



WICASA Pimpri Chinchwad Branch of WIRC of ICAI

Students E-Newsletter July - 2018

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MANAGING COMMITTEE MEMBERS

- ◆ CA. Amod Bhate (Chairman)
- ◆ CA. Yuvraj Taware (Vice - Chairman & WICASA Chairman)
- ◆ CA. Prajakta Chincholkar (Secretary & Treasurer)
- ◆ CA. Ravindra Nerlikar (Immediate Past Chairman)
- ◆ CA. Suhas Gardi (Past Chairman)
- ◆ CA. Santosh Sancheti (MCM)
- ◆ CA. Sachin Bansal (MCM)
- ◆ CA. Anil Agarwal (MCM)

WICASA COMMITTEE MEMBERS

- ◆ CA. Yuvraj Taware (Vice - Chairman & WICASA Chairman)
- ◆ Miss. Rucha Kulkarni (Vice Chairperson)
- ◆ Mr. Omkar Dangale (Secretary)
- ◆ Miss. Riddhi Pandey (Treasurer)
- ◆ Mr. Rohit Kadu (MCM)
- ◆ Mr. Omkar Dhamane (MCM)

WICASA Chairman's Communication

My Dear students,

It is my immense pleasure to greet you all, my future professional brethren on this auspicious Chartered Accountants Day (July 1). It is matter of great pride for our fraternity to recount the glorious past and strengthen our future goals. It is the matter of great pride for all chartered accountants of India that our institute has completed 70 glorious years in field of accounts and auditing & become a second largest accounting body in the world & it has over 2.83 Lakh Members (out of which 71,000 chartered accountants are female) & and it has almost 7.5 lakhs students (out of which 3.5 lakhs are girls). ICAI is presently representing through its 5 Regional councils, 163 branches in India and 31 foreign chapters across the world.

CA Course: A perfect Blend of Theory and Practice

“Tell me and I forget, Teach me and I remember, Involve me and I learn”- Benjamin Franklin. The Professional course of Chartered Accountancy is built on same edifice and perfectly blends theoretical education with practical training. Whatever is taught in the course is applied and tested in Practical Training during your articleship. Hence I request you all to take your articleship seriously and make a very best use of numerous learning opportunities you come across during your training period.

Our Institute has taken decision to test your knowledge you gained during your articleship by conducting a online MCQ based test. The students who would be completing their 1st/2nd year of practical training during the second quarter of 2018, i.e. April-June, 2018 would be eligible to appear in these assessments till December, 2018. Similarly, the students completing their 1st/ 2nd year during July-September, 2018 would be required to appear in October-December, 2018 quarter and so on. Concerned students are advised to practice the sample questions uploaded in BoS Knowledge Portal on the Institute website at the link: https://www.icai.org/new_post.html?post_id=14836.

Wrap Up Point

On this day our new Indirect Tax Regime i.e. GST have also completed one year. I Hope you all are doing well and are discharging your professional duties very well. This year July is expected to be more hectic month as a professional especially because of penalty provision for late filing of income tax returns. I hope we all will do our job in best possible way with taking good care of our health.

Wish you all the luck!!

With Warm Professional Regards,

CA. Yuvraj D Taware

(Chairman, WICASA Pimpri Chinchwad Branch)

FORENSIC AUDIT, MEANING & IMPORTANCE

Preface:

A typical organization loses 5% of its revenue every year due to fraud. In this context name such as: Enron, World Com, Satyam, Sahara, Tyco etc have been established as biggest crime of all times which have led the regulators and experts and to shift their focus from traditional auditing techniques to investigation based techniques to safeguard the investor's confidence and maintain the reliability over the truthfulness of the reported financials.

Forensic accounting has risen to prominence because of increased financial frauds popularly known as white collar crimes. Forensic accounting can be described as a specialized field of accountancy which investigates fraud and analyze financial information to be used in legal proceedings. Forensic accounting uses accounting, auditing, and investigative skills to conduct investigations into theft and fraud.

