



FORENSIC ACCOUNTING: ITS ROLE IN INVESTIGATING CO-OPERATIVE BANKS SCAMS IN INDIA

¹ Teslin Seby V

¹Assistant Professor

¹Commerce Department,

¹Don Bosco college, Mannuthy, India, India

Abstract: India has a well rooted banking system and Co-operative banks have an inevitable role in our economy. It has a major role in providing support to the weaker section of the society and rural financing. But now a days the cooperative sector in India is facing challenges from financial frauds and white color scams. The existing conventional accounting and auditing procedures were not sufficient to curb the financial frauds and scams. This crucial situations demand the use of Forensic accounting in India. Forensic accounting is a combination of accounting, auditing and investigation technique used to discover financial crimes. It is a recently developed method of investigating financial transactions and business situations in order to obtain the truth of a fraudulent activity. Forensic accountants are in high demand because they play a key role in an investigation of suspected financial scandals and misappropriation of records. Co-operative banks are back bone of rural financing, the chain of scams in this sector seriously affected life of ordinary people and question credibility of the banking sector. Using secondary data, this article discusses the role, importance and techniques of Forensic Accounting, in the light of recent co-operative bank scams in India

Index Terms - Forensic Accounting, Co-operative Banks, Financial Frauds, Auditing.

I. INTRODUCTION

Forensic Accounting has emerged as an important discipline in accounting which can be of great importance for Corporate Sector in India. With an upsurge in financial accounting fraud in the global economy, it has become an emerging topic of great importance for academic, research and industries. Forensics dictionary meaning is “pertaining to, connected with, or used in courts of law or public discussion and debate”. It is dependable and eligible for use in court of law as evidence. Accounting means “the theory and system of setting up, maintaining, and auditing the books of a firm”. Accounting is about recording, classifying, summarizing and interpretation of financial transactions of an organisation. It includes preparation of journal, ledger, P&L account, balance sheet and audit books. According to American Institute of Certified Public Accountants (AICPA): “Forensic accounting is the application of accounting principles, theories and disciplines to facts or hypothesis at issues in a legal dispute and encompasses every branch of accounting knowledge.” In other words, forensic accountants are considered as experienced auditors, accountants and inspectors of legal and financial documents who are employed to investigate fraudulent activity and prevent it. While forensic accounting developed as early as 1995 in USA, it put its first step in India just few years back. In India, forensic accounting has risen to prominence because of increased financial frauds popularly known as white collar crimes. The shortage of respect and perception in India’s law enforcement agencies plus the price at which white collar crimes have enhanced, has prompted the improvement of forensic accounting in India.

Co-operative banks are financial entities established on a co-operative basis and belonging to their members. This means that the customers of a co-operative bank are also its owners. These banks provide a wide range of regular banking and financial services. However, there are some points where they differ from other banks. In India, co-operative banks play a crucial role in rural financing, with funding of areas under agriculture, livestock, milk, and personal finance, self-employment, setting up of small-scale units among the few focus points for both urban and rural cooperative banks. They provide a much-needed alternative to the age-old exploitative practice of people approaching the village moneylender, most often getting into a debt-trap that they struggle to pull themselves out of the cooperative banking system came into being with the aim to promote saving and investment habits among people, especially in rural parts of the country. Broadly, co-operative banks in India are divided into two categories - urban and rural. Rural cooperative credit institutions could either be short-term or long-term in nature. Further, short-term cooperative credit institutions are further sub-divided into State Co-operative Banks, District Central Co-operative Banks, and Primary Agricultural Credit Societies. Meanwhile, the long-term institutions are either State Cooperative Agriculture or Rural Development Banks (SCARDBs) or Primary Cooperative Agriculture and Rural Development Banks (PCARDBs). On the other hand, Urban Co-operative Banks (UBBs) are either scheduled or non-scheduled. Scheduled and non-scheduled UCBs are again of two kinds- multi-state and those operating in single state.

India has a well rooted co-operative banking history and ordinary people very much depend on it as a part of their lives. A lot of people invest in cooperative banks. But now a days cooperative bank sector faces much challenges of corruption and political intervention. The money of local people misuses any many scams are reported very recently. It is very difficult to find out such crimes and scams and collect its evidence. So the investigating agencies now rely on forensic accounting which is a new trend and technology used to find out the evidence of corporate scams in India. We are discussing the major cooperative bank scams in India and what forensic accounting can do in this scenario.

