



# Forensic Audit

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**Forensic Audit :**

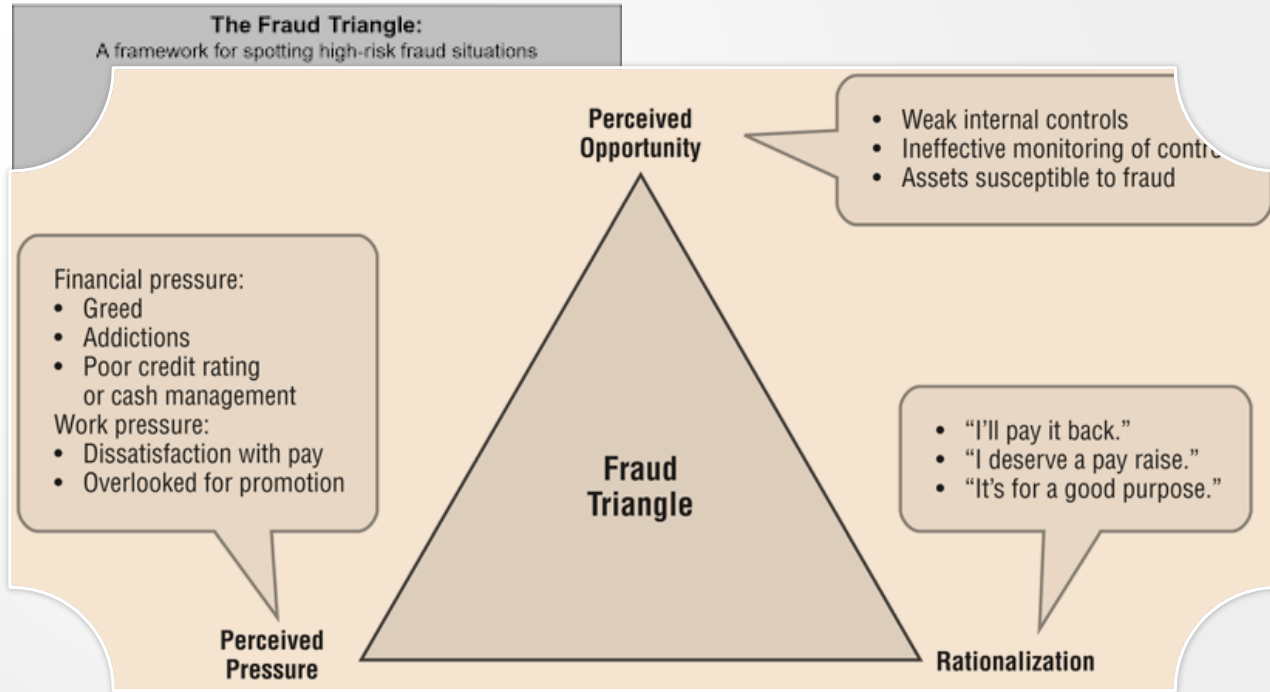
A forensic audit is an examination and evaluation of a firm's or individual's financial records to derive evidence that can be used in a court of law or legal proceeding. Forensic auditing is a specialization within the field of accounting, and most large accounting firms have a forensic auditing department. Forensic audits require the expertise of accounting and auditing procedures as well as expert knowledge about the legal framework of such an audit.

**Forensic auditing** is not a familiar form of accounting. And many businesses have not heard about this type of accounting. Why? When we hear the word 'forensic', we think of criminal investigation.

This type of auditing is about the investigation – application of financial & Scientific knowledge to a business or legal problem.

Generally, a forensic audit is conducted by forensic auditing firms when embezzlement or fraud is suspected. They also work with government functioning parallel to organisations like CBI to help uncover bigger business scams and frauds.

But the question is can you benefit from forensic auditing? Or better put – how can forensic auditing help your business?



***They are three scenarios a business operating in India might face:***

Forensic auditing can help your business to collect evidence to produce in court. This evidence helps you to assert claims or facilitate easier fraud settlements.

If any of your employees have been caught committing white collar fraud and your public image is in jeopardy, forensic auditing can help you find out whether the fraud is substantial or not and also helps you collect evidence.

Forensic auditing also helps you to settle issues with shareholders, employees, partners, etc. without having to go through an actual trial

***Fraud***

There are a few reasons related to the fraud associated with the financial circle of any company. Those are as follows:-

- False and Wilful representation or Assertion
- Perpetrator of Representation
- Intention to deceive
- The representation must relate to a fact.
- The active concealment of facts
- Promise made with no intention of performing it;
- The representation must have deceived the other party.
- Any other act fitted to deceive
- Any such 'act or omission' that the law specially declares as void
- Wrongful Loss and Wrongful Gain is Immaterial

***A Forensic Audit is an examination of a company's financial records to derive evidence which can be used in a court of law or legal proceeding.***

***Company Ahalia , on the recommendation of its Chief Executive Officer (CFO) , entered into a contract with Faraa Inc for the supply of carts. At the time, Faraa Inc was not authorized to conduct business, as its license was suspended due to certain irregularities in taxes paid. The CFO had knowledge of this fact, but still recommended that Telemart Ahalia enter into a contract with Faraa Inc because he was secretly receiving compensation from Faraa Inc for doing so.***

***A forensic audit can reveal such cases of fraud.***

### ***Financial Statement Fraud (FSF)***

Financial statement fraud is the will full and deliberate misstatement or misrepresentation, creating a false impression and omission of financial statement data to mislead the reader of a Company's financial strength. Generally, it defers revenues or expenses in a different time period to show consistent earnings or growth. Towards the other extreme, it consists of overstating revenues. It diminishes the confidence of market participants and capital markets in the dependability of financial information.

- Forensic Data Analysis (FDA)
- Fraud Triangle and Fraud Risk



***Asset Misappropriation***

This included raising fake invoices, misappropriation of cash, payments made to non-existing employees or suppliers, theft of Inventory, or misuse of assets. It comes about in undesirable conditions when people who are entrusted to manage the assets of a company/organization give away from it. Moreover, it can be the greatest detrimental to the company when it may lead to infiltration by other organizations to take control over the control of the victim company. It directly hit on the cash flow of the organization.



