



The Institute of Chartered Accountants of India
DIGITAL ACCOUNTING AND ASSURANCE BOARD

FORENSIC ACCOUNTING AND INVESTIGATION STANDARDS (FAIS)

OVERVIEW

Nagpur Branch VCM

HARISH DUA – Advisor (FAIS) DAAB, ICAI

25th September 2021



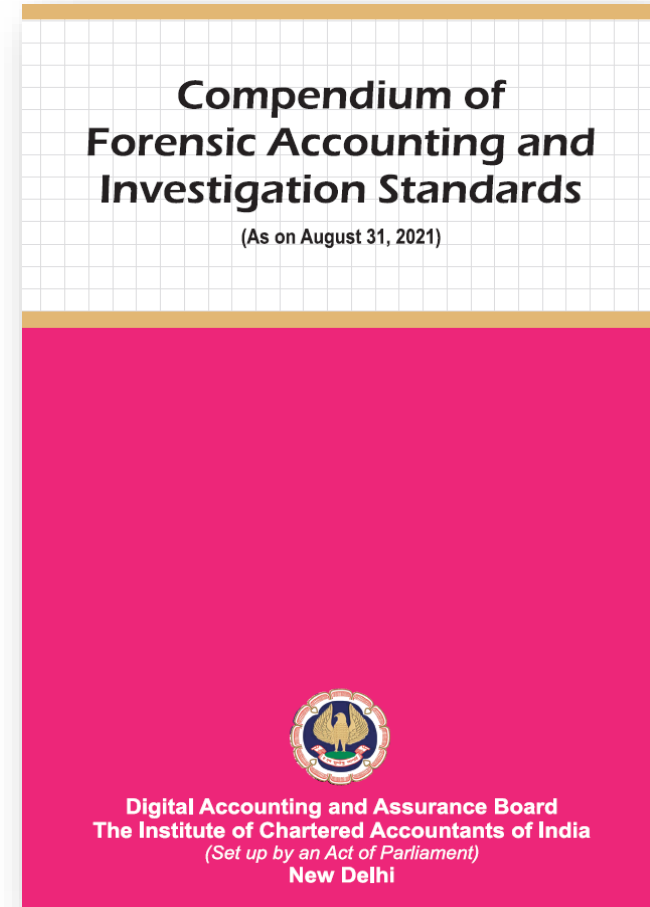
A small caveat – before we start!

- While I'm officially an advisor to the ICAI, and worked on the FAIS project, I'm NOT making this presentation in any official capacity of the Institute.
- The content being presented is a combination of my personal thoughts plus some official (ICAI) literature.
- The reader is advised to refer to the official copy of the FAIS issued by the ICAI in that regard.
- All views I express here are in my personal capacity, and I take full responsibility for their accuracy.



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Leadership and Standards



The quality of a leader is reflected in
the standards they set for
themselves.

— Ray Kroc —

AZ QUOTES



Brief Background for FAIS

- Increasing number of Frauds and Irregularities
- “Forensic Audits” – become favoured means to unearth Financial Statement Irregularities
- Need felt at ICAI for Comprehensive set of Forensic Standards
- In July/August 2020, DAAB explores the possibility of drafting and issuing
Forensic Accounting and Investigations Standards (FAIS)
- ICAI Council accepts proposal of DAAB to issue mandatory Standards in this area, in order to:
 - Standardise/harmonise the process of conducting such assignments
 - Address the need to discover evidences subject to high level of scrutiny in a court of law
 - Develop ICAI Intellectual Property – only accounting body to do so
 - Capacity Building of Members (to provide FAI services to Government and Law Enforcement Agencies)



Overall FAIS Objectives

- ✓ CODIFY BEST PRACTICES
- ✓ CLARIFY EXPECTATIONS & ATTRIBUTES
- ✓ SET COMMON TERMONOLOGY (DEFINITIONS)
- ✓ SET BASIC QUALITY BENCHMARKS OF SERVICE
- ✓ HARMONISE & IMPROVE PERFORMANCE
- ✓ PROVIDE KNOWLEDGE & GUIDANCE
- ✓ SET AND EVALUATE LEVEL OF PERFORMANCE
- ✓ PROTECT THE ICAI BRAND



