

UGC APPROVED

ISSN : 2319-8168

An International Quarterly Referred Journal

# Research Zone India

(A Journal of Multi disciplines)

Special Issue Vol. 1 January 27, 2018



NATIONAL SEMINAR  
ON

SMV  
2018

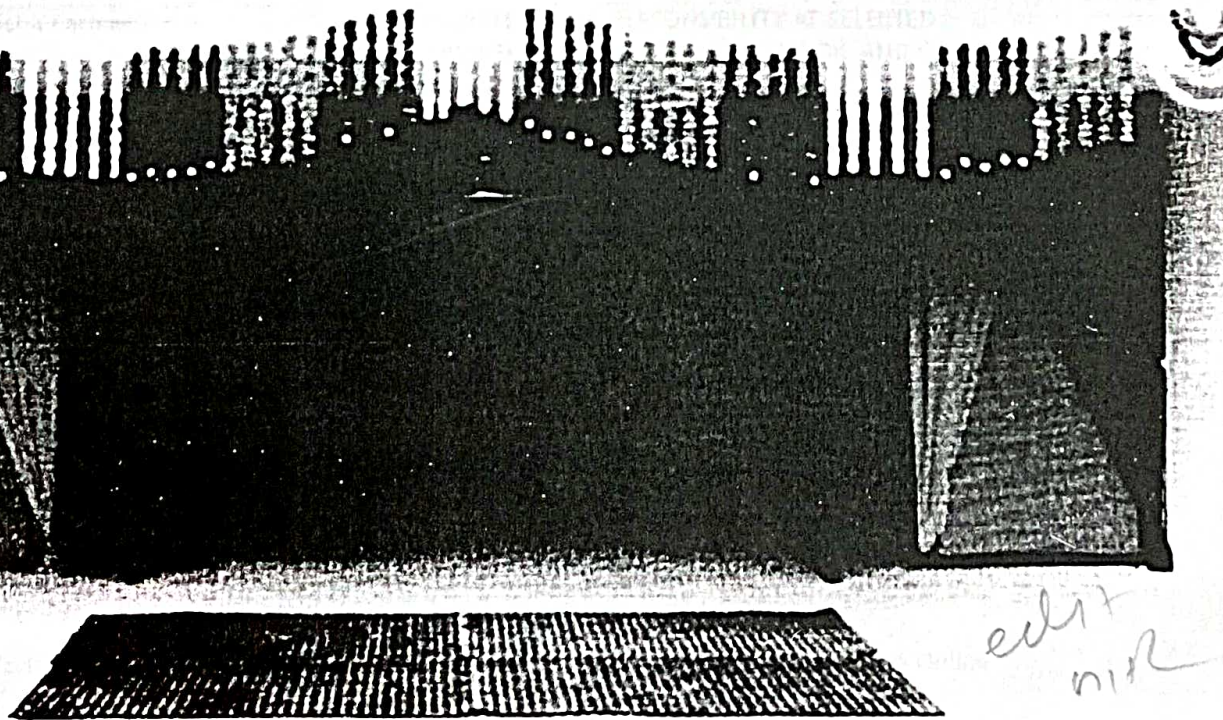


## CHANGING FOCUS OF ACCOUNTING AND DISCLOSURE

SATURDAY, JANUARY 27, 2018

DEPARTMENT OF BUSINESS STUDIES  
GROUND FLOOR

05



edit  
nir

ORGANISED BY  
DEPARTMENT OF BUSINESS STUDIES

University Road, Sardar Patel University,  
Vallabh Vidyanagar - 388120, Dist. Anand, Gujarat, India  
Ph: 079-2245307, 226872, 226873  
www.spuvn.edu

