



# FORENSIC ACCOUNTING PRACTICE: LATEST DEVELOPMENTS IN INDIA

**DR. SUBHAJIT GHOSH**

Assistant Professor in Accounting & Finance

Department of Commerce

Bidhan Chandra College Rishra,

Rishra, Hooghly, W.B-712248

E-mail ID: subhajit\_sxc@yahoo.com

## ABSTRACT

Forensic accounting is considered as a new area of specialization and in recent years various sectors like corporate, banks, insurance companies and even police agencies require the service of forensic accounting experts. Forensic accounting in India has come to limelight due to rapid increase in frauds and white-collar crimes and the belief that our law enforcement agencies do not have sufficient expertise or the time needed to uncover frauds. The main object of this paper is to provide an insight into the latest developments of forensic accounting in India as an effective weapon for white-collar fraud detection and fraud prevention.

**Key Words:** Forensic Accounting, Fraud, Corporate Scams, Forensic Audit, White-collar crimes.

## I. INTRODUCTION

Forensic Accounting is the application of accounting facts gathered through auditing methods and procedures to resolve legal problems. It is needed to detect financial irregularities and to dig out the fraud. Forensic Accounting is the combination of four overlapping areas – accounting, criminology, law and auditing. Today forensic accountants are called upon to perform a variety of functions. These include:

- Detection of financial frauds and irregularities.
- Investigating economic crimes and many laundering.
- Assisting legal practitioners and providing expert witness in courts.
- Investigating insider trading.
- Assessing economic losses resulting from personal injuries.
- Assessing insurance and product liability claims.
- Valuing shares and business in the context of mergers and acquisitions.
- Settling partnership disputes.
- Investigating tax evasions.
- Providing audit committee advisory services.
- Assisting in investment analysis research.
- Providing enterprise risk management assistance.

In India forensic accounting has not got enough recognition even after alarming increase in the complex financial crimes and lack of adequately trained professionals to investigate and report on the complex financial

crimes. The task of Forensic Accountants is handled by Chartered Accountants who apart from handling traditional practice of auditing as required under the Companies Act, 2013 or Income Tax Act are called upon by the law enforcement agencies or the companies or private individuals to assist in investigating the financial crime or scam. The CA or ICWAs in India are best suited for this profession due to their financial acumen acquired during their rigorous training which can be further honed by introducing post qualification degree or diploma in Investigating and Forensic Accounting similar to one introduced by CICA. The CA or ICWA who acquire post qualification in Investigative & Forensic Accounting can use the designation CA-IFA or CWA-IFA and be legally recognized as the Forensic Accounting Experts to handle the investigation of financial crimes and give expert testimony in the Court of Law. However, no efforts have so far been made by the ICAI and ICWAI, the two leading statutory accounting professional bodies to move in this direction and set up an institute which can offer the post qualification diploma in Investigative and Forensic Accounting to its members.

However, growing financial fraud cases, recent stock market scams, failure of non-financial banking companies and failure of the regulatory mechanism to curb it has forced the Government of India to form Serious Fraud Investigation Office (SFIO) under Ministry of Corporate Affairs which can be regarded the first step of Government of India to recognize the importance and advance the profession of forensic accountants. The SFIO is a multidisciplinary organization having experts from financial sector, capital market, accountancy, forensic audit, taxation, law, information technology, company law, customs and investigation. These experts have been taken from various organizations like banks, Securities & Exchange Board of India, Comptroller and Auditor General and concerned organizations and departments of the Government. However, the main important law enforcement agency involved directly in combating frauds is the Police, CBI, DRI etc.

## II. OBJECTIVES:

With this backdrop an attempt has been made to analyze the development of forensic accounting in India as well as the role of forensic accountants for white collar fraud detection and fraud prevention. The **prime objectives** of the paper are as follows:

- (i) To provide a snapshot of recent Indian scams.
- (ii) To show the historical background of forensic accounting in India.
- (iii) To discuss the options and opportunities of forensic accounting in India.
- (iv) To provide an insight on future of forensic accounting in India.

## III. INDIAN SCAMS AT A GLANCE:

In India forensic accounting has not got enough recognition even after alarming increase in the complex financial crimes and lack of adequately trained professionals to investigate and report on the complex financial crimes. The task of Forensic Accountants is handled by Chartered Accountants who apart from handling traditional practice of auditing as required under the Companies Act, 2013 or Income Tax Act are called upon by the law enforcement agencies or the companies or private individuals to assist in investigating the financial crime or scam. However, limited efforts have so far been made by the Institute of Chartered Accountants of India and Institute of Cost Accountants of India: the two leading statutory accounting professional bodies to move in this direction and set up an institute which can offer the post qualification diploma in Investigative and Forensic Accounting to its members.

