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A CRITICAL STUDY OF ACCOUNTING FRAUDS IN INDIA

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ABSTRACT

Accounting fraud is a white-collar crime that affects the general public and has a negative impact on the whole economy. Often, these frauds involve misuse or manipulation of public funds by the fraudsters to make huge profits for themselves. With the advancement in space of technology, cases of accounting fraud are on the rise. We have witnessed big Accounting frauds perpetrated by fraudsters like Vijay Mallya, Ramalinga Raju and Nirav Modi. The cases of accounting fraud committed in cyberspace are no less daunting. Fraudsters use the anonymity offered by the internet to commit online scams such as KYC frauds, identity fraud and UPI payment frauds etc. technology has become the weapon of choice for fraudsters. The present study aims to examine with crucial aspects relating to accounting frauds in India.

How the Accounting Frauds can be done:

- *Accounting induced operational & financial decisions*
- *Choice of Accounting Policies*
- *Manipulation of accounting estimates within purview of Accounting Standards*
- *Fraudulent & bogus transactions*
- *Booking revenue expenditure as Capital Expenditure or as Deferred Revenue expenditure*

Thus, the findings suggest most effective way how to know the Accounting Frauds in India.

Keywords: *Frauds, Accounting Frauds, Control Systems, Challenges, Impact, India.*

Introduction

Accounting fraud is the intentional manipulation of financial statements to create false results of the corporate financial health. A crime, the sole objective of which is to simply accumulate money, wealth or illicit profit at the cost of gullible by exploiting the loopholes in the systems, misusing the opportunities extended by the state to its citizens for their economic prosperity, and by violation of established regulations and fiscal laws.

The followings are the types of fraud and they are as under:

- Corporate Frauds
- Financial Statement Frauds
- Financial Institution Frauds
- NBFC/Co-Op Banks/Chit Funds
- Money laundering

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The role of auditors play in lending confidence to interested users of the financial statements can never be over emphasized.

During those times when financial accounting fraud took place, the sin of commission or omission from the auditors' end were both present. This initial realization motivated the researcher to bring this matter to a higher level of consideration. That is, to look for new patterns and clues that can lead to a clearer understanding as to the reasons why these fraudulent activities occur.

Overview of Internal Control Systems

Fraud deterrence are measures to stop fraud occurring in the first place, whereas fraud detection involves identifying fraud as quickly as possible once it has been perpetrated. Fraud detection and deterrence must operate together. Fraud detection is a continuous process as criminals always adapt to new ways of committing fraud once they know of the existence of a detection method. Fraud deterrence/prevention involves good division of responsibilities, supervision of staff, monitoring work performance and also putting measures in place to ensure that even when systems are accessed that there is proper control.

Inward control devices are utilized by management to monitor their staff since directors are not ready to physically screen the exercises of the association. Firms receive the inner control devices in a way that the framework self-checks. Any irregularity inside the framework is identified and rectified.

Internal control failures have been the reason behind the most dangerous bookkeeping outrages of the world. Majority of financial specialists lost their cash; workers lost their occupations and representative's benefits vanished after the fall since the firm's annuity conspires had put resources into its own particular offers.

Frauds in Indian Governments

Corporate India is cognizant of fraud, yet more can be done to mitigate fraud risks and comply with regulations that aim to address fraud risks. Even as the business landscape changes, companies continue to battle traditional frauds such as diversion of goods, theft and bribery, indicating that existing fraud risk management mechanisms are perhaps dated and inadequately enforced to tackle these frauds.

The rise of new business models backed by technology, fraud has spawned new variants and seems to be on the rise.

However, as digital payments frequently to gain prominence in India, with most Indians using the Phonepe, Google pay and other online payments, the financial fraud encountered has also risen. A survey conducted by few private firm's i.e. local circles.

Fraud Detection and Prevention

Fraud has been in existence throughout history and has taken many different dimensions. Accounting fraud has grown with advent of the Firm industry, and has been facilitated by the technological innovations and the widespread use of the Internet. According to the fraud triangle for fraud to occur the three factors; pressure, rationalization and opportunity should be present. Firm employees have knowledge of the systems as well as classified and confidential information which together with technological advancement can give them the opportunity to commit frauds, pressure and the rationalization and that way they become part of fraud cartels that are fleecing millions of shillings from the firms and companies.

