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**CERTIFICATE**

This is to certify that

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has participated and presented a Research Paper titled An overview of forensic  
accounting in India.

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## **AN OVERVIEW OF FORENSIC ACCOUNTING IN INDIA**

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### **ABSTRACT**

Forensic accounting, forensic accountancy or financial forensics and Auditing are a very much upcoming field in commerce and accounting in India. Forensic means collection of evidence which is suitable for use in a court of law. Forensic accounting is the use of accounting skills to investigate fraud or embezzlement and to analyze financial information for use in legal proceedings. Forensic Accounting and Fraud Detection is in increasing demand for cybercrimes and frauds detection. It is the practice of utilizing accounting, CAATs/ Data Mining Tools, auditing and investigative skills to detect Bankruptcy, insolvency; Securities fraud, Tax fraud, Money laundering, Business valuation. The objective of the study is to find out practice of forensic accounting in India, types of financial frauds and forensic accounting techniques of prevention of frauds.

### **INTRODUCTION**

Forensic accounting has risen to prominence because of increased financial frauds in banks, financial institutes, and government agencies popularly known as “white collar crimes “. Forensic accounting can be described as a specialized field of accountancy which investigates financial fraud and analyze financial information to be used in legal proceedings. Forensic accounting uses accounting, auditing, and investigative skills to conduct investigations into financial theft and financial fraud. It encompasses both Investigative Accounting and Litigation Support. Forensic audit can be defined as a



critical examination of evidence to determine its correspondence to established criteria carried out in a manner suitable to the court regarding an assertion.

Following are Objectives of Forensic Auditing and Accounting

- for use of forensic accountant's conclusions to facilitates a settlement, jury award or claim by reducing the financial component
- To avoid fraud and theft
- To restore the downgraded public confidence
- To formulate and establish a comprehensive corporate governance policy
- To create a work environment positive

## **FORENSIC**

In Latin word forensic called as "forensis ", means "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, analysis and interpretation of accounting evidence. It is the application of accounting techniques to the finding out and collection of forensic evidence, usually for prosecution and investigation of criminal acts such as Fraud or embezzlement.

## **FORENSIC ACCOUNTING: SCOPE**

India has ranked as the 88th most corrupt nation. India needs more profound for forensic accountants. A Forensic Auditor is often reserve to study, analyze, interpret, summarize and present critical financial and business related issues in a manner which is both properly supported and understandable. Trained the Forensic Accountants to see beyond the figures and deal with the business reality situation. The Forensic Auditor is often involved in the following:



- ✓ Fraud Detection
- ✓ Computer Forensics:
- ✓ Fraud Prevention
- ✓ Providing Expert Testimony
- ✓ Litigation Support

## WHAT IS FRAUD?

Fraud is a type of criminal activity, defined as: 'false representation or abuse of position or prejudicing someone's rights for personal profit'. If we classify frauds based on industry, Following are the types of frauds:

1. Bank frauds
2. Corporate frauds
3. Insurance frauds
4. Health Care Frauds
5. Cyber frauds
6. Securities frauds

### 1. BANK FRAUDS

Banking frauds in India is substantial. Banking frauds are increasing with the 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.

- a. **Credit/Debit card fraud** -Credit card and debit card fraud is a crime whereby your credit or debit card can be reproduced in order to use the credit balance to obtain a financial advantage. The creation and/or alteration of a credit/debit card occur when the information contained on the magnetic strip is reproduced. This type of crime is known as 'skimming'.
- b. **Cheque Fraud** - Cheque fraud is the use of a cheque to get financial advantage by
  - altering the cheque (payee/amount) without authority



- theft of legitimate cheques and then altering them
  - duplication or counterfeiting of cheques
  - using false invoices to get legitimate cheques
  - depositing a cheque into a third party account without authority
- c. **Corporate Frauds-** corporates frauds can be defined as 'Activities undertaken by company, partnership firm, association of person and individual that are done in a illegal manner and are designed to give an benefits to the perpetrating individual or company'. In India, rising trend of 45% corporate fraud is on a when leading Indian corporate business declared that fraud e.g. Satyam Computers fraud. Occupational Fraud is broadly classified into 3 types
- Corruption
  - Asset Misappropriation
  - Fraudulent Financial Statements

## 2. INSURANCE FRAUDS

Any act pledge with the intent to obtain a fraudulent outcome from an insurance process is called as Insurance fraud. This fraud may occur when an insured attempt to obtain some advantage or benefit to which they are deserve, or when an insurer knowingly refuse some benefit that is due. According to the United States Federal Bureau of Investigation the most common schemes include: Fee Churning, Asset Diversion, Premium Diversion and Workers Compensation Fraud. The fraud in these schemes can be insurance company employees and claimants.

## 3. CYBER FRAUDS

Cyber-crime encloses any criminal activity dealing with software, computers and networks (called hacking). Cyber-crime also includes crimes conducted through the Internet or online. For example; telemarketing and Internet fraud, hate crimes, credit card account thefts and identity theft are considered to be cyber- crimes when the fraud activities are committed through the use of a computer and the Internet.

