

# Forensic Accounting in India (Future Prospects for Its Application)

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**Abstract:** The main objective of this paper is to gauge white collar crimes, financial through forensic accounting and complexities of the corporate environment. Forensic Accounting is a combination of accounting, auditing and investigative skills to conduct an examination of company's financial statements. This research article seeks to examine the meaning, nature validation and prospects in India. Forensic accounting seems to provide the needed solution to the problem of fraud and financial mis-management in corporate organizations. This article discusses the concept of forensic accounting, the need for it and its role in providing solution to the problem of fraud in corporate organizations.

**Keywords:** Forensic Accounting, white collar crimes, financial through.

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## 1. INTRODUCTION

In recent times, there have been numerous financial frauds in all the sectors of the world economy. In India number of corporate scandals like, Harshad Mehta (1992), Satyam computers, (2009), Ketan Parekh (2008), and Kingfisher Airlines Credit Card (2007) have adversely affected development of the corporate and non corporate sectors. In Satyam scandal Ramaling Raju's charged with false corporate reporting and making false financial statements. After above scams Forensic Accounting has gain higher momentum since it has been used by above companies to detect frauds and errors. Forensic Accounting has emerged as a perfect tool in fraudulent cases. Forensic Accounting is a combination of accounting, auditing and investigative skills to conduct an examination of company's financial statements. Application of Forensic Accounting will be able to improve corporate governance fraud which will improve efficiency of corporate and non corporate sectors. It will be helpful in emphasizing the accounting and financial reporting system. Forensic Accounting is at nascent stage. In coming future it will grow at steady rate because after the Satyam scam each company want to know that what will be the initial warning of a Satyam kind of fraud. It will be valuable in giving insights into financial frauds and errors in future. It will be helpful in protecting interest of stakeholders, customers, employees and suppliers who are directly involved with the companies.

## 2. LITERATURE REVIEW

Forensic accounting is very beneficial because it deals with issues which are related to the quantification of economic damages. It plays a key role in tracing the financial frauds and white-collar crimes. The presentation of review of literature is made in the following paragraphs. The Materials are searched with the help of various Books, Journals and Websites.

**Zysman (2001):** He explained Forensic Accounting as the composition of accounting, auditing and investigative skills to assist in legal matter.

**Joshi (2003):** Has done study on the Forensic Accounting as the application of specialized knowledge and specific skill to almost fall upon the evidence of economic transactions.

**Crumbley (2003):** He said Forensic Accounting is accounting science as it is related with the examination and interpretation of economic information.

**Coenen (2005):** He stated that Forensic Accounting involves the application of accounting concepts and techniques to legal problem. Accounting techniques will be used to solve legal issues.

**Crumbley (2006):** He said that Forensic Accounting is suitable for legal review as it offer the highest level of assurance.

**Hopwood, Leiner & Young (2008):** Forensic Accounting is the application of investigative and analytical skills for the purpose of resolving financial issues in a manner that it should meet standards and requirements as per court.

**Singleton & Singleton (2010):** Forensic Accounting comprehensively involves fraud investigation, prevention of fraud and analyzing antifraud controls.

#### **NEED OF THE STUDY:**

Forensic accounting is required to minimize the financial frauds in order to improve the image of corporate sectors. Forensic accounting ensures that accounting policies and systems are followed to the book -- and that any unusual items introduced in such a system are detected. This study intends to find out how the knowledge of forensic accounting can reduce corporate fraud and mismanagement.

#### **STATEMENT OF THE PROBLEM:**

In recent times, series of frauds have been committed in corporate sectors of the economy. This study intends to find out how the knowledge of forensic accounting can reduce corporate fraud and mismanagement.

#### **OBJECTIVES OF THE STUDY:**

The main purpose of this study is to analyze future prospects of Forensic Accounting in India.

- To identify various uses of Forensic Accounting in India.
- Analysis of Forensic Accounting with reference to different scandals.
- Role of Forensic Accounting in solving financial problem like financial fraud and malpractices in corporate world.
- To examine the possibility of reducing the occurrence of fraud cases using Forensic Accounting.

### **3. STATEMENT OF HYPOTHESES**

In this research work, the hypotheses are;

Null Hypotheses of this paper are as follows:

Ho: Application of Forensic Accounting will not improve the accounting practices.

Ho: Forensic Accounting will not be able to minimize financial frauds.

Alternative Hypotheses of this paper are as follows:

Ha: Application of Forensic Accounting will improve the accounting practices.

Ha: Forensic Accounting will be able to minimize financial frauds.

### **4. METHODOLOGY**

For this purpose data will be collected through the secondary source. Secondary data will be collected through website, periodicals, journals, annual reports of various reputed organizations and SEBI guidelines. Convenience sampling technique will be used as a sampling technique. Collected data will be analyzed with the help of some important statistical tools and techniques.

