

# Forensic Accounting: A Legal ICAI Approach to Investigate Scams And Fraud Cases In India

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**Abstract:** *Forensic accounting is a specialized field of accountancy which investigates scams and frauds and analyse financial information to be used in legal proceedings in the court. It uses auditing, accounting and investigative skills to conduct investigations into fraud and theft by way of investigative accounting and litigation support. The main aim of paper is to discuss scams, frauds and their investigation as well as to create awareness about the necessity and role of forensic accounting and forensic accountant in development and betterment of the Indian economy. All information is collected from secondary data. The paper also tries to provide framework for forensic accounting and the methodology in which forensic accounting is conducted. The rise of financial scams in India especially in governmental sector requires that forensic auditing should be made mandatory as the current statutory audit are not in the state of in depth audit which is required to detect the financial scandals which have become a real threat against the development agenda for developing and emerging nations like India.*

**Keywords:** Auditing, Corporate Frauds & Scams, Forensic Accounting,

## 1 Introduction

Economic and accounting scandals and scams have become a global concern in recent times. Financial frauds and crimes are old concepts in the world, but their solution forensic accounting is

a relatively new one. Fraud, as all of us know, is the wrongful act of deception done willingly for a personal, or to be more specific, financial gain; and the answer to this deep-rooted problem is forensic accounting which is the use of accounting skills to investigate fraud and financial crimes. During the last few decades, there have been numerous financial frauds and scandals, which acted as milestones with lot of historical significance. Financial scam has become a real threat against the development agenda for developing and emerging nations. Forensic Accounting is very helpful for the Indian Government to solve this problem. In India, there is no awareness of forensic accounting in many companies. This paper aims to highlight just that. The paper also clears the misconception regarding what kind of motives form a base for fraud and gives an insight to the profession and life of a forensic accountant. In this paper, techniques, growth, reasons, fraud cases and others important aspects of forensic accounting also discussed for conclusion. In short, a forensic accountant is a bloodhound of accounting, not a watch dog.

## **2 Literature Review**

**The Companies Act 2013** - Internal Financial Control (IFC) which has certain features of IC and certain features of ICFR. The Indian regulatory environment aspires to set up a legal framework to incorporate the global standards and provisions in its statutes. This convergence with the global laws is extremely important with the idea of bringing Indian corporate laws at par with the global standards and ensuring that the disparity in laws cannot be used to the advantage of fraudsters.

**The America Institute of Certified Public Accountants (AICPA)** defines forensic accounting as services that involve the application of specialized knowledge and investigative skills possessed by Certified Public Accountants. Forensic accounting services utilize the practitioner's specialized accounting, auditing, economic, tax and other skills (AICPA 2010). **Maurice E. Peloubeta (1946)** "Forensic Accounting: Its place in Today's Economy" wrote about the use of accounting in courtroom proceedings as part of testimony, but acknowledged that investigation was becoming more prevalent for accountants due to the increase in government agencies that regulated financial practices. **Max Lourie (1953)** invented the phrase "forensic accounting", although Peloubet wrote about it first Lourie stressed the need for forensic accounting training and literature. Forensic accounting service has been the growth industry in the 1990s called the private eyes of the corporate culture; forensic accountants must have an investigative mentality. **Kleeyman, Y (2006)** states that "I figure by measurable accounting you comprehend accounting aptitude requested inside a claim, either by the judge, prosecutor, open lawyer (criminal law) or by parts. I figure the

general purpose of such aptitude is to give an exact response to an inquiry inside the claim. Review and Forensic accounting are as I would like to think two unique things. Review ought to give sensible confirmation, while measurable accounting ought to give precise proof’.

### **3 Objectives Of The Study**

1. To understand the historical perspective and concept of forensic accounting in India.
2. To study of various types of frauds and scams in India.
3. To know the various types of fraud.
4. To identify the role of forensic accountants in fraud examination.
5. To understand various framework and techniques employed in forensic accounting for detecting and preventing frauds in India.
6. To understand the significance and problems of forensic accounting in the wake of recent financial scams in India.

