Forensic accounting in India: a new vibrant approach to prevent white collar crimes: an empirical study

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Abstract
Forensic accounting is a specialized field of accountancy which investigates fraud and analyzes financial information to be used in legal proceedings. It is a specialty field within the broader arena of accounting. It is the use of professional accounting skills in matters involving potential or actual civil or criminal litigation, including, but not limited to, generally acceptable accounting and audit principles; the determination of lost profits, income, assets, or damages; evaluation of internal controls; fraud; and any other matter involving accounting expertise in the legal system. This paper focuses on the conceptual framework, various provisions and recent scenario of forensic accounting in India.

Keywords: Forensic Accounting, Forensic Accountants, Frauds, Companies Act, Code of Criminal Procedure, White Collar Crimes.

Introduction
Forensic accounting can be described as a specialized field of accountancy which investigates fraud and analyze financial information to be used in legal proceedings. Forensic accounting uses accounting, auditing, and investigative skills to conduct investigations into theft and fraud. It
encompasses both Litigation Support and Investigative Accounting. "Forensic" means "suitable for use in a court of law", and it is to that standard and potential outcome that forensic accountants generally have to work. Forensic accountants, also referred to as forensic auditors or investigative auditors, often have to give expert evidence at the eventual trial. As a mechanism to detect and prevent corporate frauds and scams, forensic accounting has emerged as a relatively new and effective tool in the hands of accountants to find out mistakes and malpractices in accounting world. Forensic accounting in India has come to limelight only recently due to rapid increase in white-collar crimes and the belief that our law enforcement agencies do not have sufficient expertise or the time needed to uncover frauds.

**Statement of the problem**

The failure of statutory audit to prevent and reduce mis-appropriation of corporate fund and an increase in corporate crime has put pressure on the professional accountant and legal practitioner. The conventional accounting could not bring into light many financial irregularities appropriation and expropriation detrimental to stakeholders. With complex trade pattern with international angle it was seen to be inadequate to the expectation of corporate culture. A nationwide study conducted by Kessler International showed that 39 percent of organizations have considered the need for a forensic accountant. The study, intend to find out how the knowledge of forensic accounting can reduce corporate fraud and mismanagement.

**Objectives of the study:**

The following are the objectives of the study:-

1. To study the enforcement of forensic accounting in India.

Received: 8 August  Revised: 15 August  Accepted: 20 August

Index in Cosmos

September 2018 Volume 8 Number 9

UGC Approved Journal
2. To study the magnitude of financial frauds and scams in India.
3. To understand the various regulatory initiative on forensic accounting in India.

**Literature review**

Zysman (2004) established that Forensic Accounting utilizes accounting, auditing and investigative skills when conducting any kind of investigation. But it is equally critical to respond immediately and to communicate financial information clearly and concisely in a courtroom setting.

Bhasin (2007) in his investigation finds that the services of forensic accountants are in great demand in the areas which include criminal investigation, settlement of outgoing partner; settlement of insurance claims, detection of employee fraud and case relating to professional negligence.

Mehta and Mathur (2007) stated that forensic accounting involves a financial detective with a suspicious mind, a financial bloodhound, someone with a sixth sense that enables reconstruction of past accounting transactions and an individual who looks beyond the numbers.

Mazumder (2011) observed that law enforcement personnel in recent years have become more aware of white-collar crimes and have lacked the training and expertise in combating such crimes. They are better trained at combating violent or personal behavior crimes, but now it has the responsibility to expand its knowledge and expertise into the economic crimes area.

**Research methodology:**

The paper mostly uses descriptive research methodology based on secondary data collected from various forensic examiners research journal, government journals and notifications, and information updates taken from various regulating institution.
The need for forensic accounting

Accounting is an age old system with conventional idea of a numeric transaction purpose wise and chronologically. Conventional accounting could not bring into light many financial irregularities appropriation and expropriation detrimental to stakeholders. With complex trade pattern with international angle it was seen to be inadequate to the expectation of corporate culture. Governance was held to be central theme but orthodox transactional audit and accounting system did not cope with the expectations. Corporate strategies could not be constructed with historical data. Corporate irregularities in India starting with Mundra case made people concern about the efficacy of historical data for arresting fraud and irregularities and adhere to increased compliance requirements and transparency need. To cope with the dynamic situation continuous revision of accounting standards throughout the globe became usual practice in the accountancy profession.

The main objectives of forensic accounting are:

- To avoid fraud and theft
- To restore the downgraded public confidence
- To formulate and establish a comprehensive corporate governance policy
- To create a positive work environment.