However, growing financial fraud cases, recent stock market scams, failure of non-financial banking companies and failure of the regulatory mechanism to curb it has forced the Government of India to form Serious Fraud Investigation Office (SFIO) under Ministry of Corporate Affairs which can be regarded the first step of Government of India to recognize the importance and advance the profession of forensic accountants. The SFIO is a multidisciplinary organization having experts from financial sector, capital market, accountancy, forensic audit, taxation, law, information technology, company law, customs and investigation. These experts have been taken from various organizations like banks, Securities & Exchange Board of India, Comptroller and Auditor

General and concerned organizations and departments of the Government. However, the main important law enforcement agency involved directly in combating frauds is the Police, CBI, DRI etc.

However, **PwC's Global Economic Crime and Fraud Survey 2022** shows that the proportion of organizations experiencing fraud has remained relatively steady since 2018. The survey of 1,296 executives across 53 countries and regions found a rising threat from external perpetrators—bad actors that are quickly growing in strength and effectiveness. Nearly 70% of organizations experiencing fraud reported that the most disruptive incident came via an external attack or collusion between external and internal sources.

Company management may adopt various methods to dress up financial statements to show improved performance. In respect of profit & loss account, the accounting risk is usually the overstatement of income or understatement of expenses. For the balance sheet, it may exist in three areas: the correct valuation of company's assets, accounting for all liabilities and over or understatement of net worth.

Table 1 contains some examples of Indian companies practicing creative accounting till 2019:

**Table- 1**

**Summary of few recent cases of Corporate Fraud in India**

| Company                         | Year | Nature of creativity   |
|---------------------------------|------|--|
| Satyam Computer Limited Scam    | 2009 | Manipulation of books of accounts to create a rosy picture about the company.                                |
| Nirav Modi Scam                 | 2018 | Criminal conspiracy, fraud, money laundering, dishonesty, and embezzlement of contract.                      |
| Rotomac Pens Scam               | 2018 | Credit sanctioned and disbursed to the company was utilised for purposes other than executing export orders. |
| PMC Bank Scam                   | 2019 | Collapse of a major infrastructure lender, bad loan issues at state-run banks and a liquidity squeeze.       |
| The Karvy Stock Broking Scandal | 2019 | Scam committed by adding more and more clients using the access through NSE and BSE.                         |

Few recent creative accounting cases in India are as follows:

**Satyam Computer Limited Scam (2009):** Till date Satyam Computer Scam is considered to be India's biggest accounting scam. Keen to project a perpetually rosy picture of the Satyam to the investors, employees and analysts, Mr. Raju (CEO and Chairman) manipulated the account books so that it appeared to be a far bigger enterprise than it actually was. Such creative accounting practice continued for seven long years. The Satyam fraud has shattered the dreams of different categories of investors, shocked the government and regulators alike, and led to questioning of the accounting practices of statutory auditors and CG norms in India. Now, after thorough investigations done by the CBI and SEBI, they have unveiled the methodology by which Satyam fraud was engineered.

**Nirav Modi Scam (2018):** Nirav Modi is an Indian Businessman who was involved in the business of diamonds. Nirav Modi has been charged by the Government of India and the Interpol for criminal conspiracy, fraud, money laundering, dishonesty, and embezzlement of contract since 2018. Punjab National Bank's name comes hand in hand whenever this scam is being discussed. Nirav Modi took loans from foreign branches of Indian banks through an LOU issued by PNB. SWIFT based LOU issued through a rogue employee (or many of them) at PNB. The orders never showed up in the core banking system (CBS) for monitoring. When Nirav Modi companies asked for LoUs for raising buyers' credit after the retirement of the PNB employee involved in the scam, the Punjab National Bank sought 100 per cent cash margins for issuing LoUs. This was contested by the Nirav Modi firms, saying they had availed of the facility from as early as 2010.

**The Rotomac Pens Scam (2018):** Rotomac Scam is the huge scam which has wiped out almost Rs.3695 crores of the public sector banks. The main mastermind behind the Rotomac Scam is the owner of Rotomac Group of companies, Vikram Kothari.

