Forensic audit, fraud detection and Investigation techniques

By

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WHAT IS FRAUD

- misrepresentation of facts with intention to mislead someone to believe these facts as true;
- parting with some valuable thing or money belonging to someone after getting induced by relying upon such facts,
- Misappropriation of valuable thing or money belonging to someone who parted with it after getting induced by misrepresented facts causing or likely to cause loss of money and/or valuable things to the affected person.
CORPORATE FRAUD - A WORLD WIDE PHENOMENON

• Enron, World. COM, Daewoo Motors Korea , Xerox etc. are some of the world level frauds which caused business losses to their Indian affiliates and public financial institutions.

• In India too some big financial frauds have been witnessed in the recent past involving huge loss of public money. In the securities scam by Harshad Mehta and Ketan Parekh , C.R. Bhansali , Home Trade fraud, Satyam Scam, failure of non-banking financial institutions, frauds through vanishing companies & plantation companies etc. thousands of crores of public money has been lost.
FINANCIAL FRAUDS, QUITE COMMON IN CORPORATE SECTORS

Causing loss of enormous money to;

Banks
Financial institutions
General public

Adversely Affecting the trust in mechanism of trade, finance, and investment Having destabilizing effect on commercial institutions Affecting national progress and putting strain on national resources
Financial frauds

- Primary Market Frauds
- Secondary Market Frauds
- Bank Frauds
- NPAs - 55000 Cr
- Import / Export Frauds
- Public sector frauds
- Tax frauds
- Money laundering
Contd...

- Intellectual Property Crime/Theft
- Insurance Frauds
- Non-Banking Finance Companies (NBFCs Frauds)
- Fake Currency
- Fake stamps scam
- Computer & internet frauds
HOW COMPANIES ARE USED FOR COMMITTING FRAUD

Fraudsters use companies as vehicle for committing fraud to cheat banks, financial institutions, and general public.
POSSIBLE AREAS WHERE FRAUDS CAN BE COMMITTED IN CORPORATE SECTORS

• misappropriation of cash by fudging accounts;

• raising huge amount of term loan from banks and financial institutions by means of inflating the project cost by over invoicing the plant & machinery and components purchased for setting up the project and then diverting of inflated amount for non business use;

• raising of excess working capital loan from banks by over valuing the inventory and booking of bogus expenses etc. and diversion of funds for personal gains;

CONTD
- Using inter bank transactions for creation of **fictitious entries** by rotation of cheques for raising equity capital of a company without bringing any money in the company.

- **Fictitious capital** raised by the companies in the above manner are used showing them as **promoters contribution** in order to raise loans from banks and financial institutions.

- **Share certificates** issued on the basis of such **fictitiously** created equity capital are also **sold** to the public at a highly **jacked-up** price for making money in fraudulent manner from share market.

- Raising of fictitious bills of sale and purchase by doing **circular trading entries** of sale and purchases among **group companies** without movement of goods and using such bills for discounting with banks for collecting funds from the banks.

  CONTD.
• **Falsification** of annual accounts of the companies to show **inflated turnover** as well as inflated profits and in this way declaring good working results to stakeholders as well as banks in order to **mislead** them for **attracting** more investments from **public** and credit facilities from banks;

• Accounts are also falsified to **conceal true results** of operations, or financial position of the company with a view to **prevent timely detection** of corporate frauds.

• **Floating** of many **companies/firms on paper** without any significant business and using various bank accounts opened in the names of these companies to misappropriate funds diverted to them from the credit facility availed from banks as well as investments received from public;

CONTD.
Generally **employees** of the main company (indulging into fraudulent activities) are **shown as directors/partners** of such companies/firms (used for diverting the funds received from public and banks) and they do not know any of the affairs of these companies/firms except signing of the cheques issued by these companies/firms;

- Cheating in foreign exchange transaction by showing **fictitious exports**;

- Misappropriation of the funds provided by banks on discounting of export bills issued in the name of foreign buyers **under disguise**.
SYMPTOMS OF FRAUD

- Delayed submission of returns information etc.;
- Delayed remittances into Bank;
- Delay or non preparation of Bank reconciliation statements;
- Lifestyle of promoters/directors and key employees;
- Continued internal control lapses and not following norms of corporate governance.
SYMPTOMS OF FRAUD (Contd.)