Over the past few years, it has become the responsibility of accountants to take a critical assessment of the traditional practices adopted in financial statements while meeting the requirements of Generally Accepted Accounting Practices (GAAP) recommended by professional bodies. There has been a tendency for companies to enhance their financial statements to project an attractive picture for potential financial investors.

Fraud in presenting the financial statements can be detected using techniques such as vertical and horizontal analysis, ratio analysis. Vertical analysis expresses the relationship of the items in financial statements to the base amounts in the statements. Horizontal analysis reveals the dollar and percentage change of amounts in the financial statements. Ratio analysis concerns expressing one number over another to discover the relationship between them.

Impact of Internal Control Systems on Fraud Detection and Prevention

A controlling system potentially prevents errors and fraud through monitoring and enhancing formal and financial reporting processes as well as ensuring compliance with pertinent laws and regulations.

Effective Internal control systems are crucial in detecting and preventing fraud. The converse where nonexistence and ineffectiveness of internal controls do not facilitate fraud detection and prevention is also true. According to the Institute of Internal Auditors (IIA) June 2003, Publication wrote that "risk and control are virtually inseparable like two sides of a coin meaning that risks first must be identified and assessed; then managed and mitigated by the implementation of a strong system of internal control". The goals of financial institutions are to enhance growth, profitability and sustainability, that is, to actually achieves their mission, and minimizes the risk of loss or failure in the process of conducting business. To fulfill their mission, financial institutions risks must be managed through effective internal controls. This implies that internal control systems play a positive role in the growth, profitability and sustainability of financial institutions.

The regularity of fraud and misappropriation of funds is creating fear, anxiety, and a loss of confidence in the minds of firm customers. Also, poor internal control system leads to increase in firm losses. Management is required to set up an internal control system but this system varies significantly from one firm to the next, depending on such factors as their size, nature of operations, and objectives.

Responsibilities and Challenges in Fraud Prevention

The internal audit refers to a permanent review of the economic activity of an entity; an independent activity of assessing on behalf of the economic entity's management that involves examining the, accounting, financial and other types of operations concerning the services as a whole; an evaluation of tasks and conformity of the accounting entries, reports, assets, capitals, and results; or an attestation or certification of financial supporting documents.

According to the National Standard on Audit 240 'Fraud and Error' (SNA 240), the executive board is responsible for the prevention and detection of fraud and error by applying and maintaining appropriate accounting and internal control systems. These systems can also reduce the possibility that fraud and error occur, but they cannot completely eliminate them. Secondly, the audit committee has the role of supervising the management of fraud risks and actively monitoring the efforts of the board against fraud committing. Thirdly, the internal audit represents effectively against fraud, having a role both in monitoring risks, as well as in fraud prevention and detection. The internal audit constitutes a tool to independently assess fraud risks and anti-fraud measures implemented by the executive board.

In their current activities, the internal auditors should have enough knowledge in order to identify the red flags of fraud; be attentive of the cases that involve probabilities of fraud; and appreciate the necessity to further investigate a case, inform the responsible persons from an firm and take actions to eliminate or reduce the possibility of fraud occurrence. According to the National Standard on Audit 240 'Fraud and Error' (SNA 240), the auditor is not responsible and cannot be held accountable of fraud and error prevention. Furthermore, conducting an annual audit can serve as a means to reduce the possibility for fraud and error to occur. In practice, it often happens that when the audit points out a case of possible fraud or error, the responsible entity does not expose the situation and tries to 'clean up' using their own means, usually by removing from within the entity the persons responsible for the possible fraud or covering the losses from internal resources (rarely recovered from the guilty parties), all in order to not tarnish their market prestige and reliability.

There is a clear distinction between internal auditors and experts in frauds investigation, both from the point of view of their roles and responsibilities, as well as in the case of their professional training and specialty. The internal audit cannot completely prevent fraud, but it can adapt its work method and procedures so that it can increase the chances to identify and correctly interpret the signs of fraud. The internal auditors should have a superior level of theoretical knowledge and practical experience in order to successfully accomplish their role. They should aware that the possible fraud schemes and scenarios that are specific to a firm's field of work (for Instances insurances, retail, telecommunications, etc.) and be able to recognize the red flags of fraud schemes. For the implementation of all these above-mentioned, there is a considerable need to invest in the specialization of the internal auditors by financing courses in certain fields. Other firms contact external specialists (on the basis of a service contract) in order to conduct the task of auditing, thinking that in this way they receive high-level specialists at a relative modest price.

