

LIGHTING THE
FRAUD EXAMINATION IN INDIA

**COMPLETE RESOURCE GUIDE ON
FRAUD EXAMINATION IN INDIA**

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INTRODUCTION

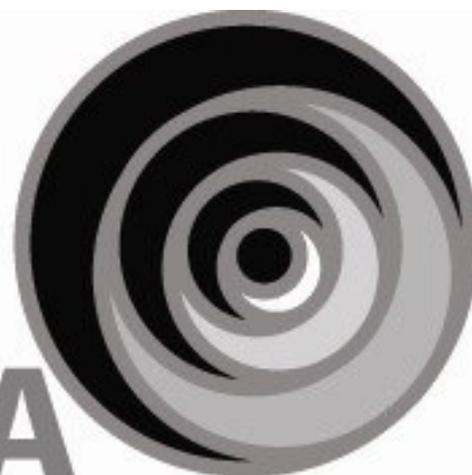
Fraud Examination became the hot cake in USA after the mishap of 9/11. Fraud examiners were recognized by FBI to help them in combating the frauds.

Then the need of the forensic accountants was confirmed by some big-ticket bankruptcies in Corporate America. Past few years were marked with the fast developments in India as well. This is the report that gives brief of the developments in forensic accounting in India.

In this report you will come to know about the various resources that are available in India. These resources strictly pertain to frauds.

The report is meant for the sole purpose of the information about the developments in this interesting area of forensic accounting. The information in this report can be used for the purpose other than commercial purpose.

Fraud Examination in India



INDIA FORENSIC

FRAUD EXAMINATION

Fraud Examination is divided into three basic aspects

- Fraud Detection
- Fraud Investigation
- Fraud Prevention

There is a very thin line between the fraud detection and the fraud investigation in India.

To explain it in a simpler manner the detection process is carried out by the auditor (or the employees performing the similar supervision functions). Fraud Investigation is the work of the law enforcement officials like police department in India and the prevention is the work of the management.

FORENSIC ACCOUNTING

If you're concerned about financial discrepancies and financial fraud, you need more than an accountant. Forensic accounting is the combination of the Accounting, Auditing and Investigation skills.

Forensic accounting is the specialty practice area of accounting that describes engagements, which result from real or anticipated litigation. Broadly speaking, these engagements fall into one of three categories: economic damages, assurance as to fraud in accounts or inventories or the presentation thereof, and business valuation. However forensic accounting is a gross area of operations of which fraud examination is a small part.

JOURNALS ON FRAUDS

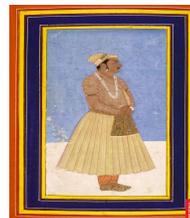
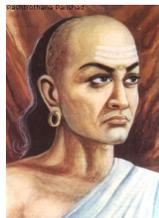
Worldwide there are very few magazines on frauds – The fraud Magazine is world leader magazine and is published by the Association of Certified Fraud Examiners in USA. Few other magazines are published by the Universities in USA which conducts the courses on fraud examination or forensic accounting.

In India we don't have many journals on the occupational frauds or the white-collared crime except the WhiteCrimes, which is published bi-monthly. Indiaforensic Research Foundation from Pune publishes White Crimes.

Pradeep Akkunoor is the editor of the magazine and is supported by a team of experts from various fields.

Mr. Akkunoor is also the chief architect of the popular Indian fraud examination group termed as Indiaforensic. All the activities of this community are constructed by Mr. Pradeep Akkunoor.

Birbal was the Scholar in the time of King Akbar. He used various tricks to investigate various crimes. Some of his stories give the fraud examiner a brief idea about the Litmus test of investigation. Gem of Indian Fraud Examiners, Chetan Dalal can be credited with actually applying the stories of the Birbal to the Investigation of the frauds. In various articles published in BCAS Journal he has explained how Birbal's trap and Birbal's Litmus test approaches are significantly used while investigating the accounting frauds.



