CHAPTER 4

TECHNIQUES OF FORENSIC ACCOUNTING TO
CONTROL TECHNOLOGICAL &
OCCUPATIONAL FRAUDS IN INDUSTRIES
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CHAPTER 4

TECHNIQUES OF FORENSIC ACCOUNTING TO CONTROL
TECHNOLOGICAL & OCCUPATIONAL FRAUDS IN INDUSTRIES

4.1 INSIGHT ON FRAUDS:

Fraud has been defined in new Companies Act, 2013 under section 477. It is a very wide definition covering all kind of action, oversight, camouflage of any detail or misuse of situation, done by any individual with the intention to cause damage and to gain benefit to deceive to gain from these situation, it covers individual example shareholders, third party in the form of creditors or even a person who indirectly gains benefit or create damages. However we understand it as dishonesty in the form of an deliberate fraud or a falsification and this is done to cause financial injury to in innocent party. Frauds cause damages not only the business or industries; it causes a great loss of revenue to the economy. Forensic accountant not only determine the fraud has occurred but also they quantify the amount of fraud that has been incurred. Generally companies do not share their internal issues or problems related to frauds as it effects their reputation in the market as well as they think that the competitors may take advantage of the situation. Frauds are generally classified on the basis of their nature; some frauds are done for the benefit of the company while other kind of frauds is done against the company. In latter the individual derives personal benefit while in former the organization gets benefited from the fraud done by the employee. Fraud occurred in famous organization Toshiba where the employee postponed the losses and shown the over rated sales in order to meet their unrealistic target.

Intense competition in all industries and ‘unrealistic’ targets given to employees of the companies creates a pressure on them to deliver best than others. Manipulations take place in order to secure jobs and better life style. Frauds are taking place in industries all over from top to bottom management to fulfill their personal as well as organizational goal. Globalization may be upright for the development of any country however at the same time frauds are done with new methods adopted globally. Nowadays technology plays an important role in communication and
information, and these communication and information generated are misused. Most of the fraud though are done with the technology, employee of the company due to pressure to prove best indulge themselves either in Frauds. Therefore more dependency on technology without understanding them leads to a great financial damage to the users. Frauds are more difficult to prove as compare to error, as the person committing fraud hide the details. Forensic accountant with his skills, professionalism, and training can expertise in the field of accounting, legal or technical can identify and prevent any kind of fraud. Currently no industries whether manufacture or service has impact of fraud, for example Increasing NPA in Banking Industries.

The tools used by an expert will help in prevention of fraud. This tools and techniques used by the top management who are representing themselves in the audit committee can be great help as they can effectively monitor the situation. A proper training is required so that the justice could be done on this position. Audit committee has to play an important role in corporate governance of the company and hence it becomes necessary for them to be trained enough to fight against these fraud. Technology is advance in such a level that it is difficult to find the happening of the fraud and also it is not possible to control fraud due to its limited control. For example now frauds can be done from outside company the hacker can access the details and information of the company without entering in the company. All relevant data such as bank information, pay roll, and communication happening between the employees can be monitored easily. Financial institution especially Banks are at great risk their various services like credit card, debit card, internet banking are always at a greater risk and therefore there is a need of constant review, updating in the software. Employee needs to be given training on the techniques and tools so as to safeguards their files, information securely. More experts should be appointed so that these frauds are prevented before it takes place. Internet has become an easy target to conduct frauds. People do online payment, emails, and most of their transaction through internet. Even android phone and smart phone has brought a revolution in the technology. However this dynamic change has the disadvantages that people without understanding the secured path and procedure start doing transaction which one day becomes a part of cybercrime. Therefore even as an individual we are not safe than therefore as an organization it is important to safe guars the interest of the stake holders which can only be done by using precautionary measures like use the tools and techniques discussed in the below chapter.
4.2 CLASSIFICATION OF FRAUDS:

Frauds can be classified on the following basis:

i. **Benefits & Loss to the Company:**
   a. Frauds which is done for the benefit of the company.
   b. Frauds which take place for the benefit of the individual at the loss to the company.

ii. **Methods of doing frauds:**
   a. Frauds done with the help of technology and software programs are covered under technological frauds.
   b. Frauds done by an individual in the capacity of his employment are covered under occupational frauds. No third party persons are involved in this fraud.

