

Study on Forensic Accounting Practices and Fraud Management in India

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ABSTRACT

Forensic accounting has become a hot topic of discussion in the recent years. Banks, insurance companies, financial institutions and investigation authorities has increased taking the help of forensic accountants to a great extent. The study examines the importance and impact of forensic accounting practices on fraud management in Indian business. White color crimes in Indian corporate has witnessed a substantial increase in numbers day by day. It has an adverse impact on entrepreneurial spirit India and has the most required in the wake of growing frauds. The main aim of the study is to determine working of forensic accounting tools and techniques in fraud detection and prevention. To achieve this objectives the data was collected from various published sources and discussions were made in a systematic way to identify how forensic accounting practices manages frauds.

Keywords: Forensic, Fraud, Forensic Accounting, Corporate Governance.

INTRODUCTION

In the emerging economic scenario, forensic accounting is an investigative accounting for uncovering or enquiry of financial crime, to identify transactions which are not authentic and helps in providing significant information regarding the facts found related to financial crime. Forensic accounting is newly discovered in India as companies have become a conscious that a service of a forensic accountant is needed as fraud cases have considerably increased in number. The financial crime increased day by day in the corporate world and the difficulties faced by law enforcement agencies in uncovering fraud have also contributed to the growth of the profession.

It is a broad extensive fact that the corporate illegal act has been inflecting far greater destruction on society. The main aim of the forensic accounting is to avoid fraud and theft, restore the downgraded public confidence, formulate and establish a comprehensive corporate governance policy, and to create a positive work environment.

Forensic accounting is rapidly growing area of accounting with detection and prevention of financial frauds. Splitting down on fraud is critical and difficult for a country the needs investment. The study revealed that nearly 52 percent of corporate frauds have taken place in realistic and infrastructure in the two years and the financial services sectors recording 34 percent frauds. The business environment has become increasingly complex due to the rising number of business related investigations. The transparency and accountability is important and the need for forensic accounting is greater forever.

The field is still in its emerging stage in India, which makes it a desire a career option for many charter accountants.

LITERATURE

The need for forensic accounting investigation is increased and received many scholars attention. Efosa and Kingsley (2016) “examine the impact of forensic accounting and fraud management in Nigeria.” The study analyzed 29 quoted companies enlisted in the Nigerian stock exchange (NSE) The finding of the study indicates that forensic accounting has a significant effect on reducing financial frauds in the corporate organizations.

The study by popoola et al. (2016) examines “whether forensic accountants knowledge, skill, and competent are basically required for fraud detection in Nigeria”. The study use survey research designs and distributed among two groups of respondents comprises of financial accountants and auditors in the office of auditor general of federation and accountant general of the federation in Nigeria respectively. The findings of the study revealed that forensic accountants have a high level of knowledge, skill, and experience in fraud

prevention and detection. The study also highlights the impact and influence of forensic accounting service towards fraud prevention and detection in both public and private organization.

The study by Nwaiwu and Aaron (2018) have also documented empirical evidence about “The impact of forensic accounting investigation.” The authors found that the forensic accounting is the best mechanism for fraud detection and prevention in an organization. Also, the findings of the study shows that the forensic accounting service improves the company overall performance.

RESEARCH GAP

As forensic accounting is new emerging concept in India all the previous studies were made by concentrating on other countries but in India very less research was found in the context of forensic accounting, The practices of fraud management has increased more and more in India.

OBJECTIVES OF THE STUDY

The following are the objectives of the above study

1. The study determines the working of forensic accounting tools and techniques in the fraud detection and prevention.
2. To examine the importance and impact of forensic accounting practices on fraud management in Indian business.
3. To understand the role of forensic accounting in unethical problems in accounting in India.

RESEARCH METHODOLOGY

The objective of the present research is to answer the research question to identify the working forensic accounting tools and techniques in the fraud detection and prevention. For the purpose of the above study the data was collected from secondary sources based on the analysis and observations of secondary sources data. The suggestions were drawn for major findings.

OPERATIONAL DEFINITIONS

1. Forensic is an open court or public, it describes something as a forensic you usually mean that it has to do with findings evidence to solve a crime or it is a legal system.
2. Fraud takes place when a person deliberately practices deception in order to gain something unlawfully or unfairly, it is an act of fraud can be classified as civil or criminal wrong.
3. Forensic accounting is a form of investigation accounting which examines the financial records in order to find evidence for a lawsuit or criminal prosecution.
4. Corporate governance is the framework of rules and practices by which board of directors ensure accountability, fairness, and transparency in a company's relationship with all its stakeholders.

