



## FORENSIC ACCOUNTING IN INDIAN PERSPECTIVE

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### ABSTRACT

The purpose of this article is to throw some light on the frauds in terms of account happens in India. From the available literature, the effective forensic accounting techniques are to be focused. There are two ways to implement the techniques which includes, first, introduce the forensic accounting methods in business and second, merge the traditional organizational control system with modern system of detecting forensic fraud with the help of forensic accountant. The conclusion of this article is detecting frauds and the causes behind not get detected on early stage. How to spot frauds by using different techniques and how to mitigate the fraud in India by using the techniques to spot the fraud timely. By focusing on the roots and avoiding the situation causing accounting frauds by implementing the forensic accounting. The novelty of this study is forensic accounting from view point of India.

**KEY WORDS:** Forensic Accounting, Financial Scams, Fraud, Investigative Functions, Forensic Audit

### INTRODUCTION

(Okoye & Akamobi, 2009) According to Researchers, Forensic Accounting is the science of application of accounting, finance, audit to investigate and analyze in accordance to law. (Owojori & Asaolu, 2009) In Modern Time the Way of cheating, fraud has also been changed, now it's in more sophisticated manner, this gave birth to forensic accounting. (Koh, Arokiasamy, & Suat, 2009) researchers have worked on responsibilities of auditors, interpretation of Audit report, quality of auditing and professional requirements. (Dhar & Sarkar, 2010) in their international studies, they found 15% of organizations are not sure where they must go to ask for help at the time of failure of audit system. (Efiong & Leicester, UK, 2012) researchers emphasized the need of gaining knowledge of forensic accounting. The lack of such training schools will directly lead to increase in case of financial fraud, cheating, etc. (Ozili, 2015) has reviewed several literatures and concluded that though forensic accounting will be the rising star in future accounting world. However, fraud preparators are also well educated and have the thorough knowledge of AS, principles, investigation skills it will going to become challenging to detect the fraud as preparators are very keen in not to leave in traces. (Akinbowale, Klingelhöfer, & Zerihu, 2016) have developed two conceptual models, from which one for forensic accounting techniques while the other one is for using techniques for organizational control. The process has been divided into five framework, starts from survey, investigation, data analysis, reporting and expert view. Researcher focused on simple framework of forensic accounting leads to easy adoption of same methods by organization and resultantly reduction in fraud. (Kramer, Seda, & Bobachev, 2016) have given importance to education in forensic accounting and not to fraud examination. As foreign accounting is application of accounting principles but fraud examination is to follow the procedure in removing the allegation of fraud.

### REVIEW OF LITERATURE

Chaturvedi (2015) revealed that Forensic accounting seems to provide the needed solution to the problem of fraud and financial mis-management in corporate organizations. Dhama (2015) concluded that Forensic Accounting is being used as an investigative tool, rather than a preventive tool. If forensic auditing is made mandatory in various sectors, many of the scams can be restricted. The study also suggested that appointment of forensic accountants should be made mandatory in public sectors and large scale companies for the sustainable development of the economy. Moid (2016) has concluded that India has faced substantial losses due to rapid increase in white-collar crimes. According to the study, the Forensic Accounting is in an infancy state in India. Shair (2017) concluded that there is much scope



for advancements in the forensic accounting techniques and legislation in the wake of unrelenting number and complexity of corporate frauds and economic crimes. Das (2020) has emphasize on the role of forensic accounting in fraud examination as well as the steps taken by the Government of India to implement this. The study also suggests that application of forensic accounting in corporate sector in India is of major importance for the sustainable development of the Indian economy. Saxena (2020) concluded that Enforcement of Forensic accounting in present scenario can be proved more beneficial for good financial health of Indian economy. (Ogunode & Dada, 2022) Researchers used the exploratory research design approach, which involved a thorough analysis of previously published articles, magazines, and other resources pertinent to the topic. The management of both public sector and business entities should show the necessary political will and create the correct ethical tone at the top through their actions and activities in order to ensure the long-term effectiveness of fraud prevention initiatives. In addition, that country states should immediately consider signing and putting into effect legal frameworks and conventions to address the problem in light of the increased incidence of cybercrimes.

### **OBJECTIVES OF THE STUDY**

- To understand the scope of forensic accounting and its uses in India.
- To understand the significance of forensic accounting in India.
- To identify the role of forensic accountants in fraud examination.
- To understand various techniques employed in forensic accounting for detecting and preventing frauds.

