

Fraud Investigation – An Overview



The recent economic downturn and increasing corporate frauds have re-emphasised the importance of financial fraud investigations. The end result of a successful investigation is concise reporting, along with requisite evidence, which would stand up in the court of law. Each Forensic investigation assignment is unique in its own way – in manner of occurrence of the fraudulent activity, nuances involved, location and execution. Financial fraud investigations have a wide connotation. This article provides information and background in relation to various types of fraud investigations.



CA. Jagdeep Singh Chopra
The author is a member of the Institute.
He can be reached at
ehboardwica.org

The current world scenario of economic downturn and corporate frauds of recent years have renewed interest in financial frauds in various organisations. One of the negative aspects of globalisation and growing economy is 'white collar crimes'. However, the threat of financial fraud has always been there and, as such, there is a need for the management, regulators and law enforcement agencies to deal with these situations more effectively and timely. There is an increasing trend where various businesses are being victimised by serious internal frauds. Fraud by its nature is perpetrated secretly through deception.



Fraud investigations focus on the unusual accounting irregularities that point towards a trend of criminal financial behaviour. Thus financial fraud investigations require deployment of professionals with expertise in detection and prevention of fraud. This requires the fraud investigators to determine occurrence of a fraud, its perpetrators and the implication of the fraud – monetary loss and damages. Forensic Accountants, besides having expert knowledge of accounting & auditing standards and procedures, should have an understanding of business and financial reporting process.

Audits or Investigations: Mistake or Fraud

At the outset, it is essential to understand that there are fairly significant differences between an audit and an investigation. Corporate frauds are known to increase during situations similar to the current uncertain economic times world over.

Normally an audit involves inspection of financial statements, accounting procedures and standards and records to make sure that there is "reasonable assurance about whether the financial statements are free from material misstatement" and that they present a "true and fair view in conformity with the accounting principles generally accepted". In other words, auditors look for errors, and not necessarily for fraud.

Fraud investigation focuses on the unusual accounting irregularities that point towards a trend of criminal financial behaviour. Thus financial fraud investigation requires deployment of professionals with expertise in detection and prevention of fraud. This requires the fraud investigators to determine occurrence of a fraud, its perpetrators and the implication of the fraud – monetary loss and damages.

Certain types of frauds may be due to deliberate inaccuracies in a financial statement that lead to someone benefiting financially.

Usually frauds are detected through whistle blower or anonymous inputs, management having suspicions or noticing unusual financial fluctuations. It has been observed that fraud is detected less than 1 percent of the time during the course of audit of financial statements. This is primarily due to the reason that auditors conduct their verification on the basis of sample checking of relevant documents, and look for a "reasonable assurance" and that the statements are free from "material misstatements." Sample checking is done as it is not practical to verify every transaction during the course of an audit.

During the audit, it needs to be verified whether a company is in compliance with its governance and regulations, and whether the financial statements are accurate within a reasonable degree of materiality. Thus during an audit, the auditor would not be too concerned if an expense is misclassified. However, during a fraud investigation, he would further examine an expense misclassification and reasons behind the same, as it may be intentional. Thus, the outlook while conducting an investigation undergoes a change as compared to an audit.

Public perception is that auditors' job is to detect fraud but in fact the overall purpose of an audit is to ensure the true and fair presentation of financial statements. Auditors try to give full disclosure and transparency in their reports and financial statements audited by them. Present reporting format requires that auditors should report on certain elements of fraud as part of financial audit procedures.

However, a fraud investigation involves a detailed investigation into specific issues along with other processes like gathering evidence, conducting and recording (electronic or manual) interviews of employees and management.

Corporate fraud investigation requires curiosity and tenacity along with the domain knowledge. The work may be time consuming and tedious, but the efforts usually are quite satisfactory. However, there may be instances where during the course of an investigation, considerable efforts put in do not yield commensurate results or findings, and there may be instances where the investigators hit the bull's eye by way of immediate findings in a short period. This in no way should be used as a yardstick in judging the competence or lack of it on part

of the investigators. An investigation involves sifting, collating, verifying and interpreting through mountains of data and information.