4.3 FRAUDS IN DIGITAL ENVIRONMENT:

Information and Computer Technology is integral part of our life. We are dependent upon the technology for all kinds of our daily work whether personal or professional. We live in a digital environment, all our transaction happening are linked in some or other ways in technology. Banking, Insurance or Finance company uses technology for their business transaction. Misuse of data is the biggest threat in this digital world.

Frauds in the digital environment can be further classified as:

i. **Abuse of hardware:**
   Misappropriations of computer hardware example theft or damage done to Laptop, desktop, sever, or mouse keyboards or pen drive, hard disk and so on.

ii. **Abuse through the software and misuse of internet:**
   Unauthorized user access to the software of any organization with the intention to benefit or to create financial damage. Misuse of internet for cybercrime is the biggest concern.
Precautions to be taken against the frauds:

Frauds done to damage hardware of the computers can be prevented through physical security of hardware, placing of CCTV camera where the computers are installed. Restricted access where server of the company is placed. Daily backup of the organization data should be taken to prevent data loss.

Frauds done through software can be controlled by changing passwords regularly, updating antivirus software, using original software, using active data add, Chip technology, encryption of data, tokenization, hot pepper technology, use of Belka soft and password soft, Dynamic Inter connection software and Forensic write blocker will help in reducing such technology fraud.

Hence computer forensic is useful to protect the digital environment of the organization and it benefit to its end-user.

In case of occupational fraud, proper background check, rotational jobs, strict internal control, sending employee on vacation and paying tips to the employee for disclosing frauds are some of the measures with which occupational frauds can be reduced.

4.4 TECHNIQUES & TOOLS USED BY FORENSIC ACCOUNTANT TO DETECT FRAUDS

Technology is too complex to understand and if there is an element of fraud it becomes more complex. Misuse of data and losing the data is the biggest concern. There is no physical intervention can be identified whereas manipulation is concern hence forensic accountant techniques are utilized to detect and prevent frauds in the organization. The top management executives should be trained on these tools so that they can identify the frauds timely. Nowadays different software is available which generate various reports on the basis of techniques and tools inbuilt in them. They generate exceptional report which is very useful for them to cover both occupational as well as technological fraud. Banking, Insurance and other financial institution are at greater risk especially dealing with so many customer located outside the office connected through internet. Hence therefore to build confidence in them
and to safeguards the resources it is highly important that expert assistance to be taken who are well trained in the tools and techniques of forensic accounting.