### **MEANING OF FORENSIC ACCOUNTING**

Forensic accounting is the special practical area that result from actual or anticipated dispute or litigation. It provides a sustainable basis for discussion for dispute resolution. In other terms 'forensic', is about finding the fact and interpreting the same. Role of forensic accountant arise as the aftermath of fraud.

### **DEFINITION OF FORENSIC ACCOUNTING**

In accounting terms, "Forensic accounting is a science of applications gathered accounting facts by using auditing methods and procedure to resolve legal problems."

### **MEANING OF FORENSIC ACCOUNTANT**

Forensic Accountants are not only working on numbers but also possess skills of communication and of computer programs. Forensic accountant must be independent and impartial in his conduct. To check the authenticity of accounts and statements, forensic accountant may ask for internal database and other records. As its very normal that one who committee the fraud will definitely hide the evidence, accountant must look beyond the numbers during investigation.

### **COMPETENCIES OF FORENSIC ACCOUNTANT**

The skills required by forensic accountant are Intellectual/cognitive skills, Communication skills, Knowledge of accounting auditing and business operations, Financial management skills, Detective skills, Experience as forensic accountant for consulting a litigation counsel or judge, Team spirit, Interpersonal skills, Legal knowledge or knowledge about court room procedure.

### **SCOPE OF FORENSIC ACCOUNTANT**

- Forensic accountant provides the litigation support by presenting the facts. Litigation support means the process of deliberation and providing support to legal advisor or anybody in regards to current case. Litigation support services comprises of all activities, usually within the law firm, that are designed to prepare a lawyer to try a case. The data would be collected and the witness can be interviewed and documents are to be managed in database. In future also documents can be reviewed.
- Resolution of dispute is another task done by the Forensic accountant. One can settle the dispute without going to court. General methods use to resolve disputes are arbitration, mediation, conciliation and case appraisal.
- After resolution of disputes, he also provides the recommendation to reduce the future risk. Forensic accountant has the skills to identify the possible frauds to be occurred in future. Accordingly, one suggest to mitigate such risk.



**ROLES OF FORENSIC ACCOUNTING**

- To search the evident document which is of the key importance in the audit process.
- The forensic accountant can also give suggestions for internal control on activities on the basis of his experience.
- Forensic accounting is useful in finding the criminal intent.
- It is used in discovery of deception and its effects

**STEPS TO HANDLE FORENSIC ACCOUNTING MATTERS**

- Initial research is the first step for that they meet with legal representative to understand the frauds and to plan how to investigate furtherly.
- The second step is to collect data for that accountant has to search the data from records of bank, statements, journals, etc.
- Interviews will be the next step where accountant will interrogate each and every accused party to catch the hints or clues. That clues may lead to detection of final fraud.
- The next step will be analysis of all the gathered information, concluding the accounts, transaction finding the loop hole. Total loss will be calculated and presented in the form of report which includes graphs, chart, etc.
- Many times, forensic accountant can also be given the task of supporting the procedure of case.

**TECHNIQUES TO SPOT FRAUD**

- Mainly two ways to implement the techniques are: first, introduce the forensic accounting methods in business and second, merge the traditional organizational control system with modern system of detecting forensic fraud with the help of forensic accountant.
- Few of the techniques which can be used by forensic accountants are: The Cash T Method, the Source and Application of Funds Method, the Net Worth Method and the Bank Deposit Method.
- Others are data mining with computers, review of other documents using different methods and organizing interviews.
- It also includes internal control assessments, reviewing accounting processes, offering recommendations to reduce the risk of fraud, finding company’s vulnerability to scam and identifying weaknesses.

**GROWTH OF FORENSIC ACCOUNTING**

The unsuccessful audit by the audit committee leads to problems in accounting records. Forensic accounting helps in differentiating the facts and hidden aspects of fraud.

The wrong method of appointing statutory auditor can also bring problem and again forensic accounting and auditing can help out to search the problems from the records.

Internal auditor is the one who can easily identify the problems of mistakes from the records but cannot take the action in regards of same.