Usually, corporate fraud investigators are retained by the corporate or outside counsel; hence they are bound by the lawyer-client confidentiality. As such, in spite of the fact that their findings may point towards an illegal activity, they do not have a say in whether to prosecute a crime or not.

Forensic Investigations and Dispute Resolution Services

(A) Dictionary meaning of Forensic Accounting indicates it to be the specialty practice area of accountancy and refers to assignments that result from actual or anticipated disputes or litigations. "Forensic" means "suitable for use in a court of law," and it is to this result and potential outcome that forensic accountants generally have to work.

Forensic accountants are also referred to as forensic auditors or investigative auditors, and are often called to give expert evidence at the eventual trial. Assignments relating to criminal issues arise subsequent to perpetration of fraud and usually involve accounts related issues and assessing the financial statements. By qualification, forensic accountants are Chartered Accountants / Certified Public Accountants or Certified Fraud Examiners.

Thus Forensic Accountants, besides having expert knowledge of accounting & auditing standards and procedures, should have an understanding of business and financial reporting processes. They should be well versed with the investigation techniques, evidence gathering and the related legal procedures involved during the course of their assignment.

According to a study on financial statement fraud conducted by the non-profit Institute for Fraud Prevention (IFP), a consortium of universities for research of the causes of fraud and how to reduce it, internal controls were usually circumvented by a fraud network led by the CEO and assisted by outsiders. The CEO normally includes the CFO in the fraud network. It was further reported that these fraud networks cause extremely large losses that are far greater when the outside audit firm is alleged to have aided the fraud. It was additionally stated that in more than half the cases, an entity other than the organisation where fraud is perpetrated, usually an investment bank, auditing firm, or colluding business partner

were implicated as a party to the crime.

(B) Forensic investigations & Dispute services:

In an era of increased exposure to frauds and related activities, there is a rising trend among professional firms, especially in India, to provide an array of expertise under Forensic Investigations and Dispute Resolution services. It is general trend that all the larger accounting firms as well as many medium-sized and boutique firms have specialist forensic accounting departments, and within this there are further specialisations, as given below.

Forensic Investigations and Dispute Resolution Services normally involve an expertise in the following areas:

- Fraud and Financial Investigations
- Corporate Business Intelligence
- Dispute and Litigation Support Services
- Foreign Corrupt Practices Act Consulting
- Anti-Money Laundering
- Analytic and Forensic Technology
- Anti-Counterfeiting Services
- Pre-Employment Background Verification

We would briefly touch upon each of the practice areas stated above, followed by a case study which involves some aspects of a fraud investigation.

(C) Fraud and Financial Investigations

These investigations involve conducting complex



A majority of corporate fraud cases involve devising accounting schemes with a purpose to deceive stakeholders, auditors and various interested parties with regard to the accurate financial position of the entity. This inaccurate financial data and fictitious performance indicators result in the company artificially depicting good performance resulting in the rise of share price of the corporate. This translates into significant financial losses to investors which has the potential to shatter investor confidence once the correct financials of the company are revealed.

assignments including those pertaining to financial statement frauds, misappropriation of assets, corruption and bribery, and fraud risk evaluations.

Fraud Risk Assessment (FRA): In view of complexity in business transactions, many entities are often at a risk of fraud being perpetrated on them resulting in loss of large sums of money, assets and reputation. It is a well known fact that every organisation is susceptible to fraud risk. There is an increasing trend where the forensic accountants are giving vital inputs for fraud risk reduction by way of conducting FRA assignments at various entities, thereby mitigating the fraud risk for that organisation.

FRA schemes facilitate the management to identify risk areas vulnerable to fraud. FRA exercise then enables the management to incorporate internal controls systems which can deter fraud or help to detect possible fraudulent activity.

Financial Fraud Investigations: During the initial phase of discussions and interviews with the management, main issues involved in the investigation are identified and discussed. This always facilitates putting a perspective to the whole investigation. Main ingredients of an investigation are that the findings should be able to stand up in a court of law. Evidence in the form of documents and discreet interviews of employees, customers, associates, competitors and other related parties form an important part of the investigations.

