

श्वेतपद्मासना देवी श्वेतपुष्पोपशोभिता ।  
श्वेताम्बरधरा निर्यता श्वेतगन्धानुलेपना ॥



**Refresher Course**

**on**

**Forensic Audit**

**By**

**WIRC of ICAI**

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Research Analyst | CA | Trainer

Author of the book "Balance Sheet Decoded" & "Forensic Audit Decoded"

# **Part A - General**

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# Unmasking

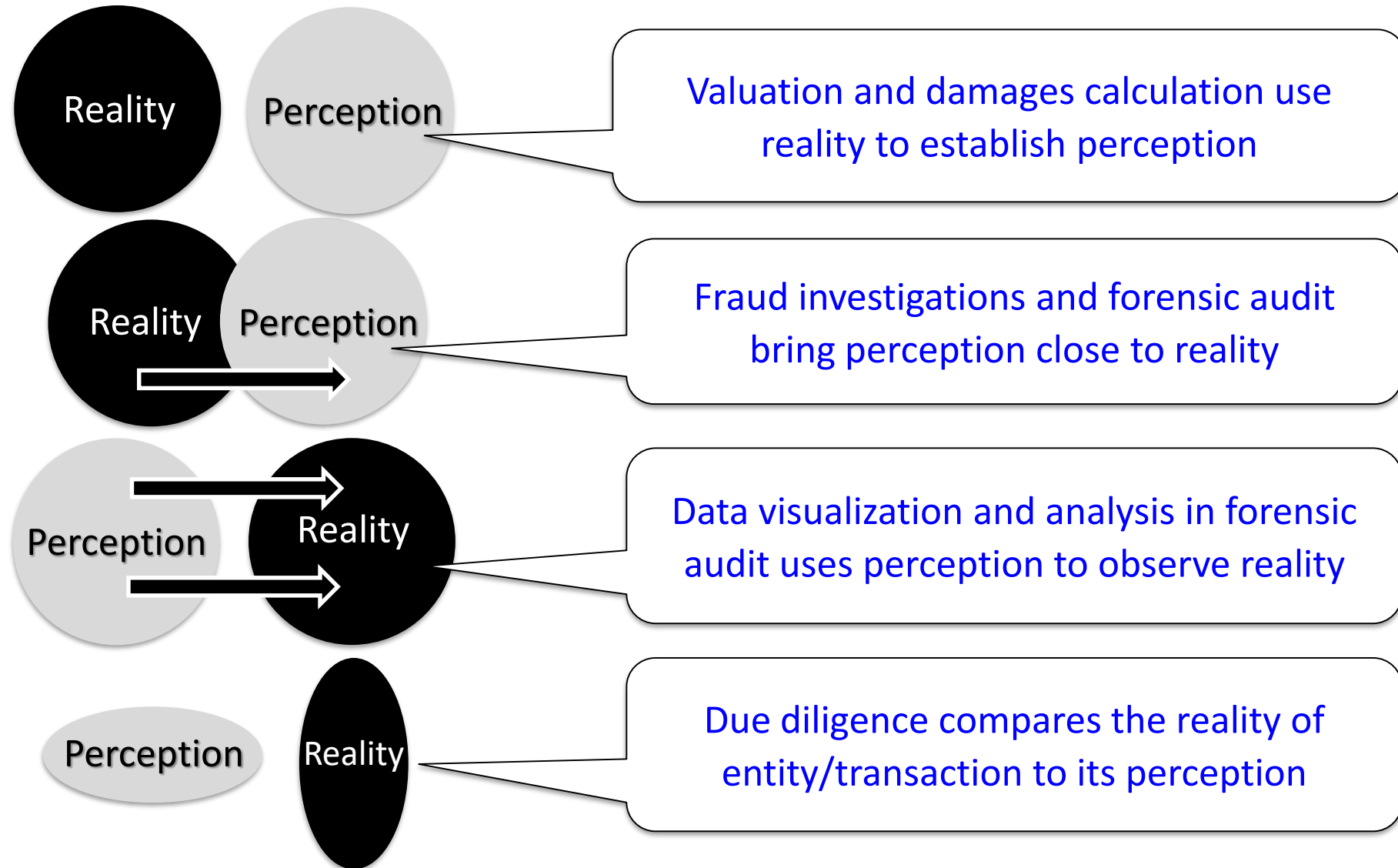


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# Forensic Audit - Bridging the Gap between Reality and Perception



