Investigation

FS Audit Difference with
- Internal Audit [USER Appointment]
- Forensic [OTP VOA].
- Investigation [NOPRS].

Eg. Relevant Areas

① Ghost workers | fictitious wages
- Appointment | Termination
- Attendance [Biometric]
- Time

Records.

• Appt. Evidence

② 'Valuation' of Land
- → Business Records
- → Evidence?

price at which land sold | acquired in neighbourhood
↓
visit Land Registration office
+
Valuation expert.

Steps in Investigation

1. Objective & scope → 2. Investigation prog. ⟶ 3. Appt. Evidence Eg2.

2. Investigation prog. consider:
- • Business + Structure
- ↓
- • client instructions
- ↓
- • Scope + Depth.
- ↓
- • Extend to books of others + Relevant Areas [Eg1].

3. Appt. Evidence Eg2.
↓
4. Analysis & interpret findings
↓
5. Draw conclusion & report.

Imp. issues → consider → Preparing Report

[Content] & [para]

• × Irrelevant + • proper words | expression ⟶ • Basis & Assumptions + • facts & conclusion ⟶ • para form + • opinion in final para.

* Special issues in Investigation *

Q 100% verification or selective verification?

↓

Depence on circumstances

Amount of cash Defalcation
↓
Examine all cash vouchers
+ Related records.

Profitability of Business. [Revenue − Cost].
↓
verify selective transactions.
[no material transⁿ is missed].
↓
~~Test check~~ | Statistical Sampling.

Q Rely on already audited FS?

Doubt on Reliability of FS
↓
No Question of Reliance.

Valuation of — Goodwill / Business / Shares — of firm.
↓
Rely
unless.

on test verification you find audit is done casually.

or

Terms of appointment require testing.

Q What if A/cs not audited?

Not audited
↓
Accounting figures should be checked & verified.

Prepared by Professional Accountant for purpose of investigation.
↓
Accept relying on
"Principle of liability to 3rd parties"
+
check the objectivity of accountant
i.e. No Biasness.

Q Assistance of Expert? [Valuation].

- May feel necessity of views or opinions of expert.

↓

Get "written consent" of client at beginning.

\+

Settle questions of 'cost' of obtaining views.

Q Retain working papers or not? Eg Inventory fraud

Retain full notes of work — schedules, facts & figures, conversations etc.

↓

"Link up" — figures in client's books with his final figures.

↓

"Representation letter" from appointing authorities.

- In absence, won't be able to explain figures in court.

Benefit? Helps in correlating facts & events while drafting Report.

Teeming & lading

Debtors: A, B, C

· Balance confirmation

₹ [Receipts]

A ⟶ Fraud

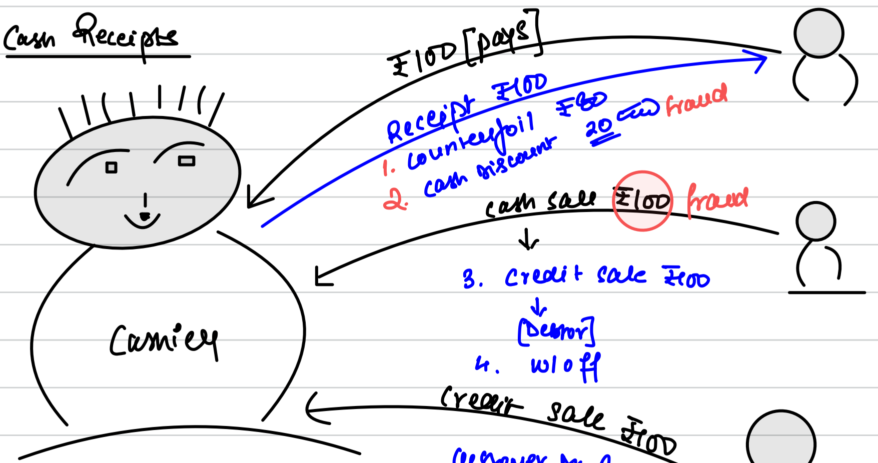
B ⟶ A A/c

C ⟶ B A/c

A ⟶ C A/c.

⋮

Cash Receipts



Disc. 20 (5)

Collect 150

fraud 20

Audit Procedures:

Cash inflow?
- cash sales
- [cr.sales] Recovery from Debtors. + cash Disc.
- [misc] scrap sales, rent collection etc
- Bank withdrawals.

3. Cash Payments

Exp.
- Invoice → double payment or false invoice
- Personal Exp.

wages {• wage sheet → x Total → Excess amt misappropriated.

customer [• false credit to customer A/c → for Refund. → withdraw

Audit procedures

① cash payments

- Evidence
- Receipts [Erased /Altered]
  ↳ confirm.

② Bearer cheque

[false] 3 order/ receipt of goods.

[wages] 4. Records of wages.

4. Suppliers ledger

[Docs]

Invoice

① • fictitious.

② • Higher prices + collecting excess amt.

[Cr. Notes]

[I20] → xpay

③ • suppress [Hide]
↓
④ • withdraw unclaimed amt.

verify? • IC system
↓
• purchase journal
- Goods inward
- invoices.

• Supplier [confirmation] statement of A/c
↓
Allowances | Rebates
Correctly adjusted.

Inventory fraud

Kaise hua?

- Chori → Book Adjust → write off.

Pakde kaise? • Collusion – B Receipt / B Storage / B Dispatch.

- Inventory items + Qty – Books. / physically –

RM — inflate wastage in Prodⁿ

100 kg – 20 kg [Fraud] wastage / 80 kg [Actual use]

B Engineer ← wastage → Past Records. → Per hr capacity & time for prodⁿ.

Types 1. Remove goods from premises.
↓
2. Manipulate inventory records.
↓
3. write off as damaged goods.

Verification Procedures:

F.G.s How? Through collusion of employees.

∴ Entire system of Receipts, Storage & Dispatch is reviewed.

what to do?
Establish inventory items defalcated & Quantities by checking physically with inventory book.

RM. Intro: mgt defalcates raw material by inflating wastage in production.

↓ Detect?

B Engineer
Take assistance of engineer.

Guidance from Past Records.

Per hr. capacity & time for prodⁿ ↓ (1hr ⇒ 1000 unit)
will show if larger issue exists.

1hr → 700 units ↓ 300 unit

Indicators of Fraud

- Discrepancy in A/c Records.

  ↓

  Conflicting / missing Evidence [Bank A/c vs. confirmation].

  ↓ BRS items.

  Unacceptable mgt response

- Other Indicators.