### **4 Research Methodology**

The study is based on secondary data and few cases of corporate sector have been discussed. Secondary data was collected through government website, SEBI guidelines and annual reports of various reputed government and non-government organizations. For this purpose, various articles on forensic accounting at national and international level, working papers, e-papers, and reports on newspapers were reviewed carefully.

#### **4.1 Concept of Forensic Accounting in India**

**Meaning of Forensic Accounting:** The word forensic underscores the application of scientific methods and techniques to the investigation of crime, as much as it is concerned with courts of law. Forensic accounting, sometimes called investigative accounting. Forensic accounting refers to the application of accounting principles, theories and discipline to facts and hypotheses at issue in a legal context, embracing litigation or any other form of dispute resolution such as arbitration. It consists of two major components:

**Investigative Accounting:** Criminal matters like employee theft, securities fraud, insurance fraud etc., provisions and suggestions regarding possible courses of action.

**Litigation Support:** Quantification of economic damages amount, accounting assistance in litigation matters.

Forensic accountants are retained by law firms, corporations, banks, government agencies, insurance companies, and other organizations to analyse, interpret, summarize and present complex financial and business related issues in a simple and concise manner.

**Nature of Forensic Accounting:** Forensic accounting is the specialty area of the accountancy profession which describes engagements that result from actual or anticipated disputes or litigation.

## **4.2 Causes of Growth of Forensic Accounting in India**

India not having enough forensic accountants and lack of awareness and understanding of the profession.

Conventional accounting could not bring into light many financial irregularities appropriation and expropriation detrimental to stakeholders due to failure of internal and external audits in the organizations.

Culprits are using sophisticated technologies in committing frauds hence to replace old investigation methodology in right way of new technology on the IT platform.

To collusion and lobbying rotation and appointment of the statutory auditors by company in India. Auditor's certificates are hardly scrutinized carefully especially when the reports are unclear, doubtful and qualified.

## **4.3 Types of Frauds in India**

**Corporate Frauds:** It is an unlawful activity undertaken by an individual or a company to give an advantage to the perpetrating company.



**Securities Frauds:** Securities fraud, also known as stock fraud and investment fraud, is a deceptive practice in the stock market that induces investors to make purchase or sale decisions on the basis of false information, frequently resulting in losses, in violation of securities laws. Offer of risky investment opportunities to unsophisticated investors who are unable to evaluate risk adequately and cannot afford loss of capital is a central problem. Similarly, policyholders seek the help of a forensic accountant when they need to challenge the claim settlement as worked out by

the insurance companies. A forensic accountant handles the claims relating to consequential loss policy, property loss due to various risks, fidelity insurance and other types of insurance claims.



**Insurance Frauds:** There is different type of frauds in insurance sectors. E.g. health insurance, claims fraud, false claims, insurance speculations, application frauds etc.



**Bank Frauds:** It is the use of potentially illegal means to obtain money, assets, or other property owned or held by a bank or financial institution, or to obtain money from depositors by fraudulently posturing as a bank or other financial institution. In many instances, bank fraud is a criminal offence. The number of bank frauds in India is substantial. It is increasing with the course of time in all the major operational areas in banking. Bank fraud is a big illegal business in today's world.



**Cyber Frauds:** Cybercrime refers to any crime that involves a computer and a network. The computer may have been used in the commission of a crime, or it may be the target. Net crime is criminal exploitation of the Internet. Dr. Debarati Halder and Dr. K. Jaishankar (2011) define Cybercrimes as: "Offences that are committed against individuals or groups of individuals with a criminal motive to intentionally harm the reputation of the victim or cause physical or mental harm to the victim directly or indirectly, using modern telecommunication networks such as Internet

(Chat rooms, emails, notice boards and groups) and mobile phones (SMS/MMS)”.Such crimes may threaten a nation’s security and financial health.



**Identity theft:** The fastest-growing type of fraud in the world is identity theft. It occurs when the fraudster uses your credit card or bank account information to buy items and then charge them.



