CHAPTER TWO
BACKGROUND ON FRAUD AND FORENSIC ACCOUNTING

2.1 • What is Financial Accounting and Accountant
• Origin and Growth of Financial Accounting

2.2 • What is Fraud
• Types of Fraud
• Fraud Triangle
• Brief History of Fraud and Antifraud Profession.
• Economic Valuation of Fraud

2.3 • Forensic Accounting
• Definition and Meaning
• Difference between Forensic Accounting and Traditional Accounting
• Importance of Forensic Accounting.

2.4 • Conclusion
2.1 What are Financial Accounting and Accountant?

Accountants are communicators. Accountancy is the art of communicating financial information about a business entity to users such as shareholders and managers. The communication is generally in the form of financial statements that show in money terms the economic resources under the control of the management. The art lies in selecting the information that is relevant to the user and is reliable. Shareholders require periodic information that the managers are accounting properly for the resources under their control. This information helps the shareholders to evaluate the performance of the managers. The performance measured by the accountant shows the extent to which the economic resources of the business have grown or diminished during the year. The shareholders also require information to predict future performance. At present companies are not requiring to publish forecast financial statements on a regular basis and the shareholders use the report of past performance when making their predictions.

Managers require information in order to control the business and make investment decisions.

Financial reporting is concerned with the reporting of financial information about their financial position, including liquidity, and about their financial performance, which results in changes in the financial position. For companies and, in particular public limited companies, financial reporting regulations are complex and onerous. Financial accounting is about the systems and methods used to produce the financial statements. For all entities the basis of financial accounting is the double entry bookkeeping system from which the key financial statements- Balance Sheet and statement of profit and loss- are derived. Other financial statements are also produced for the users of different
entities, such as the statement of different entities, such as the statement of cash flows and the statement of change in equity.

Financial reporting is concerned with the reporting of financial information about an entity to external interested parties. Entities can take many forms. Generally, there are business entities deemed to be concerned with making profit, which range from sole trader, through partnership and small companies to large and complex multinational corporations, and there are entities less concerned with profit making, such as government organizations, charities, clubs and societies. Whatever form a business takes, or whatever its legal status, it report the financial affairs only of itself, this is one of the underpinning concepts of financial reporting—that of the separate business entity.

Business entities started as fairly simple affairs funded and run by an individual or small group of individuals, and, in this context, the reporting of financial information needed to satisfy the requirements of the owners only. The owners required information about the financial results and position of the business in which they had invested in order for them to assess their investment and make decisions about future investment. As business grew, more investment was required, ownership winded, and management of the business was devolved to to others. In this context the owners needed to be able to assess whether this was being carried out satisfactorily. Financial reporting therefore assumed a role of assessment of stewardship.

Accounting has rightly been termed as the language of the business. The basic function of a language is to serve as a means of communication. Accounting also serves this function. It communicates the results of business operations to various parties who have some stake in the business viz., the proprietor, creditors, investors, Government and other
agencies. Although, accounting is generally associated with business but it is not only business which makes use of accounting but also persons like housewives, Government and other individuals also make use of an accounting. For example, a housewife has to keep a record of the money received and spent by her during a particular period. She can record her receipts of money on one page of her "household diary" while payments for different items such as milk, food, clothing, house, education etc. on some other page or pages of her diary in a chronological order. Such a record will help her in knowing about:

(i) The sources from which she received cash and the purposes for which it was utilized.
(ii) Whether her receipts are more than her payments or vice-versa?
(iii) The balance of cash in hand or deficit, if any at the end of a period.

In case the housewife records her transactions regularly, she can collect valuable information about the nature of her receipts and payments. For example, she can find out the total amount spent by her during a period (say a year) on different items say milk, food, education, entertainment, etc. Similarly she can find the sources of her receipts such as salary of her husband, rent from property, cash gifts from her relatives, etc. Thus, at the end of a period (say a year) she can see for herself about her financial position i.e., what she owns and what she owes. This will help her in planning her future income and expenses (or making out a budget) to a great extent.

The need for accounting is all the more great for a person who is running a business. He must know:

(i) What he owns?
(ii) What he owes?
(iii) Whether he has earned a profit or suffered a loss on account of running a business?
(iv) What is his financial position i.e. whether he will be in a position to meet all his commitments in the near future or he is in the process of becoming a bankrupt?

The main purpose of accounting is to ascertain profit or loss during a specified period, to show financial condition of the business on a particular date and to have control over the firm's property. Such accounting records are required to be maintained to measure the income of the business and communicate the information so that it may be used by managers, owners and other interested parties. Accounting is a discipline which records, classifies, summarizes and interprets financial information about the activities of a concern so that intelligent decisions can be made about the concern. The American Institute of Certified Public Accountants has defined the Financial Accounting as "the art of recording, classifying and summarizing in as significant manner and in terms of money transactions and events which in part, at least of a financial character, and interpreting the results thereof". American Accounting Association defines accounting as "the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information."