Literature Review

Introduction

Most of literatures on forensic accounting are explanatory in nature based on secondary data sources by combining the available studies on the topic and by collecting views from the experts in the field. The literature study includes surveys on Control Systems, Accounting Frauds, Frauds, methods of prevention and detection of accounting frauds, the impact of control systems on detection of accounting frauds, the responsibilities and challenges experienced during detection, and other issues. This survey comprises a review of literature from international journals, papers, and articles, among other sources. The literature review includes the study's purpose, methodology, results, and conclusion.

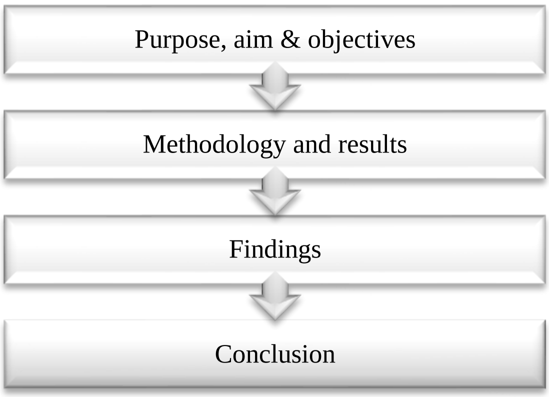


Fig. 1: Literature Review Framework

Reviews

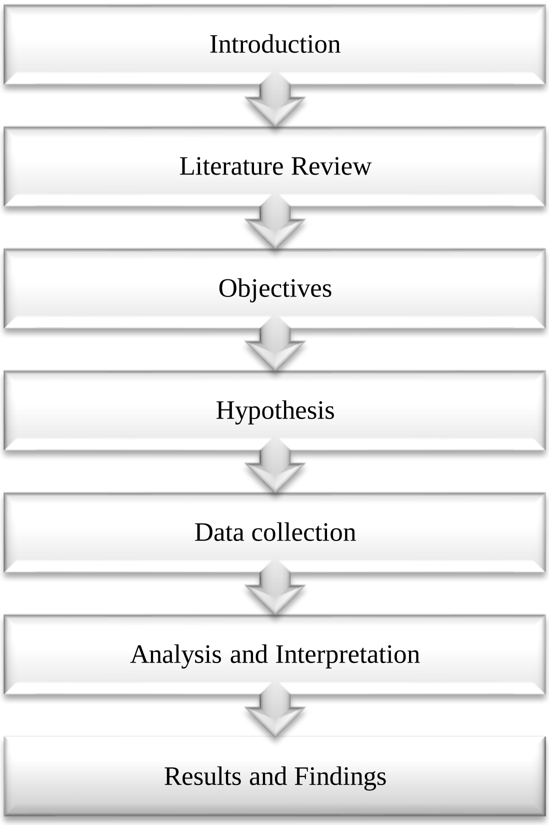
- Md. Abdur Rashidet.al. (2022) conducted research on an Overview of Corporate Fraud and its Prevention Approach.
- Niki Hadian et.al. (2021) conducted research on The Effects of Internal Control on Fraud Detection (Case Study on Several State Owned Enterprises Banks in Bandung City).
- 3.Leah NjeriKabue et.al. (2017) conducted research on Effect of Internal Controls on Fraud the Detection and Prevention among Commercial Banks.
- Shirley Wonget.al. (2015) conducted research on financial accounting fraud detection using business intelligence.
- R. Narayanaswamy et.al. (2012) conducted research on Corporate Governance in the Indian Context.
- Florenz C. Tugas et.al. (2012) conducted research on Exploring Element of Fraud: A Study on Selected Financial Accounting Fraud Cases in the World.