***Corruption***

Corruption is a significant obstacle to socio-economic development and also at different corporate levels. It can have come along with ill-effects on the image of the business/company and jeopardize it severely. It consists of any illegitimate use of the office or dishonest behaviour and its resources. In such occurrences, a forensic auditor attempts to look for accounts of extortion and bribery, or anything that will amount to or relate to any conflict of interest.

***Extortion***

Taking a step ahead from any corruption, extortion involves the use of force, threat, or violence to extract money from another person/party. For the interest of the company, this may be done on the pretence of 'protection money' for sophisticated cyber extortion schemes, small businesses, etc. Moreover, the identification of extortion in company finances reduces its reliability in the eyes of its suppliers, clients, etc. which is the most important reason for having a compacted financial statement.

***Bribery***

Bribery refers to the conduct of dishonestly influencing one's position or role to receive something as well as promising something favourable to the party demonstrating such benefit. There are few problems where bribery arises, not always in such a role/position to offer anything. When one acts beyond his authority, it obstructs the company's profits and interest, which is illegal to do so.

***Conflict Of Interest***

Anything on a related note, including bribery, that is done to gain personal profit, and which is unfavourable to the company. By this conducts forms the objective of a forensic audit.

***How a Forensic Auditing Company Helps You?***

- Planning & investigation
- Collection of evidence
- Reporting
- Assistance for court proceedings

Forensic auditing can be used for both actively dealing with fraud or other inconsistencies and to take preventive measures against it.

Forensic auditing is usually the last resort. Businesses must analyse their operations and needs well to ensure that they choose the right type of auditing for them.

**Forensic Audit vs. Internal Audit**

An audit is defined as a formal examination of an organization's or individual's accounts or financial situation. It is conducted by a public accounting firm for the purpose of providing "comfort" in relation to an organization's financial statements. In many organizations, members of the audit committee, board of directors, owners, managers or other individuals in supervisor positions have limited (if any) experience with other types of audits, including forensic or internal audits. If they are unsure of which direction to turn, they may go seeking the wrong solution.

**Forensic Audit vs. Financial Audit :**

A forensic audit, also known as a forensic examination, is defined as an examination of financial records to find any illegal financial activity. The term forensic itself is defined as belonging to, used in, or suitable to courts of judicature or to public discussion and debate. A financial audit, sometimes called a financial statement audit, is defined as the examination of an entity's financial statement and accompanying disclosure by an independent auditor. The results of this examination include a report by the auditor attesting to the fairness of presentation of the financial statements and related disclosures.

***A forensic auditor is required to have special training in forensic audit techniques and in the legalities of accounting issues. A forensic audit has additional steps that need to be performed in addition to regular audit procedures.***



***Why is a forensic audit conducted?***

Forensic audit investigations are made for several reasons, including the following:

***Conflicts of interest***

When a fraudster uses his/her influence for personal gains detrimental to the company. For example, if a manager allows and approves inaccurate expenses of an employee with whom he has personal relations. Even though the manager is not directly financially benefited from this approval, he is deemed likely to receive personal benefits after making such inappropriate approval.

***Bribery***

As the name suggests, offering money to get things done or influence a situation in one's favor is bribery. For example, A bribing an employee of Company B to provide certain data to aid A in preparing a tender offer to B.

***Extortion***

If A demands money in order to award a contract to B, then that would amount to extortion.

***1. Plan the investigation – When the client hires a Forensic auditor, the auditor is required to understand what the focus of the audit is. For example, the client might be suspicious about possible fraud in terms of quality of raw material supplied.***

***The forensic auditor will plan their investigation to achieve objectives such as:***

- ***Identify what fraud, if any, is being carried out***
- ***Determine the time period during which the fraud has occurred***
- ***Discover how the fraud was concealed***
- ***Identify the perpetrators of the fraud***
- ***Quantify the loss suffered due to the fraud***
- ***Gather relevant evidence that is admissible in the court***
- ***Suggest measures that can prevent such frauds in the company in future.***

## **2. Collecting Evidence :**

***By the conclusion of the audit, the forensic auditor is required to understand the possible type of fraud that has been carried out and how it has been committed. The evidence collected should be adequate enough to prove the identity of the fraudster(s) in court, reveal the details of the fraud scheme, and document the amount of financial loss suffered and the parties affected by the fraud.***

***A logical flow of evidence will help the court in understanding the fraud and the evidence presented. Forensic auditors are required to take precautions to ensure that documents and other evidence collected are not damaged or altered by anyone.***



***What is Financial statement fraud?***

***Companies get into this type of fraud to try to show the company's financial performance as better than what it actually is. The goal of presenting fraudulent numbers may be to improve liquidity, ensure top management continue receiving bonuses, or to deal with pressure for market performance.***

***Elements of a Financial Audit :***

***A financial Audit has one purpose – to provide assurance that a company's financial record keeping follows the Accounting Standards . To this end, the auditor must objectively examine the company's financial records and use his best judgment in making the appropriate determination. A financial audit may or may not uncover intentional fraud or misrepresentation of facts.***

***Common techniques used for collecting evidence in a forensic audit include the following:***

- ***Substantive techniques – For example, doing a reconciliation, review of documents, etc***
- ***Analytical procedures – Used to compare trends over a certain time period or to get comparative data from different segments.***
- ***Computer-assisted audit techniques – Computer software programs that can be used to identify fraud.***
- ***Understanding internal controls and testing them so as to understand the loopholes which allowed the fraud to be perpetrated.***
- ***Interviewing the suspect(s)***

***3. Reporting – A report is required so that it can be presented to a client about the fraud. The report should include the findings of the investigation, a summary of evidence, an explanation of how the fraud was perpetrated, and suggestions on how internal controls can be improved to prevent such frauds in future. The report needs to be presented to a client so that they can proceed to file a legal case if they so desire.***

