

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

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## Abstract:

*As we look down to the present scenario, where there has been a drastic rise in financial treachery and money related frauds, a need has arisen of experienced forensic accountants. According to the study, it is found that financial scams that took place in the history of India and which is still ought to happen is mainly due to the lack of stern organizations which can have a control on every abnormal financial activity. This study has discussed about what role does a forensic accountant play in detecting and preventing financial frauds or scams which are taking place in India. Various methods like as Benford's law, Theory of Relative Size Factor (RSF), Data Mining Techniques and Ratio analysis are also discussed in this piece of study. 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 an area which is developing rapidly as it aids in detection of any kind of financial treachery such as money laundering, white collar criminal activities etc. (Shaheen *et al.*, 171). Therefore, Forensic Accounting is a branch of Forensic Science which helps in uncovering financial criminal ideologies. 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 81<sup>st</sup> 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 described as the application of specialized, comprehensive knowledge and skills to locate unauthentic transactions. Thereby taking strict steps in order to prevent these type of criminal activities.

For the purpose of assisting in lawful affairs, forensic accounting comprises the use of auditing, accounting, along with the 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 this kind of financial fraud, perpetrator uses, illegal means to procure bank's assets, money, securities etc, thereby tempering the core of revenue of any country.
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, also termed 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 unlawful claims in insurance, this include any kind of insurance such as health insurance, vehicular insurance, home insurance etc. (Shaheen *et al.*, 172, 173).
7. **Employee Fraud/Misappropriation of Assets:** This type of fraudulent include cases of the stealing, scooping off revenues, stipend related frauds etc. Unethical activities such as manipulation in the billing schemes, payroll schemes, expense refund schemes, cheque manipulation etc. are the primary examples of asset misappropriation.
8. **Financial Statement Fraud:** Any such activity which includes manipulation, in the accounting records and other such documents from which financial statements are prepare are put under this category. (Golden *et al.*, 5).

### Role of Forensic Accountants as per Indian Law

Forensic Accountants has not been mentioned in Indian laws, however statutes 6 has given several information about forensic accountants or auditors. It can be classified as follows:

1. **Investigation and Inspection:** The investigative authorities with the help of forensic accountants may collect evidences for future examination and investigation. For example section 157 Cr. P.C, 1973; section 17, 18 of the Prevention of Corruption Act, 1988; Section 6 of The Bankers Books are some examples of this criteria.

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

2. **Expert Opinion:** This is an opinion given by a skilled and experienced accountant after deep
3. **Forensic Accounting under CARO (Companies Auditor’s Report Order, 2003):**

### Scams in India

Forensic accounting has grabbed the attention of the people after the shooting growth in white collar crimes and also because of the observation which

investigation of case study, whether a particular crime has took place in reality or not. Example s.45, s.118 of Indian Evidence Act, 1872; s.293 of Cr. P.C, 1973.

normally dwells in people’s mind that the Indian judiciary is not strict to expose and prevent the frauds and scams. (Singh, Grewal and Singh, 2015). Given below is a table which includes information regarding different types of scams that took place recently in India.

**Table 1 – Scams that took place in India**

Scandal	Year	Amount	Brief
Stamp Paper Scam	2005	INR Six Hundred Billion	Imitation of stamp papers. Selling of duplicates to bulk purchasers like banks, insurance companies & stock brokers.
Satyam Scam	2009	INR Fourteen thousand Crores	False revenues statements, margins and cash balance, profit exaggeratedly increased from 61 crores to 649 crores.
2G Spectrum	2010	INR. One Thousand Seven Hundred and Sixty Billion	Abrupt awarding of spectrum licenses. License distributed on first cum first serve basis instead of auction. Proceeding of cutoff date which is unlawful.
Common-Wealth Games	2010	INR Three Thousand Five Hundred and Thirty Crores	Accusations of dishonesties and maladministration by the establishing team, postponement in building the main location resulting to a exploitation of funds, infrastructural compromise, large payments made in the name of non-existing parties
Uttar Pradesh NRHM Scam	2010	INR Ten Thousand Crores	Top politicians and bureaucrats are alleged to have siphoned off a massive sum from the National Rural Health Mission.
Adarsh Housing Scam	2010	Not known	Originally meant to be a six storey structure to house Kargil war soldiers and widows, but 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	INR One Thousand Eighty six billion	Coal blocks allotted, not auctioned, leading to estimated losses as per the Comptroller and Auditor General of India.
VVIP Chopper Deal Scam	2013	INR Three Hundred sixty two crores	Former IAF chief has accepted bribes to get 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 frauds (Shaheen *et al.*, 176).

**1. Benford’s Law:**

It is the mathematical tool to establish if the variable under examination is unintentional error or result of frauds (Moid, 28). It is the frequency distribution observation of figures related to many real life sets of numerical 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 no any other document is present to demonstrate the legitimacy of the dealings as it is not affected by scale invariance (Moid, 29).

**2. Theory of Relative Size Factor (RSF):**

The uncommon errors or variations of transactions, which might be because of a scam or a true error is identified by this technique. RSF can be calculated 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 developed to automatically extract large volumes of data for new, hidden or unexpected information of patterns. This technique is classified in 3 ways viz.

- a) Discovery
- b) Predictive modeling
- c) Deviation and link analysis.

**4. Ratio Analysis:**

The calculation of data ratios for key numeric fields is known as Ratio analysis. There are generally three employed ratios which are as follows:

- 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

With the help of analyzed ratios, forensic accountant can examine the relationship between costs and measures of production. This technique helps a forensic accountant get an estimate of the expenditures (Moid, 29).

**REVIEW OF LITERATURE**

Shaheen *et al.*, (2014) discussed about forensic accounting and fraud examination in India, in which he stated that forensic accounting is being used a tool for investigation and not for prevention and also said that scams can be restricted if the forensic auditing is mandatory in financial sectors.

Olajide, (2014) noted that there is of need of applying forensic accounting in the detection and

preventing financial bugs. It was also noted that the basic need of fighting corruption i.e. teaching of forensic accounting, has not been implemented.

**Azih and Okoli, (2015)** studied about the uses of forensic accounting and skills needed for the use of forensic accounting of Nigerian public sectors and said that the significance of forensic accounting is vital for the detection of fraud in every organization. In the conflict of high level of corruption in both public and private sectors, it serves as an authentic tool.

**Singh, Grewal and Singh, (2015)** stated that there is a genuine want of proper knowledge about forensic accounting and also recommended that the courses related to the forensic accounting should start in universities for making the students an expert in detecting and preventing fraud and corruption.

**Moid, (2016)** observed that the financial forgeries in India are shooting up because of the lack stern surveillance organization. She also learned about the substantial losses in India due to the rise in white collar criminal acts such as making black money into white and about the assumption that our law enforcement agencies do not have expertise and sufficient duration to expose frauds.

**Bassey et al., (2017)** worked on the effect of forensic accounting and litigation support on treachery 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 the best broad 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 application of forensic accounting in detecting and preventing frauds or scams in India with the help of different techniques. As financial frauds are 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 quite unknown in a developing country like India. Therefore it is concluded that there is a need of advancement in the field of technologies to detect and prevent financial mislead



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