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A STUDY OF FORENSIC ACCOUNTING AND FRAUD IN INDIA

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Abstract

Forensic Accounting is a field of practice. As the number of corporate and banking frauds has increased in recent years, its authorities have increasingly needed public honesty, impartiality and transparency of information through the use of forensic accounting. Forensic accounting seeks to detect, investigate, and prevent fraud using a variety of tools. Forensic accounting is essential to reduce financial fraud to improve the image of the corporate and banking sectors. If forensic auditing is made mandatory in the corporate and banking sectors, many scams can be brought under control. It has been suggested that the appointment of forensic accountants in public sector and large scale companies should be made mandatory for sustainable development of the economy.

Keywords: *Forensic Accounting, Frauds, Types of Frauds, Tools and techniques,*

INTRODUCTION

Forensic accounting has a wide range of meanings, including traditional accounting and auditing of accounts. It can be said that accounting and auditing of accounts is a part of forensic accounting. In other words, forensic accounting is also called investigative accounting. Forensic accounting is a combination of accounting, auditing and investigative skills to examine a company's financial statements. Forensic accounting is one of the fastest growing areas for detecting and preventing the growing number of financial frauds and white-collar criminal activities. The rapid development of information technology and the use of computer systems have created new challenges or risks for forensic accounting. In our country, the forensic accounting education was first started in the year of 2005 by India forensic.

Frauds

In law, fraud is intentional deception to secure unfair or unlawful gain, or to deprive a victim of a legal right. Fraud can violate civil law or criminal law, or it may cause no loss of money, property, or legal right but still be an element of another civil or criminal wrong. The purpose of fraud may be monetary gain or other benefits, for example by obtaining a passport, travel document, or driver's license, or mortgage fraud, where the perpetrator may attempt to qualify for a mortgage by way of false statements.

Types of Frauds

There are many types of fraud. Fraud can be detected in different ways as the accounts are examined in depth. The following is a list of some of the frauds.

- Corruption fraud
- Asset misappropriation
- Financial statement fraud
- Employee’s fraud
- Management fraud
- Investment scams
- Vendor’s fraud
- Customer’s fraud
- E-commerce fraud
- Banking Fraud

Tools & Techniques

Forensic accountants use scientific techniques to collect data, classify and analyze the same data with the object to evaluate the severity of the corruption, determine its quantity and manage to put the results through computerized. The following techniques and tools are used to detect fraud in accounts.

1. Benford's Law:
It was first discovered in 1881 by Mr. Simon New Comb. It was used by Mr. Benford in the 1938. So it is also known as the New Comb- Benford's Law, the Law of Inconsistent Numbers and the First Issue. It is used as a mathematical and statistical tool to identify and evaluate the variables under study. Excel tools are used to enforce this law. This law is used to identify whether it is a mistake or a mistake and whether it is intentional or unintentional or fraudulent. It is divided into three stages: i. Identify the field of financial importance and extract the variables which requires examination, ii. The summarize the data collected and process the same which is done by the following ways a. classify the first digit field and; b. calculate its observed percentage. Then, the Benford's law is applied, iii. Z-Test. Benford's law states that, in a natural set of numbers, small digits appear disproportionately more often as front digits. The leading digits have a distribution as shown in the table below, where the number 1 appears as the leading digit a little over 30% of the time, and the number 9 appears as the leading digit of less than 5% of the time.
If all digits appear uniformly as leading digits, each digit will appear approximately 11.1% of the time. Since there are many discrepancies between the distributions stated in Benford's law and what the uniform distribution implies, these disparities can be used to detect instances of fraud. The analysis involves calculating the distribution on the first digit in a series of numbers. If the distribution varies from the proportions indicated by Benford's law, it is likely that someone is committing fraud. The reason for the difference is that the fraudster will create randomly generated numbers instead of following Benford's distribution.

2. Theory of Relative Size Factor (RSF):
It highlights all unusual fluctuations, which may be routed from fraud or genuine errors. RSF calculate the ratio of the largest number to the second largest number of the given set. These limits may be defined or analyzed from the available data-if not defined. If there is any stray instance of that is way beyond the normal range, then there is a need to investigate further into it. It helps in better detection of anomalies or outliners. In records that fall outside the prescribed range are suspected of errors or fraud. In practice there exist certain limits (e.g. financial) for each entity such as vendor, customer, employee and other balance sheet items etc. These records or fields need to relate to other variables or factors in order to find the relationship, thus establishing the truth.

3. Computer Assisted Auditing Tools (CAATs):
CAATs is the practice of using computers to automate the IT audit processes. CAATs normally include using basic office productivity software such as spreadsheets, word processors and text editing programs and more advanced software packages involving use statistical analysis and business intelligence tools. The same are as follows:
i. Verification & examination in depth of various transactions and book balances,
ii. Identify, if there are any inconsistencies or any significant fluctuations in any figures,
ii. Verify the computer control systems;
iv. Collect the sample programs and sample data which are necessary for audit testing,
v. Check the calculations of the accounting systems.

