

**AN EMPIRICAL STUDY ON FOOTPRINT OF FORENSIC ACCOUNTING IN INDIA**

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**ABSTRACT:** There has been dramatic increase in number of financial fraud and fraudulent activities in India and around the world have emphasized the need for forensic accounting. It is emerged as a relatively new and effective tool in the hands of accountants to find out mistakes and malpractices in accounting world. This paper focuses on the conceptual framework, various provisions and applicability of forensic accounting in investigating corporate frauds and scams in India

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**INTRODUCTION:**

Forensic accounting has come into limelight due to rapid increase in financial frauds. The integration of accounting, auditing and investigative skills yields the specialty known as “Forensic Accounting”. Though the need for forensic accountants and true interpretation of accounting data have been emphasized by professional and regulatory bodies, financial accounting fraud detection is still in its infancy. Forensic accountants are considered to be the best-equipped professionals who possess an integration of accounting, auditing and investigative skills. The opportunities for the forensic accountants are growing at the rapid speed. They are being engaged in public practice, or employed by insurance companies, banks, police forces, government agencies and several other organizations.

**Forensic:**

The word forensic comes from the Latin word forēnsis, meaning "of or before the forum."

Means –

- Relating to, used in, or appropriate for courts of law or for public discussion or argumentation.
- Relating to the use of science or technology in the investigation and establishment of facts or evidence in a court of law

**Forensic Accounting:**

The integration of accounting, auditing and investigative skills yields the specialty known as Forensic Accounting. It is the study and interpretation of accounting evidence. It is the application of accounting methods to the tracking and collection of forensic evidence, usually for investigation and prosecution of criminal acts such as embezzlement or fraud.

**Objectives of the study:**

- 1) To understand the scope of forensic accounting in India and its uses.

- 2) To understand the significance of forensic accounting through the discussion of various scams in India
- 3) To identify the role of forensic accountants in fraud examination.

### Forensic accounting Vs Auditing:

Items for analysis	Forensic Accounting	Auditing
Why, When and Where the services take place	Serve as a backing to prove a fraud in the business in an apparent risk prone environment.	Continuous to certify the state of the art of a business and comply with an efficient market theory
Scope of the job	Present analytical accounting and financial information to support legal and administrative decisions	Opine on the accounting statements of business entities considering all criteria used in its preparation
Details of tasks performed	Detailed planning of tasks aimed at documenting deterministic and calculative analysis.	Sampled and/or probabilistic procedures to serve as a base of concluding the financial statement.
Periodicity	When necessary and particularly according to the periods stipulated by the Judge or client.	Covering the fiscal year to substantiate the activities of the accounting period.
Reporting	Investigative or expert reports	Financial statements, management letters or auditors' report.

#### Research Methodology:

The study is based on secondary data and few cases of corporate sector have been discussed. The study is a theoretical analysis of the role of forensic accountant as watchdog who may keep a watchful eye on the financial operation of the firms so as to minimize the occurrences of financial frauds in future. The analysis is being supported by the secondary data in the form of available literature on forensic accounting and its application in modern corporate world.

#### Fraud Definition & Classification:

Fraud is the intentional use of false or misleading information in an attempt to illegally deprive another person or entity of money, property, or legal rights.

**Classification:** If we classify frauds based on industry, Following are the types of frauds:

1. Bank frauds
2. Corporate frauds
3. Insurance frauds
4. Cyber frauds
5. Securities frauds

#### 1. Bank Frauds:

The number of bank frauds in India is substantial. It is increasing with the passage of time in all the major operational areas in banking. There are different areas where fraud may exist, like- Bank-Deposits, Inter-Branch Accounting, Transactions etc.

Credit or debit card fraud can also occur when your card is lost or stolen and used by a third party to purchase goods with those cards or to remove cash from the cards.

