

The Role of Forensic Accounting in India

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Abstract-In the emerging trends of auditing and accounting, forensic accounting is a modern science or I.T(information technological) based tool for discovering of financial crime and frauds, truth and justice of financial statements, and providing decisive information to various stakeholder about the financial facts found by using forensic accounting techniques and tools related to financial crime and frauds. It is a new terminology, which is developed in recent years at high rate of growth and widely accepted by corporate, banking industry; insurance companies, finance companies and even police have increased taking help of forensic accountants. Corporate, banking industry; insurance companies, and finance companies are using forensic accounting at wide scale for the purpose of risk management and by using it in assessment of financial statement of third party before providing finance. There was an increase in white collar crime and also law enforcement agencies are not competent to discovering financial frauds easy. In the discovering of financial fraud and crime, forensic accountant and auditors (PROFESSIONALS) have taken a milestone step in this direction and contributed a lot by using forensic accounting and auditing technology and tools. Organizations like India forensic department, Institute of Chartered Accountants of India (ICAI) and Association of Chartered Certified Accountants (ACCA) offer courses on forensic auditing in India

I. INTRODUCTION

Forensic accounting is increasingly gaining recognition in both accounting and legal sectors. It combines skills from accounting, auditing, and investigation. Forensic accountants go beyond merely reviewing the numbers in financial statements. They scrutinize the financial data and identify relevant and appropriate information to present in court. They decode complex financial issues and assist in revealing the business realities behind the figures. Nowadays, forensic accountants are hired across various industries and fields; they analyze a company's finances to

uncover any deceptive presentation methods. Forensic accounting is swiftly evolving and ascending in prominence globally. Similar to how the identification of fraud through fingerprints and DNA marked significant progress in the 19th and 20th centuries Forensic accounting in the 21st century will remain consistent. It operates under the principle that 'things aren't always as they seem.' While forensic accounting and fraud auditing are often confused, they are not the same; forensic accounting necessitates a substantial understanding of both legal concepts and accounting terminology. Unlike auditors, forensic accountants do not confine their examinations based on material significance, sampling, or the integrity of management, making their work considerably more time-consuming. Forensic accounting has proven valuable in uncovering significant insights that assist in solving cases. A crucial aspect of forensic accounting involves behavioral theories, as some fraudulent activities cannot be identified solely through data analysis methods. Fraud auditing resembles an iceberg, with numerous behavioral and hidden elements of fraud lying beneath the surface. These underlying aspects can be crucial, and this is where forensic accounting becomes significantly involved.

The word forensic accounting can be divided into two parts –

1. Forensic means relating to, or used in courts of law or public debate or argument.
2. Accounting means language that provides information about the financial position of an organization. According to American Institute of Certified Public Accountants (AICPA): “Forensic accounting is the application of accounting principles, theories and disciplines to facts or hypothesis at issues in a legal dispute and encompasses every branch of accounting knowledge.”

Forensic accounting is used for fraud examination and fraud examination covers fraud allegations from inception to disposition including obtaining evidence, interviewing, writing reports, testifying, etc. In the present scenario the concentration is on the forensic accounting as the corporate industries and the society deals with financial imbalance; rise in white collar crime and growing occurrences in the occupational fraud. Forensic accounting main role is in providing investigative functions and also litigation support services in the need to understand the depth and width of financial scams in the business world. Frauds in the different sectors like bank, insurance, stock market, cyber world etc., need a sharp scientific tool for investigation and settlement of disputes. The term “fraud” involves using deception to dishonestly make a personal gain for oneself and creates a loss for another. Although the legal definition of grounds may vary from country to country most are based around these general themes

II. OBJECTIVES OF STUDY

- To determine the types of frauds committed in India.
- To identify the major scams in India.
- To understand the techniques used in Forensic accounting

- To understand the agencies dealing with frauds in India

III. STATEMENT OF PROBLEM

There has been a greater increase in financial crime, mismanagement and misappropriation of public funds in today's world. Many arrests have been made; however, the number of prosecutions is not viewed the same way as such. This could be associated with lack of usage of forensic accounting skills in the investigation process or is it that the awareness of the use and application of forensic accounting in investigation process is limited. It is because of this that this research intends to study the place of forensic accounting in fraud detection and prevention and the level of awareness created on the use of forensic accounting in fraud detection. Stringent laws and policies are being violated by top entities for their own personal gain by ignoring the effects of discovery of the same.

