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I am presently working as Joint Director (Forensic Audit) in Serious Fraud Investigation Office, Ministry of Company Affairs, Govt. of India. I have gone through your exposure draft available in the ifac site. I offer the following comments for kind consideration and suitable inclusion in the Standard to be prescribed:

1. Inter group company transactions: It has come to our notice, based on the investigations done so far, that largely the fraudsters resort to window dressing of affairs through inter group transactions but which are not strictly falling within the definition of the related party. But if we lift the corporate veil, the real identity of the persons behind such control are revealed. Mostly the controlling interest lay with the owners of flag ship company but in other group companies, innocent and unsuspecting people are made directors but cheque signing authority is kept with the main group. Here only the standards should insist that auditor should seek information from the management as to who are in real control of the affairs of the audited entity or under whose instructions the directors / management acts. Such facts should be documented from the first year of audit itself. This will in a way help the auditors to pierce the corporate veil and hence identify the real group companies.

2. Kit flying through the group companies: It has been seen during investigation, that most of the fraudsters indulged in using the unknown and non-listed group companies for acquisition of shares through circular rotation of cheques or other investments using swapping option, or trading only on paper and these have helped the fraudulent promoter directors to sell the shares or their securities in the market without any real cash infusion into the main listed entity. Hence auditors should be asked to beware of the practice of rotation of cheques through group companies before vouching for capital infusion especially in the cases of preferential allotment of shares to group companies, promoters/directors or their relatives. Similarly the swapping of investments shall be gone through thoroughly and to some extent auditors should see the valuation part and independently examine the real intentions before attesting the group company accounts.

3. There are certain more analogous situations wherein through group or associate companies though not strictly falling within the definition of related party transactions but nevertheless controlled by the same person(s) lot of transactions only on paper take place without actual money flow. These are all camouflaged in the cash flow statements also as most of the companies adopt indirect approach in preparation of the cash flow statements.

Hence I request EDC to examine these issues before finalising the standard. Should any more information or assistance is required, kindly feel free to contact me.

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