II. OBJECTIVES

- To determine the extent to which co-operative bank scams have impacted on the economy and the effectiveness of forensic accounting functions.
- To understand the concept, role, techniques and future relevance of forensic accounting.

III. LITERATURE REVIEW

- Mazumder (2011) remarked that law enforcement personnel in recent years have become more aware of white-collar crimes and have lacked the training and expertise in combating such crimes. They are better trained at combating violent or personal behavior crimes, but now it has the responsibility to expand its knowledge and expertise into the economic crimes area.
- Bhasin (2007) finds that the services of forensic accountants are in great demand in the areas which include criminal investigation, settlement of outgoing partner; settlement of insurance claims, detection of employee fraud and case relating to professional negligence.
- Mehta and Mathur (2007) posited that forensic accounting involves a financial detective with a suspicious mind, a financial bloodhound, someone with a sixth sense that enables reconstruction of past accounting transactions and an individual who looks beyond the numbers.
- Zysman (2004) stated that Forensic Accounting utilizes accounting, auditing and investigative skills when conducting any kind of investigation. Equally critical is the ability to respond immediately and to communicate financial information clearly and concisely in a courtroom setting.

IV. NEED OF FORENSIC ACCOUNTING

India is one of the fastest growing economies of the world. It is at more risk of frauds as the rules and regulations prevalent in country are not able to catch up with the changing circumstances. Repetition of fraud cases where high profile and trusted people are involved has raised the demand for improving the current system of checks and controls. Forensic Accounting is more into news these days as there is an increase in white-collar crimes and financial frauds in the world. In India most of the people trust cooperatives banks and ordinary people invest majority of their savings in these banks due to trusted people and cooperative banks maintain a relationship with their customers as it is a local bank. Cooperative banks provide all banking functions and due to familiar people and situations they have a very trusted role in economy. But now a days the entire cooperative banking sector facing a unstable situation due to increased crimes and corruption in this field. Eg: Karuvannur bank, Kannadi bank, Moospet Bank etc...It is the duty of regulatory bodies and investigating agencies that culprits of scams and frauds are booked by law and punished. But irony of the situation is that there are not enough experts available in India. Institutions like RBI, SEBI, IRDA, CBI, CVC & Income Tax etc don't have specialised people to investigate economic frauds in financial sector. It becomes very difficult to keep economic criminals behind bars if the frauds are not properly investigated and proved in the court of law. Forensic accounting provides litigation support and it is also helpful in bringing culprits of misconduct and fraud to law. It is a well-known fact that "Prevention is better than cure". In banking sector also, need of the hour is to follow the same policy and prevent occurrence of frauds. Preventing frauds can be a great contribution to the banking sector and it can save the society and economy from huge potential losses. Forensic accounting is not only a damage control exercise but it contributes to the systems & processes which are helpful in preventing frauds. The present scenario of education in such specialised fields depicts a very grim picture. There is no government institute that provides degree or diploma to Forensic Accounting. Different skill set is required for the role of forensic accountant and it can be justified only if specialised courses are offered to interested professional and students.

V. ROLE OF FORENSIC ACCOUNTANT

A Forensic Accountant is often retained to analyze, interpret, summarize and present complex financial and business-related issues in a manner that is both understandable and properly supported. A forensic accountant can easily find out any financial scams and produce law accepting evidence and material facts. A forensic accountant can utilize his skills on areas of:

Fraud Investigations

In cases involving fraud perpetrated by an employee, the forensic accountant will be required to give his expert opinion about the nature and extent of fraud and the likely individual or group of individuals who have committed the crime. Forensic accountant check documents and trigger the crime and evidence of the same.

Criminal Investigations

Practicing forensic accountants could be called upon by the police to assist them in criminal investigations. The forensic accountant would use his investigative accounting skills to examine the documentary and other available evidence to give his expert opinion on the matter. Their service may require at police department, investigation agencies, government bodies etc....

Litigation Support

Litigation support consulting is a service where forensic accountants provide an opinion based on known facts or facts that are yet to be uncovered. When the facts are unknown, the forensic accountants investigate the situation and then form an opinion based on their investigative work. Litigation support services include engagements concerning professional liability claims and civil claims. Professional liability claims consulting includes quantifying the loss from events of insurance disputes, delayed construction, and stolen trade secrets etc...

Professional Negligence

Sometimes there may be errors committed not deliberately but due to negligence by employees or professionals. It's very difficult for a normal person to trigger these in appropriation from records but at the same time it's an easy mechanism for forensic accountant.

