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To Study the Conceptual Framework- Projections and Procedures of Forensic Accounting in India

Dr. Pooja Goel*

Assistant Professor, Department of Management Studies

Abstract – The primary aim of GAAP is to ensure that financial statements represent a "real and honest" image of the financial situation. The ambiguity of the term "real and fair" provided a loophole that allowed financial fraud to thrive, eroding users' confidence in the published financial statements. The idea of forensic accounting has gained prominence in India due to an unbridled rise in financial reporting anomalies, corporate frauds, and 'white-collar' crimes. The art and science of detecting and preventing financial frauds is forensic accounting, which combines investigation and accounting. The current study is exploratory and theoretical in nature, with the aim of highlighting the scope and methodology of forensic accounting in the context of rising corporate fraud in India. The thesis relies heavily on secondary sources of knowledge and previous forensic accounting literature, as well as expert opinions.

In case, the study indicates that forensic accounting could grow into a distinct 'niche,' with opportunities for forensic specialists to provide litigation assistance, investigative accounting, and consulting services. The government and recognised accounting bodies in India must urgently regularise the forensic accounting movement. In the face of the unending number and scope of corporate frauds and economic crimes, there is plenty of space for advances in forensic accounting methods and legislation.

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1. INTRODUCTION

Forensic accounting is a method that combines accounting and forensic methods to uncover financial crimes. To preserve the wealth of shareholders, the separation of a corporation's ownership from its control and management has necessitated routine auditing and corporate governance processes. The recent influx of corporate frauds and scams in India (Harshad Mehta scam, Ketan Parekh scam, Satyam scam, 2G Spectrum scam, Sahara scam, to name a few) has cast doubt on the regulatory structure's ability to withstand in the Indian corporate sector (Prakash, 2013). According to PwC's Global Economic Crime Survey 2016, the financial costs of corporate fraud may be as high as $1 billion.

The real and incalculable economic loss to the private sector in particular, and the economy in general, is much greater than such financial damage. Investors and consumers of financial data have lost confidence in the credibility of financial reporting systems as a result of a series of frequent corporate frauds (Chakrabarti, 2014). Various cases of corporate fraud have been found for businesses who have received an unqualified audit report from their external auditors, casting doubt about how organisations are regulated. Furthermore, such a high rate of corporate fraud has a negative effect on India's corporate image, which discourages young people from starting businesses and deters investment.

This necessitates a comprehensive investigation into such anomalies, necessitating the use of forensic accounting. Forensic accountants look past the figures and reflect on the substance of the transaction rather than its presentation.

The following is a summary of the paper: The previous Indian literature on different aspects of forensic accounting is reviewed in Section 2. The goal is mentioned in Section 3. In Section 4, the principle of forensic accounting is explained in depth. Section 5 discusses the prospects and nature of forensic accounting in India, while Section 6 discusses the main forensic accounting techniques, both traditional and contemporary. Section 7 contains a brief discussion of the theoretical results as well as their consequences; Section 8 contains a synopsis of the document, as well as references.

2. LITERATURE REVIEW

A body of forensic accounting literature is explanatory in nature and makes use of secondary data by synthesising existing research on the subject and soliciting opinions from experts in the

sector. Various writers such as Chakrabarti (2014), Chaturvedi (2015), Das (2012), Eyisi and Ezuwore (2014), Moid (2016), Okoye and Okoye (2016), Theoretically, Akenbor (2009), Owojori and Asaolu (2009), Peshori (2015), Prakash (2013), Shaheen et al. (2014) address the opportunities of forensic accounting in India by shedding light on its philosophy, characteristics, and techniques, as well as the roles of a forensic accountant in India. Bhasin (2017) conducted a survey-based study to determine the skills, preparation, and education that forensic accountants in India need in order to improve corporate governance. Auditing skills, written and oral communication, critical reasoning and deductive inference, analytical proficiency, and legal knowledge were among the survey's findings, As essential skills for forensic experts, unstructured problem-solving and investigative versatility are required. According to Luke (2013), forensic accounting is an exercise that complements the statutory audit and ensures the audit report's robustness.

3. OBJECTIVES OF THE STUDY

Secondary data sources, such as prior literature, related studies and surveys, journal articles, and websites, have been tapped in the search of the same. The research's quality has been improved by including expert opinions on the topic. The current research article aims to theoretically address:

1. The prospects and opportunities of forensic accounting in India, in light of corporate failures arising from an endless sequence of frauds and economic crimes, and the ineffectiveness of legislative audit in preventing the same.

