

Study the Role of Forensic Accounting in Detecting and Preventing Frauds or Scams in India through Different Techniques: A Review

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Available online at: www.xournals.com

Received 7th January 2018 | Revised 10th April 2018 | Accepted 15th May 2018

Abstract:

In present scenario, need of forensic accountant is increasing, as the financial crime is increasing day by day. According to the study, it is found that the uncontrolled financial scams in India is rising due to the lack of strict surveillance authority. Forensic Accounting is in a beginning state in India, which came to the knowledge due to rapid increase in white collar crimes. It is now being used in the sector of banks and insurance companies along with the police agencies. Forensic Accounting is the contribution of accounting, auditing and investigative skills. This study is a theoretical analysis, discussing about the role of forensic accountant in detecting and preventing financial frauds or scams which are taking place in India through different techniques such as Benford's law, Theory of Relative Size Factor (RSF), Data Mining Techniques and Ratio analysis. The present study is done by the available literature on forensic accounting and its applications.

Keywords: Forensic Accounting, Financial Frauds, Scams, White Collar Crimes.

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Introduction

Because of the excessive fraud committed in corporate sectors, forensic accounting and financial investigation is being focused nowadays (Bansal, 1). In accounting, forensic accounting is rapidly developing area as it is apprehensive with the detection and prevention of financial fraud and white collar criminal activities (Shaheen *et al.*, 171). A field which helps to identify the issues of prevention and investigation of white collar crimes is Forensic Accounting. It is very difficult to take severe or stern measures on fraud as it needs investment. There is substantial increase in white collar crime over the last two years as noted by the KPMG Fraud Survey. In Indian business, corruption is very common through which the business associates had been made the rule of greasing their hands. India ranks 81st most corrupted country in the world as per the report of global anticorruption watchdog (Moid, 24).

The art of recording, classifying and summarizing the money, transaction and events and interpreting the result in a significant manner is called accounting. The term forensic accounting is defined as the application of specialized knowledge and specific skills to identify unauthentic transactions, to gather, analyze and evaluate the evidence (Shaheen *et al.*, 171) against the perpetrators of economic crimes that will be accepted by the court of jurisprudence.

For the purpose of assisting in legal matters, forensic accounting includes the use of accounting, auditing and investigative skills (Moid, 24). Nowadays different types of frauds are going on among which employee fraud, identity theft and cyber fraud are the most commonly used frauds. There are some types of frauds discussed below:

Types of Fraud

There are following types of frauds through which forensic accountant deals with.

1. **Bank Frauds:** In bank fraud, perpetrator uses, illegal means to obtain money, assets or other properties held by the bank or financial institutions.
2. **Corporate Fraud:** The unlawful gain or advantage of the perpetrating company by an illegal activity of an individual or company.
3. **Cyber Frauds:** A crime that involves computer or network either for committing the crime or making it target, is called as cyber frauds.

4. **Securities Fraud:** An ambiguous training in stock market to induce the investors for making purchase and sale on the basis of false information. It is also known as stock fraud and investment fraud.
5. **Identity Theft:** In this type of fraud, fraudsters uses someone's credit card or bank account for purchasing the items.
6. **Insurance Frauds:** Insurance sectors involves different types of frauds such as health insurance, claims fraud, false claims, insurance speculations, application fraud etc. (Shaheen *et al.*, 172, 173).
7. **Employee Fraud/Misappropriation of Assets:** This is the most common type of fraud deals with the stealing of cash or inventory, skimming revenues, payroll fraud and embezzlement. Fraudulent disbursements such as billing schemes, payroll schemes, expense refund schemes, check tampering, and cash register expenditure schemes are the primary examples of asset misappropriation.
8. **Financial Statement Fraud:** It includes unlawful activity such as manipulation, falsification, or alteration of accounting records or supporting documents from which financial statements are prepared (Golden *et al.*, 5).