Research Gap

As per the literature survey research not properly done on this topic so need to do research properly for reducing the accounting frauds and challenges. The study on the impact of internal control on the detection and prevention of accounting frauds in India was immense benefit to the entire firm in the sense that it was enable the management of the firm to maintain an enhanced controlled environment by helping management and employees to establish and maintain an environment throughout the firm that sets a positive and supportive altitude towards internal control, reliable management, operating personnel for effecting internal control and internal audit for evaluating whether appropriate controls have been implemented and whether the internal controls systems are functioning properly as intended. Finally, the study was contributing to the body of existing literature and knowledge to this field of study and basis for further research.

Methodology

The study used primary and secondary data collection survey method design to collect data from the key respondent. By using survey design considering the relevancy in a survey because it involves collecting data which can then be used to answer the research question in the current state of the object of the study. In this study there were 250 key respondents selected and Firstly (primary) data was collected using questionnaires' survey from India region. Secondary data was collected using international journals, articles, research, review papers, documents and other.



Methodology Process

Objectives of the Study

- To study the responsibilities of Control Systems for the prevention and detection of Accounting Frauds.
- To study the impact of Control Systems for the prevention and detection of Accounting Frauds.
- To study the challenges faced by the Control Systems during detecting and solving the Accounting Frauds.
- To study the economic loss to the country through accounting frauds.

Hypothesis of the Study

$H1_0$: There are fewer responsibilities of Control Systems for the Prevention and Detection of Accounting Frauds.

$H1_1$: There are more responsibilities of Control Systems for the Prevention and Detection of Accounting Frauds.

$H2_0$: There is less impact of Control Systems for the Prevention and Detection of Accounting Frauds.

$H2_1$: There is more impact of Control Systems for the Prevention and Detection of Accounting Frauds.

$H3_0$: There are fewer challenges faced by the Control Systems during detecting and solving the Accounting Frauds.

$H3_1$: There are huge challenges faced by the Control Systems during detecting and solving the Accounting Frauds.

Conclusion

The study concluded that the reconciliation control measures among Current Control Systems and Their Challenges in India for The Prevention and Detection of Accounting Frauds. The study also concluded that there is a negative and notable relationship between reconciliation control and level of fraud prevention and detection as well as impact of control system on Prevention and Detection of Accounting Frauds. The findings of the study also led to the conclusion that there is unfavorable and significant relationship between financial governance control and level of fraud prevention and detection.

Further, concluded that the study is higher variances in the budget positively and significantly relate to level of fraud. Commercial banks that have poor disclosure and budgetary controlling systems which lead to higher variances in budgets have higher incidences of frauds. Further the study revealed that staff are aware of the penalties for breaking internal control procedures and also that all payments are authorized by responsible officer before payment.

Study was concluded that the impact of Internal Control helps for Issue receipts for cash, using a pre-numbered receipt book. Conduct unannounced cash counts. Reconciliation of cash receipts daily basis with proper document (cash collections reports, receipt books) Centralized cash collection receipts if possible. Internal controls help to corporate companies to comply with laws and regulations, and prevent fraud. In line with the findings of the study, the study concludes that there is a significant positive relationship between internal control systems and fraud detection and prevention.

Future Scope and Recommendations

Fraud detection is based on the premise that fraud is not a random occurrence but occurs where the conditions are right for it to occur. Fraud detection attacks the root causes and enablers of fraud. Improving formal procedures to reduce or eliminate the causal factors of fraud is the single best defense against fraud. Therefore, there is need for treasury staffs to maintain effective, efficient and transparent governance and financial systems to minimize or eliminate fraud.

The components of effective internal controls: control environment; risk assessment; control activities; information and communications and monitoring, need to be applied in a synergistic linkage to form an integrated system that reacts dynamically to changing conditions. The internal control system should be intertwined with the operating activities of the various districts (sub-counties) to detect and prevent fraud. Further research can be undertaken on the impact of internal control systems on fraud detection and prevention in the private sectors especially manufacturing firms and results compared with those of this study. This will broaden our understanding of the extent to which internal control systems impact on detection and prevention of fraud depending on the governance structures. Further still, the relationship between formal culture (way of doing things) and fraud detection and prevention in government departments to be interrogated and explored. This is because culture is inbuilt in all systems in terms of value, attitudes and norms shared across members of the firm. Therefore, for fraud detection and prevention to succeed, formal culture issues need to be looked into as predictors of success of such programs.

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