4. Data Mining Techniques:
It is a technology designed to automatically extract and process large volumes of data. Data can be processed in the following three ways:
i. **Discovery:** Identification and discovery of data by general knowledge without any use of pre-determined hypotheses,
ii. **Predictive modeling:** It is a model used to predict the outcome from a database.
iii. **Deviation and link analysis:** It helps to find or identify unusual things. Link search analysis helps to detect suspicious patterns. This technique involves a "pattern matching" algorithm with an object to 'extract' any rare or suspicious case. Diversion and link analysis are also called critical graphical techniques and Bayesian potential casual networks.

5. Ratio Analysis:
Forensic accountants follow a three-pronged ratio analysis to identify potential symptoms of fraud and report fraud status. Which are as follows.
i. The ratio of maximum and minimum value or maximum value and minimum value is calculated;
ii. Calculate the ratio of the highest value to the second highest value;
iii. Calculate the ratio of current year to previous year.

REVIEW OF LITERATURE

Chaturvedi N. (2015), has conducted Forensic Accounting in India (Future Prospects for Its Application). Researcher has mentioned the objectives as to study to identify various uses of Forensic Accounting, analysis of difference scandals reference to Forensic accounting in India and role of Forensic Accounting in solving

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financial fraud and malpractices in corporate world. Researcher concluded that the objectives set out at the beginning include the examination of the concept of forensic accounting, the need for its and its role in providing solution to the problem of fraud in corporate organization.
Ghosh P. (2021) has conducted of the study on application of forensic audit: an investigative tool to combat with banking frauds. Researcher has objectives are to understand and analyze the trend of frauds plaguing and review the applicability of the forensic audit in controlling financial frauds in the banking sector in India. Researcher has studied the number of frauds and amount of fraud cases in the Indian banking sector in view of the RBI's report.
Gollapudi A. (2021), has carried out a study on the Fraud Risk Assessment- Meaning, Tool & Survey. Researchers concluded that fraud recovery is difficult and more often than not, organizations recover nothing. But a complete fraud risk program can help protect the organization from the financial, employee, stakeholder and reputational costs of fraud.
Mrinal G. and Quiser A. (2021), have conducted a study on Emerging needs of forensic Audit in Corporate and Banking Frauds in India. Researchers have concluded there are many types of corporate frauds then present accounting and auditing branch of knowledge is not able to cater all the needs of good corporate governance and this circumstance has developed a new discipline of forensic accounting and auditing across the globe.
Ray K (2021), has conducted forensic accountant: a new frontier in the accounting profession. Researcher has mentioned the objectives as to introduce forensic accounting, internal and external limitations auditors, characters and nature of forensic accounting, history of forensic accounting, defining frauds, significance of the forensic accountants and role of the government in curbing fraud & corruption in India. Researchers concluded that the services helpful of forensic accountant, Government funds investors, CBI, SEBI, RBI, etc for intention of minimizing frauds and scams.
Sridhar L., Jebasingh R. and Narayanan P. (2021) have comprehensive study of the effects of forensic accounting on stock market management. Researchers have objectives are impact on stock market of forensic accounting and main reasons behind financial statement manipulation or fraud. Researchers have given reasons are to raise stock prices, to outperform analysts expectations and to raise capital from banks and other financial entities.

RESEARCH METHODOLOGY

3.1. Objective of Research
Every research is done with specific objectives in mind. Depending on the research objectives, it is possible to determine what the researcher has tried to include in the study. The purpose of the research indicates the reason for the study for which the researcher has initiated the study. The primary objective of the present study is what forensic accounting is, and how it can be used to identify and prevent fraud in the corporate and banking sectors and to prevent such fraud.

3.2. Need of the Study
Forensic accounting is essential to reduce financial fraud to improve the image of the corporate sector. Forensic accounting ensures that accounting policies and systems are followed in the book and that any unusual items presented in such a system are detected. This study aims to explore how knowledge of forensic accounting can reduce corporate fraud and mismanagement. So that the funds, the shareholders, the givers of rights, the government and even the public can be brought out of the big financial crisis due to the corporate and banking sector.

3.3. Data Collection
The research is generally based on two type data: primary data and secondary data. Primary data can be considered as the fresh data and mainly collected by first time by the researcher and on the other hand secondary data is considered as the data which are available and not created by the researcher but used for the research. The present study is based on secondary data.

3.4. Limitations of Study
1. This study has taken into account only the accounting frauds committed in India. Accounts are written in other countries and accounting fraud may be found there but this study did not take it into account.
2. There are many types of accounting frauds found in accounts such as bank frauds, corporate frauds, insurance frauds, health care frauds, cyber frauds, securities frauds, consumer frauds etc. But this study only studies the frauds committed in the Indian banking sector.
3. Obtaining data for any study is obtained in two ways namely primary data and secondary data but only secondary data has been used in the data collected for this study. Therefore the limitations of the secondary data may be present in this study.

