

A. Broad Framework / Scope of Forensic Audit:

1. Ascertaining money trail and end use of funds disbursed by lenders and instances of diversion of funds.
2. **Capital Structure:** Tracing the source, genuineness and end use of contribution made by promoters by analysing equity/debt / infused by promoters / partners.
3. Capacity to pay: Examination as to if the borrower has defaulted in meeting its payment / repayment obligations to the bank even when the borrower/borrowing entity has the capacity to honor the same.
4. **Escrow / Trust & Retention Account any other Account mentioned for special purpose:** Commenting on adherence to Escrow / Trust and Retention Account (TRA) arrangements made with various Banks. Details of all transactions with banks outside the consortium/other than nominated account.
5. The period and amount of individual transactions, if any, for which the transactions / statements are to be analysed by the Forensic Auditor, should be clearly spelt out in the scope of work.
6. **Diversion of funds:** Diversion of funds on the part of borrower/borrowing entity under any of the (but not limited to) undernoted occurrences:
 - i. Utilization of short-term working capital funds for long term purposes not in conformity with the terms of sanction.
 - ii. Deploying borrowed funds for purposes / activities or creation of assets other than those for which the loan was sanctioned i.e., disbursement vs. asset creation and equity infusion.
 - iii. Transferring borrowed funds to the subsidiaries / group companies or other Corporate/individuals by whatever modalities not in conformity with the terms of sanction.
 - iv. Routing of funds through any bank other than the lender bank or members of consortium / multiple banking without prior permission of the bank/lenders as the case may be
 - v. Investment in other companies by way of acquiring equities / debt instruments without approval of lenders.
 - vi. Shortfall in deployment of funds vis-a-vis the amounts disbursed / drawn and the difference not being accounted for.
7. **Concentrating transactions:** sole customer, sole supplier, major transactions with related parties / group companies. Analysis of relationship in two-way deals with the same party or indirect payments made by customers of the borrower to the vendors of borrower.

8. Commenting on transactions of substantial amount, which seem not to be normal trade transactions at arms' length
9. To differentiate fraudulent transactions from genuine transactions and identify Extortionate credit transactions and undervalued transactions as defined in Insolvency and Bankruptcy Code 2016.
10. **Siphoning off funds:** Siphoning off funds on the part of borrower would be construed to occur if any funds borrowed from bank are utilized for purposes un-related to the operations of the borrower, detrimental to the financial health of the entity and/or the lender.
11. **Abnormal trade transactions:** Commenting on transactions of substantial amount, which seem not to be normal trade transactions at arm's length.
12. Examining stocks / inventory & purchase transactions particularly with related parties / sister concerns.
13. Identifying the type of fraud (if any) that has been operating, how long it has been operating for, and how the fraud has been concealed.
14. To look into specifically whether any cash theft, fraudulent disbursement, inventory fraud, misuse of assets, material misstatement in financial statements, deliberate falsification of accounting records, omission of transactions, balances, disclosures, misappropriation of financial reporting standards etc have taken place. Instances of fake invoices, inflated receivables, fake balance certificates etc would need to be probed during the audit.
15. Excessive provisioning / write off / losses which are not in the ordinary course of business and are unusual in nature.
16. Non-moving creditors & debtors.
17. Alienation/disposal of securities without required permission from the Bank
18. In case of accounts under multiple banking / consortium arrangement, the forensic audit should be carried for entire transactions of the company not limited to the transaction of bank for which the Forensic Audit is contemplated
19. Any other happening (feature in the utilization / management of funds given by the lender / lenders, that suggests an unethical act / abatement/collusion by / on part of the company / promoters, that qualifies for a fraudulent transaction
20. Movements in unsecured loans during the specified period.
21. Details of substantial debts raised in sister / associate / group companies either through corporate guarantee of borrower or against security of promoters or promoter's family assets.
22. Finding details of assets of unit / its promoter/ partners to ensure recovery of loans and advances granted by banks as there would be cases where some assets are not reported in financials of the unit/promoters / partners.

23. Examining, discreetly chain of transactions pertaining to unit / promoters / partners to ensure genuineness of the dealings as there could be cases of bogus / family / other settlement transactions.
24. To comment or decipher diversion and misappropriation of funds by the promoter / director, if any. The auditor should specifically find out whether or not the company has deviated and carried out activities outside the scope of "object clause" in their Memorandum of Association (MOA) with the intention of diversion of funds.
25. To conclude and comprehensively report by the auditor, taking into account all the facts and figures with reference to the company, its subsidiaries and related parties and other relevant information, whether fraudulent activities have taken place. In the-process of such detection, the auditor is required to identify the fraudulent activities, quantify the amount diverted to purposes other than those for which the facilities have been sanctioned, and, the persons responsible for it.
26. Comment on instances if any of non-maintenance of books of accounts and statutory records as required by various laws
27. Verifying receivables/ Payables - Receivables and payables should be verified thoroughly with a view to unearth:
 - a) Reciprocal receivables/payables against each other in case of related parties
 - b) fictitious debtors & creditors
 - c) inflated debts
 - d) already realized debts
 - e) disputed debts
 - f) unacknowledged debts.
28. Analysis of the GST returns to find out the real sales figure and to check whether there is any deviation from the amount reported in the P&L a/c.
29. Verifying revenue from operations including checking sale order, invoices and controls in the billing process. The focus should be on unearthing inflated turnover / fictitious sales and / or Sales on Return (SOR) basis where profit has been booked and sales returned in the subsequent accounting period leading to writing off of stocks/debtors and reversal of booked profits.
30. Extent of Non-Cooperative behavior shown by the borrower
31. Analysis of all Non-Fund based limits availed by the company from banks, analysis of beneficiary of the payments made through the LC/LOU/LUT route
32. Scrutinize and analyze cash flow and investments including loans and advances/investments given/taken to/from Associates & Subsidiaries, Related Parties and Unconnected Party.
33. Stock and inventory analysis - physical verification, tracing inventory 'movement etc.
34. Fixed assets disposal/acquisition analysis
35. Critical analysis / verification of major suppliers and creditors of the Company
36. Detailed Review of contingent liabilities and status thereof.

37. Complicity of statutory auditors, especially their role in mis-reporting of Related Party transactions, Wrong certification of Capital Infusion, instances if any relating to Investment in non-related activities without lenders approval, instances if any in the nature of manipulations in financial statements, Audit related Qualifications of serious nature, etc.
38. **General Scope:** (Along with the above, wherever applicable)
- i. Identifying the Modus Operandi / Methodology of the fraud & fraudster(s) involved if any.
 - ii. Quantifying the financial loss suffered by the bank
 - iii. Providing Conclusive Report as to the existence or otherwise of the fraud in a borrowal account.
 - iv. Gathering evidence of the Modus Operandi, to be used in court proceedings
39. In addition to the above:
- i. Forensic auditor to concur to share the report to the Statutory authorities/judiciary/Resolution Professional appointed under IBC 2016 or any such other forum as needed for the process.
 - ii. The period of coverage for the Audit Assignment could be as deemed fit on case to case basis

(Note: The above aspects of audit are indicative and not exhaustive in nature and as such the specifications could be beyond the above areas and vary on a case-to-case basis depending on the nature and need for the Forensic Audit)