Evolution

IT came in the picture for combating the situation arising from Enron case to Rajat Gupta case and Satyam Case. Companies Act 2013 preceded by American law and British bribery act demanded for a different approach for preventing economic fraud and preserving national wealth. For proper risk management reputational risk was to be managed which involves effective E-management business
process reengineering corporate governance and proper IT platform. Thus forensic accounting was called for to detect planning of the fraud, execution of the fraud, consequences of the fraud and book the culprits without much time lag.

**Role of forensic accountant**

A forensic accountant can ensure the integrity and transparency of financial statements by actively investigating for fraud, identifying areas of risk and associated fraud symptoms and a good fraud prevention program can help to create a positive working environment where employees do not indulge themselves to abuse their responsibilities. So, by helping companies to prevent and detect fraud the forensic accountants can help to establish a comprehensive corporate governance policy.

**Techniques involved in forensic accounting:**

**Benford’s Law**

Benford’s Law, also called the First-Digit Law refers to the frequency distribution of digits in many (but not all) real-life sources of data. It refers to the frequency distribution of digits in many (but not all) real-life sources of data. In this distribution, 1 occurs as the leading digit about 30% of the time, while larger digits occur in that position less frequently: 9 as the first digit less than 5% of the time. Benford’s Law also concerns the expected distribution for digits beyond the first, which approach a uniform distribution. On detecting any such phenomenon, the variable under study is subjected to a detailed scrutiny. Accounts receivable, accounts payable, sales and expenses data are all based on values from two types of variables being multiplied together i.e. prices and quantities. Alone, prices and quantities are unlikely to conform to Benford’s law, but are likely to when multiplied together. Such accounting data is also likely to be right skewed. Transaction level accounting data for a large firm would almost always have a very large number of observations. If some accounting data is expected to conform to Benford’s law but doesn’t, it doesn’t necessarily mean the data is fraudulent. It
would however provide a good reason for further investigation. Auditors have long applied various forms of digital analysis when performing analytical procedures. For example, auditors often analyze payment amounts to test for duplicate payments. They also check for missing check or invoice numbers. Benford’s law looks at an entire account to determine if the numbers fall into the expected distribution. It also works for combination numbers, decimal numbers and rounded numbers. There are many advantages of Benford’s Law like it is not affected by scale invariance, and is of help when there is no supporting document to prove the authenticity of the transactions.

**Theory of Relative Size Factor (RSF)**

This technique highlights all unusual fluctuations, which may be routed from fraud or genuine errors. RSF is measured as the ratio of the largest number to the second largest number of the given set. The RSF test finds subsets where the largest number is out of line with the remaining numbers and is possibly an error. It has detected errors in accounts payable when staff miscoded the decimal point in the invoice amount. The relative size factor (RSF) for a subset is: RSF = Largest number in subset / Second largest number in subset. For example, a high RSF in payroll data could signal an overtime error and a high RSF for inventories could signal a calculation or count error. If there is any stray instance of that is way beyond the normal range, then there is a need to investigate further into it. It helps in better detection of anomalies or outlines. In practice, there exist certain limits (e.g. financial) for each entity such as vendor, customer, employee, etc. This test finds identical entries, such as duplicate payments in accounts payable. While many AP systems can make this identification, duplicates may still occur if some of the purchase details are miskeyed or when there are a number of payment centers or multiple payment systems. Duplicates are detected when all the payment data are analyzed together. This test can also be used in inventory, payroll, accounts receivable and sales.

**Received: 8 August   Revised: 15 August   Accepted: 20 August**

**Index in Cosmos**

**September 2018 Volume 8 Number 9**

**UGC Approved Journal**
Computer Assisted Auditing Tools (CAATs)
CAATs are the practice of using computers to automate the audit processes. It is a computer programs that the auditor use as part of the audit procedures to process data of audit significance contained in a client's information system, without depending on him. CAATs normally include using basic office productivity software such as spreadsheet, word processors and text editing programs. Using CAATs the auditor can select every claim that had a date of service after the policy termination date. The auditor then can determine if any claims were inappropriately paid. CAATs provide auditors with tools that can identify unexpected or unexplained patterns in data that may indicate fraud. Whether the CAATs is simple or complex, data analysis provides many benefits in the prevention and detection of fraud, evaluations of financial information made by studying plausible relationships among both financial and non-financial data to assess whether account balances appear reasonable.