***4. Court Proceedings – The forensic auditor needs to be present during court proceedings to explain the evidence collected and how the suspect was identified. They should simplify the complex accounting issues and explain in layman's language so that people who have no understanding of the accounting terms can still understand the fraud that was carried out.***

***To summarize, a forensic audit is a detailed engagement which requires the expertise of not only accounting and auditing procedures but also expert knowledge regarding the legal framework. A forensic auditor is required to have an understanding of various frauds that can be carried out and of how evidence needs to be collected.***

**Step 1 – Accepting The Investigation And Know Your Client** To conduct a truthful, unbiased audit, and investigation, a forensic audit is always assigned to an independent firm/group of investigators. As a result, their first step is to determine whether they have the necessary skills tools and expertise (auditor) to go forward with such an investigation whenever such a firm accepts an invitation to conduct a forensic audit. Only when they are contended with such considerations are they required to assess their own 'training and knowledge' of fraud detection/investigation and legal framework. They also can go ahead and accept the investigation that has been offered.

**Step 2 – Planning The Audit Investigation And Strategy** Planning the investigation is the first most steps in a forensic audit before executing. The Auditor (s) must judiciously ascertain the Audit goal so being conducted and prudently determine the procedure to achieve it, over and done with the usage of effective techniques and tools. They should be clear on the ultimate categories of the report before planning the investigation. Those are as follows:-

- 1. Identification of the kind of fraud that has been operating,
- 2. Fieldwork Collect Information and Obtain Evidence
- 3. Identifying the fraud of how long it has been operating for, and how the fraud has been afforded to conceal the same
- 4. Identifying the fraudster(s) / Masterminds involved
- 5. Measuring the financial loss suffered by the client and the Company
- 6. Collecting Evidence to be admissible and used in court proceedings
- 7. Measurement of Frauds, Analysis Evaluate and Assess the Impact of Evidence
- 8. Providing advice to prevent and measure the recurrence of the fraud.

### ***Step 3 – Gathering Evidence For Investigation***

There are specific procedures that are carried out in forensic auditing to harvest Evidence. All kinds of Audit techniques and procedures are used to gather Evidence to prove and to identify. Such as how it was conducted and concealed by the perpetrators and how long they have fraudulent activities existed and continued in the organization. In the direction of gathering Evidence, the investigators can use the following techniques. Those are as follows:-

- 1. Testing controls which identify the weaknesses to gather Evidence, which certifies the fraud to be perpetrated
- 2. By means of analytical procedures to provide comparatives between different segments of the business or compare trends over time
- 3. To locate the "timing and location" of relevant details being tampered or altered in the computer system, investigators can apply computer-assisted audit techniques
- 4. Interviews and Discussions with employees
- 5. Substantive techniques such as cash counts, reconciliations, and reviews of financial and Non-financial documentation.

**Step 4 – Reporting And Documentation**

The reporting stage is the furthestmost clear and apparent element in a forensic audit. The investigating team is expected to report the findings of the investigation after investigating and gathering Evidence. They must provide a summary of the Evidence and conclusion that came out of the loss suffered due to the fraud happened. It should also include the executed plan of the fraud itself and how it stretched out and had profit out of the whole trail of events. They should provide suggestions to prevent such fraud in the future events.

**Step 5 – Court Proceedings - Fraud Prevention Measures And Exercise Judgement** The last stage enlarges over those audits that principally lead to legal/ court proceedings. The auditors will give litigation assistance as mentioned above, where they will be called to Court and included in the advocacy process/ trials. The understanding here is that they are requested in because of their expertise and skill in commercial issues and legal proceedings. Most importantly, they must lay down the facts and findings reasonably and objectively to understand so that the anticipated action can be taken up judiciously

**Common theme in the frauds:**

- Serious corporate governance lapses
- Greed of promoters and lack of integrity
- Promoters' domination on all key affairs of the company
- Diversion of companies and borrowed funds to related entities for personal benefits of promoters.
- High leverage and resulting liquidity issues and default in loan repayments.
- Business failures due to entry into unrelated areas (Unitech case)
- Lack of internal controls, monitoring and oversight mechanism and oversight mechanisms
- Cheating gullible investors and home buyers (Karvy and Unitech)





₹7,855cr

Total amount of  
financial irregularities  
in Satyam Computer  
Services scam

7,500

Number of  
fictitious invoices  
discovered

₹5,352.8cr

Fictitious revenue  
reported between  
April 2002 and  
September 2008

₹899.8cr

Fictitious interest  
income recorded  
from 2002 to 2008

₹206.1cr

Fictitious foreign  
exchange gain from  
April 2002 to 2008

500

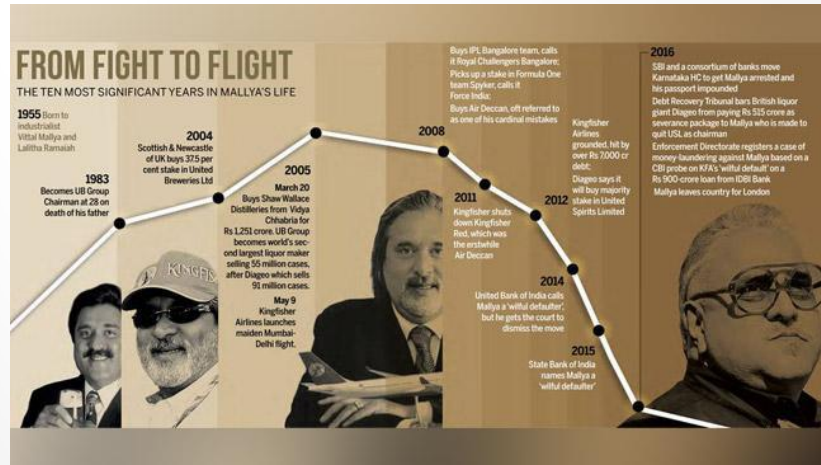
Number of clients  
the company had  
before the scam  
came to light

