
Forensic Accounting – A Vision for Fraud Detection

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ABSTRACT

Forensic accounting has come under attention due to a fast growing increase in white-collar crimes and financial frauds . But, it is in initial stage in India. There is no defined body that provides formal education about 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-collar crime is an ignored area in that sense.

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.

Keywords: *Forensic Accounting, Fraud, Auditing, White Collar Crimes, and Corporation*

Forensic Accounting- A Vision for Fraud Detection

“Like a forensic accountant trying to solve a corporate fraud, following the trail of money around the circle is a good way to understand what actually happens as capitalism unfolds.”

Introduction to Forensic Accounting

Forensic Accounting has been given several names like financial forensics or forensic accountancy. It is a branch of accountancy that specialises in the practice area of accounting which outlines engagements that are consequences of disputes, actual or anticipated, or litigation. On breaking down the term, we understand:

❖ Forensic refers to something suitable to be used in the court of law.

Forensic auditors or investigative auditors are few names given to a forensic accountant. Forensic Accounting offers specialization in the following:

Insurance Claims

Money Laundering

Personal Injury Claims

Construction

Anti-Money-Laundering or,

Royalty Audits

Steps Involved in Forensic Accounting

The main steps involved in forensic analytics are:

1. Data Collection
2. Preparing Data
3. Analysing Data and,
4. Reporting

Forensic Accountants: The Road Not Taken

These accountants are often involved in recovering money of a serious felony and in other confiscation activities related to proceeds with regards to actual or potential money laundering and crime. In our country, India, there exists a unique class of forensic accountants named Certified Forensic Accounting Professionals. The qualifications held by different forensic accountants have been illustrated below:



Objectives Of The Study:

- To understand the meaning of forensic accounting in depth
- To analyze
 - 1) the reasons pertaining to why forensic accounting is not known to all as a subject in India
 - 2) the scope of forensic accounting in India
- To suggest ways to bring the subject into light

FORENSIC ACCOUNTING: DIVING BELOW THE SURFACE

Forensic Accounting can be considered as the amalgamation of accounting, investigative and auditing skills. In this field of accounting, accountants are taught to look beyond figures and numbers in order to understand the reality of any business. While practicing forensic accounting, the forensic accountant collects financial evidence that can be provided in the courts and form the basis for dispute resolution or debate. Following are few of the activities that a forensic accountant undertakes:

- ❖ Analysing and investigating evidence based on the financials of an entity
- ❖ Developing computer applications for the same
- ❖ Preparation of reports, exhibits, etc.
- ❖ To assist in all legal proceedings and to act as an expert witness

The reputation of several companies and people are at stake in case of fraudulent activities and this therefore calls for them to be discreet. When these accountants conduct an audit, they are actively searching for fraud. They do not restrict themselves only to financial statements but may also want to go through the company's databases and their court records.

Accounting the
of **fraud** investigation
investigating **forensic**
practises and **accounting** illegal
Read

Basics followed by Forensic Accountants:

- ★ Step 1: Meeting an attorney, a government representative or another client to know the details of the case of fraud.
- ★ Step 2: Next, they begin with their research and focus mostly on gathering information. For this they investigate documents like bank records, credit statements, books of accounts, e-mails and memos. This is done in order to get the overall picture of the financial position of the company.
- ★ Step 3: After this the accountants begin investigating the accused through interviews. By doing this they notice irregularities and attempt finding the missing piece. Subtle hints should be caught and thus observational skills are a must.
- ★ Step 4: On gathering sufficient information to work on, the accountants begin the process of analysing the data possessed. They evaluate the financial statements of the company, find out the loss incurred and try to arrive at a rational reasoning.
- ★ Step 5: The last step involves preparing a report revealing what the investigation uncovered and what subsequent steps can be taken. In addition to this, they may offer litigation support.

→ **A LEADING CASE**

In the year 1996, a city manager of Contra Costa County had suspicions when a locally established disposal service company asked help to keep itself afloat. Orinda-Moraga Disposal Services wished to raise prices but wanted permission from Contra Costa Sanitation District. The company had recently stated that it wanted to reduce rates. Dan Ray, a forensic accountant, was hired by the city manager.