**The Notable Scams in India:****Chopper deal scam:**

The most recent of the scams in India is the Chopper deal scam where the deal amounts to Rs 74.5 crore. According to Reuters, the investigation into the Italian firm Finmeccanica, which started more than a year ago, is one of a series of corruption scandals in defence deal making in India.

**Colgate:**

One of the well known scams in India is the coal mining scam where the government reported a loss of Rs 185,591 crore. The CAG has accused the Indian government of giving undue benefits to companies by distributing 155 coal acres in an arbitrary manner instead of auctioning to the highest bidder during 2004-2009.

**Tatra:**

Bharat Earth Movers Ltd in collaboration with Tatra Vectra Motors had produced over 7000 trucks to the Army. When General VK Singh took over as the Army Chief, he refused to authorize the purchase of trucks after he was offered a bribe. The scam was estimated at Rs 750 crore.

**2G:**

The illegal undercharging by government officials to various telecom companies during the allocation of 2G licenses for cell phone subscriptions gave rise to the 2G spectrum scam. According to the CAG, the scam amounts to about Rs 176,000 crore, whereas the CBI estimates it at Rs 30,984 crore.

**CWG:**

The Commonwealth Games is perhaps one of India's most well known scam. Suresh Kalmadi who was the chairman of the Organizing Committee of the Commonwealth Games was the main accused. It consisted of a number of corrupt deals involving overstated contracts. Kalmadi also handed out a Rs 141 crore contract to Swiss Timing for its timing equipment; the deal was inflated by Rs 95 crore. Less than 10 days before the games, athletes were asked to move into apartments that were shabby and dilapidated.

**Fodder:**

This scam broke out in 1996 in the town of Chaibasa when the animal husbandry department embezzled funds of around Rs 950 crore meant to purchase cattle fodder, medicines and animal husbandry equipment in Bihar. Lalu Prasad Yadav (pictured left), the chief minister of the state was forced to resign along with former chief minister, Jagannath Mishra.

**Ketan Parekh and the stock market:**

A former stock broker from Mumbai, Ketan Parekh was involved in circular trading with companies like Global Trust Bank and Madhavpura Mercantile Co-operative Bank. He was sent to jail with two others for taping off Rs.48 crore from a unit of Canara Bank in a 1992. He has been banned from trading till 2017.

**Harshad Mehta:**

Harshad Mehta, popularly called the Big Bull among traders, triggered a trend in the stock market before his scam, worth Rs. 4000 crore, was exposed in 1992. He used the funds from inter-bank transactions to buy shares at a premium across many sectors.

**Satyam:**

Satyam Computers Chief B. Ramalinga Raju misappropriated books and inflated figures which led to a scam that suffered a loss of Rs 8000 crore.

**Saradha Group Financial Scam:**

Saradha Financial Scam deals to Rs 30,000 crore in 2013. Financial scam caused by the collapse of a Ponzi scheme run by Saradha Group, a consortium of over 200 private companies that was believed to be running collective investment schemes popularly but incorrectly referred to as chit funds.

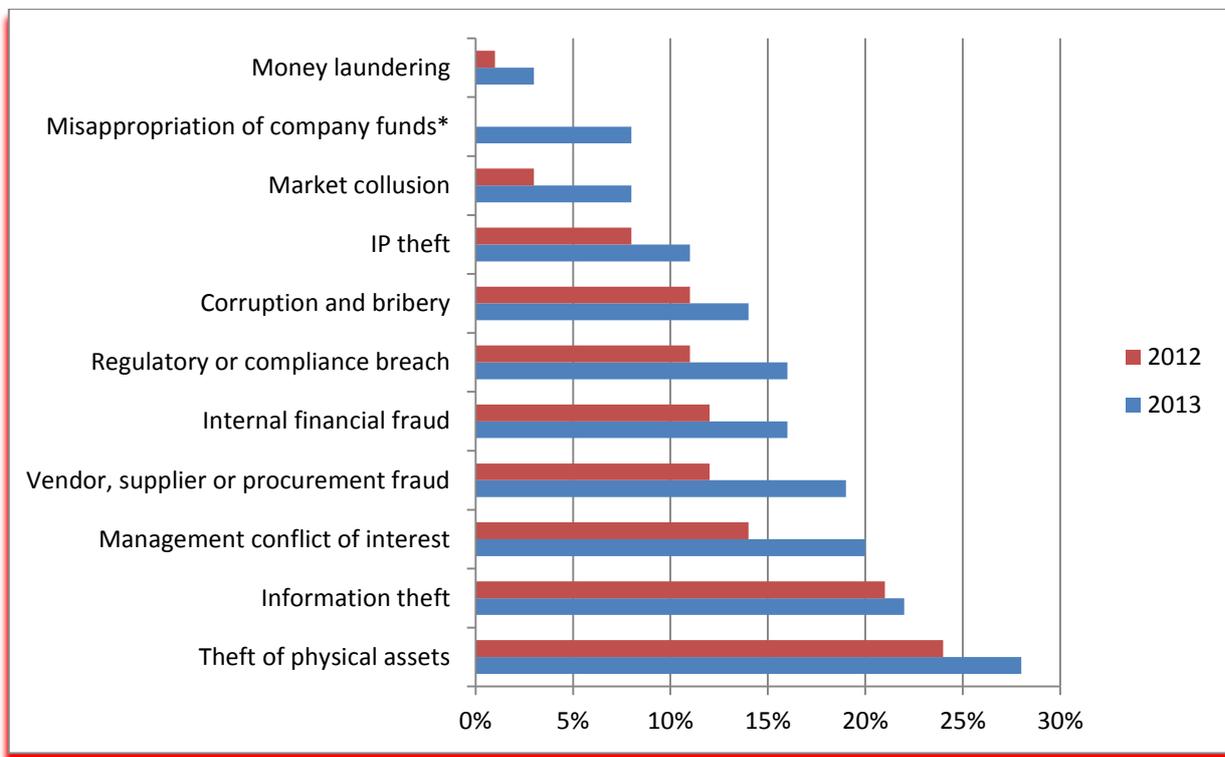
**Results of Economic Intelligence Unit Overview – 2013**