HISTORY OF FRAUD EXAMINATION IN INDIA

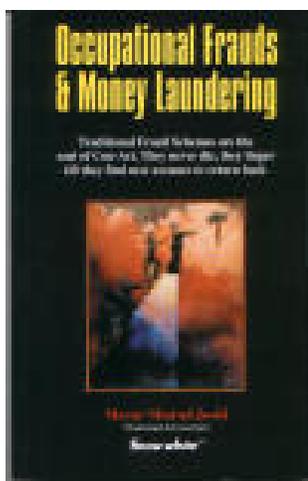
Worldwide we consider Sherlock Holmes to be the first Forensic accountant, however the contribution of some of the historic characters in India cannot be ignored. In India Kautilya was the first person to mention the famous forty ways of embezzlement in his famous Kautilya arthashastra during the ancient Mauryan Times.

The research is triggered in India with a great speed and Pradeep Akkunoor pioneers the topic and has done a good research about the contribution of Kautilya in Forensic accounting. Pradeep who heads Journal of Forensic accounting in India have called Kautilya back in to the 21st Century and have started the series of conversations between the computer and Kautilya.

BOOKS ON FRAUDS

Books on frauds are the only resource available that helps to enrich the knowledge. It becomes the permanent reference. In India we donot find much books written by the Indian Authors. Many of the resources come from the Non-Indian authors. A big chunk of the books pertaining to frauds and written by the Indian authors are pertaining to bank frauds.

1. Book Written by B.R.Sharma : Bank Frauds is the book published by universal publications and is available in all the Indian law books.
2. The book written by R.P. Nainta captioned as "The Banking System, Frauds and Legal Control".
3. The book on Money Laundering is written by Arun Kumar who is the ex-customs officer.
4. The most widely selling book on frauds is Occupational Frauds and Money Laundering written by Mr.Mayur Joshi-who happens to be a Certified fraud examiner. The book is published by Snow-White Publications.



EDUCATION RELATED TO FRAUDS

There are many specialized courses that teach you to combat frauds. Asian School of Cyber Laws is one such initiative that teaches people about the frauds related to cyber world.

Indian chapter of ACFE offers the course based on the white-collared crimes prevalent in USA they are based on the US laws.

However there is no formal body that provides formal education of the frauds in India. In India serious fraud office and IRDA have special focus on the frauds however there is no specialized education provided by any of the universities in the country. White Collared crime is an ignored area in that sense.

FIRST FRAUD EXAMINER IN INDIA

Mr. Sharad Kumar is the first person from India who completed the fraud examination successfully. He is the man behind the India operations of ACFE chapter. He is the person who bought the ACFE to India and is also responsible for getting the recognition from SFIO for the CFE designation to be recognized.



CONSULTING ORGANISATIONS

Big daddies of the accounting dominate the consulting market - without any qualms. A fraud examination is the area that is considered to be the monopoly of the Chartered accountants because of the nature of the expertise it involves in accounting. In India CA's look at these kind of assignments as one of the challenging job. Every CA firm wish to do a better job in fraud examination but very few organizations has fraud examination as a separate practice. It does not yield the bread to the auditors in India however the good CA firms do get the butter out of it. Chartered accountancy firms such as Sharad Joshi Chartered accountants do provide these services. A Delhi based firm S.K. Jain also investigated the world famous Xerox Fraud case. But by and large this area is dominated by the Big four consultancy firms such as Deloitte, KPMG, PricewaterhouseCoopers and Ernst and Young.

Chetan Dalal Management Consultancy also offers the consultancy services of fraud examination.

BOARD OF REGENTS AND INDIA

Mr. Vishnu Kanhere is the first individual to contest the elections for the Board of regents. He is the only person from India who contested the elections of year 2006 Board of regents.

SURVEYS RELATED TO FRAUDS IN INDIA

Big daddies of accounting dominate the consulting market of frauds in India and that is the probable reason why KPMG and PriceWaterHouse presented their surveys related to frauds with India Focus. They have very interesting findings.

Apart from this Indiaforensic Research Foundation presented the report on Cyber squatting on the Indian public sector banks.

NCRCC published the report on the cyber crimes, which crystallized the damage caused by the cyber frauds to Indian economy.

FRAUD EXAMINERS IN INDIA

There are total 185 Certified Fraud Examiners (As on Jan'06) whose information is available from the website of Association of Certified Fraud Examiners. (www.acfe.com)

The number includes the associated members and also the Certified Members. These fraud Examiners belong to various different geographical locations.