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# Difference between Financial Audit and Forensic Audit

Aspect	Financial Audit	Financial Forensic Audit
<b>1. Meaning</b>	Independent and systematic examination of evidences of accounting, in accordance with the generally accepted auditing practice	Investigation into accounts and records
<b>2. Objective</b>	To ascertain true and fair view of the financial statements	To find out misstatement in the financial statement and diversion of funds as well as siphoning of funds and also any wrong doing
<b>3. Evidences</b>	It includes evaluation of accounting records predominantly based on persuasive evidences	It includes definite and substantial evidences on the basis of which conclusion can be drawn

*Difference between Contd...*

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## ***Difference between Contd...***

<b>Aspect</b>	<b>Financial Audit</b>	<b>Financial Forensic Audit</b>
<b>4. Approach</b>	Audit is skeptical and not suspicious	Investigator starts with suspicion and collect evidences to either confirm or dispel the suspicion.
<b>5. Procedure</b>	Based on generally accepted auditing procedures	Based on an extended auditing procedure with investigation & critical examination of each transaction
<b>6. Transaction</b>	Normally restricted for the year to find out true and fair presentation	It extend till the end of the event of the transaction and not restricted to period itself
<b>7. Period</b>	For the relevant financial year	Spread over a longer period of more than financial year - which depends upon scope of work

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# Part B

# Forensic Audit of Sales and Expenses

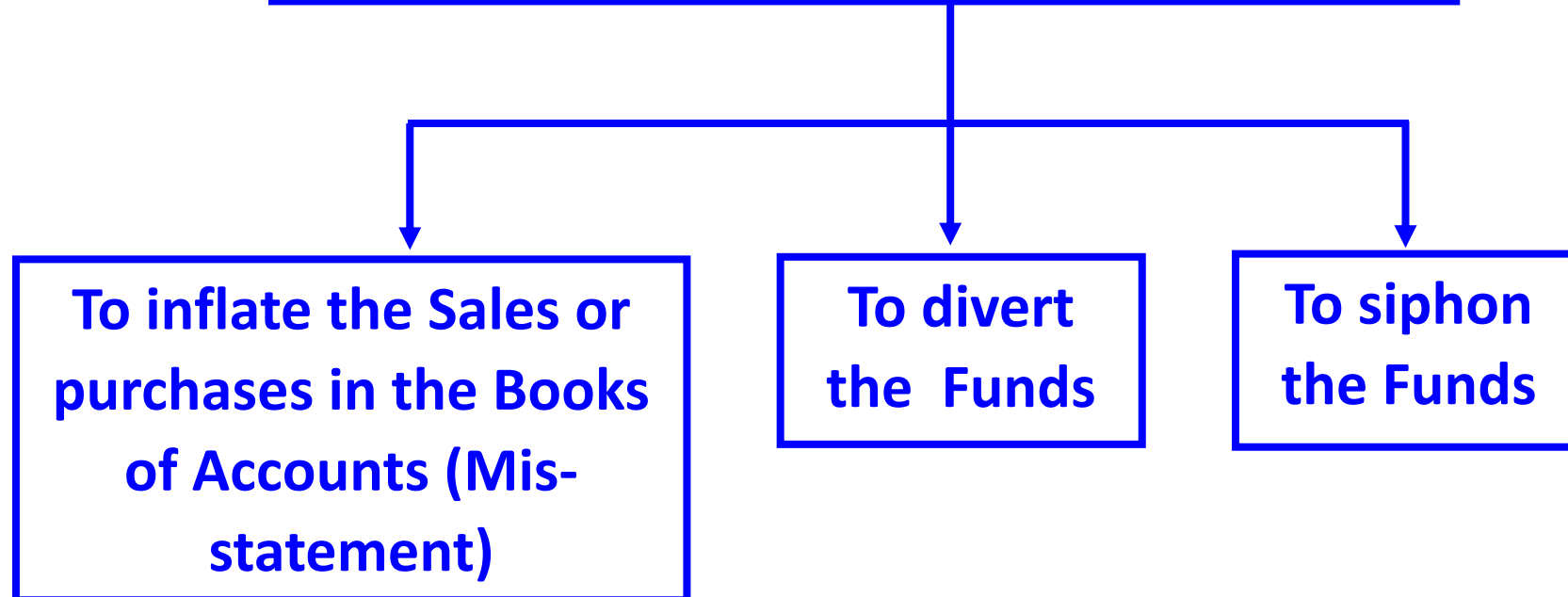
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**Non-Genuine Sales and Purchases**  
(or Sales and Purchases only on Papers)