On examination of Orinda-Moraga's records, Ray found out that the company passed cheques in the names of people at companies who didn't exist and to fake addresses. The owner of the disposal company had created these companies to illegally steal money from the company. This inflated the business costs so the increased rates were justified.

Ultimately, the owner and his partner were found guilty in civil as well as criminal suits.



Dan Ray, the Forensic Accountant

FORENSIC ACCOUNTING IN INDIA

The nature of fraud has changed over the years. The manufacturing sector in India is said to contribute 28% of India's GDP (Gross Domestic Product) and is also the sector that faces maximum fraud cases due to the complexity inherent to it. Next in line are the real estate and public sector undertakings. A heavy loss of reputation and wealth has taken place as a result of such fraudulent activities. For this reason the government has set up an institution called "Forensic Research Foundation".

It was mentioned in a report by the Association of Fraud Examiners that the world loses a whole 5% of its yearly revenue to fraud. Since this is such a big issue, measures to curb fraud were developed and that is how forensic accounting was introduced in India.

"Sherlock Holmes was probably the most famous practitioner but Kautilya was the first economist who openly recognized the need of forensic accountants."

Kautilya is said to have identified forty ways to carry out embezzlement.

However, forensic accounting is still a toddler in the huge subcontinent of India. Despite this, RBI is slowly recognizing the need for this as a measure of countering fraud and has thus made it mandatory to have forensic accounting audits in banks.

The growth in cyber crimes, security scams, etc - all pinpoint towards the need for a better understanding and involvement of forensic accounting. The Satyam scam has caused many to realise the need to understand the initial signs at recognizing fraud taking place at a company. Forensic Accountants also help the government's Serious Fraud Investigation Office.

There is an acute shortage of skills required by a forensic accountant in India. Opposed to this, there is a huge demand owing to the number of frauds committed everyday. According to a survey, there are only 400 forensic accountants in the nation.

Therefore, this calls for the need to spread the subject and for the government to play an active role in promoting it in the country.

ANATOMY OF A FRAUD

The genesis of the fraudulent financial engineering at Satyam Computer Services goes back 7 yrs but the facts started tumbling out after the company's aborted bid to buy Maytas Infrastructure and Maytas Properties, which itself was a trough of sorts in India's corporate governance history

CRACKING THE CODE

► It all began around 7 years ago. Satyam Computer Services began inflating its profits and revenues to show better-than-actual performance. The objective, analysts now say, was to prop up share prices and boost market capitalisation. The promoters' quietly began to dilute shares at prices that reflected inflated profits.

► It now appears this was part of a comprehensive plan. The promoters' stake was gradually reduced from 25.6 per cent in March 2001 to 8.74 per cent in March 2008 (see attached table).

THIS CONTRADICTS

► B.Ramalinga Raju's claim that the promoter family "did not sell any shares in the last eight years - excepting for a small proportion declared and sold for philanthropic purposes."

► The cash so raised, industry insider said, was used to

purchase several thousands of acres of land across Andhra Pradesh to ride a booming realty market. The transactions were allegedly made through Maytas Properties and Maytas Investors, companies that are controlled by the Raju itself.

► Meanwhile, Satyam's scale of operations began to grow manifold. For the company, it presented a complex problem as it had to misrepresent facts to keep on showing healthy profits. What started as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years.

► It has attained unmanageable proportions as the size of the company operations grew significantly. Every attempt made to eliminate the gap failed. As the promoters held a small percentage of equity, the concern was that poor performance

would result in the takeover, thereby exposing the gap.

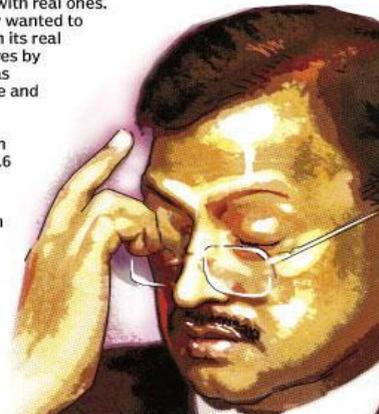
► As Raju put it, "it was like riding a tiger, not knowing how to get off without being eaten."