IV. SOURCES OF DATA

Secondary data has been mainly used for this research. The stock prices and financials of the companies have been obtained from a variety of web sources.

V. LIMITATIONS

All the secondary data have been taken from web sources and thus there isn't complete reliability. Few of the company's came into complete shutdown after they have been investigated by forensic accountants and thus the impact posts the fraud detection cannot be analyzed properly.

VI. CAUSES FOR THE GROWTH OF FORENSIC ACCOUNTING IN INDIA

The need for forensic accounting was felt because of the failure of internal and external audits in the organization to ascertain errors in the managerial system. The important reasons for the growth of forensic accounting:

- India was not having enough forensic accountants and lack of awareness and understanding of the profession.
- Because internal and external audits of the firm failed to detect numerous financial irregularities that are harmful to the interest stakeholders, conventional accounting was unable to do so.
- Culprits are sophisticated technologies in committing frauds hence to replace old investigation methodology in right way to new technology on the IT platform.
- Rotation and appointment of the audit committees by the corporation in India through cooperation and lobbying

- Auditors' certificates are scrutinized in the situations where the reports are unclear, doubtful and qualified.

Meaning of Fraud:

Fraud is an intentional act to deceive stakeholders by presenting false information or omitting crucial details, leading to a material misstatement in financial statements. It can involve both fraudulent financial reporting, such as altering records or forging documents, and the misappropriation of assets, which is the theft of company resources. Auditors are responsible for obtaining reasonable assurance that financial statements are free from these material misstatements, whether from fraud or error.

Types of Fraud:

Frauds are usually not exhaustive as fraudsters use new methods each time. As technology is advancing fraudsters are able to find ways to use it and perpetrate a fraud in a variety of ways. Corporate fraud can be classified as:

1. Corporate frauds:

It is an unlawful activity undertaken by an individual or a company to give an advantage to the perpetrating company.

2. Securities Frauds:

Shares frauds, commonly referred to as stock frauds, are dishonest stock market practices that persuade investors to buy or sell securities based on misleading information and violating securities regulations. One of the main issues is that novice investors who are unable to assess risk properly and cannot afford to lose money are frequently offered unsafe investment options. In a similar vein, the insurance companies settle claims proclaimed by the policyholders likewise they turn to forensic accountants for assistance. Claims linked to consequential loss policies, loss of property as well as various hazards, fidelity insurance, and also includes various forms of insurance claims are handled by forensic accountants.

3. Insurance Frauds:

There are innumerable frauds that are prevalent in the insurance sectors. Examples: health insurance, claims frauds, claims being incorrect, insurance policy speculations, frauds in the application etc.

4. Bank frauds:

In order to get money, securities, or other assets owned otherwise held by a bank or financial institution, or to collect deposits from investors or fluent depositors by falsely masquerading by the banks or any other financial institution, it is necessary to utilize potentially illegal techniques. Bank scams sometimes constitute criminal offences. A significant percentage of bank scams

occur. In all of the key banks operating areas, it is rising with time. In today's world, bank frauds constitute a significant unlawful enterprise.

5. Cyber frauds:

Any crime using a computer and broadband telecommunications networks is considered as a cybercrime. Either the computer was the intended victim of the crime or it was employed in its commission. Cybercrime is the illegal usage of the internet. The telecommunications networks are objected to criminal offences that are initially committed against people with a criminal purpose to intentionally destroy the reputation and also causes mental injury. The welfare and financial credibility of a nation may be threatened by such crimes.

6. Identity theft:

The fastest- growing type of fraud in the world is identity theft. It occurs when the fraudster uses your credit card or bank account information to buy items and charge them.