INTERNAL INDICATORS

- Delay in finalisation of accounts;
- Frequent changes in Accounting Policies;
- Continuing Losses;
- Overdrawl of loans or advances;
- Higher cost per unit of production;
- High amount of losses or wastage shown in books Vs Norms;
- High investment in group companies
- Profit not supported by increased cash availability
MODUS-OPERANDI

- Loans & Advances
  - Fake CA Certificates/Financial Statements
  - Bogus Invoices/quotations/bills
  - Fraudulent removal of stocks charged
  - Inflated valuations of securities
  - Forged property documents
  - Fake/Wrong search reports
  - Diversion of funds through bogus/sister concerns
MODUS-OPERANDI (Contd…)

• Deposits/Miscellaneous areas
• Un-authorized loans against deposits/NRI deposits
• ATM Frauds by stealing PINs/interception of cards
• Encashment of stolen/forged financial instruments through fictitious accounts
• Misuse of other’s passwords for misappropriation of funds
MODUS-OPERANDI (Contd....)

- Import / export Business
  - Fake LCs/Confirmation not obtained by the banker
  - Fake export orders for obtaining Packing Credit
  - Forged shipping documents
WHY DO FRAUDS OCCUR

Gross negligence: non-compliance with established prudent procedures and practices/time tested safe-guards

- Excessive trust on customers / clients
- Willing complicity: Willful violation of systems & procedures by bank staff
- Failure of internal control mechanism
- Delays in re-conciliation of inter-branch accounts
- Laxity in custody of security stationery
- Non-compliance of computer security policies
- Access to bank’s records to outsiders
METHODOLOGY TO DETECT FRAUD

- All the **relevant documents** and bank accounts of a company suspected to be involved in fraudulent activities are to be **collected** from the **company directly**

- These documents are **examined** to trace out the **utilization** of various funds of the company collected from the public, banks and financial institutions and to examine whether that has been done as **per the declared objectives** of the company,

  **CONTD.**
After these examinations, patterns and connections of financial transactions are discovered which may be prejudicial to the interest of the company and its stakeholders but benefiting any particular promoter or employee of the company or its related concerns.
METHODOLOGY TO DETECT FRAUD (Contd.)

- fraudulent activities of a company can also be traced by collecting information from diverse sources such as capital market, statements of bank accounts of the company, its related business concerns, promoters, directors and employees of the company obtained from banks, various records of companies available with different Government agencies i.e. Income tax, Customs & Central Excise, Director General of Revenue Intelligence (DGRI) etc.
METHODOLOGY TO DETECT FRAUD (Contd.)

- Disgruntled employees and trading partners can be very good source for gathering intelligence and collecting evidence. **Pattern of deteriorating financial condition of the company** and **flourishing economic condition of promoters, employees, directors** and related concerns of the company can be analysed to detect possible fraud.
STEPS INVOLVED IN FRAUD INVESTIGATION

- Fraud investigation mainly involves forensic auditing of accounts and documents, examination of bank statements and various records and statements etc filed by the company with different Govt. Agencies.

- Sometimes forensic examination of documents is also required to be done to verify the signature, handwriting etc.FSL GEQD
STEPS INVOLVED IN FRAUD INVESTIGATION

- Findings of documents are corroborated by oral examination of persons involved in preparation of the documents and running the affairs of the company.

- Based on these documentary & oral evidence as well as expert opinion proceedings are initiated in Court of law/competent authorities.
Forensic auditing is a technique to legally determine whether accounting transactions are in consonance with various accounting, auditing and legal requirements and eventually determine whether any fraud has taken place. Forensic auditing is a blend of accounting, auditing and investigative skills.

