

Forensic Accounting: A Corporate Fraud and Scam Deterrence Tool in India

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Abstract

Forensic accounting is not new field, however in recent years the expanded number of frauds and the helplessness of the authorities to battle them have acquired the Forensic accounting the spotlight. Forensic accounting is the strength practice area of bookkeeping that portrays commitment which result from genuine or expected prosecution. Forensic accounting is vital instrument to recognize, research and prevent the frauds. To recognize and intercept financial frauds and white-collar crimes forensic accounting is utilizing different instruments. forensic accounts are at present extremely popular, to persuade the public demand for trustworthiness, fairness and transparency in announcing expanding dramatically. These forensic accounts need bookkeeping, finance, law, insightful and research abilities to recognize, communicate and prevent fraud. As an ever-increasing number of organizations search for forensic accountants and professional offer certificates in this field, it is becoming clear that the forensic accountants have a range of abilities that is totally different from an auditing or financial accountant. In India tragically it is being utilized as an investigating tool, as opposed to a preventive tool. This study highlights the problem to develop future prospects of Forensic Accounting and its importance in India. It also covers the impact of financial and economic crimes on Indian Economy and effectiveness of forensic accounting functions.

Keywords: Forensic Accounting, Scams, Fraud, Investigating Skill, White Collar Crimes.

Introduction:

With an upsurge in financial accounting frauds in the worldwide economy, forensic accounting has turned into an arising subject vital for academic, research and industries. forensic accounting is seen to have developed because of specific arising fraud and scam related cases. The outrages that stunned the corporate world specifically, Enron (2001), WorldCom (2002) and Satyam Computer Services (2009) cases have likewise brought the field of forensic accounting into light. Forensic accounting can, thusly, be viewed as a part of accounting which is applicable for legal audit and offering the most elevated level of affirmation. It is an inescapable truth that the corporate crime has been incurring far more noteworthy harm for society. Various corporate cheats and tricks from the past and the start of the century have forced the requirement for more profound examination of abnormalities in the area of financial reporting. In fighting corporate fakes and tricks through examinations and settling charges of fakes and misappropriations, another regulative bodies and the presence of new profession as a dynamic and key instrument called forensic Accounting Investigation has been formed.

Forensic means or related which is used in law or court, public debate or arguments. Accounting means language that provides the information about accounts or financial position of any 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. As per KPMG Fraud survey (2013) white collar crimes in corporate India has seen a significant increment of 13% in 2013. It has negative impact on entrepreneurial spirit in India. In this way, in Indian point of view the Forensic Accountants are the most essential requirement for the wake of growing frauds.

Forensic accounting is utilized for fraud detection and covers fraud claims from initiation to disposition, including acquiring proof, meeting, writing reports, and verifying the documents. In the ongoing situation the accentuation is on the forensic accounting as dealing with monetary breakdowns, white collar crime and increasing no of financial scams and crimes in organizations. Forensic accounting gives analytical capabilities and suit support administrations to comprehend the depth and width of the financial fraud and scams occurring in any economy. India's picture on handling corruption has not improved with Transparency International Corruption Perception Index (CPI) setting it at 94th position out of 176 countries.

Review of Literature:

Zysman (2004) expressed that forensic accounting uses accounting, evaluating, and investigating skills when leading any sort of examination. Similarly basic is the capacity to answer right away and to impart clear financial information and briefly in a court setting.

Krancher (2006) Ongoing instances of frauds and financial scams in India require more amazing skill in bookkeeping and finance. Insightful review has consistently been there, it is just the procedures included that has been changing in line with refinement of the financial fraud involved.

Bhasin (2007) tracks down that the services of forensic accounts are extremely popular in the areas which incorporate criminal examination, settlement of active accomplice; settlement of protection claims, location of employee's fraud and case connecting with professional carelessness.

Mehta and Mathur (2007) placed that forensic accounting includes a monetary investigator with a dubious mind, somebody with an intuition that empowers recreation of past accounting records exchanges and a person who looks beyond the numbers.

Mazumder (2011) commented that law authorized personnel recently have become more mindful of white-collar scam and have missed the mark on preparing and aptitude in battling such frauds. They are better prepared at battling fierce or individual conduct crimes, yet presently it has the obligation to grow its insight and ability into the economic crime areas.

