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Forensic Accounting in India: A Technique of Fraud Prevention and Detection: With special reference to Bank Scams in India

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ABSTRACT

Forensic accounting in India has come spotlight only in recently due to rapid increase in financial Frauds and the white collar crimes. With an upswing in financial accounting fraud in the global economy, forensic accounting has become an emerging topic of vital importance for academic, research and industries. It is investigation in details about evidences. Forensic accounting is that area of accounting which establishes the practical/logical relationship between accounting and litigation. Major thrust behind application of forensic accounting is to uncover the financial collapse and saving the public money from misuse. India's image in the transparency index is not very emboldened so it required building public confidence and investor's trust. The present deals with the status of forensic accounting in India scams occurred in last decade. On the basis of findings of study it is concluded that forensic accounting is on infancy stage in India, very few (48) firms are providing this service. In recent past years use of forensic accounting has brought more frauds under scanner.

Keywords: Accounting, audit, forensic, financial frauds etc.

I. INTRODUCTION

Forensic accounting in India has come spotlight only in recently due to rapid increase in financial Frauds and the white collar crimes. it is expected that with the application forensic accounting techniques the pace of financial frauds can be controlled The dictionary meaning of term 'fraud' is deception to dishonestly to make a personal gain for oneself and a loss for another." Although the legal definitions of fraud may differ from country to country, most are based around these general themes. Examples of fraud commonly include theft, corruption, conspiracy, embezzlement, money-laundering, bribery and extortion. With an upswing in financial accounting fraud in the global economy, forensic accounting has become an emerging topic of vital importance for academic, research and industries. It is investigation in details about evidences. Forensic accounting is that area of accounting which establishes the

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practical/logical relationship between accounting and litigation. In legal terms, forensic refers to evidence that is relevant. To carry the forensic accounting it requires three types of skills to conduct which are accounting, auditing and investigating skills. The main aim of forensic accounting is fraud detection in books of accounts to bring white collar crime in public knowledge. Its main essence lies in using accounting and auditing practice to find the evidences in transaction trail and establish connection with misrepresentation of facts in the court of law. Major thrust behind application of forensic accounting is to uncover the financial collapse and saving the public money from misuse. India's image in the transparency index is not very emboldened so it required building public confidence and investor's trust.

II. DEFINITION OF FORENSIC ACCOUNTING

Forensic Accounting Terminology According to AICPA (1993): "Forensic accounting is the application of accounting principles, theories, and discipline to facts or hypotheses at issues in a legal dispute and encompasses every branch of accounting knowledge." Forensic accounting is defined by Zia (2010) as: "The science that deals with the relation and application of finance, accounting, tax and auditing knowledge to analyze, investigate, inquire, test and examine matters in civil law, criminal law and jurisprudence in an attempt to obtain the truth from which to render an expert opinion."

Though it is a new area, but in recent years, the use of forensic accountants has widened to banks, insurance companies and even police. The increase in white collar crime and the problems confronted by law enforcement organizations in exhuming fraud also led to the development of the professional Institutions such as institute for certified forensic accountants at global level. The Institute of Chartered Accountants of India (ICAI) and the Association of Chartered Certified Accountants (ACCA) offer training and courses on forensic auditing in India.

(A) Forensic accounting and Banking industry:

Forensic accounting is important tool for detection of frauds and misappropriation of funds in corporate world. In case of financial frauds this become utmost important for banks too. Banking system is the barometer of financial system of any country. Any fraud in banks leads to lose to public money and it tarnish the image of country at global level. In recent years India has witness a large number of bank scams involving huge amount of loss to the public as well as to the government. During data collection it was found that in majority of cases culprit person uses the false financial statements to take loans, and bank official misuse their position to support the fraudulent persons by violating banking norms of lending it leads to NPAs and

hence leads to loss to the banks and loss of public money. Moreover it shatters the trust of people in banking system of country. So there is need to set up regulatory norms like compulsory forensic accounting, forensic audits to prevent the frauds and scams

(B) Development of forensic accounting in India:

In India, Kautilya was the first person to describe in his famous book Kautilya Arthashastra the famous forty ways of misappropriation. A specialist area of accounting known as "forensic accounting" is responsible for examining financial data to be used in judicial processes and conducting fraud investigations. Chartered Accountants in India are entrusted upon to undertake such investigative tasks. After Enron case, Rajat Gupta case and Satyam case, wide use of Forensic Accounting developed in India. Very few chartered accountant firms have as separate practice of examination of fraud.. However, the big four MNC consultancy firms like Deloitte, KPMG, Price water House Coopers and Ernst and Young have strong command in this area by and large. For the Forensic Accountants, the setting up of Serious Fraud Investigation Office in India is futuristic step. Forensic accounting is on infancy state in India, it is yet to develop and widen its scope . The new Companies Act 2013 includes specific provisions to define the risk of fraud, alongside describing greater responsibility and increased accountability for independent directors and auditors. It goes beyond professional liability for fraud and extends to personal liability. This Act also introduces a new term - Internal Financial Control (IFC) - which has certain features of IC and certain features of ICFR