Role of Forensic Accountants under Indian Laws

Although there is no discussion about the Forensic Accountant in the Indian statutes, but in statutes 6, there are various provisions related to the Forensic Accountant/Auditors. It can be classified as follows:

1. **Investigation and Inspection:** The investigative authorities like Police, ACP and others may take helps from the forensic accountant in collecting the evidences and for other investigation purposes. For example section 157 Cr. P.C, 1973; section 17, 18 of the Prevention of Corruption Act, 1988; Section 6 of The Bankers Books

Evidence Act, 1891; Section 78 of Information Technology Act, 2000; Section 209A, 227 of the Companies Act, 1956

2. **Expert Opinion:** A skilled Forensic Accountant may carefully examine the accounts and balance sheets to find out the reality of the case that whether the fraud committed or not by giving his expert opinion. This finds place in for example s.45, s.118 of Indian Evidence Act, 1872; s.293 of Cr. P.C, 1973.

3. Forensic Accounting under Caro (The Companies Auditor's Report Order, 2003):

Scams in India

Forensic accounting has been grab the attention after the rapid increase of white collar crime and also due to

This includes disposal of fixed assets, report on frauds, and transactions with related parties etc.

the perception about the Indian judicial law that it is not strict to expose the frauds or scams (Singh, Grewal and Singh, 2015). There are some scams took place are as follows:

Table 1 - Different Scams in India

Scandal	Year Reported	Scope	Key Players	Summary
Stamp Paper Scam	2005	Rs.600 Billion	Abdul Karim Telgi & his associates, Police Officers, Govt. Employees & Politicians	Counterfeiting of stamp papers. Selling fake to bulk purchasers like banks, insurance companies & stock broking firms. Sentenced to 30 years of rigorous imprisonment.
Satyam Scam	2009	Rs.14000 Crore	Ramalinga Raju & his Family, CFO & other top level management, Auditors & Board of Directors	Falsified revenues, margins and cash balance, operating profit artificially boosted from 61 crores to 649 crores,
2G Spectrum	2010	Rs. 1760 Billion	A Raja, MK Kanimozhi, Nira Radia, Many Telecom Cos	Irregularities in awarding spectrum licenses. License issued on first cum first serve basis instead of auction. Advancing of cutoff date which is illegal.
Common-Wealth Games	2010	Rs. 35000 Crores	Suresh Kalmadi & other Organizing Committee Members, 2 Private Companies & Govt. Officials	Allegations of 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
Uttar Pradesh NRHM Scam	2010	Rs.10,000 Crores	Mayawati, Babu Singh Kushwaha	Top politicians and bureaucrats are alleged to have siphoned off a massive sum estimated at (US\$1.6 billion) from the National Rural Health Mission, a central government program meant

				to improve health care delivery in rural areas.
Adarsh Housing Society Scam	2010	Not known yet	Top Army Officials, IAS Officers, Politicians & Legislators	Originally meant to be a six storey structure to house Kargil war heroes and widows, got converted into a 31-storey and allotted to bureaucrats, top defence officers, a former environment minister and legislators. The market rate was 6-8.5 crores & was allotted at a throw away price of 60-85 lakhs. Violations in environment rules.
Indian Coal Allocation Scam	2012	Rs. 1.86 Lakh Crore	Comptroller and Auditor general of India, the coal Ministry, many electric boards & private companies	Coal blocks allotted, not auctioned, leading to estimated losses as per the Comptroller and Auditor General of India.
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 accepted bribes to win contract worth Rs. 36 billion.

There is a major role played by the forensic accounting in solving all the pre mentioned fraud/scam cases using different techniques of forensic accounting. There are some techniques used in solving the financial crimes are as follows.

Techniques used in Forensic Accounting

In this developing world, technologies used by the criminals and fraudsters are also developing constantly. Therefore, to prevent and detect these fraud forensic accounting must need to be more advanced in technology. There are some of the forensic accounting techniques discussed below for examining the frauds (Shaheen *et al.*, 176).