Problems scrutinizing the unclean and qualified reports, is also arising the need of forensic accounting

**SIGNIFICANCE OF FORENSIC ACCOUNTING AND SCAMS IN INDIA**

Scandal	Year reported	Scope	Key Players	Summary
Harshad Mehta Securities Market Scam	1992	Rs.4000 crore	Harshad Mehta	It has been alleged that he had used receipts of public sector banks to manipulate stock prices.
Ketan Parekh Securities Market Scam	2001	Rs. 40000 crore	Ketan Parekh	According to SFIO (Serious Fraud Investigation Officer) reports, he has scammed of worth approx. He had used banks and promoters funds to manipulate stock prices.
Stamp Paper scam	2003	Rs.30000 crore	Abdul Karim Telgi & his associates ,Police officers, Govt employees & politicians	Fraudsters used the methods which includes, counterfeiting of stamp papers, selling fake to bulk purchasers like banks, insurance companies & stock broking firms. Fraudsters



				sentenced to 30 years of rigorous imprisonment.
Satyam Scam	2009	Rs.7800 crore	Ramalinga Raju & his family, CFO & other top level management, Auditors & Board of Directors	The allegations comprises inflated figures of cash & bank balance, operating profit artificially boosted from 61 crores to 649 crores, used fictitious names of employees
2G Spectrum	2010	Rs. 70000 crore	A Raja, MK Kanimozhi, Nira Radia, Many Telecom Cos.	The main allegation was irregularities in awarding spectrum licences. Fraudsters include the method in which License issued on first cum first serve basis instead of auction. Advancing of cut off date which is illegal.
Commonwealth games	2010	Rs. 70000 crores	Suresh Kalmadi & other organizing committee members, 2 private companies & Govt officials	Allegations includes corruptions and mismanagement by the organizing committee, delay in the construction of main venue leading to misuse of funds, infrastructural compromise, hefty payments made in the name of non-existing parties
Coal Allocation	2012	Rs. 1.86 lakh crore	Controller and Auditor general of India, the coal Ministry, many electric boards & private companies	It has been alleged that fraudster has allocated coal blocks in an inefficient manner leading to windfall gain to allottees
ICICI Videocon scam	2012	Rs. 1,875 crore	CEO Chanda kochhar, her husband Deepak Kochhar & Videocon group MD Venugopal Dhoot	Between June 2009 and October 2011, the CBI revealed six loans totaling 1,875 crore were approved for Videocon and businesses connected to it, in violation of bank norms.
VVIP Chopper deal scam	2013	Rs. 362 crores	Augusta Westland Company, Former IAF chief SP Tyagi & his cousins, politicians, Govt officials & several middlemen.	It has been alleged that former IAF chief has won contract worth Rs. 36 billion in against bribe. Two Indian firms was in main role in the controversy.
Foreign exchange scam by BOB	2015	Rs. 6,000 crore	Employees of BOB banks and Oriental Bank of Commerce	In 2015, the agency charged many bank employees and others with sending transfers of more than Rs 6,000 crore to South-East Asian nations on behalf of 59 current account users from the Bank of Baroda's Ashok Vihar branch under the guise of supposed payments for "non-existent" imports.
Syndicate Bank scam	2016	Rs. 1,000 crore	CA Bharat Bomb, Shankar Lal Khandelwal and their other associates	By opening nearly 380 accounts, four individuals were able to cheat the bank of Rs 10 billion by utilizing phony cheques, Letters of Undertakings (LoUs), and LIC policies. The fraudsters used the methods like falsifying checks to appear as though they had been issued by shell firms under the control of



