

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 – Framework.

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=DOHF01tggEOvuF6SRz25pIvVExBjm2K8JUOUxCWE9QVEwxWVE1R1dYSIBFRVBFV11FVy4u>

Last date for sending comments is September 30, 2020.

# FRAMEWORK GOVERNING FORENSIC ACCOUNTING AND INVESTIGATION STANDARDS

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## 1 Introduction and Scope

- 1.1 The Framework Governing Forensic Accounting and Investigations (the “Framework”) lays down the underlying principles and boundaries for undertaking such services. It aims to preserve and enhance the quality of practice of a member of the Institute of Chartered Accountants (ICAI) performing forensic accounting and investigation services. This Framework needs to be read in conjunction with the Preface to the Forensic Accounting and Investigation Standards (FAIS).
- 1.2 Scope: The framework covers all types of forensic accounting and investigation services. The test of the standard’s applicability is the purpose for which the service is being provided by the professional to the service user. While the standards are applicable in all cases where the engagement objectives are in line with the definition of Forensic Accounting and Investigations (FAI) as outlined in this Framework, the applicability of the Standards become much more critical where the engagement output may be used for possible litigation or prosecution. However, the standard does not apply to a situation where a professional performs forensic work-steps as part of an assurance assignment such as a statutory or internal audit or other attest engagements.

## 2 Objectives

- 2.1 The main objectives of the Framework are to:
- 2.1 Provide an overall understanding of Forensic Accounting and Investigations and its key components;
  - 2.2 Outline the manner in which these components come together in an inter-related cohesive manner when providing such services;
  - 2.3 Maintain and improve the quality of forensic accounting and investigation services.

## 3 Definitions

- 3.1 Forensic Accounting and Investigations is defined as follows:

***Forensic accounting*** is the use of professional accounting skills in matters involving the possibility of a fraud, in order to collect relevant evidence and

*facts which could help support an expert view for potential or actual civil or criminal litigation.*

**Investigation** is the systematic and critical examination of facts, records and documents for a specific purpose.

Note: Most investigations involve forensic accounting, but not all forensic accounting is an investigation.

3.2 Brief explanation of the key terms used above is as follows:

3.2.1 Forensic Accounting: The overriding objective of Forensic Accounting is to gather facts and evidence, especially in the area of financial transactions and operational arrangements, to help the professional form an independent expert view (but not to express a professional opinion) and support a legal case in the court of law.

3.2.2 Litigation: Litigation is a process of handling or settling a dispute in a court of law or before a regulatory body. Litigation would include alternative dispute resolution mechanisms.

3.2.3 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 collection, documentation, evaluation to portray the facts of the alleged violation with an expectation that the matter might be brought to a court of law or a regulatory body.

3.2.4 Fraud: Fraud is any intentional or deliberate act to deprive another of property or money through deception or other unfair means. As per prevailing legal provisions in India, one does not need to demonstrate whether or not there is any wrongful gain or wrongful loss for the fraud to occur.

3.3 This definition of Forensic Accounting and Investigation forms the underlying foundation of all the Standards on Forensic Accounting and Investigation issued by the Digital Accounting and Assurance Board (DAAB).

## 4 The Framework

4.1 The Framework establishes the structure which governs the professions of Forensic Accounting and Investigations. It is based on the "Definition of forensic accounting and investigation" (as covered under para 3, above), and the Code of Ethics forms the foundation of the Framework. It comprises of four components inherent to the process of forensic accounting and investigations. These components implicitly form part of the FAIS, even though they may not be mentioned explicitly in the particular Standards. Hence, as explained in the

Preface, they all are mandatory in nature, except the Guidance which is recommendatory.

4.2 The four components of the framework are:

- (i) Basic Principles of Forensic Accounting & Investigation
- (ii) Key Concepts
- (iii) Standards on Forensic Accounting and Investigation
- (iv) Guidance.

4.3 A pictorial depiction of the Framework Governing Forensic Accounting and Investigation Services is presented below.



## 5 Code of Ethics

5.1 Every ICAI professional working on an engagement involving forensic accounting and investigation services is bound by a written Code of Ethics (or Conduct), issued by an organisation and/or the professional Institution of which

he is a member. This commits the professional to ethical Standards applied with utmost integrity and sincerity.

5.2 A member of the Institute of Chartered Accountants of India, carrying out an FAIS engagement is, additionally, governed by:

5.2.1 the requirements of the Chartered Accountants Act, 1949';

5.2.2 the Code of Ethics issued by the Institute of Chartered Accountants of India; and

5.2.3 other relevant pronouncements of the Institute of Chartered Accountants of India.

## 6 Components of the Framework

### 6.1 Basic Principles of Forensic Accounting and Investigations

The Basic Principles of Forensic Accounting and Investigation Services are a set of core principles fundamental to the profession and activity of carrying out such Services. The Basic Principles are critical to achieve the desired objectives as set out in the Definition of Forensic Accounting and Investigation Services, and therefore, apply to all relevant engagements.

The principles can be summarised as follows:

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

All the 10 basic principles are explained in a separate document titled "**Basic Principles of Forensic Accounting and Investigations**".

### 6.2 Key Concepts

There are certain concepts which form integral part of the forensic accounting and investigation activities and, therefore, apply to most engagements. The key concepts are in the nature of (indicative list):

1. Understanding the Subject Matter
2. Fraud Risk Management
3. Application of Laws and Regulations
4. Applying concept of Hypothesis

### **6.3 Forensic Accounting and Investigation Standards (FAIS)**

The FAIS (the “Standards”) establish uniform performance and evaluation criteria, methods, processes and practices. The Standards are pronouncements which form the basis for conducting all forensic accounting and investigation engagements. These pronouncements are designed to help the ICAI members, and other professionals, to discharge their responsibilities when conducting such engagements.

Since they are principle based, they define the desired outcome, rather than prescribe series of procedures or activities to be performed to get to the desired outcome. The professional is expected to apply his best judgement with regard to the procedures and activities required to be performed to achieve the desired outcome.

### **6.4 Guidance**

These are a set of guidelines, which include Guidance Notes, Implementation Guides and Technical Guides. These guidelines are important for implementation of the FAIS's and provide clarification for their applicability under circumstances. They also assist the professional is designing the forensic accounting procedures and investigations activities to be conducted under various situations and circumstances.

## **7 Effective Date**

- 7.1 This Framework is applicable for all engagements beginning on or after a date to be notified by the Council of the ICAI.