

# Opportunities and Current Scenario in Forensic Audit

Presented at Seminar on

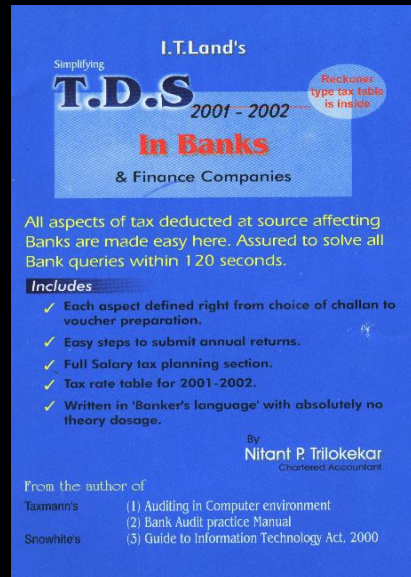
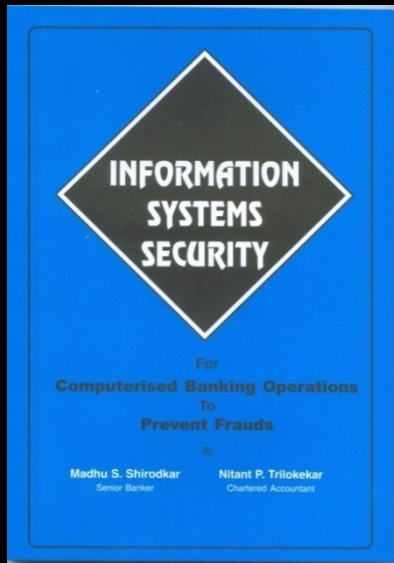
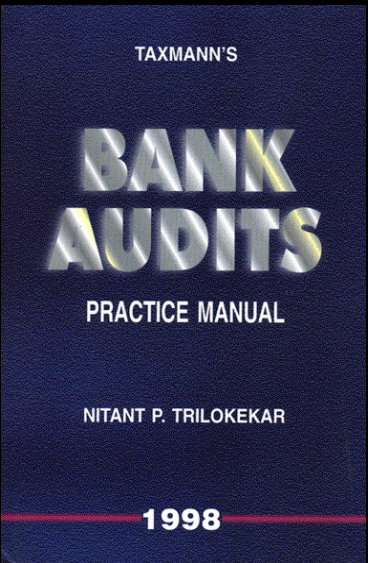
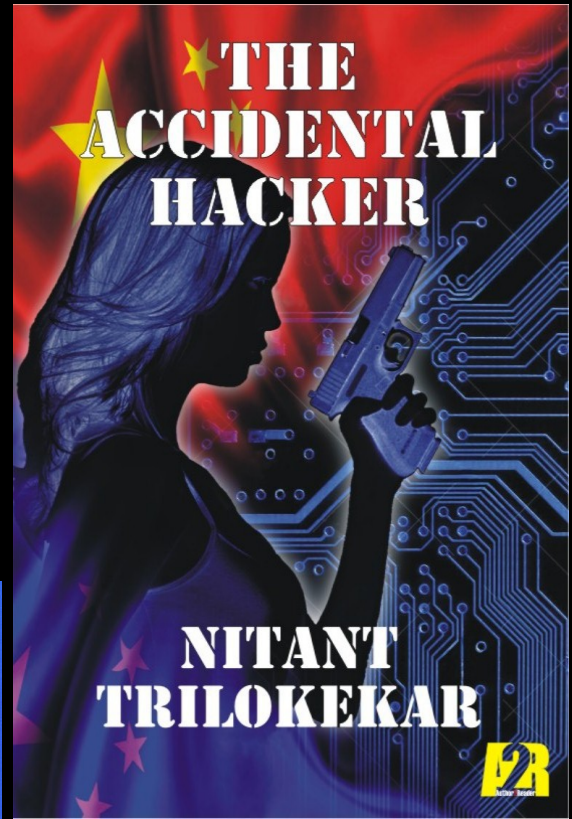
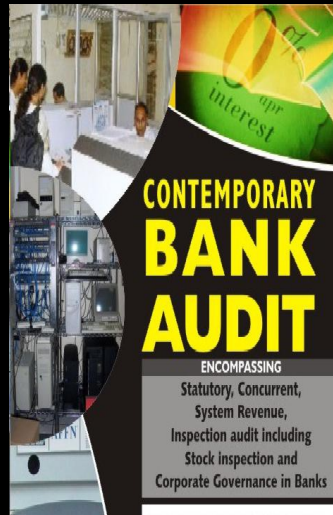
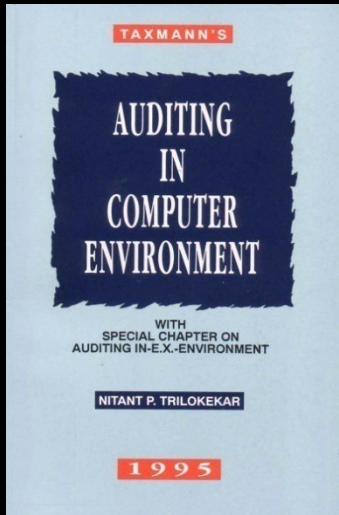
## Forensic Audit & Data Analysis