Divorce Cases Disputes

Divorced couples often need the services of forensic accountants in divorce cases involving disputes about matrimonial assets. Assignments of this sort might require the forensic accountants to trace, locate and evaluate assets.

Expert Witness in Cases

Forensic accountants are considered as an expert witness in court and they can influence the case outcome and help judges in taking prompt decisions.

There are any other functions such as finding computer crimes, insurance claim settlement, dispute settlements, arbitration services etc... A forensic accountant can do more in the prevention and triggering of these white color crimes and disputes.

VI. TECHNIQUES OF FORENSIC ACCOUNTING

The conventional accounting and auditing was with the help of different accounting tools but forensic accountant has new technology available to obtain or source data sort and analyze data and even quantify and stratify results through computer audit and various other techniques. Some of the techniques involved in Forensic Accounting are:

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 negligence or fraud. On detecting any such phenomenon, the variable under study is subjected to a detailed scrutiny. The law states that fabricated figures possess a different pattern from random figures.

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.

Ratio Analysis

Data analysis ratios for key numeric fields are also a useful technique used by forensic accountants to detect the frauds. The following three ratios are commonly used to do data ratio analysis to report on the fraud health by identifying possible symptoms of fraud.

Computer Assisted Auditing Tools (CAATS)

CAATs are computer programs that the auditor use as part of the audit procedures to process data of audit significance contained in client's information systems, without depending on him.

- Testing details of transactions and balances,
- Identifying inconsistencies or significant fluctuations,
- Testing general as well as application control of computer systems.
- Sampling programs to extract data for audit testing, and
- Redoing calculations performed by accounting systems

Table 1: Co-operative Banks Scams in India

Sl No	Name of Cooperative Bank	District	Fraud perpetrator	Amount	Modus Operandi
1	<ul style="list-style-type: none"> • Kadakkal Service Cooperative • Puthiyakavu Cooperative Bank, • Mayyanad Service Cooperative Bank, • Panmana Service Cooperative Bank, • Kulasekharapuram Service Cooperative Bank, • Chathannoor Cooperative Bank 	Kollam	Secretary of the Cooperative Bank	230 Cr	After demonetization, banned notes deposited into various accounts and these illegal monies were later deposited in District Cooperative Bank in Kollam. The money was later transferred to nationalised and private banks with branches in Kollam.
2	Karuvannur Cooperative Society Bank, Thrissur	Thrissur	Bank manager, Secretary, Accountant, member of the bank and commission agent	104 Cr	Multiple loans of large amounts were sanctioned against the property pledged by customers without their knowledge. It involved fake signatures, remortgaged properties, and a significant number of people receiving collection notices for amounts that they had never borrowed, several people received recovery notices for amounts greater than what they had borrowed.