In doing so, the veil of corporate entity is pierced to establish the intentions of person(s) behind such transaction(s).
Forensic Audit

investigation of a fraud or presumptive fraud with a view to gathering evidence that could be presented in a court of law. However, there is an increasing use of auditing skills to prevent fraud by identifying and rectifying situations which could lead to frauds being perpetrated (i.e. risks). It might be useful, therefore, to discuss forensic auditing as being either ‘Reactive’ or ‘Proactive.’
• Proactive forensic auditing

- Statutory Audit
- Regulatory Compliance
- Diagnostic Tool
- Investigation of allegations
• **Reactive Forensic Auditing**

-to investigate cases of suspected fraud so as to prove or disprove the suspicions, and if the suspicions are proven, to identify the persons involved, support the findings by evidence and to present the evidence in an acceptable format in any subsequent disciplinary or criminal proceedings. It involves-

- working relations with the investigating and prosecuting agencies
- authorisation and control of the audit investigation
- documentation of relevant information and safeguarding all prime records pertaining to the case
• rules of evidence governing admissibility/authentication of records
• confidentiality
• evaluation of the evidence to assess whether the case is sustainable
• legal advice where appropriate
• reporting the findings in a manner that meets legal requirements.
STEPS INVOLVED IN FORENSIC AUDITING

- Detailed examination of financial statements and books of accounts.
- Examination of related party transactions and Inter-corporate Deposits as disclosed in the financial statements.
- Auditing of off Balance sheet items.
EXAMINATION OF FINANCIAL STATEMENTS
AND BOOKS OF ACCOUNTS

Examination of :-

- TRADING ACCOUNT
- MANUFACTURING ACCOUNT
- PROFIT & LOSS ACCOUNT
- BALANCE SHEET
- DIRECTORS’/AUDITOR’S REPORTS
- COMPARATIVE ANALYSIS OF FINANCIAL STATEMENTS
- COST AUDIT
India forensic Consultancy Services
Soft Solutions to fraud problem

- Founded by Mayur Joshi in 2005, Indiaforensic Consultancy Services (ICS) is a dedicated provider of forensic accounting and fraud investigation solutions in India.
- ICS delivers solutions in two verticals viz. IT and Banking.
- ICS provides a range of consulting services including training and education in both the verticals.
- won the Global award for “Outstanding Performance” for the year 2006 given by Association of Certified Fraud Examiners.
What sets us apart?

- We, at ICS have
- • Thought-leadership, deep domain expertise and highly respected amongst the peer-community in the field of forensic accounting and fraud investigations
- • Developed original and unique intellectual property in this field
- • Award winners at the IIM A in business planning competition
- • Have the right blend of technology and accounting professionals
- • Owners of industry’s most exhaustive resource – *Fraud Today*

*Above as claimed by IndiaForensics*
Web Presence

- ICS Webportal www.indiaforensic.com is an exhaustive resource on the frauds in India
- Ranked #1 by Google, Yahoo and MSN for search terms Forensic Accounting in India and BPO Frauds.

Publications

- Black Cards Forensics – Research on ATM and Credit Card Frauds
- Combating the peril of Money Laundering – The book explaining the Indian scenario of Money Laundering
- Occupational Frauds and Money Laundering – published by Snow-white publishers
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• Disk tools and data capture
• Email analysis
• General tools
• File and data analysis
• Mac OS tools
• Mobile devices
• File viewers
• Internet analysis
• Registry analysis
• Application analysis
• Abandonware

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Investigation into corporate frauds

Steps in conducting investigation:
1. Develop the theory of the case,
2. Identify sources of information,
3. Procure documents and data,
4. Interrogate key persons,
5. Assess the evidence,
6. Determine violation of law.
INVESTIGATION – AN UPHILL TASK

