

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 – Applying Hypotheses

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=DOHF0zhjoU6NJ-O1tggEOvuF6SRz25pIvVExBjm2K8JUOUpLV1VGREhEMUVGSUU5QkVYTTIZSUxETS4u>

Last date for sending comments is October 18, 2020.

FORENSIC ACCOUNTING AND INVESTIGATION STANDARD No. 140

APPLYING HYPOTHESES

Contents

	Paragraph(s)
Introduction and Scope	1
Objectives	2
Requirements	3
Explanatory Comments	4
Documentation for Compliance	5
Effective Date	6

This Forensic Accounting and Investigation Standard 140, on “Applying Hypotheses,” 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 A hypothesis is a theory or assumption that pertains to a set of facts which are to be tested by further examination.
- (a) In Forensic Accounting engagements, the hypothesis is generally checked by testing certain transactions and balances to prove or disprove the possibility of some exceptions.
 - (b) In Investigation engagements, the hypothesis is generally developed to support or reject a possible modus operandi of fraud schemes.
- 1.2 In any Forensic Accounting and Fraud Investigation engagement, it is necessary to have a clear and defined plan to achieve the given objective. At the same time, maintaining the basic principle of neutrality is also fundamental to the engagement. This is achieved by formulating various hypotheses for examining the subject matter, since this allows for a balance between professional skepticism and the need to maintain neutrality.
- 1.3 Scope: This Standard applies to all Forensic Accounting and Investigation engagements where evidence is required to be collected to prove or disprove an assumption concerning the subject matter.

2 Objectives

- 2.1 The main objectives of this Standard on Applying Hypotheses are to:
- (a) provide an understanding of the relevant concepts;
 - (b) evaluate the applicability of these concepts in forensic accounting and investigation engagements; and
 - (c) help develop and execute considered and reliable engagement plans.
- 2.2 This Standard also provides for the need to test the evidences collected on various objective parameters and to draw logical and reliable conclusions for proving or disproving the assumption or theory.

3 Requirements

- 3.1 The Professional shall understand the concept of applying hypotheses to help confirm or reject potential violations or exceptions which may have been perpetrated.
- 3.2 The Professional shall design the forensic accounting and investigation methodologies in accordance with considered hypotheses while maintaining neutrality to ensure a methodical and reliable approach.

- 3.3 Hypotheses generated by the Professional shall be flexible, evolving and include new or alternate hypotheses to validate or reject them in order to prove or disprove a larger theory or assumption.
- 3.4 After concluding an investigation, the Professional shall be in a position to either prove, disprove, or not prove the theory as formulated.

4 Explanatory Comments

- 4.1. In formulating the assumptions which form the basis of the hypotheses, the Professional will keep an open mind and draft a set of neutral hypotheses while maintaining professional scepticism.
- 4.2. As part of the evidence collection exercise, the Professional shall collect all types of evidence related to the hypotheses, irrespective of whether it proves or disproves the hypotheses.

5 Documentation for Compliance

- 5.1 Written documents which demonstrates the development and application of the concept of hypotheses.
- 5.2 Chain of custody will be created and maintained for the entire engagement.

6 Effective Date

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