CHAPTER 1

INTRODUCTION, CONCEPTUAL FRAMEWORK
OF THE STUDY

&

RESEARCH DESIGN


CHAPTER 1

INTRODUCTION, CONCEPTUAL FRAMEWORK OF THE STUDY & RESEARCH DESIGN

<table>
<thead>
<tr>
<th>SR. NO.</th>
<th>TITLE</th>
<th>PAGE NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.1</td>
<td>INTRODUCTION</td>
<td>3</td>
</tr>
<tr>
<td>1.1.2</td>
<td>CONCEPTUAL FRAMEWORK</td>
<td>6</td>
</tr>
<tr>
<td>1.1.3</td>
<td>SOME OF THE FAMOUS FRAUDS OF INDIA</td>
<td>7</td>
</tr>
<tr>
<td>1.2</td>
<td>STATEMENT OF THE PROBLEMS</td>
<td>8</td>
</tr>
<tr>
<td>1.3</td>
<td>OBJECTIVES OF THE STUDY</td>
<td>8</td>
</tr>
<tr>
<td>1.4</td>
<td>HYPOTHESES OF THE STUDY</td>
<td>8</td>
</tr>
<tr>
<td>1.5</td>
<td>SCOPE OF STUDY</td>
<td>10</td>
</tr>
<tr>
<td>1.6</td>
<td>RESEARCH METHODOLOGY OF THE STUDY</td>
<td>10</td>
</tr>
<tr>
<td>1.6.1</td>
<td>REASON FOR SELECTING FORENSIC ACCOUNTING AND ITS APPLICATION IN INDUSTRIES</td>
<td>10</td>
</tr>
<tr>
<td>1.6.2</td>
<td>AREA SELECTED FOR THE STUDY</td>
<td>10</td>
</tr>
<tr>
<td>1.6.3</td>
<td>SOURCE OF DATA COLLECTION</td>
<td>11</td>
</tr>
<tr>
<td>1.6.4</td>
<td>SAMPLE DESIGN</td>
<td>12</td>
</tr>
<tr>
<td>1.6.5</td>
<td>DATA ANALYSIS AND INTERPRETATION</td>
<td>13</td>
</tr>
<tr>
<td>1.7</td>
<td>SIGNIFICANCE OF THE STUDY</td>
<td>13</td>
</tr>
<tr>
<td>1.8</td>
<td>LIMITATION OF STUDY</td>
<td>14</td>
</tr>
<tr>
<td>1.9</td>
<td>CHAPTER SCHEME</td>
<td>14</td>
</tr>
</tbody>
</table>
CHAPTER 1
INTRODUCTION, CONCEPTUAL FRAMEWORK OF THE STUDY
& RESEARCH DESIGN

1.1.1. INTRODUCTION
With the current trends in the business world primarily making a high dynamic and volatile market place, frauds are also increasing day by day which has led to need of a forensic accountant in the industries. They are also known as inspective accounting. It’s a fusion of scientific science and bookkeeping. It is an amalgamation of Bookkeeping, Inspection and Examination. They have quality of practicality, uncertainty in approach in handling the accounts. They have different approach as per compare to auditing. They don’t rely on management representation, even display a smaller amount concerns for the mathematical correctness and even they don’t follow the standard relating to the auditing as their main focus is to investigate fraud. They have main focus to establish the quantum of fraud and also to prove them in the court. Their calculation, working notes are great in help for deciding the proceedings in the court. A part from these they need to be more focus, calm apart from the required and professional skills and quality (Luhar & Sharma, 2012).

Areas of profession services handle by Forensic accountant:

1. Administrative proceeding support in court of law
2. Inspective abilities to identify frauds.

Administrative proceeding requires a professional and hence they can be a great help in providing such services to gather and to present the evidence in front of court. These proceeding include supporting delayed cases, or probable legal or governing proceedings before the court and to resolve the pending cases between disputed parties. Therefore it can be summarized that administrative proceeding covers professional script, referring and other service area such as valuation officers, represents as a professional appointed by the court, referee, arbitrator, or mediator on behalf of a party for settlement of cases. Inspective services comprise of forensic
services like executing examination or studies of the frauds, however once they are appointed as to identify frauds they refrain themselves in providing litigation for the same case. There facts finding skills can be used in administrative proceedings. Their main job is not only to find the frauds but also to suggest their client all possible courses of action, for the clients in order to protect them from all kinds of defaults and liabilities from frauds. They can work as a second investigation officer and can support the work of primary investigators or verifying officer in examining, and also can perform the role as an advisor when required. They can be great help to the auditor to both internal and statutory audits for better internal control, The work of statutory auditor can be easy when they get help from expert like them. Other agencies which are involved in fact finding can also seek their help for their assignment. Auditing is an expenses head as they identify true or fair view of the books of accountants rather than identifying their fraud involvement. If they are appointed as an internal auditor they can identify frauds and can do justice with their professional payment. When their fees payments are compared with the frauds exposed, it will be winning situation for the organization with lot of saving when compared to amount of frauds exposed.