45,000

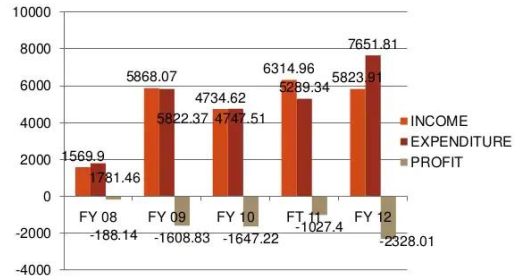
Company's number of  
employees when the  
scam came to light in  
January 2009

32

Number of months  
Raju has served in  
prison already



## BALANCE SHEET

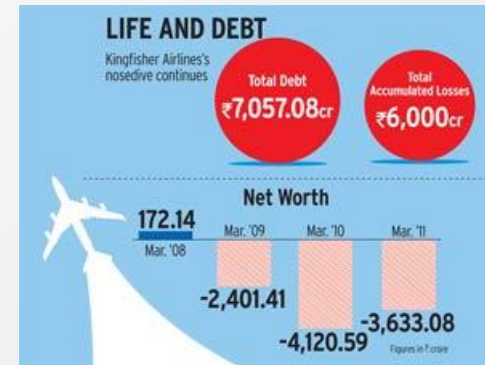


SOURCE: MONEYCONTROL

## PAYMENT PROBLEMS

- Kingfisher Airline has staff strength of 6,000 and spends 58 crore on salaries a month.
- Airlines delayed salaries of its employees in August 2011, and for four months in succession from October 2011 to January 2012.
- Kingfisher also defaulted on paying the Tax Deducted at Source from the employee income to the tax department.

## RISK MANAGEMENT FAILURES IN KINGFISHER AIRLINES



## Under Scrutiny

### FORENSIC AUDIT OF JET AIRWAYS FINDS

- Misappropriation of funds relating to provisions
- Invoices raised W/O verification
- Expenses billed without docs
- Fraudulent billing for JP Miles

**AIRLINE GROUNDED**

Jet Airways debt estimated at **₹8,500 cr**

Total liabilities at **₹25k cr**

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### MINT GRAPHITI

## JET FACES MORE HEADWINDS

SBI, the lead banker of Jet Airways lenders' consortium, ordered a forensic audit of the books of the airline to examine the feasibility of restructuring its debts and identify accounting problems. A look at some of the troubling developments at Jet since last year.