• To establish mens-rea on the part of officials is difficult
• Cases complex in nature, documents based, lack of professional competence among IOs
• Establishing trail of funds difficult
• Offenders are mostly rich people, take advantage of systemic loopholes
• Investigation spread over to many states, many banks and sometimes foreign countries
• Fixing responsibility of Directors of accused company extremely difficult
• Modern technology providing enhanced anonymity to fraudsters
INVESTIGATION – SOME KEY ISSUES

• Drafting of FIR
• Preparation of Plan of Action
• Team approach
• Collection of documents
• Funds flow – Bank’s funds to be starting point
• Scrutiny of Bank’s Internal Investigation Reports
• GEQD opinion
• Approver / 164 CrPC Statements
• Assistance of experts
MEASURES

- Revamping of Laws Governing Economic Offences
- Deprive Economic Offenders of the Proceeds of Crime
- Tightening of Bail Provisions
- Creation of Exclusive Courts
- Need to Simplify Court Procedures
- Notify Economic Offenders on the Internet
- Need for Coordinated Actions
- Make Diversion of Funds / Loans a Specific Offences:
Facets of Prevention Strategies

- Requirement of formalized system, facilitated either by legal provisions or executive action.
- Confiscation of illicit proceeds from Org. Crime
- Witness Protection Program
- Undercover Operations
- Controlled delivery
- Wiretapping
- Record building
- Surveillance
- Sentencing Policy
- International Cooperation
Distinction between the roles of CAG, CBI and CVC with specific reference to fraud, corruption and contracts
Essential Elements of Contract

- Offer and Acceptance
- Acceptance
- Capacity to Contract
- Free Consent
- Lawful Consideration
- Legal Object

Phases of Contract

- The Pre solicitation Phase
- The Solicitation Phase
- The Submission of Bids and Accepting of Bids
- Award of Contracts
Fraud Schemes in Contracts

- Fraud in Specifications
- Amending Contracts
- Fraud by Curtailing Competition
- Recognizing the Opportunity
- Fraud in Tender Submission
- Forming Syndicates
- Dummy Companies
- Fraud in Contract Pricing
- Fraud During Opening Tenders
- Fraud in the Execution Stage on Contract
Detection

- Collect the Vendor Address for Sending Confirmation letters
- Detect the common names of employees and vendors
- Find the sub-contractors details.
- Check the payment details to vendors
- Detect the employees whose names are written in more than one contract on a particular day.
Corruption Cases

- Trap - Bribery
- Abuse of official position
- Disproportionate Assets
- Middleman/Touts
Strategies

- Surveillance - physical/technical/financial
- Joint Surprise Check
- Agreed list/ ODI list/VCM list
- Vigilance Awareness-Simplification
- Grievance Redressal Mechanism
- Transparency Promoted
- Call us/sms campaign
- Strong team – Ios/ Prosecutors/ experts
Central vigilance commission

- Exercise superintendence over the functioning of the Delhi Special Police Establishment (CBI) insofar as it relates to the investigation of offences under the Prevention of Corruption Act, 1988; or an offence under the Cr. PC for certain categories of public servants and also to give directions for investigation of corruption cases

- To inquire or cause an inquiry or investigation to be made on a reference by the Central Government
• To inquire or cause an inquiry or investigation to be made into any complaint received against any official belonging to such category of officials specified in sub-section 2 of Section 8 of the CVC Act, 2003

• Review the progress of the applications pending with the competent authorities for sanction of prosecution under the Prevention of Corruption Act, 1988
• Tender advice to the Central Government and its organizations on such matters as may be referred to it by them

• Exercise superintendence over the vigilance administrations of the various Central Government Ministries, Departments and organizations of the Central Government

• Shall have all the powers of a Civil court while conducting any inquiry
• Respond to Central Government on mandatory consultation with the Commission before making any rules or regulations governing the vigilance or disciplinary matters relating to the persons appointed to the public services and posts in connection with the affairs of the Union or to members of the All India Services

• The Central Vigilance Commissioner (CVC) is also the Chairperson of the two Committees, on whose recommendations, the Central Government appoints the Director of the Delhi Special Police Establishment and the Director of Enforcement
Initiatives taken by the CVC