2. The forensic accounting *modus operandi* (or techniques) in India.

4. FORENSIC ACCOUNTING

According to Merriam Webster's dictionary, "belonging to, used in, or suitable for courts of judicature or public discussion and debate." It can also be described as the ability to comply with legal requirements. Whereas, 'Accounting' can be broadly identified as 'the art and science of defining (the business transactions to be recorded), calculating (the transaction according to GAAP), classifying (using the three golden rules of accounting), documenting (in an accurate financial statement), checking (with supporting documents), and summarising' (through a set of financial statements), interpreting (through management debate and analysis) and presenting (in the form of annual reports) financial data with the ultimate goal of representing a firm's financial results (profit & loss) and financial condition (assets & liabilities) of a affairs.

The subjective nature of the term "real and fair view" provided a loophole that allowed for the rise of manipulations and, eventually, financial frauds, eroding business stakeholders' confidence in the published statements. This establishes the importance of forensic accounting in the prevention, identification, and investigation of fraud. It is the art and science of gathering and reporting financial data in a way that a court of law requires for financial fraud jurisdiction. Previously, forensic experts were hired by government agencies (such as the CBI, RBI, and police authorities) to investigate frauds (Praka). Recently, businesses, banking, and insurance firms have hired forensic experts to uncover anomalies in financial reporting. According to Prakash (2013), forensic accounting is a scientific method of accounting that offers the highest degree of assurance in fraud detection and resolution. According to Chakrabarti (2014), forensic accounting is the use of forensic accountants' expertise and experience to identify falsified transactions through a systematic review of financial statements. As a result, evidence for the same can be obtained, and can be presented in a court of law in the form of a report or by the forensic specialist as a witness. In order to create fraud transparency in a court of law, Owojori and Asaolu (2009) described forensic accounting as the combination of investigative, accounting, and auditing skills.

They went on to say that forensic accountants help in fraud investigations, legal assistance, and dispute resolution. Similarly, Chaturvedi (2015) described forensic accounting as a combination of investigative, accounting, and auditing skills used to scrutinise financial reports in order to safeguard the interests of all stakeholders. According to Eyisi and Ezuwore (2014), a forensic auditor is a financial specialist who has been scientifically trained to identify and prosecute corporate frauds and white collar crimes in order to present them in court (either in a report or in person) or bring them up for public discussion.

Due to the rising scale and needs of companies, as well as the increasing sophistication of financial frauds, the concept of forensic accounting is still developing in India (Bhasin, 2017). As a result of the various authors' definitions, forensic accounting is characterised as a multi-disciplinary branch of expertise aimed at preventing, detecting, and resolving corporate frauds and economic crimes. It can also be defined as the coming together of the disciplines of accounting, auditing, investigation, and law.

5. PROJECTIONS OF FORENSIC ACCOUNTING

Internal and external auditors were previously thought to be responsible for fraud detection and prevention. However, it has recently been discovered that the auditors are unable to

substantiate the fraud or misconduct. Their primary duty is to ensure that financial statements are consistent with commonly accepted accounting standards (also known as the International Financial Reporting Standards (IFRS)). As a result of the statutory audit's inability to prevent and detect corporate frauds and embezzlement of cash or assets, forensic accounting is required. Furthermore, the number and complexity of corporate frauds, misconduct, and other illegal activities has increased, and non-compliance has resulted in a rising demand for professionals in India's burgeoning forensic accounting sector.

Employee fraud identification, criminal investigations, shareholder and relationship conflicts resolution, determining professional incompetence on the part of auditors or accountants, arbitration services, insurance claims settlement, conflict resolution, and other practises are included in the framework of forensic accounting, according to Prakash (2013) and Chakrabarti (2014). Similarly, Owojori and Asaolu (2009), Shaheen *et al.* (2014), forensic accountants perform the following tasks and play the following roles, according to Eyisi and Ezuwore (2014): (a) gathering evidence by scrutinising financial statements and key records, (b) thorough analysis of collection evidence to validate the fraud or non-compliance, (c) preparation of forensic report on the basis of evidence collected, (d) presenting evidence in court proceedings, (e) testifying about the findings, (f) calculating the economic losses caused by fraud, (g) arbitration and mediation, and (h) restoring destroyed/manipulated/missing accounting documents.

SFIO was established on July 2, 2003, by government resolution, based on the recommendations of the Naresh Chandra Committee, with the primary aim of uncovering serious fraud cases affecting the general public's interest. SFIO is a government agency located in New Delhi that is part of the Ministry of Corporate Affairs (MCA), it is made up of experts from various fields such as accounting, auditing, corporate law, information technology, corporate taxation, financial markets, and so on, for the purpose of detecting and prosecuting fraud.

