

श्वेतपद्मासना देवी श्वेतपुष्पोपशोभिता ।
श्वेताम्बरधरा निर्यता श्वेतगन्धानुलेपना ॥



Refresher Course

on

Forensic Audit

By

WIRC of ICAI

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Depreciation and Amortization

Improper Depreciation/Amortisation

Providing Lower than required

Providing higher than required

Profit is boosted

Fixed Assets are depreciated at Lower amount

Profit is reduced

Fixed Assets are depreciated at higher amount

- Higher Net Profit
- Higher amount of Balance in Profit & Loss Account
- Increased amount of Reserves & Surplus
- Increased Net Worth

- Balance of Net Fixed Assets (after Depreciation & amortization) will be higher
- Total amount of assets is inflated
- Total Net Worth is inflated

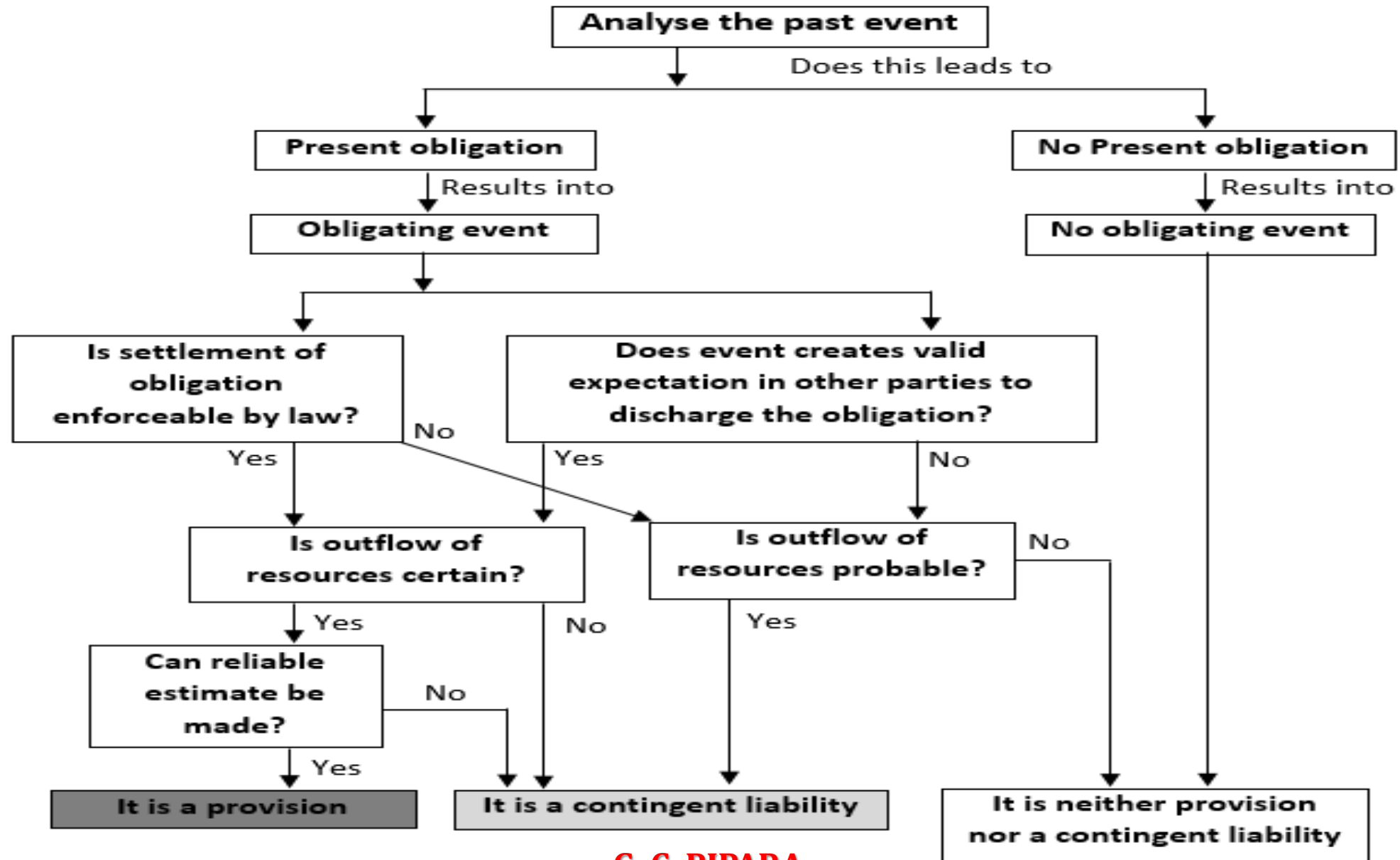
- Lower Net Profit
- Lower amount of Balance in Statement of Profit & Loss
- Lower amount of Reserves & Surplus
- Less Net Worth

- Balance of Net Fixed Assets (after Depreciation & amortization) is Lower
- Total amount of assets is Lower
- Total Net Worth is Lower

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Provision and Contingent



Part C

Forensic Audit
of
Assets and Intangibles

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How to Decode – Fixed Assets?

