

QUESTION TWO (25 Marks)

In 20X2 the warehouse of a clothing manufacturing business caught fire and the business lost all its inventory and financial records. The inventory has been insured by the business. The name of the insurer is A to Z insurance company. However, when the business raised claims against the inventory that has been destroyed by fire, the insurer became suspicious and employed a forensic accountant to conduct a fraud investigation on the claims raised by the business.

During fraud investigations the forensic accountant found that the inventory destroyed by fire was recorded at TZS 900,000,000. This amount was three times as large as that of the previous year (20X1) and that on the last renewal date before the fire, the insured had tripled the coverage (from TZS 300,000,000 to TZS 900,000,000) and that the insurance claim was filed less than two weeks after the fire. Investigations further revealed that the clothing industry was suffering a downturn and a number of clothing manufacturers were withdrawing from that business.

It was also found that the only records lost in the fire were those related to the inventory; everything else had been moved to another building a few weeks earlier. The documents submitted in support of the inventory valuation proved to have been created by the owner's brother allegedly for the owner's wife in an angry divorce action. The owner had, in fact, paid his brother TZS 50,000,000 for the valuation.

In a number of cases insurance companies engage forensic accountants to investigate suspected claims. Forensic accountants are required to follow the following stages upon appointment:

1. Accepting the investigation (if they have necessary skills and experience to accept the work).
2. Planning the investigation
3. Evidence Gathering sufficient to prove to the court (analytical procedures, use of CAATs etc.)
4. Reporting (support or refute the allegation).
5. Court Proceedings (do not testify that fraud has occurred but only present evidence).

Required

Explain in detail the above five broad stages of forensic accounting.