

1st DRAFT (27 Aug'20)

APPROVED BY DAAB

(On 26 Aug'20)

The Digital Accounting and Assurance Board (DAAB) of The Institute of Chartered Accountants of India (ICAI) invites comments on a new Forensic Accounting and Investigation Standard (FAIS) on – Basic Principles.

Comments are most helpful if they indicate a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be Submitted at

<https://forms.office.com/Pages/ResponsePage.aspx?id=DOHF01tggEOvuF6SRz25pIvVExBjm2K8JUNTBWQkZNNDZRR09FME9QVExLTEgzMIFKNi4u>

Last date for sending comments is September 30, 2020.

BASIC PRINCIPLES OF FORENSIC ACCOUNTING AND INVESTIGATIONS

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1 Introduction and Scope

- 1.1 The professions of Forensic Accounting and Investigations (FAI) are highly specialized practice areas which requires special emphasis to certain aspects of attributes and performance for professionals practicing in these domains. The Digital Accounting and Assurance Board (DAAB), a non-standing Committee of the Institute of Chartered Accountants of India (ICAI), is issuing a set of Forensic Accounting and Investigation Standards (FAIS) to standardize the work undertaken by its members in this area. A separate document titled “Framework Governing Forensic Accounting and Investigations” defines FAI as well as provides an overview of these Standards.
- 1.2 In conducting FAI assignments, there are a set of core principles fundamental to the profession and the activities undertaken by the professionals. These “Basic Principles” of forensic accounting and investigations, as outlined in this document, are critical to achieve the desired objectives.
- 1.3 With these basic principles, the stakeholders at large will have a point of reference to draw expectations of work undertaken, procedures performed, record keeping and reporting for Forensic Accounting and Investigation engagements.
- 1.4 Scope: All FAI engagements shall be performed based on these basic principles, and departures from these principles shall be appropriately disclosed in any assignment report or other similar communication issued by the FAI professional.

2 Objectives

- 2.1 The main objectives of the basic principles are to ensure that:
 - (a) All FAI engagements are undertaken after establishing the credibility of the FAI professional (see principles under para. 3.1 to 3.5); and
 - (b) Each FAI assignment is conducted with certain fundamental features designed to guide the professional through the entire lifecycle of the engagement (see principles under para. 3.6 to 3.10).

3 Basic Principles

3.1 Independence and Neutrality:

The FAI professionals shall be independent and neutral in thinking, not just in the mind, but also in appearance. Hence the professionals shall be free from

any undue influence which may force them to deviate from the truth or influence the outcome of their work.

For Independence, the FAI professional needs to resist any pressure or interference in establishing the scope of the assignments or the manner in which the work is conducted and reported. The FAI professionals who are engaged as a third-party service provider shall consider the level and position of the person engaging their services. The FAI professionals working as an employee within an organisation shall need to evaluate the placement of their position in the organisation structure, along with the professional freedom, powers and authority the position carries. As an indication, the FAI professionals should have free access to the highest level of management (CEO/MD) or a Committee of the Board of Directors.

For Neutrality, the FAI professionals need to plan and execute the work in an unbiased manner and accept the possibility of the outcome of any form or direction. The quest for truth and the objective outlined in appointment should be corner stone for neutrality.

3.2 Integrity and Objectivity:

The FAI professional shall be honest, truthful and a person of high integrity. The professionals shall operate in a highly ethical manner and seen to be fair in all their dealings. The professionals shall avoid all conflicts of interest and not seek to derive any undue benefits or advantages from their positions.

The FAI professionals shall conduct their work in a highly objective manner, especially in gathering of evidence and evaluation of facts for outcome. They shall not allow prejudice or bias to override their objectivity, especially in arriving at conclusions.

3.3 Due Professional Care:

The FAI professional shall exercise due professional care and diligence while carrying out the assignments.

“Due professional care” implies the following (an indicative list):

- (a) that reasonable care has been exercised in carrying out the work to ensure the achievement of planned objectives;
- (b) proper attention is given to risks and materiality of the areas under FAI engagement;
- (c) adequate focus and attention is given to matters of importance, along with diligence in time-management;
- (d) due care is taken to comply with professional standards of work; and

(e) due care is taken to ensure continuous communication to prevent any misunderstanding.

“Due Professional Care”, however, neither implies nor guarantees infallibility, nor does it require the FAI professionals to go beyond the established scope of the engagement or exceed the brief without due approvals.

3.4 Confidentiality & Secrecy:

The FAI professionals shall at all times, maintain utmost confidentiality of all information acquired during the course of their work and assignment. They shall not disclose any such information to a party outside the team formed to undertake the engagement and the engaging management. Any and all disclosures, if required, shall be on a “need to know basis”.