(C) The Techniques of Forensic Accounting

Besides the various conventional techniques of auditing, forensic auditor used some special techniques which are as follows:

- i) **Interview Technique:** This is the most frequently used technique to conduct any enquiry. Forensic accounting investigators generally make use of this technique which is so designed to get an admission of guilt by the person involved in fraud scheme. The results from the responses form an integral part to be used in court and adjudication process.
- ii) **Benford's Law:** It is a mathematical as well as statistical tool to find whether variable under investigation is type of unintentional errors or signifying any suspicious movement. Benford suggested the probabilities for the occurrence of each digit at different places in the number whereby if the data is manipulated; the said digit would not appear at the same place. Benford's Law does not discover the frauds but only indicates the probable field of fraud.
- iii) **Theory of Relative Size Factor (RSF):** RSF technique is used to check the logical

relation between data figure. Here ratio is used to identify the number in the data but in some relation with the second highest data in the number to check the fluctuations. In this method the data that fall outside the defined range is considered for further investigation. It is used to spotlight all unusual fluctuations, which may be originated from fraud to genuine errors.

- iv) **Computer Assisted Auditing Tools (CAATs):** CAATs are computer programs developed for the support of auditors. Forensic accounting software comes into two varieties- data extraction software and financial analysis software. Data extraction software is designed to oversee the spreadsheet analysis on all the company's data base records, such as billing, accounts receivable, payroll, purchasing etc which helps to discover suspected frauds. Financial analysis software analyses the financial statements and set a benchmark ratios between different accounts such as billing by revenues or supply costs as a percentage of revenue.
- v) **Data Mining Techniques:** It is a set of computer-assisted programmes designed to automatically mine large volumes of data for new, hidden or unusual information or patterns. Data mining techniques are categorized in three ways: Detection, Predictive, modeling and Deviation and Link it to analysis. It find out the usual knowledge or patterns in data, without a predetermined idea or hypothesis about what the pattern could be, i.e. without any prior knowledge of occurrence of fraud. In predictive modeling, patterns found out from the database are used to estimate the outcome and to guess data for new value items. In Deviation analysis the norm is found.
- vi) **Ratio Analysis:** Data analysis ratios for key numeric areas are also a useful method used by forensic accountants to detect the frauds. The following three ratios are commonly used to do data ratio analysis to report on the fraud by recognizing possible symptoms of fraud · 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.

III. DATA ANALYSIS AND INTERPRETATION

1.1 Table: Total Number of bank frauds reported since 2009-2022

FY(financial year)	Number bank frauds reported	% of increase
2009	4372	-

2010	4669	7%
2011	4534	3% (decrease)
2012	4093	10% (decrease)
2013	4235	3%
2014	4306	1.6%
2015	4639	8%
2016	4693	1.1%
2017	5076	8%
2018	5916	16%
2019	6800	15%
2020	8703	28%
2021	7359	15% (decrease)
2022	9103	23%

Source:(statista.com, rbi.org)

(A) Interpretation:

Above table shows the number of bank frauds occurred since 2009 we can see the mix trends in number of frauds. This include every type of possible bank frauds it can be forgery of cheques, theft of information, theft of cards etc. in the year 2022 as per RBI report total no. of 9103 frauds reported it is only because from last 10 years RBI taking more stringent steps such as periodic audits, use of forensic accounting technique to book the culprits. It is because of strict measures that more case of frauds is reported.

(B) Status of forensic accounting Firms :

There are very few specialized firms who are providing services of forensic accounting. Mostly firms are C.A firms who along with audit services forensic audit also proving. Till date there are 48 firms who are providing these services, out them top ten firms on the basis of client reviews are given below along with their focus on forensic accounting techniques and procedures.

Table 1.2: Top 10 forensic accounting service provider firms in India:

Sr. No.	Name	City	Focus on forensic accounting
1	Valuenode	Nanakaramguda	15%
2.	R S N & Associates	Chennai	10%
3	UJA	Pune	15%
4	Grandmark	New delhi	100%
5.	Meru Accounting	Ahmedabad	25%
6.	JATIN RATHOR & ASSOCIATES CHARTERED ACCOUNTANTS	Pune	20%
7.	Batliboi & Purohit, Chartered Accountants	Mumbai	100%
8	Khimji Kunverji & Co	Mumbai	50%
9	Mahajan And Aibara	Mumbai	100%
10	Aneja Associates	Mumbai	46%

Source:<https://clutch.co/in/accounting/forensic>

(A) Interpretation: It clear from the above table that mostly firms are Mumbai based or other metro cities, out them only 3 are 100% focusing on forensic accounting whereas more than 50% are taking it as side a services. This is due to that even clients doesn't want to take this service just to window dress their financial statements.