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# **Forensic Audit of Sales**

When one look into the object and purpose of the sales and purchases of goods along with the movement of goods and movement of the funds, the intention is to find out genuineness of the sales and purchases. If the purchases are not genuine, naturally the corresponding sales cannot also be genuine.

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# How to Decode - Sales?

- 1 Verification of inwards and outwards of goods, along with dates on which contract entered, date of delivery etc. and date on which entries made in the accounting software
- 2 In case of doubts or for the sales and/or purchases - which are giving suspicion or contradictory finding or found to be abnormal - further verification of immediate source of such raw materials purchased and in the case of sales, what could be end use of such sales in the hands of customers/to whom sold? In case of sales and purchases are from related parties, the further end use of such sales and ultimate source of purchases from related parties.
- 3 In case of sales and/or purchases are with related parties, whether such transactions are at arm's length?
- 4 Find out if there is any commonality/similarly in more than one vendor and/or more than one customer and/or vendors and customers.
- 5 What are the accounting entries passed in the accounting software?
- 6 Trail of commodity/items.
- 7 Trail of funds for suspicious sales and source of funds for suspicious purchases.
- 8 Physical verification of the customers and/or vendors, in case of early warning signs.
- 9 Examination of SOP(Standard Operating Procedure). Every major organization has SOP for purchase, sales and all major activities

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*How to Decode Sales? Contd...*

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## *How to Decode Sales? Contd...*

- 10 Find out which are the major products/items, in which the entity is primarily engaged?
- 11 Which are the major items of raw materials required/used in the manufacturing process of each of the finished products.
- 12 What is the manufacturing process? (This will be applicable only for a manufacturing entity)
- 13 What is the standard formula or manufacturing method or product mix used by the entity? (This is a confidential information and therefore, provided by the entity to the forensic auditor upon signing of non-disclosure agreement (NDA)).
- 14 Who are the major vendors or suppliers? Complete details thereof - such as their name, address, GST No., PAN No., contact number, email ids, web address etc. and amount of purchases made from them during the period of audit.
- 15 Who are the major customers or parties to whom sales in made - such as their name, address, GST No., PAN No., contact number, email ids, web address etc. and amount of sales made to them during the period of audit.
- 16 Analysis of invoices, delivery challans, transport receipt etc. of the major parties from whom purchases are made and also to whom sales are made.
- 17 Analysis of invoice bill number along with dates of the invoice raised by the vendors/suppliers.
- 18 Analysis and detailed examination of the contract/agreement etc. (if entered) with respect to major sales and major purchases on the basis of 80/20 rule, also known as the pareto principle (simply means that roughly 80% of the effects of anything you might be doing come from 20% of the causes)