After due investigation CBI reported the following: Credit sanctioned and disbursed to the company was utilised for purposes other than executing export orders. Moreover, credit sanctioned for export order received from Singapore for supply of wheat was diverted to another cause MsBargadia Brothers Pvt Ltd Singapore. Later, it was routed to Ms Rotomac. In other cases, money disbursed for procurement of goods for export wasn't utilized for these purposes and no export order was executed by this company. There was misappropriation of funds, breach of trust, violation of Federal Emergency Management Agency (FEMA). No genuine business transaction was being carried out.

**PMC Bank Scam (2019):** The crux of this bank fraud is that the higher management of the PMC bank has given huge loan to the Housing Development and Infrastructure Ltd (HDIL) and its group entities. This fraud case is related to the transfer of 70% of the total credit facilities of the PMC bank to HDIL and its associated companies. The PMC Crisis surfaced after the Bank reported big losses owing to the promoters of Housing Development and Infrastructure Ltd., (HDIL) and the PMC's former Managing Director Joseph Thomas colluded to cheat the bank up to Rs. 4,300crores, reports Press Trust of India (PTI). The PMC case has sparked renewed concerns about the health of India's troubled banking sector, which has been rocked by a multi-billion-dollar fraud at a state-run lender, the collapse of a major infrastructure lender, bad loan issues at state-run banks and a liquidity squeeze that has hit shadow lenders.

**The Karvy Stock Broking Scandal (2019):** On 22nd November 2019, SEBI announced that it had prohibited Karvy Stock Broking Limited (KSBL) to add any more clients after NSE found some irregularities. This order meant, no new trader can open his/her account with Karvy Stock Broking. When this scam came into notice for the first time in 2019, it was rumored that Rs 1,100 crore has been transferred till then. This is when SEBI banned Karvy Stock Broking company to add any more clients. Later, the amount misused in the scam was calculated to be much more than Rs 2,000 crore. The Bombay Stock Exchange and the NSE have suspended the broking membership of Karvy. The NSE is conducting a forensic audit to ascertain further details regarding alleged misuse of client securities.

#### IV. HISTORICAL BACKGROUND OF FORENSIC ACCOUNTING IN INDIA:

Forensic accounting has come into limelight due to rapid increase in financial frauds and white-collar crimes. But, it is a largely untrodden area in India. In 1940 Maurice Paulobet coined the term Forensic Accounting. Worldwide we consider Sherlock Holmes to be the first forensic accountant; however the contribution of some of the historic characters in India cannot be ignored. In India Kautilya was the first person to mention the famous forty ways of embezzlement in his famous book "KautilyaArthashastra" during the ancient Mauryan Times.

Kautilyaback in to the 21st Century started the series of conversations between the computer and Kautilya. When Kautilya speaks to the computer he finds that all most all the major failures in corporate world of USA were the extended versions of what Kautilya said few thousand years. Even the number of schemes has hardly changed.

Birbal was the Scholar in the time of King Akbar. He used various tricks to investigate various crimes. Some of his stories give the fraud examiner a brief idea about the Litmus test of investigation. Gem of Indian Fraud Examiners, Chetan Dalal can be credited with actually applying the stories of the Birbal to the investigation of the frauds. In various articles published in BCAS Journal he has explained how Birbal's trap and Birbal's Litmus test approaches are significantly used while investigating the accounting frauds.

The third scholar is Tenaliram who again emphasized on the investigative techniques used to find the perpetrators.

India forensic: It is a cluster of people possessing the technical excellence in forensic accounting and are working together as national enterprise for forensic accounting leadership. India forensic helps the businesses to solve global financial fraud related problems by working with various organizations and educational leaders.

India forensic are the pioneers in the field of forensic accounting, well connected and networked with the industry. India forensic is known for creating new educational and consulting products and services that break the industry norms. Management development programs will actually give the educational partners an edge over their peers in the educational market. With about 20 representative offices across the country and a network of more than 600+ members India forensic leads the forensic accounting movement in India. (Source: India forensic Report 2007).