KPMG began offering forensic services in India in 1995, in response to an increase in corporate fraud and white-collar crime. A team of forensic experts (including chartered accountants, certified fraud examiners, MBAs, and others) provides this service, IT professionals, corporate governance & business ethics experts, police officers, and others) help their clients avoid and track illegal behaviour, regulatory non-compliance, and misconduct. The Anti-Money Laundering report and the India Fraud Survey report, both from KPMG, provide valuable insights into the general trends in their respective fields. The India Fraud Survey report highlights key statistics relating to the origins, scale, prevention, perpetrators, and resolution of frauds by polling a group of top corporate officials (such as CEOs) in order to gauge the ramifications of frauds on the Indian economy as a whole (and the corporate sector in particular) and to assess corporate perspectives on fraud. According to the latest India Fraud Survey study from 2012, approximately 55 percent of the surveyed companies experienced fraud in the previous two years. The Anti-Money Laundering Study, on the other hand, is a comprehensive guide for businesses on how to prevent money laundering through enhanced enforcement and a detailed understanding of the risks.

The new Companies Act of 2013 has prompted national organisations such as the Institute of Chartered Accountants of India (ICAI), India forensic, and the Department of International Forensic Sciences (IFS) to establish forensic accounting qualification courses. The ICAI council's launch of a certificate course on fraud detection and forensic accounting is a notable move in this direction. The participants will learn about (a) the fundamentals of forensic accounting, (b) the concept and forms of frauds, (c) corporate, civil, criminal, cyber, and taxation rules, and (d) the concept of red flags and green flags during the seven-day course (e) digital forensics.

It also offers comprehensive instruction in Microsoft office applications and real-time applications of forensic techniques (e.g., Benford's rule, RSF, CAATs, field investigations, etc.) to its participants, accompanied by an evaluation of the same in the form of a written test, research papers, and model forensic audit report in order to qualify for certification. Another Indian organisation dedicated to forensic accounting education and training is the India Forensic Center of Studies. To receive the designation of "Certified Forensic Accounting Professional (CFAP)," registered participants must complete a minimum of practical training and exams. Aside from CFAP, the organisation also offers certifications such as "Certified Anti-Money Laundering Expert (CAME)" and "Certified Bank Forensic Accountant (CBFA)." CBFA teaches participants in analytical and investigative skills for methodological forensic research (e.g., locating fraud or wrongdoing indications, risk assessment), while CAME focuses on uncovering suspicious transactions by referring to similar past transactions. The Indian government's IFS education department has launched a similar certificate course named "Forensic Accounting and (Financial) Fraud Examiner" to raise awareness about forensics. This course, which lasts between two and twelve months, covers forensic sciences, fraud fundamentals, financial statement planning, review, and reporting, as well as Indian and international legal systems governing corporate governance, accounting, taxation, and crimes. An online review leads to the awarding of the certificate.

6. METHODS OF FORENSIC ACCOUNTING

6.1 Traditional Methodologies

Five forensic accounting techniques for fraud detection and prevention were listed by Chakrabarti (2014), Moid (2016), Peshori (2015), and Shaheen et al. (2014). The following are some examples of these techniques:

6.1.1. Benford's Rule: Benford's Law employs mathematics to assess if a financial irregularity is the result of an accidental error or fraud. It works by looking at the trends in the data of the variable in question. The frequency distribution, or the count percentage of the digits, is calculated by this law, the Z-test is used to compare the variable under investigation to pre-defined criteria at a certain degree of trust. Significant variations in both justify further scrutiny in order to identify any possible fraud. This rule can be extended to any number, whether it's a combination, a decimal, or a rounded number. It is a tool that can be used when there is no other proof to support or refute the fraud or irregularity.

6.1.2. Theory of Relative Size Factor (RSF): RSF is measured as the ratio of the largest figure in the data set to the second largest figure in the data set in order to detect any outliers in the data that could have resulted from fraud. An exceptionally high RSF suggests that the highest number in the set does not fit the other numbers in the set, necessitating further analysis to rule out any possible fraud.

6.1.3. Computer Assisted Auditing Tools (CAATs): These tools, such as Microsoft Office software, assist auditors in conducting their audit procedures (such as comparing transactions and balances, locating irregular fluctuations, re-calculations, and so on) when working with large quantities of client data.