By

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- The objective of this presentation is dissemination of information and not to scare the participants.
- However, those with weak hearts and known cardiac cases may attend at their own risk.
- You may now conduct your regular audit assignments in a different perspective, perhaps with renewed energy and interest..

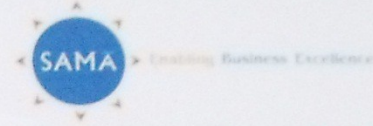
C A A T

Computer Aided  
Audit Techniques

# CAAT an indispensable Aid

- **CAATs Certification Program**
- There are several certification programs from various CAATs vendors and professional associations as the following:
- International Certified CAATs Practitioner (ICCP): established by the International Computer Auditing Education Association (ICAEA).
- ACL™ Certified Data Analyst (ACDA): established by ACL Services Ltd.
- Certified IDEA Data Analyst (CIDA): established by CaseWare Analytics.
- Jacksoft Certified CAATs Practitioner (JCCP): established by Jacksoft Commerce Automation Ltd.





**Caseware Idea Inc. & Sama Audit Systems & Softwares Pvt. Ltd.**  
**in association with Western India Regional Council**  
**The Institute of Chartered Accountants of India**

*Certify that*

*Mr. Nitant Trilokekar*

*has successfully participated*

*in two day practical hands on training program*

*on CAATS - IDEA Data Analysis Software in April, 2006*  
*conducted at Bhavan's College, Andheri (West), Mumbai, India*

**Sunil Goyal**  
Chairman - WIRC

**Bob Cuthberts**  
Chief Operating Officer

**Sangita Singhal**  
Director

Place : Mumbai

Date : 10th April, 2006

Is CAAT now essential tool of  
auditor?

Attitude is more  
important

What should be your philosophy to  
detect fraud?

Set a thief to catch a thief ?

The thief is the artist. The  
policeman is only a critic...

Oscar Wilde





Watchdog or Bloodhound or



# Approach to detect Bank Frauds during Statutory Audit

**F** Find the Red Flags

**R** Review the Red flag transactions

**A** Analyse them for abnormality

**U** Understanding shared with

Mgmt.

**D** Document your findings

**S** Statutorily report them

# Case of disappearing cash

- A company is growing at good pace over past three years.
- The question: Why are we searching for cash to pay bonus?

Suggested measures to spot the Red Flags



1. Diff between book profits and cash profits.
2. Abnormal Expense
3. Accounting standards

# Features of the Fraud

- Medical disposals were mainly cash sales
- Each item was imported with ID / serial number.
- Selling on road @ Churchgate station was not possible – Pacemakers and heart valves.
- Spares as OWN stock were kept in hospital
- Stock taking was not done as imports were on order – on paper (where did the spares come from)



# Gathering Evidence

- Red flags were attacked first.
- Stock taking was done. 70 items of average rate Rs. 50,000 were 'missing'.
- Non recording of stock transfer led to non billing. (1)
- Cash receipts (manual) were compared to deposits in Bank. Delhi office issues. (2)
- Accounting standard for FE imports (3)



# Conclusion

- Stock transfer SOP
- Stock taking done monthly
- Cash receipt dates monitored on computer by a 'concurrent audit routine" in computer
- First audit virus was born
- Accounting standards reminded to auditor.

