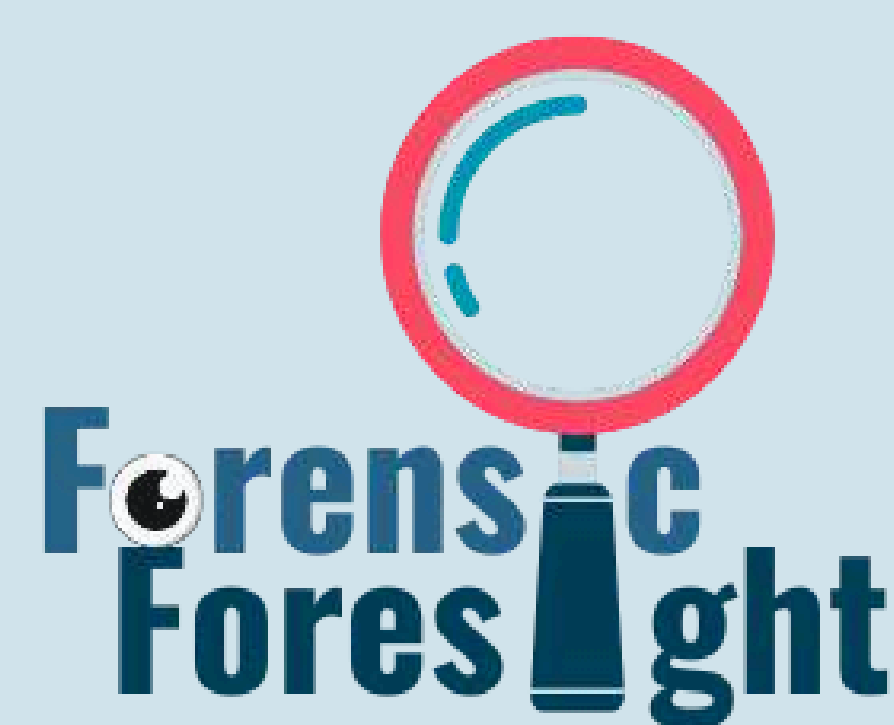


FORENSIC FORESIGHT MONTHLY

Issue 02



July 2026

Financial Crime · Forensic Accounting · Investigation

by Dr. (CA) Durgesh Pandey

WHAT'S INSIDE THIS ISSUE?

- When Verification Becomes Part of the Deception
- The Financing Request that Unravelled a Fraud
- The Number in the Complaint Is Not the Number You Investigate

TRUST BEGINS WITH VERIFICATION EDITORIAL NOTE

One of the easiest mistakes in an investigation is to treat the first answer as the final answer. A figure in a complaint, an explanation from management, a report prepared by an expert, or even the output of an AI tool may all appear convincing. Forensic work, however, begins where acceptance ends. Our role is to verify, challenge, and understand whether a conclusion can stand up to scrutiny.

That idea runs through this issue in different ways. The Forensic Brief explores accountability when AI becomes part of professional work. Case in the Dock shows how what appeared to be a routine factoring arrangement eventually exposed a financial statement fraud. The practitioner's perspective reflects on why the figure mentioned in an FIR is often only the starting point of an investigation, not the conclusion.

After Issue 01, one reader wrote to us with a thought that stayed with us: a report should not only give a conclusion, it should explain how that conclusion was reached. We couldn't have summarised the spirit of the first issue any better. We are grateful for the feedback and hope more readers will share their thoughts in the months ahead.

Issue 01 also ended with a question for readers. While we did not receive any responses in time for this issue, we hope the question for Issue 03, at the end of this edition, encourages more conversations beyond these pages.

WHEN VERIFICATION BECOMES PART OF THE DECEPTION

THE FORENSIC BRIEF

What a recent AI-driven social media tactic teaches us about professional skepticism

We often think of verification as the final defence against misinformation. Increasingly, it can become part of the misinformation itself.

A recent AI-generated video circulating on social media offered a striking example. An anonymous account on X posted a provocative AI-generated video and, shortly afterwards, the same account asked an AI chatbot to verify whether the video was genuine. At first glance, it appeared to be a responsible attempt to fact-check the content. But the verification itself became part of the strategy. By appearing to question its own post, the account created an impression of openness while simultaneously giving the content greater visibility and credibility.

For forensic professionals, the lesson extends far beyond social media. Whether reviewing a financial statement, a digital document, a customer interaction, or AI-assisted work, the existence of a "verification", it is no longer enough to know that something has been verified. We need to know who verified it, how it was verified, and whether that verification can itself be trusted.



What should investigators now be asking?

1. Who is verifying the verifier?

Evidence becomes stronger when it is tested by someone independent of the person who created it. When the same individual, organisation, or system creates information and also appears to validate it, professional skepticism should increase rather than decrease.

2. Verification should leave a trail

A statement that something has been "verified" is not evidence by itself. A forensic professional should be able to understand

- who performed the verification,
- what information was examined,
- what procedures were followed, and
- how the conclusion was reached.