From the above the following attributes of accounting emerge:

Recording: It is concerned with the recording of financial transactions in an orderly manner, soon after their occurrence in the proper books of accounts. Classifying: It is concerned with the systematic analysis of the recorded data so as to accumulate the transactions of similar type at one place. This function is performed by maintaining the ledger in which different accounts are opened to which related transactions are posted.
Summarizing: It is concerned with the preparation and presentation of the classified data in a manner useful to the users. This function involves the preparation of financial statements such as Income Statement, Balance Sheet, and Statement of Changes in Financial Position, Statement of Cash Flow, and Statement of Value Added.

Interpreting: Nowadays, the aforesaid three functions are performed by electronic data processing devices and the accountant has to concentrate mainly on the interpretation aspects of accounting. The accountants should interpret the statements in a manner useful to action. The accountant should explain not only what has happened but also (a) why it happened, and (b) what is likely to happen under specified conditions.

According to aforesaid description one can depict the following Features or characteristics or nature of Accounting

Following are the features of accounting:-

(1) Accounting is an art.
(2) Accounting is a science.
(3) Recording of business transactions.
(4) Classifying business transactions.
(5) Summarizing the classified data
(6) Analysis and interpret the summarized data
(7) Communicating information to the interested parties.
(8) Records transaction and events which are financial character.

If we consider about the function of accounting than one of the main function of accounting is, providing financial information of an organization to various users as internal and external. Through maintaining systematic records accounting consequence as ascertain the operational profit or loss of business. Accounting facilitate rational decision making, control the cost of production and selling price, control
the business expenditures, satisfy the requirement of law, calculate the amount due to and due from the firm.

2.1.1 ORIGIN AND GROWTH OF ACCOUNTING

Accounting is as old as money itself. However, the act of accounting was not as developed as it is today because in the early stages of civilization, the number of transactions to be recorded was so small that each businessman was able to record and check for himself all his transactions. Accounting was practiced in India twenty-three centuries ago as is clear from the book named "Arthashastra" written by Kautilya, King Chandragupta's minister. This book not only relates to politics and economics, but also explains the art of proper keeping of accounts. However, the modern system of accounting based on the principles of double entry system owes its origin to Luca Pacioli who first published the principles of Double Entry System in 1494 at Venice in Italy. Thus, the art of accounting has been practiced for centuries but it is only in the late thirties that the study of the subject 'accounting' has been taken up seriously.

The need of financial accounting is increase due to requirement of accounting standard board. The institute of Chartered Accountant of India, set up, Accounting Standard Board. The primary duty of ASB is to formulate the accounting standard for India. During the formulation of accounting standards, the ASB considered the applicable laws, usage, customs and the business environment existing in our country. The ASB will give due consideration to International Accounting Standards (IASs) issued by the International Accounting Standard Committee and tries to integrate them to the extent possible. The body consists of the following members:
Company Law Board, CBDT, Central Board of Excise and Customs, SEBI, Comptroller and Auditor General of accounts, UGC, Educational and Professional institutions, and councils of the institutes and representatives of Industry. The need for accounting standards arises from limitations of financial statements. The need for accounting standards arises due to the following reasons.

1. To communicate uniform results to external users as well as internal users for decision-making.
2. To serve as tools for information systems catering the needs of management, owners, creditors, Government etc.
3. To facilitate inter firm, intra firm comparison.
4. To make the financial statement more reliable comparable and understandable.

One question is arising that why forensic accounting is needed. Fraud means different things to different people under different circumstances. For instance, fraud can be perceived as deception. One might say that fraud in the form of intentional deception (including lying and cheating) is the opposite of truth, justice, fairness, and equity.

2.2 What is Fraud?
Literatures are full of various definition of fraud. The definition of fraud can be varied between organizations and their jurisdictions. Although the object of the study is not a making of debate between various sources however a proper understanding of fraud is necessary for the stipulate the limits of the study.

According to Oxford Dictionary fraud is a false representation by means of a statement or conduct, in order to gain a material advantage. The Association of Certified Fraud Examiners (2008) defined fraud as the use
of one’s occupation for personal enrichment through deliberate misuse or misapplication of the employing organisation’s resources or assets. It is therefore any act of misappropriation, theft or embezzlement of corporate assets in a particular economic environment. It has been considered as is any act of deception performed by somebody to cheat or deceive another person to his detriment or the detriment of any other, or to cause injury or loss to another person while the perpetrator has a clear knowledge of his intension to deceive, falsify or take advantage over the unsuspecting and innocent victim (Robinson, 1976) resulting to suffering loss or damage (Stanley, 1994).

