

Physical cum Virtual Regional Banking Summit (Virtual) 19th Feb 2021

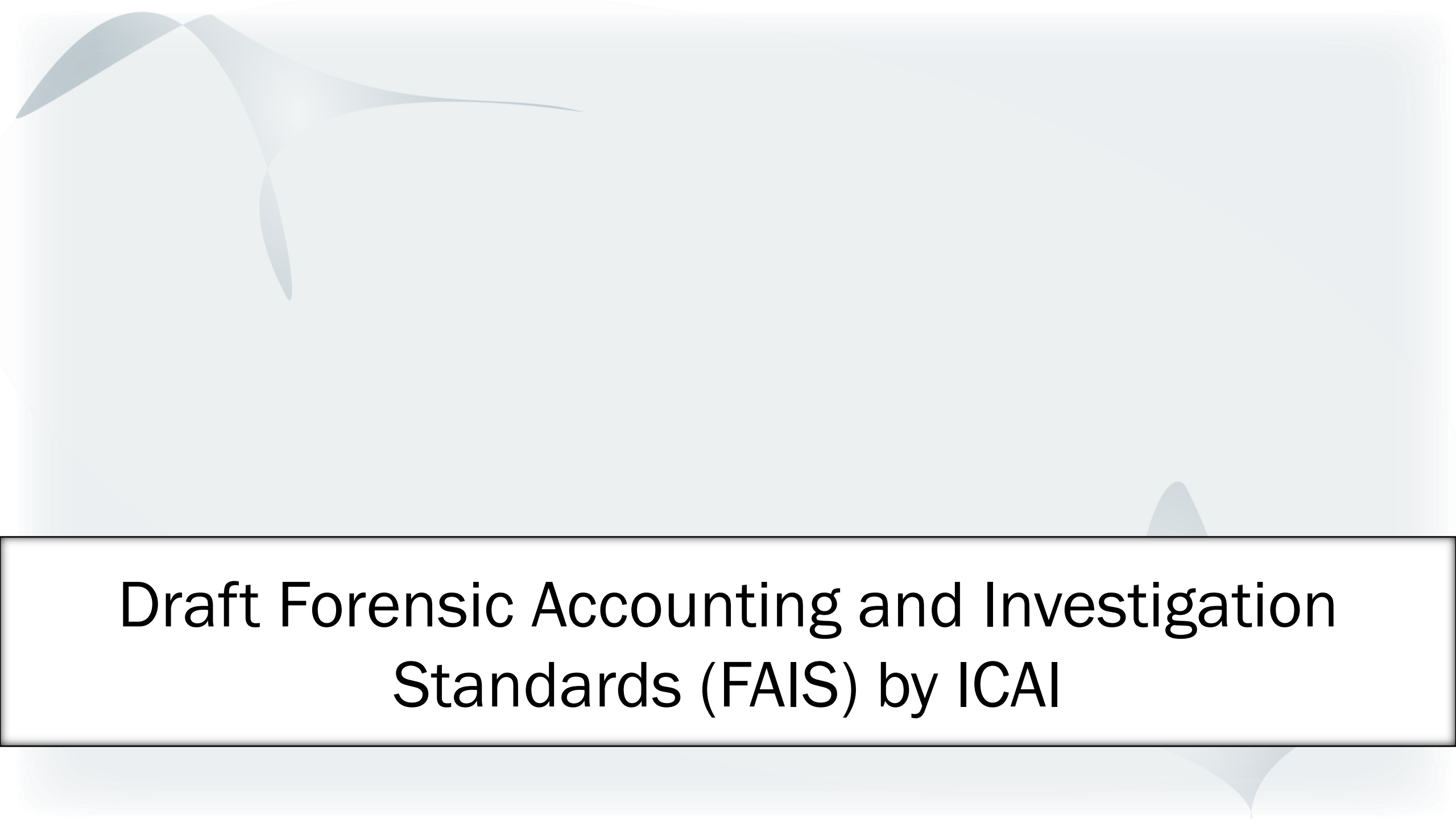
Insights in Forensic Investigation & Monitoring for Banks