Meaning of Forensic Audit:

Forensic means suitable for use in the court of law and Audit is related to the independent examination of the data of an entity. A forensic audit is therefore an independent and comprehensive process of reviewing a person's or the company's financial statements to determine if they are accurate and whether or not any financial benefit has been attained by way of presenting an unrealistic picture or any illegal activity.

Objectives of Forensic Auditing:

- To use the forensic auditor's conclusions to facilitate a settlement, claim, or jury award by reducing the financial component as an area of continuing debate.
- To avoid fraud and theft.
- To restore the downgraded public confidence.
- To formulate and establish a comprehensive corporate governance policy.
- To create a positive work environment.

A forensic auditor can ensure the integrity and transparency of financial statements by actively investigating for fraud, identifying areas of risk and associated fraud symptoms and a good fraud prevention program can help to create a positive working environment

where employees do not indulge themselves to abuse their responsibilities. So, by helping companies to prevent and detect fraud the forensic auditors can help to establish a comprehensive corporate governance policy.

Let us now understand the concept of fraud with the help of following Fraud Triangle which has led to the occurrence of Financial Frauds leading to the emergence of concept of Forensic Audit

Fraud Triangle:

There is no doubt that frauds and malpractices provide the impetus for forensic accounting or investigative auditing. But what are the factors for which people commit frauds or lead to accounting or economic irregularities. If an attempt is made to analyze the business or corporate frauds, one can unveil three main components for committing such 'white-collar crime'.

These factors are Pressure, opportunity and justification for committing fraud which all together constitute 'fraud triangle'. Components of the fraud triangle are similar to the fuel, spark, and oxygen which together cause fire. When the three come together, inevitably fire breaks out.

PRESSURE:

• **Pressures with financial content:** Such pressures may be long-term and short-term. These arise when people are in need of cash. These can again be classified as follows:

- Itching palm and greediness;
- Desire to live well;
- High amounts of personal debts and health expenditures;
- Unexpected financial needs.

• **Pressures stemming from bad habits:** Such pressures are accepted as the worst kind of factors motivating frauds. The main reasons for such pressures are some attributes related with human qualities. Such attributes are:

- Gambling, drug or alcohol addict;
 - Night life habit.
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- **Pressures related with jobs:** Such pressures stem from the following:

- Being dissatisfied with the job;
- The idea of an unfair attitude;
- Not getting promotion when expected;
- Lower wages structures;
- Not admired by Supervisors

OPPORTUNITY

These factors directly involve top management and owners of the business in particular. The control structure of a business and fraud has inverse correlation. That is better the control structure; lower the scope of committing frauds and vice versa. The following factors are responsible for providing opportunity to commit frauds:

- Weak moral policies;
- Undisclosed contracts made with third parties and partners;
- Incapability to assess the quality of job performed by the employees;
- Absence of well-disciplined environment in which fraudsters will be punished;
- Ignorance, indifference and inabilities of top management;
- Lack of healthy audit work.

JUSTIFICATION

It is the defensive mechanism of fraudsters in order to justify his/ her action. The examples include:

- This is in return for my efforts for the business;
 - Nobody has suffered as a result of this;
 - I have taken the money for a good purpose;
 - I did not know that this was a crime;
 - Business had deserved this;
 - Since business evades tax, I have taken something which was already mine.
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In order to prevent these factors, business should establish moral code and provide employee training.

TYPES OF FRAUD:

The forensic auditors investigate many different types of fraud. It is useful to categorize these types into three groups to provide an overview of the wide range of investigations that could be carried out. The three categories of frauds are corruption, asset misappropriation and financial statement fraud.

CORRUPTION:

There are three types of corruption fraud: conflicts of interest, bribery, and extortion. Research shows that corruption is involved in around one third of all frauds.

- In a conflict of interest fraud, the fraudster exerts their influence to achieve a personal gain which detrimentally affects the company. The fraudster may not benefit financially, but rather receives an undisclosed personal benefit as a result of the situation. For example, a manager may approve the expenses of an employee who is also a personal friend in order to maintain that friendship, even if the expenses are inaccurate.
- Bribery is when money (or something else of value) is offered in order to influence a situation.
- Extortion is the opposite of bribery, and happens when money is demanded (rather than offered) in order to secure a particular outcome.