## V. FORENSIC ACCOUNTING IN INDIA: OPTIONS & OPPORTUNITIES

Recent reports suggest that Indian professionals will soon come up with **Forensic Accounting and Investigation Standards (FAIS)**, which going to set the basic parameters of Forensic

Audits and Accounts. The Institute of Chartered Accountants of India (ICAI) has reportedly constituted a committee to deliberate on the FAIS. The objective of the FAIS is learned to be to codify best practices in the twin domains of Forensics and Investigations, set basic quality benchmarks for conducting assignments in the areas. This move according to experts will make India the first country in the world to release a set of forensic accounting and investigations standards. **[Reference: Experts of ICAI]**

It is learned that FAIS will include 30 standards covering all aspects in the subject. The idea is to improve the forensic quality of the reports, and their admissibility in the Courts of Laws like any other forensic experts' opinion in the cases. The Judicial courts in India started accepting the expert opinion of various Forensic experts for proving the cases. Until and unless standard is created no Court will take such Financial Forensic Audit experts' opinion as Scientific experts' opinion for proving a case. This move is expected to benefit corporate, Regulators and Enforcement Agencies like the Serious Fraud Investigation Office, Economic Offences Wing, Banks and Reserve Bank of India. Other agencies like ED, CBI, Directorate Revenue Intelligence (Ministry of Finance) are having powers governed by the respective Statutes / Acts and the penal sections for conducting investigations and prosecuting the accused or perpetrators of the financial crime. **[Industry Reference].**

The RBI of India has reportedly mandated a Forensic Audit for transactions of the Corporate over Rs. 200 Crores (About 27 Million USD) while lenders or Companies individually call for the Forensic Audits or Investigations if some fraud is suspected. **[Economic Times & Banking Industry Experts].** Experts suggest that when a huge amount is involved in the corporate transactions, particularly Public Ltd. Company or organization dealing with the public money, due diligence is required, to assess the Credit or Financial Risk and such process can be done by conducting Forensic Accounting / Audit or financial viability study. The Company Amendment Act 2013 and 2019 creates lot of responsibility and obligation for the promoters / Directors of the Public Limited Company since they are doing business with the public funds. **[Industry experts Reference].**

Conformed reports indicate that ICAI is planning to consult interested parties like stake holders, Corporate Affairs Ministry, Reserve Bank of India, SEBI, and Comptroller and Auditor General of India (CAG) while taking decision on the mandatory Forensic Audit. It is also learned that a Draft Standards will be released by them soon and may entertain Public Comments or opinion on the subject. Once it is published it will become mandatory and the Forensic Audit and Investigating fraternity will enforce this, and violation of this will be resulting in action against the Corporate. Possibility of a Bill in the Parliament of India on this line also cannot be ruled out. This also going to have lot of opportunity for the Forensic Audit and Investigation practitioners in the coming days. **[ICAI, ET & Industry Expert reference].**

## VI. FUTURE OF FORENSIC ACCOUNTING IN INDIA:

There are many specialized courses that teach us to combat frauds. Asian School of Cyber Laws is one such initiative that teaches people about the frauds related to cyber world. Indian chapter of ACFE offers the course based on the white-collared crimes prevalent in USA. India forensic is the only formal body that provides formal education about forensic accounting in India. India forensic is however not affiliated to any of the Universities. There are three courses on frauds in India:

- **Certified Forensic Accounting Programme (CFAP):** Certified Forensic Accounting Programme is the course dedicated to Corporate Frauds in India. It speaks about the classification of the Corporate Frauds and the ways to investigate the frauds in different sectors.
- **Certified Bank Forensic Accounting (CBFA):** Certified Bank Forensic Accounting is the course dedicated to Bank Frauds in India. The course is exam-only. Computer based examination is required to obtain the certifications.
- **Certified Anti-Money Laundering Expert (CAME):** Certified Anti-Money Laundering Expert is a dedicated course on Anti-Money Laundering. It also focuses on the various aspects that a good software should detect in its AML solution. Basic concepts are also explained in the same course.

In India, serious fraud office and IRDA have special focus on the frauds; however, there is no specialized education provided by any of the universities in the country. White Collared crime is an ignored area in that sense.

Forensic accounting offers a wide range of opportunities for people, who possess sound knowledge in financial procedures and have analytical skills. One can find a job with clients, who are charged with allegation of fraud against the government, public, or private business, or a fraud involving insurance claims, real estate, investments, and financial instruments. The proficiency of a forensic accountant is used to detect any financial crime. A person can utilize his/her forensic accounting skills to solve divorce disputes, business carelessness investigation claims, and personal injury claims. Forensic accountants are also hired by accounting companies. Numerous government agencies like the FBI, IRS, CIA, and local government offices, at times, require their services. A forensic accountant is an experienced auditor, who acts as a watch-dog of the accounts of a company, in order to keep a check on the frauds. With the growing number of fraud cases, the demand of good forensic accountants is on the rise. The job of a forensic accountant is quite challenging, as it requires commitment, loyalty, and devotion. Understanding of psychological theories and possessing investigative skills is a must for the aspirant. Keeping in view of the increasing demand for forensic accountants, many institutes in India are offering courses to build a career in the same.