**The following techniques are effective in detecting fraud:**

i. **Benford’s Law**

This theory was discovered by Frank Benford he was an engineer by profession. This theory came in to place in the year 1920. He practices this law on various observations whether stock market, density of population. He used a formula based on the probability \( P(n) = \log(1 + \frac{1}{n}) \). From so many years this theory is used for selecting the transaction for the scrutiny. Audit has the limitation and hence there is always a sampling risk associated with it. Auditor has limited time to verify the same. He takes the sample on the basis of that he draws his opinion and report. Such pattern of selection do not have assurance to identify fraud transaction taking place in the accounting environement. Though documents are available they can be easily manipulated for example adding fake sales bills, or purchases. They only identify the documentary evidence for accounting entry. This drawback of pattern is take care by these Law. These Law were used in olden days to identify fraud when there were no computer and it was successfully been implemented and helpful for the organization. This law provides guidance to auditor, or investigator to look into details of data pattern. From this pattern of data it highlights the transaction which can be fraudulent. However these laws are not applicable to personal information of customer, debtors or client. Even customer’s mobile number or pin codes are excluded from it. There are variety of software which helps in performing this law. The law defines the range of the number and if that number is beyond the range given in these law than there may be a chance of fraud. However other expectation is attached to this law. Before drawing any conclusion it is advisable to look into the development part of the organization due to which it may have increased. According to this theory lower number are used as compare to higher number and hence range has been decided using log table. According to the theory the sample rate is compared with the Benford rate for example if sample rate of 1 count is say 23% and the law suggest that it should be 30% of the grand count than such kind of transaction is safe as this is under the parameters of the law. If the count of 2 is say 19% and the law suggests that on the basis of grand count it should be 17% than in such case there is a chance of fraud.
This theory functions on the probability of number (1 to 9) occurring, therefore any transaction starting with the lower number should not exceed a certain percentage of the total count. Another example will help us to understand this law better. If suppose printing and stationery voucher we take for analysis than in that expenses starting with number ‘5’ is actually forming say 25% of the grand count as compare to Benford rate of say 20% than the auditor should pick up all transaction starting with 5 digit. However this does not mean that there is a fraud happening, there can be various reasons of increase in this number, but it becomes matter of selection criteria for the audit. The sample drawn from the transaction increases the law rate than it becomes matter of investigation and hence first this transaction should be picked up for the investigation purpose. Today there are so many tailored made software and available in the market using this law which can be useful to detect fraud. Indeed this law has provided guidance to select the transaction. Such selection becomes the benchmark for the selection criteria. Hence using this law auditor can derived his judgment and can reduce his sampling risk. However this law cannot be applied on the personal information like flat number, address, zip code. This technique though old is still applicable in today’s world. This is a method of finding an infrequent transaction from the data. It is generally used with the help of software. With the help of excel it becomes easy to identify the uncommon numbers in the group. If the range of the number exceeds the probability of the Benford predetermined number than this is considered that something is wrong with the information provided.

ii. Theory of relative size factor (RSF):

One of the specialized techniques helps the examiner to identify uncommon transaction from the system. This can be done by comparing various other transactions over the period. For example if the travelling expenses shown say Rs 45000 for financial year 2016-17, Rs 15000 for the financial year 2015-16 and for the year 2014-2015 it showed Rs 18,000 than in such case travelling expenses are increased by three times. This information becomes useful for the examiner to go and drill down it further. The only expectation may be that due to expansion or increase in number of employee the expenses have gone up. Therefore just because the numbers are high compare to last few years does not make it fraud but it creates
an opportunity to look the details in depth. It becomes easy for the examiner to select the items from the list.

iii. Genogram & Timelines Analysis:

The theory of was developed by Monica MC Goldricks and Randy Gerson. Study helps to understand the family history of the person. It is advance level of family trees. In family trees only name of the family members are shown and are one of the drawback. However in this theory it creates an image in the form of pictures which can show the family relationship, organization structure and financial information connected to them. This is a great help in the martial dispute or family disputes pertaining to property rights. There are various software such as genopro genome analytics and I-Genogram for the Ipad are available in the market which can creates this kind of charts in different color and codes. These software helps the users to feed their details in it and then the individual can see flow of financial transaction in the family history. This software are used generally by the medical practitioner to understand the genetic related disease. On the other hand sociologist uses information to understand the pattern and behavior in the family. The investigator can use the theory to identify the origin of transaction by building a family tree or the organization trees so that flow of information could be analysis. This image is created either by interviewing method or documentary evidence. It creates a pattern of behavior so that uncovered companies can also be linked with the family. Different models are created through which the investigator identified the unearth information. Thus as the image is created and with the help of flowcharts the jobs of investigator becomes pretty ease to understand the case.

Timeline is the graphical representation of image on the basis of logical structure. These graphical images are created with the assistance of software tools. It links the image and event together to create the flow of information. These can be useful in the case of administrative proceeding as it sets logical information and hence decision making becomes quite easy. The events which are financial as well as non-financial are linked together so that a similarity can be made. Further it helps in understanding the procedure part of act. Any
issues which are pending can be solved with the help of logical sequence. This becomes the first steps in the investigation of any case. Unless these images are created the expert should avoid starting the case. This is a very simple and straight forward method of dealing any case. This theory is also used in research activities to solve different cases. Hence when all case details available in front of the examiner put together helps him to drill down to find out the reason and person reason responsible for these frauds. From the observation it could also be considered that what procedure should be carried out so that such event does not repeat.

iv. Ratio Analysis:

Ratio analysis can be tools to identify fraud as compare to other tools. Benford Law and Ratio analysis examine the patterns of the data to highlight possible deceitful transactions; ratio analysis not only highlights irregularities in large groups of records, but also identifies the specific transactions that are unfamiliar.

