

A STUDY ON FORENSIC ACCOUNTING PROFESSION IN INDIA AND AROUND THE WORLD

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Abstract : The increasing number of financial irregularities unearthed in Bhushan Steel, Dena Bank, UBI Bank, Sharadha Scams, Satyam, World Com, Xerox and Enron etc. As a result companies are striving to survive in adverse economic and competitive conditions. This has resulted in their engaging in unethical business practices in many instances. Forensic Accounting has arisen to prominence because of the increased financial frauds popularly known as white collar crimes. Forensic Accounting uses accounting, auditing and investigative skills to conduct investigations into theft and frauds.

The research paper studies the magnitude of frauds and financial scams in India and across the world. Forensic Accounting is being acknowledged a tool to combat the frauds and financial crime across the world. Further this paper also highlights the acknowledgement Forensic Accounting Profession in India and other countries.

Keywords: FA – Forensic Accounting

INTRODUCTION

Economic and accounting scandals and scams have become a global concern in recent times. Umpteen numbers of economic scams and irregularities have churned out national and global markets many times since the Industrial Revolution. 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. It is so endemic that fraud and corruption is gradually becoming a normal way of life. Financial irregularity is so common that our hands cannot be washed off or kept clean, as sometimes the impetus for its growth is provided in our own interest or in many cases we become the real victims of it.

In this modern era, with the increase in economic activities and periphery of markets, there has been simultaneous increase in the activities like fraud, scam, creative accounting, financial irregularity etc. In order to combat with all these a new budding field of accounting has been blooming. It is known as forensic accounting (FA). It is also termed as forensic auditing. The growth of regulatory compliances, the increasing number of fraud and threats of many mal activities leading to scams have beget a related development in the forensic accounting and forensic technology to unveil all these non compliance and fraudulent practices etc. Forensic accounting/auditing is an umbrella term used to denote the field of knowledge which is composed of accounting, auditing and investigative skills. In short, a forensic accountant is a bloodhound of accounting, not a watch dog.

OBJECTIVES OF THE STUDY:

The following are the objectives of the study:-

1. To study the magnitude of financial frauds and scams in Indian and in Global context.
2. To study the enforcement of forensic accounting profession in India and around the world.
3. To understand the various regulatory initiative on forensic accounting in India.

RESEARCH METHODOLOGY:

The paper mostly uses descriptive research methodology based on secondary data collected from all various forensic examiners research journal, government journals and notifications, and information updates taken from various regulating institution across the world.

LITERATURE REVIEW:

The major concern of the country is to prevent financial frauds and scandals, which affect the very fabric of the society. Forensic accounting has come up as an effective tool for preventing economic frauds and scams. It is still in a nascent stage and requires technological reinforcement on a continuous basis and global cooperation. It will develop as a specialised profession of accountancy and its importance to law enforcing agencies and also regulators will increase day by day (CA. Sukamal Basu, 2014).

Financial frauds is also acknowledges as white collar crime, which is an increasing malaise throughout the globe. Its enormous size suggests that there is a standing reluctance of handling the issues seriously. Though some white collar criminals have been awarded exemplary punishments in the U.S., it is observed that nationally and internationally, white collar criminals escape with little punitive action (CMA Dr. Radhanath Pyne, 2014)

The ICS study — which started earlier this year and concluded on August 30 — examined 4,867 companies listed on the BSE and 1,288 companies listed on the NSE. The survey's respondents were 340 chartered accountants who are ICAI members and some chartered accountancy students. 73% of respondents said the motive for committing accounting statement frauds was to exceed expectations of stock market analysts. "For unlisted firms, such frauds are typically carried out to avoid taxes, attract foreign investment and mobilize funds," the study said.

PwC associate director (forensic services) Sumit Makhija said frauds are on the rise. "The number of such cases now is definitely much higher than the same period last year," he said. "Even during boom times, such incidents happen, but in lower numbers,"

Without the proper unveiling of the issues the regulatory legal measures become in operative and thus crimes continue to siphon capital out of the organization keeping the investors at bay. So, to control the effect of white collar crimes, a multifaceted approach is needed.