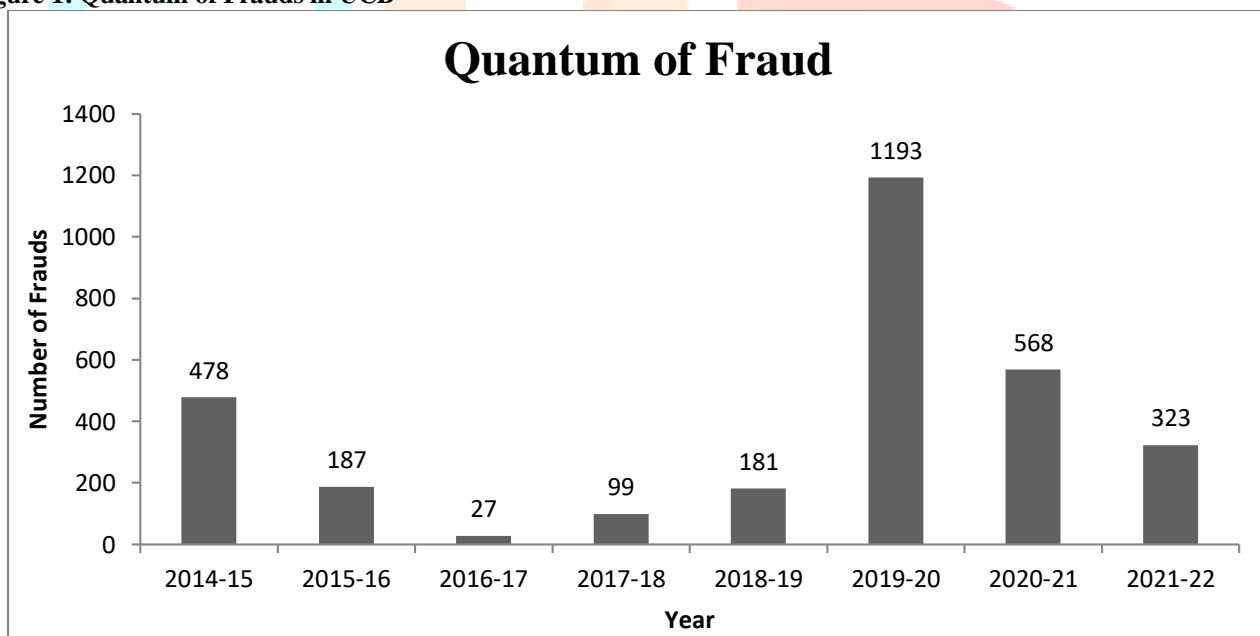
3	Thamarakudy Cooperative Bank	Service	Alappuzha	Administrative Board And Officers	15 Cr	Lakhs of rupees were swindled by giving fake checks and tampered with the computer and swindled lakhs of rupees in interest on the deposit. The fixed deposit in owned account was withdrawn before the due date and pocketed more money as interest. Another irregularity is the interest-free loan given to the former president.
4	Moospet Bank.Thrissur	Cooperative	Thrissur	Board Members	13.36 Cr	It is reported that loans were sanctioned beyond the operating limit of the bank to board members and their relatives illegally. High loan amounts were sanctioned by exaggerating the value of the collateral.
5	Parappur Rural cooperative society		Malappuram	Employees and Board Members	8 Cr.	Falsifying documents and joined embezzlement money from hundreds of investor's fixed deposit and daily deposit. It is alleged that the officials used to withdraw money without the knowledge of the investors. They also pledge the gold already pawned for huge amount to private moneylenders without the knowledge of the pledges.
6	Service Cooperative Bank Valapattanam		Kannur	former President, Secretary, Director board members and Manager	6.7 cr	An inflated value of lands pledged in the banks through which an amount of 3.6 crores was illegally sanctioned for customers. Moreover, using the same documents fake land documents were doctored with which huge sums of loans were sanctioned. In another method, an amount of Rs 1.6 crores was siphoned off by the accused by re-pledging in other banks the gold ornaments pledged in the bank by the customers. Another fraud was sanctioning an amount of Rs 1.5 crore to the kith and kin on the surety of blank cheque leaves.
7	Kuzhalmannam Block Rural credit cooperative Bank		Palakkad	Member of Administrative Committee	4.85 Cr.	The irregularities include diversion of loans, non-refund of fixed deposits and interest after the maturity period, disbursement of loans without adequate collateral security and the renewal of loans without the knowledge of the borrower.
8	Mugu Cooperative Bank		Kasargod	President and Secretary	3.5 Cr.	Defrauded the bank by giving loans to their relatives and other customers without due diligence and in some cases by indulging in cheating, 80% of the bank's borrowers were ineligible.
9	Mayyad Service cooperative bank		Kollam	Secretary	1Cr.	Land worth less than 7 lakhs given 30 lakhs loan to benamies of secretary and which found to be un repaid.
10	Kannadi Service Cooperative bank		Palakkad	Director board member of the bank	1 Cr.	The loan amounts of the members were diverted to the bank account of a director board member.

11	Karalam Service Cooperative Bank	Thrissur	President and Secretary	20 lakh	Discovered that a brother of the borrower had swindled a loan of Rs 20 lakhs with the connivance of a bank under the guise of a loan of Rs 5 lakhs.
12	Kareepra Cooperative Bank	Kollam	Employees	5 lakh	Huge irregularities detected in conduct of Chits
Source: Secondary Data					

Table 2: showing number of frauds of Urban Co-operative Banks

Financial Year	Quantum of Fraud
2014-2015	478
2015-2016	187
2016-2017	27
2017-2018	99
2018-2019	181
2019-2020	1193
2020-2021	568
2021-2022	323
Source: Secondary Data	