(E&Y, 2009) While considering the loss of investors' confidence, as well as reputational harm and expected fines and heinous acts, it is clear why financial errors ought to be each director's most obviously worst extortion related nightmare. As brought up by Dark (2010), "Fiscal statement fraud was a contributing variable to the new financial emergency, and it undermined the productivity, liquidity and wellbeing of both obligation and capital business sectors."

(Rezaee and Kedia, 2012) Furthermore, it has essentially expanded 'vulnerability' and 'instability' in monetary business sectors, shaking 'financial backer' certainty around the world. It more over diminishes the credit ability of monetary information that financial investor uses in their speculation choices.

Krancher (2006) Ongoing instances of frauds and financial scams in India require more amazing skill in bookkeeping and finance. Insightful review has consistently been there, it is just the procedures included that has been changing in line with refinement of the financial fraud involved.

Frauds, in the various areas like bank, insurance, financial exchange, cyber world and so on, need a sharp scientific tool, for examination and settlement of disputes.

Objectives:

1. To explain the conceptual framework of Financial and Corporate fraud.
2. To highlight the problem in order to develop future prospects of Forensic Accounting and need for forensic accounting.
3. To decide the extent to which financial and economic crimes have affected on the Indian economy and the effectiveness of forensic accounting functions.

Research Methodology:

This study is descriptive in nature. The source of data secondary data (quantitative and qualitative data) which has been collected from different case studies, research papers, journals, and published reports (GOI, RBI, KPMG, Price water house, Deloitte), other websites of forensic accounting.

Corporate Fraud and Scam:

Corporate Fraud refers as an infringement of the Internal Revenue Code and related resolutions committed by enormous, public companies as well as by their senior executives'- The Internal Resources Service, Department of the USA of the Treasury. Also, corporate frauds have slowly become exceptionally complicated in nature.

Global Fraud and Scam

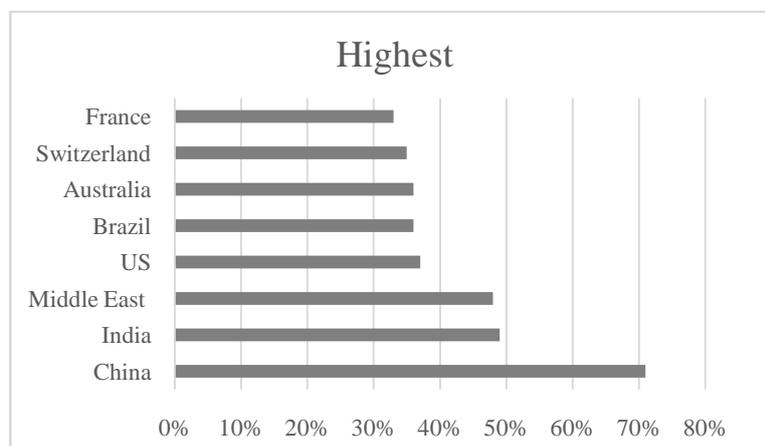
For the year 2021 Kroll Global Fraud and Risk Report showed that over four in five 82% respondents committed that their region has been affected by fraud, corruption, illegal activity, and other serious misconduct.

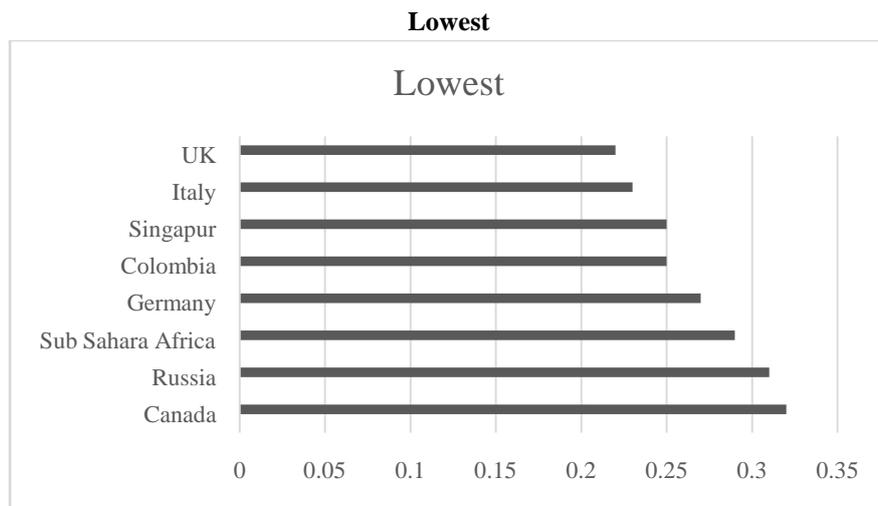
Kroll Report Highest Fraud & Scam Countries for the year 2021