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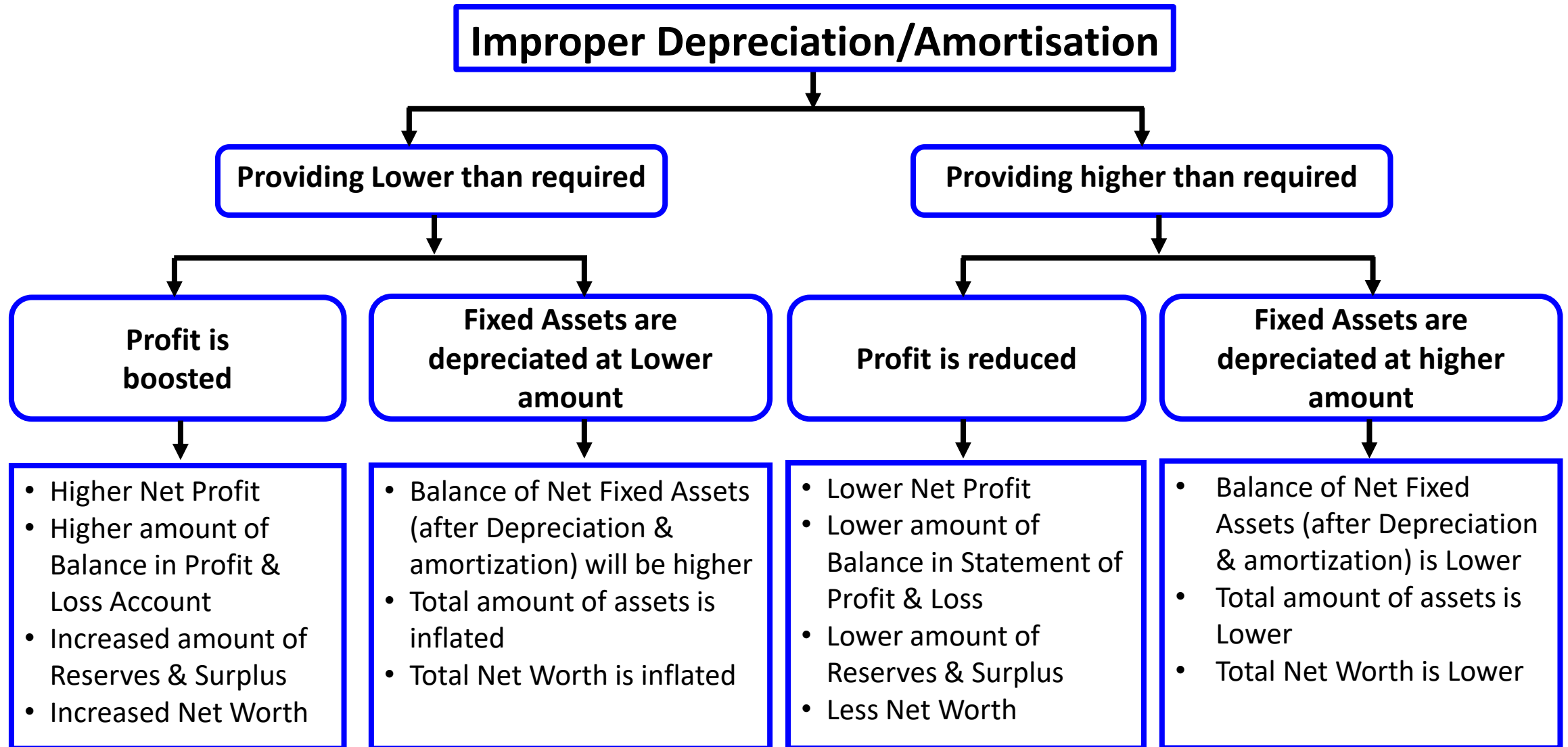
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*How to Decode Sales? Contd...*

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# Depreciation and Amortization