Aug 2018

**JET** Airways delays April-June earnings after disagreement with auditors.

Mar 2019

**NARESH** Goyal steps down as chairman of Jet Airways.

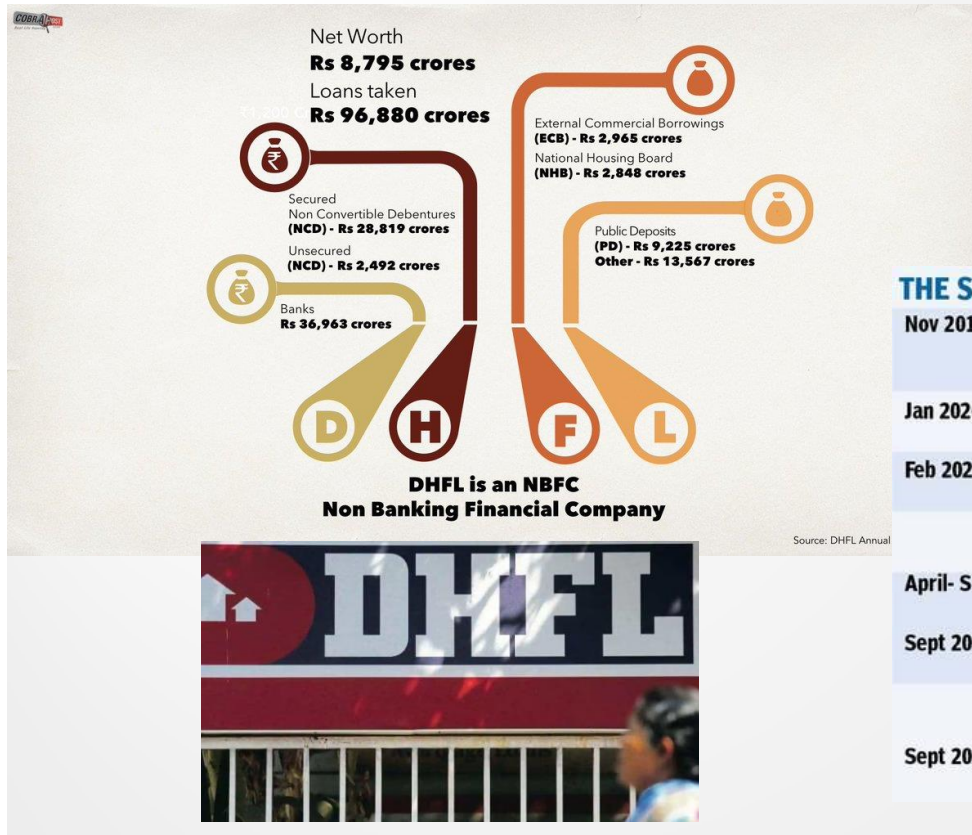
Apr

**JET** Airways shuts down operations due to lack of funding.

May

**SFIO**, ED begin investigations into the airline's dealings.

**GOYAL** stopped from flying abroad by law enforcement agencies.

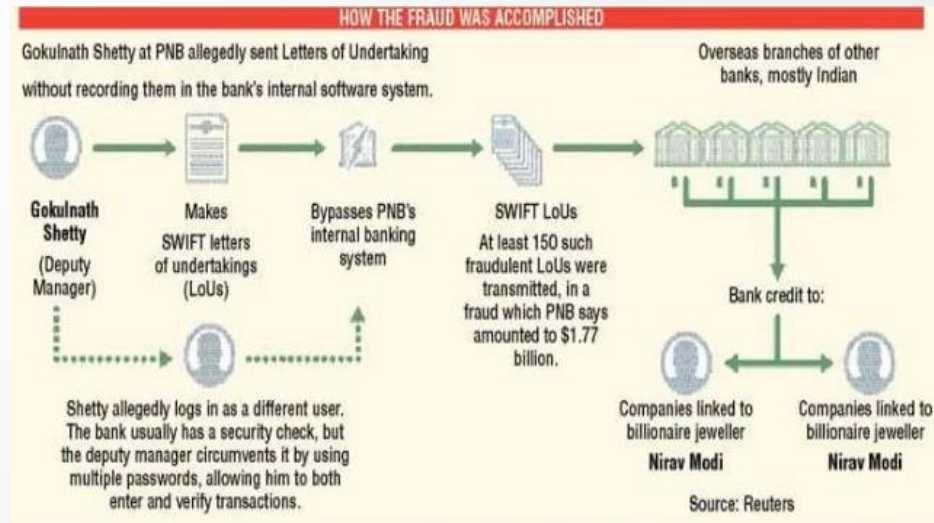


## THE STORY SO FAR

- Nov 2019** : RBI refers DHFL to NCLT for insolvency proceedings after **National Housing Bank** reports serious deterioration in its finances
- Jan 2020** : Lenders invite EoI for acquiring DHFL. Last date to submit EOIs set at **February 17**
- Feb 2020** : Over 20 entities show interest in acquiring DHFL. **April 16 deadline** set for submission of bids 
- April- Sept** : Deadline to submit final bids **extended several times**
- Sept 2020** : The administrator for DHFL moves NCLT against the company's promoters **Kapil and Dheeraj Wadhawan** for alleged irregularities in loans worth **₹12,705.53 crore**
- Sept 2020** : Forensic audit reveals **fraudulent** transactions from fictitious Mumbai branch







## IL&FS Group: Total outstanding (FB & NFB)



Estimated Fund Based o/s as on 8 Oct, 2018

Estimated Non-Fund Based o/s as on 30 Sep, 2018

	INR Cr
<b>Fund Based O/s Principal (Aggregated*)</b>	<b>94,216</b>
Secured	73,359
Unsecured	20,857
<b>Non-Fund Based O/s</b>	<b>5,139</b>
Bank Guarantees (BG)	4,853
Letters of Credit (LC)	286
<b>Total Outstanding</b>	<b>99,354</b>

\*Includes FB Principal O/s aggregating INR 4,570 Cr.: (i) GIFT INR 1,233 Cr. (IL&FS Group has 50% stake); (ii) ONGC Tripura Power INR 3,337 Cr. (IL&FS Group has 26% stake)



Punjab and Maharashtra Cooperative Bank (PMC Bank) faced regulatory strike for misrepresenting its loan account. PMC had catered a loan worth Rs. 6,500 crore i.e. 73% of the bank's total advances to just one borrower group i.e. Housing Development and Infrastructure Limited (HDIL) who was facing bankruptcy proceedings.

Granting loan of this scale, PMC clearly didn't follow the RBI's guidelines of granting the loan amount to single borrower which was 25% for a group connected companies and 15% for individual companies.

Along with this, PMC created 21,049 fictitious accounts to misrepresent and to channel the loan amount to HDIL group entities. All these accounts were never disclosed to RBI. PMC advanced the loan amount i.e. 6,500 crore to 44 different HDIL group entities. This scam between PMC and HDIL has been existing since 2011 and on 24<sup>th</sup> September, 2019, this scam was revealed when RBI intervened and asked for clarifications. In the financial year 2018-2019, PMC stated its Gross Net Performing Asset (GNPA) to be 3.76% which was comparatively lower than other state owned banks. When RBI intervened and investigated, the percentage of GNPA raised from 3.76% to 77%. It was concluded that PMC had been false representing the bad loan figure in the financial statement and hiding the scandalous association with HDIL.

# YES BANK JOURNEY: FROM PEAK TO PLUNGE

**1999** | Rana Kapoor, brother-in-law Ashok Kapur & Harkirat Singh partner with Dutch Rabobank to set up Rabo India Finance

**2002** | The trio gets in-principle approval to set up a bank with support from Rabobank

**2003** | Harkirat Singh is sidelined. Rana Kapoor, Ashok Kapur and Rabo promote Yes Bk

**2005** | Yes Bank hits the stock market with a

Rs 300-crore IPO

**2017** | Yes Bank reports **divergence of Rs 6,355 crore in bad loans** — disclosed and identified by RBI

**2018** | The bank's shares tank nearly 30% in Sept after RBI cuts Rana Kapoor's tenure to 3 months

**2019** | The lender reports fresh divergence in FY19. New CEO Ravneet Gill announces **plans for \$2-billion capital-raising**

**2019** | Lenders sell Rana Kapoor's entire stake in the bank by invoking pledged shares. Kapoor had pledged the shares to finance family businesses

**2019** | Yes Bank balance sheet hit by a **spate of bad loans** — IL&FS, Anil Ambani Group, CG Power, Cox & Kings, Altico, CCD, Essel Group, Essar Power, Vardaraj Cement, Radius Developers, Mantri Group

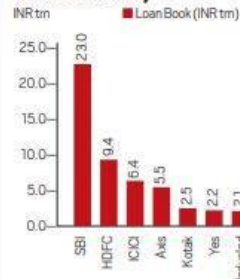
**2020** | The lender's shares tank after bank reveals little-known NRIs as potential investors

**Feb '20** | Yes Bank **delays financial results** for Q3

**Mar 5, '20** | RBI places Yes Bank under moratorium over severe deterioration in financial condition

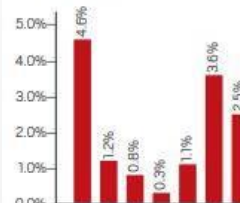


## 1. TOP BANKS (IN ORDER OF LOAN BOOK SIZE)



## 2. EXPOSURE TO RISKY SHADOW BANKS (% OF TOTAL LOAN BOOK)

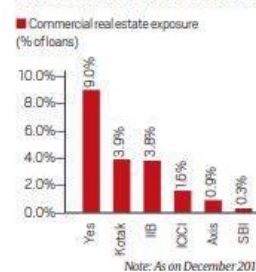
■ Exposure to risky shadow banks (% of total loan book)