1. Benford's Law:

It is the mathematical tool to determine whether the variable under examination is unintentional error or result of frauds (Moid, 28). It is the frequency distribution of digits in many real life sources of

data. In this frequency distribution, 1 is the leading digit about 30% of the time whereas 9 is the first digit which is less than 5% of the time (Shaheen, 176). This law is helpful when there is no supporting document to prove the authenticity of the transactions as it is not affected by scale invariance (Moid, 29).

2. Theory of Relative Size Factor (RSF):

The unusual errors or fluctuations of transactions, which may be routed from fraud or genuine errors is identified by this technique. RSF can be measure as the ratio of largest number and second largest number in the given set. It helps in better detection of differences or outlines (Shaheen *et al.* 176).

3. Data Mining Techniques:

It is a set of supported techniques intended to automatically mine large volumes of data for new, hidden or unexpected information of patterns. This

technique can be classified in three ways which are discovery, predictive modeling and deviation and link analysis.

4. Ratio Analysis:

It is the calculation of data analysis ratios for key numeric fields. There are three commonly employed ratios are:

- a. Ratio of the highest value to the lowest value
- b. Ratio of highest value to second highest value
- c. Ratio of current year to previous year

Using the ratio of analysis, forensic accountant can examine the relationship between costs and some measures of production. This technique helps a forensic accountant to estimate the expenditures (Moid, 29).

REVIEW OF LITERATURE

Shaheen *et al.*, (2014) discussed about the forensic accounting and fraud examination in India, stated that forensic accounting is being used as an investigative tool rather than the preventive tool and also said that scams can be restricted if the forensic auditing is mandatory in various financial sectors.

Olajide, (2014) noted that there is need of the application of forensic accounting in detecting and preventing the cases of corruption. It was also noted that the basic need of fighting corruption i.e. teaching of forensic accounting is not established.

Azih and Okoli, (2015) studied on the uses of forensic accounting and basic skills needed for the use of forensic accounting in public sectors of Nigeria and said that the significance of forensic accounting is vital for the detection of fraud in every organizations. In the conflict of high level of corruption in both public and private sectors, it is the authentic tool.

Singh, Grewal and Singh, (2015) stated that there is need of plenty of knowledge about the forensic accounting and also recommended that the courses related to the forensic accounting must be started in universities for making the students as expert of detecting and preventing the fraud and corruption.

Moid, (2016) observed that the financial scams in India are uncontrolled due to the lack of stringent surveillance authority. She also learned about the substantial losses in India due to the rapid rise in white collar crime in India and about the belief that our law enforcement agencies do not have sufficient expertise and sufficient time to reveal frauds.

Bassey *et al.*, (2017) worked on the effect of forensic accounting and litigation support on fraud detection of banks in Nigeria and found out that the fraudulent activity in Nigerian companies was actual and was increasing rapidly. They also found that the forensic accounting is not much more significant in detecting fraud due to which they suggested some recommendations like management and shareholders should be educated on the usefulness of the services of forensic accountants and Nigeria legal system should be supported to lend reliability or confidence in their legal systems.

Bansal, (2017) stated that the establishment of the professional practices in trend in the areas of forensic accounting and fraud detection is needed. The study proceeds to fill the research gap by identifying it, with survey and analysis. Based on the opinions of professionals, the survey hypothesis was created.

Lama and Chaudhuri, (2018) stated that the forensic accounting is best growing area of accounting that gives the chance of success in corporate sector by improving the role of corporate governance and also helps in formulation and establishment of the efficient control system.

Conclusion

The present study is on the role of forensic accounting in detecting and preventing frauds or scams in India through different techniques. As the crimes or frauds are committing and increasing day by day, there are various techniques discussed here in this review study for the detection and prevention of fraud. The practice and development of forensic accounting is very less in developing countries like India than the other developed countries till date. It is concluded that there is a need of advancement in the field of technologies to detect and prevent the frauds.



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