

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 – Understanding the Nature of Engagement.

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=DOHFOzhjoU6NJ-O1tggEOvuF6SRz25pIvVExBjm2K8JUNlhHNIhMME1JTE1CV1JHUUIFW-EJLRVM3NS4u>

Last date for sending comments is October 18, 2020.

## **FORENSIC ACCOUNTING AND INVESTIGATION STANDARD No. 110**

### **UNDERSTANDING THE NATURE OF ENGAGEMENT**

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This Forensic Accounting and Investigation Standard 110, on “Understanding the Nature of Engagement,” issued by the Council of the Institute of Chartered Accountants of India (ICAI) should be read in conjunction with the “Preface to the Forensic Accounting and Investigation Standards”, the “Framework Governing Forensic Accounting and Investigation Standards” and “Basic Principles of Forensic Accounting and Investigations” issued by the Institute.

## **1 Introduction and Scope**

- 1.1 Any Professional undertaking an engagement involving Forensic Accounting or Investigation is expected to have an understanding of the nature of engagement being undertaken so as to make a determination of the possible scope and approach required in the given situation.
- 1.2 Depending on their nature, the engagements undertaken may include any or all of the following elements:
- (a) Forensic Accounting which focusses on the discovery of evidence and ascertainment of facts;
  - (b) Investigation which is the examination of facts, records and documents for a specific purpose, including the presence or absence of fraud with respect to a set of transactions or events; and
  - (c) Litigation which may include alternative dispute handling mechanisms or the provision of expert witness testimony.
- 1.3 Scope: The scope of standard applies to all engagements related to Forensic Accounting and Investigations, undertaken by the members of ICAI, ICAI member firms and, where relevant, the employees of member firms.

## **2 Objectives**

- 2.1 This Standard seek to clarify certain key concepts, their relevance to the work of the Professional and the nature of engagements undertaken.
- 2.2 The main objectives of the Standard are to ensure that the Professionals (and other stakeholders):
- (a) have clarity on the purpose of the engagement and what it is designed to help achieve;
  - (b) design the appropriate forensic and investigation engagement scope and approach; and
  - (c) identify any specialized skills or experience necessary for its quality execution.

## **3 Requirements**

- 3.1 The Professional shall understand the mandate which is setting the requirements of the engagement. This mandate shall not be in the nature of an audit which has a different connotation, and where Standard on Auditing shall apply. Hence no part of the engagement, or its report shall refer to an "Audit", such as "Forensic Audit". (refer Para 4.1).

- 3.2 Where the mandate is pointing towards the need to apply forensic skills to collect evidence and present these in a court of law or provide an expert testimony, the concept of Forensic Accounting shall apply (refer Para 4.2).
- 3.3 Where the mandate requires the need to collect evidence to help establish possible fraudulent intent, or to identify potential perpetrators of fraud, the concept of Investigation shall apply (refer Para 4.3).
- 3.4 All parties shall have clarity on the nature of the engagement, which can be a Forensic Accounting engagement, an Investigation, an Expert View, or a combination of any of the aforesaid, but not an audit.

## **4 Explanatory Comments**

- 4.1. Concept of Audit (refer Para 3.1): The objective of an audit is either to validate the financial statements (statutory audit) or to strengthen the internal controls with a focus on system and process improvement to mitigate risk (internal audit). The audit activity can, at best, identify red flags or areas of fraud risk, and these can act as the starting points for a Forensic Accounting or Investigation engagement.
- 4.2. Concept of Forensic Accounting (refer Para 3.2): Forensic Accounting aims to unearth errors and irregularities and identify the nature of violation, through selective tests to confirm a wrongdoing or its absence. The focus area is critical examination of transactions and balances in the books of accounts or with third parties. The engagement identifies evidences which shall be admissible in a court of law.
- 4.3. Concept of Investigation (refer Para 3.3): The purpose of the Investigation is to identify the perpetrators by evaluating the actions for intent, by collecting evidence to prove or disapprove a hypothesis, which may include the possibility of a fraud.

## **5 Documentation for Compliance**

- 5.1 The initial correspondence, minutes of meeting in respect of the engagement to be undertaken or any other communication leading to finalization of the nature of engagement will become part of the documentation for the purpose of this Standard.

## **6 Effective Date**

This Standard is applicable for all engagements beginning on or after ... (a date to be notified by the Council of the ICAI).