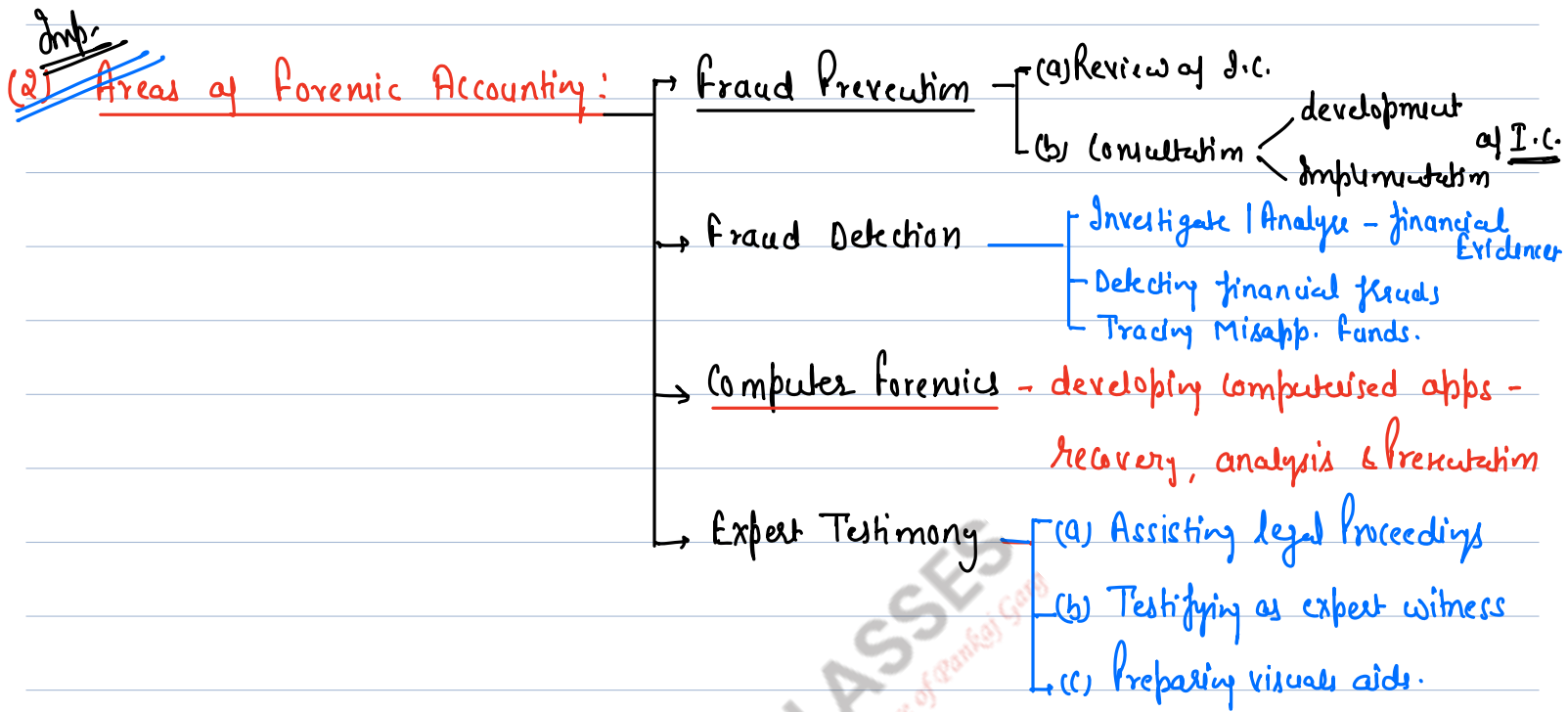


# Chapter 17 - Forensic Accounting

(1) Difference between forensic accounting and financial audit: (Learning + Noting)



(3) Forensic Professional Accountant:

(A) Users of FAI Services: Govt. Agencies, Police; Banks, Lawyers, Insurance Companies  
Other Organisations.

(B) Importance of Forensic Accountants: resolve matters w.r.t.

- Fraud Prevention
- Fraud Detection
- Computer Forensics
- Risk Management etc.

(C) Services rendered by Forensic Accountants:

- (a) F.S. Manipulations
- (b) Diversion of funds / Misappropriated Assets tracing.
- (c) Anti Money Laundering
- (d) Licence fees / Dues / Taxes Evasion
- (e) R.P. Investigation

- (f) Estimation of loss/damages
- (g) Suspicious transactions under IBC.

- (d) Skills to be possessed by Forensic Accountant:
- (a) Familiar with legal concepts and procedures
  - (b) Expertise in use of IT tools and techniques.
  - (c) Ability to identify substance over form.

④ Process of forensic Accounting:

- Step-1 Initialisation →
- (a) Meeting with client
  - (b) Accepting the engagement
  - (c) Performing conflict check
  - (d) " Initial Investigation

Audit  
 Audit Engagement  
 (SA-210)  
 + Preliminary  
 Engagement Activities

- Step-2 Planning: based on meeting with client and result of Initial Investigation  
 should cover objectives of the engagement and detailed procedures to be performed.

Planning Activities  
 SA-300 — Strategy  
 — Audit Plan

Step-3 Collection of Evidence:

- Obtain relevant documents, records, information
- Tracing of different assets / persons etc.
- Meeting with Experts, St. Auditors, Internal Auditors etc.

Note: Evidence should be sufficient to ultimately identify the fraudster(s); modus operandi followed for such frauds.

Imp.  
Step-4: Performing Analysis: Analysis to be performed depends upon nature of assignment and may include:

- (a) Calculating economic damage;
- (b) Summarisation of large no. of transactions;
- (c) Tracing an asset;
- (d) Compute PV calculations using app. discount rates
- (e) Sensitivity Analysis
- (f) Using computerised applications like data analytic tools, spreadsheets, etc.
- (g) Using graphs and charts to explain analysis.

Imp.  
Step-5: Reporting:

- Issuing a report is final step. Report shall contain detailed information about the fraudulent activity.
- Report may also discuss how the fraudster set up the fraud and controls circumvented by him; so as to recommend the necessary improvements.
- No specific format of report is prescribed. However report shall include the following key elements: (FAIS - 510)
  - (a) Title, addressee and distribution list.
  - (b) Scope and objectives of the Engagement.
  - (c) Approach followed and work procedures undertaken
  - (d) Executive summary of the findings.
  - (e) Where applicable, reference to use of expert.
  - (f) Statement that assignment has been conducted in accordance with FAIS; or any material departure therefrom should be stated.

- (g) List of findings supported by Evidences, sources of evidences and other relevant matters.
- (h) Assumptions used and limitations imposed, if any
- (i) Conclusions drawn from the assessment undertaken.

Step-6 "Court Proceedings": - There are chances that investigation is likely to lead to legal proceedings against the suspect.

- Evidence gathered will need to be presented at court and team members may be called to court to describe the evidences.