

Forensic Accounting in India: Problems in Detecting Fraud

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Abstract:- Forensic reporting combines accounting, auditing, and analytical skills to examine a company's financial statements. Case reports seem to provide a much-needed solution to the problems of fraud and financial misconduct in organizations. Forensic reporting is in the limelight in India due to the rise in fraud and white-collar crime. The main objective of this research paper is to explain forensic reporting in India and the challenges faced by forensic investigators in detecting fraud in various organizations in India.

Keywords:- Forensic Accounting, Frauds, Scams, Forensic Accounting Investigative.

JEL Classification Code: M40, M41, M42, M49

I. INTRODUCTION

Forensic accounting, regularly called a forensic audit, is a critical tool in directing the administration of justice via identifying and investigating monetary crimes and supplying reliable statistics on evidence indicative of monetary crimes. Opportunities for forensic accountants have multiplied considerably in current years. The forensic accountants are analyzed to look beyond what's seen i.e. the values referred to in their economic statements and leaf through every loophole and cope with the business truth of a scenario. White-collar crime has expanded. The problem law enforcement has in detecting fraud additionally contributes to the development of the career.

Forensic accounting combines accounting, auditing, and funding capabilities. It's far the utility of know-how and precise competencies to identify transactions that aren't proper and to acquire evidence for them. This includes researching and analysing monetary proof, growing computerized programs to assist the analysis and presentation of financial proof, transmitting outcomes in the form of stories, and helping in courtroom proceedings. Forensic accountants were initially employed via authorities groups to stumble on and look at predominant fraud cases. Today, forensic accountants are commonly hired via lawyers, law enforcement agencies, insurance companies, authority's regulators and groups, banks, courts, and the business community.

Forensic accountants use accounting, auditing, and investigative skills when conducting investigations. Equally

important is their ability to respond immediately and communicate financial information clearly and concisely in a courtroom. Forensic accountants are trained to look beyond the numbers and face the realities of business.

➤ *Meaning of Forensic Accounting:*

Forensic accounting is a unique area of accounting that studies racketeering and examines economic records that can be used for valid preliminary purposes. Forensic accounting is an affordable combination of accounting, inspection and insightful skills to investigate economic fraud. Facilitates cost and interest accounting efficiency.

➤ *Definition of Forensic Accounting:*

- **According to AICPA (1993):** "Forensic accounting is the application of accounting principles, theories, and discipline to facts or hypotheses at issues in a legal dispute and encompasses every branch of accounting knowledge."
- **Forensic accounting is defined by Zia (2010) as:** "The science that deals with the relation and application of finance, accounting, tax and auditing knowledge to analyse, investigate, inquire, test and examine matters in civil law, criminal law and jurisprudence in an attempt to obtain the truth from which to render an expert opinion."

II. REVIEW OF LITERATURE

- **According to Ragini V.G. (2022),** Forensic accounting is considered an important tool in the investigation of account and financial statement fraud. In this modern era where the manipulation of accounts has become commonplace, forensic accounting plays an important role in the detection of fraud. Detection techniques used in forensic accounting include conducting interviews, reviewing public documents, background checks, financial statement analysis, Benford's law, ratio analysis, data mining, computer-assisted auditing, key point testing and self-examination.
- **Dr. Basab Kumar Sil (2022),** State what are the principles, theories and facts disputed in forensic accounting or disciplinary assumptions in litigation Include knowledge in all areas of accounting. Forensic accounting is a fusion of accounting, auditing, and accounting investigation skills. Used to investigate fraud Introduction to disposal (full) Gathering evidence, interviews, writing reports, testifying in person. Although of late origin, in recent years banks, insurance companies

and even the police have turned to forensic accountants for help. Office workers have greatly increased recent crimes and the problems they face for law enforcement can help with career advancement.