An epitome of consequences of frauds and scams: Global and national scenario

Accounting/economic frauds and scams are not new topic. They took place in all eras and all countries with varying level of intensity and occurrence. Due to the blessings of different media (print or audio visual or social) nowadays reports on scams and fiascos spread like forest fire. Fraud is a worldwide phenomenon that affects negatively all continents and sectors of the economy and most entities may face it regardless of their size, nature, industry or country they belong. Worldwide various reports have shown that scandals and frauds not only bring about monetary losses, but are also responsible for contagious negative impacts on stock markets, growth and GDP etc. throughout the world.

a) Instances of reported frauds by high-profile leaders : Although fraud and corrupt practices are globally endemic, however, the rate at which public office holder in developing economies perpetrate financial malpractice is dangerously alarming. Leaders of third world nations, especially, embezzles public fund not minding whatever consequences their activities may have on the citizens of the country and their image in the international community, when their nefarious act become known to the world (Adefila, kasum and Olaniyi, 2006). A brief disclosure of loss suffered due to frauds and scandals by high-profile leaders are shown in table 1:

Table 1: Detailed analysis of financial frauds committed high-profile leaders

Head of Government	Designation	Period	Estimates of funds allegedly embezzled
Mobutu Sese Seko	President of Zaire (DR Congo)	1965-97	US \$ 5 Billion.
Mohammed Suharto	President of Indonesia	1967-98	US \$ 15-35 Billion.
Jean-Claude Duvalier	President of Haiti	1971-86	US \$ 300-800 Million.
Ferdinand Marcos	President of Philippines	1792-86	US \$ 5-10 Billion
Siobodan Milosevic	President of Serbia Yugoslavia	1989-2000	US \$ 1 Billion.
Sanni Abacha	President of Nigeria		US \$ 2-5 Billion.
Alberto Fujimori	President of Peru	1990-2000	US \$ 600 Million.
Pavlo Lazarenko	Prime Minister of Ukraine	1996-97	US \$ 114-200 Million.
Arnoldo Aleman	President of Nicaragua	1997-2002	US \$ 100 Million.
Joseph Estrada	President of Philippines	1998-2001	US \$ 78-80 Million.

Source: Transparency International (2004)

B) Magnitude of losses suffered by frauds and malpractices: A survey of various reports

- **Kroll's Global Fraud Report (2014):** Recently in July and August 2013, a worldwide survey on fraud and its effect on business has been commissioned by Kroll and conducted by the Economist Intelligence Unit. In this survey more than 901 senior executives worldwide from a broad range of industries and functions were polled. 24% were based in North America, 25% in Europe, 23% in Asia Pacific, 14% from Latin America, and 14% in the Middle East and Africa. The survey covered more than 10 industries. The details of findings are enumerated in Table 2.

Table 2: Percentage of Companies affected by Listed Frauds (Figures are in percentage)

Types of Frauds	2013	2012	2011
Theft of physical assets	28	24	25
Information theft	22	21	23
Management conflict of interest	20	14	21
Vendor, supplier or procurement fraud	19	12	20
Internal financial fraud	16	12	19
Corruption and bribery	14	11	19
Regulatory or compliance breach	16	11	11
IP theft	11	8	10
Market collusion	8	3	9
Misappropriation of company funds	8	-	-
Money laundering	3	1	4

Source: Kroll Global Fraud Report, Annual Edition: 2012/2013 and 2013/2014

- **KPMG Survey (2009):** It was a survey of 204 executives of US companies with annual revenues of \$ 250 Million or more. It revealed that 65% respondents considered frauds to be a significant risk for their organisations.
- **ACFE Report (2010):** The Association of Certified Fraud Examiners' (ACFE) "Report to the Nations on Occupational Fraud and Abuse" found that the cost of fraud to US organisations is extensive i.e. 5% of annual revenues. When such cost is applied to gross world product of 2011, this figure translates to a potential projected annual fraud loss of more than US \$ 3.5 trillion. The median loss caused by the occupational fraud cases was US \$ 140,000.