				<p>Bharat Bomb, as well as having loans approved in their names or the names of family members.</p> <p>Main fraudster Bharat Bomb, a chartered accountant located in Udaipur (Rajasthan), scammed the former Syndicate Bank of Rs. 1267.79 Crore in cooperation with bank employees. The scammers never returned the loans.</p> <p>Through a sophisticated web of transactions for placement, stacking, and integration of the tainted funds, Bharat Bomb transferred the proceeds of crime resulting from the fraud to numerous bank accounts that he operated or controlled, according to the investigation by the ED. In the names of himself, his family, friends, acquaintances, workers, tribal members, phony businesses, companies, etc., he invested these tainted assets in immovable properties.</p>
Pawan Bansal Bribe for loan scam	2016	Rs. 8,000 crore	CA Pawan Bansal	<p>The CBI's arrest of Jain and a chartered accountant named Pawan Bansal who was serving as a middleman for transactions between the head of Syndicate Bank and businesses seeking sizable loans represented a breakthrough. As the agency looked further, it found, bribes paid to the leaders of public sector banks and financial organizations in exchange for loans. Bansal is thought to be the scandal's mastermind.</p>
Vijay Mallya scam	2016	Rs. 10,000 crore	Kingfisher chief Vijay Mallya	<p>The central agency has accused a senior IDBI Bank official of conspiring to approve and disburse a loan to Kingfisher Airlines with the Vijay Mallya. According to the CBI, Mallya's actions demonstrate that he intentionally defaulted on the loans that Kingfisher Airlines had taken out in order to pay for the corporate jet, the Force India Formula One Racing Team, and other extravagant expenses.</p>
Bank of Maharashtra scam	2017	Rs. 836 crore	BOM officer Padmakar Deshpande & Siddhi Vinayak logistics ltd. Director	<p>The allegations says, in the duration from 2012 and 2014, Bank of Maharashtra had sanctioned different credit facilities to Siddhi Vinayak Logistics Limited, including working capital limit, term loans, and loans to 2,802 drivers of said logistics company under 'Chalak Se Malak' program for purchase of trucks.</p>
Rotomac Pens scam	2018	Rs. 3,695 crore	Vikram Kothari, promoter of Rotomac Pens	<p>The credit sanctioned from the export order received from Singapore for the supply of wheat was transferred to another firm called Bargadia Brothers Pvt. Ltd (Singapore), where it was used for reasons other than carrying out export orders. Later, Bargadia transferred the funds to Rotomac's account. In other</p>



				<p>instances, the funds paid out for the purchase of items for export were not used for this purpose, and the corporation did not execute an export order.</p> <p>Rotomac defrauded a group of seven banks by stealing bank loans totaling Rs2,919 crore. The total comes to Rs3,695 crore when interest is added.</p> <p>According to the CBI FIR, Rotomac owed Bank of India, Bank of Baroda, Indian Overseas Bank, United Bank of India (UBI), Allahabad Bank, Bank of Maharashtra, and Oriental Bank of Commerce (OBC) a total of Rs754.77 crore, Rs456.63 crore, Rs771.07 crore, Rs458.95 crore, and Rs97.47 crore respectively.</p>
PMC scam	2019	Rs. 4,355 crore	Joy Thomas, former MD of PMC, Rakesh Wadhawan and other promoters of HDIL	<p>The FIR filed against the Punjab and Maharashtra Co-operative Bank (PMC) Limited, which is subject to severe limitations from the RBI, contains significant disclosures. According to the FIR, the bank made large-scale loans to businesses, resulting in a staggering default of Rs 4,355 crore. The Reserve Bank of India discovered that PMC bank had created false accounts to conceal over 4,300 crore in loans to the company, which was at the time on the edge of bankruptcy, and this discovery led to the discovery of the fraud case. The PMC bank covered 44 questionable and fictitious loans, including HDIL, according to the RBI.</p> <p>The inquiry also showed that Rakesh Wadhawan and other HDIL promoters had fraudulently used money acquired from PMC bank for a number of projects while portraying it as clean.</p>
Nirav Modi PNB scam	2019	Rs. 14,000 crore	Nirav Modi & his Uncle Mehul Choksi	<p>The Punjab National Bank Fraud Case concerns a fake letter of undertaking of Rs. 12,000 crore (US\$1.4 billion) that was issued by the Punjab National Bank at its Brady House branch in Fort, Mumbai, and which held the bank accountable for the sum. Nirav Modi, a jeweler and fashion designer, is accused of organizing the fraud.</p>
ABG Shipyard scam	2022	Rs. 22,842 crore	ABG Shipyard and its directors	<p>The CBI claims that ABG Shipyard and its directors defrauded 28 banks (the consortium is headed by SBI) out of Rs. 23,000 crore. According to the agency, ABG Shipyard started taking out loans in 2005, but in 2013 the account converted into non-performing assets (NPAs) because of past-due debts.</p>

Source: Researchers' compilation





## CONCLUSION

From Indian Perspective, this article is focused on forensic accounting in India, the roles of forensic accountant and the techniques used by forensic accountant to identify the scams and to reduce its risk in company. By using the different techniques on the basis of the fraud in company accountant can easily spot the crime, the skills needed for the same is knowledge about computer forensics, fieldwork and interviews, forensic accounting analysis, investigation intelligence and analysis and investigation report and recommendations.

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