A perspective view of a long, brightly lit aisle in a server room. The aisle is flanked by rows of server racks on both sides. The racks are filled with equipment, and the floor is a light-colored tile. The lighting is warm and comes from overhead fixtures, creating a sense of depth and perspective. The text "Why we end up in problems when technology enters the scene" is overlaid in red on the left side of the image.

**Why we end up in problems when  
technology enters the scene**

# Wrong yet logical expectations

1. A balance sheet should be tallied always.
2. Double Entry rule is always satisfied.
3. Books are in agreement with the Final Accounts.
4. Accounting standards and declared accounting policies are always followed. eg. Stock valuation, Line of accounting etc.
5. Statutory requirements never fail.
6. There is sufficient internal control as declared by you in CARO?

If the computer can collect extra  
interest can it pay extra interest  
also?

<b>Interest Amount</b>	0				
<b>Maturity Amt</b>	493923.00	<b>Cash Int. Payable</b>	0.00	<b>Principal Amount</b>	418200.00
<b>RD Installment</b>	0.00	<b>RD Install. Paid</b>	0.00	<b>Maturity Date</b>	14-Sep-2014
<b>Approx. M/Q etc. Int. Amt</b>	0.00	<b>RD Install. Due</b>	0.00	<b>Last Int Paid Date</b>	14-Sep-2014
<b>TD Receipt No</b>	114980	<b>TDS Recoverable</b>	0.00	<b>Proprietor Name</b>	
<b>Int Payable</b>	0.00	<b>Int Paid</b>	78464.00	<b>Share Number</b>	
<b>Share Amount</b>	0.0	<b>Renewal Type</b>	N	<b>Auto Renewal Count</b>	0
<b>Sms Facility</b>	Not Available	<b>Sanction Date</b>		<b>ATM Facility</b>	Not Available
<b>Nominal Member Number</b>	Not Available				

<input type="button" value="Transaction history"/>	<input type="button" value="Chq. deposited"/>	<input type="button" value="A/c as guarantor"/>	<input type="button" value="A/c as introducer"/>
<input type="button" value="Chq. book details"/>	<input type="button" value="Addresses"/>	<input type="button" value="A/c as Joint Holder"/>	<input type="button" value="A/c pending txn"/>
<input type="button" value="A/c joint holders"/>	<input type="button" value="A/c guarantor"/>	<input type="button" value="Introducer details"/>	<input type="button" value="Nominee"/>
<input type="button" value="Interest rates"/>	<input type="button" value="SIDetails"/>	<input type="button" value="Guardian Details"/>	<input type="button" value="Stmt of account"/>
<input type="button" value="LienDetails"/>	<input type="button" value="Interest Details"/>	<input type="button" value="POA Details"/>	<input type="button" value="Additional Info"/>
<input type="button" value="Document Details"/>	<input type="button" value="ECS Mandate"/>	<input type="button" value="Part Withdrawal Details"/>	<input type="button" value="Partner/Officials"/>
<input type="button" value="SaviFix Base Details"/>	<input type="button" value="Customer As Nominee"/>	<input type="button" value="Td Renewal History"/>	<input type="button" value="Cust Other A/C Details"/>

**Transaction history**

Last 20 Transactions summary					496664.00	Days opening balance				
#	Indicator	Txn. date	Transaction Amount	Currency	Cheque No	Balance	Particulars	User	Officer id	Remote Branch
1	TRDR	15-Sep-2014	496664.00	INR	0	0.00	TO MATURED DEPOSIT:60/02/0762117	SYS	SYS	
2	TRCR	30-Jun-2014	13587.00	INR	0	496664.00	BY INTEREST	59102	59102	
3	TRCR	31-Mar-2014	13215.00	INR	0	483077.00	BY INTEREST	DC02	DC02	
4	TRCR	31-Dec-2013	25355.00	INR	0	469862.00	BY INTEREST	59102	59102	
5	TRCR	30-Sep-2013	12188.00	INR	0	444507.00	BY INTEREST 30-SEP-13	SYS	SYS	
6	TRCR	29-Jun-2013	11827.00	INR	0	432347.00	BY INTEREST	59102	59102	
7	TRCR	30-Mar-2013	2320.00	INR	0	420520.00	BY INTEREST	59102	59102	
8	TRCR	15-Mar-2013	418200.00	INR	0	418200.00	BY REN:-60/02/0758009	590	499	