- **COSO Fraud Report (2010):** The Committee of Sponsoring Organisations (COSO) of Treadway Commission analysed 347 frauds investigated by the US Securities and Exchange Commission (SEC) from 1998 to 2007. It found that median dollar amount of each instance of fraud had increased 3 times from median of US \$ 4.1 Million in 1999 to the level of US \$ 12.0 million.
- **National Fraud Authority (UK), Annual Fraud Indicator Report (2012):** The scale of fraud losses against all victims in UK is £ 73 billion p.a. The relevant figures were £ 13, £ 30, £ 38 billions p.a. in 2006, 2010 and 2011 respectively.
- **The Ernst and Young's "India Fraud Indicator Report" (2012):** The report stated that during 2011-12, total losses suffered in India was INR 66 billion. Data compiled by the Reserve Bank of India (RBI) disclosed that money lost by banks due to frauds and scams had doubled in the past 4 years. Losses incurred by banks due to fraud increased by 88% in 2010-11 to exceed INR 37.9 billion (more than INR 20.10 billion in 2009-10).
- **PwC's "The 4th Biennial Global Economic Crime Survey: India" (2007) Report:** According to this report the various elements damages due to fraud in India and world is in Table 3.

Table 3: Various elements of damages due to Fraud in India, Asia and Pacific and Global

Sr. No	Items of Loss	India	Asia and Pacific	Global
1	Damage to reputation or brand (% of cases)	92	89	88
2	Decline in staff morale (% of cases)	88	92	88
3	Damage to external business relations (% of cases)	84	87	84
4	Strained relations with regulator (% of cases)	75	83	80

Major financial and accounting scams, frauds and economic:

a) Global scenario :

There are plethora of reported scams, scandals and fiascos throughout the world. They include companies from developed countries to companies from underdeveloped nations. In many cases leaders of national governments were also convicted of being engaged in financial irregularities or scams. Some of the companies where frauds were being reported with their countries are briefly enumerated in the below table

Table 4: Financial frauds committed by MNC's in different countries

Companies	Country	Companies	Country
HIH Insurance, Harris Scarfe and One Tel	Australia	Adecco International	Switzerland
ComRoad, Phenomedia, MLP, Hugo Boss, Nici, Zapf Creation	Germany	Barings Bank Equitable Life, Wiggins, Versailles	UK
Baan Company, Ahold NV, LCI Computer, Landis	Netherlands	Gescartera, Bafisa, A finsa and Forum Filatelico	Spain
Dynamic Life, Ipirotiki Software	Greece	PT Bank Bali, Sinar Mas Group	Indonesia
Parmalat, Freedomland, Finmatica	Italy	Bangkok Bank of Commerce	Thailand
Global Crossing	Bermuda	United Engineers Bhd	Malaysia
Nortel Networks	Canada	Samsung Electronics, Hyundai	
Vivendi Universal	France	IHI, Sanyo Electric	Japan
Adelphia Communication, IBM, Enron, Xerox, Madoff Securities, Lehman Brothers	USA	Zhengzhou Baiwen, Shandong Bohai, Jinzhou Port, Kelon	China

Source: Bhasin (2013), Page 12.

b) Indian scenario:

India, an emerging country, has also noticed umpteen numbers of scams and fiascos. Following are some bird's eye view of such scams and malpractices or accounting irregularities in the Table 5. Table 4: Financial frauds occurred in India

Scams and Frauds	Year	Losses Suffered (Rs.)	Scams and Frauds	Year	Los Suffer - ed (Rs.)
Hirshad Mehta Securities Market Scam	1991	5000 crore	Madhu Core Scam	2009	4000 Crore
Fodders Scam (Chara Chotala)	1992	950 Crore	Commonwealth Games Scam	2010	2342 Crore
Ketan Parekh Securities Market Scam	2001	1,250 Crore	Sahara India Pariwar Investor Fraud Scam	2010	25,000 Crore
The UTI Scam	2001	4,800 Crore	Coal Block Allocation /Coalgate Scam	2012	1.856 Billion
Uttar Pradesh Food Grains Scams	2003	35000 Crore	Karnataka Wakf Board Land Scam	2012	20000 Crore
Satyam Scam	2008	10000 Crore	Uttar Pradesh NHRM Scam	2012	10000 Crore
The 2 G Spectrum Distribution Scam	2008	1,75,000 Crore	Saradha Group Financial Scandal	2013	20000-30000 CR

Source: Capital Via Global Research Ltd, Indian Stream Research Journal and others.