Steps	Analyse
1	Nature of business, the amount of investment and types of fixed assets
2	Volume of business and the level of investment in fixed assets
3	Which are major fixed assets and the amount of gross block in each category of fixed assets
4	Proper and complete records of fixed assets
5	Physical verification of fixed assets at reasonable interval in phased manner
6	The title deeds of all the immovable properties
7	Compare the amount of investment in plant and machinery and revenue from operation
8	Compare the amount of investment in plant and machinery and other fixed assets
9	Amount of addition in the plant & machinery in last 2 to 3 years and increase in revenue

How to Decode fixed assets? Contd...

How to Decode fixed assets? Contd...

Steps	Analyse
10	Operating margin of manufacturing activity and overall investment in fixed assets
11	Is there any major deduction in fixed assets
12	Amount of term loan taken against the fixed assets and investment in fixed assets
13	Is there any revaluation of fixed assets
14	The amount of gross block and net block in each category of fixed assets
15	Details of parties from whom fixed assets is purchased or sold
16	Purchases and/or sale of fixed assets is with a related party
17	Verification of evidences such as - contracts, deed, delivery etc.
18	Physical verification or physical verification report
19	Linking all the above analysis, evidences, report etc. with each other

Importance of Intangibles

Consider a research carried by Aon and the Poneman Institute (Aon is a USA based analytics firm and Poneman Institute is a private research organization of USA, that conducts independent research on datas etc.), which analyzed all the S&P 500 (S&P 500 is a stock market index of 500 large listed companies of USA), and found that in last 40 years, the share of intangible as percentage of enterprise value has increased from 17% in 1975 to 84% now. Therefore, in forensic audit the issues related to intangible cannot be overlooked.

Examples of Intangibles

- Marketing-related intangible assets
 - Trademarks
 - Newspaper mastheads
 - Internet domain names
 - Noncompetition agreements
- Customer-related intangible assets
 - Customer lists
 - Order backlog
 - Customer relationships

Examples of Intangibles Contd...

Examples of Intangibles Contd...

- Artistic-related intangible assets
 - Performance events
 - Literary works
 - Musical works
 - Pictures
 - Motion pictures and television programs

Examples of Intangibles Contd...

Examples of Intangibles Contd...

- **Contract-based intangible assets**
 - Licensing agreements
 - Service contracts
 - Lease agreements
 - Franchise agreements
 - Broadcast rights
 - Employment contracts
 - Use rights (such as drilling rights or water rights)

- **Technology-based intangible assets**
 - Patented technology
 - Computer Software
 - Trade secrets (such as secret formulas and recipes)

Capital Work In Progress (CWIP)

Stock In Process (SIP)

and Stock

- not seeing the light of day

Part D

Forensic Audit of Movables and Equity

Piling Stock

and

Mounting Debtors

- an evergreen technique of ever-greening

The forensic audit of trade receivables indicate -

Red flags	Some early warning signs
Misstatement in financial statement	Trade receivables were either wrongly shown or some part may be inflated (as amount not receivables has been shown as receivables) or deflated (lower shown)
Diversion of trade receivables	Sales made to A has been shown as receivable from B and since no amount is receivables from B
Siphon of trade receivables	Sales to parties and/or related parties, the amount of which not at all receivables, but shown as trade receivables, or sales amount received but still shown as receivables or lower amount of trade receivables shown.

Importance of Investments

in

Forensic Audit

Invested into four 100% OWS

Rs 197 crore is the overall investment made in 4 OWS by Unity Infra over the period of FY 2015 to 2017

Not one or two, all the four subsidiaries, do not generate any incomes in all the years

All the subsidiaries violates in making payment of TDS, Works Contract Tax, PF, Section 73, Section 185

Out of four companies, only two companies has fixed assets of Rs.35 crore and two companies has CWIP, which is not progressing

Contd...

Contd...

Every OWS has short term borrowings but no short term funds to pay

No visibility of investment of Rs 197 crore made by Unity Infra into 4 OWS is seen

Entire investment is lost in absence of destination - *like a traveler without destination.*

Need investigation by forensic auditor -

- why traveled,
- where traveled,
- who issued the tickets,
- why left without destination etc. etc.

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Thanks ...

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