

A Study of the Financial Frauds in Forensic Accounting and their Prevention

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ABSTRACT

In the recent times, there has been a rapid increase of financial frauds in the field of accounting. This has led towards the formation of a new profession called forensic accounting. Forensic accounting is the study of utilizing accounting, auditing and investigative skills to conduct an examination into the finance of an individual or business. Forensic accounting is frequently used in fraud and embezzlement case to explain the nature of a financial fraud. Financial fraud is an intentional act of deception involving financial transactions for purpose of personal benefit. Forensic accounting is also used to detect various kinds of financial frauds and crimes that occur in an organisation. The study is conducted to find an appropriate solution in order to prevent or minimize the financial frauds which form a part of forensic accounting and it also throws light on various kind of financial frauds which are currently present in all the organisations. This study is open for further research.

Keywords: Forensic Accounting, Financial Frauds and prevention.

INTRODUCTION

The system of financial accounting and auditing is often accused because of the increasing frauds. This intern has led to the need for deeper investigation of Financial Frauds. This investigation is done through a new profession called Forensic Accounting. Forensic

Accounting which is also called investigative accounting is a combination of criminal science and accounting. It is a unique form of accounting focusing on resolving financial issues in any organization. It is also a speciality practise area of accounting which explains the engagement of professionals in real or anticipated dispute or litigation. Forensic Accountants are often engaged to quantify damages in occurrences related to fraud and embezzlement and on matters involving business disputes, business interruption etc.,

A wrongful or criminal ruse intended to result in financial or personal gain is a financial fraud. Financial fraud occurs when someone deprives you of your money, capital or harms your financial health through misleading or other illegal practices and this can be done through a verity of methods. It is important to report these kind of frauds to the appropriate agencies and law enforcements as soon as possible. Financial fraud may involve bank fraud, identify theft, scams, money laundering and counterfeiting.

The varies types of Financial Frauds in Forensic Accounting are skimming, payoffs, kickbacks, identify thefts, investment fraud and mass marketing fraud. The prevention of these frauds is very necessary otherwise it may lead to many financial scams. There has been various scams which distressed the whole economy in the recent years. The various frauds are The RBI scam, The fraud discovered at Punjab National Bank, The IMA scam and many more.

FORENSIC ACCOUNTING IN INDIA

In the early 1930s, Frank Wilson who was a CPA was assigned to investigate the illegal transactions and the violent crimes of an infamous criminal, Al Capone. Wilson's diligent analysis of financial records of Capone indicated him for Federal Income Tax Evasion. Capone owned the government \$215080.48 from illegal gambling profits and guilty of tax evasion for which he was sentenced 10years in Federal Prison. This case was the base for the birth of Forensic Accounting. However Maurice E. Peloubet used the term Forensic Accountant in 1946 in his essay "Forensic Accounting: Its Place in Today's economy".

In the emerging economic scenario, Forensic accounting is an essential tool for exposure of financial crime and to find conclusive information regarding the facts found related to financial fraud. Forensic Accounting is a specific area of accounting which investigates fraud and analyse financial information which can be

utilized in legal trials. Forensic Accounting is more than accounting, it is more than detective work. It is a multifaceted activity that requires the knowledge of accounting and auditing, it also requires investigative skills to find out and prevent financial frauds. It is helpful in analytical accounting and also for legal action.

OBJECTIVE

1. To study various kinds of financial frauds in organisation.
2. To analyse the measures to prevent or minimize the financial frauds occurring in the organisation.

STATEMENT OF PROBLEM

During the recent years there has been a hasty growth in the financial fraud, corporate scandals and failures. These events have led to great recession and significantly impacted the efficient functioning of the national market. This has also contributed to the loss of confidence by the public, who are the users of the financial information. The reason for the fraud in an organisation is usually the top management, as they can access data and change the information according to their convenience.

RESEARCH METHODOLOGY

The data used was secondary data that is from the published research papers, journals and websites. There was a group discussion held among the first and second year post graduation students to obtain their view on this topic.

LITERATURE REVIEW

1. Enofe, A.O , 2013, The Impact of Forensic Accounting On Fraud Detection, Benin City, Edo State, Nigeria.

Objective: The manner in which Forensic Accounting affect fraud detection.