The U.S. Supreme Court in 1888 provided a definition of civil fraud as:

First: That the defendant has made a representation in regard to a material fact;

Second: That such a representation is false;

Third: That such representation was not actually believed by the defendant, on reasonable grounds, to be true;

Fourth: That it was made with intent that it should be acted on;

Fifth: That it was acted on by complainant to his damage; and

Sixth: That in so acting on it the complainant was ignorant of its falsity, and reasonably believed it to be true. The first of the foregoing requisites excludes such statements as consist merely in an expression of opinion of judgment, honestly entertained; and again excepting in peculiar cases, it excludes statements by the owner and vendor of property in respect of its value.
The Federal Bureau of Investigation (FBI) offers a broad but useful definition of fraud that incorporates the elements recognized over the centuries:

“White-collar crimes are characterized by deceit, concealment, or violation of trust and are not dependent upon the application or threat of physical force or violence. Such acts are committed by individuals and organizations to obtain money, property, or services; to avoid the payment or loss of money or services; or to secure a personal or business advantage.”

In some of the circumstances a false representation or false statement may be fraud and a statement is false for the purpose of the statute if it was known to be untrue when made. A statement is “fraudulent” if it was known to be untrue and was made with the intent to deceive a government agency. The agency need not actually have been deceived, nor must the agency have in fact relied upon the false statement, for a violation to occur. The statement must have been “material”, that is, capable of influencing the agency involved.

Fraud means different things to different people under different circumstances. For instance, fraud can be perceived as deception. One might say that fraud in the form of intentional deception (including lying and cheating) is the opposite of truth, justice, fairness, and equity. Although deception can be intended to coerce people to act against their own self-interest, deception can also be used for one’s own defense or survival. Despite that rationale for deception, deception by current standards of behavior is generally considered mean and culpable, but deception can be intended for a benevolent purpose, too. Benevolent deceivers in society are not looked on as harshly as are those whose
intentions and motives are impure. Those who act out of greed, jealousy, spite, and revenge are not so quickly excused or forgiven. (Tommie W. Singleton, 2010, p.no. 40)

2.2.1 Types of Fraud

- **Employee Fraud/Misappropriation of Assets:** This type of fraud involves the theft of cash or inventory, skimming revenues, payroll fraud, and embezzlement. Asset misappropriation is the most common type of fraud. Primary examples of asset misappropriation are fraudulent disbursements such as billing schemes, payroll schemes, expense reimbursement schemes, check tampering, and cash register disbursement schemes. Sometimes employees collude with others to perpetrate frauds, such as aiding vendors intent on overbilling the company.

- **Financial Statement Fraud:** This type of fraud is characterized by intentional misstatements or omissions of amounts or disclosures in financial reporting to deceive financial statement users. More specifically, financial statement fraud involves manipulation, falsification, or alteration of accounting records or supporting documents from which financial statements are prepared. It also refers to the intentional misapplication of accounting principles to manipulate results. According to a study conducted by the Association of Certified Fraud Examiners, fraudulent financial statements, as compared with the other forms of fraud perpetrated by corporate employees, usually have a higher dollar impact on the victimized entity as well as a more negative impact on shareholders and the investing public (*THOMAS W. GOLDEN, 2006*).
Some financial scholars have propounded three more elementary classification of fraud which is as follows

1. Duplicate Payment Fraud: - As state from the name of fraud, such type of fraud being committed by making payment for a transaction that is not actually existed. For example the issue of two more identical checks to pay the same debt.

2. Multiple Payee Fraud: - these types of frauds involve two or more payments to different payees for the same item delivered or service rendered. One of the payments will be to a legitimate payee, the other will be fraudulent and the underlying documentation is switched to support the bogus transaction. Generally this type of fraud is more difficult to uncover in compare of previous one.

3. Shell fraud: - Shell frauds are like the object under the shells, the item that was purchased and paid for did not exist and never existed. In this type of fraud perpetrator conceives of a fictional purchase and prepares paperwork and accounting entries, forging whatever signatures are needed.

Above points are related to fraud, but deception is also a sibling of fraud. Although deception can be intended to coerce people to act against their own self-interest, deception can also be used for one’s own defense or survival. Despite that rationale for deception, deception by current standards of behavior is generally considered mean and culpable, but deception can be intended for a benevolent purpose, too. Benevolent deceivers in society are not looked on as harshly as are those whose intentions and motives are impure. Those who act out of greed, jealousy, spite, and revenge are not so quickly excused or forgiven.
Fraud can also be associated with injury. One person can injure another either by force or through fraud. The use of force to cause bodily injury is frowned on by most organized societies; using fraud to cause financial injury to another does not always carry the same degree of stigma or punishment.