151	Dhartiben P. Rami Dr. Kamini Shah	⇒	AN ANALITICAL STUDY OF CSR ACTIVITIES OF SELECTED INDIAN POWER COMPANIES
159	DHAVAL NAKUM KOMAL RAVAL	⇒	A STUDY ON INVESTOR EDUCATION AND AWARENESS PROGRAMMES OF SEBI
164	Dilipkumar K. Parmar	⇒	CURRENT STATUS OF IFRS IN INDIA
171	RAVALIYA DIPIKA M.	⇒	Investors protection mechanism in India
175	Disha S. Lalwani	⇒	Corporate Governance Challenges in a Family-run Business Enterprise
179	Dr Dimple.B. Dharamasi	⇒	THEORY AND PRAXIS OF CORPORATE SOCIAL RESPONSIBILITY IN INDIA VIS A VIS COMPANIES ACT 2013
188	Dr. Khyati J. Patel	⇒	Forensic Accounting Profession in India: Problems and Prospects
196	Dr. Samir M. Vohra	⇒	FORENSIC ACCOUNTING AND FRAUDS IN INDIA
202	Dr. Sheetal P. Vekariya	⇒	CORPORATE SOCIAL RESPONSIBILITY - ACASE STUDY ON INDIAN OIL CORPORATION LTD.
209	HETAL KHERALA MUSTUFA J. MANSURI	⇒	FORENSIC ACCOUNTING: NEEDS TO PROTECT INDIVIDUAL AND BANKS FROM ON-LINE FRAUDS
216	Dr. Jayrajsinh Jadeaja Dr. Kedar Shukla	⇒	A Conceptual Comparative Study on Corporate Social Responsibility in Banking Sector of India
223	Ms. Manisha Solanki Ms.Darshana S.Rohit	⇒	CORPORATE SOCIAL RESPONSIBILITY: A STUDY OF INDIAN OIL CORPORATION LTD
232	Dr. Megha K. Shah	⇒	Cognizance of Forensic AccountingInIndia- A Path For Changing Focus of Accounting & Disclosure
236	Ms.Darshana .Rohit, Ms. Manisha Solanki	⇒	CORPORATE SOCIAL RESPONSIBILITY UNDER THE COMPANIES ACT, 2013
245	NEHALBEN V. PARMAR	⇒	FORENSIC ACCOUNTING -A NEW DIMENSION IN ACCOUNTING AREA
250	Nikita S. Shishangia Dr. Manisha S. Bhatt	⇒	AN ANALYSIS ON MANDATORY CSR SPENDING OF INDIAN COMPANIES
258	N.K.Solanki.	⇒	Investor Protection in India
262	Nisha Parmar	⇒	CORPORATE SOCIAL RESPONSIBILITY AT SELECTED COMPANIES ONGC,IOCL& HPCL IN THE OIL AND GAS SECTOR OF INDIA
267	Pooja H Chauhan	⇒	Implementation of Corporate Social Responsibility - A case study on RIL
270	Megha Y. Bhatt	⇒	CORPORATE SOCIAL RESPONSIBILITY: PRESENT SCENARIO
277	DR) Rajesh P. Patel	⇒	GST : Impact of Indian Economy
282	Bhavin K. Rajput	⇒	Voluntary Disclosure Practices inSelected Private Sector Life Insurance Companies in India
289	ROMASA SHUKLA PANKAJ SHARMA	⇒	THE IMPACT OF SECTION 370 AND ARTICLE 35(A) ON ACCOUNTING DISCLOSURE AND INVESTOR PROTECTION IN JAMMU AND KASHMIR
294	SADAMHUSEN M. TIMBALIYA SARFARAJ I. MANSURI H.mohammed R. Rana	⇒	INVESTOR'S PREFERENCES IN INVESTMENT: A STUDY OF INVESTORS OF ANAND DISTRICT
299	Sandhya A. Rajeshirke	⇒	CSR: THE STATE, CORPORATE WORLD AND SOCIAL ENGENEERING-A NOTE
302	Mrs. Selvy Palmer	⇒	CORPORATE SOCIAL RESPONSIBILITY ANALYSIS OF BIG LISTED COMPANIES (FY 2016-17) IN INDIA.
306	SNEHA A PRAJAPATI	⇒	An Empirical Study of Investors' Perception on Online Banking Services conducted in Vadodara City
313	Sulabh Narayan Archana V. Sarkar	⇒	CSR PROVISION UNDER COMPANIES ACT 2013