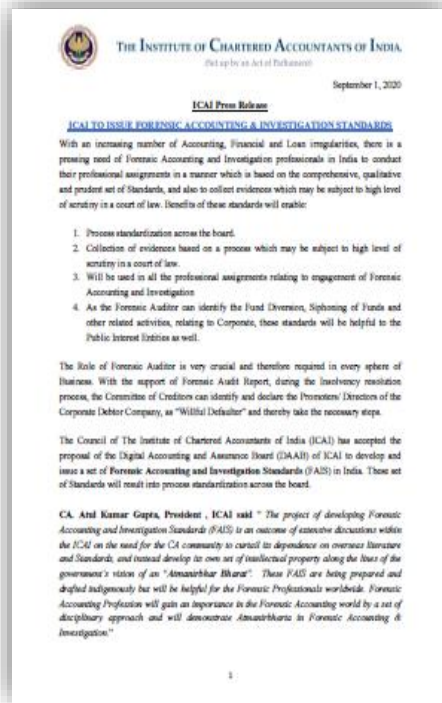


Overview of FAIS Project

- ▶ Once the required approvals were in place, the formal launch took place with the Press Release on **1st September 2020**.
- ▶ A Detailed Project Plan with Full List of Standards, topics and broad contents, along with timelines for completion, formed the process.
- ▶ A team of 10 highly accomplished experts from the domain joined the team of 5 CCMs to form the FAIS Study Group, which met at least once every week for 5 months (30 meetings + 2 Workshops of 2 days each).
- ▶ Working Teams, one for each Standard (26 x 7 members) were formed to work parallelly in the drafting and review process (Total ~65 experts).
- ▶ With a highly disciplined process of review, and an equally robust public exposure phase (30 days), each Standard took final shape.

ICAI PRESS RELEASE

1st SEPT. '20





FAIS Study Group

CENTRAL COUNCIL MEMBERS

1. CA Manu Agrawal, Convener (Kanpur)
2. CA Dayaniwas Sharma, VC (Hyderabad)
3. CA Anil Bhandari (Mumbai)
4. CA Aniket Talati, (Ahmedabad)
5. CA M.P. Vijay Kumar (Chennai)

DAAB SUPPORT

1. CA Amit Gupta (DAAB Secretary)
2. CA Harish Dua (DAAB Advisor)

EXTERNAL EXPERTS

1. CA Durgesh Pandey (Ahmedabad)
2. CA Muralikrishna Chevuturi (Hyderabad)
3. CA Sailesh Cousik (Mumbai)
4. CA Satish Shenoy (Mumbai)
5. CA Naman Pipara (Ahmedabad)
6. CA Srigouri Mantrala (Hyderabad)
7. CA Uday Kulkarni (Pune)
8. CA Sandeep Baldava (Mumbai)
9. CA Samprati Mukherjee (Mumbai)
10. CA Nikunj Shah (Mumbai)



FAIS Overview

PRINCIPLE BASED

- ✓ The Standards outline the principles (outcome) of each subject matter
- ✓ They provide for WHAT is expected of the Professional, but not the HOW
- ✓ Details of HOW will come later in the form of Guidance Notes:
 - ✓ Implementation Guide
 - ✓ Technical Guide

MANDATORY^ NATURE

- ✓ ALL ICAI MEMBERS *
- ✓ ALL FAI ENGAGEMENTS
 - ▀ ANY LIMITATION ON THE APPLICABILITY OF THE STANDARD IS MADE CLEAR IN THE STANDARD ITSELF
- ^ Recommendatory till March 2023. Guidance Notes are always recommendatory in nature.
- * NOTE:
 - ✓ Currently, anyone can conduct FAI assignments
 - ✓ Although ICAI cannot impose its Standards on non-members; however, over time, the Government may choose to make these mandatory on everyone conducting certain assignments
(e.g., Listed Companies or Frauds over a certain amount)



Key Features of the FAIS

- ✓ Most comprehensive Standards issued for the first time by any accounting body in the world
- ✓ They cover many areas from key concepts to managing the engagement, to the whole process of executing assignments and also specialized areas like the digital domain
- ✓ They introduce new concepts like Applying Hypothesis
- ✓ They are principle based, hence provide adequate flexibility to address unique situations
- ✓ They will be Mandatory on members of the ICAI



Global Leadership

USA (AICPA)

- Statement on Standards for Forensic Services No. 1
- Effective for new engagements accepted on or after January 1, 2020

UK (ICAEW)

- ICAEW has not issued any Forensic Standards
- The Financial Reporting Council, the body which sets the Accounting and Auditing Standards has also not issued any Forensic Accounting Standards

CANADA (CPA/CICA)

- Standard Practices for Investigative and Forensic Accounting (SPIFA) Engagements (Nov 2006)

AUSTRALIA (APESB)

- APES 215 Forensic Accounting Services (July 2019, wef 1 Jan 2020)
- One Standard amongst various other "Specialist Pronouncements"