Out of the total 185 members 63 members are from Maharashtra, 43 from New Delhi and near by areas and 14 From Tamilnadu. Being contributor of about 35% of the fraud examiners, Maharashtra remains the center of activities of fraud examination in India.

STATISTICS RELATED TO FRAUDS IN INDIA

Bank Frauds: Reserve Bank of India – Rs.600.16 Crores

Occupational Frauds: Indiaforensic Research Foundation – Rs.40 Billion

Corruption in India : Transparency International - India ranks 88th amongst the 158 countries surveyed in the year 2005.

Cyber Frauds in India – NCRCC – Rs.14 crores lost in cyber frauds in 2002-03.

EMPLOYMENT AND FRAUD EXAMINATION

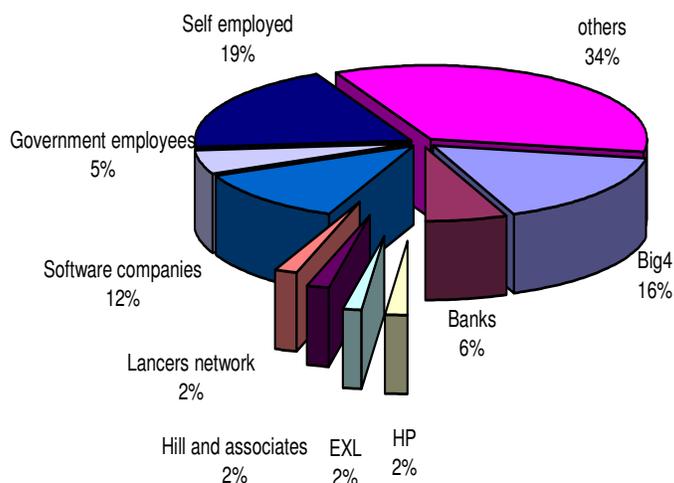
As it is evident from the following graph Big four accounting firms absorb the most of the fraud examiners in the country. The proportion of big four absorbing the Fraud examiner in India is 16%.

19% prefer to practice something of their own after completion of the Certification. It opens new avenues for the fraud examiners.

As many as 14% (software companies + HP) are in the field of Information Technology.

Hill associates; Lancer Network and EXL are the great surprises on this front, which contributes 2% each to the community of the fraud examiners.

Industry wise composition of Forensic Accountants in India



GOVERNMENT AGENCIES THAT COMBAT FRAUDS

To combat the frauds effectively one needs the support of government at every stage. There are three four such agencies that are dedicated to the combating of the frauds.

Serious Fraud Office: SFIO is the dedicated division of the Department of Company affairs, which looks into the frauds that involves the violations of multiple laws such as Income Tax, FEMA and RBI Act etc. SFIO recognize CFE as the designation for the purpose of employment and empanelment.

CBI: Central Bureau of Investigations has its specialized wing to deal with the financial frauds called as economic offenses wing.

CVC: Central vigilance commission is the place, which handles the crucial part of the occupational frauds ie. Corruption. It also helps in resolving the bank fraud cases.

WHISTLEBLOWER IN INDIA

Y.M. Kale was the first Chartered Accountant who blow the whistle against the leading business group in India. However he could not get the glamour that Sharon Watkins gained in USA. Rather he was forced to resign from the job

Sucheta Dalal is a perpetual whistleblower. She constantly blow the whistles against the malpractices of the promoters in the stock markets.

India has not witnessed any employee whistleblower becoming the celebrity during his lifetime.

Apart from these two Ex-Chief Election Commissioner of India T.N Sheshan brought transparency in elections.

Anna Hazare keeps blowing whistle against the government misdeeds in Maharashtra.

S Manjunath, a 27-year-old IIM Lucknow graduate working as a sales officer with Indian Oil Corporation, paid with his life for attempting to ensure that people did not get adulterated fuel.