Generally, all acts of fraud can be distilled into four basic elements:

1. A false representation of a material nature
2. Knowledge that the representation is false or reckless disregard for the truth
3. Reliance—the person receiving the representation reasonably and justifiably relied on it
4. Damages—financial damages resulting from all of the above

By way of illustration, consider the classic example of the purchase of a used car. The salesperson is likely to make representations about the quality of the car, its past history, and the quality of parts subject to wear and tear, ranging from the transmission to the paint job. The elements of fraud may or may not arise out of such statements. First, there is a distinction between hype and falsehood. The salesperson hypes when he claims that the 1977 Mercedes “runs like new.” However, were he to turn back the odometer, he would be making a false representation. Second, the false statement must be material. If the odometer reading is accurate, the salesperson’s representation that the car runs like new or was only driven infrequently is, strictly speaking, mere hype: the purchaser need only look at the odometer to form a prudent view of the extent of use and the car’s likely roadworthiness. Third, the fraudster must make the material false misrepresentation with knowingly, that is, with actual knowledge that the statement is false or with a reckless disregard for the truth. For example, the car may or may not have new tires. But if the
salesperson, after making reasonable inquiries, truly believes that the Vega has new tires, there is no knowing misrepresentation.

There may be negligence, but there is no fraud. Fourth, the potential victim must justifiably rely on the false representation. A buyer who wants a blue car may actually believe the salesperson’s representation that “it’s really blue but looks red in this light.” Reliance in that case is, at best, naive and certainly not justified. Finally, there must be some form of damage. The car must in fact prove to be a lemon when the purchaser drives off in it and realizes that he has been misled. Regardless of context, from Enron to WorldCom to Honest Abe’s Used Car Lot, fraud is fraud, and it displays the four simple elements noted above.

2.2.2 BRIEF HISTORY OF FRAUD AND THE ANTIFRAUD PROFESSION

According to some, forensic accounting is one of the oldest professions and dates back to the Egyptians. The “eyes and ears” of the king was a person who basically served as a forensic accountant for Pharaoh (ancient name of Egyptian king), watchful over inventories of grain, gold, and other assets. The person had to be trustworthy, responsible, and able to handle a position of influence.

In India, fraud began at least as early as the Pilgrims and early settlers. Since early India was largely agricultural, many frauds centered around land schemes.

In India Kautilya was the first person to mention the famous forty ways of embezzlement in his famous Kautilya Arthashastra during the ancient Mauryan Times (321-296 BC). There are about forty ways of embezzlement: what is realised earlier is entered later on; what is realised
later is entered earlier; what ought to be realised is not realised; what is hard to realise is shown as realised; what is collected is shown as not collected; what has not been collected is shown as collected; what is collected in part is entered as collected in full; what is collected in full is entered as collected in part; what is collected is of one sort, while what is entered is of another sort; what is realised from one source is shown as realised from another; what is payable is not paid; what is not payable is paid; not paid in time; paid untimely; small gifts made large gifts; large gifts made small gifts; what is gifted is of one sort while what is entered is of another; the real done is one while the person entered (in the register) as done is another; what has been taken into (the treasury) is removed while what has not been credited to it is shown as credited; raw materials that are not paid for are entered, while those that are paid for are not entered; an aggregate is scattered in pieces; scattered items are converted into an aggregate; commodities of greater value are bartered for those of small value; what is of smaller value is bartered for one of greater value; price of commodities enhanced; price of commodities lowered; number of nights increased; number of nights decreased; the year not in harmony with its months; the month not in harmony with its days; inconsistency in the transactions carried on with personal supervision (samágamavishánah); misrepresentation of the source of income; inconsistency in giving charities; incongruity in representing the work turned out; inconsistency in dealing with fixed items; misrepresentation of test marks or the standard of fineness (of gold and silver); misrepresentation of prices of commodities; making use of false weight and measures; deception in counting articles; and making use of false cubic measures such as bhájan - these are the several ways of embezzlement.
In the 1950s, Donald Cressey was encouraged by Edwin Sutherland, who was serving on his dissertation committee, to use a thesis on why a person in a position of trust would become a violator of that trust. Sutherland and Cressey decided to interview fraudsters who were convicted of embezzlement. Cressey interviewed about 200 embezzlers in prison. One of the major conclusions of his efforts was that every fraud had three things in common: (1) pressure (sometimes referred to as motivation, and usually a “non-shareable need”); (2) rationalization (of personal ethics); and (3) knowledge and opportunity to commit the crime. These three points are the corners of the fraud triangle. His book Other People’s Money is based on his dissertation work.

**Pressure**

The term “Pressure” (or incentive, or motivation) refers to something that has happened in the fraudster’s personal life that creates a sound need that motivates him to commit fraud. Usually that motivation centers on some
financial strain, but it could be the symptom of other types of pressures. For example, a drug habit or gambling habit could create great financial need in order to sustain the habit and thus create the pressure associated with this aspect of the fraud triangle. Sometimes a fraudster finds motivation in some other incentive. For instance, almost all financial statement frauds were motivated by some incentive, usually related to stock prices or performance bonuses or both. Sometimes an insatiable greed causes relatively wealthy people to commit frauds.