DATA ANALYSIS AND INTERPRETATION

Table-1 Fraud Cases in Various Banking Operations (Amount in Rs. Crore)

Area of Operation	2018-19 Number of fraud	2018-19 Amount	2019-20 Number of fraud	2019-20 Amount	2020-21 Number of fraud	2020-21 Amount
Advances	3,603 (53.0)	64,539 (90.2)	4,608 (52.9)	1,81,942 (98.1)	3,501 (47.5)	1,37,023 (99.0)
Off-Balance Sheet	33 (0.5)	5,538 (7.7)	34 (0.4)	2,445 (1.3)	23 (03)	535 (0.4)
Foreign Exchange Transaction	13 (0.2)	695 (1.0)	8 (0.1)	54 (0.0)	4 (0.1)	129 (0.1)
Card/Internet	1,866 (27.5)	71 (0.1)	2,667 (30.8)	129 (0.1)	2,545 (34.6)	119 (0.1)
Deposits	593 (8.7)	148 (0.2)	530 (6.1)	616 (0.3)	504 (6.8)	434 (0.3)
Inter-Branch Accounts	3 (0.0)	0 (0.0)	2 (0.0)	0 (0.0)	2 (0.0)	0 (0.0)
Cash	274 (4.0)	56 (0.1)	371 (4.3)	63 (0.1)	329 (4.5)	39 (0.0)
Cheques/ Demand Drafts, etc.	189 (2.8)	34 (0.1)	201 (2.3)	39 (0.0)	163 (2.2)	85 (0.1)
Clearing Accounts, etc	24 (0.4)	209 (0.3)	22 (0.2)	7 (0.0)	14 (0.2)	4 (0.0)
Others	200 (2.9)	244 (0.3)	250 (2.9)	173 (0.1)	278 (3.8)	54 (0.0)
Total (In %)	**6798 (100.00)**	**71534 (100.00)**	**8703 (100.00)**	**1,85,468 (100.00)**	**7,363 (100.00)**	**1,38,422 (100.00)**

Source: RBI Annual Report 2020-21

Table-2 Fraud Cases in Bank Group Wise (Amount in Rs. Crore)

Bank Group/ Institution	2018-19 Number	2018-19 Amount	2019-20 Number	2019-20 Amount	2020-21 Number	2020-21 Amount
Public Sector Banks	3,704 (54.5)	64,207 (89.8)	4,410 (50.7)	1,48,224 (79.9)	2,903 (39.4)	81,901 (59.2)
Private Sector Banks	2,149 (31.6)	5,809 (8.1)	3,065 (35.2)	34,211 (18.4)	3,710 (50.4)	46,335 (33.5)
Foreign Banks	762 (11.2)	955 (1.3)	1,026 (11.8)	972 (0.5)	521 (7.1)	3,315 (2.4)
Financial Institutions	28 (0.4)	553 (0.8)	15 (0.2)	2,048 (1.1)	25 (0.3)	6,839 (4.9)
Small Finance Banks	115 (1.7)	8 (0.0)	147 (1.7)	11 (0.0)	114 (1.6)	30 (0.0)
Payments Banks	39 (0.6)	2 (0.0)	38 (0.4)	2 (0.0)	88 (1.2)	2 (0.0)
Local Area Banks	1 (0.0)	0.02 (0.0)	2 (0.0)	0.43 (0.0)	2 (0.0)	0 (0.0)
Total (In %)	**6798 (100.00)**	**71534 (100.00)**	**8703 (100.00)**	**1,85,468 (100.00)**	**7,363 (100.00)**	**1,38,422 (100.00)**

Source: RBI Annual Report 2020-21

Table – 3 Top Frauds in India

Sr. No	Year	Nature of fraud	Description	Amount Involved INR in Crore
1	1992	Stock Exchange	Harshad Mehata	4,000
2	2008	Siphoned fund for rural immersion	VP NHRM	10,000
3	2008	Stock Exchange	Ketan Parekh	1,500
4	2009	Fabricated revenue	SATYAM	8000
5	2010	No auction in issuing license	2G Spectrum	175000

6	2010	Misuse of funds for infrastructure	Common Wealth Game	10000
7	2012	Embezzlement of expenses falsified	Fodder Scam	950
8	2012	No auction in allotment of coal blocks	Coal Allocation	186000
9	2013	Irregularities in procurement of Choppers	VVIP Chopper deal	3600

CONCLUSION

The study focuses on identifying and controlling forensic accountants and fraud, and reducing corporate fraud. The objectives initially set out include the investigation of the concept of forensic accounting, its need and its role in providing solutions to the problem of fraud in corporate organizations. In this study, various definitions of forensic accounting, the meaning of fraud, and the techniques used to expose frauds in the corporate as well as banking sector are used. And so the need for forensic accounting has been taken into account in order to prevent and control accounting fraud caused by changes in economic activities at present. Forensic accounting has taken on a professional form as not everyone is familiar with it. Due to changes in technology, it is becoming increasingly difficult to detect accounting fraud very necessary at present time. The objectives are to strengthen the oversight on material institutions in these segments in a more risk-focused manner, improve proportionality and economic efficiency of supervision, and to deploy an appropriate range of tools and technology to achieve the supervisory objectives.

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