- **According to Prof. Megha Naik (2019)**, *The study explores the scope and role of forensic investigators in detecting fraud. India has statutory accounting; it has drawn attention due to increased fraud and white-collar crime. They collect data to understand the goals of forensic accounting and the challenges that forensic investigators face when investigating various cases.*
- **Dr. Binod Shah (2019)**, *The interpretation of forensic accounting is not an entirely new concept, although it has gained prominence in recent years. It is in the limelight due to the rapid increase in financial fraud and white collar crime. Forensic accounting is a combination of accounting, auditing and investigative skills. It provides investigative capabilities and litigation support products to identify the intensity and extent of financial fraud occurring in any economy.*
- **Vanam Rajitha (2022)**, *Their motivation for writing the paper is to give readers an understanding of what forensic accounting means. The study focuses on the ambitions of the responsibilities and obligations of forensic accountants in terms of detecting fraud. Growing trends of fraud and white collar crime in India have brought forensic accounting to the fore. The data was accumulated to recognize the needs of forensic accountants and the challenges faced by forensic investigators in investigating unique cases.*

➤ Objective

- Forensic accounting helps detect financial fraud and theft.
- Forensic accountants can help improve and ensure the integrity of financial information systems.
- Discover the different techniques used by forensic accountants.
- The role of forensic accounting in solving financial problems such as financial fraud and fraud in the corporate world.

III. RESEARCH METHODOLOGY

In this study, a descriptive research design was used and data was collected from secondary sources. This article is based on a review of existing literature on forensic accounting in India.

➤ Issues of Forensic Accounting in India

- Forensic accounting is a specialized field of study that goes beyond bookkeeping and the use of analytical equipment, write-off of transactions and field research with supporting evidence are essential in a forensic auditor or fraud investigator. There is an overabundance of certified fraud investigators in India with a pleasant professional statistic for forensic issues.
- In India, a large portion of currency manipulation cases involve lawmakers, making it difficult to find evidence against them.

- The Indian prison system follows the old British prison system. The distinction with court records and the enlistment of lawyers is a luxury.
- Due to development and economic downturn, more and more currency supporters from unusual countries are placing assets in India; it is very difficult to prosecute currency scammers from different countries.
- Forensic accounting is a luxury field compared to different fields of investigation.
- It is not mandatory for institutions to select a forensic accountant from an institution.
- There are no definite rules or observations regarding forensic accounting in India.
- As fraudsters constantly receive the latest information and technological end results, it is difficult for forensic accountants to grow on these technologies.

➤ Scope of Forensic Accounting in India:

The scope of forensic accounting in India is huge owing to the increase in white collar crime and fraud, public and private sector scandals. Forensic accounting covers two broad areas of practice. These are litigation assistance and investigative accounting.

- Forensic accountants detect fraud by analyzing financial transactions, financial statements, financial information systems, management information systems, business operations, business structures, accounting principles, and following auditing procedures internal and external.
- Forensic accounting helps in collecting evidence and reviewing strategies, procedures to explain the results.
- Forensic accounting designs and performs forensic audit procedures to reduce business risk.
- Forensic accountants or auditors serve as advisors to the audit committee.
- Forensic accountants assist investment analysts in their research activities, and economic violations are also required during due diligence in mergers and acquisitions cases.

IV. SCAMS IN INDIA

Forensic accounting has come into the limelight in recent years due to the rapid increase in white collar crime and the lax perception of Indian forensic law on the discovery of fraud. Some of the biggest scams and misconduct have happened in recent years.

➤ Types of Frauds:

- Ghost its vendors and give out favors.
- Misappropriation of funds previously in your account when receiving money.
- Stealing company checks.
- Manipulation of bank documents for profit.
- Forgery and misuse of documents.
- Make payments that shouldn't be made or should be made.
- Create false debts and make payments in your favor.
- Giving inappropriate or unauthorized discounts
- Theft of stock and scrap.
- Theft of office supplies or property

- Creation of fictitious charges and collection of payments.
- Expense Item Supplement.
- Overorder Benefits.
- Create ghost employees and withhold salaries.

