

DFA March 11, 2022 Arijit Chakraborty

Supply Chain fraud – Red flags Forensic Audit checks

- Arbitrary selection of firms. Bogus firms selected to inflate the number.
- Inadequate time given for participation in tender. Tender notice not sent to all the firms
- Showing as <u>'Emergency purchase'</u> tender terms tailor made, subsequent changes in T&C
- unusual/unauthorised vendors,
- <u>Unusual increase</u> in vendor spending
- Large gifts and entertainment expenses
- <u>Duplicate payments</u>, <u>expense booking</u> (Capex / opex)
- Personal expense in company accounts
- Payments just under authorisation level
- Employee-vendor address match
- Multiple invoices paid on same date
- Slight variation of vendor names
- Frauds in depots, warehouse, cash,
- Pre-poning Sales , write –off Debtors for bribe

Red flags & Fraud risks - Procurement & bidding, delivery, testing, invoice, payment

- Contractor involved in writing specifications
- Specifications designed to fit but one contractor
- Contractor provided with advance information
- <u>Falsification / misrepresentation</u> of credentials / certifications / experience / financial performance / successes
- Excessive / repetitive use of one contractor in a competitive field
- Inadequate publication of tender
- Fraternization with contractors
- Turns taken in submitting low bids

Observe Green Flags:-

- One way mistakes- cash-always in excess
- Employee does not take travel advance, no leave
- Very friendly, highly dedicated to organisation
- Employee declines promotion

Fraud Control Policy (Sample)

- EXECUTIVE SUMMARY
- Definition of fraud
- Statement of attitude to fraud
- Code of conduct (relationship to)
- Relationship with entity's other plans
- Roles and accountabilities

2. SUMMARY OF FRAUD CONTROL STRATEGIES

- Appointment of fraud control officer
- External assistance to the fraud control officer
- Fraud control responsibilities
- Fraud risk management (including fraud risk assessment)
- Fraud awareness
- Fraud detection

3. FRAUD RISK MANAGEMENT

- Regular program for fraud risk assessment
- Ongoing review of fraud control strategies
- Fraud risk assessment
- Implementation of proposed actions
- 4. PROCEDURES FOR REPORTING FRAUD
- Internal reporting
- Reports by members of staff
- Protection of employees reporting suspected fraud
- External anonymous reporting

Bharat Pe - Forensic audit - PWC, A&M

- Forensic report, dated 24 January 2022 was submitted to BharatPe board.
- BoD had arrived at a decision to terminate the services of Grover based on the preliminary report, even as it has commissioned a comprehensive report.
- BharatPe used to pay recruitment fees to HR consultants for employees
 recruited through them. Investigation has found that company was recruiting
 staff but fraudulently paying a network of staffing companies that had nothing
 to do with hiring & appear to be linked to each other as well as to Madhuri
 Grover.
- Jain was in charge of the funds since 2018.
- Total assets of companies valued at \$2.8 billion.
- Jain had used the funds for personal purchasing. Jain, notified of the termination on February 23, 2022

EY Forensic Audit Outlook 2021

Issues around contract breaches, disputes and Intellectual Property Rights (IPR) infringements may cast a dark shadow on companies unless they have a holistic risk management strategy which supports business continuity plans. Rising expectations from different stakeholder groups around environmental, social and governance (ESG) issues will accelerate the pace for ESG compliance, compelling corporates to proactively approach and manage ESG risks as part of their growth strategies. As businesses continue to face the strains and challenges, EY's Forensic Outlook 2021 highlights key considerations for organizations to confront the complex and integrated risks of today as they strive to thrive with integrity.



Arpinder Singh Global Markets and India Leader Forensic & Integrity Services, EY

Digital Forensics

In-house and external teams will have to explore revamping their investigative frameworks further to supplement it with the right technology-based solutions.



Sandeep Baldava
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