► The aborted Maytas acquisition deal was the last attempt to replace the fictitious assets with real ones. The company wanted to cash out from its real estate ventures by selling Maytas Infrastructure and Maytas Properties to Satyam for an estimated \$1.6 billion.

► Did Satyam have so much cash? It did not, but analysts said this deal would have helped Satyam clean up its books and show real

assets. Things did not go to plan. Investors sniffed something amiss and the plan had to be aborted next morning, and the game was up.

Text: Gaurav Choudhury
Imaging: Sebastian



THE FIGURES SAY IT ALL

The Balance Sheet as on September 30, 2008 shows cash and bank balances of **Rs 5,361 crore**. Of this Rs 5,040 crore is "fictitious".

Accrued interest of **Rs 376 crore** is also non-existent.

Promoters reportedly brought in **Rs 1,230 crore** to shore up Satyam's finances. This is a liability that is not reflected in its books of accounts.

Over-stated debtors position of **Rs 490 crore**, and, thus, its assets by this amount.

FINDING THE TIP OF THE ICEBERG: SUGGESTIONS TO BRING FORENSIC ACCOUNTING INTO LIGHT

The existence of forensic accounting in India is minimal and this calls upon the need to make suggestions on how to promote it. Being a country of rich political culture and governmental framework, it is necessary for the government to play an active role at promoting its need.

Like the Chartered Accountants Act, 1949, a legislation must be passed to make forensic accounting mandatory in companies. Institutes should design a course to specialise in forensic accounting because it is the need of the hour. In 2017, there are an average of 3-4 educational institutions providing a certificate course or a diploma in the subject.

The Government should spend some time and resources to ensure that the subject is made part of the academic curriculum and also made compulsory in organizations due to the high rate of fraudulent activities.

The following table gives us an idea of the urgency to start working on forensic accounting 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	Inflated figures of cash & bank balance, operating profit artificially boosted from 61 crores to 649 crores, fictitious names of employees
2G Spectrum	2010	Rs. 1760 billion	A Raja, MK Kanimozhi, Nira Radia, Many Telecom Cos.	Irregularities in awarding spectrum licences. License issued on first cum first serve basis instead of auction. Advancing of cutoff date which is illegal.
Commonwealth 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
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.
Coal gate	2012	Rs. 1.86 lakh crore	Govt of India, private & public sector companies	Govt of India allocating coal blocks in an inefficient manner leading to windfall gain to allottees (chose not to go through the competitive bidding process)
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. Two Indian firms played key role in the controversy.

ABOUT THE METHODOLOGY

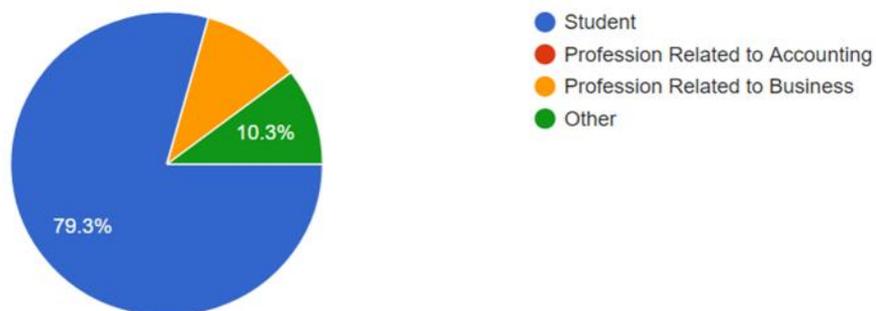
The research attempts to understand and highlight the need for forensic accounting in India, a country where fraudulent activities are blooming everyday. It deals with collection of data regarding how many people have heard of, know of or learnt of forensic accounting.

The survey was conducted online and answered by students, lecturers and people working in organizations. It aimed at understanding the dire need of the day.

FIGURE:1

Profession:

29 responses



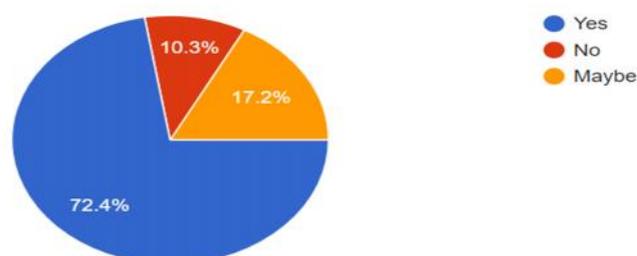
Source: Own Computation Primary Data

The survey was conducted and the questionnaire was offered to 35 respondents with different fields of profession where only 29 responded out of which 79.3 percent were students (Show in Figure:1) as the main objective of the questionnaire was to find why forensic accounting is unknown to majority Indians.