#### **4.4 Major Financial Scams in India**

- a. **Unit Trust of India (2001):** Rs. 1300 Crores.
- b. **Stamp Paper Scam (2005):** Rs. 600 Billion counterfeiting of stamp papers and selling fake to bulk purchasers like stock broking firm, banks and insurance companies, sentenced to 30 years of rigorous imprisonment. Abdul Karim Telgi & his associates, politician, police officers and government employees.
- c. **Sahara India Pariwar Investor Fraud (2009):** Subrata Roy, Rs. 2,000 crores.
- d. **Satyam Computers (2009):**Rs.10, 000 crore falsified revenues, margins and cash balance, operating profit artificially boosted from 61 crores to 649 crores. B. Ramalinga Raju & his family, Board of Directors, CFO, Top level management and auditors.
- e. **2G Spectrum (2010):** Rs. 1.76 lakh crores of irregularities in awarding spectrum licenses issued on first cum first serve basis instead of auction and advancing of cutoff date which was illegal. A Raja, Nira Radia, MK Kanimozhi and many Telecom Company.
- f. **Common-wealth Games (2010):** Allegations of Rs. 70,000 crores corruptions and mismanagement by the organizing committee as a delay in the construction, misuse of funds, heavy payments made in the name of non-existing parties. Suresh Kalmadi & other organizing committee members, 2 private companies & government officials.
- g. **Adarsh Housing Society Scam (2010):** A six storey house for kargil war heroes and widows got converted into a 31storey and allotted to top defence officers, bureaucrats, a

former environment minister and legislators. The market rate was 6 to 8.5 crores. It was allotted at a throw away price of 60-85 lakhs. It was the violations of environment rules.

- h. Uttar Pradesh NRHM (2010):** A scam of Rs.10, 000 crores in the National Rural Health Mission, a central government program in rural areas. BS Kushwaha, Top politicians and bureaucrats.
- i. Coal Block Allocation/Coalgate (2012):** Coal blocks allotted, not auctioned, leading to estimated losses as per the Controller and Auditor General of India was Rs. 1.86 Lakh crores. Ex. coal ministry, many electric boards & private companies.
- j. Karnataka Wakf Board Land (2012):** Waqf Board Members, 2 lakh crores.
- k. Agusta Westland VVIP Chopper (2013):** The former IAF chief has accepted bribes to win contract worth Rs.36 billion of Rs.3600 Crores Augusta Westland Company deal. Former IAF chief SP Tyagi & his cousins, politicians, government officials & several middlemen.
- l. Saradha Chit Fund (2013):** Nalini Chidambaram, 10,000 Crore.
- m. Kingfisher Airlines (2016):** Misled banks and misused money, fraud and money laundering of Rs 9,000 crores, Vijay Mallya, politicians, government officials & several middlemen.
- n. PNB Fraud (2018):** Agencies probing India's biggest banking scam of fake bank guarantees/Letters of Understanding (LoUs) of Rs 13,500 crore. Nirav Modi and his maternal uncle Mehul Choksi, politicians, government officials & several middlemen.

## **4.5 Agencies dealing with frauds in India**

**4.5.1 Company Law Board (CLB):** The Central Government in terms of Section 10(E) of the Companies Act, 1956 constituted an independent Company Law Board (CLB) vide Notification No. 364 dated the 31st May, 1991. The CLB is a quasi-judicial body, exercising equitable jurisdiction, which was earlier being exercised by the High Court or the Central Government. The Board has powers to regulate its own procedures. The Company Law Board has framed Company Law Board Regulations 1991 prescribing the procedure for filing the applications/petitions before it. The Central Government has also prescribed the fees for making applications/petitions before the Company Law Board, under the Company Law Board, (Fees on applications and Petitions) Rules 1991.



**4.5.2 Central Bureau of Investigations (CBI):** The Central Bureau of Investigation traces its origin to the Special Police Establishment (SPE) which was set up in 1941 by the Government of India. The DSPE acquired its popular current name, Central Bureau of Investigation (CBI), through a Home Ministry resolution dated 1.4.1963. Initially the offences that were notified by the Central Government related only to corruption by Central Government servants. From 1965 onwards, the CBI has also been entrusted with the investigation of Economic Offences and important conventional crimes such as murders, kidnapping, terrorist crimes, etc., on a selective basis. The SPE initially had two Wings:

**4.5.3 General Offences Wing (GOW):** The GOW dealt with cases of bribery and corruption involving the employees of Central Government and Public Sector Undertakings.