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Draft Forensic Accounting and Investigation Standards (FAIS) by ICAI

FORENSIC ACCOUNTING AND INVESTIGATION STANDARDS

- The Digital Accounting Assurance Board of The Institute of Chartered Accountants of India (ICAI) has invited comments on the exposure drafts of Forensic Accounting and Investigation Standards (FAIS).
- Exposure drafts for 20 standards are placed on website of ICAI for comments on various dates till now.
- The FAIS, as and when issued, will be classified, and numbered in a series format, as follows:
 - 100 Series: Standards on Key Concepts
 - 200 Series: Standards on Practice Management
 - 300-400 Series: Standards on Executing FAI Assignments
 - 500 Series: Standards on Specialised Areas
 - 600 Series: Standards on Quality Control.

FORENSIC ACCOUNTING AND INVESTIGATION STANDARDS

Sr. No.	Standard No.	Particulars
1.	110	Understanding The Nature Of Engagement
2.	120	Understanding Fraud Risk
3.	130	Laws And Regulations
4.	140	Applying Hypotheses
5.	220	Engagement Acceptance and Appointment
6.	230	Using The Work Of An Expert
7.	210	Engagement Objectives
8.	240	Engaging With Agencies
9.	250	Communication with Stakeholders
10.	310	Planning the Assignment

FORENSIC ACCOUNTING AND INVESTIGATION STANDARDS

Sr. No.	Standard No.	Particulars
11.	320	Evidence and Documentation
12.	330	Conducting Work Procedures
13.	340	Conducting Interviews
14.	350	Review and Supervision
15.	360	Reporting Results
16.	370	Testifying Before a Competent Authority
17.	510	Applying Data Analysis
18.	520	Evidence Discovery in Digital Domain
19.	530	Loans and Borrowings
20.	540	Related And Connected Parties



MONITORING BY BANKS



IMPORTANT - EARLY WARNING SIGNALS

EARLY WARNING SIGNALS

- Default in payment of bank dues and statutory dues
- Raid of Income Tax, Central Excise, etc
- Loan Funds utilized for repayment of bank loan
- Foreign Bills outstanding for long period

EARLY WARNING SIGNALS

- Frequent invocation of BG and devolvement of LC
- Same collateral charged to various banks
- Resignation of Key Managerial Personnel and frequent changes in the management
- Disproportionate increase in other current assets

EARLY WARNING SIGNALS

- Critical issues highlighted in the stock audit report
- Substantial related party transactions
- Frequent changes in general purpose of the loan
- Non-routing of sales proceeds through bank
- LC's issued to related party

EARLY WARNING SIGNALS

- Heavy cash withdrawal in loan accounts
- Non-submission of original bills
- Material discrepancies in the annual report
- Frequent adhoc sanctions

COMMON RED FLAG INDICATORS

- Transactions **not economically justified**, inconsistent with normal business activity or without commercial rationale or economic justification
- Use of funds by non-profit organisations that **are not consistent with the purpose** for which it is established
- Multiple deposits / cash transactions **structured below the reporting level** and / or **apparently with no business logic**
- Frequent wire transfers/ cash activities **to and from foreign countries**
- Login or banking from areas close to **conflict zones** (eg. Syrian border)
- Parties to the transaction are from countries identified as **'high risk' countries** or funds are being generated or transferred to such countries
- Customer insisting on **anonymity, reluctance** to provide identifying information or providing minimal, seemingly fictitious information
- **Adverse press** or media reports



EXAMPLES

February 17, 2012

Mauritius Accused of Laundering Money from the Diamond Mines of Robert Mugabe

Global Witness, an international NGO, published a report on Wednesday 15 February, the diamond business in the hands of the government of Robert Mugabe in Zimbabwe. Maurice is blacklisted.



Global Witness, a non-governmental organization based in London, Maurice would be one of the offshore financial centers that serves as a screen Zimbabwean President to channel money from the sale of diamonds.