Limitations: The present study is only based on secondary data. Secondary data provides more of qualitative information. The use of primary data may help in understanding better about forensic accounting usefulness in fraud management.

DISCUSSIONS AND FINDINGS

I. TYPES OF FRAUDS

1. Bank Frauds: Bank frauds is a criminal act that occurs when person uses unethical means to receive money or asset from a bank or other financial institutions.
2. Corporate frauds: The corporate frauds shows the activities undertaken by an individual or company that are done in dishonorable or criminal law an advantage to individual or company
3. Cyber frauds: Cybercrime refers to any crime that includes a computer and a system or when credit and financial information is stolen online by a hacker and is helpful for in a criminal manner.
4. Security frauds: Securities fraud, is a stock and investment fraud, it is practice in stock market that involve investors to make purchase or sale decisions on the basis of wrong information

5. Identity theft: It refers to all types of crimes in which individuals wrongfully obtained and uses another individual's personal data in some or the other way that involves frauds.
6. Insurance fraud: These are non-identical frauds in insurance sectors. Ex- a health insurance claims frauds, false claims, insurance speculations application frauds etc.

Forensic accounting helps in findings, forensic accountant number is quite shortage and the number of frauds are increasing day by day and forensic accountant must process skill and qualification, especially as per the requirement of mentioned and extraordinary qualities different tools, techniques and investigation is one part of forensic accounting duty. The two important functions of forensic accountant is investigating and litigation.

II. ROLE OF FORENSIC ACCOUNTING

1. Investigating financial account for illegal activity such as white collar crime.
2. Interprets findings of an investigation to determine if there is any problems.
3. Examine financial data concerning alleged criminal activity such as fraud, money laundering, illegal transaction and embezzlements.
4. These financial records may involve bank accounts, records or financial transactions.
5. The knowledge of the law and accounting to examine whether there was fraudulent activity.
6. Working with law enforcement, private investigator or lawyers while conducting investigations
7. Testifies in court about the investigation.
8. Regulates the courts, solicitors and clients understand the complex financial and accounting issues and presenting that information in a manner that all users can understand.

III. Working of forensic accountant and tools and techniques used

Forensic accountant is one who use their skills and knowledge for litigations and cases that requires investigation by forensic accountant uncover the information regarding the financial irregularities, fraudulent activity and commercial negligence. Forensic accounts is examining the accounts and financial data. The analyses data from financial records, systems and budgets. Forensic accounting helps in preventing possible fraud cases by balancing the accounting books.

A. Qualification of forensic accountant

Forensic accountant generally need a minimum of a bachelor's degree in accounting and business. Some employers additionally require a certificate or a master's degree in public accounting and advanced course work in fraud or criminal investigation, especially as it related to financial record keeping. A forensic accountant should be certified under (SFIO) Serious Fraud Investigation Office, Which was adopted by government of India on 2nd July 2003. There are 72 amazing forensic accounting firms in India that are functioning.

B. Qualities of a Forensic Accountant

Analytical: Forensic accountants need to be analytical. As they review financial reports and source documents, they need to analyze the validity of each transaction and determine if the company recorded the transaction fairly. In some cases, the documentation will not support the numbers on the reports. The forensic accountant needs to analyze where the numbers on the reports came from and whether the company accurately reported those numbers.

Detail Oriented: A forensic accountant needs to be detail oriented. Reviewing financial reports and the supporting documents requires looking at large quantities of numbers. At each step, the numbers from the supporting documents need to match the numbers on the financial reports. The forensic accountant needs to compare these amounts and note any inconsistencies.

Persistence: Persistence plays an important role in the life of the forensic accountant. In some cases, the financial reports lack the supporting documentation. The forensic accountant needs to continue requesting that documentation and finding the source of the data reported.

Inquisitiveness: Gaining the information necessary to investigate financial reports comes from asking questions. Inquisitive forensic accountants get answers. As the forensic accountant reviews the numbers on the financial reports, he needs to ask the staff questions regarding each number reported.

C. Area of application in forensic accountant

A forensic accountant is one who is not only trained in accountancy but also in criminology and investigation in forensic accountant. The important areas include

Corporate investigation: The forensic accounting assist in addressing claims for wrongful dismissals to internal situation involving claims of management or employee unethical ways.