3. Credibility can be manufactured

Modern fraud does not always rely on hiding information. It relies increasingly on creating signals that look trustworthy. A screenshot, a chatbot response, a document, or even an apparent fact-check may all become part of the deception if they are presented without independent validation.

4. Professional judgement remains the final control

AI can assist with gathering, organising, and analysing information. It cannot replace professional scepticism. The responsibility for evaluating evidence, questioning assumptions, and defending a conclusion continues to rest with the professional.

Imagine an AI tool summarises a thousand emails and concludes that there is no evidence of collusion. The summary may save hours of work. But no professional can simply accept that conclusion. The questions we should ask are: What emails did the AI review? What did it exclude? What patterns did it treat as insignificant? The conclusion is useful only if the process behind it can be understood and challenged.

THE FINANCING REQUEST THAT UNRAVELLED A FRAUD

CASE IN THE DOCK

Most financing decisions begin with a simple assumption: the financial statements broadly reflect the business they describe. When that assumption begins to break down, due diligence can quickly become an investigation.

In this case, a routine request for financing exposed inconsistencies that eventually unravelled into a Rs.2.50 crore financial statement fraud.

How a routine financing request exposed a Rs.2.50 crore financial statement fraud

Sometimes investigations begin with a financing request and a lender asking ordinary questions that a company cannot comfortably answer, rather than with a whistleblower report or regulatory suspicion.

In 2014, the Board of REN Limited, an apparel manufacturing company, approached Tyche Business Solutions to obtain financing against its trade receivables through a factoring arrangement.

In a factoring arrangement, a business sells its receivables to a specialised finance company (called a factor) to receive immediate cash instead of waiting for customers to pay. Before advancing funds, the factor performs its own due diligence to satisfy itself that the receivables are genuine, collectible and properly supported.

In this case, those routine checks never remained routine.

REN Limited persistently refused to provide basic identification details and audited financial statements requested during the due diligence process. At the same time, minority shareholders questioned the company's growing doubtful debts and raised concerns about possible related-party collusion. What began as a financing exercise soon became a forensic investigation.

ORGANISATION	REN Limited, an apparel manufacturing company
TRIGGER	Persistent refusal to provide audited financial statements and supporting information during the factoring due diligence
ISSUE UNDER REVIEW	Whether the reported sales and receivables genuinely existed or had been created to obtain financing
FINDING	Financial statement fraud amounting to approximately Rs.2.50 crore
ACTION TAKEN	Fraud reported with recommendations to strengthen governance, vendor management and internal controls

Following the Trail

The forensic team began with a review of three years of financial statements. Several financial indicators suggested that the business was behaving differently from what the reported numbers indicated.

Receivables had increased significantly. The time taken to realise receivables had more than doubled. Asset turnover had fallen sharply, while doubtful debts continued to rise. None of these observations established fraud. They did, however, raise an important question.

Were the reported sales genuinely generating business, or were they simply creating receivables on paper? That question shaped the rest of the investigation.

Key investigative procedures:

To test whether the reported transactions reflected genuine commercial activity, the forensic team carried out the following procedures:

- Matched sales orders, proforma invoices and sales invoices to identify inconsistencies.
- Examined shipping documents to verify the movement of goods.
- Reconstructed the purchase requisition trail to understand how transactions originated.
- Reviewed the terms, conditions and disclosures relating to the factoring arrangement.
- Compared vendor and customer profiles to identify unusual linkages and related-party connections.
- Reconciled the accounts receivable control account with the client ledger.
- Reviewed the policy for doubtful debts and write-offs to identify weaknesses in authorisation and oversight.

Every procedure answered one question. Together, they answered a much bigger one.

What the investigation uncovered

- The numbers were pointing to something real

The financial indicators identified where the investigation needed to go. The evidence showed that REN Limited had been diverting genuine business to related parties while submitting fictitious invoices under the factoring arrangement. The receivables recorded in the books created the appearance of genuine sales, while the underlying commercial activity was taking place elsewhere.

Therefore, the financial statements reflected the transactions and not the business.

- Building credibility around a false transaction

The invoices were only one part of the scheme. The purchases recorded to support these transactions were themselves fictitious and routed through shell entities. These entities provided documents that appeared to validate the recorded sales, allowing the transactions to pass through routine scrutiny with fewer questions.

So, by the time one document was examined, another was already available to support it. Individually, the records appeared ordinary but taken together they reinforced the same false narrative.

- When controls exist only on paper

The operational controls were equally weak. Shipping and receiving were handled by the same team, leaving no independent verification over inventory movement. Once the same function records an activity and effectively confirms it, the opportunity to detect manipulation reduces significantly. The investigation also identified weaknesses in governance. Vendor management controls were ineffective. Doubtful debt write-offs lacked proper authorisation.

Decision-making remained concentrated among closely connected promoters and senior management, leaving limited room for independent oversight.

Outcome

The investigation quantified the financial statement fraud at approximately Rs.2.50 crore.