1. The prevalence and costs of fraud grown markedly in the past year, in turn driving up companies' sense of accountability.

**Table-1: Percentage of companies Affected by Listed Frauds**

	2013	2012
<b>Theft of physical assets</b>	<b>28%</b>	<b>24%</b>
<b>Information theft</b>	<b>22%</b>	<b>21%</b>
<b>Management conflict of interest</b>	<b>20%</b>	<b>14%</b>
<b>Vendor, supplier or procurement fraud</b>	<b>19%</b>	<b>12%</b>
<b>Internal financial fraud</b>	<b>16%</b>	<b>12%</b>
<b>Regulatory or compliance breach</b>	<b>16%</b>	<b>11%</b>
<b>Corruption and bribery</b>	<b>14%</b>	<b>11%</b>
<b>IP theft</b>	<b>11%</b>	<b>8%</b>
<b>Market collusion</b>	<b>8%</b>	<b>3%</b>
<b>Misappropriation of company funds*</b>	<b>8%</b>	<b>-</b>
<b>Money laundering</b>	<b>3%</b>	<b>1%</b>
<b>Not covered in 2012 Survey</b>		

Source: Global Fraud Report, Key Facts and Figures, Annual Edition: 2013/2014

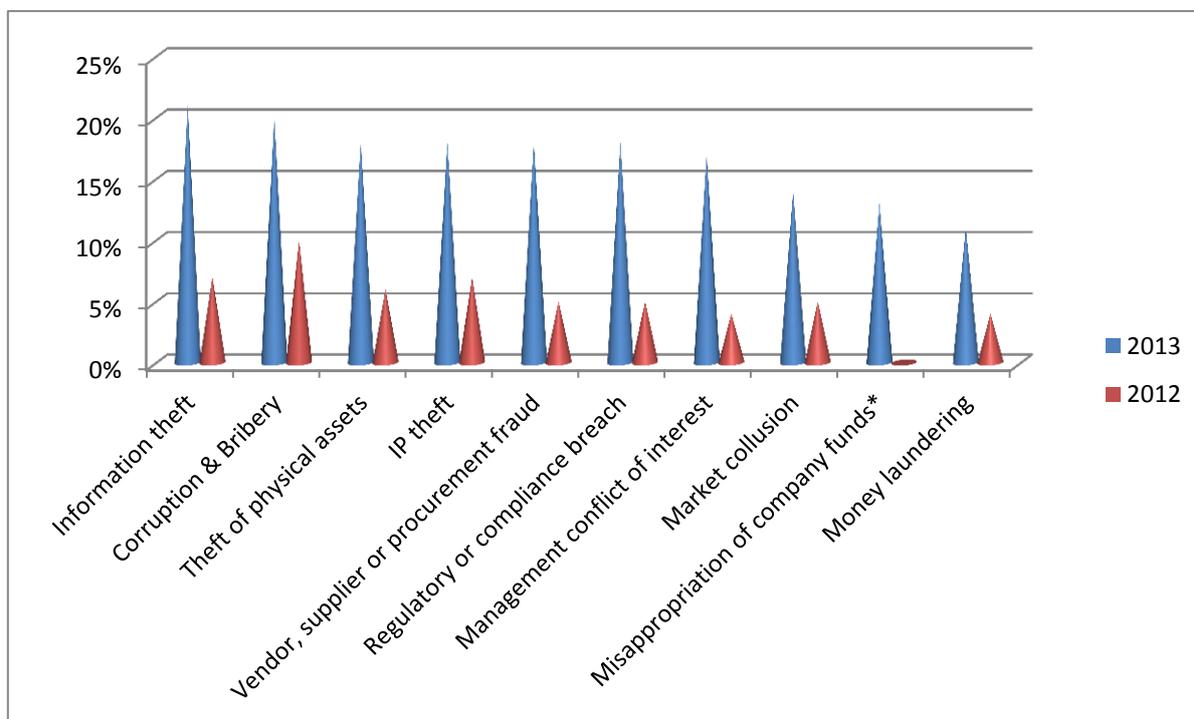


2. Information – related fraud is common and evolving, but many companies are not prepared for when things go wrong.

Table-2: Percentage of companies describing themselves as highly vulnerable to the following types of fraud

	2013	2012
Information theft	21%	7%
Corruption & Bribery	20%	10%
Theft of physical assets	18%	6%
IP theft	18%	7%
Vendor, supplier or procurement fraud	18%	5%
Regulatory or compliance breach	18%	5%
Management conflict of interest	17%	4%
Market collusion	14%	5%
Misappropriation of company funds*	13%	-
Money laundering	11%	4%
Not covered in 2012 survey		

Source: Global Fraud Report, Key Facts and Figures, Annual Edition: 2013/2014



## 5. RESULTS AND DISCUSSION

According to this year's survey the level of fraud increased by every measure in the past 12 months, reversing recent trends. Overall, 70% of companies reported suffering from at least one type of fraud in the past year, up from 61% in the previous poll. Individual businesses also faced a more diverse range of threats on average, those hit in the past year suffered 2.3 different types of fraud each, compared with 1.9 in 2012.

Finally, the economic cost of these crimes mounted, increasing from an average of 0.9% of revenue to 1.4% with one in 10 businesses reporting a cost of more than 4% of revenue. The survey offers little hope for relief on the immediate horizon. Of those surveyed, 81% believe that their firm's exposure to fraud has increased overall in the past 12 months, up from 63% in the previous survey. Respondents attribute this increase to the complexity of Information technology, Infrastructure, high staff turnover and entry to new riskier markets.

Perhaps the most worrying finding in this year's survey is that, for six of the 11 types of fraud covered by the survey – corruption, money laundering, regulatory breach, and misappropriation of company funds. IP theft and market collusion – the percentage of executives admitting that their firms are highly vulnerable to fraud was higher than the proportion of the companies that have been hit in the past year.