**4.5.4 Economic Offences Wing (EOW):** The EOW dealt with cases of violation of various economic/fiscal laws. It was therefore decided in 1987 to constitute two investigation divisions in the CBI, namely, Anti-Corruption Division and Special Crimes Division, the latter dealing with cases of conventional crime, besides economic offences.



**4.5.5 Central Vigilance Commission (CVC):** The CVC was set up by the Government in February, 1964 on the recommendations of the Committee on Prevention of Corruption, headed by Shri K. Santhanam, to advise and guide Central Government agencies in the field of vigilance. CVC is conceived to be the apex vigilance institution, free of control from any executive authority, monitoring all vigilance activity under the Central Government and advising various authorities in Central Government organizations in planning, executing, reviewing and reforming their vigilance work. A Central Vigilance Commissioner - Chairperson; Not more than two Vigilance Commissioners – Members. The CVC is a Designated Agency to receive written complaints for disclosure on any allegation of corruption or misuse of office and recommend appropriate action.





**4.5.6 Economic Offences Wing (EOW):** The Economic Offences Wing (EOW) came into existence in 1970, as a part of CID. In 1977, it became a separate specialized investigation branch of U.P. Police. EOW conducts Investigation and Prosecution of cases of cheating, fraud and misappropriation of government money concerning the following departments: Forest, Excise, Transport, Agriculture, Food and Civil Supplies, Panchayati Raj, Local Bodies, Minor Irrigation, Industries, Sales Tax. Government can also entrust this agency with cases concerning other departments and private persons, depending upon the ramification of the economic offences committed. The EOW also collects intelligence regarding loss of Govt. Revenue and brings such cases to the knowledge of the Govt. for follow up action.



**4.5.7 Enforcement Directorate (ED):** Directorate of Enforcement is a Multi-Disciplinary Organization mandated with the task of enforcing the provisions of two special fiscal laws – Foreign Exchange Management Act, 1999 (FEMA) and Prevention of Money Laundering Act, 2002 (PMLA). Besides directly recruiting personnel, the Directorate also draws officers from different Investigating Agencies, viz., Customs & Central Excise, Income Tax, Police, etc. on deputation. The Directorate of Enforcement, with its Headquarters at New Delhi is headed by the Director of Enforcement. There are five Regional offices at Mumbai, Chennai, Chandigarh, Kolkata and Delhi headed by Special Directors of Enforcement. The main functions of the Directorate are as under:

Investigate contraventions of the provisions of Foreign Exchange Management Act, 1999(FEMA).  
Investigate offences of money laundering under the provisions of Prevention of Money Laundering Act, 2002(PMLA).

Adjudicate Show Cause Notices issued under the repealed Foreign Exchange Regulation Act, 1973 (FERA).

Sponsor cases of preventive detention under Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974(COFEPOSA) in regard to contraventions of FEMA.

Render cooperation to foreign countries in matters relating to money laundering and restitution of assets under the provisions of PMLA and to seek cooperation in such matters.



**4.5.8 Income Tax department (IT):** The IT department is a government agency in charge of monitoring the income tax collection by the Government of India. It functions under the Department of Revenue of the Ministry of Finance.



**4.5.9 Reserve Bank of India (RBI):** RBI is an India's central banking institution, which controls the monetary policy of the Indian rupee. It commenced its operations on 1 April 1935 in accordance with the Reserve Bank of India Act, 1934. The central bank of any country executes many functions such as overseeing monetary policy, issuing currency, managing foreign exchange, working as a bank for government and as a banker of scheduled commercial banks. It also works for overall economic growth of the country. The preamble of the Reserve Bank of India describes its main functions as to regulate the issue of bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.