FIGURE:2

Have you Heard of the Term "Forensic Accounting" ?

29 responses



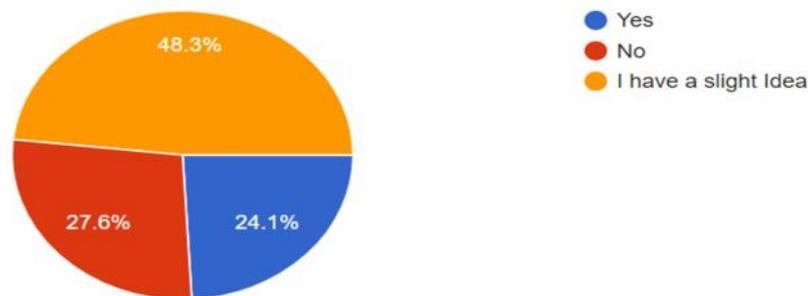
Source: Own Computation Primary Data

Figure:2 shows the real awareness and knowledge of Forensic Accounting held by Indians. The result was positive as 72.4 percent of people have heard of the term “ Forensic Accounting” where 10.3 percent have never heard about it and 17.2 percent of people may or may not have heard about it.

FIGURE:3

Do you know what forensic accounting means

29 responses



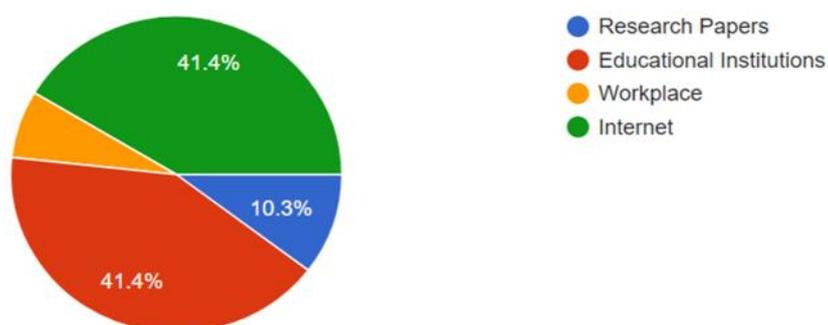
Source: Own Computation Primary Data

Figure:3 shows the results for the most important question of whether people know what Forensic Accounting means. On analyzing the pie chart, we see that 48.3% of the surveyed people have a slight idea and 27.6% have no idea about the concerned topic of interest and 24.1% know what Forensic Accounting means. From this data we can conclude that even though majority of Indians have heard of the term, forensic accounting, they still do not know what it means properly and this calls for the need to encourage the term in a country where fraudulent activities take place everyday.

FIGURE:4

Where did you learn about Forensic Accounting from ?

29 responses



Source: Own Computation Primary Data

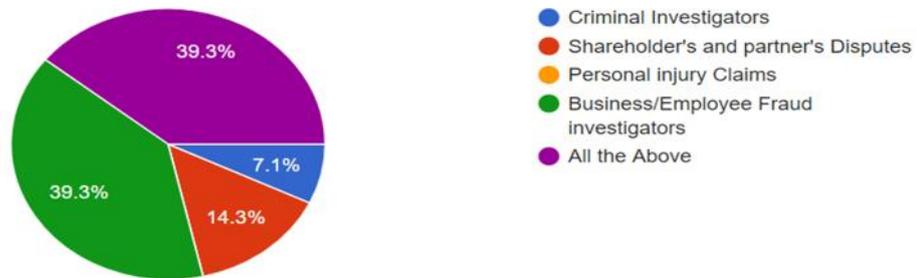
Figure:4 shows the results of how many people have heard about Forensic Accounting by which we mean the source they came across.