Beyond the field of competitive and economic survival, what other motives precipitate fraud? Social and political survivals provide incentives, too, in the form of egocentric and ideological motives, especially in financial statement frauds. Sometimes people commit fraud to aggrandize their egos, put on airs, or assume false status. Sometimes they deceive to survive politically, or have a burning desire for power. They lie about their personal views or pretend to believe when they do not. Or they simply cheat or lie to their political opponents or intentionally misstate their opponents’ positions on issues. Motives to commit fraud in business usually are rationalized by the old saying that all is fair in love and war—and in business, which is amoral, anyway. There is one further category of motivation, however. It might be called psychotic, because it cannot be explained in terms of rational behavior. In this category are the pathological liar, the professional confidence man, and the kleptomaniac.

Fraud has been symbolizing in many forms which are as follows: **Fraud as a crime**: Fraud is a generic term, and embraces all the multifarious means that human ingenuity can devise, which are resorted to by one individual, to get an advantage by false means or
representations. No definite and invariable rule can be laid down as a general proposition in defining fraud, as it includes surprise, trick, cunning, and unfair ways by which another is cheated. The only boundaries defining it are those that limit human knavery.

**Corporate fraud:** Corporate fraud is any fraud perpetrated by, for, or against a business corporation.

**Management fraud:** Management fraud is the intentional misrepresentation of corporate or unit performance levels perpetrated by employees serving in management roles who seek to benefit from such frauds in terms of promotions, bonuses or other economic incentives, and status symbols.

**Layperson’s definition of fraud:** Fraud as it is commonly understood today means dishonesty in the form of an intentional deception or a willful misrepresentation of a material fact. Lying, the willful telling of an untruth, and cheating, the gaining of an unfair or unjust advantage over another, could be used to further define the word fraud because these two words denote intention or willingness to deceive.

**ACFE’s definition of fraud:** The Association of Certified Fraud Examiners (ACFE) defines ‘‘occupational fraud and abuse’’ (employee frauds) as: ‘‘the use of one’s occupation for personal gain through the deliberate misuse or theft of the employing organization’s resources or assets.’’ The ACFE defines financial statement fraud as: ‘‘the deliberate misrepresentation of the financial condition of an enterprise accomplished through the intentional misstatement or omission of amounts or
disclosures in the financial statements in order to deceive financial statement users.’’

2.2.4 Economic Valuation of Fraud

Nowadays in every business there is deceit and fraud. But some of these areas it is exposed as fraud.

Following chart is showing participation of various frauds in India. Chart is expressly showing that BPO sector is a major victim of frauds arises in India. This data show that BPO sector has poor auditing and accounting practices in India.

Mumbai was king of the financial frauds. All the big-ticket financial scandals such as Harshad Mehta, Ketan Parekh and Sanjay Seth were committed from the mumbai city. Since it is the financial capital of the country it was very obvious. But to the surprise of the nation hub of frauds have changed.

Over a period the technology changed and even the hub of the frauds. New hub of frauds is transformed from Mumbai to Pune. Though Bangalore leads the competition of becoming the silicon valley of India.
Pune has surpassed Bangalore, Mumbai and all other cities in the cybercrimes. Pune BPO, Webcam Kulkarni, Swimming Tank Webcam and thousands of credit card frauds are the few to mention. All these frauds won the medal for the Pune police for its efficiency.

In modern days With white-collar crime almost doubling from 2009, financial fraud by insiders remains the single greatest fear of Indian companies, according to the results of a survey by audit and consulting firm KPMG. Of the 1,000 companies covered in the survey, 87% said they had incurred losses of at least Rs10 lakh due to fraud in 2009. The previous survey, carried out in 2008, had only 47% complaining on this count. At least 75% of Indian firms said instances of fraud had increased over the past two years. Following table reveals the fact about the losses occurs due fraud and embezzlement in India up to the year 2013.