**Forensic accounting** is an area of expert field of knowledge on accountancy. Their letter of work or engagement depends upon the complexity of their cases. Every cases are unique and challenging as the fraud are done with the planning and such planning to exposed such planning becomes difficult .Their analysis can be considered as an genuine evidence in court and therefore requires lot of professionalism in conducting their duties. They also referred as fraud examiner or inspecting officers to lay down evidence during the trial of cases. Nowadays most of the company irrespective of size of the firm has now started appointing forensic accountant so that their assets are safeguards. They have a wide range of services to be offered to their client these may include services in the nature of insurance due, individual damages, entitlements, or intellectual property rights. Their engagement can be further classified as follows:

a) To calculate the value of the loss incurred due to nonperformance of contract by the party.  
b) Disputes which take place after the execution of contract.  
c) Defaulters, liquidation and restructuring.  
d) Misappropriation of asset.  
e) Valuation officers and  
f) Technology expert to exposed computer related fraud.
Forensic accountants not only take up the organization cases but sometimes they need to take the cases of some other professional so as to identify their cases on professional negligence. Professional negligence can be understood that where the auditor has not performed his duties to identify fraud. The gravity of professionalism is based upon the analysis done by the forensic accountant. They also provide the services to personal grounds which involves financial impacts such as alimony or calculating revenue available for child support and equal distribution of money within the family in case of legal heirs. They are hired only after frauds take place in the organization. They are expert with sound knowledge on accounting and law. Hence they involve themselves and understand the internal accounting systems of the organization. They study the weakness and the reason why the fraud has been incurred Further they advise also to the client what should have been done so that a fraud has not been taken place. As most of the financial transactions are based upon the electronic payments they have taken a foot forward to understand the computer related as well as internet related fraud. They act as technical experts and advise various techniques related to computer forensic to avoid such kind of frauds. The main steps in analyzing the frauds are (a) collection of information, (b) preparation on the basis of information, (c) analysis on this information, and (d) opinion regarding the fraud. For example, misappropriation of goods in the organization where such goods are purchased for official purpose however they are issued as an sale but are used for personal purpose. Forensic accounting is a combination of accounting and law. Hence their reporting becomes important in the court of law. They gather information from the point of view which can be presented in the court and will stand as good evidence. They need to identify frauds documentary based evidence whether done against the company or for the company, they require to first identify whether frauds has taken place and if yes the amount of such frauds and along with the value of damage caused by such frauds. They have to break the complexities of the situation in to simple situation to understand why the fraud has taken place. When they get any assignment they always focus on the fraud element involvement in the financial transaction. They suspect each transaction from the point of view of frauds and drill down the same and make right person accountable to identify fraud. Auditor on the other hand relies on the documentary evidence provided by the management. They are restrictive in their approach as they work is define according to the engagement letter agreed by the client. On the other hand forensic accountant try to verify the data from the external sources which sounds more reliable and genuine. Limitation of auditing is an advantage of forensic accountant.
Hence from the above it is clear that as world is changing dynamically it has led to an increase in frauds. Now the methodology of frauds has been redefine and are taking place easily in a complex environment. Traditional auditor are not trained enough to identify and report such frauds. However the complexity of the frauds can be identifying if the skills and quality of the forensic accountant can be acquire by the auditor. The another limitation of the auditor is that they are limited only to the sound knowledge of accounting, whereas forensic accountant has gone beyond accounting and covered areas like local laws regulations, cyber laws and technical information and therefore has wide coverage to identify upgraded and updated method of committing frauds. The most important point is that forensic accountant assignment is to identify frauds and submit report, the court will decided on the basis of evidence collected that frauds has occurred. They not only play active role in identifying frauds but also gives various suggestion to the management to prevent the frauds taking place at all levels of management. Auditor role are restricted on to the books of financial accounting whereas forensic accountant role goes beyond to the personal level liability taking place on any dispute relating to the family matters, insurance or any kind of claims taking place and having involvement of financial impact. Now the organization has understood the relevance of forensic accountant as cost effective department. Hence Forensic accounting is also termed as modern accounting which has opened a new avenue in the professional front. Even government organization are hiring forensic accountant to safeguard interest of the government companies and to prevent and control corruption.