Figure 1: Quantum of Frauds in UCB



Source: Secondary Data

Co-operative institutions provide an alternative approach to financial inclusion in India through their geographic and demographic outreach to the urban and rural areas in India. Recently, the co-operative sector faced certain financial challenges. Episodes of frauds during the year affected the asset quality and profitability of co-operative banks. During 2020-21 so far, uncertainties related to COVID-19 have affected the operations of this sector, as they did for the other financial institutions despite these weaknesses. Due to white collar crimes and frauds results economic downfall and pushes the investors and the Government in unpleasant situation. Once frauds happened in any organization, the accountants & auditors are facing lot of criticism and litigations due to failure in detecting and plugging frauds. The management struggles to safeguard them by introducing internal control system that maintains the transparency in all transactions and adequacy of good corporate governance practice. The accountants are trying to tighten the loopholes in accounting and auditing system, procedures and building up adequacy in safeguard measures. In this situation, the forensic accountants play a major role in cracking down the white-collar crimes and frauds because of their investigative skills and to go beyond the routine audit and focused attention on detecting the fraudulent transactions. A forensic Accountants is a watch dog in an organisation and his or her presence intimidates fraudsters, because they are always afraid to commit fraud or cybercrimes because they knows that if they tries, they will be caught no matter the mechanisms used for such fraud. The demand of the Corporate world is to engage the forensic accountants who are responsible in detecting frauds and financial crimes and to report and advise for remedial measures in order to protect against financial loss out of these unscrupulous activities.

The co-operative sector has given a lot of support to India, which was devastated by the Covid19. At the same time, we have seen corruption and financial frauds that are detrimental to the growth of the co - operative movement. The co-operative sector is the backbone of the rural economy. Forensic Accounting will help the co-operative sector to move forward through legal services, ensuring transparency and accuracy, as a solution to this growing corruption. Although there is an authority to regulate the co-operative sector, this corruption and fraud is going on. Moreover, the police and vigilance are now investigating these matters in India. The traditional accountant is someone who checks the math accuracy in the accounting department while the Forensic Accountant is someone whom is looking behind these financial numbers find out what's not quite right. The forensic accountants use physical evidence, testimonial evidence, documentary evidence and demonstrative evidence to help identifying suspect and culprits and they also testify the evidence to the court .The presence of a forensic accountant in an institution, the fraudsters are all afraid to commit frauds or scams.

VII. RECOMMENDATIONS

- Professional education scenario should include forensic accounting as a new discipline and specialised courses should be offered to both professionals and students. This initiative will go a long way in producing required talent in this field.
- Conferences, seminars and training programs need to be organized to enhance skills and ability of professional Accountants regarding Forensic issues.
- All business organizations should be compulsorily instructed to float a fraud prevention policy. This policy should have some common points across industries and can be a great tool sensitizing people against frauds. Forensic accountants can contribute greatly in formation of these policies.
- Special departments or a 'cell for Forensic Accounting' should be created in agencies and institutions like RBI, SEBI, IRDA, CBI etc Efficiency and effectiveness of these departments will increase while performing their duties.

VIII. CONCLUSION

Forensic accountants help lawyers, courts and regulatory body through application of accounting principles, auditing and investigative procedures in solving certain legal problems. This is because forensic accountants possess skills and experience in accounting, auditing, taxation business operations, management and internal controls. The impact of fraudulent activities on Cooperative banks is a major setback on banks performance since it effect the working and loose the confidence of the people. Fraud prevention therefore is a major aspect of daily business activities which should be performed through engagement of forensic accountants. To conclude Forensic accounting as a discipline is an interesting area and can be highly useful to both the society and the business. Forensic accounting in India is relatively a new area of study; it is being used as an investigative tool, rather than a preventive tool. If forensic accounting is made mandatory in various sectors many of the scams can be restricted.

REFERENCES

- D.M. Hossain, S.Alam & M.Mazumde. (2021) 'Forensic Accounting and Fraud Investigation: Conceptual Summary', The cost and management, Vol.48, pp.4-11.
- S. Mishra & G Singh (2017) 'Forensic Accounting: An Emerging approach to deal with Corporate frauds in India', Global journal of Enterprise Information System, Vol. 9, issue 2, pp-104-109.
- Das S. (2012) 'Forensic Accounting: A tool of Detecting White Collar Crimes in Corporate World', Indian Journal of Research, Vol.1, Issue 2, pp. 1-3.
- Singh, P. (2012), 'Forensic Accounting Concept in India', International Journal of Trade and Commerce, January-June, Volume 1, No. 1, pp.100-105.
- Buckhoff, T., Schrader, R. (2000). The Teaching of Forensic Accounting in the United States. Journal of Forensic Accounting, Vol. 1, p. 135.