While conducting an investigation into a Financial Statement Fraud, it should be considered that the most common way in which financial statement fraud is carried out is through revenue overstatement. Trends in revenue are compiled and revenue overstatement is thereby detected by analysing these revenue patterns.

A way to overstate revenue without arousing any suspicion would be a constant increase in sales

or profits from period to period. A majority of Corporate Fraud cases involve devising accounting schemes with a purpose to deceive stakeholders, auditors and various interested parties with regard to the accurate financial position of the entity. This inaccurate financial data and fictitious performance indicators result in the company artificially depicting good performance resulting in the rise of share price of the corporate. This translates into significant financial losses to investors which has the potential to shatter investor confidence once the correct financials of the company are revealed.

Financial frauds and falsification of financial information are usually perpetrated in a combination of following schemes:

- Incorrect depiction of financial statements,
- Inappropriate revenue recognition including revenue overstatement and fraudulent reporting of fictitious sales,
- Incorrect expense recognition,
- Overstatement of assets and understatement of liabilities,
- Concealment of transactions through off-balance sheet items and entities,
- Misappropriation of assets, fraudulent conduct by senior management and fraud unrelated to financial statements (e.g., corruption),
- Improper ratios pertaining to inventory or accounts receivables, recording of large amounts being written off immediately after closure of the accounting period are indicators for fraudulent manipulation of revenue,
- False accounting entries.

Methodology normally adopted to investigate the financial statement misstatement is briefly discussed below:

- Computerised books of accounts / other relevant records, transaction dumps are extracted and analysed using advanced forensic fraud detection techniques.
- Books of accounts are reviewed for adjusting



Corporate business intelligence primarily involves background verification on potential targets in order to facilitate the client to use the information to make a valued decision for mitigating risks associated with the transaction and form a view regarding the reputation and integrity of a company and the track record of their business performance. The potential target is clearly stated by the client. Evidence in form of documents and discreet interviews of employees, customers, associates, competitors and other related parties form an important part of the investigations.

Forensic Accountants assist law firms and clients to evaluate and build up a credible financial claim, supported by legally admissible evidence. They assist them in conducting the financial analysis of the claim and development of various damage scenarios. It is thus imperative that the issues involved and methodology to be adopted should be discussed and agreed upon with the legal team at the initial stage itself. The process involves in-depth analysis of details collected and preparation of financial claim report with relevant evidence and enclosures.



- entries, during the end of accounting period, relating to increase in revenue.
- Sales are checked with relevant support documents, purchase orders, etc, during the year-end, for its genuineness, and analysis of sale returns / debtors written off during subsequent period is done.
 - Independent balance confirmations from various parties for accounts receivable, accounts payable and bank balances, where required.
 - Existence of various fixed assets and investments, preferably by conducting reasonable physical verification of the same,
 - Irregularities in the cash and bank transactions, detrimental to the company,
 - Relevant emails, accounting system entries to verify various aspects like sales, agreements, communication, authorisation, etc, are verified.

It may be noted that above mentioned steps are not exhaustive in nature. Each case has its own peculiarities and circumstances, hence requiring specific responses.

Asset Misappropriation Investigations: Asset tracing assignment would involve locating assets of a company or individual which have been deliberately kept hidden and are not identifiable. It may so happen that a company or individuals deliberately do not reveal their assets – movable or immovable. This situation often arises during the course of a legal proceeding or other dispute. Experienced professionals use their investigative skills to unearth these assets which might have been kept hidden in a maze of transactions, or in the name of a relative. This involves field visits, interviews and search / study of various documents, whether or not available in public domain.

(D) Corporate Business Intelligence

Domestic and international organisations enter into business partnerships with unknown entities

all over the globe, thus making them vulnerable to potential legal and commercial risks. It is thus imperative that due diligence and requisite background investigations be conducted on proposed associates in order to avoid serious legal complications.

Corporate business intelligence primarily involves background verification on potential targets in order to facilitate the client to use the information to make a valued decision for mitigating risks associated with the transaction and form a view regarding the reputation and integrity of a company and the track record of their business performance. The potential target is clearly stated by the client.