1.1.2 CONCEPTUAL FRAME WORK:

a. Financial statement Fraud (Niamh & Mary 2007): Financial statement frauds are of two types, i) Fraud against the company and ii) Fraud for the company. Misappropriation of goods and cash by the employee are the example of Fraud against the company, while understating the asset and income or overstating of expenses or liabilities are the examples of fraud for the companies.

b. Forensic Accounting and Forensic Accountant (Dick, Samuel & Blessing 2014): Forensic accounting provides an accounting analysis that can be brought forward as evidence in front of the court, on that basis judgment and resolve of dispute are made. On the other hand forensic accountant means a trained professional who is different from the traditional auditor who uses scientific method, explanatory analysis and most important a forensic accountant focuses on exceptions and unusual items.
c. **Cyber Crime** *(Muthukumaran, 2008)*: is a term used to broadly describe any illegal activity take place with the use of technology i.e computers hardware, software and internet computer in combination causing a financial loss to the suffering party and getting benefited out of these fraudulent transactions. Unauthorized access to anyone personal information or hacking any one email also covered in it.

d. **Dispute Settlement** *(Dhami, 2015)*: It includes non-performance or partly performance of agreed contract, structure claims, products rights due to low quality, breach of contract relating to intellectual property rights like patents.

e. **Insurance and other related claims** *(Ghosh and Banerjee, 2011)*: On the basis of terms and condition people buy the policy, however at the time of claims they get surprised that the interpretation of the claims are different what they thought for and most important is the calculation of the loss of damage to be claimed.. Hence the forensic accountant should be well versed with the legal aspect of the term and condition of the insurance policy.

f. **Techniques in Forensic Accounting** *(Mehta and Mathur, 2007)*: Fraud examiner use different techniques to identify such frauds. These techniques are either performed used of software or they use analytic reviews to come to the conclusion of fraudulent activity.

### 1.1.3. SOME OF THE FAMOUS FRAUDS OF INDIA:

- a. **Indian Coal Allocation Scam** – 2012 – Size 1.86L Crore.
- c. **Commonwealth Games Scam** – 2010 – 70,000 Crore.
- d. **Satyam Scam** – 2009 – 14,000 Crore.
- e. **Harshad Mehta –Scam Size Rs, 5000 Crore**.
- f. **Ketan parekh – Scam Size Rs 1000 Crore**.
- g. **Citi Bank Fraud**.
- h. **Teligi Scam**.
- i. **HBN Dairies & Allied Ltd Scam**.
- j. **Potato purchasing racket of Sumangal Industries**.

Source: Compiled from websites of the economic times
1.2. STATEMENT OF THE PROBLEMS

With the above discussion in light, researcher has selected the research endeavor of examining meticulously and critically the conduct observable of the FORENSIC ACCOUNTING AND ITS APPLICATION IN SELECTED INDUSTRIES OF MUMBAI: AN ANALYTICAL STUDY.

Researcher has made an attempt to critically address following problems:

i. Audit is failure to detect frauds and hence major frauds remain undetected.

ii. In an organizational there is a lack of knowledge about forensic techniques and hence examination of fraud becomes difficult.

iii. Occupational fraud is a major concern which cannot be controlled by an organization.

iv. Technological frauds are difficult to prevent and control.

1.3. OBJECTIVES OF THE STUDY:

Following are the objectives framed to achieve research goals and fulfillment:

i. To understand the difference between auditing and forensic accounting to reduce and prevent fraud.

ii. To study and understand techniques of forensic accounting and its application to examine fraud.

iii. To study the various methods used by forensic accountant to prevent occupational fraud.

iv. To study various computer forensic techniques so as to prevent and reduce technological fraud.

1.4. HYPOTHESES OF THE STUDY

With a view to develop a sound theoretical framework for the investigation, a review of literature on Forensic Accounting and its application in Industries in India has been done. However, the related published literature on the area of study in India is indeed scanty. Hence, the hypotheses framed are as follows:
HYPOTHESIS 1:

Null hypothesis (H₀): Forensic accounting has no significant effects in reduction and prevention in frauds as compare to auditing.

Alternative Hypothesis (H₁): Forensic accounting has significant effects in reduction and prevention in frauds as compare to auditing.