Acknowledgment of Forensic Accounting Professions around the world

Presently forensic accounting profession has gained increasing importance. Applications and relevance of such accounting in some developed countries are briefly stated below:

Canada :

Canada considers forensic accounting engagements as profession. According to the Certified General Accountants Association of Canada, such profession is relatively new. It intends to join hands with Canadian Institute of Chartered Accounts (CICA) to formulate standards on such audit.

Australia :

Forensic accountants work within an environment that also includes industry, professionals, regulators and government. They may work in conjunction with these entities or considering the rules, regulations enforced by them. Some commonly encountered regulatory bodies in Australia are Australian Securities and Investment Commission (ASIC), Australian Tax Office (ATO), Financial Action Task Force (FATF). Professional organisations interacting with forensic accountants include Certified Public Accountants (CPA) and Institute of Chartered Accountants of Australia (ICAA). The works of Australian Federal Police (AFP), state and specialist police or government's tasks forces also include some areas in common with forensic accountants. In addition, in Australia there is a graduate degree programme in forensic accounting. The master program emphasizes a forensic rather than a control-based or risk management approach to analysis of fraud.

United States of America

Forensic audit found its new place when a landmark legislation known as the Sarbanes-Oxley Act (SOX Law) was enacted in the US on 30th July, 2002. It was passed in the wake of accounting scandals such as Enron, WorldCom and Xerox which seriously undermined investors' confidence. In the USA, forensic accountants have been employed by the Federal Bureau of Investigation (FBI), Central Intelligence Agency (CIA), Internal Revenue Service (IRS), Federal Trade Commission (FTC), Homeland Security, Bureau of Alcohol, Tobacco and Firearms, Governmental Accountability Office (GAO), and other government agencies focussing on what is referred to as white-collar crime, notably fraud. Outside of government agencies, big employers of forensic accountants include banks, insurance companies, divorce attorneys etc. They often testify in civil and criminal court hearings serving as expert witnesses. The expert witness presents evidence and whether fraud is committed or not is decided by the court. Moreover

numerous organisations like American College of Forensic Examiners, Association of Certified Fraud Specialists, National Litigation Support Services Association, National Association of Certified Valuation Analysts, American Institute of Certified Public Accountants (AICPA), The Institute of Business Appraisers etc. support the tasks of forensic accountants.

South Africa

The South African Institute of Chartered Accountants (SAICA), and the Association of Certified Fraud Examiners South African Chapter (ACFE SA) have launched the Forensic Accounting Forum (Forum) after both professional bodies identified a need for a forum that would provide a networking platform for accounting professionals who also operate in the area of forensic accounting.

This is an independent professional body affiliated to the government, and aims to promote the discipline of forensic accounting - to prevent, detect and investigate fraud, recover funds derived from criminal activities as well as obtain financial awards resulting from civil disputes. SAICA is in operation from 2005 onwards. And many universities offer B.com with specialization in Forensic Accounting.

Relevance and legislative support of Forensic Accounting in India

Although forensic accounting is not directly mentioned in any Indian statute, but various provisions of different statutes resemble the tasks of forensic investigator. They are:

THE COMPANIES (AUDITOR'S REPORT) ORDER 2003 (AMENDED IN 2004)

1)Comment and Observation on Fixed Assets : CARO 2003 requires an auditor to report whether a substantial part of fixed assets have been disposed off during the year and whether such incident has affected the status of going concern. In this context the auditor has to refer to AS 24- Discontinuing Operations, SA 570- Going concern issued by ICAI.