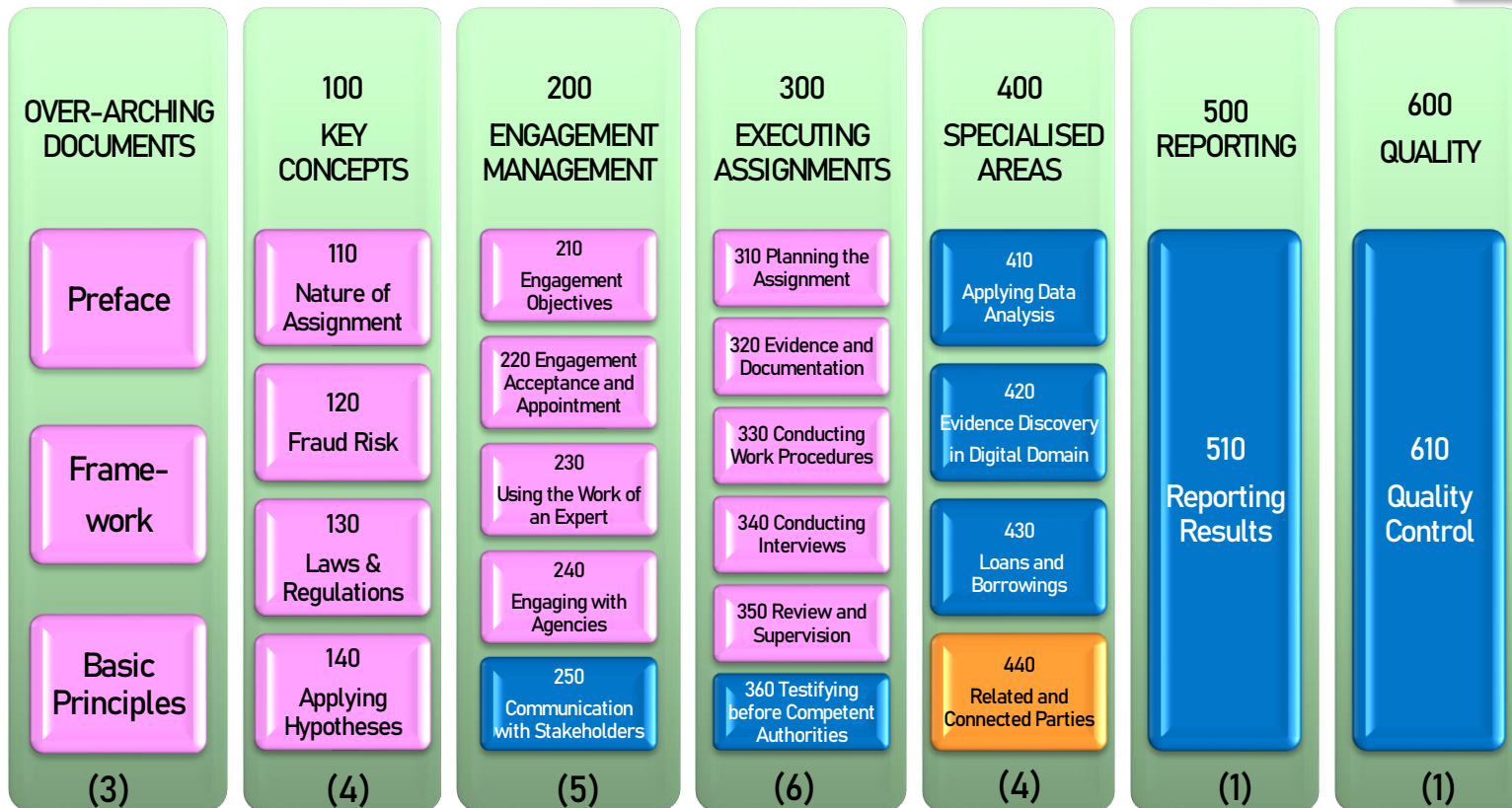
FAIS Overview : Current Status

Completed (16)

Ready (7)

WP (1)

TOTAL
(24)





Over-Arching Documents

✓ PREFACE :

- Introduces the Standards
- Outlines the Process of Standard Setting



✓ FRAMEWORK:

- Sets the Structure of the FAIS
- Defines certain key terms
- Establishes a Fixed Format of 6 Sections



✓ BASIC PRINCIPLES:

- 5 Attribute Principles
- 5 Conduct Principles





Standard Setting Methodology

1. DAAB selects Topic & Time-lines

- DAAB will identify the broad areas in which the FAIS need to be formulated and set the priority thereof

2. Formation of Study Group to Draft the Standards

- Participation by a cross section of members of the Institute
- If necessary, the Board may include other expert(s) in the Study Groups