\* Dr. Samir M. Vohra  
Assistant Professor  
Bhikabhai Jivabhai  
Vanijya Mahavidyalaya  
Vallabh Vidyanagar



# Commerce

Research Zone India

Special Issue Vol- (1)

Jan.- 2018 Page - 196-201

ISSN 2319- 8168

## FORENSIC ACCOUNTING AND FRAUDS IN INDIA

Forensic accounting has come into limelight due to rapid increase in financial frauds and white-collar crimes. But, it is in initial stage in India. There is no formal body that provides formal education of the frauds in India. In India serious fraud office and IRDA have special focus on the frauds. However there is no specialized education provided by any of the universities in the country. White Collared crime is an ignored area in that sense. In the current scenario the emphasis is on the forensic accounting as the public deals with financial collapses, increased white collar crime and growing occurrences of occupational fraud. Forensic accounting provides investigative functions and litigation support services to understand the depth and width of the financial scams happening in any economy. This paper examines the present status of application and role of forensic accounting in India and recommends steps that should be taken for the enhancement of the utilization of forensic accounting as an effective tool for combating fraud and corruption in India.

**Key words:** Forensic Accounting, Financial Scams, Frauds and Investigation

Economic and accounting scandals and scams have become a global concern in recent times. Umpteen numbers of economic scams and irregularities have churned out national and global markets many times since the Industrial Revolution. During the last few decades, there have been numerous financial frauds and scandals, which acted as milestones with lot of historical significance.

Economic irregularity is so pervasive that it touches the life of almost every individual and is scattered from grass root level to the top most position of the society. In this modern era, with the increase in economic activities and periphery of markets, there has been simultaneous increase in the activities like fraud, scam, creative accounting, financial irregularity etc. In order to combat with all these a new budding field of accounting has been blooming. It is known as forensic accounting (FA). It is also termed as forensic auditing.

The word "Forensic" means "suitable for a court of law". The Forensic Accountant has to look beyond what the number reveals and comprehend the underlying circumstances with analytical mindset.

**Accountant's job involves basically an intelligent work and the job of Forensic Accounting is the job of intelligent Accountant.**

**Fraud:** The word fraud means "a deceptive trick, scam, game artifice, cabal which is committed to cheat, mislead someone" and "contributing something useless to something in order to gain advantage"

**Forensic and Forensic Accounting:** 'Forensic' means 'suitable for use in a court of law' and it is to that standard and potential outcome that forensic accountants generally have to work.

Forensic accounting (FA) is an umbrella term which consists of accounting, auditing and investigative skills. It is a type of accounting suitable for legal review and blended with services like providing the highest level of assurance gathered through legal documentation of latest scientific fashion, core knowledge of GAAPs, standards and codes etc. The fraud prevention strategy outlines a high level plan on how the organization will go about implementing its fraud prevention policy. An effective fraud risk management approach encompasses controls that have three objectives:

- Prevent
- Detect
- Respond

The Reserve Bank of India has made compulsory forensic accounting and audit for banks in India. Still banks are cautious in approaching certified scams and fraud examiners, and are mostly

dependent on internal auditors. In the Indian circumstances the forensic accountants are the most required in the wake up of the rising frauds and scams. After the Satyam scam, forensic examiners are much in demand as many companies want to recognize what could be the early warning signals of a Satyam kind of fraud in other Indian companies.

### Objectives of the Study

1. To Analyse the impact of forensic accounting on frauds and scams in India.
2. To find out the manner in which forensic accounting affect fraud detection in India.
3. To examine the present status of application of forensic accounting.
4. To derive conclusions and suggest measures for improvement.