HYPOTHESIS 2:

Null hypothesis (H₀): The techniques of forensic accounting and its application will not significantly examine the frauds.

Alternative Hypothesis (H₁): The techniques of forensic accounting and its application will significantly examine the frauds.

HYPOTHESIS 3:

Null hypothesis (H₀): Occupational frauds cannot be significantly controlled and reduce with the help of forensic accounting.

Alternative Hypothesis (H₁): Occupational frauds can be significantly controlled and reduce with the help of forensic accounting.

HYPOTHESIS 4:

Null hypothesis (H₀): Various Computer forensic techniques will not significantly help in reducing and preventing the frauds.

Alternative Hypothesis (H₁): Various Computer forensic techniques will significantly help in reducing and preventing the frauds.
1.5. SCOPE OF STUDY

The present study works in following scales:

a) Investigation in financial crimes covering technology as well as occupational fraud.
b) Preparing expert reports reviews for evidences.
c) Fraud and fund tracing.
d) Special and confidential investigations.
e) Fraud and risk management surveys and reports.
f) Fraud prevention and awareness strategies.

1.6. RESEARCH METHODOLOGY OF THE STUDY

1.6.1. Reason for selecting Forensic accounting and its application in Industries:

There are many examples of frauds taking place within industries at national and international level. Now a day not only the companies but the individuals are also getting affected by the fraud at all levels. Technology has played a vital role in the overall development of the all sector, however at the same time technological fraud has affected economy badly. Hence to understand the overall impact of Forensic Accounting in preventing and identify frauds in Industries has been selected.

1.6.2. Area selected for the study:

The study covers Mumbai region, 300 Graduate, Post graduates, Professionals were selected for collection of data. Various Indian legal provisions on frauds and data from various surveys were considered for the study.
1.6.3. Source of data Collection:

The fulfillment of the objectives set forth for the study has called for data collection from different sources. Hence the researcher has taken cognizance of collecting the data through primary source as well as secondary source explained under:-

**Primary data:**

The study requires details information about the impact of Forensic Accounting in identifying and preventing fraud hence the researcher decided to collect such information from primary data targeting three industries i.e. Banking, Insurance and Information technology industries from Mumbai. To collect such information is more time consuming, but it is likely to yield a more accurate picture than a study based on secondary data. There are mainly 3 ways to collect primary data namely: by observation of behavior, by experimentation and by survey. As the researcher wanted to ask the Graduate, Post Graduate and Professional regarding their views regarding different aspects skill of auditing as compare to forensic accounting to control occupational fraud, computer forensic to prevent technological fraud etc. Hence the survey method was selected for collecting the data. Soliciting the information from the respondents was time consuming and it is difficult to judge the anxiety level and syndrome in the behavior of the respondent. Researcher has made questionnaire according to the need of topic selected covering all the dimension of forensic accounting.

**Questionnaire method:** The researcher has prepared questionnaire covering four aspects of forensic accounting application and its tools for collecting the data for the present study. Questionnaire was of structured and undisguised type. To develop a list of items for framing a questionnaire review of existing literature on Forensic accounting was undertaken. Consultation with experts was also made in this regards. The questionnaire was pretested with 50 respondents. Thereafter changes were made to questionnaire with specific reference to wording, sequence and language.

Utmost precautions were taken to make the questionnaire simple and easily understandable, so that the respondents would not find any difficulty in answering questions. Great care was taken in working each question to avoid biasing the responses. The First part of questionnaire is related to difference between of Forensic accounting and auditing, second part of questionnaire on Forensic tools, third part of questionnaire on occupational fraud and fourth part on computer forensic
accounting. The respondents are requested to give their view on five point Likert scale regarding different characteristics related to effect of the process of demerger on Employees and shareholders of Reliance Industries Ltd. The codes were as follows: Strongly Disagree (1), Disagree (2), Neither agree nor disagree (3), Agree (4), Strongly Agree (5). Respondent were from Mumbai and questionnaire were distributed to professional, Post graduates and Graduates who were engaged in accounting, auditing and using or working as forensic accountant.

Secondary data:

The secondary data in the form of archival information necessary for investigation was collected mainly from reports and surveyed by Forensic accounting provider mainly KPMG, E & Y national and international level and government published source as well as internet (websites related to study topic). Various libraries were visited for collection of secondary data through access of related books, journals and so on.

1.6.4. SAMPLE DESIGN:

Target population
The survey’s target population is the entire set of population units about which the survey data are to be used to make inference. For this survey all professional, graduates and post graduates were targeted from the field of accounting, auditing and forensic accountant from Mumbai.