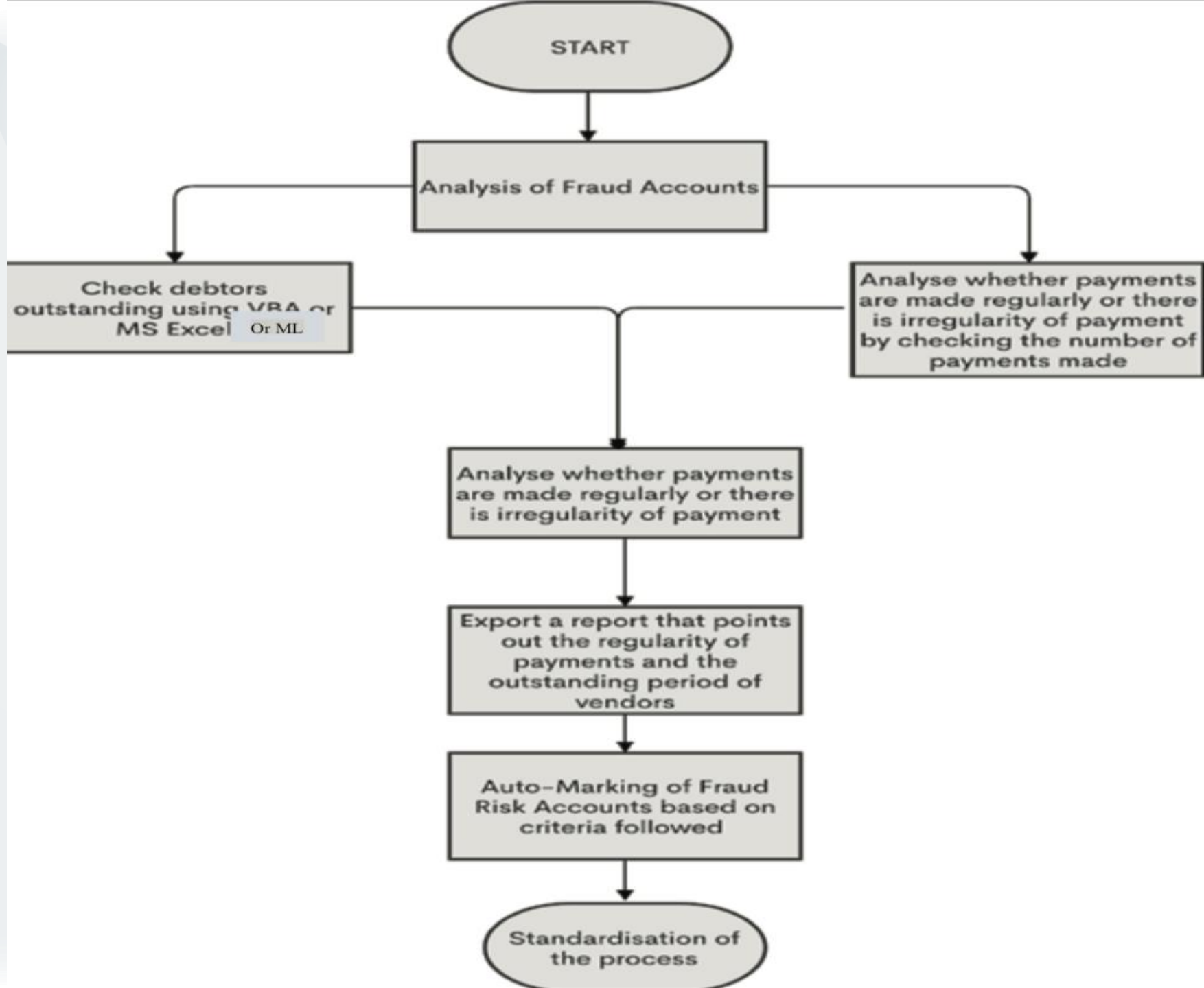
EXAMPLES

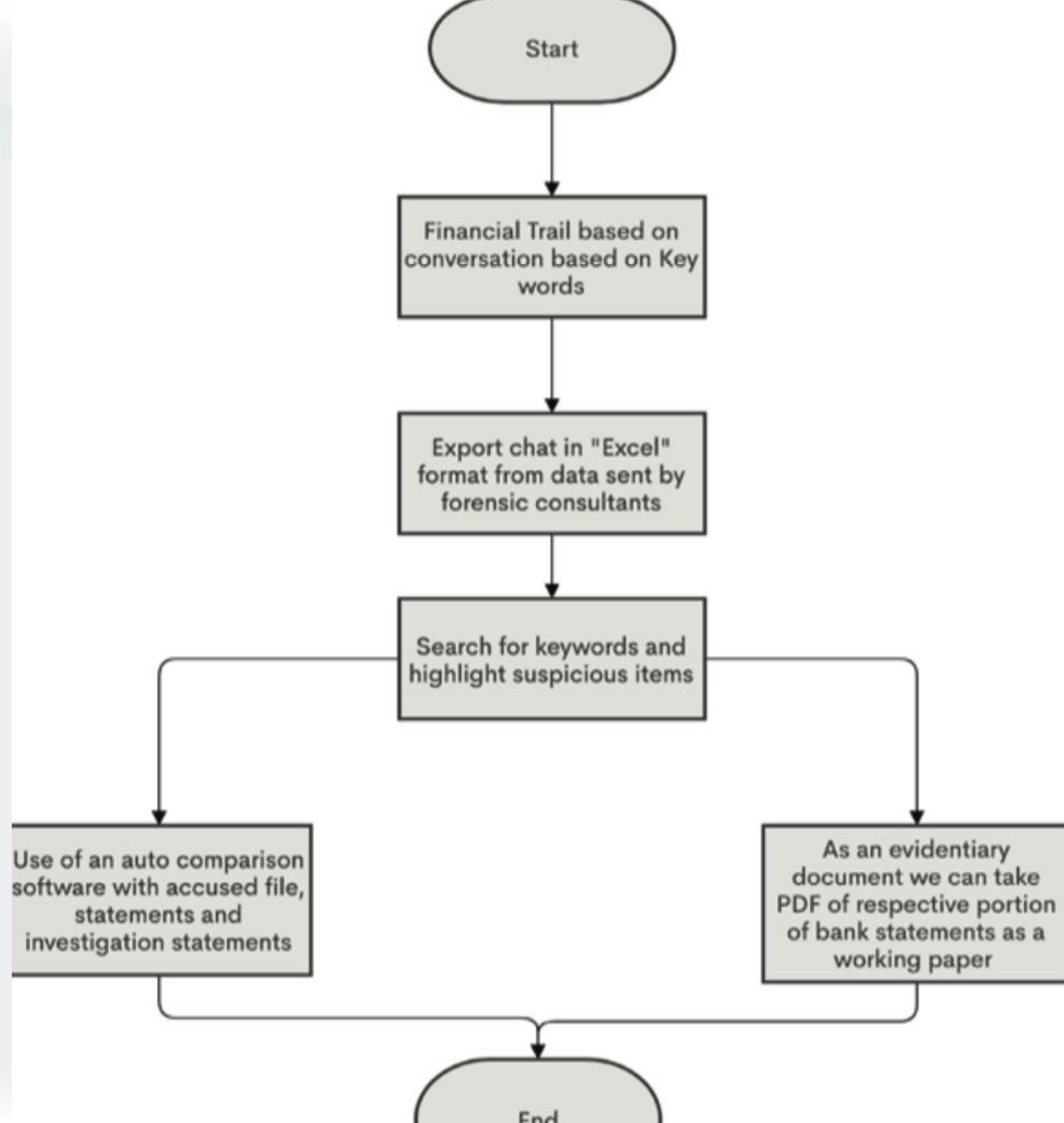
- Inter Party Adjustments in Books of Accounts.
- Business Valuation – De Merger Scheme.
- Goods sold to Foreign Subsidiary at Lower Rates.
- Inflation in Contract Value with Group Companies.

EXAMPLES

- Inflating of Sales Turnover.
- Inflating of Purchases for Input Tax Credit.
- New EPC Disbursement used for Repayment of Previous EPC outstanding.







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THANK YOU