Litigation support: It includes assisting guidance in investigating and the integrity and the amount relating to such areas as loss of profit, construction claims, product liability, shareholders disputes etc.

Criminal matters: Efforts to prevent frauds have constantly used accountants and auditors in order to solve it. The reports of financial transactions related to allegations against individuals such as scams, frauds, vendor frauds, customer frauds, investment scams. In criminal aspects of accountants and auditors as expert witness are high important in court cases.

Insurance claims: The process and assessment of insurance claims behalf of the insurer and insured may need of help of forensic accountants to access integrity and quantum of the firm.

Shareholders and partnership Disputes: Forensic accountant will analyze the financial statement of previous years and starts investigation. This would enable quantifying the dispute issue. The compensation will benefit to the shareholders by determining the financial statement of the organization in professional manner, a forensic accountant can solve such issue.

Business investigation: Forensic accountant can solve investigation by way of frauds tracing, identification and recovery, they gather and due diligence reviews.

Employee fraud investigation: A forensic accountant determines the existence, extend the fraud and identify the perpetrator and interview personally.

Business economic losses: The economic losses accept such as, contract disputes, construction claims and losses stemming from a breach of non-competence agreement.

D. Tools and techniques of fraud detection and prevention

- **Geo-location:** Geo-location is important tool at your destruction for fraud detection. When a client accept a new order, geolocation technology spot the user based on the IP address associated with the order.
- **Device fingerprinting:** It is a forensic method used to recognize every purchase on the device used. The tools collect special data based on the hardware or software installed on a device that visits your site.
- **Address verification:** Address Verification Service (AVS) is similar to geolocation, while geolocation tracks IP address, AVS based fraud prevention tools examines the building information provided by the buyer.
- **Blacklists and Whitelists:** A “blacklist” allows you to block traffic from specific user, and from any user with a certain trait. For instance- you can block all traffic from specific countries or regions known for high volumes of online frauds. “Whitelist” will block all traffic accepts for those outlined in the parameters of the list.
- **Machine learning:** It is important as a backbone for your fraud prevention tools with machine learning, real time insights are fed up into models based on common fraud.

IV. Importance and impact of forensic accounting practices

Forensic accounting is important for investigating current financial procedure and standards which identifies of more powerful and systematic solutions. The entire procedure is one to recognize problems and areas of development for the wellbeing of the business. The importance's are;

- Reduce losses: The main importance of powerful forensic accounting is a method in which it assist to reduce and prevent unnecessary loss.
- Enhanced efficiency: Forensic accounting play a major role in determining and inspecting current financial processes and standard which can help in the recognition of more efficient solutions.
- Lowers the misuse of risk: It is useful for safeguarding the optimal interest of business before dishonest activity can take place.
- Delay of valid difficulties: It helps to avoid such framework from ever happened by both preventing fraudulent activity.
- Raise brands position and power: A brand that quit itself wide open to mislead and fraud is a brand that is very critical to respect trust and work with.

V. Impact of forensic accounting practices in fraud management in India

The growing level of fraud in India and the word at large makes the need for use of forensic accounting in fraud investigation specially in India which has led to mismanagement and inefficiency in corporate. There has been offensive increase in fraud of the corporate world and the government agencies in India. Thus this study is aimed to investigate how forensic accounting has assist their detection and prevention on fraud in India.

The approach of forensic accounting favor by listed companies in India is not successful in control of fraudulent activity. The unattainable of the employment of forensic accounting services by corporate organization in India has a powerful indication for corporate governance. The disclosure of E- business and its development experience have not done much in the depletion of unhealthy practices in India as forecasted in the beginning of prosperity by the most corruption fighters. The forensic accounting has strong connection with fraud detection for public confidence and elimination of crime and corruption in Indian Economy.

Forensic accountant has come into limelight in India due to rapid increase in the white collar crimes. As our country has witnessed many frauds in past few years some of the scams took place are.