### Review of Literature

1. **(Williams, 2002)**, Forensic accounting is recognized as a particular form of professional expertise and endowed with specific attributes; the recognition comes from possessing a formal certification in forensic accounting which provides symbolic value.
2. **Degboro and Olofinola (2007)**, noted that forensic investigation is about the determination and establishment of fact in support of legal case. That is, to use forensic techniques to detect and investigate a crime is to expose all its attending features and identify the culprits.
3. **According to Bhasin (2007)**, forensic accountants are trained to look beyond the numbers and deal with the business realities of situations. Analysis, interpretation, summarization and the presentation of complex financial business related issues are prominent features of the profession. He further reported that the activities of forensic accountants involve: investigating and analyzing financial evidence; developing computerized applications to assists in the analysis and presentation of financial evidence; communicating their findings in the form of reports, exhibits and collections of documents; and assisting in legal proceedings, including testifying in courts, as an expert witness and preparing visual aids to support trial evidence.
4. **(Rasey 2009) Maurice E. Peloubet**, is credited with developing the term forensic accounting in his 1946 essay "Forensic Accounting: Its Place in Today's Economy." By the late 1940s, forensic accounting had proven

its worth during World War II; however, formalized procedures were not put in place until the 1980s when major academic studies in the field were published.

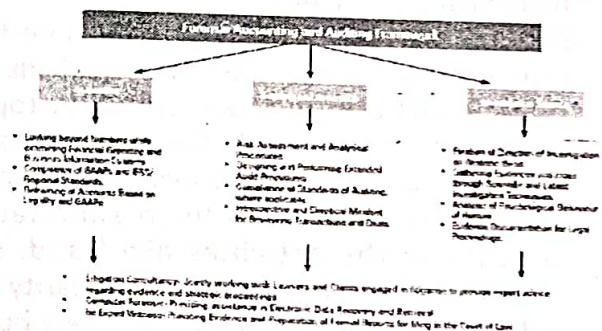
5. **Singleton and Singleton (2010)**, said forensic accounting is the comprehensive view of fraud investigation. It includes preventing frauds and analyzing antifraud control which includes the gathering of nonfinancial information.
6. **(Ozkul and Pamukc, 2012)**, since the 1980s in some Western countries, particularly in the USA, a new profession in the field of accounting and auditing has emerged. This profession identifies a field composed of accounting, auditing, and investigative skills.

### Research Methodology

The objective of the present research paper is to identify whether forensic accounting is helpful and effective to control and curb frauds and scams in India. The paper is descriptive and is based on secondary data collected from various available resources like reports of the RBI, reports and documents of India forensic frauds, journals, books and web materials related to the study. The findings will be discussed and conclusions will be drawn.

Figure - 1

### Forensic Accounting and Auditing Services: Anatomical Sketch



Source: The Management Accountant, September, 2014. [www.icmai.in](http://www.icmai.in)

### Factors Responsible for Frauds and Malpractices: The Fraud Triangle

There is no doubt that frauds and malpractices provide the impetus for forensic accounting or investigative auditing. But what are the factors for which people commit frauds or lead to accounting or economic irregularities?

If an attempt is made to analyse the business or corporate frauds. One can unveil three main

components for committing such "white-collar crime". These factors are pressure, opportunity and justification for committing fraud which all together constitute "fraud triangle". Components of the fraud triangle are similar to the fuel, spark, and oxygen which together cause fire. When the three come together, inevitably fire breaks out.

**Fraud Examination**

Fraud Examination is divided into three basic aspects

- Fraud Detection
- Fraud Investigation
- Fraud Prevention

There is a very thin line between the fraud detection and the fraud investigation in India. To explain it in a simpler manner the detection process is carried out by the auditor (or the employees performing the similar supervision functions). Fraud Investigation is the work of the law enforcement officials like police department in India and the prevention is the work of the management.

India has witnessed hundreds of scams since independence.

**Table – 1  
Scams and Frauds In India**

Scams and Frauds	Year	Losses Suffered (Rs.)	Scams and Frauds	Year	Losses Suffered (Rs.)
Hashed Mitta Securities Market Scam	1991	5,000 Crore	Maha Cora Scam	2009	4,000 Crore
Foodies Scam (Chava Ghislat)	1992	950 Crore	Commonwealth Games Scam	2010	2,342 Crore
C. B. Dhanraj Scam	1985	1,200 Crore	Adarsh Housing Society Scam	2010	-
Ketan Parekh Securities Market Scam	2001	1,250 Crore	Sahara India Pariwall Investor Fraud Scam	2010	25,000 Crore
The UTI Scam	2001	4,800 Crore	Coal Stock Allocation/Coalgate Scam	2012	1,856 Billion
Uttar Pradesh Food Grains Scams	2003	35,000 Crore	Karnataka Yakht Board Land Scam	2012	20,000 Crore
Saryam Scam	2005	10,000 Crore	Uttar Pradesh NHRI Scam	2012	10,000 Crore
The 2 G Spectrum Distribution Scam	2008	1,75,000 Crore	Sarabha Group Financial Scandal	2013	200-300 Billion