1. National Anticorruption Strategy
2. Leveraging Technology to Prevent Corruption
3. Integrity in Public procurement
4. Awareness Campaign
5. Provision for Whistle Blowers
6. Improving the Standard of Vigilance Work
7. Computerisation of Commission’s Work
8. Modern Preventive Vigilance Framework
9. International Cooperation
Comptroller and Auditor General of India (CAG)

- In the Indian system of governance, the policies are set by the parliament and the state legislators give the goals to be achieved through the public spending. These policies are the translated into program and then implemented by various department of government. For this, parliament sanctions the budget detailing the mode of collection, amount of collection and also for the purpose for it is to be spent and the government dept. are accountable for the quantity and quality of their expenditure to the parliament. CAG assists the parliament to enforce the said accountability of the Govt. Department.

- The organizations subject to the audit of SAI India are:
  All the Union and State Government department including the Indian Railways defense and Post & telecommunication. About 1500 public commercial Enterprises controlled by Union and state government. About 400 non commercial autonomous bodies and authorities owned or controlled by the union or states, Bodies and authorities substantially financed from Union or State Finance.
The advisory roles of SAI are as follows:

With the help of GASAB it frames Government Accounting Standard for greater transparency.

It helps Finance commission to gain an informed opinion on State Government Finances

Helps the Government department in in strengthening internal controls and improved financial management in the system.

It organizes various workshops and seminars in Accrual Accounting etc for state govt. dept.
• Most of the agency’s work involves program evaluations, policy analyses, and legal opinions and Activities both at home and abroad.

• The scope of GAO’s work today includes virtually everything the federal government is doing or thinking about doing anywhere in the world.

• Today, most GAO’s blue-cover reports go beyond the question of whether federal funds are being spent appropriately to ask whether federal programs and policies are meeting their objectives and the need of society.
• GAO also alerts policymakers and the public. To emerging problems with serious national implications—before they reach crisis proportions. GAO is now keeping a close eye on several long-term challenges whose impact has yet to be fully felt, including the government’s worsening financial situation and the mounting challenges from Social Security, health care, and the war on terrorism.

• At today’s GAO, measuring the government’s performance and holding it accountable for results is central to who we are and what we do. We continue to believe that the public deserves the facts on all aspects of Government operations—from spending to policy making.
Central Bureau of Investigation (CBI)

- To uphold the Constitution of India and Law of the Land through in-depth investigation and successful prosecution of offences
- to provide leadership and direction to Police Forces and to act as the Nodal Agency for enhancing interstate and international cooperation in law enforcement.
  - Combating corruption in public life, curb economic and violent crimes through meticulous investigation and prosecution.
  - Evolve effective systems and procedures for successful investigation and prosecution of cases in various law courts.
Help fight cyber and high technology crime.

Support State Police Organisations and Law Enforcement Agencies in National and International Cooperation, particularly relating to enquiries and investigation of cases.

- Cases in which public servants under the control of the Central Government are involved either by themselves or along with State Government servants and/or other persons.

- Cases in which the interests of the Central Government, or of any public sector project or undertaking, or any statutory corporation or body set up and financed by the Government of India are involved.

- Serious cases of cheating or fraud relating to the Railways, or Posts & Telegraphs Department, particularly those involving professional criminals operating in several States.
• Cases relating to breaches of Central Laws with the enforcement of which the Government of India is particularly concerned, e.g.  
  ◦ Breaches of Import and Export Control Orders  
  ◦ Serious breaches of Foreign Exchange Regulation Act,  
  ◦ Passport frauds  
  ◦ Cases under the Official Secrets Act pertaining to the affairs of the Central Government.

• Serious cases of fraud, cheating and embezzlement relating to Public Joint Stock Companies.  

• Collection of intelligence about corruption in the public services and the projects and undertakings in the public sector.  

