

The Fraud Lens : **Red Flags** and Case Files

Understanding Red Flags Through a Real Case

Dr (CA) Durgesh Pandey
PhD, FCA, LLB, CFE(USA)

DKMS & Associates
Chartered Accountants
Ahmedabad, Gujarat

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TODAY'S CASE FILE

One case. Follow the red flags. Test the evidence.

Stage	What We Will Do	Question
01 - The Setting	Understand the environment	<i>Where could the risk hide?</i>
02 - The Signals	Identify the red flags	<i>What deserves a second look?</i>
03 - The Investigation	Follow and corroborate evidence	<i>What would you do next?</i>
04 - The Reveal	Understand what actually happened	<i>What should internal audit learn?</i>

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The Unclaimed Ledger

State IT Project Management Corporation

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The Setting



Context

- State IT PSU acting as Project Management Consultant for government digital infrastructure projects
- Procurement ecosystem operating for **10+ years**
- Hundreds of contractors and vendors

Structural Exposure

- Vendors deposited **Earnest Money Deposits (EMD)** and **Security Deposits**
- After project completion, some vendors did not actively pursue residual refunds
- Over time, these balances accumulated in the books

Risk Profile

- Historical balances
- No active claimant
- Limited day-to-day scrutiny

Do You See the Redflag Yet?

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What Triggered Suspicion

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- The statutory audit process revealed three anomalies:
 - **deliberate delay** in production of accounting records
 - Bank Reconciliation Statements containing entries unresolved for **3–5 years**
 - aged creditor balances showing **no transaction movement**

Investigative Procedures

- Direct vendor confirmations
- Entries in books checked
- Bank transaction trails analysed



Key Finding

The Liability balance were repaid to the perpetrators and their accomplice **without any corresponding settlement with the original vendors.**

Your are the Auditor – What would you do next?

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How Did the Scheme Work?

Scheme

- Employees identified dormant vendor deposits as **low-risk financial targets**.
- Fraud was executed through a sequence of accounting manipulations:

Key Enabler

- Because these were historical liabilities with no active claimant or follow-up, their settlement attracted little operational attention.

Payments removed from system because of no claimants

funds routed through an **insider-controlled vendor account**

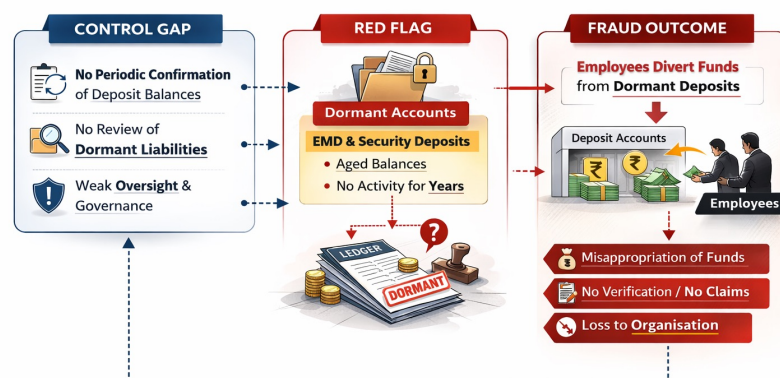
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From Control Gap to Fraud

Control weaknesses allowed dormant liabilities to be **converted into fraudulent income entries**.



A red flag tells us where to look - evidence tells us what happened.

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Red Flags - What Should Have Caught Our Attention

#	Red Flag	Audit Response	Control Gap
1	Repeated delays in document production	Escalate / obtain alternate evidence	Weak governance oversight
2	BRS items unresolved for years	Perform ageing analysis	Ineffective reconciliation controls
3	Aged creditor balances with no movement	Obtain direct confirmation	No periodic liability review
4	Repayment of old EMD / Security Deposits	Validate claimant identity	Weak payment authorisation
5	Vendor KYC not refreshed	Perform independent verification	Outdated master data controls

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ARE WE SEEING EVERYTHING?

https://www.youtube.com/watch?v=IGQmdoK_ZfY

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CA Dr. Durgesh Pandey
+91 98240 16129
durgesh@dkms.co.in