The investigators may obtain information available in the public domain, through regulators and statutory authorities, information / interviews of employees and business associates, media search, other data base and Internet search, information from law enforcement agencies and other areas. As required, all or a combination of the sources stated above, are used to conduct such investigations. The process involves comprehensive desktop review and field visits of the investigating team.

Evidence in the form of documents and discreet interviews of employees, customers, associates, competitors and other related parties form an important part of the investigations.

(E) Dispute Resolution and Litigation Support Services

Large number of litigations and disputes are bound to arise in an age of rapid globalisation and complex commercial transactions. Experienced legal eagles require inputs on the financial aspect of a legal claim.

The nature of legal dispute might differ. It might involve a financial claim dispute between two parties involved in a buy-sell transaction gone sour, or disagreement in valuation of business venture or a complicated legal issue with financial impact.

Forensic Accountants assist law firms and clients to evaluate and build up a credible financial claim, supported by legally admissible evidence. They assist them in conducting the financial analysis of the claim and development of various damage scenarios. It is thus imperative that the issues involved and methodology to be adopted should be discussed and agreed upon with the legal team at the initial stage itself. The process involves in-depth analysis of details collected and preparation of financial claim report with relevant evidence and enclosures.

On submission of claim in the court of law, forensic accountants provide independent expert witness services to the law firm and client, for appearing in the court / arbitrators for giving evidence in support of the financial claim.

(F) Foreign Corrupt Practices Act (FCPA)

Services

US firms seeking to do business in foreign markets must be familiar with the FCPA. In general, the FCPA prohibits corrupt payments to foreign officials by US companies for the purpose of obtaining or keeping business.

US Securities & Exchange Commission investigations in the mid-1970's found that over 400 US companies admitted making questionable or illegal payments in excess of \$300 million to foreign government officials, politicians, and political parties which were in nature of payment of bribes to them in order to secure some type of favourable action by a foreign government / officials. Thereafter, the US Congress enacted the FCPA in an attempt to stop the practice of bribery of foreign officials and to ensure integrity of the American business system.

FCPA rules require US corporations to maintain books and records that accurately and fairly indicate various transactions of the corporation. It further requires these organisations to develop a requisite system of internal accounting controls to identify illegal payments.

Keeping in view FCPA provisions, the US entities having business dealings abroad have to

take appropriate measures to manage FCPA related risks considering the country-specific business and political scenario wherein they have or propose to have business dealings. This would require the US entities to avail professional services to conduct an assessment of the internal control procedures relating to FCPA in the organisation and accounting of relevant transactions. This assessment can be conducted by experienced professionals by undertaking to study the FCPA procedures enunciated at the corporation and by analysing the financial records of the corporation. Interviews of the identified persons would be conducted and recorded. This would facilitate in identifying the FCPA provisions' violations, scope of violations and loopholes in the internal control system of the organisation with regard to FCPA.

(G) Anti-Money Laundering Services

Anti-money laundering (AML) is a term used to describe internal controls that require banks, financial institutions, intermediaries and other regulated institutions to prevent or report money laundering activities.

Money laundering involves concealing or disguising the existence of illegal funds and its source, and illegitimate application of such income in order to provide an apparently perfect legitimate explanation for illicit proceeds. Money laundering activities get initiated by physical placement of cash, thereafter it is followed by separating the illicit money from their criminal origins through a maze of complicated financial transactions.

These processes are then followed by merging the illegal money with the mainstream and providing perfectly legitimate basis for the transactions.

Money laundering also includes the processes by which legitimate funds are transacted through Banks and Financial Institutions to fund illegal activities. It is imperative that these organisations should have robust anti-money laundering regulations and compliance procedures in place. It

US firms seeking to do business in foreign markets must be familiar with the FCPA. In general, the FCPA prohibits corrupt payments to foreign officials by US companies for the purpose of obtaining or keeping business. FCPA rules require US corporations to maintain books and records that accurately and fairly indicate various transactions of the corporation. It further requires these organisations to develop a requisite system of internal accounting controls to identify illegal payments.



is here that the experienced professionals contribute with their investigative expertise by assessing the existing internal control procedures in these areas. The focus of the investigations is to identify the illegal transactions allegedly pertaining to money laundering and terrorist financing, identify gaps in internal control and areas most vulnerable to fraudulent activities, and thereafter make recommendations for improvement in required areas.