## 2. Corporate Frauds

Corporate Frauds can be defined as 'Activities undertaken by an individual or company that are done in a dishonest and illegal manner and are designed to give an advantage to the perpetrating individual or company'. In the Corporate environment frauds which are committed by employees of the organization are referred to as Occupational or Employee Frauds.

Occupational Fraud is broadly classified into 3 types

1. Corruption
2. Asset Misappropriation
3. Fraudulent Financial Statements

## 3. Insurance Frauds

Insurance fraud is any act committed with the intent to obtain a fraudulent outcome from an insurance process. This may occur when a claimant attempts to obtain some benefit or advantage to which they are not otherwise entitled, or when an insurer knowingly denies some benefit that is due. According to the United States Federal Bureau of Investigation the most common schemes include: Premium Diversion, Fee Churning, Asset Diversion, and Workers Compensation Fraud.

## 4. Cyber Frauds

Cyber-crime encompasses any criminal act dealing with computers and networks (called hacking). Additionally, cyber-crime also includes traditional crimes conducted through the Internet. For example; hate crimes, telemarketing and

Internet fraud, identity theft, and credit card account thefts are considered to be cyber-crimes when the illegal activities are committed through the use of a computer and the Internet.

## 5. Securities Frauds

These scams occur because of manipulation of the market by either "insiders" or large players in the stock market who cause stock prices to fluctuate unusually for their own personal gain, either through use of "insider" information or through unfair trading practices. As a result common small investors lose a lot of money as through ignorance they fall into temptation and invest in stocks which they would not have had they had any idea of how the markets were being manipulated.

### Role of a Forensic Auditor:

- **Fraud Detection:** Investigating and analyzing financial evidence, detecting financial frauds and tracing misappropriated funds
- **Computer Forensics:** Developing computerized applications to assist in the recovery, analysis and presentation of financial evidence;
- **Fraud Prevention:** Either reviewing internal controls to verify their adequacy or providing consultation in the development and implementation of an internal control framework aligned to an organization's risk profile
- **Providing Expert Testimony:** Assisting in legal proceedings, including testifying

in court as an expert witness and preparing visual aids to support trial evidence.

### **Techniques of Forensic accounting for examining Frauds:**

Some of the techniques involved in Forensic Accounting to examine the frauds are:

a) **Benford's Law:** It is a mathematical tool and is one of the various ways to determine whether variable under study is a case of unintentional errors or frauds. Use of parametric test called the Z test is carried to measure the significance of variance between two populations i.e. Benford's percentage numbers for first digit and observed percentage of first digit for a particular level of confidence. Benford's Law is not affected by scale invariance and is of help when there is no supporting document to prove the authenticity of transactions.

b) **Theory of relative size factor:** It highlights all unusual fluctuations, which may be routed from fraud or genuine errors. RSF is measured as the ratio of the largest number to the second largest number of the given set. In practice there exists certain limit (e.g. financial) for each entity such as vendor, customer, employee, etc. 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 outliers. In records that fall outside the prescribed range are suspected of errors or fraud. These records or fields need to relate to other variables or factors in order

to find the relationship, thus establishing the truth.

c) **Data Mining Techniques:** It is a set of assisted techniques designed to automatically mine large volumes of data for new, hidden or unexpected information or patterns. Data mining techniques are categorized in three ways: Discovery, Predictive modeling and Deviation and Link analysis. It discovers the usual knowledge or patterns in data, without a predefined idea or hypothesis about what the pattern may be i.e. without any prior knowledge of fraud. It explains various affinities, association, trends and variations in the form of conditional logic. In predictive modeling, patterns discovered from the database are used to predict the outcome and to guess data for new value items. In Deviation analysis the norm is found first, and then those items are detected that deviate from the usual within a given threshold (to find anomalies by extracted patterns). Link discovery has emerged recently for detecting a suspicious pattern. It mostly uses deterministic graphical techniques, Bayesian probabilistic casual networks. This method involves "pattern matching" algorithm to 'extract' any rare or suspicious cases.