Note: 'Risky' = Exposure to DHFL, ADAG NBFC, Religare Jintech, Altico, IHFL, Edelweiss, Piramal capital and housing, and SREI

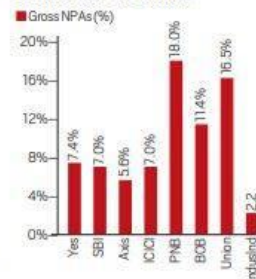
## YES BANK AND OTHERS

### 3. COMMERCIAL REAL ESTATE EXPOSURE: YES BK VS OTHERS



Note: As on December 2018

### 4. GROSS NPAs: YES BANK VS OTHER MAJOR BANKS



## RISK-BASED SCORING

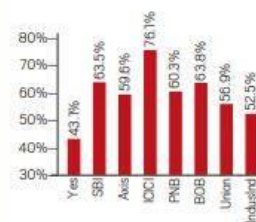
Rank	Bank	Risk Score
1	Yes*	99
2	Karnataka	67
3	South Indian	57
3	IndusInd	57
3	RBL	57
6	Federal	48
7	ICICI	43
8	Karur Vysya	42
9	DCB	40
10	Axis	26
11	City Union	15

Source: Company, Anand Rathi Research  
\*Yes Bank for Q2 FY20

Higher score reflects lower risk  
Lower ranks reflects lower valuations

### 5. PROVISION COVERAGE: YES BANK VS OTHERS BANKS

■ Provision coverage %



Note: NPA: Non Performing Assets. Yes Bank data are as on Q3 2019, while other banks reflect Q4 2019 data

Source: Nomura research

# WHO TOOK AWAY COX & KINGS' CASH?



Former CFO at Cox & Kings, Anil Khandelwal and his team allegedly transferred large chunks of money to their own company



Cox & Kings declared bankruptcy, defaulted on bank loans, and payment to IATA

Mumbai Police is now probing the case, scam estimated at **₹ 20,000 cr**



Cox & Kings Promoter Peter Kerkar & wife Urrshila under ED scanner

**Promoter Peter Kerkar has put entire blame on management over siphoning off money**



SSG Capital head Shyam Maheshwari who runs financial firm and his wife are under ED scanner



Shyam Maheshwari and Anil Khandelwal siphoned off money through Ezeego which is subsidiary of CKL

Source: Investigating Agencies

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## UNEARTHING IRREGULARITIES

Figures in ₹ cr

**264** Non-disclosure agreement  
for company land, factory

**198** Group companies given loans  
without agreement

**133**  
MF investments  
offset against  
borrowings

**519**  
Advances to related  
parties fully  
written off

**261** Group firm availed dollar  
loans without disclosures

**400**  
Uncashed cheques  
from promoter  
shown as bank  
balances

**245**  
Short-term loans  
netted off against  
related-party  
receivables

**156** Slow-moving inventory  
provisioned as exceptional item

Source: BSE announcement



**Gautam Thapar holds a nominal stake. But Avantha group firms remain classified as promoter group, according to BSE disclosures**

### BSE PRICE IN ₹

CG Power & Ind Solution

<b>18.40</b>	<b>14.75</b>	<b>-19.84</b>
Previous close	Today's close	% chg

The debacle of company resulted in unfortunate suicide by its promoter. Amounts due to banks are around Rs . 2500 crores to Rs. 3000 crores. Currently, Tata group is in talks with CCD for acquiring its coffee outlets, which if materializes, will rescue the company, and put it back on the recovery path.

*V.G. Siddhartha*

To our Board of Directors and Coffee day family,

After 37 years, with strong commitment to hard work, having directly created 30,000 jobs in our companies and their subsidiaries, as well as another 20,000 jobs in technology company where I have been a large shareholder since its founding, I have failed to create the right profitable business model despite my best efforts.

I would like to say I gave it my all. I am very sorry to let down all the people that put their trust in me. I fought for a long time but today I gave up as I could not take any more pressure from one of the private equity partners forcing me to buy back shares, a transaction I had partially completed six months ago by borrowing a large sum of money from a friend. Tremendous pressure from other lenders lead to me succumbing to the situation. There was a lot of harassment from the previous DG income tax in the form of attaching our shares on two separate occasions to block our Mindtree deal and then taking position of our Coffee Day shares, although the revised returns have been filed by us. This was very unfair and has led to a serious liquidity crunch.

I sincerely request each of you to be strong and to continue running these businesses with a new management. I am solely responsible for all mistakes. Every financial transaction is my responsibility. My team, auditors and senior management are totally unaware of all my transactions. The law should hold me and only me accountable, as I have withheld this information from everybody including my family.

My intention was never to cheat or mislead anybody, I have failed as an entrepreneur. This is my sincere submission, I hope someday you will understand, forgive and pardon me.

I have enclosed a list of our assets and tentative value of each asset. As seen below our assets outweigh our liabilities and can help repay everybody.