Data Mining Techniques
The implementation of data mining techniques for fraud detection follows the traditional information flow of data mining, which begins with feature selection followed by representation, data collection and management, pre - processing, data mining, post-processing, and performance evaluation. Collapses of high profile companies have left a dirty smear on the effectiveness of corporate governance, quality of financial reports, and credibility of audit functions. The detection of accounting fraud using traditional internal audit procedures is a difficult or sometimes an impossible task. First, the auditors usually lack the required knowledge concerning the characteristics of accounting fraud. Second, as the fraudulent manipulation of accounting data is so infrequent, most of the auditors lack the experience and expertise needed to detect and prevent frauds. Finally, the other concern people...
of finance department like Chief Financial Officer (CFO), financial managers and accountants are intentionally trying to deceive the internal or external auditors.

**Benchmarking**

Under this technique comparison of financial result of one period with another or the performance of one cost centre, or business unit, with another and overall business performance with its pre decided standards are made.

**Ratio Analysis**

Ratio analysis is another useful fraud detection technique through calculation of data analysis ratios for key numeric fields. Like financial ratios that give indications of the financial health of a company, data analysis ratios report on the fraud health by identifying possible symptoms of fraud. Three commonly employed ratios are:

- The ratio of the highest value to the lowest value (Max/min);
- The ratio of the highest value to the second highest Value (max/max2); and
- The ratio of the current year to the previous year.

**Implementation of forensic accounting in India:**

Forensic Accounting has not got its due recognition in India even after alarming increase in the complex financial crimes and lack of adequately trained professionals to investigate and report on the complex financial crimes. The task of Forensic Accountants is handled by Chartered Accountants who apart from handling traditional practice of auditing as required under the Companies Act or Income Tax Act are called upon by the law enforcement agencies or the companies or private individuals to assist in investigating the financial crime or scam. The CA or CWAs in India are best
suited for this profession due to their financial expertise acquired during their rigorous training which can be further work on by introducing post qualification degree or diploma in Investigating and Forensic Accounting similar to one introduced by CICA. The pioneer Indian accounting regulator, the Institute of Chartered Accountants of India (ICAI) has taken the challenges to start a course on forensic accounting for only its members. It is “Certificate Course on Forensic accounting and Fraud Detection using IT and CAATs”. At present very few academic institutions are offering courses (full time or part time) on forensic accounting. Indian universities are lagging behind in this area as compared to other foreign universities. Some leading organization such as India forensic (Pune, Maharashtra) has started certificate Course in Bank Forensic Accounting (CBFA), Certified Forensic Accounting professional (CFAP). Institute of Chartered Financial Analyst of India (ICFAI) University, Tripura also started to offer a Postgraduate Diploma in Forensic Accounting. Although this is at growing stage in most of the Indian universities, however many college and universities are providing courses on “Forensic Science”.

Moreover, growing financial fraud cases, failure of non banking financial companies, phenomena of vanishing companies and plantation companies and failure of the regulatory mechanism to curb it has forced the Government of India to form Serious Fraud Investigation Office (SFIO) under Ministry of Corporate Affairs which can be regarded the first step of Government of India to recognize the importance and advance the profession of forensic accountants. The SFIO is a multidisciplinary organization having experts from financial sector, capital market, accountancy, forensic audit, taxation, law, information technology, company law, customs and investigation. These experts have been taken from various organizations like Banks, Securities & Exchange Board of India, Comptroller and Auditor General and concerned organizations and departments of the Government. However, the main important law enforcement agency involved directly in combating frauds is the Police, CBI etc.
Indian regulatory environment
Due to some recent corporate frauds incidents, regulators have proposed the companies to develop certain standards specially made for fighting frauds and create framework to address fraud prevention, detection and response in future. The new Companies Act 2013 is a step towards the evolution of India’s regulatory environment. The Act includes specific provisions to address the risk of fraud, alongside prescribing greater responsibility and increased accountability for independent directors and auditors. It goes beyond professional liability for fraud and extends to personal liability, prescribing penalties for directors, key management personnel, auditors and employees. The establishment of a vigil mechanism for listed companies, and a greater degree of accountability placed on the Board of Directors are the most effective provisions of the law.