**History of Fraud Examination in India**

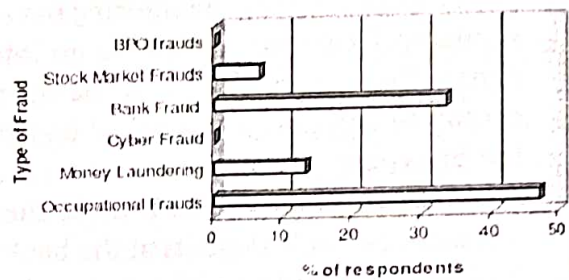
Worldwide we consider Sherlock Holmes to be the first Forensic accountant, however the contribution of some of the historic characters in India cannot be ignored. In India Kautilya was the first person to mention the famous forty ways of embezzlement in his famous Kautilya arthashastra during the ancient Mauryan Times. The research is triggered in India with a great speed and Pradeep Akkunoor pioneers the topic

and has done a good research about the contribution of Kautilya in Forensic accounting. Pradeep who heads Journal of Forensic accounting in India have called Kautilya back in to the 21st Century and have started the series of conversations between the computer and Kautilya.

Birbal was the Scholar in the time of King Akbar. He used various tricks to investigate various crimes. Some of his stories give the fraud examiner a brief idea about the Litmus test of investigation.

Gem of Indian Fraud Examiners, Chetan Dalal can be credited with actually applying the stories of the Birbal to the Investigation of the frauds. In various articles published in BCAS Journal he has explained how Birbal's trap and Birbal's Litmus test approaches are significantly used while investigating the accounting frauds.

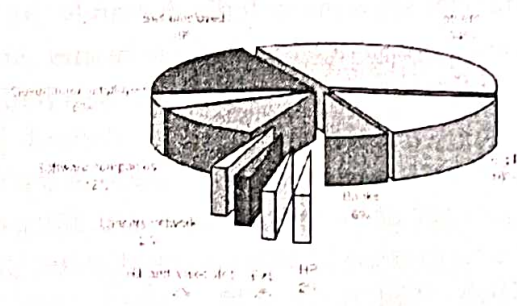
**Figure – 2  
What Worries The Indians Most?**



Source: Report by India forensic Research Foundation

Figure – 2 above indicates that it is Occupational Fraud is something that worries Indian auditors the most. More than 45% of the surveyed participants confirmed that the Occupational fraud is the severe disease in the financial world.

**Figure – 3  
Industry wise composition of Forensic Accountants in India**



**Source:** Report by India Forensic Research Foundation

Figure – 2 indicates Industry wise composition of forensic accountants in India. This show immediate

demand for forensic accounting and Forensic auditors in India.

#### **Indian scenario**

Forensic Accounting professional is more a private investigator with sixth or for that matter seventh sense than the stereotypic book keep accountant. In fact as the business environment changed from paper based to electronic chip based, the demand from Forensic Accountant has enlarged to system based. He should and is expected to possess sound Information Technology knowledge to supplement the expertise in the domain of finance and accounts.

**Recently, the financial irregularities unearthed in Bhushan Steels, Dena Bank and Syndicate Bank resulted in the requisitioning the expert services of Forensic Auditor to go into the consortium bank loan utilization by corporate and the misappropriation funds in the banks concerned.**

These incidents revolved around the Bulk Advances and Bulk Deposits at the bank level. With the kind of financial scams and frauds happening in India, thanks to opening up of economy through the LPG route, services of chartered accountants would be greatly used. One can name any common commodity or product, it is true that someone or the other is connected to a scam associated with the same, be it stamp paper, fodder, telecom, securities, public distribution system, cement, banking, mining, etc. The political administration of governing the state finances, legal structure and financial systems in India demands the very special breed of Forensic Accountants.