**Securities and Exchange Board of India (SEBI):** The SEBI is the regulator for the securities market in India. It was established in 1988 and given statutory powers on 30 January 1992 through the SEBI Act, 1992. The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected there with or incidental there to. SEBI has to be responsive to the needs of three groups, which constitute the market issuers of securities, investors, market intermediaries.



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Securities and Exchange Board of India

**4.5.10 Serious Fraud Investigation Office (SFIO):** SFIO is a multi-disciplinary organisation under Ministry of Corporate Affairs, consisting of experts in the field of accountancy, forensic auditing, law, information technology, investigation, company law, capital market and taxation for detecting and prosecuting or recommending for prosecution white-collar crimes/frauds. SFIO has head office in New Delhi and regional offices in Maharashtra, Andhra Pradesh, Tamil Nadu and West Bengal.

**4.5.11 Interpol:** Interpol is the world's largest international police organization, with 192 member countries. Interpol role is to enable police around the world to work together to make the world a safer place. Our high-tech infrastructure of technical and operational support helps meet the growing challenges of fighting crime in the 21st century.



Various Courts who are major regulatory authorities under respective statutes.

## **4.6 Techniques of Forensic Accounting**

**4.6.1 Conventional Techniques:** There are five techniques which are as follows:

**4.6.1.1 Benford's Law:** It is a mathematical tool and the steps are very simple. A parametric test called the Z-test is carried out to measure the significance of variance between the two populations, i.e. Benford's percentage numbers for first digit and observed percentage of first digit for a particular level of confidence. Benford suggested the probabilities for the occurrence of each digit at various places in the number whereby if the data is manipulated; the said digit would not appear at the same place. Benford's Law does not detect the frauds but only indicates the probable area of fraud. There are many advantages of Benford's Law like it is not affected by scale invariance, and is of help when there is no supporting document to prove the authenticity of the transactions.

**4.6.1.2 Theory of Relative Size Factor (RSF):** RSF highlights all unusual fluctuations, which may be routed from fraud or genuine errors. It is measured as the ratio of the largest number to the

second largest number of the given set. Thus, if the second largest number is way beyond the highest number in the data, there is need to investigate further into it.

**4.6.1.3 Computer Assisted Auditing Tools (CAATs):** These computer programs assist auditors in performing his audit procedures (such as matching of transactions and balances, locating abnormal fluctuations, re-calculations, etc.) while dealing with huge volume of data in a client's information system without depending on him, for example, Microsoft Office software. These tools helps auditors to perform various auditing procedures such as: (i) Redoing calculations performed by accounting systems, (ii) Sampling programs to extract data for audit testing, (iii) Testing general as well as application control of computer systems, (iv) locate inconsistencies or significant fluctuations, (v) Testing details of transactions and balances.

**4.6.1.4 Ratio Analysis:** The use of data analysis ratios are prominently used by forensic accountant is identifying possible symptoms of fraud. Numerous ratios are used by various analysts including financial ratios, data analysis ratios and utility ratios. These ratios help in predicting the relationships, with any abnormal ratio calls for examination towards detecting potential fraud. The commonly used ratios include asset quality index, gross margin index, sales in receivables ratio, etc. Examples include the ratio of maximum value to the minimum value, the ratio of maximum value to the second maximum value, or the ratio of current year figure to the previous year figure. These ratios help in predicting the relationships, with any abnormal ratio calls for examination towards detecting potential fraud.

**4.6.1.5 Data Mining Techniques:** Data mining techniques enable to extract large volumes of data for further analysis. These techniques are categorized into: (a) Discovery, to determine the patterns in data through trends and variations; (b) Predictive Modelling, to forecast the outcome on the basis of patterns identified; (c) Deviation Analysis, to detect the items that deviate from the established norm; and (d) Link Analysis, to detect any unusual pattern by employing various graphical techniques.

**4.6.1.6 Contemporary Techniques:** The global professional services giant KPMG employed and suggested the use of following techniques of forensic accounting in the light of increasing sophistication and technology in the commitment of corporate frauds and economic crimes:

**4.6.1.7 Documentation Management:** The e-Discovery tool of KPMG enables the preservation and presentation of vast electronic evidences in the legal proceedings.