• Prosecution of cases in courts and also Presentation of cases before Enquiry Offices in which departmental proceedings are instituted on its recommendation
CBI has the following Divisions:

- Anti Corruption Division
- Economic Offences Division
- Banking & Securities Fraud Cell
- Special Crimes Division
- Directorate of Prosecution
- Administration Division
- Policy & Coordination Division
- Central Forensic Science Laboratory
• Other related agencies

- DRI
- CEIB
- FIU- IND
- SFIO
- NCB
- ED
- DSCI
- State CID, EOW, ACB & SOG
Chapter I

General provisions

Article 1. Statement of purpose

The purposes of this Convention are:

(a) To promote and strengthen measures to prevent and combat corruption more efficiently and effectively;

(b) To promote, facilitate and support international cooperation and technical assistance in the prevention of and fight against corruption, including arrests of perpetrators of crime as well as in asset recovery;

(c) To promote integrity, accountability and proper management of public affairs and public property.

It has 7 chapters and 71 articles.
Thanks
‘Forensic auditing’ covers a broad spectrum of activities, with terminology not strictly defined in regulatory guidance. Generally, the term ‘forensic accounting’ is used to describe the wide range of investigative work which accountants in practice could be asked to perform. The work would normally involve an investigation into the financial affairs of an entity and is often associated with investigations into alleged fraudulent activity. Forensic accounting refers to the whole process of investigating a financial matter, including potentially acting as an expert witness if the fraud comes to trial. Although this article focuses on investigations into alleged frauds, it is important to be aware that forensic accountants could be asked to look into non-fraud situations, such as the settling of monetary disputes in relation to a business closure or matrimonial disputes under insurance claims.

The process of forensic accounting as described above includes the ‘forensic investigation’ itself, which refers to the practical steps that the forensic accountant takes in order to gather evidence relevant to the alleged fraudulent activity. The investigation is likely to be similar in many ways to an audit of financial information, in that it will include a planning stage, a period when evidence is gathered, a review process, and a report to the client. The purpose of the investigation, in the case of an alleged fraud, would be to discover if a fraud had actually taken place, to identify those involved, to quantify the monetary amount of the fraud (i.e. the financial loss suffered by the client), and to ultimately present findings to the client and potentially to court.

Finally, ‘forensic auditing’ refers to the specific procedures carried out in order to produce evidence. Audit techniques are used to identify and to gather evidence to prove, for example, how long the fraud has been carried out, and how it was conducted and concealed by the perpetrators. Evidence may also be gathered to support other issues which would be relevant in the event of a court case. Such issues could include: whether the fraud involved collusion between several suspects; any physical evidence at the scene of the crime or contained in documents; comments made by the suspect during interviews and/or at the time of arrest; attempts to destroy evidence.

**TYPES OF INVESTIGATION**

The forensic accountant could be asked to investigate many different types of fraud. It is useful to categorise these types into three groups to provide an overview of the wide range of investigations that could be carried out. The three categories of frauds are corruption, asset misappropriation and financial statement fraud.

**Corruption**

There are three types of corruption fraud: conflicts of interest, bribery, and extortion. Research shows that corruption is involved in around one third of all frauds.

- In a conflict of interest fraud, the fraudster exerts their influence to achieve a personal
gain which detrimentally affects the company. The fraudster may not benefit financially, but rather receives an undisclosed personal benefit as a result of the situation. For example, a manager may approve the expenses of an employee who is also a personal friend in order to maintain that friendship, even if the expenses are inaccurate.

- Bribery is when money (or something else of value) is offered in order to influence a situation.
- Extortion is the opposite of bribery, and happens when money is demanded (rather than offered) in order to secure a particular outcome.

**Asset misappropriation**
By far the most common frauds are those involving asset misappropriation, and there are many different types of fraud which fall into this category. The common feature is the theft of cash or other assets from the company, for example:

- Cash theft – the stealing of physical cash, for example petty cash, from the premises of a company.
- Fraudulent disbursements – company funds being used to make fraudulent payments. Common examples include billing schemes, where payments are made to a fictitious supplier, and payroll schemes, where payments are made to fictitious employees (often known as ‘ghost employees’).
- Inventory frauds – the theft of inventory from the company.
- Misuse of assets – employees using company assets for their own personal interest.