ASSET MISAPPROPRIATION:

By far the most common frauds are those involving asset misappropriations, and there are many different types of fraud which fall into this category. The common feature is the theft of cash or other assets from the company, for example:

- Cash theft - the stealing of physical cash, for example petty cash, from the premises of a company.
 - Fraudulent disbursements - company funds being used to make fraudulent payments. Common examples include billing schemes, where payments are made to a fictitious
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supplier, and payroll schemes, where payments are made to fictitious employees (often known as 'ghost employees').

- Inventory frauds - the theft of inventory from the company.
- Misuse of assets - employees using company assets for their own personal interest.

FINANCIAL STATEMENT FRAUD:

This is also known as fraudulent financial reporting, and is a type of fraud that causes a material misstatement in the financial statements. It can include deliberate falsification of accounting records; omission of transactions, balances or disclosures from the financial statements; or the misapplication of financial reporting standards. This is often carried out with the intention of presenting the financial statements with a particular bias, for example concealing liabilities in order to improve any analysis of liquidity and gearing.

TECHNIQUES AND TOOLS OF FORENSIC AUDIT:

1. CRITICAL POINT AUDITING:

Critical point auditing technique aims at filtering out the symptoms of fraud from regular and normal transactions in which they are mixed or concealed. For this purpose, financial statements, books, records, etc. are analyzed mainly to find out:

- Trend-analysis by tabulating significant financial parameters.
 - Unusual debits/credits in accounts normally closing to credits/debits respectively.
 - Account/inventory discrepancies as evidenced from the unrecognized balance between financial records and corresponding subsidiary records (like physical verification statement, priced stores ledgers, personal ledgers, etc.)
 - Accumulations of debit balances in loosely controlled accounts (like deferred revenue expenditure accounts, mandatory spares account capitalized as addition to respective machinery item, etc.)
 - False credits to boost sales with corresponding debits to non-existent personal accounts, and
 - Cross debits and credits and inter-account transfers, weaknesses/inadequacies in internal control/check systems, like delayed/non-preparation of bank reconciliation statements, etc.
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1. PROPRIETY AUDIT:

Generally, we here this term in case of Government audit. Propriety audit is conducted by Supreme Audit Institutions (SAI) to report on whether Govt. accounts, i.e., all expenditure sanctioned & incurred are need-based and all revenues due to Government have been realized in time and credited to the Govt. account.

In conducting the propriety audit, the core focus is on Value for Money audits aimed at lending assurance that economy, efficiency and efficacy have been achieved in the transactions for which expenditure has been incurred or revenue collected. The same analogy, with modifications to the principles of propriety of public finance, applies in forensic audit to establish fraudulent intentions if any, on the part of the management. Financial frauds are results of wasteful, unwarranted and unfruitful expenditure from the monies available to the entity.

2. OTHER TOOLS FOR FORENSIC AUDIT

Conventional accounting tools like trend analysis, ratio analysis, fund flow analysis, cash movement analysis are to be supplemented by forensic technology for source data and few other forensic accounting tools like:

- **Relative Size Factor:** RSF is the ratio of Largest Number to the Second Largest Number of a relevant set.

$RSF = \frac{\text{Largest Number}}{\text{Second Largest Number}}$

RSF= highest value divided by the second highest value in a ledger account of debtors, or creditors.

Even a comparison of prices, quantities or values in an inventory.

If the $RSF > 10$, chances of error or fraud are great. Any set of transactions take place in certain range. E.g. A vendor XYZ may have normal pattern of bill value of say Rs.10,000 to Rs. 50,000. If there is any stray instance of single transaction which is way beyond the normal range than that ought to be looked into.

E.g. in above case, if there is bill of Rs. 5 lacs. RSF in above case will give a ratio of 10 (i.e. ratio of Rs. 5lac to Rs. 0.50 lacs).

These single instances could be cases where there is some foul play.

- **Surprise Repetitive Tests:** Surprise tests lose their sting when an auditee can predict an auditor's plan. Timing is very effective: one way to throw a suspected auditee completely off guard is to repeat a test in quick succession. Complacency, cover-ups and even frauds are likely to be exposed in the repeat test.