**4.6.1.8 Spot the Unusual:** While conducting fraud and misconduct investigations, one should look for the accounting transactions entered into on holidays. Such transactions could be a nice suspect for highly common frauds like misappropriation of funds and bribery. In furtherance of this, KPMG aids its clients in plugging the inconsistencies in order to avoid such incidents and also assist in preparing the restated financial statements.

**4.6.1.9 Verification (Know Your Employee):** To counter the occupational frauds, a rigorous 'Due Diligence' check on the employees is necessitated. It includes verification of employees' background and credentials such as, address, education, past employment(s), pending lawsuits, mental and physical check, criminal record, etc.

**4.6.1.10 Fraud Risk Management:** This technique renders a proactive outlook towards corporate fraud. It enables to sense the potential fraud at the earliest and avoid it. KPMG offers following strategies for the same: (i) Fraud awareness workshops and training programmes, (ii) Fraud risk assessment and vulnerability tool, (iii) Forensic health check, (iv) Organization perception survey, (v) Predictive data modelling, (vi) Anti-counterfeiting risk assessments, (vii) Competition risk management, etc.

**4.6.1.11 Forensic Technology Lab:** Forensic technology lab conducts in-house or field investigations to collect the productive information in a systematic manner and indicate any dubious entry. It enables to collect, recover, and preserve the evidence in the digital format to assist in fraud examinations and legal prosecution. It also helps to detect any manipulations with the evidence.

**4.6.1.12 Corporate Intelligence:** Corporate intelligence incorporates 'Due Diligence' check conducted on the third party (either individual or organization) while entering into a business transaction with them, such as, investment, merger or acquisition, strategic alliance, foreign partnerships, etc. 'Due Diligence' or 'Know Your Customer' (KYC) exercise keeps a check on ownership structure, market reputation, previous records of frauds or non-compliance, senior management, pending lawsuits, credit-worthiness of the third party.

## **4.7 Forensic Accounting Framework**

**4.7.1 Accounting:** (i) Looking beyond numbers while examining financial reporting and business information systems, (ii) Compliance of GAAPs and IFRS/Regional Standards, (iii) Reframing of accounts based on legality and GAAPs.

**4.7.2 Auditing and Assurance:** (i) Risk assessment and analytical procedures, (ii) Designing and performing extended audit procedures, (iii) Compliance of standards of auditing, where applicable, (iv) Introspective and skeptical mindset for reviewing transactions and deals.

**4.7.3 Investigation Science:** (i) Fixation of direction of investigation on realistic basis, (ii) Gathering evidences and clues through scientific and latest investigation techniques, (iii) Analysis of psychological behaviour of human, (iv) Evidence documentation for legal proceedings.

#### **4.8 How to become a Forensic Accountant**

Forensic accounting as a career opted by the person who obtained minimum of a bachelor's degree/commerce degree. A chartered accountant membership in a body of certified accountants can go for specialize in forensic accounting. The forensic accountants' prior audit and accounting experience will be of tremendous assistance. But ultimately, it is only through working with experienced forensic accountants on various cases that one can learn the skills necessary to become a capable forensic accountant. There are several organizations that provide training and additional certification for forensic accountants in India and in foreign country. Each organization requires that its members possess varying degrees of education and experience, and they must sit for additional exams. These certifications show that a forensic accountant has training and experience beyond that of a standard accountant.



**Forensic Accounting Institute:** Some places where one can study and/or obtain certifications as Forensic Accounting Professional are:

Institute of Chartered Accountants of India, New Delhi

The Institute of Cost Accountants of India, New Delhi.

Association of certified fraud examiners, USA

International Forensic Sciences, Maharashtra.

Association of Certified Fraud Examiners (ACFE), USA.

Indiana University, Bloomington, USA

British Columbia Institute of Technology, Canada

Charles Stuart University, New South Wales, Australia



The Institute of Chartered Accountants of India

(Setup by an Act of Parliament)

**Some Forensic Accountants take courses in:** Business law, Law enforcement, Criminal law, Business and finance, Communication, Information systems, Psychology, Sociology.