Ratio Analysis is the use of our accounting information so as to help us to become aware of prospective problems and also to compare to other industry ratios. In this economy, effective companies are the ones who can use this ratio to design their credit policy and most profitable product mix and even it helps to keep eye on working capital of the company.

The ratios are grouped into categories like, Profitability, Activity, Leverage and Liquidity. Profitability ratio helps to analysis efficiency. As with all other Ratio Analysis, helps the organization to compare their ratio with the other similar industry. Activity Ratios helps in analyzing the credit policy of debtors and creditor. Leverage Ratios analyses managing debt and Liquidity Ratios analyses short term capability of the firm to pay their debts. Manipulation can be done in the financial statement and hence difficult to trace from large organization. Depth analysis can help to discover this manipulation. There are various ratios available to analyses. Some of the example of the ratio is current ratio, liquidity ratio, debt equity ratio, inventory turnover ratio, debtors and creditor turnover ratio and many other ratios as required by the management. These ratios have one of the benefits that they cover entire financial statement. They can compare between profit and loss account and balance.
sheet items. They can further be compared between the same kinds of companies within the industries. This will help them to assess their current position in the market. Even this analysis helps them to compare more than one year of transaction and hence can be helpful to understand and analysis the growth path as well as the uncommon increase or decrease in the data.

v. Trending:

Trending is one of the important techniques to identify frauds. The examiner has lot of data on that even he may have documentary evidence to check on this data. He has to really focus on the transaction which is exceptional in nature. It is difficult for him to identify this transaction from the current date. If he compares the current data with the previous year data he can easily identify the fraud. For example if we compare the sales data over the year and also the same with the Bad debts taking place in the organization than it becomes easy to understand that if sales are increasing and bad debts are also increasing at the same level than this could be concluded that such bad debts are nothing but the fake sales bill entered in the system. Such fraud could not be identified unless this are compared over the period. It may sound correct for that financial year but may not be the same case for the over the period years. This technique is useful even to see the movement of inventories. This also helps top management in decision making.

vi. Data mining:

In an organization data is of prime important. Data can be understood as meaningful information. The data for the organization can be on customer related, vendor list, bank details, survey reports and even financial transactions. Banking industries data are available on the public domain which again is at great risk to them. Hence data mining concept is important to understand that how a company should handle their data, retrieve their data and also how to understand and creates the pattern of the data. There are basically four steps in mining the data they are i) Classification, ii) Clustering,
iii) Regression and iv) Association rule learning. The experts use this data for his investigation purpose by breaking complex variables into simple variables. The expert first defines the pattern of data manually than records in the software tools. There are number of software available in the market some of them are computer aided audit tool like spreadsheet, database management system, word processor. Even there are software which assists in audit they are IDEA, SOFT CAAT and many other. The purpose of this software is to create pattern from the database automatically. This software are predetermined and created for data mining techniques. MS office -Excel can be useful for this analysis of pattern. It is important to understand the pattern and behavior of data because in case of card swipe one can identify any unauthorized entry in the company. This analysis only can be done once the data are defined properly in the system. This learning of pattern is very important in stock exchange, educational institution, university, service sector as well as manufacturing industries. These predetermine data should be in logical forms so that a relationship can be created between two variables. From this data retrieve from the tools the expert try to identify the uncommon entry from the system. Hence the data are filter for them to analyses the uncommon data. It therefore save times of them and can concentrate on the odd data which are not expected in the system. The expert hunts for information which behave uncommonly when combined with the data for example in swipe card name of the employee are updated. Incase if somebody whose name are not trigger in the access door data then it give signal of unauthorized access. They use general purpose and sequencing techniques to segregate data. Sometimes some transaction is not common when compared with past data. In this case combination of other techniques is involved such as relative size factor where the data which has been filter as expectation can be analysis. Hence data mining narrow down the auditor work in to specific work. There may be chances that the data which is entered may not be correct due to limitation such as manual entry done by data operating operator enter wrong data, thus resulting in to an expectation report.