- Application of non-financial information such as space or time dimensions to detect wrong doing. (An interesting case on Space time dimension is included here)

CASE STUDY ON SPACE TIME DIMENSION METHOD

A robbery took place in a mall • Thieves broke in through the door • They stole cash worth more than Rs. 40 lacs • Police complaint lodged • Police made inquiries with staff, neighborhood

Findings of the Police:

- They concluded that this was the work of a local gang of thieves operating in the area and this mall was the latest victim
 - They suspected that some employee may have helped but could not get specific clues against anyone
 - They recommended better locks and greater security.
- Case virtually closed.

Management appointed auditors, who were specialized investigators, more for studying controls and recommending preventive measure.

Auditors spotted red flags: The time element indicated that the thieves had only 20 minutes to complete the robbery while the patrolling guards were circling the mall.

- How could they throw about all contents of all drawers?
- Where did they have time to steal a few cell phone handsets which were on a different floor?
- The alarm had been switch off. Therefore it was certain that someone had helped them
- The door that was broken was done with crude tools- not the work of a professional gang
- Out of two safes only one was broken into and robbed. The second was left untouched?

Findings good but inadequate to point out any means of recovery.

Auditors try a new approach:

- The use the space time dimension approach
 - Amazing findings- Late night sales
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On further investigation, the log in id was traced - the store manager.

On being questioned he confessed:

- There was no robbery- it was a stage managed robbery to cover up stock shortages
- The shortages were built up over a period of time. The store manager panicked when he was told that a stock taking was to take place
- He converted the stock shortages into 'artificial' sales by entering sales at midnight along with his accomplice the head cashier during the previous two nights. This resulted into stock shortages being converted into cash shortages.
- This shortage was then palmed off as robbery by breaking open the door and throwing papers and documents in the cash room to make it look like a robbery'.

CONCLUSION

In summary, a forensic investigation is a very specialist type of engagement, which requires highly skilled team members who have experience not only of accounting and auditing techniques, but also of the relevant legal framework. There are numerous different types of fraud that a forensic auditors are expected to investigate.

The investigation is likely to ultimately lead to legal proceedings against one or several suspects, and members of the investigative team must be comfortable with appearing in court to explain how the investigation was conducted, and how the evidence has been gathered. Forensic auditors must therefore receive specialist training in such matters to ensure that their credibility and professionalism cannot be undermined during the legal process.

Compiled by,

Poonam Pradeep Wakode

(WRO0478561)

FORTHCOMING EVENTS IN MONTH OF AUGUST & SEPTEMBER 2018

SR NO	DATE	Topics	Venue	Speaker
1	14.8.2018	Seminar on Tax Audit	ICAI Bhawan Pimpri-Chinchwad Branch of WIRC of ICAI	CA. Saurabh Mahgaonkar
2	17.8.2018	Study Circle Meeting RERA	ICAI Bhawan Pimpri-Chinchwad Branch of WIRC of ICAI	CA. Ramesh Prabhu
3	05.9.2018	Webcast from Head Office for students and members from Board of Studies, ICAI (Celebrating the occasion of "Teachers' Day" with the theme "MY PRINCIPAL- MY GURU – MY ULTIMATE STRENGTH")	ICAI Bhawan Pimpri-Chinchwad Branch of WIRC of ICAI	CA. N.D. Gupta, Past President, ICAI
4	15.9.2018	Seminar on Tax Audit	ICAI Bhawan Pimpri-Chinchwad Branch of WIRC of ICAI	CA. S M Vhanbatte, Kolhapur
5	22.9.2018	Seminar on Stress Management & Study Circle meeting	ICAI Bhawan Pimpri-Chinchwad Branch of WIRC of ICAI	Mr. Raghav Sandhane
6	22.9.2018	Felicitation of New Chartered Accountants (Nov 17 & May 18 attempt)	ICAI Bhawan Pimpri-Chinchwad Branch of WIRC of ICAI	CA. S. B. Zaware, Central Council Member of ICAI.
7	25.9.2018	Counselling Session for Mock Test papers Series 1 Foundation, Intermediate & IIPC & Final (Old Course)	ICAI Bhawan Pimpri-Chinchwad Branch of WIRC of ICAI	CA. Komal Baheti