Forensic Accounting in India with the impending use of Systems are becoming completely dependent on that. With more and more use of systems, frauds are happening at an alarming rate. Moreover, RBI is thinking to set up a bad bank for bad loans since there has been increasing numbers of bad loans which warrant a forensic audit. The scope in India are as follows:

- (i) RBI Red Flagged Accounts needs forensic, incoming period RBI may make it compulsory for advances above a certain threshold.
- (ii) Serious Fraud Investigations Office set up under the Ministry of Corporate Affairs had many cases reported for fraud waiting to be investigated.
- (iii) Economic Offences Wings also require help in Forensics.
- (iv) Big Multi-National Companies have many incidences of internal fraud being reported which warrants an investigation.
- (v) Also in case of mergers Forensic Investigation is conducted as a part of due diligence.
- (vi) The growing list of online criminal offences.
- (vii) Breakdown of regulators to trace and detect cyber-security frauds.
- (viii) The long chain of co-operative banks going bust.

**Cyber Forensics:** Although the focus is fundamentally on accounting concerns, the function of a forensic accountant may also cover a more generic investigation including the collection of evidence. Almost every accounting firm in the country today has forensic accounting sections. Within these sections, there may be sub-differentiation; for instance, some forensic accounting experts may specialize in insurance applications, personal injury declarations, fraudulence, construction or royalty audits. Forensic accountants may also offer

their services in retrieving profits from crime and in relation to appropriation proceedings relevant to definite or assumed proceeds of crime or dubious transfer of funds.

## VII. CONCLUSION:

The ever-increasing instances of corporate frauds come as a shock not just because of the enormity of failures like Enron and WorldCom, but because of the discovery that questionable accounting practice was far more insidious and widespread than previously envisioned. A definite link between these accounting failures and poor corporate governance has emerged. An increasing number of researches in recent times are finding that poor corporate governance leads to manipulated financial reports and white collar crime. Corporations and regulatory bodies are now trying to analyze and correct any existing defects in their reporting system. Efficient and effective functioning of forensic accounting profession in India will definitely reduce the incidents of financial frauds and other economic crimes in the country. The most valuable conclusion is: it's the time to use forensic accounting as a weapon to combat white-collar crime in Indian corporate sector.

## REFERENCES

- Manning, G.A.(1999) *Financial Investigation and Forensic Accounting*, 2<sup>nd</sup> Edition. CRC Press.
- Siegol, J.G.;Shim, J.K.(2000) *Accounting Handbook*, Barron's Educational Series.
- Shim, J.K.; Siegol, J.G.(2001). *Handbook of Financial Analysis, Forecasting and Modeling*. CCH Tax and Accounting.
- Young, M.R.; Nusbaum, J.H. (2002). *Accounting Irregularities and Financial Fraud: A Corporate Governance Guide*, 2<sup>nd</sup> Edition. CCH Tax and Accounting.
- Telpner, Z; Mostek, M.S.(2002). *Expert Witnessing in Forensic Accounting: A Handbook for Lawyers and Accountants*.CRC Press.
- Crumbly, D.L.(2003). *Forensic and Investigative Accounting*. CCH Tax and Accounting.
- Silverstone, H.; Sheetz, M.(2007). *Forensic Accounting and Fraud Investigation for Non-Experts* ,2<sup>nd</sup> Edition. Wiley.
- Bologna, G.J.; Lindquist,R.J.(1995). *Fraud Auditing and Forensic Accounting: New Tools and Technique* , 2<sup>nd</sup> Edition. Wiley.
- Bremser, W.G.(1995). *Forensic Accounting and Financial Fraud*. American Management Association.
- Crumbly, L.; Apostolou, N.(July-Sep 2002). *Forensic Accounting: A New Growth Area in Accounting*. Ohio CPA Journal.

## INTERNET RESOURCES

- [www.indiaforensic.com](http://www.indiaforensic.com).
- [www.fbi.gov/ucr/whitecollarforweb.pdf](http://www.fbi.gov/ucr/whitecollarforweb.pdf).
- [www.cfenet.com](http://www.cfenet.com).
- [www-Accounting CPA.com](http://www-Accounting CPA.com).
- [Forensic-Accounting.Vastle.com](http://Forensic-Accounting.Vastle.com).