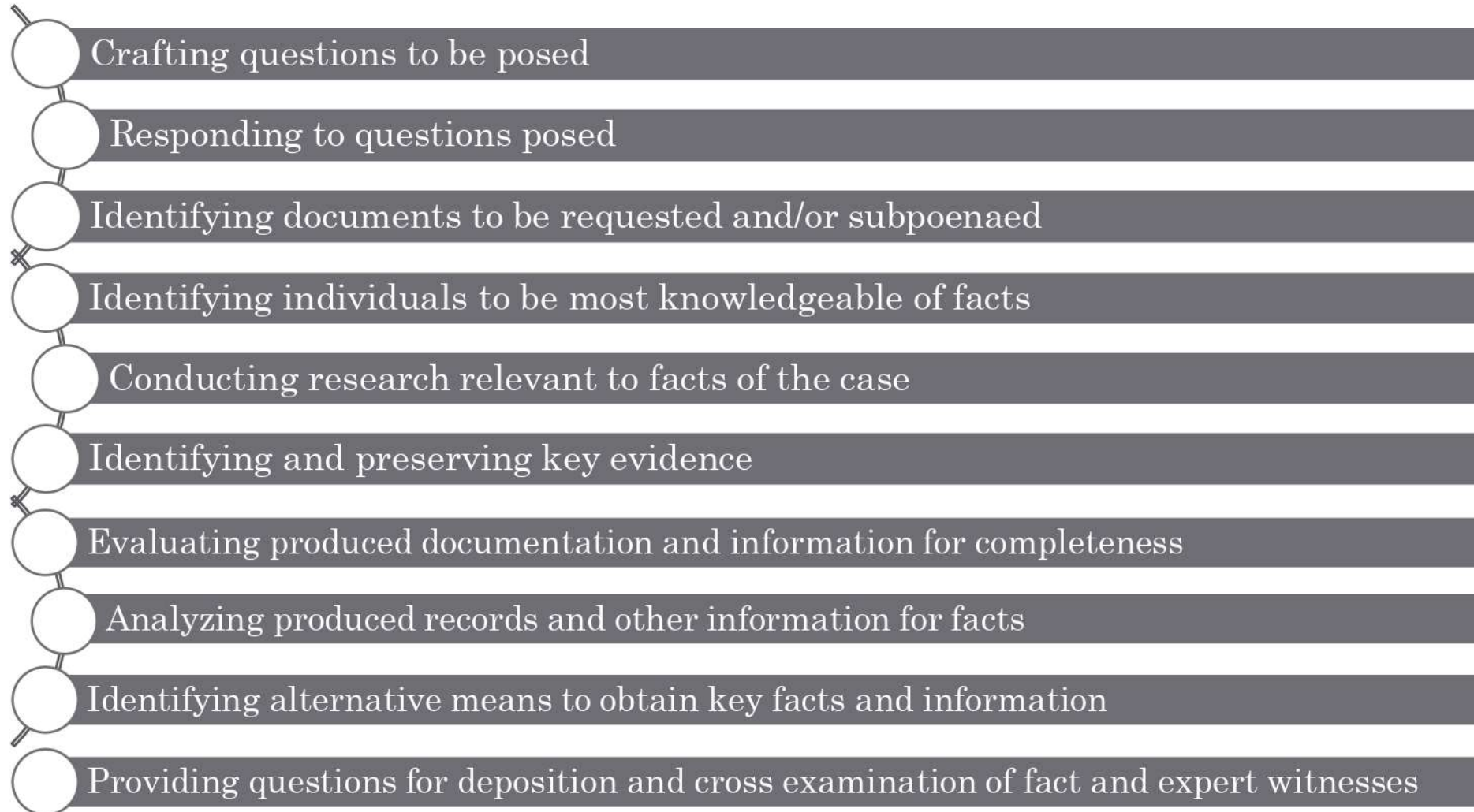


Fraud
Prevention

Fraud
Detection

Risk
Management

Services Rendered by Forensic Auditors


- 
- Crafting questions to be posed
 - Responding to questions posed
 - Identifying documents to be requested and/or subpoenaed
 - Identifying individuals to be most knowledgeable of facts
 - Conducting research relevant to facts of the case
 - Identifying and preserving key evidence
 - Evaluating produced documentation and information for completeness
 - Analyzing produced records and other information for facts
 - Identifying alternative means to obtain key facts and information
 - Providing questions for deposition and cross examination of fact and expert witnesses