Findings: The Forensic Accounting has a strong relationship with fraud detection for public confidence and eradication of crime and corruption in Nigeria.

Conclusion: Forensic Accounting will provide litigation support service with appropriate provision of professional services in the law courts and will constitute good corporate governance.

2. Chakrabarti .M, September 2014, Problems and prospects of Forensic Accounting Profession in India, Malda West Bengal.

Objective: To highlight the problems and prospects of Forensic Accounting in India in the context of growing of multiple frauds.

Findings: There should be a new legislation enacted. Forensic Accounting may be integrated into the academic curriculum. Recruitment of Forensic Accounting should be made mandatory.

Conclusion: Forensic Accounting skills are becoming increasingly relied upon with a corporate reporting system that emphasizes its accountability and responsibility to stakeholders.

3. Okaye .E .I , March 2013, Forensic Accounting: A tool for fraud detection and prevention in the public sector , Awka.

Objective: To examine the possibility of reducing the occurrence of fraud cases using Forensic Accounting.

Findings: The uses of Forensic Accounting do significantly reduces the occurrence of fraud cases in the public sector.

Conclusion: the Forensic Accounting can help in detecting and preventing fraud in the public sector.

4. Bassey .B .E. August 2018, Effect of Forensic Accounting on the management of fraud in Microfinance institutions in Cross River State, Cross River State Nigeria. Objective: To effectively prevent and manage fraud in microfinance banks with the application of Forensic Accounting service.

Findings: The implication of Forensic Accounting and litigation support reduces fraud in the selected microfinance banks.

Conclusion: Forensic Accounting plays a significant roles in the prevention of crimes and corruption in the selected microfinance banks.

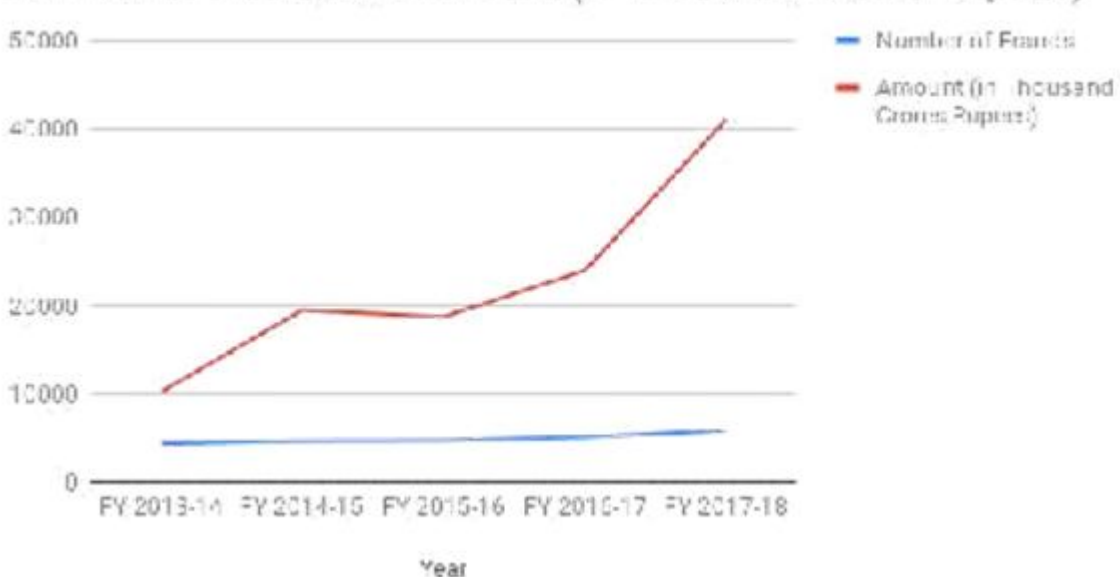
FINANCIAL FRAUDS AND SCAMS

Fraud is a crime, which is committed knowingly and is also a civil violation. Financial fraud is an intentional act of deception involving financial transaction for the purpose of personal gain. Financial frauds can be of various types and can be committed by various people and by different people. There were a lot of scams which occurred in the recent years which have drastically distressed the economy of India. These scams are increasing because there is no proper reprimand for these kinds of issues. The common types of financial frauds are financial theft, securities fraud, bankruptcy, money laundering and economic damages.