<table>
<thead>
<tr>
<th>Scams and Frauds</th>
<th>Year</th>
<th>Loss Suffered (Rs.)</th>
<th>Scams and Frauds</th>
<th>Year</th>
<th>Loss Suffered (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harshad Mehta Securities Market Scam</td>
<td>1991</td>
<td>5,000 Crore</td>
<td>Madhu Cora Scam</td>
<td>2009</td>
<td>4,000 Crore</td>
</tr>
<tr>
<td>Fodders Scam (Chara Ghotala)</td>
<td>1992</td>
<td>950 Crore</td>
<td>Commonwealth Games Scam</td>
<td>2010</td>
<td>2,342 Crore</td>
</tr>
<tr>
<td>C. R. Bhansali Scam</td>
<td>1995</td>
<td>1,200 Crore</td>
<td>Adarsh Housing Society Scam</td>
<td>2010</td>
<td>-</td>
</tr>
<tr>
<td>Ketan Parekh Securities Market Scam</td>
<td>2001</td>
<td>1,250 Crore</td>
<td>Sahara India Pariwar Investor Fraud Scam</td>
<td>2010</td>
<td>25,000 Crore</td>
</tr>
<tr>
<td>The UTI Scam</td>
<td>2001</td>
<td>4,800 Crore</td>
<td>Coal Block Allocation/ Coalgate Scam</td>
<td>2012</td>
<td>1.856 Billion</td>
</tr>
<tr>
<td>Uttar Pradesh Food Grains Scams</td>
<td>2003</td>
<td>35,000 Crore</td>
<td>Karnataka Wakf Board Land Scam</td>
<td>2012</td>
<td>20,000 Crore</td>
</tr>
</tbody>
</table>
A lack of objective and independent internal audits, inadequate overseeing of senior management’s activities by the audit committee, and weak regulatory environment were pinpointed as culprits for the spike in financial statement frauds. The 10th biennial India Fraud Survey Report 2010 reveals that 81% of the companies surveyed felt that financial statement fraud was the biggest threat in India, with at least 60% of them saying inadequate enforcement of regulations had increased such fraud. The findings of the report suggested that weak internal control systems, eroding ethical values and lack of legal action against fraudsters created an environment conducive to such crimes. The survey, conducted by KPMG’s forensic wing in India, covered leading Indian firms from the public and private sectors. The respondents included chairman and managing directors, chief operating officers, chief financial officers, internal auditors, heads of investigation divisions and other senior management officials. Indian companies, according to the study, remained highly vulnerable to fraud in the absence of “inadequate internal control framework” that can identify and deal with such crimes. The report suggested that 41% of Indian firms did not have fraud risk management systems. The KPMG report showed that 45% of the firms had experienced fraudulent activities in the past two years, with financial services and consumer markets showing the highest levels of risk. But more than the lack of monitoring systems, what was prevalent and disturbing was the reluctance of companies to report incidence of frauds.
According to the survey, only 35% of the companies initiated legal action against a perpetrator of fraud. A majority of the frauds had been investigated internally. Financial fraud is a situation in which the legal and ethical management of financial resources does not take place. In most countries around the world, this type of fraud occurs due to deliberate decisions and actions made by people who handle money and other assets on behalf of employers or clients. However, there are a few places around the world where the unintentional mishandling of funds was also classified as fraud and is subject to the same legal censure as any deliberate action.

India is increasingly becoming a Victim of Online Financial Fraud. Internationally known provider of computer security solutions Symantec Corporation said on October 10, 2007 that India was another country rapidly participating in financial fraud on the Internet and has was also becoming a victim of it. Such online financial fraud in India has increased by 81% during the last few months. According to the Internet Security Threat Report of the company that was published towards September end 2007. India occupies the 14\textsuperscript{th} position globally in hosting phishing sites. The city of Mumbai accounted for 30% of all phishing Websites in the country, Delhi for 29%, and Chennai and Bangalore hosted 12% each of all phishing Websites. In the online food chain fraud, India has a major involvement where 33 Websites have been turned into phishing sites. These sites leveraged attacks to allow identity theft in 2006, Vishal Dhupar, Managing Director of Symantec, India told reporters. The Economic Times published this in news on October 10, 2007. So far in 2007, there hasn't been any significant virus outbreak following hackers' shift to making fortunes than acquiring fame in the cyber world. And these attackers have been targeting more of home PCs. In 2006, about 86% of home PCs were under attack in the cities of Mumbai, Bangalore
and Delhi. With a rapid growth and speed of Internet bandwidth, nearly 59% of home PC users in India used technologies like network sharing, and online socializing and playing.

According to Symantec, cyber criminals are increasingly targeting victims by taking advantage of trusted environments. Symantec's study mentioned that India was sixth in the global ranking of countries for computers having multiple infections. Incidentally, the top most rank goes to USA. China also placed itself among the top countries with malicious activity, top countries suffering DoS (Denial of Service) outbreaks, countries with bot-infected PCs, countries as origin of attacks, and countries with multi-infectious computers. Cyber criminals who sell stolen data do so using underground servers. Such data include identification details like Social Security numbers, bankcards, credit cards, PINs, e-mail addresses and user accounts.

Security scams and financial scandals have lead to the manipulation of large amount of money, stock market and Sensex. Even the financial markets having regulatory authority and empowered legal sections have failed in providing good corporate governance to some extent. There are a number of Corporate Frauds are reported in recent years as well as past years. But out of which I have selected only one company for study as “Satyam Computers Limited”. Satyam scandal was one of the notorious case which also known as Indian Enron.

2.3 Forensic Accounting

2.3.1 Definition and Meaning of Forensic Accounting

Recently, forensic accounting (henceforth, FA) has come into limelit due to rapid increase in financial frauds and white-collar crimes. The integration of accounting, auditing and investigative skills creates the specialty, known as FA. In fact, FA is the ‘specialty’ practice area of
accounting that describes engagements, which result from actual or anticipated disputes or litigation. ‘Forensic’ means “suitable for use in a court of law,” and it is to that standard and potential outcome that forensic accountants generally have to work (D.L. Crumbley, L.E. Heitger, and G.S. Smith, 2007).

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. In effect, 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.