The services of forensic accountants may be used to examine the financial statements and to form opinion. After investigation, forensic investigator may give his expert opinion whether any fraud was committed or anomaly noticed in the reported accounts. Collection of evidences for court proceedings are the most important tasks done by the forensic accountants. Forensic auditors may help the Police and other investigating authorities in collecting evidences and other investigation purposes. For example Section 157 Cr.PC, 1973; Section 17, 18 of Prevention of Corruption Act, 1988; Section 6 of The Bankers Books Evidence Act, 1891; Section 78 of Information Technology Act, 2000 wherein the Court or Police may require the skills of Forensic accountants while inspecting any books in so far as related to the accounts of an accused. Forensic accountants may see and carefully examine the accounts and balance sheets and use his skills to find out whether there is any fraud committed or any anomaly associated with it by giving his expert opinion. This finds place in for example Sec.45, Sec.118 of Indian Evidence Act, 1872; Sec.293 of Cr.PC, 1973.
Forensic accounting – recent Indian scenario

Recently, forensic accounting has become an indispensable tool for investigation in India due to rapid increase in white-collar crimes and our law enforcement agencies do not have the expertise or time to uncover such stock market fraud or bank fraud or cyber fraud. Scams like Satyam (2009), 2-G Spectrum (2010), Commonwealth games (2010), Railgate scam (2013), Tatra Truck scam (2011) and most recently coal block allocation scam (2012) and Chopper scam (2013) in India had improved the scope for forensic accounting in India. According to the Corruption Perception Index 2016 Report released by Transparency International, India’s rank is 79th among 176 countries affected with corruption. According to KPMG Fraud Survey (2013) white-collar crime in corporate India has witnessed a substantial increase of 13% in 2013. It has an adverse impact on entrepreneurial spirit in India. Therefore, in Indian perspective the Forensic accountants are the most required in the wake of the growing frauds.

Some of the biggest scams that shook the country’s banking system in last few years: 2011

In 2011, investigative agency CBI revealed that executives of certain banks such as the Bank of Maharashtra, Oriental Bank of Commerce and IDBI created almost created 10,000 fictitious accounts, and an amount of Rs 1.5 billion or Rs 1,500 crore worth loans was transferred.

2014

Three years later in 2014, Mumbai Police filed nine FIRs against a number of public sector related to a fixed deposit fraud to the tune of Rs 7 billion or Rs 700 crore. In the same year, Electrotherm India, which defaulted payment of Rs 4.36 billion or Rs 436 crore to the Central Bank. Apart from that, Bipin
Vohra, a Kolkata-based industrialist allegedly defrauded the Central Bank of India by receiving a loan of Rs 14 billion using forged documents.

Besides, another scam that was unfolded in 2014 was the bribe-for-loan scam involving ex-chairman and MD of Syndicate Bank SK Jain for involvement in sanctioning Rs 80 billion or Rs 8,000 crore.

In 2014, Vijay Mallya was also declared a willful defaulter by Union Bank of India, following which other banks such as SBI and PNB followed suit.

2015

In 2015, another fraud that raised eyebrows involved employees of Jain Infra-projects, who defrauded Central Bank of India to the tune of over Rs two billion. In the same year, employees of various banks were involved in a foreign exchange scam involving a phony Hong Kong corporation. They had defrauded the systems to move out Rs 60 billion.

2016

One of the biggest banking frauds of 2016 is the one involving Syndicate Bank, where almost 380 accounts were opened by four people, who defrauded the bank of Rs 10 billion using fake cheques, LoUs and LIC policies.

2017

Received: 8 August    Revised: 15 August    Accepted: 20 August

Index in Cosmos

September 2018 Volume 8 Number 9

UGC Approved Journal
In 2017, Mallya's debt - owing to defunct Kingfisher Airlines - rises to Rs 9.5 billion or Rs 9,500 crore to IDBI and other bank branches. CBI prepares chargesheet but he had fled the country in 2016. Currently residing in the UK, Mallya's extradition is being sought at the country's Westminster Court.

In the same year, Winsome Diamonds - also known to be India's second largest corporate defaulter - came under the scanner after CBI booked six cases against the group and the companies under it. This case is similar to the one observed in the fresh bank fraud involving Nirav Modi group: Letters of Undertaking were issued by Indian Banks to Jatin Mehta's Winsome Diamonds. It may be noted that the gaps were first discovered in 2014. From mid-2013 the group failed to payback its debts, and was declared a willful defaulter by banks. The total debt amounts to almost Rs 7,000 crore.

Another case that grabbed eyeballs in the same years involved Deccan Chronicle Holdings for causing a loss of Rs 11.61 billion; CBI registered FIR against five PSBs and six charge sheets were filed against the company.

A Kolkata business tycoon Nilesh Parekh, a promoter of Shree Ganesh Jewellery House, was arrested by CBI in 2017 for causing a loss of Rs 22.23 billion to at least 20 banks. Parekh, arrested at Mumbai airport last year, allegedly defrauded banks by diverting loan money via shell companies in Hong Kong, Singapore, and the UAE.