Double interest provision in Dec 2013



Sometimes, it gets serious enough  
to risk your C.O.P.

# Too serious an impact of the previous slide discovery

- System Audit was conducted in October 2014.
- Provision reflected in P&L of March 31, 2014 was therefore excess deflating the profits.
- Final Accounts audited and adopted are wrong.
- Income Tax payable is under calculated.
- What is the position of the statutory auditor of this entity?

# Migration audit now ignored

- What is Migration Audit
- Manual to Computerisation migration audit was done.
- Old application to new application is often ignored and restricted to Trial Balance.
- Sometimes the data does not have a trial balance.
- Migration between two existing application now being LINKED is never done.

# Existing two systems linked error impact

- User is a large public sector Bank.
- NPA provisions are done at H.O.
- For 5 years the Bank had application for provision calculation manually
- Sub-standard level was entered manually.
- 3 ½ years ago they linked it to the core.
- Substandard level is now auto determined after extensive testing over a year.
- Substandard levels are accurate after link.
- What can be the error?

# Golden Rule of a GOOD Systems Design

Design not for the majority of situations  
but 110%.

All existing exceptional situations must be  
considered as well as forecasted.



# So what happened in NPA Provision if it was tested (UAT)

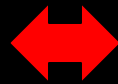
- Worked accurately for manually entered levels in old application.
- Existing software was just to be automated so no formal migration audit.
- Where manually errors were done and corrected, the migrated data was wrongly picked. (see next slide for how)
- Impact was UNDER PROVISION
- Remember the rule each year after being declared NPA the deterioration is determined. (unless upgraded)

## When manually accounts were 'accidentally' upgraded but corrected

- Software of conversion of data determined automatically the date of NPA.
- It sought date from old system from the BOTTOM of the record.
- When there were no errors in the manual system the data was correct.
- Where erroneously the account was made standard on a later date, but corrected, the migration program STOPPED further search as first date of substandard was reached. (next slide)

# Cases how the software went wrong

Data in manually entered system



Normal		Error type 1		Error type 2	
Date	Classification	Date	Classification	Date	Classification
		Before deterioration *	Standard	Before deterioration *	Standard
Nov 2009	Standard	Dec 2009	D1	Dec 2009	D1
Nov 2010	D1	Dec 2010	Standard	Dec 2010	D2
Nov 2011	D2	Dec 2010 (same day)	D2	Dec 2011	Standard
Nov 2012	D3	Dec 2011	D3	January 2012 (error correction)	D3

Error of picking up date of sub-standard by the new system and hence the provision being wrong as under