6.1.4. Data Mining Methodologies: Huge quantities of data can be extracted using data mining techniques for further study. These techniques are classified as follows: (a) Discovery, which identifies patterns in data through trends and variations; (b) Predictive Modeling, which forecasts the outcome based on the patterns identified; and (c) Deviation Analysis, which uses various graphical techniques to detect things that deviate from the existing norm; and (d) Link Analysis, which uses various graphical techniques to detect any irregular patterns.

6.1.5. Ratio Analysis: Ratio analysis is used to recognise the signs and symptoms of fraud. The maximum value to the minimum value, the maximum value to the second maximum value, and the current year figure to the previous year figure are all examples of ratios. These ratios assist in the prediction of relationships, and any abnormal ratio necessitates further analysis in order to identify possible fraud. Asset quality index, gross margin index, revenue in receivables ratio, and other ratios are widely used.

In contrast to statutory auditing techniques, which adopt prototype methods, forensic accounting techniques can take a personalised and situation-oriented approach when investigating a financial fraud or irregularity (Peshori, 2015).

6.2 Modern Methodologies

In light of the complexity and technology in the commission of corporate frauds and economic crimes, the multinational professional services giant KPMG employed and recommended the use of the following forensic accounting techniques:

6.2.1. Search for the Unusual: When investigating fraud and corruption, keep an eye out for accounting transactions made on holidays. Such transactions could be a good candidate for popular frauds like money laundering and bribery. In order to prevent such events, KPMG assists its clients in finding and fixing anomalies, as well as assisting in the preparation of restated financial statements.

6.2.2. Fraud Risk Management: This strategy takes a constructive approach to avoiding corporate fraud. It allows you to detect possible fraud early on and stop it. For this, KPMG suggests the following strategies: a) Fraud awareness seminars and training programmes; b) Fraud risk assessment and vulnerability tool; c) Forensic health check; d) Organization perception survey; d) Predictive data modelling; f) Anti-counterfeiting risk assessments; g) Competition risk control, and so on.

6.2.3. Forensic Technology Lab: The forensic technology lab performs in-house or field investigations to gather productive information in a comprehensive manner and to flag any potentially suspect entries. It allows for the compilation, retrieval, and preservation of digital evidence to help in fraud investigations and legal prosecution. It also aids in the detection of any proof manipulation.

6.2.4. Corporate Intelligence: Corporate intelligence refers to the 'Due Diligence' investigation performed on a third party (individual or organisation) prior to engaging in a commercial transaction with them, such as an investment, merger or acquisition, strategic alliance, or international partnership. Ownership structure, business credibility, past history of frauds or non-compliance, senior management, pending litigation, and credit-worthiness of the third party are all reviewed during the 'Due Diligence' or 'Know Your Customer' (KYC) exercise.

6.2.5. Verification (Know Your Employee): A thorough 'Due Diligence' check on workers is required to combat workplace fraud. It entails

checking an employee's history and qualifications, such as their address, schooling, previous employment(s), pending litigation, mental and physical examination, criminal record, and so on.

6.2.6. Documentation Management: KPMG's e-Discovery tool allows for the collection and display of significant volumes of electronic information in legal proceedings.

6.3 Banks' Use of Forensic Accounting Methods

The banking industry is also troubled by a slew of frauds and financial crimes. The banking industry's main problems are the poor implementation of fraud risk management methods and the continuing use of manual techniques to identify and deter frauds (such as false documents and cash and asset embezzlement). Despite the existence of anti-fraud control systems, the irregularities are uncovered through complaints from the customers or internal whistleblowers. The average financial damage resulting from a banking fraud can range from 10 lakhs to 2 crores (*India Banking Fraud survey*, 2015). The 2015 Deloitte India Banking Fraud Survey looked at the state of forensic accounting techniques in banks and discovered that the following techniques were used to identify and avoid frauds: (a) customer screening against a negative list, (b) off-site tracking and surprise visits, (c) due diligence check of staff, customers, and third parties, (d) whistleblower hotline, (e) forensic technology tools such as UV scanners, (f) intelligence gathering, and so on.

Advanced Forensic Data Analytics is a strategic move by banks to detect and prevent potential fraud, whether it is committed by a client, an employee, or a third party. According to Deloitte's India Banking Fraud Survey from 2015, banks can use risk-based, continuously changing, predictive, and integrated methodologies to detect and prevent fraud. PERT/CPM networks can be used to visualise multidimensional data and processes using data visualisation techniques. This aids in (a) identifying any secret or suspicious relationships, (b) tracking the movement of money during AML investigations, and (c) comprehending complex relationships using connection analysis and geo-spatial representations.