'Forensic' means 'suitable for use in a court of law' and it is to that standard and potential outcome that forensic accountants generally have to work (Crumbley et al., 2005). Forensic accounting (FA) is an umbrella term which consists of accounting, auditing and investigative skills. It is a type of accounting suitable for legal review and blended with services like providing the highest level of assurance gathered through legal documentation of latest scientific fashion, core knowledge of GAAPs, standards and codes etc.

According to Webster’s Dictionary, FA means, “Belonging to, used in or suitable to court, of judicature or to public discussions, debate and ultimately dispute resolutions, it is also defined as an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution.” Crumbley (2006) stated that forensic accounting is an accounting that is suitable for legal review offering the highest level of assurance and including the now generally
accepted connotation of having been arrived at in a scientific below fashion Figure 1.
Meaning of Forensic Accounting and Forensic Auditing

1. According to Webster’s dictionary

“Belonging to, used to, or suitable to court of judicature or to public debate”.

2. In Legal terminology

Forensic means used or applied in the investigation and establishment of facts or evidence in a court of law; "forensic photograph"; "forensic ballistics".

3. In science stream

The study of evidence discovered at a crime scene and used in a court of law.

Forensic Accounting is the investigation of an allegation whose evidence is expected to be presented in the judicial forum. Forensic Accounting is different from old debit or credit accounting. It provides a scientific accounting analysis which help in resolving the dispute that arises in the organization. A forensic accountant has a unique job because the responsibility involves the integration of accounting, auditing and investigation skills. Using all of these skills, in brief, forensic accountant is a true investigator.

Accounting means a process of recording, classification, summarizing, decision making and interpreting of transactions, which are in terms of money. A combined meaning of word “Forensic Accounting” in the accounting profession deals with the relation and application of financial facts to legal problems. Many of the peoples think that the word “Forensic Accounting & Forensic Audit” is the similar words, but there is
a huge difference between these words. The definition of forensic accounting is changing in response to the growing needs of corporations. Bologna and Lindquist had defined forensic accounting as “the application of financial skills, and an investigative mentality to unresolved issues, conducted within the context of rules of evidence. As an emerging discipline, it encompasses financial expertise, fraud knowledge, and a sound knowledge and understanding of business reality and the working of the legal system.” This implies that the forensic accountant should be skilled not only in financial accounting, but also in internal control systems, the law, other institutional requirements, investigative proficiency, and interpersonal skills. According to AICPA: “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.” Similarly, forensic accounting is defined by Horty as: “The science that deals with the relation and application of finance, accounting, tax and auditing knowledge to analyze, 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.” Simply stated, forensic accounting includes the use of accounting, auditing, and investigative skills to assist in legal matters. It consists of two major components: litigation services that recognize the role of an accountant as an expert consultant, and investigative services that use a forensic accountant’s skills and may require possible courtroom testimony. In legal matters, forensic accountants are often engaged to assist in investigations of theft and defalcation of corporate and individual assets using their education and experience to discuss the fact, patterns of the theft, or misappropriation. Forensic accountants are also called upon to review business accounting systems and, based on their experience, make
recommendations as to how the system of internal control and internal check can be improved to prevent theft and fraud. Because of their education, background and experience, forensic accountants add an additional dimension to their work. Forensic accountants do not win or lose cases but seek only the truth in conducting their evaluations, examinations and inquiries, merely reporting the “true” result of their findings in an “unbiased” and objective manner. To be effective as a forensic accountant, one needs legal training in addition to education and extensive experience in the fields of finance, accounting, taxes and auditing. Since the work of the forensic accountant will many times be used in a court of law, expertise in litigation support and testimony in courts of law are also prerequisites of the forensic accountant. The knowledge of business valuation theory is most helpful because many times a forensic accountant is called upon to determine the damages, which have resulted from the criminal or civil wrongdoing.

In simple words, a combination of accounting, auditing and investigation to conduct an examination into a company’s financial statements called forensic accounting. In other words forensic accounting means the use of accounting skills to investigate fraud or embezzlement and to analyses financial information for use in legal proceedings. The main target of forensic accounting is generation of evidence that is suitable for court or law.
Above picture shows that forensic accounting contains law, investigative auditing, criminology and accounting. Although, there has not much time been elapsed in search of forensic accounting but this definition may be known as contemporary definition of forensic accounting.

According to “The free Dictionary- by FARLEX” Forensic accounting, sometimes called investigative accounting, involves the application of accounting concepts and techniques to legal problems. Forensic accountants investigate and document financial Fraud and white-collar crimes such as Embezzlement. They also provide litigation support to attorneys and law enforcement agencies investigating financial wrongdoing.

This definition is showing that there are developing practices continued in the field of forensic accounting.
Another word is getting popularity nowadays that is “Financial Forensics”. Financial forensics is the application of financial principles and theories to facts or hypotheses at issue in a legal dispute and consists of two primary functions:

1. Litigation advisory services, which recognizes the role of the financial forensic professional as an expert or consultant

2. Investigative services, which makes use of the financial forensic professional’s skills and may or may not lead to courtroom testimony.