VII. THE TECHNIQUES OF FORENSIC ACCOUNTING

Besides the various conventional techniques of auditing, forensic auditor used some special techniques which are as follows:

Interview Technique:

This is the most common technique which is used in any enquiry. Forensic accounting investigators generally use this technique which is designed to obtain an admission of guilt by the person involved in fraud scheme. These results form an integral part to be used in court and adjudication process.

Benford's Law:

It is a statistical tool to determine whether variable under study is a case of unintentional errors or any pattern signifying suspicious movement. Benford suggested the probabilities for the occurrence of each digit at various places in the number whereby if the data is manipulated; the said digit would not appear at the same place. Benford's Law does not detect the frauds but only indicates the probable area of fraud.

Theory of Relative Size Factor (RSF):

RSF technique is used to identify the number in the data but in some relation with the second highest data in the number. In this method the records that fall outside the prescribed range are taken into the books of account and it calls for further investigation. It highlights all unusual fluctuations, which may be routed from fraud to genuine errors.

Computer Assisted Auditing Tools (CAATs):

CAATs are computer programs developed for the auditors. Forensic accounting software comes into two varieties- data extraction software and financial analysis software. Data extraction software is designed to conduct spreadsheet analysis on all the company's data base records, such as billing, accounts receivable, payroll, purchasing etc which helps in detecting anomalies. Financial analysis software analyses the financial statements and benchmarks the ratios between different accounts such as billing by revenues or supply costs as a percentage of revenue.

Data Mining Techniques:

It is a set of computer-assisted techniques designed to automatically mine large volumes of data for new, hidden or unexpected information or patterns. Data mining techniques are categorized in three ways: Discovery, Predictive modeling and Deviation and Link analysis. It discovers the usual knowledge or patterns in data, without a predefined idea or hypothesis about what the pattern may be, i.e., without any prior knowledge of fraud. In predictive modeling, patterns discovered from the database are used to predict the outcome and to guess data for new value items. In Deviation analysis the norm is found first, and then those items are detected that deviate from the usual within a given threshold (to find anomalies by extracted patterns). Link discovery has emerged recently for detecting a suspicious pattern. It mostly uses deterministic graphical techniques, Bayesian probabilistic casual networks. This method involves "pattern matching" algorithm to „extract“ any rare or suspicious cases.

Ratio Analysis:

Data analysis ratios are used for detecting fraud. Numerous ratios are used by various analysts including financial ratios, data analysis ratios and utility ratios. However, the use of data analysis ratios is prominently used by forensic accountant is identifying possible symptoms of fraud. Ratio helps in estimating costs, identifying deviations etc.

VIII. MAJOR SCAMS IN INDIA

1. Unit Trust of India (2001): Rs.1300 crores
2. Stamp paper scam (2005): Rs 600 Billion counterfeiting of the stamp papers, stocks from brokers sentenced for 30 years of imprisonment.
3. Sahara India Pariwar Investor fraud (2009): Scam by Subrata Roy who had made a fraud of Rs 2,000crores.
4. Satyam computers (2009): Rs 10,000crores falsified revenues, margins and cash balance, operating profit and also boosted crores to 649 crores. B Ramalinga Raju and family, Board of director, CFO, Top Level mismanagement and Auditors were a part of the scam.
5. 2G Spectrum scam (2010): Rs1.76lakh crores of scam that included top notched political personalities of the state. A Raja, Nira Radia, and MK Kanimozhi also many Telecoms Company were involved on the scam.