China	71%
India	49%
Middle East	48%
US	37%
Brazil	36%
Australia	36%
Switzerland	35%
France	33%

Kroll Report Lowest Fraud & Scam Countries for the year 2021

Canada	32%
Russia	31%
Sub-Sahara Africa	29%
Germany	27%
Colombia	25%
Singapore	25%
Italy	23%
UK	22%





Types of Corporate frauds

Accounting or Financial Fraud- Financial fraud consist of misrepresentation of financial books byfudging the books of accounts to mislead the investors is usually perpetuated by the management.

Self-managing by corporate insiders is generally connected with misappropriation of corporate assets by senior chiefs like loans allowed to senior administration that are never planned to be reimbursed, inability to unveil excuse advances, repaid staff costs and additional standard labour costs charged to the organization. Moreover, it could be insider exchanging, abuse of corporate property for individual addition, payoffs also, individual tax violations connected with self-managing.

Obstructive Conduct-is misrepresenting declaration to regulatory bodies, eradicating computer records, destroying documents, making, or adjusting report to help unlawful lead.

Table-1 Summery of Global Corporate Fraud and Scam

Name of the Company	Nature of Industry	What Happened	Modus Operandi
Waste Management (1998)	Houston based publicly traded	Reported \$1.7 billion in fake earning	Unstated depreciation exp. on company's property & equipment's
Eron (2001)	Houston based commodity energy and service corporation	Shareholders lost US \$ 74 bn, thousands of employees lost retirement accounts& many lost their jobs	kept huge of debts in balance sheet
World Com (2002)	Securities	Inflated assets by as much as US \$11 bn, leading to 30,000 lost jobs & US \$180 bn in loss for investors	Underrated line cost by capitalizing rather than expenses & inflated revenue with fake accounts
Fraddie Mac (2003)	Federally backed mortgage financing giants	5 \$bn in earning was misstated	internationally misstated earning on books
American International Group (2005)	Multinational Insurance Company	Massive accounting fraud to the \$3.9 bn was alleged along with bid rigging & stock price manipulated	Allegedly booked loans as revenue steered clients to insurers with whom AIG had payoff arguments& told traders to inflate AIG stock price

Bernie Madoff (2008)	Bernard L. Madoff Investment Securities LLC was a wall street investment firm founded by Madoff	Tricked investors out of US \$ 4.8 bn through the largest Ponzi scheme in history	Investors were paid return out of their own money or that of other investors rather than from profit
Satyam (2009)	Information Technology	Falsely boosted revenue by US\$ 1.5 bn	Falsified revenue, margin, and cash balances by US\$ 1.5 bn
Olympus (2011)	International Optical Equipment Manufacturer	US\$1.7bn accounting fraud speculative investment loss	Olympus created a tobashi scheme to shift loss off the Olympus balance sheet. Company located in Cayman Island were purchased via exorbitant M&A.
Toshiba (2014)	Multinational Conglomerate	Profits were overrated by US\$ 1 bn	Toshiba understated its cost for long term projects

Problems Identifications:

1. With sluggish economy and battling stock exchange conditions there has been an expansion in % of scams and frauds such as increase in the cases of money laundering by 15%, occupational frauds 17%, Cyber fraud 6% in 2022, Stock Market fraud 8%, Banking fraud 30%
2. Because of digitization of the records, it is hard to keep up with accounting books and audit trail.
3. Because of complex and traditional Legal and political system it is hard to look for the data.
4. No rules are ready for reception of forensic accounting
5. Interior Control system is affected by the management which results in false financial statement.
6. Model ought to be ready for constant review in view of the probability of misrepresentation recognition considering the impression of fraudsters looking for apparent chance to commit misrepresentation.
7. According to Sarbanes Oxley Act, Internal financial Control Report must be prepared.

Technique used for Forensic Accounting:

Benford's Fraud: It is a mathematical instrument and is one of the ways of deciding if a variable under the study is an instance of unexpected error or detection on recognizing any such peculiarity the variable under study is exposed to a detailed investigation.

Theory of Relative size of factor: It is a powerful tool to measure error and represented as **RFS**= Largest Record in a Subset/ Second Largest Record in a Subset. It has a feature to highlight all unusual fluctuations which might be steered from fraud or genuine errors.