Special software have been developed to analyse and identify suspicious transactions or patterns of transactions that may constitute illegal financial activity. These transactions may include large cash deposits and withdrawals, cheque dealings, electronic transfer of funds, credit card activity and other specific transactions. The banks and financial institutions are required to regularly file various reports to the regulatory authorities. These may be in nature of Currency Transaction Report, Suspicious Activity Report, and other reports generated to monitor customer accounts. These institutions are also required to perform due diligence by maintaining customer profile and account transaction details.

(H) Analytic and Forensic Technology Services

Global computerisation and enhanced connectivity world wide has provided multitude of opportunities but at the same time has made various organisations vulnerable to sophisticated and varied business threats and challenges. These threats may be due to unauthorised access to information systems of the organisation resulting in revealing the confidential and sensitive official information, modification of data and information illegally accessed, tampering with the e-systems resulting in interruption of business activity of the company.

e-frauds are detected through forensic services by conducting following procedures:

- email and IP address tracing and analysis;
- Forensic analysis of application systems and data;
- Disk imaging, data collection and matching, analysis and reporting;
- Recovery of deleted files, data or passwords;
- restoring of backup tapes;
- Computer penetration testing and related security review;
- Securing and controlling evidence collected as per legal requirements.

Experienced professionals in Analytic & Forensic Technology conduct investigations by collecting, controlling and analysing huge and often complicated data through their proprietary modern technology tools. They search and process complex transactions in order to identify potential illegal activity. Further, by using latest technology, experts can identify and recover information and evidence traces from computer hard drives and backup tapes, including active, deleted, hidden, lost or encrypted files.

Access, securing and collecting evidence should be as per applicable legal requirements. Strict confidentiality with a minimum possible downtime is the essence of these assignments.

(I) Anti Counterfeiting Services

Anti-counterfeiting services are also known as Brand Protection services. Counterfeit indicates piracy, copying or making fake products. Counterfeiting is a deliberate attempt to deceive the customers by illegally copying and marketing established and branded products. The attempt of the counterfeit is to keep the fake and inferior product very similar to the original branded product in terms of the design, looks, package and technology thus causing a multiple negative impact on the business.

Counterfeiting has become a lucrative business proposal for unscrupulous characters as it is an extremely profitable proposition with minimal risks. It has been found that organised crime syndicates consider counterfeiting as a low risk activity which facilitates them in generating huge funds to support their illegal activities worldwide.

Counterfeiting occurs in various products and industries. It is a regular feature in currency, software, pharmaceuticals, cigarettes, FMCG products, cosmetics, watches, electronic goods, DVDs, works of art and many other products.

Forgery is the process of producing documents with an intention to cheat. There are many instances where currency notes have been forged posing a great law and order threat to the country. Further, Security documents, like stamp papers, have been forged and sold as originals resulting in huge loss of revenue to the government exchequer besides causing damage to the legality of the transactions executed on forged documents.

Anti-Counterfeiting Services involve expert detailed investigations. Extensive intelligence gathering mechanisms are required for a

Global computerisation and enhanced connectivity world wide has provided multitude of opportunities but at the same time has made various organisations vulnerable to sophisticated and varied business threats and challenges. These threats may be due to unauthorised access to information systems of the organisation resulting in revealing the confidential and sensitive official information, modification of data and information illegally accessed, tampering with the e-systems resulting in interruption of business activity of the company.



successful investigation. These involve desktop investigations and field visits.

Desktop investigations are conducted to gather, link and analyse information available in the public domain. The investigators also identify key players involved in the illegal activity of counterfeiting. Due diligence is conducted on the target entities.

Decoy teams are formed with specific purpose of going to the potential target, which may be an individual or a company or any other entity, and inquiring and acquiring the products sold by them. Field investigations involve undercover operations and monitoring of the products and the target entity. The products procured from the target entity are then examined by experts for being fakes and on establishing the illegitimacy of the item, raids are conducted on the target by the legal authorities / police with assistance from the decoy team. However, the whole process has to have the concurrence of the party availing anti-counterfeiting services from the investigators.

