



Introduction to Forensic Audit

DFA – Module 1 :

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DFA Course Overview:

- 'Forensic Audit' = critical importance in India and globally in the wake of financial frauds, corporate misconduct and unethical business practices & high incidence of cybercrime.
- Forensic Audit = limelight due to : financial frauds , white-collar crimes
- Forensic Audit and Fraud Examination = both preventive and detective control that works towards a corruption-free economy which in turn paves the way for perpetual investment, stable eco-system and ever-increasing growth in economic prosperity and buoyant capital markets.
- Forensic Audit = accounting, auditing, CAAT/ Data Mining, behavioural and investigating skills to conduct investigations, in case of embezzlement, financial misconduct, contract non-compliance and other fraud cases.
- The role of Forensic auditors is to identify the perpetrators of financial theft and frauds including tracing money laundering, identifying illegal/ unethical activities as well as tax evasions.
- Forensic Auditor = Auditor + Investigative skills

DFA - Snapshot

- The ICAI 'Diploma in Forensic Audit' (DFA) is a blend of theoretical, Case studies and practical training and is intended to equip the participants with concepts in Forensic audit which aims at sensitizing Fraud Investigators, Auditors, security Professionals, and IT executives about the risks and mitigation strategies for an effective business environment.
- It provides an incisive analysis of how fraud occurs within an organisation and the latest cutting-edge avant-garde techniques of finding it.
- Forensic Audit issues can have significant implications for both **corporations and individuals**. Many disputes and investigations involve forensic auditing considerations.
- The study of forensic auditing is important for any business major, but it has **added importance for Professionals interested** in Fraud detection and prevention related careers.

DFA – relationship with allied disciplines

- Forensic Psychology
- Organisational Behavior
- Taxation
- Law – Corporate, Money Laundering, Insolvency etc.
- Law – Information Technology Act 2000
- Financial Reporting
- Transaction Advisory
- Internal Audit
- Information Systems
- Cyber Security

DFA Course Objectives:

- Introduce the Role, Scope and Tools of Forensic Audit and Fraud Examination
- Enable Career development and practice specialization in Fraud Examination, Forensic Audit
- Professional development opportunities
- Provides development of Ethical Code in forensic audit & fraud investigations
- Enhances Skill development and contributes to a corporate and social environment free of frauds, helps in examination of financial crimes

DFA –Modules

8.0 DFA Course Modules at a Glance

Module I	Introduction to Forensic Audit, Applicable Laws & Regulatory Environment	[40 hours]
Module II	Fraud Risk Management, Applicable Standards & Best Practices, Financial Forensics & Forensic Audit Techniques	[30 hours]
Module III	Fraud Examiner, Engagement Management, Documentation & Quality Control	[20 hours]
Module IV	Ethical Considerations, Code of Conduct in Fraud Examination & Forensic Audit, Professional Opportunities	[10 hours]

Modules - DFA

- **Module I: Introduction to Forensic Audit, Applicable Laws & Regulatory Environment [40 hours]**
- **Learning Objectives:** Creating awareness to participants regarding type of frauds, accountability for fraud prevention & detection, overview of Forensic audit and understanding of Legal framework
- **Learning Outcome:** After successfully completing this Module, participants will be able to:
 - ❑ Appreciate the concept, types of frauds
 - ❑ Understand Regulatory framework
 - ❑ Analyze Process of forensic audit, Apply legal provisions
- **Module II: Fraud Risk Management, Applicable Standards & Best Practices, Financial Forensics & Forensic Audit Techniques 30 hours]**
- **Learning Objectives:** Enabling participants to identify business risks, risk of fraud, fraudulent transactions & indicators signifying different types of fraud
- **Learning Outcome:** After successfully completing this Module, participants will be able to:
 - ❑ Identify threats in Forensic audit and deploy safeguards
 - ❑ Understand connect between Internal Controls and fraud deterrence
 - ❑ Identify fraud risk indicator, red flags and green flags
 - ❑ Manage fraud risk, Conduct forensic audit