Universe and Sample of the study:

In order to certify the study researcher has approach Certified Forensic Accountant Professional Institute (CFAP) at Pune where researcher himself is a member. As per CFAP record till date there are total 245 members from Mumbai. Researcher took the Email ID of all the registered members from Mumbai and sent the questionnaire through Google Forms and 111 professional has responded positively (ANNEXURE III). Later on researcher has also requested all the 111 professionals to circulate the same questionnaire to their subordinate staff who are looking after investigation and litigation issues of Banking, Insurance and Information Technology sector. In the mean while researcher has received total 189 responses for their staff through Google Form. Hence the total respondent for the study is (111+189) = 300.

Details of Sample size:
1. Total respondent were 300, out of this 177 (59%) were male and 123 (41%) were female.
2. The number of age group of 18-25 years were surveyed were 129 (43%), 26-33 years were 123 (41%), 34-41 were 10 (10%) and 42 years and above were 18 (6%).
3. Total 66 graduates, 123 Post graduate and 111 were surveyed.
4. Total 111 surveyed Less than 5 years of experience (37%) and more than 5 years of experience were 189 (63%).
5. 180 surveyed were using servicing for Investigation and 120 were using for Litigation.
6. Out of 300 surveyed 99 surveyed were from Banking Industries, Insurance companies and 102 were from IT industries.

Source: Primary data.

1.6.5. DATA ANALYSIS AND INTERPRETATION
All the completed questionnaires were scrutinized carefully and the responses of respondents have been presented in the form of tables, graphs and figures. Specimen of questionnaires is given in the ANNEXURE I. The data was subjected to appropriate statistical procedures to test the hypothesis with which the study is initiated. In consultation with computer experts and statisticians, software such as SPSS 21 and Mega stats were used. After getting the data computerized, in order to sharpen the inferences drawn based on simple description of facts, statistical techniques like frequency distribution, averages and percentages have been used. Researcher tabulated the data and analyzed it using spreadsheets (Excel) and a statistical program. Further Inferential analysis and conclusion are drawn using one sample t test with hypothesized mean value 3.5. The data and all the completed questionnaires were scrutinized carefully together with the theoretical material and have been interpreted through an intellectual exercise. The findings derived from these exercises are presented separately.

1.7. SIGNIFICANCE OF THE STUDY:

1. The government will use information to make new rule and regulation to control the fraud.
2. Study will help statutory bodies to implement the forensic accounting in the country.
3. This study will help the auditing professional body like Institute of Chartered Accountant of India to introduce and develop concept of forensic accounting as important module in their curriculum.
4. The study will help the industries to have a good internal control system.
5. The study will help in making a good management policy.
6. The study will protect the interest of the stakeholder related to industries.

1.8. LIMITATION OF STUDY

The study may have following limitations

Primary data may get based and may influence by the condition of the employee on whom survey is conducted.

i. Primary data may be subjected to limitation of the behavior and mood of the accountant on whom survey is conducted.

ii. Primary data has geographically restriction as data collected are from Mumbai region.

iii. Loss valuation of Fraud are estimated on the basis of accounting record published or secondary data issued in public document, website and others.

Hence one needs to be careful while generalizing the conclusions drawn from this study.

1.9. CHAPTER SCHEME

The Thesis has been divided in to chapters a follows:

*Chapter 1: Introduction, Conceptual Framework of the study & Research Design*

This chapter deals with the understanding explaining the concepts of forensic accounting. Hypothesis framed significance, limitations and the detailed research methodology adopted for the present study.

*Chapter-2: Review of Relevant Literature*

This chapter is devoted to review the literature comprising of earlier studies related to the topic.

*Chapter-3: Forensic Accounting a New dimension of Modern Accounting*

This Chapter deals with forensic accounting as modern accounting to prevent and identify fraud. Special skills qualities require by Auditor to work as forensic accountant.
Chapter-4: Techniques of Forensic Accounting to control Technological and Occupational Frauds in Industries

This chapter deals with Few Techniques of Forensic accounting which is applied to control Frauds. Also it explains about Technological and Occupational Fraud.

Chapter -5: Analysis and interpretation of data

This chapter specifically deals with analysis and interpretation of primary data which is collected mainly through the questionnaire.

Chapter-6: Findings, Conclusions and Suggestions:

This chapter includes the Findings, Conclusions and Suggestions which are derived from the study.

The structured questionnaires used for collecting the primary data and a select bibliography and appendices conclude the Thesis.
REFERENCE:


