
The Financial Forensic Investigation Techniques and Procedures in India**Dr.Rakesh Kumar Ray****and****Rakesh Bhatia,****Department of Criminology and Forensic science****Department of Computer Science, Swami Vivekanand University, Sagar (MP)**

ABSTRACT Indian economy touches the economy of the world. By doing so Indian markets expand their operations through different mode like joint venture, amalgamation and consolidation etc. At the same time many complexities arise due to growth in business trade. Many white-collar crimes and financial scandals in the beginning of the twenty-first century questioned the credibility of the financial structures. Due to these, a great demand of Forensic Accounting has been introduced for fraud prevention and detection. The main objective of the paper is to gauge financial scams and white-collar crimes in India. This paper also examines the role of forensic accounting in minimizing such financial scandals. Forensic Accountants will also help the Government in the enforcement of regulatory requirements.

Keywords: Forensic Accounting, Frauds, Financial Scams, Auditing, Investigative functions

INTRODUCTION

Fraud is one major security element that is lagging behind the growth of any organization in the modern world. Fraud robs an organization its rightful acquired resources hence the need to come up with control measures to curb this vice.

Many organizations in the modern world have established security mechanisms to deal with any form of fraud both internal and external fraud. Internal control mechanisms are proving to be more effective when dealing with this vice. In most of the fraud cases in an organization, the master planners are the employees or people who understand the operation procedures of the organization well (Biegelman& Bartow, 2012).

Internal controls have been integrated into business policies and procedures of most organizations. They are effective not only in controlling fraud, but also in protecting the resources of an organization against unnecessary waste (Bayens & Roberson, 2010). They ensure accuracy, reliability, secure compliance with the set organizational policies and at the same time evaluating the performance level of all the business units within an organization.

Generally, internal controls act as the monitoring body of all organization's operations. It should be the responsibility of all organizational members to play some role in the implementation of internal controls for them to become more effective. This starts right from the management tickling down to junior members of staff whereby, all the members involved should be familiar with the control procedures pertaining to their job responsibilities.

The performance of internal controls mechanism set by a given organization is determined by the control environment, activities, risk assessment, information and communication. According to Goldmann (2010), these elements are normally referred to as elements of internal control. The control environment forms the backbone of internal controls performance consisting of integrity and ethical values, assignment of authority, formulation of policies and procedures in an organization.

Risk assessment is another major element that forms effective internal control mechanisms. This is well illustrated by the assessment of risks from both external and internal sources. It involves the identification and analysis of actual possible risks to achievement of the objectives. Risk assessment should be an ongoing process as the economics and the regulatory conditions keep on changing.

According to Comer, (2003), fraud can happen to anyone and a good case is that of New Scotland Yard where over £ 5 million was stolen by the deputy director of finance and concealed by writing fake payment vouchers.

This is a clear indication that most form of fraud is done by the associates of an organization including employees, customers, agents, suppliers and ex-employees who are motivated by greed. The auditing unit of an organization must identify pertinent information and communicate it in a form that will enable people to perform their responsibilities. It has been identified that dishonest activities in an organization are done by organization associates and even if done by external individuals, there must be collaboration with the associates of an organization.

It is for this reason that it's not wise for an organization to incur extra cost in contracting external services that provide security against fraud and maintaining an in-house department that is well equipped and positioned to handle such fraud. Internal controls measures have the capability of protecting, detecting and punishing the culprits involved without raising the alarm thus protecting the image of an organization to the general public. This is done by formulating clear authorization procedures, segregation of duties, physical restrictions and monitoring operations (Silverstone & Davia, 2005).

It is evident that in-house controls can be more effective in the detection of possible fraud in an organization as opposed to outsourcing the same services. Internal security controls are also more economical and have the interests of an organization at heart if well-equipped and managed.

Literature review

The world is evolving, and it's pretty common nowadays to hear a case solved through forensic accounting. Then what exactly do forensic accountants do? Many have linked them to fighting to end financial malpractices by individuals, business and organizations, which implies that forensic accountants work around the clock to end fraud (Akinbowale, et al., 2020, p. 1257). Fraud has continued to cost countries and people to lose more money in millions to scammers. As a way to find these fraudsters and end fraud, forensic accounting has been developed. Forensic accounting involves an accounting and investigative nature that allows it to unearth even the deadliest of financial distress and ensure all the culprits are brought to book. With the rise of technology, cybercrime has propelled the increase in financial fraud, thereby requiring forensic accounting services to help fight this growing trend. Similarly, forensic accountants ensure the courts are fed with well and elaborated evidence of financial criminal activity. It ties the element of investigation, after which it analyzes and reviews it before the court. The work is also always tiresome and quite detailed; thus, forensic accountants' results with other team members ensure the job well done. Some of the professionals they work with are the lawyers, who give the case and law enforcement agencies the legal art (Deilami, Soltani & Omrani, 2018, p. 12). Other stakeholders involved include; insurance companies, financial institutions and also accountants involved in other categories. Those involved in forensic accounting are expected to be professionals vast with planning, execution, and good at computation and analyzing numbers. Besides, a person pursuing forensic accounting should be inquisitive and confident in their undertakings. Some of their typical; duties as forensic accountants include; raise funds by engaging in forensics research, analyzing financial data, reporting preparation, and testing before a court of law. Forensic accounting performs various roles depending on the incident or in the case, as shown below.

What is a Financial Forensic Investigation?

A **Financial Forensic Investigation** is an examination of a company's financial records to derive evidence which can be used in a court of law or legal proceeding.

For example, Telemart, on the recommendation of its Chief Financial Officer (CFO), entered into a contract with RJ Inc for the supply of carts. At the time, RJ Inc was not authorized to conduct business, as its license was suspended due to certain irregularities in taxes paid. The CFO had knowledge of this fact, but still recommended that Telemart enter into a contract with RJ Inc because he was secretly receiving compensation from RJ for doing so.

A forensic audit can reveal such cases of fraud.

Why is a Financial Forensic Investigation conducted?

Financial Forensic Investigation are made for several reasons, including the following:

CorruptionIn a forensic audit, while investigating fraud, an auditor would look out for:

Conflicts of interest – When a fraudster uses his/her influence for personal gains detrimental to the company. For example, if a manager allows and approves inaccurate expenses of an employee with whom he has personal relations. Even though the manager did not directly financially benefit from this approval, he is deemed likely to receive personal benefits after making such inappropriate approvals.

Bribery – As the name suggests, offering money to get things done or influence a situation in one's Favor is bribery. For example, Telemid bribed an employee of Techno smith company to provide certain data to aid Tele smith in preparing a tender offer to Techno smith.

Extortion – If Techno smith demands money in order to award a contract to Telemid, then that would amount to extortion.

Asset misappropriation

Asset misappropriation is the most common and prevalent form of fraud. Misappropriation of cash, creating fake invoices, payments made to non-existing suppliers or employees, misuse of assets, or theft of Inventory are a few examples of such asset misappropriation.

Financial statement fraud

Companies get into this type of fraud to try to show the company's financial performance as better than what it actually is. The goal of presenting fraudulent numbers may be to improve liquidity, ensure top management continue receiving bonuses, or to deal with pressure for market performance.

Some examples of the form that financial statement fraud takes are the intentional forgery of accounting records, omitting transactions – either revenue or expenses, non-disclosure of relevant details from the financial statements, or not applying the requisite financial reporting standards.

OBJECTIVES OF STUDY

1. To know the various types of frauds.
2. To understand the role of Forensic Accounting (techniques) in fraud examination.
3. To examines the major scams in India
4. To understand the different services rendered by Forensic Accountants.
5. To know the prospects of Forensic accounting in India in the context of growing of multiple frauds.

Procedure for a Financial Forensic Investigation

A forensic auditor is required to have special training in forensic audit techniques and in the legalities of accounting issues. A **Financial Forensic Investigation** includes additional steps that need to be performed in addition to regular audit procedures.

1. Plan the investigation

When the client hires a forensic auditor, the auditor is required to understand what the focus of the audit is. For example, the client might be suspicious about possible fraud in terms of the quality of raw materials supplied. The forensic auditor will plan their investigation to achieve objectives such as:

- Identify what fraud, if any, is being carried out
- Determine the time period during which the fraud has occurred
- Discover how the fraud was concealed
- Identify the perpetrators of the fraud
- Quantify the loss suffered due to the fraud
- Gather relevant evidence that is admissible in the court
- Suggest measures that can prevent such frauds in the company in future

2. Collect evidence

By the conclusion of the audit, the forensic auditor is required to understand the possible type of fraud that has been carried out and how it has been committed. The evidence collected should be adequate enough to prove the identity of the fraudster(s) in court, reveal the details of the fraud scheme, and document the amount of financial loss suffered and the parties affected by the fraud. A logical flow of evidence will help the court in understanding the fraud and the evidence presented. Forensic auditors are required to take precautions to ensure that documents and other evidence collected are not damaged or altered by anyone.

Common techniques used for collecting evidence in a Financial Forensic Investigation include the following:

Substantive techniques – For example, doing a reconciliation, review of documents, etc

Analytical procedures – Used to compare trends over a certain time period or to get comparative data from different segments

Computer-assisted audit techniques – Computer software programs that can be used to identify fraud

Understanding internal controls and testing them so as to understand the loopholes which allowed the fraud to be perpetrated.

3. Interview the suspect(s)

Reporting – A report is required so that it can be presented to a client about the fraud. The report should include the findings of the investigation, a summary of the evidence, an explanation of how the fraud was perpetrated, and suggestions on how internal controls can be improved to prevent such frauds in the future. The report needs to be presented to a client so that they can proceed to file a legal case if they so desire.