For example Rs 90 is entered as Rs 900. This will surely get highlighted in the report to check that this amount is actually entered with an intention of fraud or it’s a manual error. Techniques such as standard deviation can be applied to trace wrong data in the system. Sometime the data are not related in the system but it shows a path or direction of indirect link with other data. Hence the expert has to use link technique to drill down the data.
Sometimes predictive modeling is also used to crack the data pattern. Data pattern can also be understood with the help of decision trees where all data are plotted and graphical representation is created on it and on that basis patterned is discovered to understand the flow of information and also the procedure carried out. New accounting system like entrepreneur resource planning is focusing on the data handling techniques. They are providing with various exceptional report from the system. Top management can get all data within one click of information. The rules are defined in the system and various modules like accounts payable module, accounts receivable module, fixed assets module and general ledger module are linked together. Top management can generate hundreds of report and also any data which are not as per the rule defined are generated in the form of exceptional report. There is a strong internal control. Data entered into the system require setting the rules and logically follow should be maintained so that link between the variables can be maintained. Cluster analysis is important in these techniques where the data are segregated on the basis of the common features for example attendance record can be clubbed together and the pay roll department can be linked this separate cluster record to compare the payment made to the employee and also here leave balance in the system generated is corrected or manipulated. These techniques though automated and give exceptional report it does not assurance that the fraud has taken place. Though these techniques sound goods but it depends upon the individual human being how they define rules in the system.

vii. **Same, Same, Different**

In this kind of techniques to be followed, the examiner should understand the common and uncommon relationship. For example there was a refund to be pay to the customer on account of defective goods. There may be chance that the customer name and number can be same but the bank account details can be different. Hence every time the payments are made goes to same customer but in different accounts. So this kind of items is also need to be check when there are more returns of goods in the same accounts.
viii. Outlier Detection

This is the technique which is used by the examiner to differentiate between the normal and abnormal transaction. Therefore a pattern is created on the basis of the information generated. This pattern is observed so that a normal behavior and abnormal behavior could be generated in the system. Than on the basis of data available the investigator can draw his attention towards the transaction. This pattern is mostly used by banks to identify money laundering transaction. For example a customer who is a salary employee gets his salary on 1st of every month and suddenly is bank accounts are hit by a huge amount than in such case it becomes a question of scrutiny. This kind of analysis is even used to track black money and even terrorist funding. Therefore any abnormality in the transaction or change in behavior or pattern leads to draw attention for the examiner. Using this technique it becomes easy for the investigator to look into important data rather wasting time in other normal transaction. The best part of this technique is that this can be used even by the organization to study the behavior of an employee. If an employee whose salary is not high but his standard of living is high in that case that becomes a matter of suspicion. They can start focusing on his activity on that bases to identify that if any fraud has been incurred by him.

ix. Computer Forensic Tools:

This is an extension version of the analysis to understand the process as well as the storage of the data. Auditors are only concern with the financial transaction on the other hand expert not only analysis the transaction but also are involved in to understand the blueprint of the software and hardware part of the concern. They want to understand the inner system of the computer hardware so that they can be sure that the system is fool proof from any fraud and damage. Therefore they are interested to know the cache memory, disabled of floppy disk and pen drive. Policies regarding the backup plan of the organization, antivirus to protect the software and they assess more toward protection of the data of the organization. Their role is very important especially in industries like banking where almost all transaction is done at public server. They are accessible through internet and therefore at higher risk.
x. **Computer Assisted Auditing Tools**: helps auditor to perform various function like testing transactional data, inconsistence of the data, sampling data techniques redoing calculation helps to identify frauds in the organization. *(Agarwala, 2014).*

xi. **Advanced Statistical Techniques**:

As the fraud has been increased in the organization, simple techniques could not be helpful to identify such fraud and hence statistical tools should be used to analysis such data. Nowadays data are large in number and cannot be controlled for example in the bigger organization there may be large number of employee and hence their payroll data and other relevant data to analyses becomes difficult therefore with the help of computers this statistical tools becomes easy to analyses.

xii. **Other techniques for detection of Bank frauds**: Banks especially requires lot of efforts to identify the frauds and require various other techniques to identify frauds. Payments are involved and volume is too large it becomes difficult to control. Unless for them to identify frauds. Various frauds detection related to bank are discussed below *(Nejad, 2015).*

a. **Expert system**: Use of expert system helps to identify the unsolved problems. It has predetermined knowledge of all fields including law. It suggests all kind of problems and work as an intelligent artificial expert.

b. **Boron Hashtee**: It deals with the monitoring and supervised process, by observing data which are different from other regular observation.

c. **Model based reasoning**: is similar to antivirus software which is realized the virus from the signature of any virus on the files, this techniques helps to collect information which banks holds and identifies the virus signature attack.
d. **Rules based approach:** This method is based on programming it has its own rule and regulation. The managing of this method is very difficult to work as it require entire programming to run for the best solution in the process of identifying the fraud.

The above are the above recent tools and techniques used by the expert accountant to identify frauds (ANNEXURE V).

### 4.5 REPORTS AND SURVEY ON FRAUDS RELATED TO INDIA

Following reports helps us to understand that the upward trend in increase in frauds in India. Government has appointed Serious Fraud Investigation Office to identify fraud. Some of the important reports published on Fraud in India are as follows:

i. **53rd Reports issued by the ministry of Corporate Affairs (March 31, 2009)** The report issued by (page 40-52) by Ministry of Corporate Affairs Government Of India there were So far, 68 cases including Satyam Computer Services Ltd, have been referred to investigation officer. Investigation officer has submitted reports on 37 cases till 31st March 2009 and 756 incident of prosecution has been submitted against the person found guilty. Such incident are filed and reported against the defaulting parties. 7 cases were filed for Penalty of fraudulently inducing persons to invest money in 2008-2009.

ii. **54th Annual Report issued by the Ministry of Corporate Affairs (March 31, 2010)** the highlights of the reports were (page 12) appointments of Investigative officer Serious Fraud Investigation Office (SFIO) as the fraud in the Indian companies were increasing. Certain bench mark were fixed to control: (i) If the value of frauds increased by the Rs 50 crores or more, or; (ii) Share paid-up capital were the other criteria fixed mark i.e. Rs.5 Crores, and one fifth or more capital is contributed by the invitation to public; or (iii) Where the masses of the country were affected here also limit was setup by at least more than 5000 persons; or (iv) If the investigation requires certain expert skills and other field related study method like technology or law or in the field of accounting. The reason of such appointment was to locate and identify company frauds which are of grave
and difficult to trace. The investigating officer are blend of various field of study and are from various industrial sector like Insurance, banking, capital market, professional practicing in the field of taxation, law, technology, software and other relevant field. They work as a team and try to figure out the fraud which has not been discovered in the company. They are governed and their right and duties are mentioned in the companies act. However government is serious for the frauds happening in the company as they affect the economy badly and hence they have decided to make a spate legal frame work in the second phase. Investigating officer has started functioning and they have started registering the case and started submitting reports almost 55% of the cases have been submitted and few cases are under investigation. Slowly the situation is getting under control but it will take some more time for these agencies to come in shape and start functioning in effective manner. Regular training and assistant are required for better functioning. Biggest challenge is that they have to advance themselves with an increase in advance level of fraud. These shows that Government is taking serious and necessary steps to make sure the fraud should be identified and the person guilty in such activity are punishing. However the report does not focus on how to prevent fraud and how the forensic tools should be used to prevent such fraud. We should appreciate the step taken by the government to control the top management of the company.

xvii. **KPMG Survey (2011)**, Survey was conducted on the bribery and corruption in India. There has been an increase in the cases of bribery and corruption because of unequal growth in the development of the country. Further there is no equal increase in the income of an individual. Keen competition among the competitor of the goods and services has been also a strong reason of the increase. Nearly 50% of the survey agreed that there would not be any change in the corruption in this country. Survey identified that weak internal control and the unrealistic target to be achieved were some of the main reason. The study concludes that unless concrete steps are taken in the enforcement of existing provisions under law to prevent bribery and corruption it difficult to control.

