

EARLY SIGNALS OF BANKING FRAUDS

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INTRODUCTION

- How many Frauds found by Auditors?
- Is Audit an Art?
- Can be very seriously affecting the CA in service or Practice
- Can be a threat to survival of an Enterprise

DEFINITION

- SA-240 – The Auditor’s Responsibilities relating to Fraud in an Audit of Financial Statements.

“Fraud is an intentional act to obtain an unjust or illegal advantage.”

DEFINITION

➤ RBI working Group –

“A deliberate act of omission or commission by any person carried out in the course of a Banking Transactions or in the Books of Accounts maintained manually or under Computer System in Banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the Bank.”

KINDS OF FRAUDS

➤ Mis-appropriation of Assets –

- Embezzlement of receipts in respect of written-off accounts.
- Stealing physical assets or intellectual properties
- Introduction of fictitious vendors
- Payment of fictitious employees
- Using entities assets for personal use.

KINDS OF FRAUDS

➤ Fraudulent Financial Reporting

- Alteration or falsification of records & documents
- Misrepresentation in or intentional omission of events, transactions or information
- Intentional misapplication of accounting principles

KINDS OF FRAUDS

- Fraudulent Financial Reporting.. Contd.
 - Fictitious Journal Entries
 - Adjusting assumptions and changing Judgments
 - Omitting, advancing or delaying the recognition of events or transactions.

FRAUD V/S ERROR

- Errors are due to –
 - Inefficiency,
 - Incompetency, or
 - Indifference.
- Fraud stem from efficient, skillful, shrewd and calculated planning

TYPES OF FRAUDS

- Fraudulent Entries
- Sales Frauds
- Collection Frauds
- Expenses Frauds
- Payroll Frauds
- Data Frauds
- Banking Frauds

RBI MASTER DIRECTIONS ON FRAUDS

1ST JULY, 2016

FRAUDS IN BANK

➤ Fraud in Bank –

- Cash lending during working hours
- Missing notes in bundles
- Use of same notes bundles by two branches
- Wrong posting in other accounts
- Misuse of sensitive stationery

FRAUDS ON BANK

- Technology related Frauds
- Deposit related Frauds
- Advances Portfolio Frauds
- Related Party Transactions
- Others

FRAUDS ON BANK

➤ Advances Portfolio Frauds

Precautions at following stages –

- Pre-sanction
- Disbursement
- Annual review

FRAUDS ON BANK

➤ Advances Portfolio Frauds

- Assets
- Stocks
- Debtors
- Bills
- L/Cs and B/Gs
- Security Documents
- Falsification of information

FRAUDS ON BANK

➤ Related Party Transactions

- Transactions with related parties not genuine
- Diversion of Funds

FRAUDS ON BANK

➤ Others –

- Change in constitution not informed to the bank
- Opening unauthorized Bank accounts with other banks
- Bank Reconciliation Frauds

EARLY WARNING SIGNALS OF FRAUD

- Operations of Account
- Concealment or Falsification of documents
- Diversion of Funds
- Issues in Primary/Collateral Security

EARLY WARNING SIGNALS OF FRAUD

- Inter-Group/Concentration of Transactions
- Regulatory Concerns
- Others

SPECIFIC SIGNALS

- **Material discrepancies in Annual Report**
 - Differences with key figures reported during the year
 - Non Disclosure of Accounting Policies or their variance with Accounting Standards
 - Default in Repayment with other Banks and Institutions

SPECIFIC SIGNALS

- Material discrepancies in Annual Report
..Contd.
 - Short Term Funds used for Long Term Assets
 - Corporate Guarantees without permission
 - Adjustment of losses directly to reserves

SPECIFIC SIGNALS

- Material discrepancies in Annual Report
..Contd.
 - Non-amortization of intangible assets
 - Non-provision towards impairment
 - Creation of deferred tax assets
 - Carrying forward the sales promotion or other similar expenses in balance sheet

SPECIFIC SIGNALS

➤ Material discrepancies in Annual Report ..Contd.

- Fictitious Revenues
- Timing Differences
- Concealed Liabilities and Expenses
- Improper Disclosures
- Improper Asset Valuation

SPECIFIC SIGNALS

➤ Material discrepancies in Annual Report ..Contd.

- How to detect Financial Statement Frauds
- Deterrence of Financial Statement Frauds
 - Reduce Pressures to Commit Financial Statement Fraud
 - Reduce the Opportunity to Commit Financial Statement Fraud
 - Reduce Rationalization of Financial Statement Fraud

SPECIFIC SIGNALS

➤ Frauds in Financial Statements and Poor Disclosure –

- Sales to Related Parties
- Assets acquired from Related Parties
- Inflating the Basis of Property and Equipment

SPECIFIC SIGNALS

- Substantial increase in unbilled revenue –
 - Timing Differences
 - Rate variances
 - Cost in excess of billing

SPECIFIC SIGNALS

- Substantial increase in unbilled revenue –
 - Unbilled Revenue : Real or Imagined Assets?

SPECIFIC SIGNALS

- Frequent changes in Accounting Period or Accounting Policies –
 - Reasons for changes
 - Frequency of changes
 - Whether manipulation seen

SPECIFIC SIGNALS

➤ Frequent adhoc sanctions –

- Reasons
- Risks
- Confirmation of processes followed

CONCLUSIONS

- Identifying fraud is the job of a specialist.
- Learn about EWS but actual work can be done by forensic expert.
- It's a very highly satisfying and also paying job.

Happy Learning!