Table showing major scams in India during last few years

Scandal	Year reported	Scope	Key players	Summary
Satyam scam	2009	Rs.14000 crore	Ramalinga Raju and his family, CFO and other top level management, Auditors and board of directors	Falsifies revenues, margins and cash balance, operating profit artificially boosted from 61 crores to 649 crores.
2G spectrum	2010	Rs. 1760 billion	A Raja, MK Kaninmozhi, Nira Radia, Many Telecom COs	Irregularities in awarding spectrum licenses.
Common	2010	Rs. 35000	Suresh Kalmadi and	Allegations of corruptions and

wealth games		crores	other organising	mismanagement by the organising
			committee members, 2	committee, delay in the construction of
			Private companies and	main venue leading to misuse of funds,
			government officials	infrastructural comprise, hefty payments
				made in the name of non-existing parties
Punjab National Bank Scam	2018	Rs11,356.84	Nirav Modi and Metul Chotksi	The Punjab National Bank Fraud Case relates to fraudulent letter of undertaking
				worth • 11,356.84 crore (US\$ 1.4 billion) issued by the Punjab National
				Bank at its Brady House branch in Fort,
				Mumbai; making Punjab National Bank liable for the amount.
Coal Allocation Scam	2014	Rs1856 billion	Senior Public Prosecutor VK Sharma, (EX Coal Secretary PC Prakash)	Corruption in efficient allocation, malicious means for securing allocation, overstating net worth
NSEL(National Spot Exchange Ltd).	2008	Rs 5,600 crore	Kailash Aggarwal- Ark Imports, Narayanam Nageshwara Rao (NCS Sugar) BVH. Prasad (Juggernaut Projects)	An effect of NSEL fraud, the share prices of its promoter company FTIL crashed by 60-70percent resulting in massive erosion in the company's market capital. The share price of the
			Varuun Gupta (vimladevi Agrotech)	sister company MCX (Multi Commodity Exchange Ltd.) also took a beating.
Saradha Group Financial Scam	2013	Rs300 billion	Sudipto Sen and Debjani Mukhopadhdhay	The four companies of saradha group used to retrieve money by attracting many people by promising them a landed property or a foreign tour, either
				of he two, in return of their eposits
Sahara	2012	20000 crore	chairman Subrata Roy	Money Laundering, Fictitious

India				Investors,
Pariwar				Dummy Shares
Investor Fraud Case				
Chain Roop bhansali Group	1995	1200crore	chain Roop Bhansali	Frauds, Cheating and Siphoning off of fraud from SBI, Established dummy companies, Rigging share price through own money.
Harshad Mehta Scam	1992	4000crore	Harshad Mehta and Ashwin Mehta	Diversion of frauds, Intraday trading, use of ready forward maintain SLR fake bank receipts.

The RBI’s annual report points a grim picture of the Indian Economy’s current state. The report says that despite government efforts the amount involved in frauds has gone up by a whopping 73.8 percent in India. Most of the scams are under the investigation process and some matters are under the final word of the court.

The above table give ideas about the number of scams with very big financial amount in recent year. fortunately the counting judicial and administration system are serious towards bringing law into place to prevent identify investigate of such practices in a serious manner. In spite of the existing mechanism to control the frauds. The fraudulent practices are increasing due to shortage of skilled personnel or professionals (forensic accountant) to work in various such feilds where the white collar crimes are more. The present scenario of increase in numbers of frauds is through light on the practice of fraud management. The serious attempt towards use of forensic accounting tools and techniques and increasing the availability of expertised and professionals will definitely result in bringing down the frauds and scams and also helps in preventing economic losses and always said that Prevention is Better Than Cure.

RECOMMENDATIONS AND CONCLUSION

In the economy there is an urgency or increase in number of frauds and the country requirement and make sOn the basis of this finding, research paper gather that forensic accounting services assign firms with the mandatory instruments to detect the fraudulent activities.

- Forensic accounting will present legal action reinforce service with suitable provision of executive services in the law courts.
- Forensic accounting will institute good corporate governance in public sector which will place public confidence in the government and the whole system.
- Detection and Elimination of corruption has given advance to the profession of forensic accounting due to this element most crucial thing companies have to do with value to fraud is to prevent the offence from being effected.

At present IT and software forensic accounting behind. there must posses additional qualifications and certificates and welworred in IT and computer knowledge using software.

Increase in no of frauds :- on the basis of the information available it is clear that the number of frauds are increasing day by day. this is not the good sign in the growing economy of India therefore the organisations

like SFIO has to being strict rules and regulations in place that to make sure that this frauds are stopped. SFIO should also increase the number of wings to handle all these issues and should have detenterized system.with respect to importance the study reveals the duties of forensic accountant are very much responsible to investigate and litigation support so they must posses the extraordinary qualities. the weakness of qualities that will not help them to successfully conduct and investigation and other forensic accountant practices therefore the individual should have the attention and inculcate in the activities of forensic accountant.

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