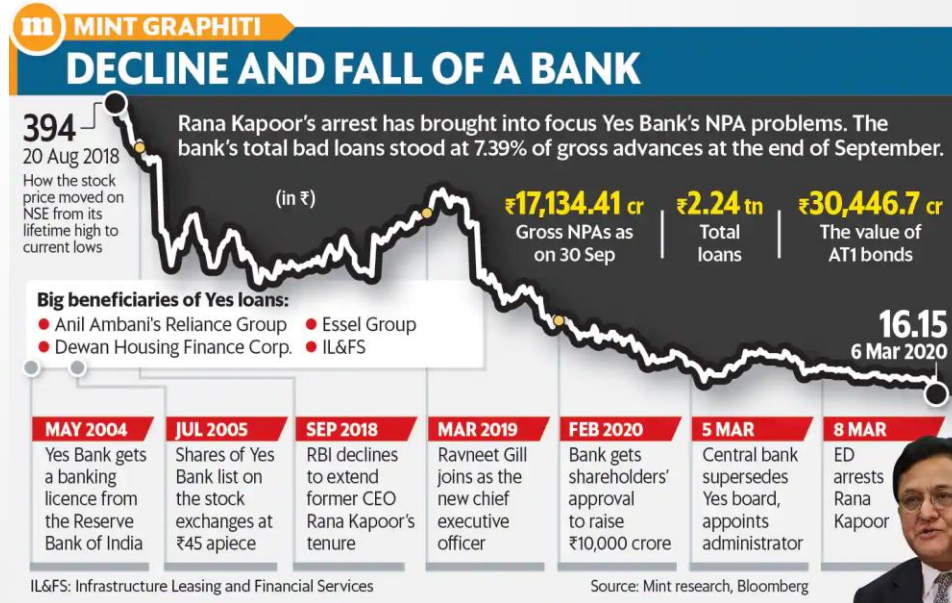
Regards,  
V.G. Siddhartha

*V. G. Siddhartha*  
27/12



Imprudent lending practices

- Evergreening of loans
- Practice of charging high commission to borrowers, which was not in line with industry practices
- Overstatement of profits due to front loading of commission income
- Gross under provisioning of NPAs compared to RBI guidelines





- The NSEL scam or NSEL fraud is a systematic and premeditated fraud perpetrated in the commodity market on the National Spot Exchange that is based in Mumbai, India.
- The NSEL is a company promoted by Financial Technologies India Ltd and the NAFED (only 100 shares given for misusing the NAFED brand.)
- The NSEL scam is estimated to be a Rs. 5600 crore (around US\$0.95 billion) fraud that came out to light after the National Spot Exchange failed to pay its investors in commodity pair contracts after 31 July 2013.

**HOW BUYERS WERE LEFT IN THE LURCH****Lender goes to insolvency court****On Aug 10, 2017,**

Bank of Baroda filed an insolvency petition against Amrapali for defaulting on a payment of Rs 55 crore. NCLT admitted the petition on September 4 and appointed Rajesh Samson as insolvency resolution professional (IRP). Samson given 270 days to turn Amrapali around

**Buyers follow, but move SC****On Sept 21, 2017,**

107 Amrapali homebuyers led by Bikram Chatterjee moved the Supreme Court demanding cancellation of NCLT proceedings. They said they had already appealed in the consumer court for refunds

**Fraud begins to unravel****In 2018,**

the Supreme Court sought a response from the Centre, the RBI and others on the challenge to NCLT proceedings. It asked Amrapali for full disclosure of finances, then ordered forensic audit that found large-scale fund diversion

## WHAT THE TOP COURT SAID

- **Probe Amrapali promoters, directors** for money laundering, FEMA violation
- **Electricity, water be immediately** restored to Amrapali residents
- **Banks, Noida and Greater Noida authorities** can't sell flats to recover dues
- **Similar action must be taken against** all other erring builders



# In Hot Pursuit

**Jatin Mehta and his kin** may have floated two limited liability cos – Pegasus and Adamas International

**Mehtas were** suspected to have fled to St Kitts and Nevis island in 2013 in wake of an alleged bank fraud



**Winsome** was declared wilful defaulter in 2016



**₹6,500cr+**  
Gujarat-based diamond merchant owes to a consortium of banks

**ED, CBI, SFIO and I-T dept** probing the Mehtas

**SINGAPORE-BASED**  
IIA Technologies Pte Ltd, promoted by Mehtas, also under scanner

## CASE AGAINST THE SIBLINGS

- Religare Finvest gave loans to parent company, Religare Enterprise Ltd, and its other group companies without taking adequate collateral
- These group companies are alleged to have wilfully defaulted in repayment; RFL suffered a loss of ₹2,397cr
- When the fraud was detected, the Singh brothers exited the boards of REL and RFL in April 2018



Shivinder (L) & Malvinder

- RFL's new management filed an FIR with the EOW of Delhi Police against the Singh brothers and other top management of the company

BusinessToday.In

# THE CRUX

Sterling Biotech, world's six largest producer of gelatin, is unable to use its position of strength. It is a debt-ridden company, whose promoters are absconding



➤ Tata's Rallis sold gelatin biz to Sterling for ₹47 cr in 2004

➤ Sterling Biotech now **sixth largest** producer of gelatin

➤ But Sterling's promoters are absconding

➤ It has ₹8,000 cr of debt on revenue of ₹368 cr



➤ As a group, it has excess of ₹15,000 cr debt

➤ Insolvency proceedings started 2 yrs ago but is still stuck

➤ Company is looking for a bidder

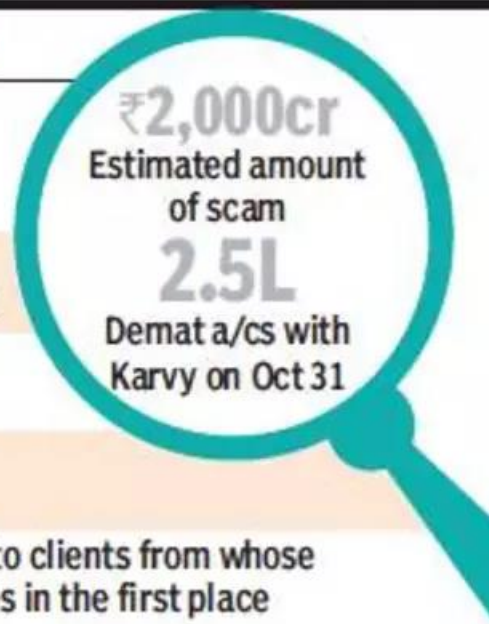


➤ Aurobindo, Cadila, UPL, said to be interested

➤ Promoter tried buying it back; creditors vetoed

## MODUS OPERANDI

- Karvy Stock Broking pulled out shares from its clients' demat accounts
- Transferred those shares to demat accounts controlled by it
- Pledged those shares with banks and took money
- Transferred the money to real estate arm, Karvy Realty
- Failed to return those shares to clients from whose accounts it had pulled the shares in the first place