The services rendered by the forensic accountants



PROCESS OF FORENSIC ACCOUNTING






Step 1 - Accepting the Investigation

The firm must ascertain whether or not they have the necessary tools, skills and expertise to go forward with such an investigation. They need to do an assessment of their own training and knowledge of fraud detection and legal framework

Step 2 - Planning the Investigation

The auditor(s) must carefully ascertain the goal of the audit so being conducted, and to carefully determine the procedure to achieve it, through the use of effective tools and techniques. Planning also includes the identification of the best mode to gather evidence.



Step 3 – Gathering the evidence

In forensic auditing specific procedures are carried out in order to produce evidence. The investigators can use the following techniques to gather evidence :

- Testing controls which identifies the weaknesses,
- Using analytical procedures to compare trends over time
- Applying computer-assisted audit techniques,
- Discussions and interviews with employees
- Substantive techniques such as reconciliations, cash counts and reviews of documentation.

- **Step 4 – Perform the analysis**

The actual analysis performed may involve calculating economic damages, summarizing a large number of transactions, tracing of assets, present value considerations

- **Step 5 – Reporting**

After investigating and gathering evidence, the investigating team is expected to give a report of the findings of the investigation, and also the summary of the evidence and conclusion about the loss suffered due to the fraud.

- **Step 6 – Court Proceedings**

The last stage expands over those audits that lead to legal proceedings. The auditors are called to the Court, and also included in the advocacy process.

Types of Investigations under Forensic Audit

Asset Misappropriation

- This includes misappropriation of cash, raising fake invoices, payments made to non-existing suppliers or employees
- It happens when people who are entrusted to manage the assets of an organization, steal from it.
- The direct hit is on the cash flow of the organization.



Corruption

Corruption is a major obstacle at corporate levels, and also to socio-economic development. It can surface in various forms such as -