Sometimes, instead of carrying out the raids, the investigation findings are utilised to understand the nature and extent of the counterfeit malaise and thereby facilitate formulating appropriate counter strategies.

(J) Pre-Employment Background Verification

Employers need to make informed decisions when hiring people. An employer's desire to know about their future employees is driven by many factors, primarily being that the employee, when hired, may be in a position to handle sensitive and confidential information of the company. A belief of trust in the employee would be built over a period of time. However, at the initial stage the same is driven by having the comfort that the person employed has disclosed his particulars which are accurate and true. These particulars may pertain to the disclosures made in the potential employee's resume – like initial information, qualifications, past employment history, criminal record (e.g. involvement in any illegal activity,

imprisonment, drug abuse, corruption, etc).

Basically the employer would like to establish the truth of the details submitted by a potential employee, before hiring him. Background investigations can provide an in depth information regarding the history of the subject's past. These investigations give information on the employment history, credit history, educational background, criminal background of the person, his hidden or past assets, financial data, police records, civil history, and other public records as are required.

Normally the main objective of the management is to gather complete information about the skills and behaviors that an applicant will bring to the company.

Fraud Investigation – A Case Study

Introduction:

As per joint venture and shareholders agreement between a financial institution (say X Co.) having an all India presence and a large enterprise based in west India (say Y Co.), it was stated that there would be equal equity participation between the two parties to form the joint venture company (say XY Co.). XY Co. was incorporated in India, with X Co. and Y Co. being the initial promoters.

Through internal communications and as per the joint venture agreement, the promoters from Y Co. were given the mandate to choose the project site, buy the industrial land at the place so identified and agreed, and thereafter build the factory at the proposed site. The consent of the promoters from X Co. was to be obtained at each stage.

Background of the investigation:

The concept of a whistleblower came into operation in this particular case, as is prevalent in most such instances. There was an acrimonious exit of a senior management staff (of XY Co.) at the initial stage of the project itself. This disgruntled employee spilled the beans and lodged a formal complaint with X Co, indicating the areas of suspected fraud.

X Co., deputed its representative and legal advisers to look into the matter. Their initial inquiry revealed that an in-depth investigation was required in the issue.

Thereafter, the management of X Co. appointed a firm having expertise in Forensic & Investigation services (FIS) to conduct the investigations primarily into the areas identified mutually. The whole assignment had to be conducted in confidentiality, i.e. not revealing to XY Co. management or Y Co., the nature of findings of the assignment. It was stated to them that a special audit had been ordered by X Co. and that Y Co./XY Co. management and staff were required to cooperate in conduct of the audit. It was further communicated to them that the work assigned may convert into a full fledged investigation, depending on the initial findings.

The terms of appointment, arrived at after consultations between the FIS firm and X Co., required them to initially conduct an investigation into the following areas:

- If the initial investigations required then disk imaging and data collection (including computerised books of accounts / other relevant records) from the XY Co. records would be conducted by the Computer Forensics team. Transaction dumps were to be extracted and advanced forensic fraud detection techniques to be used to analyse the historical data, thereby assisting in detection of anomalies and suspicious transactions. Thereafter, various queries, as thrown up during the investigations, would be run, matched, analysed and reported upon. As required, emails and IP addresses would be traced and analysed, deleted files / data / passwords recovered, etc,
- Verification of background of the promoters from Y Co. and senior employees at XY Co., due diligence of Y Co. and related companies and transactions,
- Scrutiny of capital expenditure incurred till date on the project, e.g. land, plant & machinery, building / factory construction / installation, etc. These expenses to be verified for proper contracts, genuine payments and invoices, consent of joint venture partners, ownership and registration of land purchased and necessary statutory clearances,
- Methodology for verification of books of accounts, cash & bank transactions, expenses

and financial statements, secretarial records would be same as enumerated in part (C) above,

- Detailed and documented inquiry for similar plant & machinery purchased from other suppliers, land purchases in adjacent areas, in order to establish appropriateness of the purchase rate for these transactions,
- Joint venture agreement and relevant records to be verified,
- Physically verify the office / factory locations along with records and assets of the organisation,
- Conduct interviews with staff, management and outside parties, as required for investigation,
- Examine any other area that may come up during the course of the assignment.