Furthermore, Robotic Process Automation (RPA) techniques, also known as "If-Then" techniques, are used to set up the rules (manually framed based on previous fraud experiences) for detecting and evaluating any suspicious or irregular transaction, and then taking immediate action. These methods are particularly useful in the fields of e-commerce and banking. The manual method of constructing rules has been replaced by machine learning technology due to the innovative increase in the volume and complexity of data. Without being programmed, such technology can learn, project, and respond on its own to distinguish between dubious and legitimate transactions.

7. DISCUSSION

Internal auditors will find it difficult to prevent the upcoming fraud due to a lack of requisite experience and information about the fraud, increased sophistication of manipulations, and participation of senior management in the fraud. Furthermore, numerous cases of corporate fraud have been discovered for businesses that have received an unqualified audit report from their external auditors. This further erodes the trust of investors, as well as the general public, in corporate financial statements. According to the Deloitte India Fraud Survey 2016, 70% of respondents (up from 56% in 2014) predicted a rise in frauds in the next two years, and they primarily blamed junior and middle management (as opposed to senior management in the 2014 survey results) for possible frauds: The lack of (a) effective internal control mechanisms, (b) due diligence tests, and (c) ethics and morality were all blamed for the high number of frauds.

Unfortunately, the Indian corporate sector has a reactive mindset toward fraud, as demonstrated by the fact that 71 percent of surveyed companies view fraud as an inevitable cost of doing business (India Fraud Survey report, 2012). Deloitte India has released a self-assessment (SA) tool to determine an organization's readiness to deal with fraud or misconduct. The average fraud risk score of 54 (out of 100) shows that companies need to brush up by implementing strict fraud risk management measures. According to a Ministry of Corporate Affairs notification dated December 14, 2015, the auditor, during the course of his audit, within 60 days of its recognition, any fraud committed against the company that is supposed to involve a sum of Rupees one crore or more must be reported to the central government. This proactive step by the government is expected to have far-reaching consequences for potential fraud prevention. One of these implications is the prompt appointment of a forensic expert on the auditor's reporting of (potential) fraud to the board or the central government.

Demonetization, a step toward a cashless economy, has resulted in a phenomenon known as the "digital explosion." Due to a lack of user knowledge and well-defined security requirements for online payment processes, it has posed a challenge to existing security and control systems. Recognizing cyber frauds as new weapons of mass destruction, regulatory bodies must ensure that security protocols are uniform and that appropriate compliance systems are in place.

The demand for forensic accountants in India is increasing due to a rise in IT-related frauds, intense market rivalry, and declining employee ethics. The

shortage of forensic training institutes, on the other hand, is a major impediment to fulfilling the demand for forensic experts. It is past time for the private sector and the government to understand the economic and reputational implications of corporate fraud and act accordingly. In order to protect themselves against the danger of corporate fraud, Indian companies are gradually turning to self-regulation. Organizations are compelled to improve their internal financial controls in light of the new provisions of the Companies Act, 2013, in order to reduce the risk of fraud. However, this move is not without its difficulties, such as a lack of money and skills to undertake.

8. SUGGESTIONS AND CONCLUSIONS

Until the onslaught of corporate frauds, misconduct, and white-collar crimes, especially the Satyam scam in 2009, the identification and prevention of corporate irregularity or non-compliance was the inherent role and duty of accounting and auditing disciplines. According to Ernst and Young's 14th Global Fraud Survey 2016, India was ranked 17th out of 57 countries, with 58 percent of respondents admitting to bribery and unethical practises in their companies. It's disappointing that forensic accounting is largely untapped in the Indian economy, which is fraught with corporate scandals. The majority of forensic accounting techniques are reactive (rather than proactive). Until recently, the focus has been on preventing and detecting traditional and well-known frauds, rather than the new complex ones.

The uncontrollable must be identified and regulated. The lack of knowledge of advanced forensic accounting methods, as well as a shortage of skilled and well-trained experts in the area, leads to the field's primitive stage of development in the wake of rising financial crimes. This highlights the vital need for the advancement of forensic accounting as a discipline. In a world where fraud risk is on the rise, forensic accounting has a lot of room to grow as a separate "niche," with potential for forensic professionals to provide legal assistance, investigative accounting, and consulting services. Despite a number of positive advances in the area, there is still a lot of space for improvement in forensic accounting techniques and legislation, particularly given the growing complexity of corporate frauds.

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Corresponding Author

Dr. Pooja Goel*

Assistant Professor, Department of Management Studies