➤ *Forensic Accounting Needs:*

Forensic accounting involves identifying the fraud lifecycle, determining the extent of damage or loss due to fraud or crime, and gathering enough evidence to help you make an honest and forensic decision about identity and/or prosecution with the assistance of a supervisory court. Over the past few years, there has been a plethora of conversations about the use of forensic accounting products. Forensic accounting is lacking in the following areas:

- Forensic accountants are appointed to detect fraud committed with the help of employees, identify assets resulting from embezzlement, obtain and evaluate evidence, and interview workers suspected of having embezzled funds.
- With the help of a forensic accountant, a sidekick agreement can be made.
- Forensic accountants also handle professional negligence cases. They must bear the losses caused by professional negligence or lack of service.
- Forensic accountants provide arbitration and mediation services to the business community because of their unique training in expediency dispute resolution.
- Insurance agencies interact with forensic accountants to properly assess pending claims. Similarly, policyholders seek the help of a forensic accountant after wanting to assign a reporting agreement that was crafted with the help of an underwriting agency.
- Commercial companies have interactive forensic accountants to handle agreement disputes, production claims, product liability claims, patent and logo infringement cases, legal liabilities arising from breach of contract, etc.
- Forensic accountants love working on matrimonial disputes where their role is limited to researching, locating and comparing relevant assets of any kind.

➤ *Forensic Examination Techniques and Tools*

The various tools and techniques used in forensic investigations include:

- **Benchmarking** - Compare the financial impact of one period against another for issuing a distribution site or a particular common unit in another period. To conduct business according to pre-selected principles.
- **Explore proportions** - Find strange patterns and variations.
- **Frame Inspection** - Analyze and differentiate established frameworks from errors that can be clues for scammers.
- Specialized programming such as inspection equipment to coordinate information retrieval.
- **Exemption Details** - Generate scheduled invariant reports, detected deviations from specifications.

➤ *Main Threats to Organizations:*

- **Fraudulent Financial Reporting:** Financial fraud is the deliberate misrepresentation, misrepresentation or

omission of financial statement data with the intent to mislead readers and create a false impression of an organization's financial strength.

- **Related Party Transactions:** The most common types of transactions requiring regulatory action are preferential loans to related parties, payments to corporate officers for unapproved or non-existent services, purchases of assets by overvaluation and sale of goods or offers to related entities, but no relationship was disclosed.
- **Procurement Fraud:** This is the illegal manipulation of the procurement process to obtain goods/services by government officials, contractors or any other related entity in order to gain an unfair advantage, evade obligations or cause damage to public property.
- **Payroll Fraud:** It is the theft of money from a company through the payroll processing system and can occur in many ways, such as unpaid advances, contacts with friends, ghost employees, changes of salary, changes in pay rates, unauthorized working hours, etc.
- **Tax Evasion and Money Laundering:** Money laundering is a criminal offense for the lawful submission to the jurisdiction of tax and other authorities of wealth of illicit origin, or parts of wealth obtained or concealed illegally, through the use of methods which reveal and conceal the identity of the final beneficiary and sources of ill-gotten gains.
- **Fraudulent expense reports:** This is the easiest way to steal money from an organization. Employees exaggerate cost compensation and misappropriate company profits.
- **Asset Diversion:** Misappropriation of assets investing includes both the theft and misuse of company assets such as cash and inventory. Use a company car for your personal trips.

➤ *Awareness of Forensic Accounting:*

Forensic accounting is lacking in India compared to other countries. Due to the rapid increase in fraud and white collar crime in India, forensic accounting is in the spotlight and there is a high demand for forensic accountants. Today, various organizations such as Indian Legal, Institute of Chartered Accountants of India (ICAI) and Association of Chartered Chartered Accountants (ACCA) offer Forensic Auditing courses in India.

V. CONCLUSION

The article concludes that while the field of forensic accounting has grown in popularity in recent years, it is not a new concept. The increase in cases of financial fraud has given rise to the field of forensic accounting. Forensic accounting generally involves a detailed evaluation of a company's accounting systems and processes to determine whether the figures presented correspond to reality. Public fraud scandals, advances in the Internet and other technologies, and even the threat of terrorism have created a huge demand for the skills and services of forensic accountants. Forensic accountants are in high demand as they play a key role in the investigation of questionable financial scandals and the misappropriation of assets. Services provided by forensic accountants and the need for forensic accounting. This study examines the concepts of forensic

accounting, types of fraud, the need for forensic accounting, and the difficulties encountered by investigators in detecting fraud. The results show that forensic accounting is one of the newest and fastest growing areas of accounting. Therefore, you should use the services of a forensic accountant to reduce fraud.

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