d) **Ratio Analysis:** This is an another useful fraud detection technique is the calculation of data analysis. Like financial ratios that give indications of the financial health of a company, data analysis ratios report on the fraud health by identifying possible symptoms of fraud. Three commonly employed ratios are:

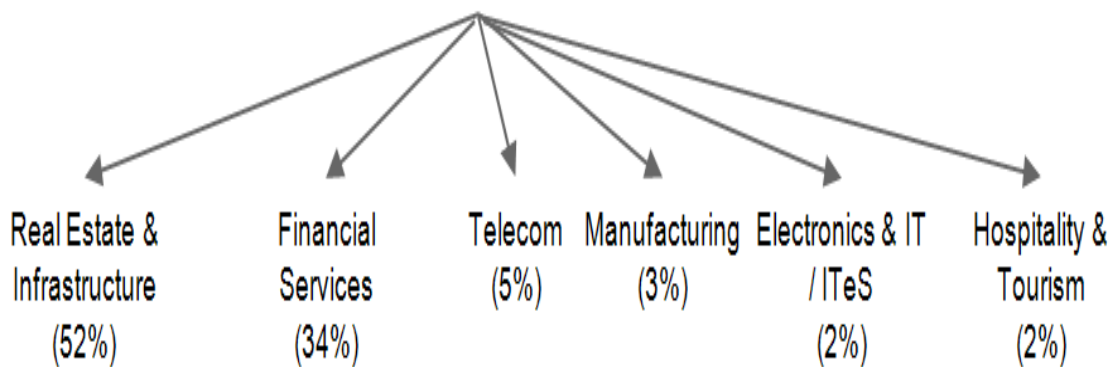
(a) Ratio off the highest value to the lowest value

(b) Ratio of highest value to second highest value

(c) Ratio of current year to previous year. Using ratio analysis, a financial expert studies relationships between costs and some measures of production, such as units sold, dollar of sales or direct labor hours. For example, to arrive at overhead costs per direct labor hour, total overhead costs might be divided by total direct labor hours. Ratio analysis may help a forensic accountant to estimate expenses.

**Findings:**

1. Fraud is not just something that occurs in big, popular companies. It can happen to small or big businesses in all industries.



(Others: 2%)

6. Companies Act 2013 paved the way for a special approach to prevent economic fraud and preserving national wealth.

**Suggestions:**

1. New legislative body should be made in order to make Forensic Accounting a part of day to day

2. Detecting it can be difficult but forensic accounting provides quite a good number of solutions to identifying whether a fraudulent activity has taken place.
3. It uses modern technology in the form of data mining to notice anomalies and patterns in data.
4. But it also helps spot fraud by focusing on the people involved in the situation – using documents and interviews to see whether things are out of the ordinary.
5. As per a recent study by Assocham and Grant Thornton, the most vulnerable sectors to Fraud in India are:

auditing and accounting practices. Roles, Responsibilities, duties and powers of Forensic Accountant should be framed by the regulatory body. Prosecution for fraudsters should be done by keeping in mind the “framework” or “model” applicable to users of fraudulent practices in IT. This model should act as a powerful tool to prevent the occurrence of frauds.

2. Conferences, seminars and training programs need to be organized to enhance skills and ability of professional Accountants regarding Forensic issues.
3. There is further scope of research in this field if this subject is integrated into the academic curriculum.
4. SEBI and RBI should create a “cell for Forensic Accounting” in field of corporate crimes and financial crimes respectively

**Conclusion:**

The role of a forensic accountant under contemporary conditions no doubt is very important because they help lawyers, courts, the police, regulatory bodies and other institutions in investigating and documenting frauds. The increasing occurrence of fraud in modern day business environment requires the services of forensic accountants to unearth fraudulent activities within and outside an organization. It should be made a part of the curriculum at the undergraduate as well as the post-graduate level across the country. At the same time, requisite amendments in the law should be undertaken to establish the importance of forensic accounting in general and forensic accountants in specific.

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