Where majority of 41.4% respondents said they have learned about Forensic Accounting from the internet and educational Institutes and 10.3% respondents said they have learned it from research papers. Only about 6.9% of our sample has learned of the term at their workplace. This indicates that many organizations still are unaware of forensic accounting as a technique to deal with fraud.

FIGURE:5

Which of the following areas do you think Forensic accountants Deal with ?

28 responses



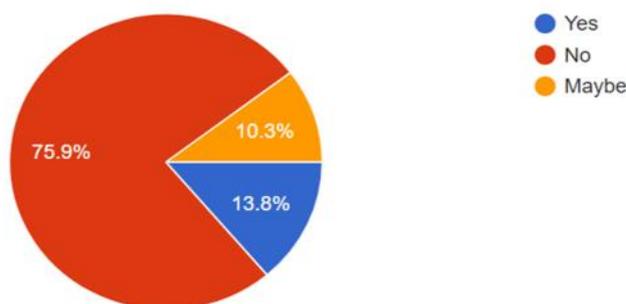
Source: Own Computation Primary Data

Figure:5 gives us an idea of what the respondents think about Forensic Accountants deals with where 39.3% respondents said Financial Accountants Deals with Business/Employee Fraud investigators, 14.3% respondents believe they deal with Shareholder's and Partner's disputes, 7.1% think they act as criminal investigators and the rest 39.3% of the respondents feel that Forensic Accountants work as Criminal Investigators , Settle Shareholders and partners dispute or helps in personal Injury Claims. This shows that in India, even though we have a slight idea of the above, we still need an in-depth understanding of the same because in reality forensic accountants deal with all the options.

FIGURE:6

Are you aware of institutes training students in Forensic Accounting ?

29 responses



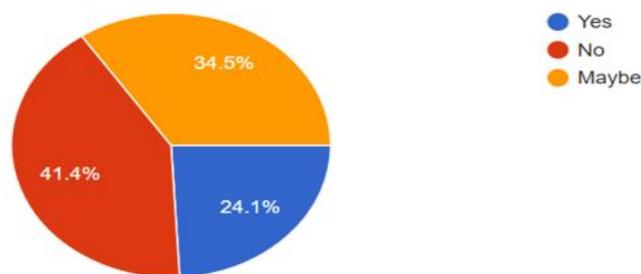
Source: Own Computation Primary Data

Figure 6: answers the sad truth of the Indian education system where people are not aware about the institutes training students in Forensic Accounting. The Question was to check the awareness of respondents about the institutions training students in Forensic Accounting. Where 75.9 percent were not aware about any institutes training students in Forensic Accounting where rest 23.1 percent respondents were aware or had a slight idea about institutions training students in forensic accounting.

FIGURE:7

If you are a Student, do you have books related to Forensic Accounting in your library ?

29 responses



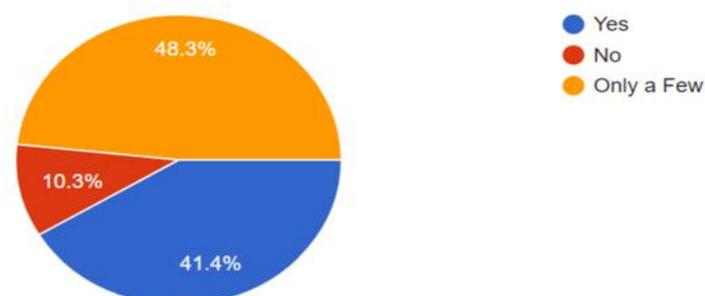
Source: Own Computation Primary Data

Figure 7: speaks about reality of our education systems where there are no books / study matter available in any educational institution's library where 75.9% percent of people said there are no books available or didn't know the availability of books related to Forensic Accounting in their library. Only 24.1% respondents said there are books available in their library.

FIGURE:8

Is your faculty at college aware of the term Forensic Accounting ?