iii. As per **Deloitte India Fraud Survey Edition I (December 2014)** the purpose of the frauds survey was to make organization aware of fraud risk. The focus of the report was to detect, prevent the fraud. The report covers all area of frauds such as ecommerce, cloud
computing, social media, technology fraud and occupational fraud. The highlights of findings of the survey were that 56% of the responded believed that incidents of fraud will rise in the next two years. Financial Services, Real Estate, Infrastructure including Social Government Sector were most susceptible to fraud. Fraud such as misappropriation of goods or cash, offering illegal method to achieve the target and not following the laws and regulation occurred and experience by the organization. Survey respond felt that senior management was more susceptible to commit frauds as compare to other employees and third party. 50% of the respondent felt that Chief Security officer should be responsible for fraud investigation and 75% felt that auditor should be held responsible for fraud detection. Respondent agreed regarding fraud risk management frame work such as 59% Risk management to monitor the fraud and related risk, 56% conducting internal check and 50% the use of active forensic data analytics. Hence it is clear that with increase in technology and pressure on employee the frauds also take place and it shows an increasing trend.

iv. As per Deloitte India Banking Fraud Survey Edition II (April 2015) helps to understand how banks functions in today’s challenging world with a high risk of technological fraud. 93% of respondents agreed that increases in fraud incidents in the banking industries in last two years. 70% of the respondent agreed that it took average time of less than 6 months to uncover a fraud incident. Most of respondents said they were able to recover less than 25% of the reported fraud loss value. 83% of the respondents foresee an increase in their investments in adopting anti-fraud measures. Top three fraud identified by the survey was Internet Banking, ATM Fraud, E – banking and Identity fraud. Further it was observed that most of the frauds were identified by the customer complaints rather than by internal control system.

v. PWC’s Global Economic Crime Survey 2016 An India perspectives. Survey respondents were from various industries and sectors. 31% of the respondents in India have experienced financial crime in last two years. 56% of the respondent perceived an increase of cybercrime in last two years. Out of these crimes 61% are committed by occupational fraud. 44% of the respondents didn’t find that the local law was sufficient to control fraud and also enforcement agencies should have required skills to investigate.
technological frauds. The survey found that fraud occurred frequently more in India as compared to global.

4.6 RECENT STEPS TAKEN BY GOVERNMENT TO PREVENT AND CONTROL FRAUD:

The Government’s role is very important in the global environment which is why the Government has made amendments on cyber-crime time to time so as to increase the scope of frauds in ecommerce activity. The Information Technology 2000 and the I.T. Amendment Act 2008 have dealt with the cases on Cyber-crime and had really played a pivotal role in dealing with internet related frauds.

i. **Reserve Bank of India:** As per the letter dated 21st January 2016 issued to all commercial bank, Local Area Banks and select Financial Institutions were made aware regarding Fraud Reporting and Monitoring Policy. A Central Fraud Registry has been created with effect from January 20th 2016. The purpose of this registry to be a searchable centralized database for use by banks. The Reserve Bank has made some changes regarding the revision of limits such as:

   a. Frauds of Rs 0.1 million and above but below Rs 50 million will be monitored by the respective Regional Office of RBI under whose jurisdiction the Head Office of the bank falls / Senior Supervisory Manager (SSM). Frauds of Rs 50 million and above will be monitored by CFMC, Bengaluru.

   b. Flash reports are to be sent in fraud cases of Rs 50 million and above to the CGMI-C, CO with a copy to CFMC at Bengaluru as against the present limit of Rs 10 million and above.

   c. It was decided that bank need not send the hard copies of the FMR-1 returns. Instead a monthly certificate should be submitted to the effect that soft copy of all frauds of Rs 0.1 million and above, to be reported to the RBI in a month.