**Financial statement fraud**
This is also known as fraudulent financial reporting, and is a type of fraud that causes a material misstatement in the financial statements. It can include deliberate falsification of accounting records; omission of transactions, balances or disclosures from the financial statements; or the misapplication of financial reporting standards. This is often carried out with the intentional of presenting the financial statements with a particular bias, for example concealing liabilities in order to improve any analysis of liquidity and gearing.

- Identifying the type of fraud that has been operating, how long it has been operating for, and how the fraud has been concealed.
- Identifying the fraudster(s) involved.
- Quantifying the financial loss suffered by the client.
- Gathering evidence to be used in court proceedings.
- Providing advice to prevent the reoccurrence of the fraud.

**CONDUCTING AN INVESTIGATION**
The process of conducting a forensic investigation is, in many ways, similar to the process of conducting an audit, but with some additional considerations. The various stages are briefly described below.

- Forensic investigation services to the same client.
- Commercial considerations are also important, and a high fee level should be negotiated to compensate for the specialist nature of the work, and the likely involvement of senior and experienced members of the firm in the investigation.
- In order to gather detailed evidence, the investigator must understand the specific type of fraud that has been carried out, and how the fraud has been committed. The evidence should be sufficient to ultimately prove the identity of the fraudster(s), the mechanics of the fraud scheme,
and the amount of financial loss suffered. It is important that the investigating team is skilled in collecting evidence that can be used in a court case, and in keeping a clear chain of custody until the evidence is presented in court. If any evidence is inconclusive or there are gaps in the chain of custody, then the evidence may be challenged in court, or even become inadmissible. Investigators must be alert to documents being falsified, damaged or destroyed by the suspect(s).

Evidence can be gathered using various techniques, such as:

- testing controls to gather evidence which identifies the weaknesses, which allowed the fraud to be perpetrated.
- using analytical procedures to compare trends over time or to provide comparatives between different segments of the business.
- applying computer assisted audit techniques, for example to identify the timing and location of relevant details being altered in the computer system.
- discussions and interviews with employees.
- substantive techniques such as reconciliations, cash counts and reviews of documentation.

The ultimate goal of the forensic investigation team is to obtain a confession by the fraudster, if a fraud did actually occur. For this reason, the investigators are likely to avoid deliberately confronting the alleged fraudster(s) until they have gathered sufficient evidence to extract a confession. The interview with the suspect is a crucial part of evidence gathered during the investigation.

Reporting
The client will expect a report containing the findings of the investigation, including a summary of evidence and a conclusion as to the amount of loss suffered as a result of the fraud. The report will also discuss how the fraudster set up the fraud scheme, and which controls, if any, were circumvented. It is also likely that the investigative team will recommend improvements to controls within the organisation to prevent any similar frauds occurring in the future.

Court proceedings
The investigation is likely to lead to legal proceedings against the suspect, and members of the investigative team will probably be involved in any resultant court case. The evidence gathered during the investigation will be presented at court, and team members may be called to court to describe the evidence they have gathered and to explain how the suspect was identified. It is imperative that the members of the investigative team called to court can present their evidence clearly and professionally, as they may have to simplify complex accounting issues so that non-accountants involved in the court case can understand the evidence and its implications.

CONCLUSION
In summary, a forensic investigation is a very specialist type of engagement, which requires highly skilled team members who have experience not only of accounting and auditing techniques, but also of the relevant legal framework. There are numerous different types of fraud that a forensic accountant could be asked to investigate. The investigation is likely to ultimately lead to legal proceedings against one or several suspects, and members of the investigative team must be comfortable with appearing in court to explain how the investigation was conducted, and how the evidence has been gathered. Forensic accountants must therefore receive specialist training in such matters to ensure that their credibility and professionalism cannot be undermined during the legal process.

Lisa Weaver is examiner for Paper P7