29 responses



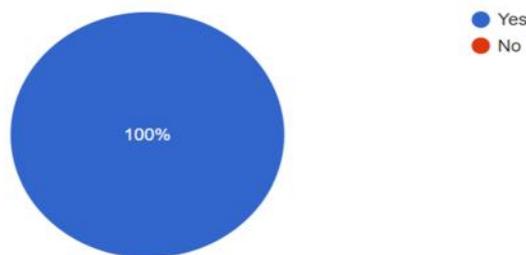
Source: Own Computation Primary Data

This question was posed in order to understand the level of awareness amongst lecturers at the undergraduate and postgraduate institutes of the subject. While 48.3% respondents stated that only a few faculty members of their college were aware, 41.4% respondents said that majority of their faculty was well-versed with the subject. 10.3% of our sample said their faculty said their faculty wasn't aware. This shows us that there is a greater understanding of the subject amongst people teaching at educational institutions probably due to attending seminars, international conferences and a habit of being up to date with current affairs and general knowledge.

FIGURE:9

Do you think statutory bodies like ICAI should promote the subject as a career option ?

29 responses



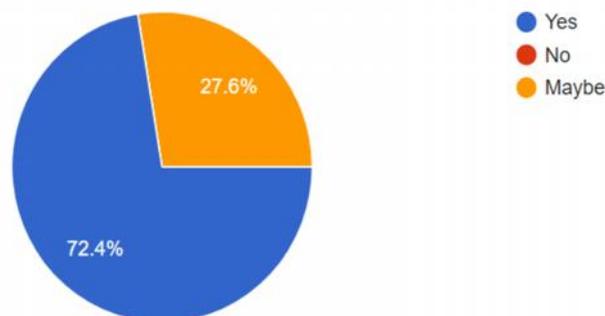
Source: Own Computation Primary Data

The sample of respondents we chose completely believes that statutory bodies like ICAI should take steps to promote forensic accounting as a career option.

FIGURE:10

Should it be made mandatory in companies to appoint Forensic Accountants ?

29 responses



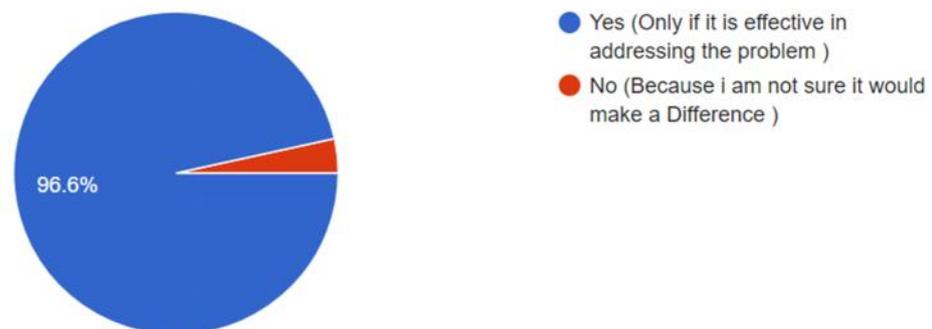
Source: Own Computation Primary Data

72.4% of our respondents feel that forensic accounting should be made mandatory in companies as a measure to prevent fraud while 27.6% doesn't believe so.

FIGURE:11

Owing to the growth in fraud cases in the country , would you personally want this profession to grow ?

29 responses



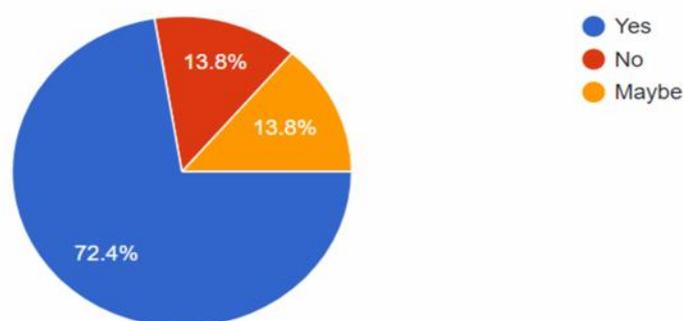
Source: Own Computation Primary Data

Personally 96.6% of the people feel that if forensic accounting will make a difference towards reducing the fraud cases in India, then the profession should grow. However a small percent of our sample does not believe so because they are not sure that it would help make a difference.

FIGURE:12

Do you think a legislation is required to be passed for people to understand the significance of the subject?