   d. Certificate should contain serially the fraud number, name of the party, amount involved and the date of sending the soft copy to RBI (ANNEXURE VI).
ii. **Companies Act, 2013 Fraud & Compliance**:  

Companies Act, 1956 provides punishment for fraud in various sections, however there was need to make changes due to increase in fraud and to regulate them. Some of the provisions are as follows of Companies Act 2013:

a. Introduction of new section 447 provides: “fraud” provide (inclusive definition) any act, omission, concealment of any fact or abuse of positions with an intent to deceive, to gain undue advantage from, or to injure the interests of the company or its shareholders or its creditors or any other person, whether or not there is any “wrongful gain” or “wrongful loss.”

b. Strict Penalty provision which includes imprisonment (from 6 months to 10 years) and three times the amount in certain cases. Even some of the penalty is so severe that the person will not get the bail.

c. Auditor u/s 140(5) will also be liable under section 447.

d. Strict provision on independent director u/s 149(12) where even they resigned they will be liable for any frauds occurred in their periods.

e. Actions in pursuance of inspector’s report on disgorgement of assets, properties or cash generated as a result of fraudulent activity.

f. Prohibition and penalty for insider trading u/s 195. Imprisonment up to five years or a fine up to INR 250 million or three times the profits made, whichever is higher.

g. More power to the investigator Serious Fraud Investigation Office (SFIO) such as it can arrest the individual, no other investigated agency to probe cases being investigated by the SFIO.

h. SFIO to have the right to share any information or document with an investigating agency, income tax authority etc. Investigation report filed by the SFIO to be deemed a report submitted by a police officer, there by conferring the rights of a civil court.
iii. Recent Circular Issued By Securities And Exchange Boards Of India On :

a. SEBI /HO/MIRSD/MIRD4/CIR/P/2016/119 dated November 1, 2016: on Enhanced Standards for Credit Rating Agencies:

SEBI constituted a committee on “Strengthening the Guidelines and Raising Industry Standards for Credit Rating Agencies (CRAs)”, which included representatives from all the CRAs. The reason of the Committee was to cautious upon measures and rules to bring about greater transparency in the policies of the CRAs, improve the ethics followed by the industry and, thereby, help ease of understanding of the ratings by the investors.

b. CIR/CFD/CMD/4/2015 September 09, 2015 :

In order to protect investors interest SEBI has directed the company to inform their investment decision on regular basis and some information they require on real time basis. However they should report on the common format and they should take this steps as a positive one. (ANNEXURE VII).

4.7 CONCLUSION:

As world is changing due to information and communication technology, the pattern of frauds have also changed. There has been increased in the technological frauds and such frauds are mostly done through employee of the company i.e. occupational frauds. As per the various surveys done by the various agencies and reports shows that frauds are affecting our economy. Role of forensic accountant is very important in such digital environment. Techniques discussed above can be useful to identify and avoid fraud and hence internal auditor; lawyers should use such techniques to identify frauds. Even government is taking necessary steps to safeguards the economy from frauds. Linking Aadhar card with the bank account is one of the prime steps to prevent corruption and bribery. Further government has taken demonetarization steps scrapping old currency of Rs 500, and Rs 1000 were also one of the steps to fight against frauds. Regulators’ body of Banks, Insurance and stock markets issues new regulation and circular to prevent this different fraud. Government has made amendments in the Companies Act in order to have
effective corporate governance to safeguards the interest of the owners of the country. Government is using the skills and professionalism of the expert in order to overcome the flaws in the law and making policy to safeguards the interest of the people. The above techniques discussed are some of the methods and tools applied by investigative accountant to prevent frauds. Occupational frauds can be prevented by effective Corporate Governance as most of the frauds are done with the help of senior management. Proper background check before recruiting, encouraging employee to go on vacation, paying rewards to the employee who gives the fraud tips occurring in the organization are some measured to prevent frauds. As frauds has change it face, similarly frauds detection and prevention can be done with the help of forensic accountant who not only possess skill in accounting but also has vast skills in the field of legal and technology. These techniques can be more effective when they are backed by the government policy to eradicate frauds.
REFERENCES:


