

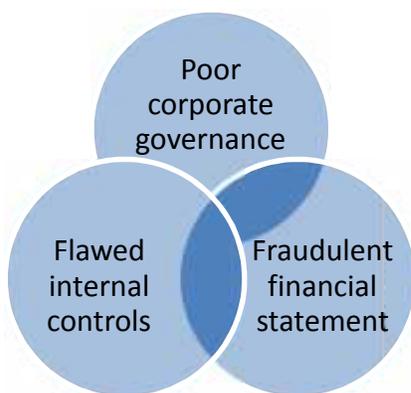
# FORENSIC SERVICES: An Insight

## INTRODUCTION:

The last decade has seen significant coverage of corporate fraud in the media. Recent corporate frauds and the outcry for transparency and honesty in reporting have given rise to two outcomes.

- Forensic accounting skills have become very crucial in untangling the complicated accounting maneuvers that have obfuscated financial statements.
- Public demand for change and subsequent regulatory action has transformed corporate governance scenario across the globe.

In fact, both these trends have the common goal of addressing the investors' concerns about the transparent financial reporting system. The failure of the corporate communication structure, therefore, has made the financial community realize that *there is a great need for skilled professionals who can identify, expose, and prevent structural weaknesses in three key areas:*



## FORENSIC ACCOUNTING:

***“Forensic accountants are financial detectives with an investigative mind who aim at pulling out latent truths from financial statements”.***

Forensic accounting is the science that deals with the relation and application of financial, accounting, tax and auditing knowledge to analyze, investigate, inquire, test and examine matters related to white collar crimes. Forensic accounting offers the highest level of assurance that is suitable for legal review.

Forensic accounting work can be broadly divided into two categories: investigative accounting covering fraud investigation and litigation support that requires skills from valuation to technological assessment.

## FORENSIC ACCOUNTING IN INDIA:

***“Though forensic accounting is at a nascent stage in India, it is currently in great demand because of the emerging demand for transparency and accountability”.***

With the rise in the Indian economy, financial statement frauds are rising. The infamous Satyam scam of 2008 followed by the CWG scam and the 2G Spectrum scam heightened the need for the development of Forensic Accounting as a profession in India. In India FAs are called Certified Forensic Accounting Professionals. ICAI (The Institute of Chartered Accountants of India) too had launched a Certificate course on Forensic Accounting and Fraud Detection in the year 2009.

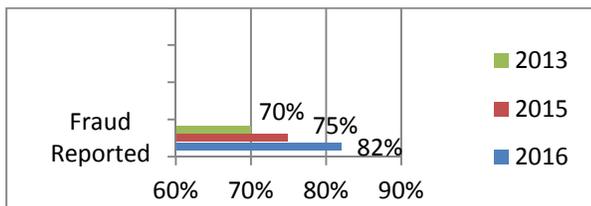
Conventional accounting tools like trend analysis, ratio analysis, fund flow analysis, cash movement analysis are to be supplemented by forensic technology for source data and few other forensic accounting tool like BENFORD’S LAW, theory of

Relative size factor, computer assisted auditing tools to process data of audit significance in the IT platform, data mining techniques etc.

Going by the age old proverb, *prevention is better than cure*, some giant companies like HDFC, Standard Life, Bharti Airtel, Tata Motors, etc., have started appointing FAs to keep a check on the organization’s working and financial records.

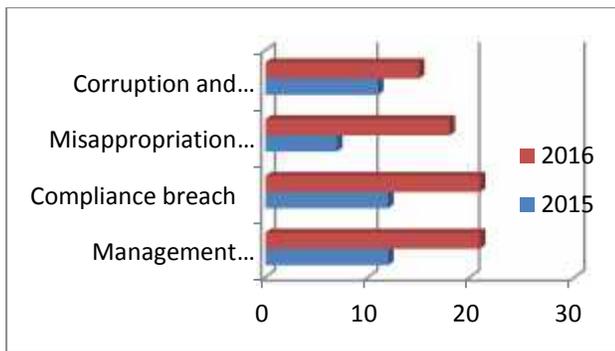
**FRAUD ON THE RISE:**

**FRAUD**



In Kroll’s 2016 Global Fraud and Risk survey, the incidence of fraud continued to climb markedly. Overall, 82% of surveyed executives reported falling victim to at least one instance of fraud in the past year, up from 75% in 2015.

**TYPES OF INCIDENTS IMPACTING BUSINESS**



**THE ROAD TO RESILIENCE: PROACTIVE APPROACHES**

- **Fraud Risk Management:**

It can help you assess your vulnerability to fraud, define any weaknesses in your systems and processes from both an external and an internal perspective, and help you minimize your vulnerability to fraud risks. It shall include:

1. Employee ethics and fraud awareness surveys
2. Fraud awareness training programs or ‘Ethical dilemma workshops’ and ‘Fraud vulnerability workshops’
3. Fraud risk management assessment and assistance with the preparation and development of fraud control plans / policy
4. Setting up of whistle blowing service / helpline (including system assessments and benchmarking)
5. Forensic data analytics for anomaly detection as a preventive measure and for post incident analysis of alleged fraud during investigations
6. Development of a fraud response management plan

- **Anti-Bribery and Corruption Consulting :**

*“According to an estimate by the World Bank Institute, corruption is a global epidemic that costs the economy more than 1 trillion USD annually.”*

As regulators and stakeholders become less tolerant of lapses, responsible companies need to understand that they must undertake continuous efforts in order to identify as well as mitigate the risks of bribery and corruption effectively.

- **Anti-Money Laundering Consulting:**

Traditionally money laundering has been a risk area for banks and financial institutions. However, the broader reach of anti-money laundering (AML) legislation worldwide and the increase in financial and trading activity performed by other businesses have meant a change to this view in recent years. It shall include:

1. Money laundering investigations

2. Know Your Customer (KYC)

3. Anti-Money Laundering (AML) Health Check

4. Acquisitions – AML Due Diligence

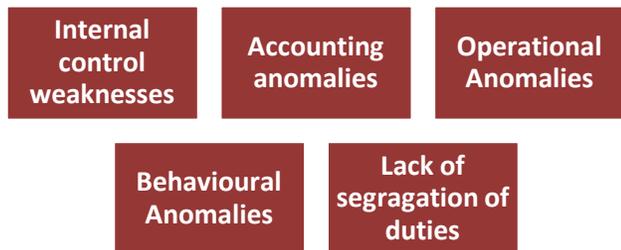
5. Anti-Money Laundering Training

• **Business Intelligence services:**

Business Intelligence entails the following:

1. Integrity Due Diligence
2. Third Party Due Diligence
3. Senior Management Due Diligence
4. Screening and Red Flag Identification
5. Asset Tracing
6. Strategic & Competitor Intelligence
7. Operational Risk Assessment
8. Investigative / Forensic Litigation diligence.

**FRAUD INDICATORS:**



**PROFESSIONAL SCEPTICISM: THE BASIC NEED**

*“Trust is a professional hazard and a fraudster will prey on it,” said Marks.*

Professional skepticism occurs when those responsible for fighting fraud take nothing for granted, continuously question what they hear and see, and critically assess all documents and statements.

The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements is of maintaining professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud.

**FACE OF FRAUD IN THE PAST:**

From Enron, Parmalat and Satyam, it appears that corporate accounting fraud is a major problem that is increasing both in its frequency and severity. If the Enron episode resulted in huge value destruction, India had its own Satyam saga. Research evidence has shown that growing number of frauds have undermined the integrity of financial reports, contributed to substantial economic losses, and eroded investors’ confidence regarding the usefulness and reliability of financial statements.

- *“Arthur Andersen and Enron - two names that will forever live in infamy because of the events leading up to and including the debacle of December 2001, when Enron filed for bankruptcy”.*

At the beginning of December 2001, Enron filed for the biggest bankruptcy the USA had yet seen. This, in turn, took down one of the largest accounting firms in the world, Arthur Andersen, which was deemed to have so compromised its professional standards.

- Like the American cases, the Parmalat scandal known to be “the European Enron “ has raised questions about how the company could fudge its numbers for so long without any help from outside. The auditors should have least spoken to Bank of America to verify that they held the \$4.9 billion Parmalat claimed existed.

- The case, which is also called “the Enron of India”, dates back to 2009. Six years ago, Raju wrote a letter to the Securities and Exchange Board of India (SEBI) and his company’s shareholders, admitting that he had manipulated the company’s earnings, and fooled investors. Nearly \$1 billion—or 94% of the cash—on the books was fictitious.

**All these frauds have led to the passage of the Sarbanes-Oxley Act in July 2002.**

**MANAGING THE FACE OF FRAUD TOMORROW:**

Corporate India is cognizant of fraud, yet more can be done to mitigate fraud risks and comply with regulations that aim to address fraud risks.

The world is witnessing increasing incidences of business misdemeanors such as fraud, conflicts of interest, corporate code-of-conduct violations, regulatory non-compliance, and others. This calls for effective monitoring both by regulators as well as corporate.

The Forensic practices shall entail an investigative approach in the analysis of transactions & books and records, testing of documents, investigative interviews, forensic data analytics, collecting market intelligence and evidence gathering using forensic technology that provides clients with information to make appropriate decisions in sensitive corporate matters.

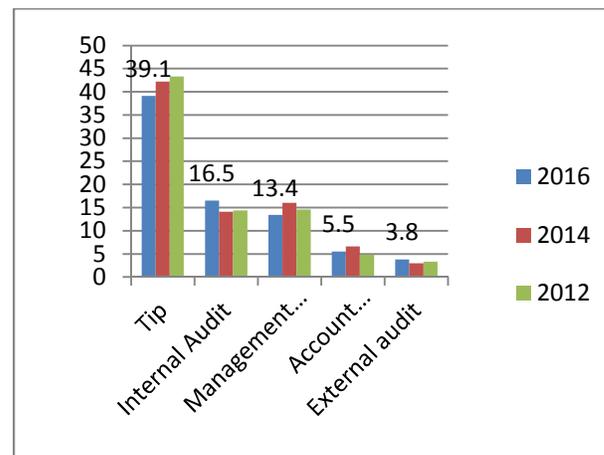
**Preventive Measures:**

Several financial frauds in the past and since the beginning of the century have repeatedly breached the trust of investors. Despite incidents of frauds,

organizations still lack a formal system of fraud detection, prevention, and a response mechanism.