6. Common-wealth Games (2019): Rs 70,000 crores of scam that involved the organizing committee of providing funds to non-existing parties. Suresh kalmadi and other organizing committee members, two private companies and government officials were involved in the scam.
7. Adarsh Housing Society Scam (2010): The market price of a six-stored building is 6 to 8 crores but it was given away with for a price of 60 to 80 lakhs which violated the property rules and environment rules.
8. Uttar Pradesh NRHM (2010): Rs10,000 crores scam which involved the National Rural Health Mission as it was apart the central government program in the rural areas. B S Kushwalha, Top politicians and bureaucrats.
9. Coal Block Allocation/ Coalgate (2012): Coal blocks allocated, not auctioned, leading to estimated losses as per the Controller and Auditor General of India was Rs1, 86 lakh crores. The ex- coal minister, many electric boards and private companies.
10. Karnataka Wakf Board Land (2012): Wakf board members, 2 lakh crores
11. Augusta Westland VVIP Chopper (2013): A former IAF chief has taken brides worth Rs 36 billion of Rs 3600 crores from Augusta Westland Company.
12. Saradha Chit Fund (2013): Nalini Chidambaram, Rs10,000crores.
13. Kingfisher Airlines (2016): Misled banks and misused money, fraud and money laundering of Rs 9000 crores. Vijay Mallya, politicians, government officials and several middlemen were involved in the scam.
14. PNB Frauds (2018): Agencies probing India's biggest banking scam of fake bank guarantees/ Letters of understanding (LOU) of Rs13500 crores. Nirav Modi and his maternal uncle Mehul Choksu, politicians, government officials and several middlemen were a part of the scam.

IX. AGENCIES DEALING WITH FRAUDS IN INDIA

There various agencies that deals with the frauds in India such as:

1. Company law board (CLB) By Publication No. 364 dated May 31, 1991, the Central government created company law board in obedience to Section 10(E) of Company Act of 1956. The Central Government or the High Court used to have equitable jurisdiction, which is now exercised by the CLB, a quasi-judicial body. The board has the ability to control its own behavior. The procedure for submitting applications and petitions was outlined by the Board.
2. Income Tax department (IT): The IT department is a government agency in charge of the monitoring the income tax collection by the government of India. It functions under the Department of Revenue of the Ministry of Finance.
3. Reserve Bank of India (RBI): RBI is an India's Central Banking Institution, which controls the monetary policy of the Indian rupee. It commenced its operations on 1st April 1935 in accordance with the Reserve Bank of India Act, 1934. The central bank of every nation performs a variety of tasks, including handling foreign exchange, directing monetary policy,

producing currency, acting as a bank for the government, and serving as a banker to established commercial banks.

4. Securities and Exchange Board of India (SEBI): The SEBI is the regulator for securities market in India. It was established in 1988 and given statutory powers on 30st January 1992. SBI is primary responsibility to safeguard the investors while also fostering the growth and regulation of the securities.
5. Serious fraud Investigation Office (SFIO): SFIO is a multidisciplinary organization. They are responsible for identifying white-collar crimes and frauds and either prosecuting them themselves or recommending that they be prosecuted. Regional offices for SFIO have also been located in West Bengal, Maharashtra, and Andhra Pradesh.
6. Interpol: With 192 member nations, Interpol is the biggest international police organization in the world. The purpose of Interpol is to facilitate international cooperation among police forces in the interest of global security. Our technologically advanced technical and operational support infrastructure enables us to handle the escalating difficulties of modern-day crime control.

X. THE KEY CHALLENGES IN IMPLEMENTING FORENSIC ACCOUNTING IN INDIA

1. Premium service: Compared to investigative auditing, this service is quite expensive.
2. Lack of separation of duties: When duties are not separated, it unintentionally permits personnel to engage in fraud.
3. Political Fancy and a Complex Judicial System: Issues with gathering evidence against politicians and bureaucrats for judicial admission
4. Compliance with Ethics Program: Employees are subtly encouraged to disregard or transgress the organization's message of integrity and ethical ideals by top management's conduct and pressure to reach objectives.
5. Technologies-related fraud: Fraudsters and criminals employ continually evolving technology.
6. Corporate Image: It will be very expensive if any cases involving financial fraud or defalcation are taken to court and need expert testimony.
7. Multijurisdictional Fraudster: Indian law makes it challenging for forensic accountants to prosecute fraudsters from other nations.

XI. CONCLUSION

Through our study, we see that forensic accounts on fraud detection have played a great role in our economy as an upsurge in financial accounting fraud is experienced in current economic scenario. Through data mining techniques and computer tools of forensic accounting, failure of internal auditing system of the organization has been dismissed. However, forensic accounting

may not be solution for all the problems as dealing with large data volumes and complexities of financial are challenging.

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