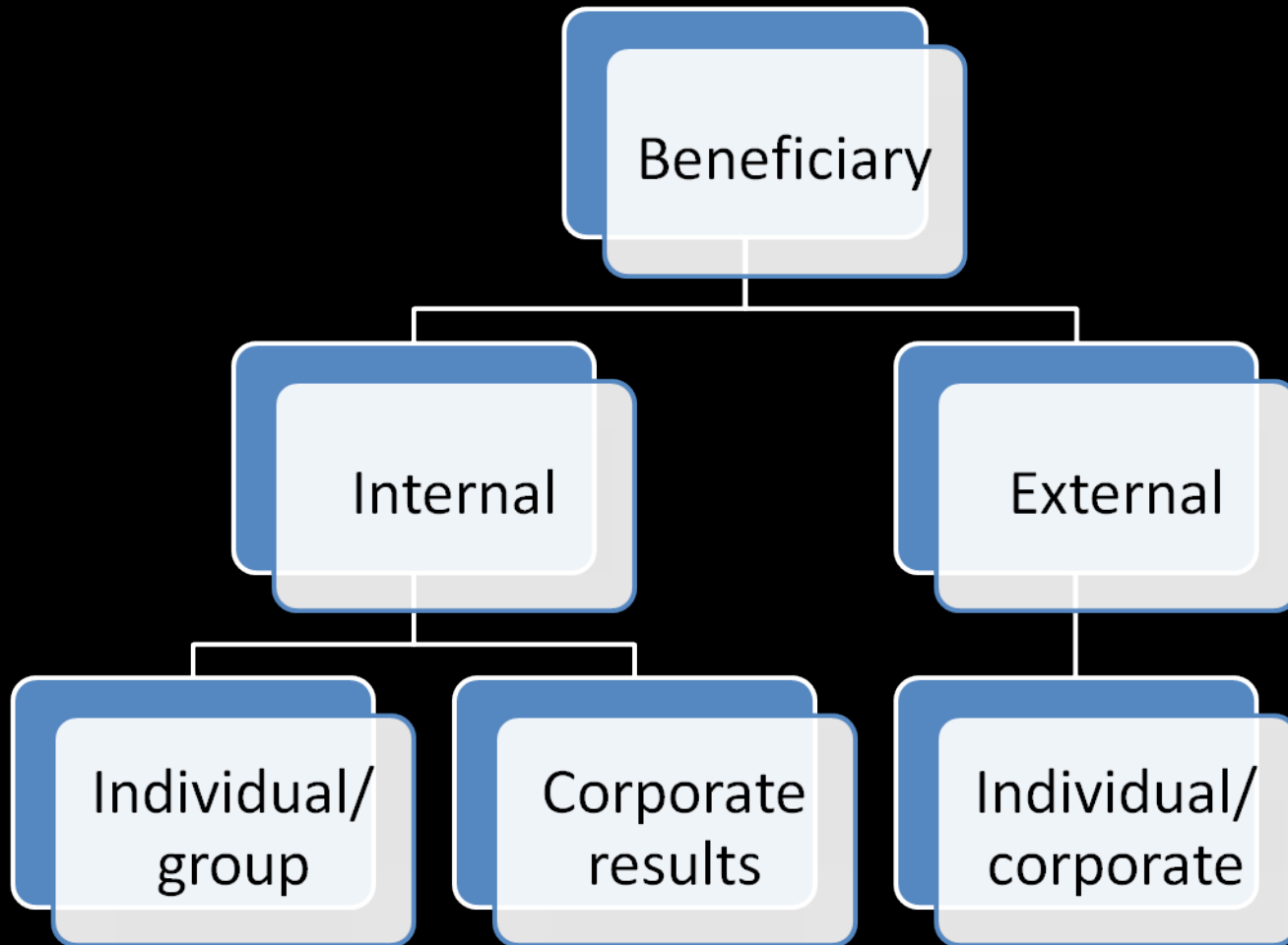
	No error	Error by 1 year		Error by 2 years	
--	----------	-----------------	--	------------------	--

What happened to the two year's  
statutory auditors?

# Fraud prone areas with beneficiary

- New
  - Company, Branch
  - Scheme
  - Technology
  - Software Application
  - Process
- Collection
- Allocation – 3 quotations or tender is not sufficient.