## 6. FINDING

Forensic accounting is very beneficial because it deals with issues related to the quantification of economic damages. It plays a key role in tracing the financial frauds and white-collar crimes. In a nutshell, forensic accounting is seen as a suitable tool to offer the highest level of assurance and to add credibility to the financial statements. However, Forensic Accounting has tremendous potential as a new area of practice for Indian Chartered Accountants. Forensic accounting in India has come to limelight only recently due to rapid increase in frauds and the white collar crimes and it will be able to minimize financial scandals.

## 7. RECOMMENDATIONS AND SUGGESTIONS

Forensic accounting has come into limelight due to rapid increase in financial frauds and white-collar crimes. But it is largely unfamiliar in India. It is an emerging profession in India. It has been observed that the financial scams in India are unbridled due to lack of stringent surveillance authority. India has already faced substantial losses due to rapid increase in white-collar crimes and the belief that our law enforcement agencies do not have sufficient expertise or the time needed to uncover the frauds. Moreover, the Forensic Accounting is in an infancy state in India. But due to ever increasing cases of bank and cyber-frauds its growing importance cannot be denied. The immediate landmark creation is "Forensic Research Foundation". They provide support for investigation of fraud. Serious Investigation Fraud Offices (SIFO), has been established in India for fraud investigation.

## 8. CONCLUSION

This study is on the forensic accountants and corporate fraud reduction. The objectives set out at the beginning include the examination of the concept of forensic accounting, the need for it and its role in providing solution to the problem of fraud in corporate organizations. In this study, we considered the various definitions of forensic accounting, composition of forensic accounting, the need for forensic accounting.

### LIMITATIONS:

The scope of the present study will be restricted for reducing financial scandals in the corporate through Forensic accounting and future prospects for its application in India. Policy and procedures for reducing the financial malpractices in the corporate world.

### SCOPE FOR FURTHER RESEARCH:

In the light of broad coverage, the researcher focuses on the fraud detection in corporate sectors using some selected case studies like Harshad Mehta Scandal, Saradha Group Financial Scam, Satyam Fraud, Chopper deal Scam and Colgate Scam.

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