The FAI professionals shall keep confidential information secure from others. Under no circumstance any confidential information shall be shared with third parties outside the organisation, without the specific approval of the Management or Client or unless there is a legal or a professional responsibility to do so. Reports drafted by FAI professionals shall be addressed to specified individuals and distributed to only those who appointed or engaged them and as per their directions.

3.5 Skills and Competence:

The FAI professionals shall undertake only those engagements for which they have the requisite competence. Firstly, the professional shall have the required qualifications to undertake FAI assignments. A Chartered Accountant qualification, supplemented with legal qualifications or post-qualification Certificate Courses are ideal. Global qualifications, such as a Certified Fraud Examiner also carry requisite weightage. Secondly, the FAI professionals shall have sound knowledge, strong inter-personal skills, practical experience and professional expertise in forensic accounting and investigation areas to conduct a quality assignment.

The FAI professionals shall either have, or shall obtain, such skills and competencies, as necessary for the purpose of discharging their responsibilities. Continuing Professional Education is a key part of this exercise. In addition to the basic technical skills, the FAI professionals shall have the soft skills (such as interpersonal and communication skills) required to engage with a multitude of stake-holders.

Where the FAI professionals lack certain expertise, they shall procure the required skills either through in-house experts or through the services of an outside expert, provided independence is not compromised. The objective is to ensure that the FAI team, as a whole, has all the expertise and knowledge required to execute the assignment.

3.6 Contextualisation of Situation:

FAI engagement cannot be conducted in isolation. The context of the situation or environment where the transactions or operations takes place is important to understand the culpability of individuals. Each forensic accounting or investigation is unique. The nature of the business, the situation, the complexity of the environment, the manner in which the circumstances come together and the involvement of the people in the affairs, all need to be thoroughly understood to develop and execute the plan of action.

Also, any FAI assignment would require the professional to act on predication, which is based on a review of the totality of circumstances and evaluating the probability of the occurrence of a fraud or some unlawful activity which requires to be examined. For example, presence of “red flags” may be a reasonable indication to conduct a FAI assignment.

3.7 Primacy of Truth:

In any FAI engagement all activities shall be centred around finding the truth. Therefore, the primary objective of any FAI professional is to unearth the reality behind every allegation or dispute, which in turn shall be based on facts, figures and evidential matter.

Establishing what actually occurred is of utmost and prime importance. Any deviation from this may lead the FAI professionals away from the objectives and what needs to be reported. The professionals would therefore always remain cautious of being misled in a direction that may sway them away from the truth.

3.8 Respecting Rights and Obligations:

Just as much as the FAI professionals have the right of examination to unearth the truth, the suspected parties have a similar right to defend their innocence. Under no circumstance should a FAI assignment be undertaken which does not permit the professional to seek information and evidence from the suspected parties.

Due to the nature of FAI assignments, it is critical to obtain and understand the views and standpoint of all parties. Ample opportunity shall be given to all parties to present their evidences and perspectives. This however should be done at the right time and in the right manner, such as through written communication, for e.g., show-cause notice, written explanation etc. All FAI engagements need to adhere to the law, including laws of privacy, to the

suspect. No conclusion should be drawn without following the principles of natural justice which give the other party full right to be heard with opportunity to present their version of the truth.

3.9 Segregating Facts from Opinions:

Many times, in collecting evidential matters, interviews are sought from those who can provide important information to the FAI professional. Under such circumstances, there is a risk in having the information getting “contaminated” with personal opinions of the source. Similarly, there could be other circumstances where “facts” not relevant to the examination, may introduce an element of bias. The FAI professionals need to guard against such situations where opinions and such bias may divert them from the main objectives.

The FAI engagement is predominantly a fact-finding exercise. FAI professionals shall ensure that their personal judgement and biases find no place in this exercise. Personal perspectives shall be segregated from professional judgement, which in turn shall not be clouded by contamination or noise in the evidence. This is particularly important when interviewing a witness or suspect.

3.10 Quality and Continuous Improvement:

The quality of work performed shall be paramount for the FAI professionals since the credibility of the outcome depends on the reliability of findings. The FAI professionals shall have in place a process of quality control to:

- (a) ensure factual authenticity of evidence obtained;
- (b) validate the accuracy of all findings; and
- (c) continuously improve the quality of the process followed and the reports issued.

The FAI professionals shall ensure that an assessment mechanism is in place to monitor performance of self and subordinates and also, any external experts on whom reliance is placed to complete some part of the assignment. A peer review mechanism for quality control shall be followed to adhere to all aspects of the pronouncements issued by the ICAI.

4 Effective Date

- 4.1 These Basic Principles are applicable for all engagements beginning on or after a date to be notified by the Council of the ICAI.

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