- Bribery
- Extortion
- Conflict of interest

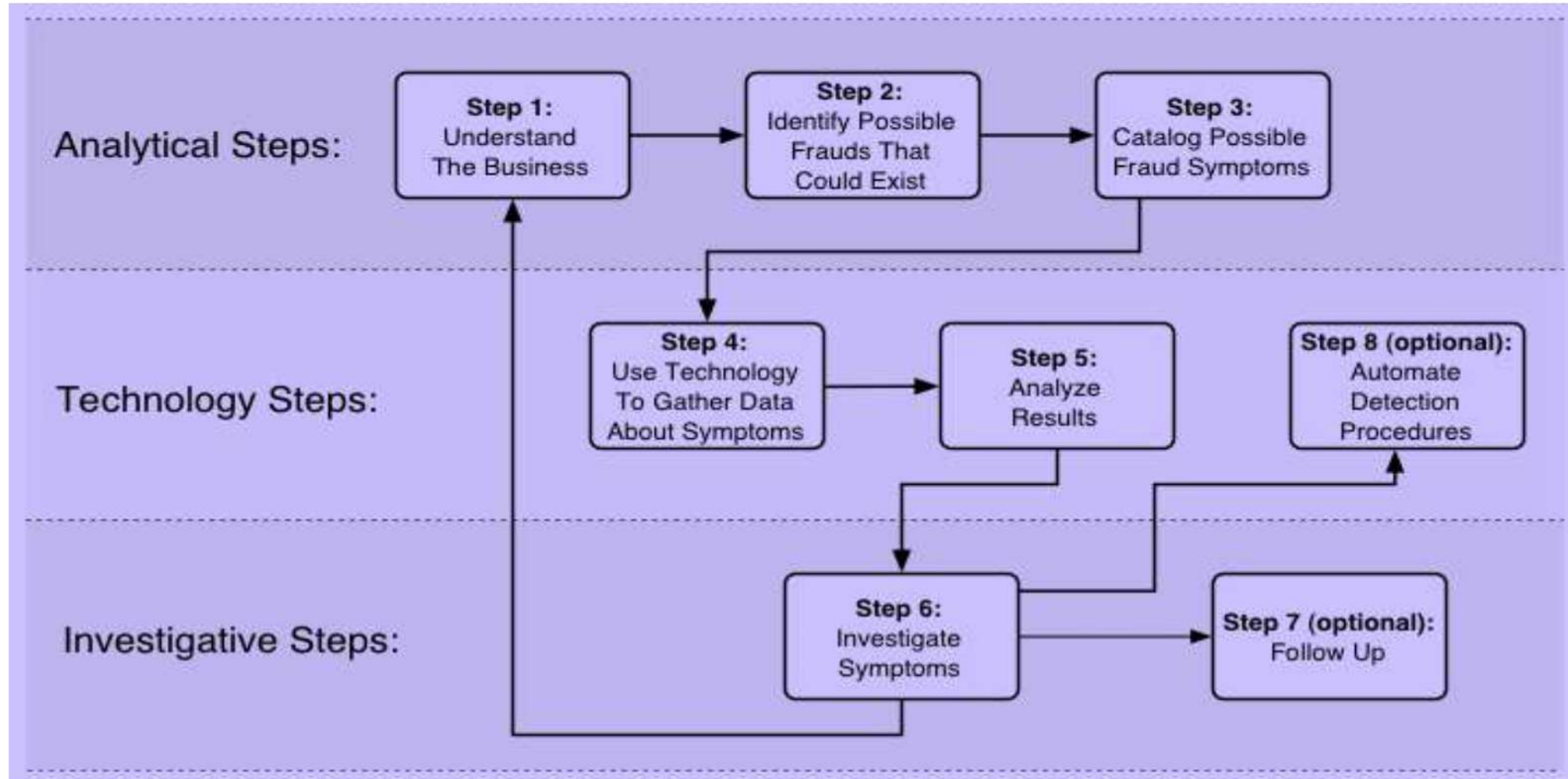


Financial Statement Fraud (FSF)

- Financial statement fraud is the deliberate misrepresentation, misstatement or omission of data for the purpose of misleading the reader and creating a false impression of an organization's financial strength.
- The common practice is deferring revenues or expense in a different time period to give the appearance of consistent earnings or growth.



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:** Businesses have cycles and seasons much akin to nature itself. 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.

(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) Generalized 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.

(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.

(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.

(VIII) Laboratory Analysis of Physical and Electronic Evidences:

Computer Forensics	Protection/Validation of Evidence
✍ hard disk imaging	✍ Federal Rules of Evidence
✍ E-mail analysis	✍ Chain of Custody
✍ search for erased files	✍ Altered & Fictitious Documents
✍ analyze use & possible misuse	✍ physical examination
✍ computer software to analyze data	✍ fingerprint analysis
	✍ forgeries
	✍ ink sampling
	✍ document dating

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
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"

SATYAM CASE



- 7561 fake invoices
- Inflated receivables
- Fake Fixed Deposit Receipts were printed
- Bank guarantees were manipulated
- Fake bank balance statements of BNP Paribas, HSBC, ICICI Bank and Citibank

FORENSIC AUDIT IN THE NIRAV MODI CASE

A staggering 30 banks will be a part of the forensic audit, besides Punjab National Bank, to trace and track the chain of money movement

It eventually ended up as a gigantic **Rs 11,400 crore** Indian banking fraud.

Its outcome will be used as evidence in court to prosecute the key perpetrator Nirav Modi and his firms and Mehul Choksi, promoter, Gitanjali Group.

RBI GUIDELINES



As per RBI's master direction on frauds, revised in July 2017,

In case an account is classified as a **fraud** and falls under **multiple banking arrangements**, the account should be red flagged by all banks, initiate a forensic audit and lodge complaints with the CBI and law enforcement agencies.

This process should be completed within six months.

RJA

Associated International Network



CONTACT US:**CORORATE OFFICE:**

P-6/90, Connaught Circus

Connaught Place

New Delhi- 110001

Telephone: +91 011 -23343333

Email : info@carajput.com

Website :www.carajput.com

HEAD OFFICE:

204, Prakash Chamber, 6, Netaji

Subash Marg, Darya Ganj, New

Delhi-110002

Tel: +91 011 -43520194

Email: support@carajput.com

BRANCH OFFICE:

1) 1598, Level-1, Sector 22-B,

Chandigarh. Tel:017-25085213,

9814333213

Email:rajputjainandassociates@gmail.com

2)163, Building No.65

Lakhe chaur Marg New

Baneshwor, Kathmandu, Nepal

Tel: +977-01-2051061

Email: pmahaseth@carajput.com