Computer Assisted Audited Tool (CAAT): These are the computer programmes that help the accountants or auditor to evaluate various accounting records like identifying inconsistencies, errors in summarizing the accounts and tally balance sheets.

Data Mining Techniques: It is computer-assisted technique that helps in predictive modeling, deviation, and link analysis which are designed to mine large volume of data automatically for new and unexpected patterns.

Ratio Analysis: Ratio analysis for key numeric fields is more over helpful procedure utilized by forensic accountants to detect the fraud. It depicts the financial health of a company, data analysis ratio report on the fraud and scam happened by identifying the possible symptoms of fraud.

Significance of Forensic Accounting:

The need for forensic accounting has arising because of failure of internal and external audit system in the organizations. The most significant reasons for forensic accounting are as follow:

- ✓ Rotation of the statutory auditor tends to a contributor to the issue. The strategy for naming the statutory auditor isn't secure as it is inclined to agreement and lobbying.
- ✓ The certificates of the auditors are scarcely investigated cautiously particularly when the reports are unclear and qualified.

- ✓ The internal examiners can unquestionably identify what was going on however they are not really in that frame of mind to start appropriate activity in legitimate time.
- ✓ Inside endlessly review board of trustees as a piece of the administration capability neglect to reveal insight into the covered up parts of corporate fraud.

Scams in India

Table-2 Scams and Fraud in India

Harshad Mehta 1992	Rs. 4000 crores	Stock Exchange
Ketan Parekh 2008	Rs. 1500 crores	Stock Exchange
Satyam Scam 2009	Rs. 8,000 crores	False Revenue
Commonwealth Games	Rs. 10,000 crores	Misuse of funds, public funds raised for infrastructure (construction)
2G Spectrum 2010	Rs. 1,75,000crore	Irregularities in License. Issued on first come first basis (No auction)
Fodder Scam 2012	Rs. 950 crores	Embezzlement by falsification in expenses report
Indian Oil Allocation 2012	Rs. 1,86,000 crores	No auction in allotment of blocks falsified data to losses framed to CAG
VVIP Choper deal 2013	Rs. 362 crores	Acceptance of bribe amount Rs 36 billion and jurisdiction discipline

Indian Regulatory Environment:

Because of a few ongoing corporate fakes occurrences, regulators have proposed the organizations to create certain norms extraordinarily made for battling frauds and make system to address fraud prevention, identification, and reaction in future. The new Companies Act. 2013 is a stage towards the development of India's regulatory environment. The Act incorporates explicit arrangements to address the gamble of fraud, close by recommending more prominent obligation and expanded responsibility for independent directors and auditors. It goes past expert obligation for misrepresentation what's more, stretches out to individual risk, recommending punishments for directors, key administration staff, evaluators and employees. The foundation of a vigil system for recorded organizations, and a more prominent level of responsibility put on the Board of Directors are the best arrangements of the law.

A few terms are utilized by worldwide recognized control systems and market regulators - Internal Control for Financial Reporting (ICFR) generally in the US after the Sarbanes Oxley (SOX) Act and Inside Control (IC)generally outside the US.

The Organizations Act 2013 (Act) presents another term - Inside Financial Control (IFC) which has certain highlights of IC and certain elements of ICFR. The Indian regulatory environment tries to set up a legal system to consolidate the worldwide standards and provisions in its resolutions. This intermingling with the worldwide regulations are critical with carrying Indian corporate regulations at standard with the global norms and guaranteeing that the disparity in law cannot be used in the favor of fraudsters.

Conclusion:

Organizations are confronting various difficulties in the ongoing financial situation. They continually manage strain of uncertain markets, raising input costs, high work turnover and advancement of technology. Such tensions might give a potential open door and impetuses to fraudsters to commit fraud. With any adjustment of the climate of the organizations, the need to adjust to these progressions is an essential to achieve supportable development. The adjustment of the ongoing climate is the expanded misrepresentation openness for associations. The reaction to this change is to prepare our organizations against extortion dangers and openness through a deliberate program of fraud risk evaluation, checking, episode reaction and remediation. Scientific Forensic Accounting is the best truly developing areas of accounting that empowers in upgrading the odds of coming out on top in day-to-day life of corporate firm by working on the job of corporate firm as well as aiding in figuring out and laying out proficient control frameworks. Subsequently, appropriate consideration is expected by the regulators, Government and the educational education to help forensic accounting in India.

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