Investigation:

As per the terms of appointment, the investigation firm initiated the process for conducting a preliminary inquiry, in following phases. It may, however, happen that a phase may overlap another and as such no rigidity can be exercised keeping in view the sensitivity of the assignment which may require on the spot decision making.

Phase 1

An initial phase of discussions and interviews were conducted with the management of XY Co. The main thrust of these discussions was to identify the major issues involved and the course of initial investigation. Staff to be interviewed during the course of the assignment and those required to make available the requisite records, were identified.

Thereafter a formal written request was sent to XY Co. to make available various records and they were intimated the dates of visit of the team.

Verification involved scrutiny of various records, relevant to the assignment, as decided in the scope of work initially.

XY Co. was also informed that these were not the exhaustive list of documents required and further records may be required as the audit progressed.

Phase 2

Different teams were allocated to conduct various facets of the investigation.

An overview of the terms and conditions of the joint venture and shareholders agreement was

Money laundering involves concealing or disguising the existence of illegal funds and its source, and illegitimate application of such income in order to provide an apparently perfect legitimate explanation for illicit proceeds. Money laundering activities get initiated by physical placement of cash, thereafter it is followed by separating the illicit money from their criminal origins through a maze of complicated financial transactions.



conducted by the team leads. This was essential as the transactions conducted by XY Co. should have been within the parameters of these agreements.

Team 1 comprising experienced professionals in Analytic & Forensic Technology was constituted to conduct investigations by conducting disk imaging, and collecting, controlling and analysing data using their modern technology tools. Their initial role was also to recover all the deleted files, data or passwords and restoring of backup tapes. The team's brief was to search and process complex transactions in order to identify potential illegal activity, and conduct the assignment as per the scope stated in the terms of appointment.

A team, **Team 2**, was deputed to conduct the review of books of accounts, ledgers, cash & bank accounts, investments, financial statements (audited and unaudited), statutory records, joint venture agreement, bank transactions, bank statements and independent confirmations from the banks.

Other specific areas covered included those stated in the scope of work, and falling within the expertise of the team.

Another team, **Team 3**, was formed to visit the office and factory site with an intention to verify the fixed assets installed and physically review the progress of the project. During the course of these visits and verification, interviews of staff was conducted and recorded. Inputs from technical staff / consultants were also obtained where the need arose.

This team was further instructed to conduct roving inquiries from adjacent areas and property agents regarding the purchase price of land, industrialisation of the region and legal / local issues concerning the same, general reputation of the promoters and gather information which may prove to be useful during the course of investigations.

This team was also assigned the task for conducting the review of land records at the office of Registrar (Land) and obtain documents, where possible, supporting the ownership of the land. Prevailing land rates and those existing at the time of land purchase transaction were to be obtained from the registered land surveyors.

Team 4 was deputed to conduct a Desktop review of the background of the promoters, Y Co., other shareholders, related parties, contractors and main suppliers in order to establish their credibility. Information available on the public domain like RoC records, regulators and statutory authorities, employees and business associates, media search, other data base and Internet search, law enforcement agencies were collected.

Ultimately, the information and findings of various teams were collated and analysed, and a draft report was prepared for initial discussions with the client. Based on the outcome of the discussions, a final report was submitted.

Conclusion

Reporting is a crucial aspect of any assignment, more so in case of a sensitive work, as described in the preceding sections of the article. The end result of a successful investigation is concise reporting, along with requisite evidence, which would stand up in the court of law.

The scope of the assignment, work done, limitations and restrictions pertaining to the work need to be stated in the relevant portions of the report.

Each Forensic investigation assignment is unique in its own way – in manner of occurrence of the fraudulent activity, nuances involved, location and execution. Thus, approach to each case has to be specific. However, basic aspects of conducting the task would remain almost the same.