## 4. 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 any idea of how the markets were being manipulated.

### **RED FLAGS**

Red Flags are sign or warning of any impending danger or inappropriate behavior. Red Flags do not necessarily indicate the existence of fraud however are indicators that caution needs to be exercised while investigating the situations. Red Flags are classified in the following categories

- a. Financial performance red flags
- b. Accounting system red flags
- c. Operational red flags
- d. Behavioral red flags

### **FORENSIC AUDIT TECHNIQUES**

Detecting fraud is difficult, especially frauds involving material financial statement misstatements, which occur only in about 2 percent of all financial statements. Fraud is generally concealed and often occurs through collusion. Normally, the documents supporting omitted transactions are not kept in company files. False documentation is often created or legitimate documents are altered to support fictitious transactions. Some of the Techniques that a Forensic Auditor may use are listed below:

1. General Audit Techniques
2. Statistical & Mathematical Techniques
3. Digital/ Electronic Techniques
4. CAATT
5. Data Mining



## **1. GENERAL AUDIT TECHNIQUES**

Most businesses organizations have their own procedures and defenses set up to prevent the occurrence of fraud. A good initial forensic audit programmed and technique is to attempt to avoid these defenses yourself. The weaknesses find within the organization's controls will most likely guide to down the same path taken by suspected perpetrators or fraud.

## **2. STATISTICAL & MATHEMATICAL TECHNIQUES**

### **Trend Analysis**

Businesses have their own life cycles and seasons much akin to nature itself. An event or expense within a business organization that would be comparable to a snowy day in the middle of summer is worth investigating. Careful review of subject organization's historical norms is mandatory in order for you to be able to perceive the outlier event should it arise within your investigation.

### **Ratio Analysis**

Ratio analysis is useful technique to detection of fraud for calculation of data analysis ratios for key numeric fields. In particular, financial ratios those give indications of the financial position of a company, data analysis ratios report on the fraud position by identifying possible indication of fraud.

## **3. TECHNOLOGY BASED/ DIGITAL FORENSICS TECHNIQUES**

Digital footprint of every transaction is most important features in today's computer-driven society. Inspection of relevant accounting records, emails, phone logs and target hard drives is a necessity facet of any modern forensic audit. Digital inspection can become quite complicated and require support from trained digital investigators.

## **4. COMPUTER ASSISTED AUDITING TECHNIQUES (CAATS)/ COMPUTER ASSISTED AUDIT TECHNIQUES AND TOOLS (CAATT)**



Audit in general and fraud investigation in particular is getting complex day by day primarily due to migration to non- paper based systems.. The challenges are to examine various databases generated from different systems which may or may not be integrated. Computer Aided Audit Tools or CAATs can be broadly divided into

- ✓ Generalized Audit Software's (GAS) or
- ✓ Common Software Tools (CST)

### **Generalized Audit Software (GAS)**

Generalized Audit Software (GAS) is a class of CAATs that permit investigator or auditors to undertake manipulation, querying, data extraction, summarization and analytical tasks. Probably the most widely utilize class of CAATs is Generalized Audit Software (GAS). GAS has a user-friendly interface that captures users' audit translates and requirements those user queries or instructions into program code.

### **Common Software Tools (CST)**

Due to shortcomings of GASs, CSTs have become popular over a period. Spreadsheets (like MS Excel, Lotus, etc.), RDBMS (like MS Access, etc.) and Report writers (such as Crystal reports, and so on.) are few examples of CSTs. Their widespread acceptability is due to its instant availability and lower costs. While spreadsheets may be extremely easy to use due to its simplicity and versatility, other CSTs may need some practice.

## **5. DATA MINING TECHNIQUES**

These are, Set of assisted techniques designed to automatically mine large volumes of data, hidden or unexpected information or patterns.

- If You Know Exactly What You Are Looking for, Use Structured Query Language (SQL).
- If You Know Only Vaguely What You Are Looking for, Turn to Data Mining.

Data mining techniques are classified in three techniques: Predictive modeling, Discovery and Deviation and Link analysis. These techniques find out the patterns in data



or usual knowledge without a predefined hypothesis or idea about what the pattern may be, i.e. unless any before knowledge of fraud.

### **APPLICABLE LAWS IN INDIA**

- The Information Technology Act 2000
- Indian Penal code ,1860
- Civil Procedure Code 1908
- Indian Contract Act, 1872
- Indian Evidence Act, 1872
- The Prevention of Money Laundering Act, 2002
- The Foreign Exchange Management Act, 1999
- The Companies Act, 2013
- RBI Master Circular on Frauds- Classification and Reporting

### **CONCLUSION**

Requirements of forensic accountant will be high because of an increase in theft, embezzlement employee and management fraud, and other financial crimes. Financial Growth is also stimulated by high-visibility corporate scandals. Forensic accounting provides an incisive analysis of how fraud occurs within an organization and explains the latest techniques for fighting it.

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