Both Central Bureau of Investigation (CBI) and Criminal Investigation Department (CID) personnel are involved in one way or the other in forensic accounting or forensic auditing work. The formation of Serious Fraud Investigation Office (SFIO) in 2003, after the Joint

Parliamentary Committee's probe into Ketan Pareekh scam involving one of the public sector banks is a stepping stone for the recognition being accorded to forensic accounting concepts. It is functioning under the umbrella of Companies Act that was revised recently after more than five decades.

In the recent episode of M/s Bhushan Steels, the consortium banks - a large one with exposure of Rs 40,000/- cr. ordered, inter-alia, for the conduct of Forensic Audit so as to verify about usage of bank loans for the right and approved purposes, without involvement of fund diversion, owing to the fall out of the arrest of one of the lenders' chief carrying the allegation of bribery.

Formal professional accounting knowledge and skills coupled with the ability to pay attention to the minutest details to facilitate an in-depth analysis and interpretation of data are pre-requisites for taking the profession to greater heights.

The revised Companies Act 2013 and cyber-crime involving financial transactions, unearthing of black money, bribery & anti-corruption cases involving higher up personalities provide ample opportunities in the areas of Forensic Audit.

Corporates engage Forensic Accounting experts to carry out special and specific assignments on irregularities in financial and business operations in a venture, as could be made out from the fact that audit and consultancy firm Grant Thornton, which recently conducted a forensic audit of scam ridden National Spot Exchange

Ltd (NSEL), is understood to be engaged by the Forward Markets Commission to do similar exercise for Multi-Commodity Exchange of India, an associate of NSEL. Forensic Audit has been commissioned on the functioning of United Commodities Exchange UEX) owing to siphoning of Corpus Fund and employees exodus.

#### **Fraud Related Software**

Combating the frauds with software is just picking up in India. The big companies have

started spending on the software like ACL and IDEA. Seth Services and the SAMA audit software are the distributors of the fraud related products. TCS: Tata consultancy services Limited has recently come out with the software to combat the money laundering. Subex Systems: Subex designs the softwares, which combat the telecom frauds.

**Yahoo Groups:** Two yahoo groups are found popular in the forensic accounting and fraud examination community. Indiaforensic yahoo groups with 323 members are the leading yahoo group. BPO\_Frauds is yet another yahoo group that discusses the information about the frauds in the very sensitive BPO sector.

#### Techniques and Tools of Forensic Audit

1. **Benchmarking** – comparing one financial period with another or the performance of one cost centre, or business unit, with another, overall business performance with its standards defined.
2. **Ratio analysis** – used to identify any abnormal trends and changes.
3. **System analysis** – to examine the systems in place and identifying any weaknesses that could be opportunities for the fraudsters.
4. **Specialist software**- like audit tools for data matching analysis can prove very useful.
5. **Exception reporting** – that generates automatic reports that unchangeable for results that fall outside of predetermined threshold values, enabling immediate identification of results deviating from the norms.

#### FINDINGS

1. Forensic accounting is new on an average to the people. There is need of extra knowledge about forensic accounting
2. It is not used in investigation of fraudulent/dishonest acts in their organization by more than average respondents except chartered accountant and costs management accountants. However, the use of forensic accounting to investigate fraudulent/dishonest acts in their organization is increasing.
3. Forensic accounting is strong fraud detection tool.
4. Forensic accounting has considerable impact on internal control system

5. Forensic accounting has considerable impact on external audit.
6. Majority of respondents accept that forensic accounting could not cover risk fully.
7. Only forensic accounting is not solely most suitable tool; but there is need of additional skill and knowledge to make it solely sufficient.
8. Formally forensic accounting has not long been in practice in India except in a very few multinational corporations
9. Effective use of fraud detection software developed by the experts must be effectively used.