2)Investigation and Inspection: Forensic accountants and investigators may help police, Criminal Investigation Department (CID), Central Bureau of Investigation's (CBI) Economic offence Wing, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Serious Fraud and Investigating Office (SFIO) etc. authorities in collecting evidences and other relevant materials. For applications of various sections like Sec. 157 of The Code of Criminal Procedure, 1973 (Cr. PC); Sections 17, 18 of the Prevention of Corruption Act, 1988; Sec. 6 of Banker's Books Evidence Act, 1891; Sec. 78 of Information Technology Act, 2000 etc., the honourable court and police may require the services and skills of forensic accountants for inspection of any books and documents related to accounts. For example, in recently reported Saradha Scam (2013) of West Bengal, SEBI appointed one Bangalore based forensic auditor, Sarat Associates to investigate into the matters.

3)RBI : RBI mandated there should be forensic audit of all loans of Rs 1,000 crore or more where the bank plans to move them for corporate debt restructuring. For smaller loans too, banks are advised to take the help of these auditors. Despite of RBI norm, forensic audits of only 12 banks has been filed. RBI will examine if there are any hidden NPAs in the bank and if proper systems are in place to identify them. They will also see if there is any manual intervention by the employees in the process of NPA recognition. The RB team will also examine large value loan accounts of the bank

RBI initiated a forensic audit at United Bank of India concerning the net loss of Rs 489.5 crore reported in the quarter ended September'13 and the gross non-performing assets (NPA) surged to 7.5 percent from 5.6 percent in the preceding quarter

4)SEBI: SEBI has set up a Forensic Accounting Cell on February 7, 2012 to improve quality of financial information disclosed and to assist in detection of financial irregularities. To enhance the quality of financial reporting done by listed entities, SEBI has set up a Qualified Audit Report Review Committee (QARC) on which ICAI, Stock Exchanges and others are represented. Sebi gets new software tools for fraud detection, probes

SEBI has implanted the latest technological tool, called 'Data Ware Housing and Business Intelligence System', would significantly enhance SEBI's investigation and surveillance functions and "generate reports that will better serve SEBI to identify, detect and investigate aberrations, inside trading and market abuses that undermine market integrity."

5)Expert Opinion: The services of forensic accountants may be used to examine the financial statements and to form opinion. After investigation, forensic investigator may give his expert opinion whether any fraud was committed or anomaly noticed in the reported accounts. Collection of evidences for court proceedings are the most important tasks done by the forensic accountants. These require as per Sections 45, 118 of Indian Evidence Act, 1872; Sec. 293 of Cr. PC, 1973.

6)The Institute of Chartered Accountant of India: concerning the need of forensic accounting and fraud detection in the emerging economic scenario has decided to launch a certificate course on the Forensic Accounting.

CONCLUSION

Forensic accountants are currently in great demand with the public need for honesty, fairness and transparency in reporting increasing exponentially. FA has come to the limelight only recently due to rapid increase in frauds and white-collar crimes. The idea of FA is at a nascent stage in India till now. The government is taking every initiative to make forensic accounting to play a lead role on combating frauds, scams and corruption etc. In order to control the effect of white collar crimes, a multifaceted approach is needed from the economic (money supply), legal (new provisions), political (governments' vigilance) and the social (class bias control) aspects of a country.

The pioneer Indian accounting regulator, the Institute of Chartered Accountants of India (ICAI) has taken the challenges to start a course on forensic accounting for only its members. It is "Certificate Course on Forensic accounting and Fraud Detection using IT and CAATs". At present very few academic institutions are offering courses (full time or part time) on forensic accounting. Indian universities are lagging behind in this area as compared to other foreign universities. Some leading organisation such as India forensic (Pune, Maharastra) has started certificate Course in Bank Forensic Accounting (CBFA), Certified Forensic Accounting professional (CFAP). Institute of Chartered Financial Analyst of India (ICFAI) Univeristy, Tripura also started to offer a Postgraduate Diploma in Forensic Accounting. Although this is at nascent stage in most of the Indian universities, however many college and universities are providing courses on "Forensic Science".

The ethical way of handling the creativity may be the only way to stop the germination of the white collar crime at the basic level. In the background of increasing levels of frauds and economic irregularities, it is expected that the prospects of forensic accountants are bound to increase substantially in the near future.

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