In the era of globalization and industrialization when developing entities are tend to be developed entities and increasing their size in respect of scope as well as investment grand need has been originated of forensic accounting investigation.

Forensic accounting investigation has become important to the larger business community and the public. They are relying on it to solve problems, deter new problems, and contribute to new, tougher standards of corporate behavior and reported information.

2.3.2 Difference between Forensic Accounting and Traditional Accounting

Forensic accounting has been recognised as having “identifiable attributes which include rationality, neutrality and independence” (Williams, 2002 cited in Huber, 2012, p. 258). Auditing which is a branch of traditional accounting has to do with checking the mathematical accuracy in the accounting department while forensic accounting looks behind these financial numbers to find out what’s not quite right. Traditional auditing is a process of auditing other peoples’ work to determine if they have
followed the documented official policies, procedures and practices of the company. Here, the auditor simply expresses his or her opinion on the financial statements of the organisation following laid down rules. But such opinions are not based on evidence. In contrast, the forensic accounting determination anchors on evidence and not merely that of opinion.

As we discussed earlier that forensic accounting is mix of financial accounting, auditing, criminology and financial investigation. Yet, there are significant differences exist between forensic accounting and auditing. Auditing is designed to provide an overall opinion on financial reporting in some form, but limited review for particular issues, particularly "negative" issues, and do not involve detailed specific analyses.

Forensic accounting is much more detailed and focused, particularly to fully understand a specific issue or family of issues, and often used in resolving disputes, including litigation support.

Auditing is specifically checking to see if the accounts and/or systems conform to a pre-defined set of specifications (GAAP in this example, but there are all sorts of audits).

Forensic accounting is investigative. Instead of seeking conformance, you are looking for outliers or specific patterns. Generally I've seen this in support of some sort of legal process. The outcome is less general (an audit report), and is generally useful as evidence in court with regard to certain occurrences. Some of the characteristics of forensic accounting distinguish it from traditional accounting system, which are as follows:
- The forensic accountant employs a much higher degree of professional skepticism when conducting his work. He is not apt to accept explanations and documents at face value.
- A forensic accountant burrow much deeper into the facts and issues than a tradition auditor.
- A forensic accountant is more familiar with how employees can abuse and misuse controls and processes and with the various types of fraud, schemes and methods used to circumvent internal controls.
- In gathering facts and evidence, a forensic accountant is more experienced in where to look, what types of evidence to look for, how to extract it and what constitutes relevant and valid support. For instance, in an auditor malpractice suit, a forensic accountant would be used to explain what audit procedures, or lack thereof, may have contributed to the company's misstatements.
- The forensic accountant is more adept at interviewing and eliciting information from company personnel, witnesses and subjects.
- A forensic accountant is more experienced at interpreting facts and evidence as well as presenting his/her findings in a manner that is meaningful and can be used to support the civil, criminal, administrative and political processes. In order to combat fraud, a company would bring in a forensic accountant, a professional with a combination of financial expertise and investigative prowess, to determine exactly what's going on.

2.3.3 Importance of Forensic Accounting

Forensic accounting provides accounting analysis that is suitable to the court, which will form the basis for discussion, debate and ultimately dispute resolution. In the context of legal dispute, the
knowledge, skills and experience of a good forensic accountant are extremely useful as a consultant to litigation counselor judges. Litigation often involves complex accounting, tax and financial matters requiring the specialized knowledge and expertise of highly trained accounting, finance and tax professionals.

Litigation support represents the Factual presentation of economic issues relating to existing or pending litigation. It provides assistance of an accounting nature in a matter involving existing or pending litigation. A typical litigation support assignment would be calculating the economic loss resulting from breach of contract. In this capacity, the forensic accounting professional quantifies damages sustained by parties involved in legal disputes and can assist in resolving dispute even before they reach the court room. Not every forensic accounting process ends up in the court of law. However, if a dispute reaches the court room, the forensic accountant may testify as an expert witness. Omoniyi (2004), stated that the function of an expert witness is to assist the court reach a conclusion on matters on which the court itself may not have the necessary knowledge to decide. What a forensic accountant can contribute to litigation will depend substantially on the circumstances and the nature of each case.

Litigation consultants are usually engaged in legal action where financial information requires critical analysis. It typically involves the forensic accountant being engaged by a lawyer to make an assessment of financial losses involved. Engagements relating to civil disputes may fall into several categories. At the time of Calculating and quantifying losses and economic damages, whether suffered through tort or breach of contract, disagreements relating to company
acquisitions perhaps earn outs or breach of warranties and business valuation.

2.4 Conclusion

This chapter introduced the concepts of fraud and forensic accounting. It has explored the concept of fraud through its definition, identified different types of fraud and classification based on different point of views. The causes of fraud were further explored using the popular fraud triangle as the framework. It also gave the background on forensic accounting, noting its importance and difference from other traditional branches of accounting.