Events in the Month of July 2018

SR NO	DATE	Topics	Venue	Speaker
1	01.07.2018	CA Day Flag Hoisting ceremony at Branch	ICAI Bhawan Pimpri-Chinchwad Branch of WIRC of ICAI	NA
2	01.07.2018	5 Days Workshop on GST For Women Empowerment Through Skill Building" Jointly with Institute of Industrial and Computer Management and Research (IICMR)	Institute of Industrial and Computer Management and Research (IICMR) Pradhikaran, Pune, 411044	CA. Varsha Nagrani
3	02.07.2018	5 Days Workshop on GST For Women Empowerment Through Skill Building" Jointly with Institute of Industrial and Computer Management and Research (IICMR)	Institute of Industrial and Computer Management and Research (IICMR) Pradhikaran, Pune, 411044	CA. Varsha Nagrani
4	03.07.2018	"5 Days Workshop on GST For Women Empowerment Through Skill Building" Jointly with Institute of Industrial and Computer Management and Research (IICMR)	Institute of Industrial and Computer Management and Research (IICMR) Pradhikaran, Pune, 411044	CA. Varsha Nagrani
5	04.07.2018	"5 Days Workshop on GST For Women Empowerment Through Skill Building" Jointly with Institute of Industrial and Computer Management and Research (IICMR)	Institute of Industrial and Computer Management and Research (IICMR) Pradhikaran, Pune, 411044	CA. Varsha Nagrani
6	07.07.2018	Workshop on ITR Filing – GST Disclosure Needed IN ITR"	ICAI Bhawan Pimpri-Chinchwad Branch of WIRC of ICAI	CA. Sachin Bansal
7	11.07.2018	Seminar on "Stress Management & Healthy Living"	ICAI Bhawan Pimpri-Chinchwad Branch of WIRC of ICAI	Mr. Sunil Mirchandani
8	13.07.2018	Industrial Visit For CA Students at Volkswagen India PVT LTD	Chakan Plant	NA

Events Snapshot

Celebrate Chartered Accountants Day by Flag Hoisting



From L to R: CA. Prasadh Saraaf Past Chairman, CA. Yuvraj Taware Vice Chairman & WICASA Chairman, CA. Santosh Sancheti MCM, CA. Prajakta Chinchokar Secretary & Treasurer, CA. Suhas Gardi Past Chairman, CA. Amod Bhatte Chairman, Mr. Ajay Dhoke Joint Commissioner, CA. Baban Dangale Past Chairman, CA. Suniel Karbhari Past Chairman, CA. Shaymla Karbhari.



Felicitation of Students on the occasion of CA Day.

Events Snapshot



CA. Yuvraj Taware, Vice Chairman offering Tree sapling at Seminar on "Stress Management & Healthy Living"



Tree Plantation at DurgaTekdi, Nigdi by CA. Amod Bhate, Chairman, CA. Yuvraj Taware, Vice Chairman & Students

Events Snapshot



CA. Varsha Nagrani guiding students



Ointment Distribution to Warkari

Events Snapshot



Workshop on ITR Filing, GST Disclosure Needed in ITR
Speaker CA. Sachin Bansal Managing Committee Member guiding students



Volkswagen Industrial Visit

Editorial Board

CA. Amod Bhate
Chairman

CA. Yuvraj Taware
WICASA Chairman

Mr. Omkar Dangale
WICASA Secretary

WICASA PIMPRI CHINCHWAD BRANCH OF WIRC OF ICAI

**ICAI Bhawan Plot No. 17/8 A, at Nigdi, Dattanagar, Near Bhakti Shakti chowk, Dehuroad
Cantonment Board, Behind Indian Oil Petrol Pump, Pune 411044.**

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Instructions

- **Update Contact Number and e-mail ID with the branch.**
- **Please contribute to Students Newsletter in the forms of Articles, Compilations or any other useful information.**

DISCLAIMER

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