(B) Scams in India in last decade:

Though the number of scams occurred in last decade is quite large like 2G spectrum,colgate,telgui, harshad Mehta, commonwealth, shradha chit fund,ponzi schmes etc. list is very large . Due to limitation of time and data we have covered here top 10 bank scams that occurred in last decade:

1.3 Table :Top 10 scams in India in last decade:

Sr no.	Name of scam	Amount involved	Person involved	Details/ modus operandi
1.	ABG shipyard scam	Rs.22842 Crore	Rishi aggarwal	<p>Raised loans from a consortium of 28 banks</p> <p>The monies raised through these loans were diverted through 98 sister concern firms</p> <p>Mainly used to create personal assets.</p>
2.	PNB Scam	Rs. 14,000 crore	Nirav modi Mehul choksi Nishal modi Ami modi	<p>Fraudulently acquired guarantees worth ₹ 11,400 crore to obtain loans from the overseas Indian bank branches.</p> <p>Claiming to need the cash to import pearls</p>
3.	Kingfisher scam	Rs. 10,000 crore	Vijay mallaya	<p>Taken loan worth Rs. 9000 crore from banks to fund its loss making airline.</p> <p>Used his influential power to get loan for loss making companies</p>
4.	CA pawan bansal loan scam	Rs.8000 crore	Pawan Bansal	<p>Uses his clout and influence over several bank heads to get loans sanctioned to private companies.</p> <p>Loan proposals go through his firm on the pretext of providing various financial</p>

				services.
6.	Foreign excjange scam of bank of baroda	Rs.6,000 crore	Tanuj Gulati, Ish Bhutani, Ujjwal Suri, Hunney Goel, Sahil Wadhwa, and Rakesh Kumar	Foreign exchange remittance from non existent accounts for imports Transfer to different accounts keeping amount less than \$1 lakh Addresses of mostly receivers weresame or false.
7.	PMC scam	Rs.4355 crore	Daljit singh Joy Thomson Rakesh wadwan	The bank had allegedly created fictitious accounts to hide over ₹6,700 crore in loans with 43 accounts all belong to one client i.e. HDIL The loan amounts were used to buy properties, to repay old loans
8..	Rotomac Pen Scam	Rs.3695crore	Vikram kothari	Took loans from multiple banks for their export business by showing false financial statements No export orders were executed.
9.	Videocon Group loan scam	Rs. 3,000 crore	Chanda kocchar Deepak kocchar	Credit facilities of around ₹3,250 crore by violating provisions of banking

				regulation Act. Majority amount was transferred to Deepak kocchar's companies
10.	Syndicate bank scam	Rs.1000crore	Bharat bomb Shankar Lal khandewal	Getting loans sanctioned in their name or in the name of family members Fake cheque discounting purported to be issued by the shell companies Loans were never repaid by the fraudsters,

From the above we can judge how much public money has been misappropriated by financial frauds. Above in every case bank money is involved which is common man's saving, hard earned money. So it shows that there is need of stringent measures to discourage this practice. In India though there are multiple regulatory bodies like RBI, SEBI, Income Tax, Company law board but even then frauds of huge amounts happened and culprits in maximum cases are out or flee the country. So it give strong point to establish separate body of forensic accounting which on regular basis conduct the enquiries and make financial frauds difficult to happen.

IV. FUTURE FORENSIC ACCOUNTING CHALLENGES IN INDIA

A forensic accountant, regarded as a bloodhound of accounting rather than a watchdog. But while working in India, forensic investigators must deal with a number of difficulties, some of which are listed below:

- There is no formal forensic institute in India who laid down the format, processes and procedures to carry forensic accounting and audit. Due tom lack of this it is voluntary area and used when there is suspected loss, not as preventive step.
- There is a very few of forensic investigators in India. Because of this, there is a lack of skilled accountants with the necessary technical skills to conduct forensic accounting.
- The majority of fraud cases in India are with the support of politicians, so it's important as well as difficult to collect evidence against them too.
- Indian courts continue to operate under the traditional British judicial system. As a

result, taking the case to court and hiring experts and bringing the guilty to prison is a difficult task. Moreover this is very time consuming hence it takes many years to book the crime. This gives encouragement to other frauds to happen.

- It is herculean task to prosecute financial fraudsters from other nations. In some cases there is no extradition treaty exist.
- Technology is the biggest challenge for forensic accountants to control because of fraudsters' constant use of new information and technology tactics to commit fraud.

V. CONCLUSION

It is concluded that the financial scams in India is rising due to lack of stringent surveillance authority. Evolution of technology has also given opportunity for fraudsters to commit the crime. However, in India this branch of accounting has recognized. In this process we are behind the western countries, till date there is no formal institute or format for implementing forensic accounting but as branch of accounting and audit it is used to detect the possible frauds. In the emerging economic scenario, the necessity of forensic accounting is required. It also becomes important to train forensic accountants. So there is need of formal courses and institutes. Here colleges and universities have an important role to play. Our leading institutions ICAI and ICWAI have designed qualification course such as Diploma in investigative and forensic accounting in recent years. It is also suggested that ICAI should also formulate an accounting standard on Forensic Accounting so that Forensic Accountants can assist the law enforcement agencies and regulatory bodies in preventing white-collar and financial scams.

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