**DETECTION OF FRAUD:**

The below table shows the overall frequency of how schemes were initially detected. As in previous years, tips were the most common detection method by a wide margin, accounting for 39.1% of cases. In the 2016 data, internal audit (16.5%) edged out management review (13.4%) as the second-most common detection method.



**THE ROAD TO MITIGATING RISK: REACTIVE APPROACHES**

Reactive Forensic Solutions help companies in containing the extent of fraud and malpractice that has occurred, extending support to plug gaps in processes and controls, and suggesting remedial action.

- Forensic Accounting and Corporate Fraud Investigation :**

Corporate Investigations practice helps companies assess allegations of corporate fraud or financial mismanagement and respond to government regulator requests. Clients come to us for help when they need to respond to allegations or prevent or detect potential problems before they occur.



- **Computer Forensics :**

Businesses, today, have moved from a paper based environment to an almost entirely electronic one. While the advantages of operating in such an environment are undisputable, it is imperative that organizations understand and address the risks of such an environment. Electronic business environments can fall prey to external threats, such as hackers gaining unauthorized access to confidential data, or internal threats such as employees misusing sensitive data and information (intentionally or otherwise). Such threats or data breach can be disastrous to organizations and, as reported by media in similar cases in the recent past, may result in monetary losses, irreparable damage to their reputation or business loss.

- **Forensic Data Analytics :**

Using analytics in new ways to predict future outcomes can help your company mitigate several key risk areas and reduce the possibility of the occurrence of a hindrance. Deloitte brings a big-picture approach to analytics combining deep industry knowledge, broad functional capabilities and a high degree of technical sophistication.

**Pay Check:**

Understanding Payroll Fraud: Large organizations with thousands of employees, multiple office/ plant locations, disparate systems used for payroll processing and tracking attendance/ leaves/ overtime, multiple payrolls running in a month and

high attrition rates are some of the possible breeding grounds for Payroll Fraud.

**Health Insurance Claims Management:**

Some common health insurance frauds:

- Billing for services, procedures, and/or supplies that were not provided
- Preparation of bogus claims by fake physicians
- Misrepresentation of what was provided; when it was provided; the condition or diagnosis; the charges involved; and/or the identity of the provider/recipient

- **Forensic Litigation Support and Forensic Dispute Resolution Consulting:**

The rapid pace and complex manner in which commercial transactions between corporate are conducted has resulted in a large amount of negligence infringement of intellectual property and similar circumstances can also cause significant bottom line damage.

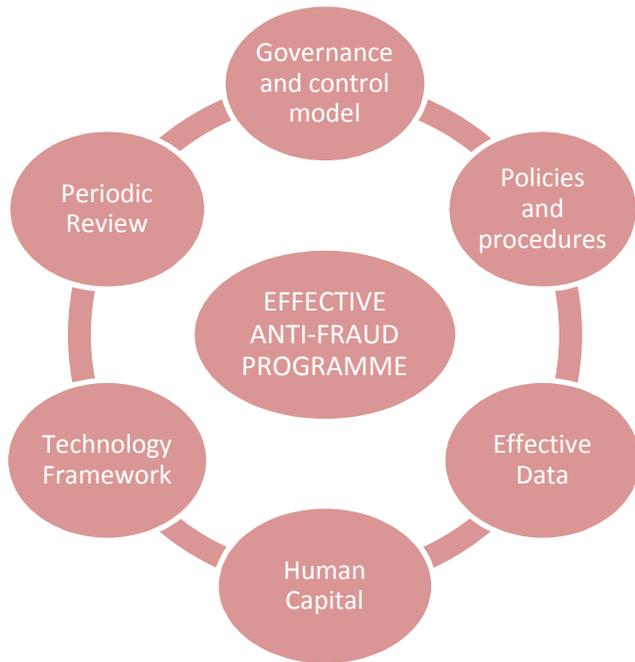
- **End Use Monitoring:**

Due to the rise in fraudulent cases in India of how companies and individuals are misusing banking facilities and diverting funds for purposes other than for which the loan has been granted, RBI in its circular dated 14 January 2011 laid out steps to be followed by banks to ensure the effective monitoring of fund utilisation and credit facilities being advanced.

**BACK TO BASICS: CONCLUSION**

- Periodic reviews and transparent management reporting
- Effective technology solutions to be implemented for business to run in sync and data to be available consistently
- Employ qualified and experienced staff to enable supervision and monitoring
- A well-defined governance structure
- Develop policies and procedures to provide guidance to business

- Policies to be structured in layers to cover all products and services across locations
- Data capturing to be consistent and adequate
- Data flow from various systems to be unhindered



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