3. Review of Drafts by DAAB

- The Study Group submits a draft of the FAIS to DAAB for their deliberation and consideration
- Based on these deliberations, an Exposure Draft (ED) of the proposed Standard is prepared for issuance to the Public

4. ED open for Comments for 30 days

- Published in the Journal of the Institute and also hosted on the website of the Institute and shared on Social Media
- Circulated to all the Council members, Past Presidents, Regional Councils, Branches and CPE Study Circles
- The ED is also circulated to government agencies and various external (regulatory) bodies

OPTIONAL
FOR GN

5. Finalisation and submission to ICAI Council

- After taking into consideration the comments received on the Exposure Draft, the draft of the proposed Standard is finalised by DAAB and submitted for consideration of the Council of the Institute

6. Council deliberates and approves the FAIS



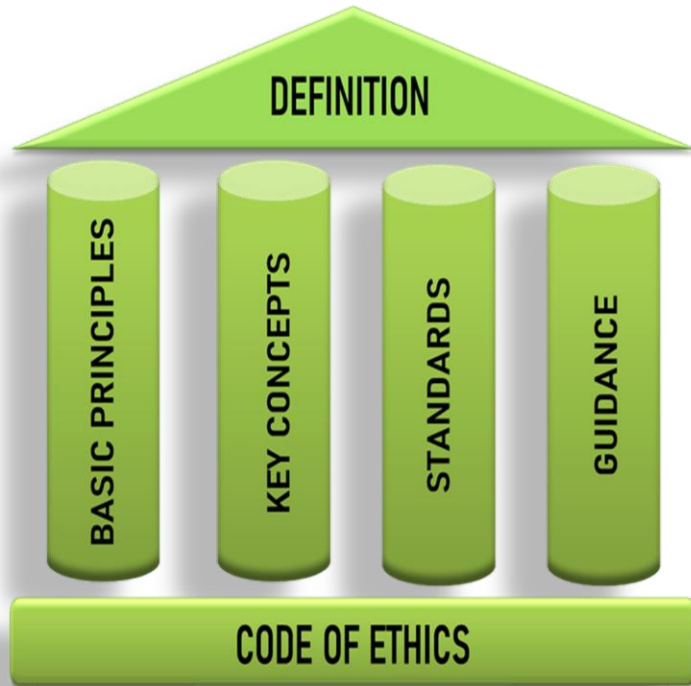
Responses to EDs

- ▶ Exposure Drafts (for the 16 Standards), were issued in three bursts,
 - 1st Release (1st September): 3 x Over arching Documents (Deadline 30th September'20)
 - 2nd Release (19th September): 4 x 100 series and 2 x 200 series (Deadline 18th October'20)
 - 3rd Release (9th October): 2 x 200 series and 5 x 300 series (Deadline 9th November'20)
 - 4th Release (28th December): 1 X 200 series, 1 x 300 series, 4 x 400 series, and 1 x 500 series (Deadline 28th January 2021)
- ▶ The responses have been moderate to good and includes SEBI, CAG, MCA, BCAS, Regional Offices.

SOURCES OF RESPONSES	1st EDs	2nd EDs	3rd EDs	4th EDs	TOTAL
Regional Councils and Teams	5	2	0	7	14
Members in Practice	19	15	9	14	57
Members in Industry	8	4	9	6	27
Governments & Regulators	5	0	0	0	5
Other	6	0	1	2	9
	43	21	19	29	112
SUMMARY OF COMMENTS RECEIVED	1st EDs	2nd EDs	3rd EDs	4th EDs	TOTAL
Over-Arch Documents	102				102
100 SERIES		68			68
200 SERIES		3	32	14	49
300 SERIES			27	17	44
400 SERIES				30	30
REST				14	14
	102	71	59	75	307



Framework & Definitions



KEY DEFINITIONS

- ✓ **Forensic Accounting** is discovery and evaluation of evidence by a professional to interpret and communicate findings suitable for a Court of law.
- ✓ **Investigation** is the systematic and critical examination of facts, records and documents for a specific purpose.

FIXED FORMAT FOR A STANDARD

1. Introduction & Scope: Brief background and scope of the Standard and its applicability.
2. Objective: Purpose of issuing the Standard and why it is required and essential.
3. Requirements: The desired outcome and what is critical to achieve the objective of the Standard.
4. Explanatory Comments: Explanation of certain parts of the Requirements which require clarity and elaboration, including defining key words or terms.
5. Documentation of Work Procedures: Indicative list of the nature of documentation which may be expected to demonstrate conformance to the Standards.
6. Effective Date: Date from which the Standard is to be applied and made mandatory.