THE SCAMS OF THE RECENT YEARS

SL.NO	NAME OF THE SCAM	AMOUNT INVOLVED	PARTIES INVOLVED
1.	Rotomac Bank Fraud	▪ .3,695 crores	Vikram Kothari.
2.	Punjab National Bank Scam	▪ .11,600 Crores	Nirav Modi and Mehul Choksi.
3.	Noida Ponzi Scam	▪ .3,700 crores	Sunil Mittal.
4.	Vanishing Companies Scam	▪ .800 crores	650 Companies.
5.	Securities Scam	▪ .1,250 crores	Ketan Parekh.
6.	Satyam Scam	▪ .15,000 crores	Ramalinga Raju.
7.	Golden Harvest India Scam	▪ .2,000 crores	Golden Harvest India Ltd(GHIL).
8.	NSEL Scam	▪ .5,000 crores	Jignesh Shah.
9.	Bitcoin Scam	▪ .2,000 crores	Amit Bharadwaj.

Number of Frauds and Amount (in Thousand Crores Rupees)



Source: Centre of Financial Accountability

From the above graph, it is evident that the amount involved in the fraud is increasing at a higher pace than the number of frauds. However the frauds are also increasing gradually, which is not a very good sign for the economy. In FY 2013-14, the amount involved was around ▪ 10,000 crores but the amount involved in fraud in FY 2017-18 raised to ▪ 40000 crores and more.

To analyse the measures to prevent the financial frauds the following case was studied in detail:

THE PUNJAB NATIONAL BANK SCAM

Nirav Modi, a fugitive businessman, wanted by Interpol for criminal conspiracy, fraud, cheating, corruption, money laundering, fraud, embezzlement and breach of contract. In February 2018, Punjab National Bank filed a complaint of ▪ .280 crores against Modi. He got the loan by fraudulently obtaining the letter of

undertaking for making payments to overseas suppliers. It was found through SWIFT (Society of Worldwide Interbank Financial

Telecommunication) trail that on junior level branch official unauthorised and fraudulently issued letter of undertaking on behalf of some companies belonging to Modi. None of these transactions were routed through CBS(Core Banking System), this resulted in avoiding early detection of fraud. While ₹ .280 crore is the fraud that has been alleged, but the potential loss was reported up to ₹ .11,000 crores. The value of the domestic business of Modi was estimated to be ₹ .6500 crores and all his assets were seized whose value was estimated to be ₹ .900 crore.

FINDINGS

- i. The management was careless and was not aware of the happenings in the Bank.
- ii. There was no proper communication and link between the SWIFT and CBS which made the situation more difficult.
- iii. The amount involved in any kind fraud cannot be recovered fully, but in few cases the nominal amount is also not recovered.
- iv. Frauds however small in the beginning will turn out to be worse in the long run and will also have a negative impact on the organisation as well as on the economy.
- v. The auditors of the company should have been more careful while auditing.
- vi. The appointment of Forensic Accounting professional would not have made the case worse.
- vii. Forensic accounting helps in the prevention of frauds at the beginning stage itself.

SUGGESTIONS

Based on the findings following are suggested:

- i. The frauds can be minimised by holding proper control over the management activities.
- ii. By monitoring the transactions regularly the occurrence of fraud can be minimized.
- iii. Forensic accounting professionals help in detecting and reducing the frauds at an early stage.
- iv. The employees in the organisation should be more responsible in order to avoid the happening of fraud.
- v. The organisation should provide true and fair information to the auditors be it the accounting auditors or forensic accountants.
- vi. Implementation of tight internal controls on accounting functions so as to detect fraud and take preventive actions.

CONCLUSION

According to the study, forensic accounting will surely help in preventing the fraud. It should be used as a preventive tool rather than an investigative tool. The government should make forensic audit mandatory. Forensic accounting professionals have knowledge about all the fields which make them experts in the detecting frauds. However forensic accounting is not very popular in India, it is necessary to make forensic accounting audit compulsory for all the organisations. It is concluded that forensic accounting plays a significant role in detecting and preventing frauds.

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