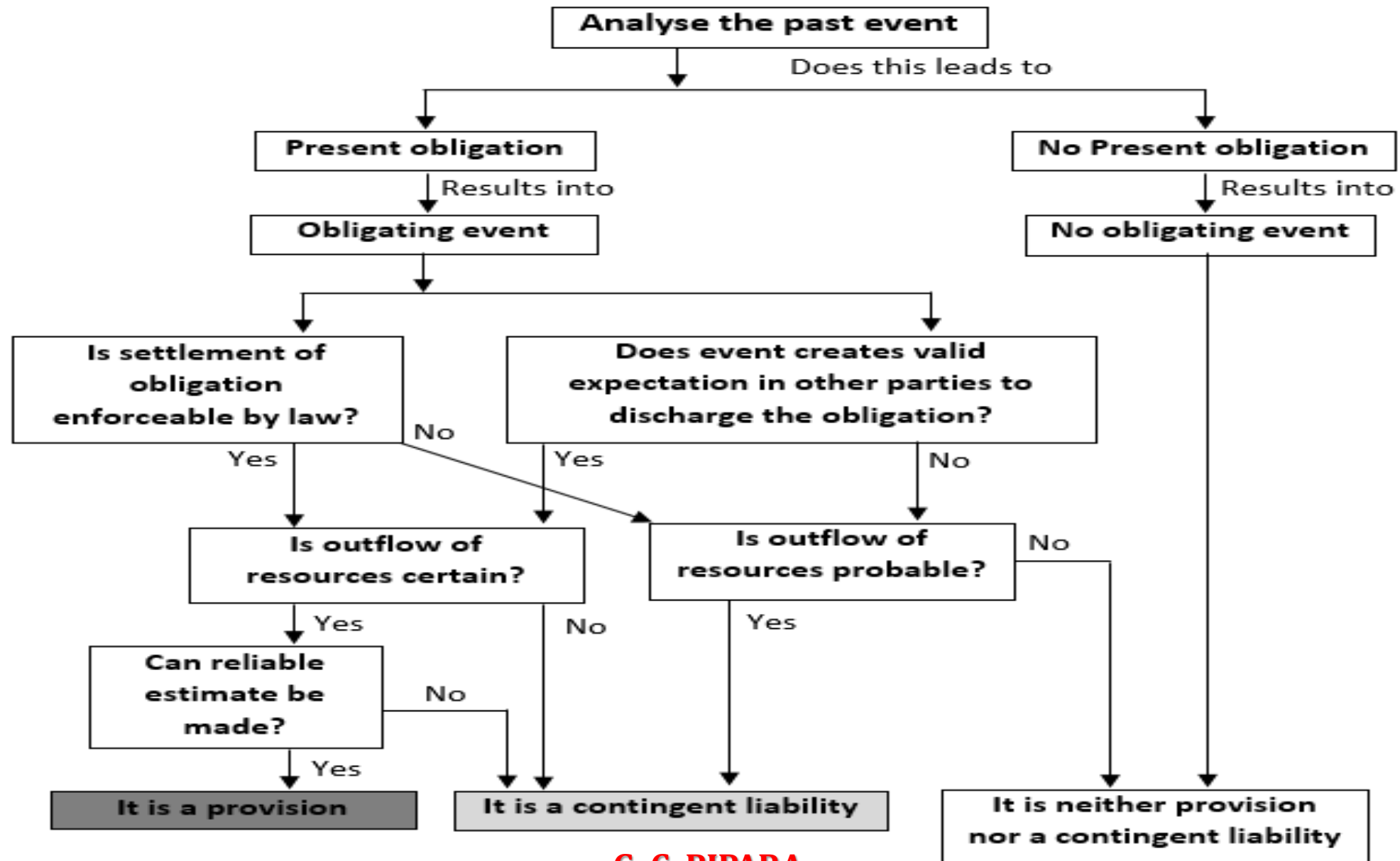


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# Provision and Contingent



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*Thanks ...*

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