## CASE HISTORY

- **Tata Finance (TFL) had come out with a rights issue**, seeking to raise ₹90 crore, in March 2001
- **Sebi conducted a probe after receiving a complaint** that the firm had made false disclosures in the letter of offer
- **Regulator found misstatement**

**in the rights issue** about the financials of TFL subsidiary Niskalp

- **Niskalp incurred losses of ₹190 crore**, but backdated transactions converted the loss into profit in its books
- **In 2016**, Sebi barred four entities from securities market
- **Last year**, SAT hauled up Sebi for letting off Tata Finance





सत्यमेव जयते  
असतो मा सद्गमय

Office of The Commissioner

केन्द्रीय जी.एस.टी. एवं सीमा शुल्क, वडोदरा-II

Central GST & Customs, Vadodara-II

आर्की गार्डा ग्राउन्ड, टेलीफोन एक्स्चेंज के समीप, सुभानपुरा

Arkee Garba Ground, Nr. Telephone Exchange, Subhanpura

वडोदरा - ३९००२३ (गुजरात)/ VADODARA - 390023(GUJARAT)

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#### **PRESS RELEASE**

#### **Top Management of M/s Manpasand Beverages Ltd, Savli, Vadodara arrested in fake invoice GST fraud.**

Multi locational searches were conducted on various premises of M/s Manpasand Beverages Ltd. on 23/05/2019. The searches resulted into unveiling of a huge racket of creating fake/dummy units for availing fraudulent credit and committing tax evasion of Rs. 40 crores and involving turnover of Rs. 300 crores approx.

Shri Abhishek Singh, M.D., Shri Harshvardhan Singh, brother of M.D. and Shri Paresh Thakkar, CFO, were arrested by the sleuths of Central GST Commissionerate Vadodara-II.

M/s Manpasand Beverages Ltd. is a listed company on BSE and NSE with a market capitalization of 1200 crores. The continuing investigation has unearthed a network of more than 30 fake units located in various parts of the country which were used for committing fraud by availing illegal credit. The investigation regarding ultimate beneficiary of the fraud and web of shell companies is under progress.

Place: Vadodara

Date: 24.05.2019

## THE ROTOMAC CASE



### WHO'S HIT HOW MUCH

Exposure of different banks (in Rs cr)



Vikram Kothari, director, Rotomac Global, & son of Mansukhlal Kothari, who founded Pan Parag

#### ROTOMAC GLOBAL (Turnover ₹ cr)



**98%** Wholesale trading      **2%** plastic and rubber product manufacturing

“There is round-tripping of money which amounts to misappropriation of funds; criminal breach of trust and violation of FEMA regulations

—ABHISHEK DAYAL | CBI spokesperson

## HOW UNITECH WENT BELLY UP

**2017**

EoW arrests promoters Sanjay Chandra and Ajay Chandra for alleged siphoning off homebuyers' money

- SC asks Chandra brothers to deposit ₹750 cr with the court's registry for bail



**2018**

Court orders Grant Thornton to conduct forensic audit of Unitech and its subsidiaries

**2019**

Court rejects the duo's bail plea, asks company to cooperate with auditors or face contempt

## HOME TRUTHS

Unitech's financials, in ₹ crore

Year end	Net sales	Net profit	Total debt
FY2012	2,423	237	4,505
FY2013	2,444	209	5,116
FY2014	2,958	69	5,396
FY2015	3,434	-128	4,716
FY2016	2,011	-902	4,828
FY2017*	1,262	-75	—

\* For 9 months

Compiled by BS Research Bureau  
Source: Capitaline



The CBI Monday conducted searches at eight locations after booking Delhi-based dairy products company Kwalitiy Ltd. and its directors for allegedly cheating a Bank of India-led consortium, causing a loss of over Rs 1,400 crore, officials said. The CBI has registered the case against Kwalitiy Ltd and its directors Sanjay Dhingra, Siddhant Gupta, Arun Srivastava besides other unidentified persons, they said."It was alleged in the complaint that the said accused had cheated the Bank of Ind ..

"It was alleged in the complaint that the said accused had cheated the Bank of India-led consortium comprising BOI (lead bank), Canara Bank , BoB, Andhra Bank, Corporation Bank, IDBI, Central Bank of India, Dhanlaxmi Bank Syndicate Bank to the tune of Rs.1400.62 core (approx.)," CBI spokesperson RK Gaur said.



### ***What are the benefits of a Forensic Audit ?***

Few chief benefits of Forensic Audit are listed below. Those are as follows:-

- Uncovering of Corruption: In a Forensic Audit, while investigating fraud, an auditor would look out for the Conflicts of interest, Extortion, and Bribery.
- Uncovering of Asset Misappropriation, which reveals Misappropriation of cash, payments made to non-existing suppliers or employees, raising fake invoices, misuse of assets, or theft of Inventory, etc.
- Uncovering of Financial Statement Frauds which reveal intentional forgery of accounting records, non-disclosure of relevant details from the financial statements, omitting transactions – either revenue or expenses, or not applying the requisite financial reporting morals.
- It helps in Fraud Identification and Prevention, which generally occurs in financial transactions. It also helps in accounting and analyzing whether the company's accounting policies are followed or not.
- It makes Sound Investment Decisions
- It assists in the formulation of Economic Policies.
- Forensic auditing is extremely rewarding as a career. It involves identifying, analysing, and reporting the findings during an audit and not only includes regular auditing and accounting activities.
- Clear Objectivity and Credibility - As a forensic auditor, an external party would be far more objective and independent than a company accountant or internal auditor who, in the end, reports to management on his conclusions.
- Definite valuable Accounting Expertise and Industry Knowledge.
- Provision of Appreciated Manpower Resources
- Enhanced Efficiency and Efficiency