Definitions – a Fundamental change in thought

- An AUDIT is NOT the same as
 - A Forensic Accounting Assignment, or
 - A Fraud Investigation
- Hence FORENSIC AUDIT is a MISNOMER (Misleading Term)!
- Audits generally culminate with the expression of an Independent Opinion, which is not the case with Forensic Accounting and Investigations,
- These culminate with the reporting of Evidence Discovered. And, at most, Conclusions of any analysis work on evidence discovered.



A broad Comparison



STATUTORY AUDIT

- LEGAL MANDATE
 - CHARTERED ACCOUNTANT ONLY
- EXPRESSION OF AN INDEPENDENT OPINION
 - ON FINANCIAL STATEMENTS
- AS PER AUDITING STANDARDS



INTERNAL AUDIT

- MAY NOT BE A LEGAL MANDATE
 - NON-CAs
- PROVIDE ASSURANCE
- BEYOND FINANCIALS
- NO MANDATORY STANDARDS



FORENSICS

- TO SUPPORT A LEGAL CASE
 - NON-CAs
 - NO STANDARD EXPRESSION OF ANY OPINION
- PRIMARILY FINANCIALS
 - NO MANDATORY STANDARDS (TILL NOW)



INVESTIGATION

- MAY INVOLVE AGENCIES
- FACT/EXPERT WITNESS
- PRIMARILY FRAUD RELATED
 - NO OPINION ON GUILT/INNOCENCE
- NO MANDATORY STANDARDS (TILL NOW)



Audit Vs Forensics Vs. Investigation

1. AUDIT

Audit primarily relates to provide assurance through the expression of an independent opinion over the truth and fairness of financial statements. The mandate shall not be in the nature of an audit which has a different connotation, and where the Standards on Auditing shall apply. **Hence no part of the engagement, or its report shall refer to an "Audit", such as "Forensic Audit".**

2. FORENSIC ACCOUNTING

The overriding objective of Forensic Accounting is to discover facts and evidence, especially in the area of financial transactions and operational arrangements, to help the Professional report findings, to reach a conclusion (but not to express an opinion) and support a legal case in a Court of law.

3. INVESTIGATION

A critical examination of evidences, documents, facts and witness statements with respect to an alleged legal, ethical or contractual violation. The examination would involve an evaluation of the facts for alleged violation with an expectation that the matter might be brought to a Court of law or a regulatory body.



Summary of Key Differences

Attribute	Audit	Forensics	Investigation
Objective	Provide Assurance Express an Opinion	Discover facts & Report findings	Examine and evaluate facts Identify fraud and culprit
Focus	Review Books of Account	Validate transactions and balances	Evaluate and Verify fraudulent "intent"
Approach	Substantive and control tests	Testing to confirm suspicions or allegations	Formulate and test hypothesis
Target	Identify material misstatement in FS	Confirm nature of violation	Confirm the modus-operandi
Skills	Testing and checking	Scrutiny and analysis	Probing and interrogation
Presumption	Correct unless proven wrong	Neutrality	Probability of guilt

NOTE: This snapshot is not part of the FAIS literature, and merely a creation of the author to clarify the differences.



Basic Principles

1. Independence
2. Integrity and Objectivity
3. Due Professional Care
4. Confidentiality
5. Skills and Competence
6. Contextualisation of Situation
7. Primacy of Truth
8. Respecting Rights and Obligations
9. Separating facts from opinions
10. Quality and Continuous Improvement.

ATTRIBUTES

Credibility of the Professional

PERFORMANCE

Credibility of the Engagement



New Concepts & Requirements

◆ **120: FRAUD RISK**

◆ **140: APPLYING
HYPOSTHESES**

◆ **240: ENGAGING
WITH AGENCIES**

◆ **330: WORK
PROCEDURES**



◆ **340: CONDUCTING
INTERVIEWS**

◆ **410: DATA ANALYSIS**

◆ **420: EVIDENCE
DISCOVERY IN
DIGITAL DOMAIN**

◆ **510: REPORTING
RESULTS**



Way Forward

- ▶ Draft and Issue Glossary & Implementation/Technical Notes to support and supplement the FAIS
- ▶ Organise Global Forensic and Fraud Conference
- ▶ Update the FAFD (Forensic Accounting and Fraud Detection) Certificate Course based on the FAIS & Guidance Notes
- ▶ Relaunch the Revised FAFD Certificate Course with new faculty
- ▶ Practical Knowledge Sharing (including Case Studies)



Raise your Standards



RAISE YOUR STANDARDS

Any time you sincerely want to make a change, the first thing you must do is to raise your standards





*Thank
You*