#### Conclusion

The failure of corporate communication structure has made the financial community realize that there is a great demand for skilled professionals that can identify, expose and prevent structural weaknesses in three key areas: poor corporate governance, flawed internal controls and fraudulent financial statements. Forensic accounting skills are becoming increasingly relied upon with a corporate reporting system that emphasizes its accountability and responsibility to stakeholders. So far forensic accounting in India is being used as an investigative tool, rather than a preventive tool. There is an acute shortage of forensic accounting skill sets in India. There are only about 400 forensic accountants in the country though India loses approximately \$40 billion because of frauds. SEBI has decided to "create a forensic accounting cell to improve the quality of the financial information disclosed and to assist in detection of financial irregularities so as to serve as an effective early warning mechanism." Reserve Bank of India has also made forensic accounting audit compulsory for banks in India. These all shows a healthy prospect for forensic accounting profession in India. More and more workshops, seminars, and symposium can be arranged to make people in corporate sector more familiar with this issue. The practice and development of forensic accounting are relatively very much lower in developing countries like India than those in developed countries. As a matter of fact, there

is no effective tool to measure, detect and prevent fraud and corruption in India; so, forensic accounting now appears as a one of the strategic and dynamic tool for the management of all types of corruption.

Hence there is a great scope for forensic accounting in investigation during merger, amalgamation and acquisition, tax investigations, economic crime investigations, all kind of civil litigation supports, specialized audits, and even in terrorist investigations. This is the right time to adopt and adhere strictly the forensic accounting at all the levels of public, government and corporation accounting as an accounting tool to prevent and cure the entities from the financial and other ills.

### References

- ⇒ Agrawal, A., & Chadha, S. (2005). Corporate governance and accounting scandals. *Journal of Law and Economics*, 48:371-406.
- ⇒ Bhasin, M. (2007). Forensic accounting: A new paradigm for niche consulting. *The Chartered Accountant, Country*, 1000-1010.
- ⇒ CIMA, (2002), *Fraud Risk Management: A Guide to Good Practice*.
- ⇒ Das S. (2012), "Forensic Accounting: A tool of Detecting White Collar Crimes in corporate world", *Indian Journal of Research*, Vol.1, Issue 2, pp. 1-3
- ⇒ Degboro, D., & Olofinsola, J. (2007). *Forensic accountants and the litigation support engagement*. *Nigerian Accountant*, 40(2), 49-52.
- ⇒ Dr. Chattopadhyaya . P., "Forensic Accounting", *the Management Accountant*, March 2003.
- ⇒ Dr. Suresh. R, "Forensic Accounting- A Life Saving Drug for Corporate from Ills", Edited book of Department of Commerce, University of Madras, *Corporate Crime and Governance- Issues Challenges and Remedies*, 2012.
- ⇒ Lohana, Poonam, M. (2013), *Forensic Accounting- At Nascent Stage in India*, *Voice of Research*, Vol. 2 (1), Pp 63-65.
- ⇒ Mehta, G, S. and Mathur, T. (2007), *Preventing Financial Fraud Through 'Forensic Accounting'*, *The Chartered Accountant*, April 2007, Pp 1575-1580.
- ⇒ Ozkul, F.U., & Pamukc, A. (2012). *Fraud detection and Forensic Accounting*, Turkey.
- ⇒ Rasey, M. (2009). *History of forensic accounting*. [http://www.ehow.com/about\\_5005763\\_historyforensic-accounting.html](http://www.ehow.com/about_5005763_historyforensic-accounting.html) (Retrieved from).
- ⇒ Singleton, T. W., & Singleton, A.J. (2010). *Fraud Auditing and Forensic Accounting*, (3rd ed.). New York: John Wiley & Sons.
- ⇒ Wadhwa, L. & Pal, V. (2012) , "Forensic Accounting & Fraud examination in India" *International Journal of Applied Engineering Research*, Vol.7, No.11
- ⇒ Williams, J. W. (2002). *Playing the Corporate Shell Game: The Forensic Accounting and Investigation Industry, Law, and the Management of Organizational Appearances*. Doctoral Dissertation, Toronto: York University.