In this case, CBI filed a case against the former zonal head of the Bank of Maharashtra and a director of a private logistics company based in Surat, owing to an alleged scam involving Rs 8.36 billion.

2018

Received: 8 August Revised: 15 August Accepted: 20 August

Index in Cosmos

September 2018 Volume 8 Number 9

UGC Approved Journal
Last but not the least by any means, the fresh bank fraud to the tune of Rs 11,450 crore involving diamond merchant Nirav Modi. It has come to light that the company, in connivance with retired employees of PNB, got at least 150 Letter of Undertakings (LoUs), allowing Nirav Modi Group to defraud the bank and many other banks who gave loans to him. An Indian Express report says that in addition to the Rs 11,450 crore, Modi also defrauded 17 other banks of Rs 3,000 crore. In this case, however, fake LoUs were recycled by the diamond jewellery group and illegally issued to other banks for borrowing money. Finally, Nirav Modi, his family and partners have fled the country.

Another case that came to light this year concerns a former Andhra Bank director, who was arrested by Enforcement Directorate, in connection to an alleged Rs 5 billion bank fraud case, involving a Gujarat-based pharma firm.

Findings and suggestions
Organizations are facing a number of challenges in the current economic scenario. They constantly deal with pressure of uncertain markets, escalating input costs, high labour turnover and advent of technology. Such pressures may provide opportunity and incentives for fraudsters to commit frauds. With any change in the environment of the businesses, the need to adapt to these changes is a prerequisite to attain sustainable growth. The change in the current environment is the increased fraud exposure for organizations. The response to this change is to equip our businesses against fraud risks and exposure through a systematic programme of fraud risk assessment, monitoring, incident response and remediation. Forensic accounting is the best ever growing areas of accounting that enables in enhancing the chances of success in day to day life of corporate firm by improving the role of corporate governance as well as helping in formulating and establishing efficient control systems.
Hence, proper attention is required by the regulators, Government and the educational institutes to support forensic accounting in India. The various agencies fighting corruption worldwide will need to engage the service of forensic accounting to compliment efforts of other professional in reducing fraudulent activities and installing fraud proof internal control system in corporate organization.

**Conclusion**
Forensic accounting in India has come to attention in recent years due to rapid increase in white-collar crimes. It is belief that our law enforcement agencies do not have sufficient expertise or the time needed to uncover frauds. The major concern of the country is to prevent white collar crimes which affect the very fabric of the society. Forensic accounting has come up as an effective tool for preventing this menace. It is still in a budding stage and requires technological reinforcement on a continuous basis and global cooperation. It will develop as a specialized profession of accountancy and its importance to law enforcing agencies and also regulators will increase day by day. Lot of research is also needed and accountants will play a very significant role in this mission.

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White-collar crime is financial crime committed by trusted persons in important business positions. Sutherland in his seminal work defined white-collar crime as crime committed by a person of respectability and high social status in the course of his occupation. Research on white-collar crime is often based on anecdotal evidence, where famous white-collar criminals serve as examples for case studies. While being relevant and interesting cases, the extent of generalization from such studies is questionable. What seems to be needed is a larger sample of white-collar criminals that can be studied in terms of average values as well as variation in criminal characteristics. Empirical studies by Madan LAL BHASIN 1* [1] School of Accountancy, College of Business Universiti Utara Malaysia, Sintok crime, and as such, accounting bodies, law courts and other regulatory authorities need to adopt very strict punitive measures to stop unethical CA practices.

Keyword: Creative Accounting, Corporate Sector, India, Financial Statements, GAAP, IFRS, Corporate Governance, Forensic Accounting. JEL Classification: M40. I. Introduction. It was revealed in their studies that the aggregate impact of CA practices on earnings amounted 20% of total reported earnings. They found that New Zealand offered an example of a country where a well-designed framework of accounting regulation has curbed CA. Similarly, Forensic accounting has come up as an effective tool for preventing economic frauds and scams. It is still in a nascent stage and requires technological reinforcement on a continuous basis and global cooperation. It will develop as a specialised profession of accountancy and its importance to law enforcing agencies and also regulators will increase day by day (CA. Sukamal Basu, 2014). So, to control the effect of white collar crimes, a multifaceted approach is needed. An epitome of consequences of frauds and scams: Global and national scenario Accounting/economic frauds and scams are not new topic. They took place in all eras and all countries with varying level of intensity and occurrence.