The 30-year-old engineer's tragic death in Bihar in November'2003 for highlighting corruption in the construction of the giant Golden Quadrilateral road project

FRAUD RELATED STARTUP

Fraudtoday is the next generation of the fraud examinations in India. It has three profit centers as per Aditya Saigaonkar - CEO of this new generation startup company. Fraudtoday develops resources for various world class universities in and outside India and in the year 2008 the company will be able to achieve breakeven. Fraudtoday plans to develop and market its own software products to combat the frauds and also to market the fraud related softwares of other vendors. Fraudtoday also has plans to make India a hub of Knowledge Process Outsourcing related to fraud detection and analysis of the data.



WHAT WORRIES THE INDIANS MOST

Nature of the frauds is changing worldwide and everyone is worried about the crimes committed with the aid of the technology. Though two separate options were given to the participants in the form of BPO frauds and Cyber frauds not a single participant was worried about these kind of the frauds, since these are the new birth frauds.

However this is a false belief, surprising facts that were noted during the survey conducted by Indiaforensic Research Foundation showed that it is Occupational Fraud is something that worries Indian auditors the most. More than 45% of the surveyed participants confirmed that the Occupational fraud is the severe disease in the financial world.

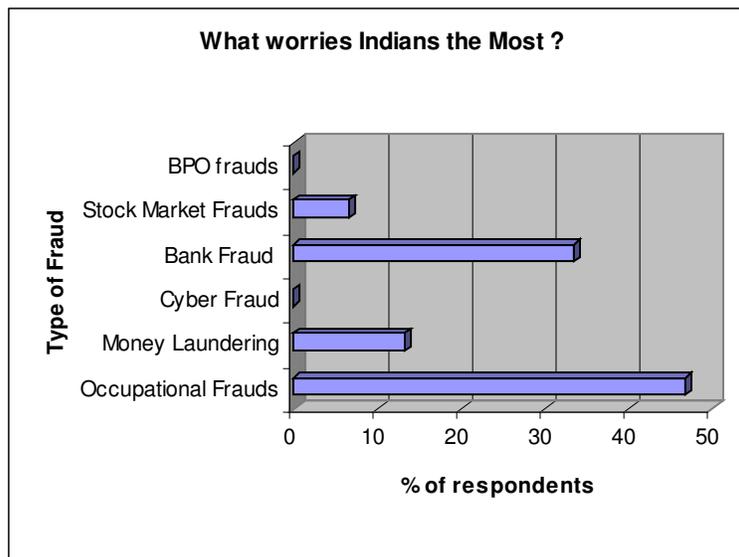
Over 30% of the participants voted in favour of the bank frauds. Sequential failure of the Co-operative banks, political involvements in the co-operative banks, failure of GTB are some instances that support the fear of the common auditor about the Bank Frauds.

THREE STARS OF INDIAN FRAUDS

Harshad Mehta: Loss caused to the State Bank of India was more than Rs.5.5 Billions.

Ketan Parekh: Loss caused by Ketan Parekh to Bank of India was Rs. 1.3 Billion

Sanjay Seth: Home Trade scam amounted to Rs. 6 Billions



HUB OF THE FRAUDS 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.

PUNE

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.

FRAUD RELATED SOFTWARE

Combating the frauds with software is just picking up in India. The big companies have started spending on the software like ACL and IDEA.

Seth Services and the SAMA audit software are the distributors of the fraud related products.

TCS: Tata consultancy services Limited has recently come out with the software to combat the money laundering.

Subex Systems: Subex designs the softwares, which combat the telecom frauds.



YAHOO GROUPS

Two yahoo groups are found popular in the forensic accounting and fraud examination community. Indiaforensic yahoo groups with 323 members are the leading yahoo group. BPO_Frauds is yet another yahoo group that discusses the information about the frauds in the very sensitive BPO sector.



INTERNET AND FRAUD EXAMINATION

Internet is the popular source of the information. News about the frauds in various news papers dominates the internet in India.

However some websites like Indiaforensic (www.indiaforensic.com) are also referred to as the reference for the scholarly researches. Telecommunication frauds, Stock market frauds and many other resources on the Internet make it a leading website related to frauds and forensic accounting in India.

According to the Alexa study it is ranked in top 5 lac popular websites in India. (403510 to be more specific).



There are approximately 6.89 million results that link to "Frauds in India" on Google.

About 2.97 lacs have links for "Forensic Accounting in India"

13600 Results for the term "Occupational Frauds in India."