The recommendations extended beyond correcting the reported irregularities. They focused on strengthening the governance and control environment that had allowed the scheme to continue. These included establishing an independent audit committee, strengthening vendor management practices, enforcing segregation of duties, improving the monitoring of receivables and doubtful debts, and implementing stronger controls over invoicing and financial reporting.



What this case teaches

- The most valuable question in an investigation is often the one that a routine financing review was never expected to ask.
- Financial statements identify where to begin. The evidence gathered beyond the financial statements determines where the investigation ends.
- Fraud schemes become convincing when the records appear to support one another. Looking at documents individually often hides what becomes obvious when they are viewed together.
- Strong investigations connect numbers with business reality. A transaction that makes accounting sense should also make commercial sense.

KNOW THE TERM

SHELL ENTITIES

When the legal form exists, but commercial substance is missing

The word shell carries a useful image: an outer covering with little inside. In forensic and financial crime work, **a shell entity usually refers to a company or legal entity that exists in records, but has little or no real business activity, operational capacity, employees, assets or independent commercial purpose.**

The expression is used in different ways. Some call them shell companies. In investigation files, they may also appear as paper companies, mailbox entities, front entities or shelf companies. These terms are not always identical. A shelf company may be an entity created earlier and kept dormant until someone later uses it. A front company may show some visible business activity while hiding the real person, purpose or transaction behind it. A shell entity, in the forensic sense, is usually examined for one core question: **does this entity have substance, or does it mainly help the transaction appear genuine?**

The term also needs care. **A shell entity is not automatically illegal.** Companies may be created for holding assets, group structuring, investment activity or future business plans. The risk begins when the entity is used to hide ownership, move funds, create artificial documentation, route transactions through related parties, or give false comfort to banks, investors, auditors or counterparties.

In the REN Limited case in this issue, the purchases recorded to support the factoring arrangement were routed through shell entities. They helped create supporting records around transactions that did not reflect the actual business. On paper, the invoices, purchases and receivables appeared to speak to one another. In substance, the trail was weak.

Forensic work looks beyond incorporation documents. It asks whether the entity has premises, employees, customers, vendors, tax filings, banking behaviour, delivery capacity and a reason to be part of the transaction. The investigation has to test whether there is a real business behind the registration.

Practical test: Before relying on a counterparty, ask: Does this entity conduct a real business, or does it mainly exist to support the paperwork?

PRACTITIONER'S PERSPECTIVE

The Number in the Complaint Is Not the Number You Investigate

A reflection from a recent engagement on why the mandate amount must be tested first

In a recent engagement, I was asked to examine a case where the bank complaint referred to diversion and siphoning of nearly Rs.1,000 crore.

That was the number in the First Information Report (FIR). It was also the number around which everyone first started speaking. But in an investigation, the first number is rarely the final number. It may represent the sanctioned exposure. It may represent the outstanding amount. It may represent the complainant's estimate of loss. It may also be a number stated before any detailed tracing has happened.

If the investigator accepts that figure at face value, the assignment can lose direction very quickly. A team may begin chasing Rs.1,000 crore without first asking a basic question:

What part of this amount can actually be traced, tested and evidenced?

Before deciding the investigation approach, I prefer to do a back-of-envelope calculation. This is not a formal quantification. It is a rough but reasoned estimate to understand the likely area of diversion. In the engagement I mentioned, the number that started near Rs.1,000 crore did not remain there once the records were tested. The amount that appeared more realistic was closer to Rs.50 crore. As the trail was followed further, the figure narrowed even more.



Rs.50 crore or Rs.10 crore is not a small amount. That is not the point. The point is that an investigation designed around Rs.1,000 crore will look very different from an investigation designed around Rs.50 crore or Rs.10 crore.

The documents to prioritise, the sampling approach, the transaction trail and the time required will all change. That is why the mandate amount has to be treated carefully. It should alert the investigator to the seriousness of the matter. It should not automatically decide the scope, direction or conclusion.

There are techniques to arrive at this first reasonable estimate. That discussion deserves a separate note. But before any detailed investigation begins, I would ask four simple questions:

- **What does the figure in the FIR actually represent?**
- **Is it exposure, outstanding amount, loss, diversion or allegation?**
- **Which part of it is supported by records?**
- **What amount can be traced through the money trail?**

The number in the FIR is a starting point. The investigation begins only when that number is tested.

A QUESTION FOR ISSUE 03

When AI supports a verification process, where should professional responsibility begin: with the person using the tool, the person approving the work, or the organisation relying on the result



FORENSIC
FORESIGHT
MONTHLY



Issue 02

July 2026

FINAL FORESIGHT

The most dangerous number in an investigation is often the one everyone stops questioning.

Dr. Durgesh Pandey · FCA, CFE, PhD · DKMS & Associates

Forensic Foresight Monthly

#ForensicAccounting #FraudInvestigation #FinancialCrime

#CA #CFE #AML

WRITE TO US AT FORENSIC4SIGHT@GMAIL.COM. ONE RESPONSE
WILL APPEAR IN THE NEXT ISSUE WITH EDITORIAL COMMENT.