Court proceedings – The forensic auditor needs to be present during court proceedings to explain the evidence collected and how the suspect was identified. They should simplify the complex accounting issues and explain in layman’s language so that people who have no understanding of the accounting terms can still understand the fraud that was carried out.

To summarize, a forensic audit is a detailed engagement that requires the expertise of not only accounting and auditing procedures but also expert knowledge regarding the legal framework. A forensic auditor is required to have an understanding of various frauds that can be carried out and how evidence needs to be collected.

Financial Forensic Investigation Techniques and Procedures

Financial forensics and fraud investigations are carried out using a multi-faceted approach. This ranges from reviewing documents and carrying out interviews and surveillance operations, to the production of detailed reports and providing valuable assistance in court by appearing as an expert witness.

A forensic accountant can be instrumental in identifying the perpetrators of fraud, discovering their motives, and ensuring they are brought to justice. They can also be a powerful tool for defence lawyers to argue their clients’ case and disprove any allegations of wrongdoing.

Types of Financial Crime Investigation Services Offered

Given the diverse nature of fraud, there are many types of financial crime investigation services that a forensic accountant will provide, including:

- Asset tracking and recovery
- Corruption and bribery investigations
- Contentious insolvency investigations
- Rapid response fraud investigations
- Quantification of losses
- Carrying out background checks

No matter the circumstances, you can rely on a forensic accountant to assist.

SERVICES RENDERED BY **Financial Forensic Investigation**

- Fraud detection when employees commit Fraud: When employees make any fraudulent activities then it is a case of fraud committed by employees. In such situation forensic accounting need arise. The forensic accountant uses their skills and trying to find out the secret truth.
- Detect fraud in criminal matters: Forensic Accountant render their services as an investigator inthe field of criminal matters. Many criminal and white-collar crimes are investigated by forensic accountant for the purpose of civil and criminal actions. Different investigation department and law society take help of forensic accountant.
- Fraud related to professional negligence: In India there are some principles and standards which provide a base for preparing financial statements. Mostly corporate made frauds in this area. Forensic accountants keep eye on these practice and accounting principles. They also detect frauds in auditing practices and ethical codes.
- Detection and settlement of Insurance Claims: Forensic Accounting engaged in settlement of Insurance claim. Forensic accountant handles different claims like loss policy matter, poverty loss due to various risks and other type of insurance claims. When the policy holder challenges the claim settlement as worked out by the insurance company then policy holder takes help of forensic accountant.
- Dispute Settlement: Multiple problems have been introduced in growing business trade. So, business firms engage forensic accountants to handle and solve these types of matters like construction claims, contract disputes, trade mark cases etc.

PROSPECTS OF FORENSIC ACCOUNTING IN GROWING FRAUDS

It has been observed that the financial scams in India increased due to lack of stringent surveillance authority. Continuous evolution of technology is changing the way in which organizations conduct business, sometimes creating opportunities for fraudsters to commit the crime. Thus, the need of forensic accountants was realized. However, in India this branch of accounting has not got due recognition. Forensic Accounting developed as early as 1995 in USA but it put it first step in India just a few years back, when Forensic Research Foundation was formed in India for investigation of frauds. International investigation organization SFIO was also set up in India for the same purpose. Forensic accountants are trained to detect evidence of frauds in financial statements.

There was no mention of Forensic discipline in the Indian statutes prior to introduction of Companies Act 2013. The new Companies Act 2013 includes specific provisions to address the risk of fraud, alongside prescribing greater responsibility and increased accountability for independent directors and auditors. It goes beyond professional liability for fraud and extends to personal liability, prescribing penalties for directors, key management personnel, auditors and employees. This Act also introduces a new term -Internal Financial Control (IFC) - which has certain features of IC and certain features of ICFR. ICAI should also formulate an accounting

standard on Forensic Accounting so that Forensic Accountant helps the law enforcement agencies and regulatory bodies in curbing white-colour and financial scams. The main important law enforcement agency involved directly in combating frauds is the Police, CBI, DRI etc and Forensic auditors may help the Police, ACB and other investigating authorities in collecting evidences and other investigation purposes.

CONCLUSION

In the emerging economic scenario, given the pervasiveness of fraud and the necessity of special skills in order to uncover such fraud, it becomes important to train forensic accountants – and colleges and universities have an important role to play. International bodies like the CFA Institute have emerged forensic auditing into its curriculum. Our leading institutions ICAI and ICWAI have come up with a post qualification course such as Diploma in investigative and forensic accounting in recent years. ICAI should also formulate an accounting standard on Forensic Accounting so that Forensic Accountant helps the law enforcement agencies and regulatory bodies in curbing white-collar and financial scams.

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