- **Module III: Fraud Examiner, Engagement Management, Documentation & QC [20 hours]**
- **Learning Objectives:** Enabling participants to understand and appreciate the Role of a Forensic auditor and fraud examiner, terms of engagement and managing assignments, how to conduct interviews and interact with Regulators, gathering Evidence and Forensic Audit Report drafting
- **Learning Outcome:** After successfully completing this Module, participants will be able to:
 - ❑ Carry out the role of fraud examiner, Manage forensic audit engagements,
 - ❑ Coordinate and communicate with appointing authorities and Regulators
 - ❑ Draft Forensic Audit Report, Understand Documentation & Quality Control aspects
- **Module IV: Ethical Considerations, Code of Conduct in Fraud Examination & Forensic Audit, Professional Opportunities [10 hours]**
- **Learning Objectives:** Enabling participants to identify, appreciate and uphold highest ethical Standards and considerations while performing Forensic audits and fraud examinations.
- **Learning Outcome:** After successfully completing this Module, participants will be able to:
 - ❑ Appreciate Quality control and ethical issues in Forensic Audit
 - ❑ Identify indicators of conflict of interest and adhere to established Code of Conduct
 - ❑ Apply professional standards in carrying out forensic audit engagement
 - ❑ Demonstrate highest professional Conduct in forensic audit manifesting ethical considerations

Historical Roots of Forensic Audit

10,000 years ago—Temple priests took inventory of village livestock.

Egyptian civilization = Pharaoh's officers "recounted" / audited crop production , currency etc

3,000 B.C.—Scribes recorded ruler's wealth.

1800 s =Articles on arbitration, fraud, investigation, and expert witnesses began appearing in the late 1800s.

1856—In England, the audit of corporations became required.

1887—American Association of Public Accountants (later becoming the AICPA) was formed.

1896—New York State legislated the first CPA law.

The first forensic accounting book appeared in 1982.

FBI & Forensics

- During WWII, FBI employed approximately 500 agents who were accountants.
- In 1960, about 700 FBI agents were Special Agent Accountants.
- FBI has a Financial Crimes Section that investigates money laundering, Internet crimes, financial institutions fraud, and any other economic crime.
- In 1986, AICPA broke forensic accounting into 2 broad areas: investigative accounting & litigation support.

Accountant's Role in Fraud Detection

- In early 1980s, companies began to use computers to perform their record keeping.
- Intense competition caused auditing fees to fall as much as 50% from the mid-1980s to the mid-1990s.
- Auditors cut costs by reducing the process of reviewing hundreds of corporate accounts.
- They grew more reliant on internal controls.
- Top executives were able to circumvent internal controls and manipulate the records.
- Situations = Enron, WorldCom, Xerox, Adelphia Communication, and the fall of Arthur Andersen in the early 2000s.
- The *Journal of Forensic Accounting* was created.
- Due to financial disaster of companies such as Enron , WorldCom, there has been = increased use of forensic techniques in audits & increase in fees.

Forensic Accounting vs. Fraud/ Forensic Auditing

Forensic Auditor:

An accountant especially skilled in auditing who is generally engaged in auditing with a view toward fraud discovery, documentation, and prevention.

Forensic Accounting

the action of identifying, recording, settling, extracting, sorting, reporting, and verifying past financial data or other accounting activities for settling current or prospective legal disputes or using such past financial data for projecting future financial data to settle legal disputes.

Forensic Audit process

Additional procedures may be used in a forensic audit:

- Extensive use of *interviews* and leveraging techniques designed to elicit sufficient information to prove or disprove a hypothesis.
- Document *inspection* that may extend to authentication procedures and handwriting analysis.
- Significant *public records* search to uncover, for example, unexpected title or ownership, other known addresses, and prior records of individuals.
- Legal knowledge regarding *rules of evidence* including chain of custody and preservation of evidence integrity.

Forensic Auditors- Points to note

- Find out who did it & How
- Be creative, think like fraudster, and do not be predictable.
- Lower the auditing threshold without notice.
- Surprise stock / asset verification
- Take into consideration that fraud often involves conspiracy.
- Internal control lapses often occur during vacations, sick outages, days off, and rest breaks, especially when temporary personnel replace normal employees.