# Who can be beneficiary of a fraud



When Bodyguards become  
attackers

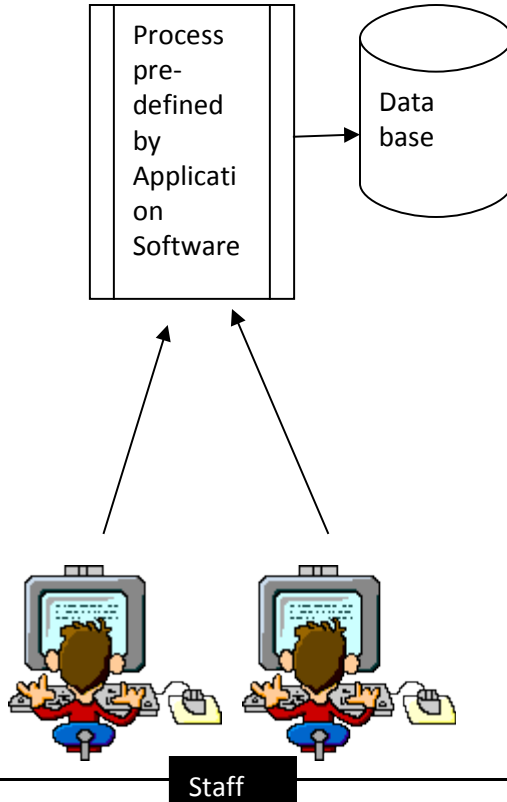
# Opportunity Triggers

- Weak points
- Access to back end
- Opening balance adjustment authority

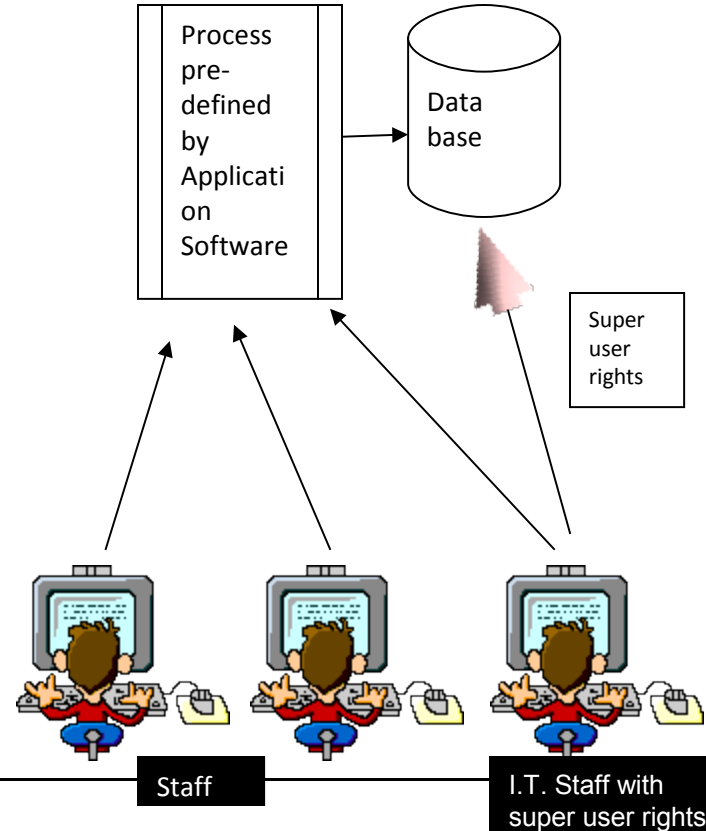


# Access to back end

How normal user is prevented from direct access to database



How a super user can access database



अदा करें

रु. 12200/-  
Rs. 12200/-

निलकाफर इवबाल पावसकर

Token No. .... 66 .....  
KOKAN BANK Ratnagiri Br.  
08 DEC 2009  
TIME ..... 2.35 pm .....  
INITIAL ..... h .....  
A red checkmark is present above the stamp.

h  
Shankar m. A

निलकाफर इवबाल पावसकर

Signature

500x24 12000  
100x2 200

In initials of the perpetrator

# Total Damage

Date in statement	Cheque No.	Amount shown in statement Rs.	Amount written on cheque and amt actually withdrawn Rs.	Benefit to the perpetrator
25-Sep-09	190801	1400	51400	50000
08-Dec-09	190803	2200	12200	10000
19-Feb-10	190807	1500	31500	30000
12-Mar-10	190808	2200	22200	20000
19-May-10	195742	500	30000	29500
21-May-10	195744	800	18000	17200
18-Jun-10	195746	2200	22000	20000
05-Feb-11	198938	2200	35000	32800
				209500

# Support steps are important

- Evidence admissible in court of Law
  - Play the Devil's advocate
- Re: technology seek latest update.
- Paper scanning/photography
- Interview / cross examination
  - Recording