#### **4.9 Role of Forensic Accountant**

**Computer Forensics:** Developing computerized applications for analysis and presentation of financial evidence and assisting in recovery of electronic data and enforcement of IP rights etc.

**Litigation Consultancy:** Working with advocate and their clients engaged in litigation and assisting with case preparation, evidence and strategy.

**Matrimonial Disputes:** Solicitors often need the services of forensic accountants in divorce cases for matrimonial assets and liabilities.

**Dispute Settlement:** Business firms appoint forensic accountants for resolving the cases related with contract disputes, construction claims, product liability claims, and infringement of trademarks and patent, liability arising from breach of contracts and so on.

**Insurance Claims Settlement:** Insurance companies appoint forensic accountants for the assessment of claims of policyholders to be settled. Policyholders seek the help of a forensic accountant when they need to challenge the claim settlement as worked out by the insurance companies.

**Meditation/Arbitration Service:** Forensic accountants render both arbitration and mediation services for the business community. They also resolve the matters related with partnership and corporation disputes.

**Professional Negligence:** Forensic accountant identified the Professional negligence cases like Non-conformation to Generally Accepted Accounting principles (GAAP) or non-compliance to auditing practices or ethical codes of any profession.

**Criminal Investigation:** Forensic accountants often attend court to testify in criminal court hearings, as expert witnesses and give his/her expert opinion for the criminal actions to individuals or corporate bodies in fraud and white-collar crime investigations.



**Fraud Investigations:** Forensic accountants to assist in business investigations where the employee involve in fraudulent activities and is caught to have committed fraud.

#### **4.10 Key Challenges in Forensic Accounting**

**Costly Service:** It is a highly expensive service in comparison to investigative auditing.

**Lack of Segregation of Duties:** Lack or failure to segregate duties inadvertently allows employees to commit fraudulent activity.

**Complex Judicial System and Political Fancy:** Problems in gathering information against politicians and bureaucrats for the purpose of admissible in the court.

**Compliance with an Ethics Programme:** The pressure to meet targets and actions of senior management may tacitly encourage employees to overpower or violate the organization's message on integrity and ethical values.

**Technology related Fraud:** The Technology used by fraudsters and criminals is changing constantly.

**Corporate Image:** It will be highly costly if any issues on fraud or financial defalcation were brought to court and where it involves expert witnessing.

**Inter-jurisdiction Fraudster:** Forensic accountants find it difficult to prosecute fraudster from other countries in Indian jurisdiction.

#### **Response Mechanism for Fraud Detection & Prevention**

**Strong Anti-Fraud Framework:** To reduce the risk on account of misconduct and fraud within companies.

**Leadership Setting the Tone:** Boards of directors are liable for maintaining disciplinary action and zero tolerance across the whole company and its various locations against workers.

**Ethics Code:** This ethics code must be formally documented and communicated to the employees, stakeholders and third parties on the official website of the company or organization. This function should be continuously monitored time to time.

**Policies for Fraud Prevention:** Organizations willing to prevent fraud should develop good fraud prevention policies through Whistle blower mechanism.

**Whistle blower:** A whistle blower is a person who has and reports insider knowledge of illegal activities occurring in an organization.

## **5 Conclusion and Recommendation**

Forensic accounting has come to the limelight only recently due to rapid increase in frauds and white-collar crimes which affect the very fabric of the Indian society. Forensic accounting is still in a nascent stage and requires technological reinforcement on a continuous basis and global cooperation. It is in great demand of public for fairness, honesty and transparency. Forensic accounting will develop as a specialized profession of accountancy and law for enforcing agencies and regulators day by day. Lot of research is also needed and accountants will play a very significant role in this mission. Hence there is a great scope for forensic accounting in investigation during amalgamation, acquisition, merger, tax investigations, economic crime investigations, specialized audits, all kind of civil litigation supports, and even in terrorist investigations. Today is the right time to adopt and adhere strictly the forensic accounting at all the levels of government, public and corporation accounting as an accounting tool to cure and prevent the entities from the financial and other ills.

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