29 responses



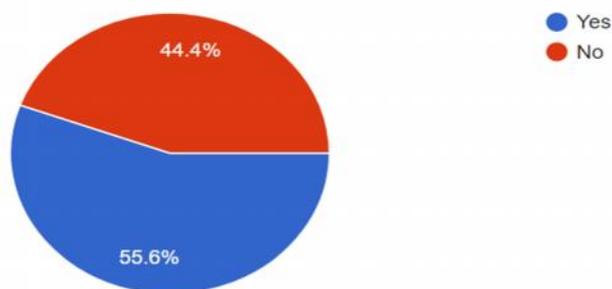
Source: Own Computation Primary Data

Our sample was asked if they think passing a legislation would be required in order to express the significance of the subject to people where 72.4% believed that a legislation is necessary and another 13.8% believed that it is not necessary. Another 13.8% was not sure.

FIGURE:13

As a professional, have you ever felt the need for forensic accounting department ?

27 responses



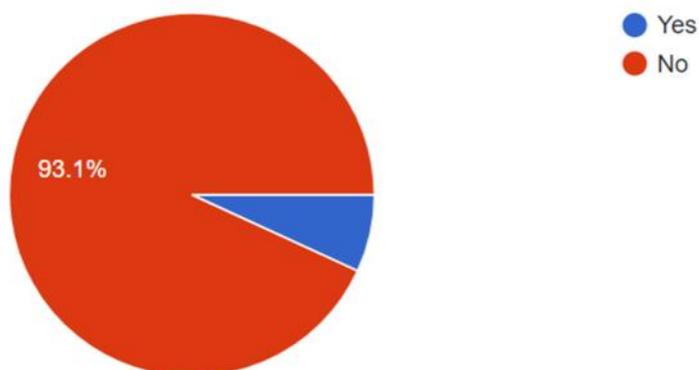
Source: Own Computation Primary Data

This question talks about whether professionals have felt the need for a forensic accounting department in their organisations out of which 55.6% have expressed that they do need such departments in their organizations. On the contrary 44.4% people haven't felt the need.

FIGURE:14

Do you know any Forensic Accountant ?

29 responses



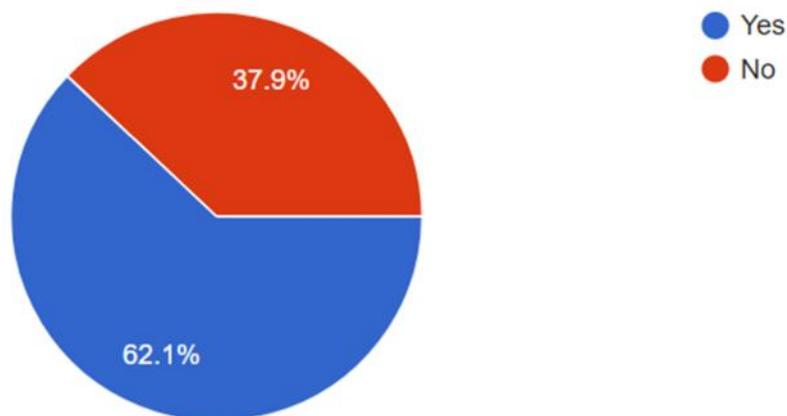
Source: Own Computation Primary Data

This question was formulated to understand the dearth of forensic accountants in our country. Out of our respondents, 93.1% of them do not know a single person pursuing a career in this field. This is an indication of acute shortage of forensic accountants in India.

FIGURE:15

Would you like to pursue a career in forensic accounting ?

29 responses



Source: Own Computation Primary Data

Our last question was to know if the name “forensic accounting” generates interest amongst and 62.1% respondents wanted to pursue a career while 37.9% did not want to do so.

LIMITATIONS OF THE STUDY:

- Time constraint was one of the major limitations during the study.
- The study was limited to less number of people.
- Questionnaires were given to 35 people out of which 29 responded.
- The study may not be relevant for the upcoming financial year i.e., 1st April 2018.
- Respondents were unwilling to give complete information to certain questions.
- Responses were influenced by personal bias.

CONCLUSION

Forensic Accounting is used as a investigative tool in India rather than a preventive tool. But as the saying that has been passed down centuries,

“Prevention is better than cure.”

our country needs to focus on preventing fraud. If forensic accounting is made mandatory in corporates, scams worth crores can be avoided which will be beneficial for the economy. SEBI has come up with an initiative of

