

# Forensic Accounting: Uncovering Frauds, Unlocking Opportunities



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# WHAT IS FRAUD ?

Go to [www.menti.com](http://www.menti.com) and use the code **2678 6329** to  
participate in quiz





# 01 *Introduction to Fraud & Forensic Accounting*

# ❖ MEANING OF FRAUD

- **Fraud** refers to an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage
- The notable points of above definition are :-
  - Intentional act
  - Those charged with governance
  - Third parties
  - Deception
  - Unjust advantage



# FRAUD CASES

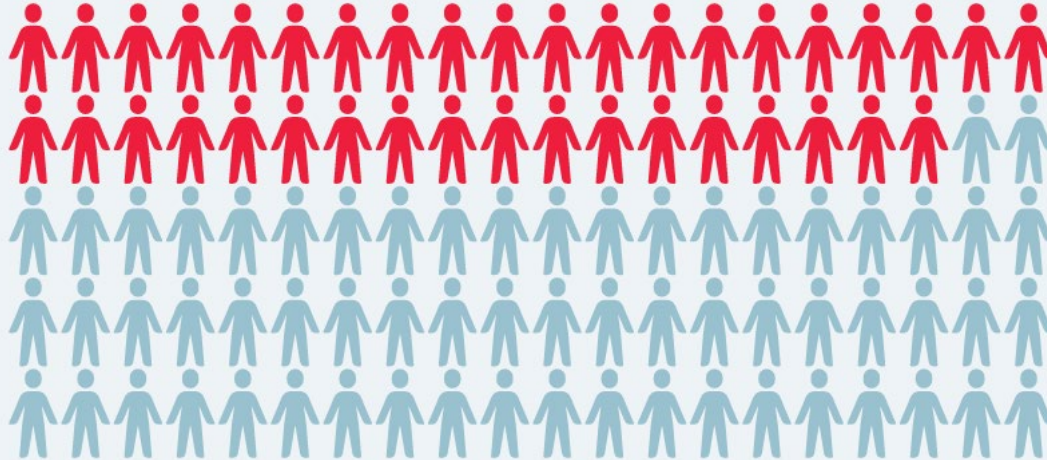
	2018-19		2019-20		Apr-Jun 2020	
Banks	No of frauds	Amount involved	No of frauds	Amount involved	No of frauds	Amount involved
Public sector banks	3,568	63,283	4,413	1,48,400	745	19,958
Private sector banks	2,286	6,742	3,066	34,211	664	8,009
Foreign banks	762	955	1,026	972	127	328
Financial institutions	28	553	15	2,048	3	546
Small finance banks	115	8	147	11	16	2
Payments banks	39	2	38	2	3	0
Local area banks	1	0.02	2	0.43	0	0
Total	6,799	71,543	8,707	1,85,644	1,558	28,843



# 38%

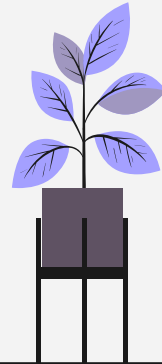
of fraud victims

**closed the accounts  
at the financial institutions  
where fraud took place**



# ❖ FRAUD STAKEHOLDERS

- Frauds are classified as per the **peoples that are affected by the fraud** and they are as follows:
- 1. Creditors
- 2. Institution/ Business
- 3. Financial Institution's and Intermediary
- 4. Federal or local government
- 5. Financial Markets (Stock Market)
- 6. Investors



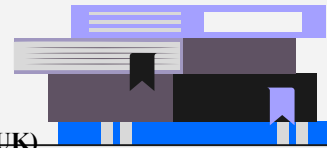


# ❖ FORENSIC ACCOUNTING

- **F**orensic **A**ccounting is an examination and evaluation of Individual's or a company's financial information for use as evidence in court.
- It involves a detailed analysis of financial data to detect irregularities, inconsistencies, and potential fraud indicators.






# ❖ Introduction to Forensic Accounting

- Forensic accounting is the **intersection** of accounting, auditing, and investigative skills, focused on uncovering financial fraud and misconduct.
- It plays a **vital role in legal proceedings by analyzing** complex financial data to detect irregularities and support evidence-based conclusions.
- This specialized field is essential **for resolving financial disputes** and ensuring transparency in business practices.



# ROLE OF FORENSIC ACCOUNTING



-  **DETECTION OF FINANCIAL IRREGULARITIES**
-  **INVESTIGATION OF FRAUDULENT ACTIVITIES**
-  **SUPPORT IN LEGAL PROCEEDINGS**
-  **PREVENTION OF FINANCIAL LOSSES**
-  **ENSURING FINANCIAL INTEGRITY**

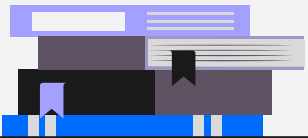
# ❖ ROLE OF FORENSIC ACCOUNTING

- **Detection of Financial Irregularities:** Forensic accountants analyze financial statements and records to identify discrepancies and red flags indicative of fraud.
- **Investigation of Fraudulent Activities:** They use specialized investigative techniques to uncover and document fraudulent transactions and activities.
- **Support in Legal Proceedings:** Forensic accountants provide expert reports and testimony in court, aiding in the prosecution or defense of fraud cases.



# ❖ ROLE OF FORENSIC ACCOUNTING

- **Prevention of Financial Losses:** Their work helps organizations **mitigate the risk of financial losses** by identifying weaknesses in internal controls and preventing future fraud.
- **Ensuring Financial Integrity:** Forensic accountants play a crucial role in **maintaining transparency and trust** in financial reporting and business practices.



# ❖ OBJECTIVES OF FORENSIC ACCOUNTING

**Detection of financial frauds**

**Prevention of fraudulent activities**

**Legal support and Expert witness service**

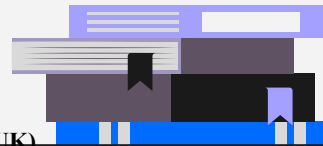
# ❖ THE FRAUD TRIANGLE

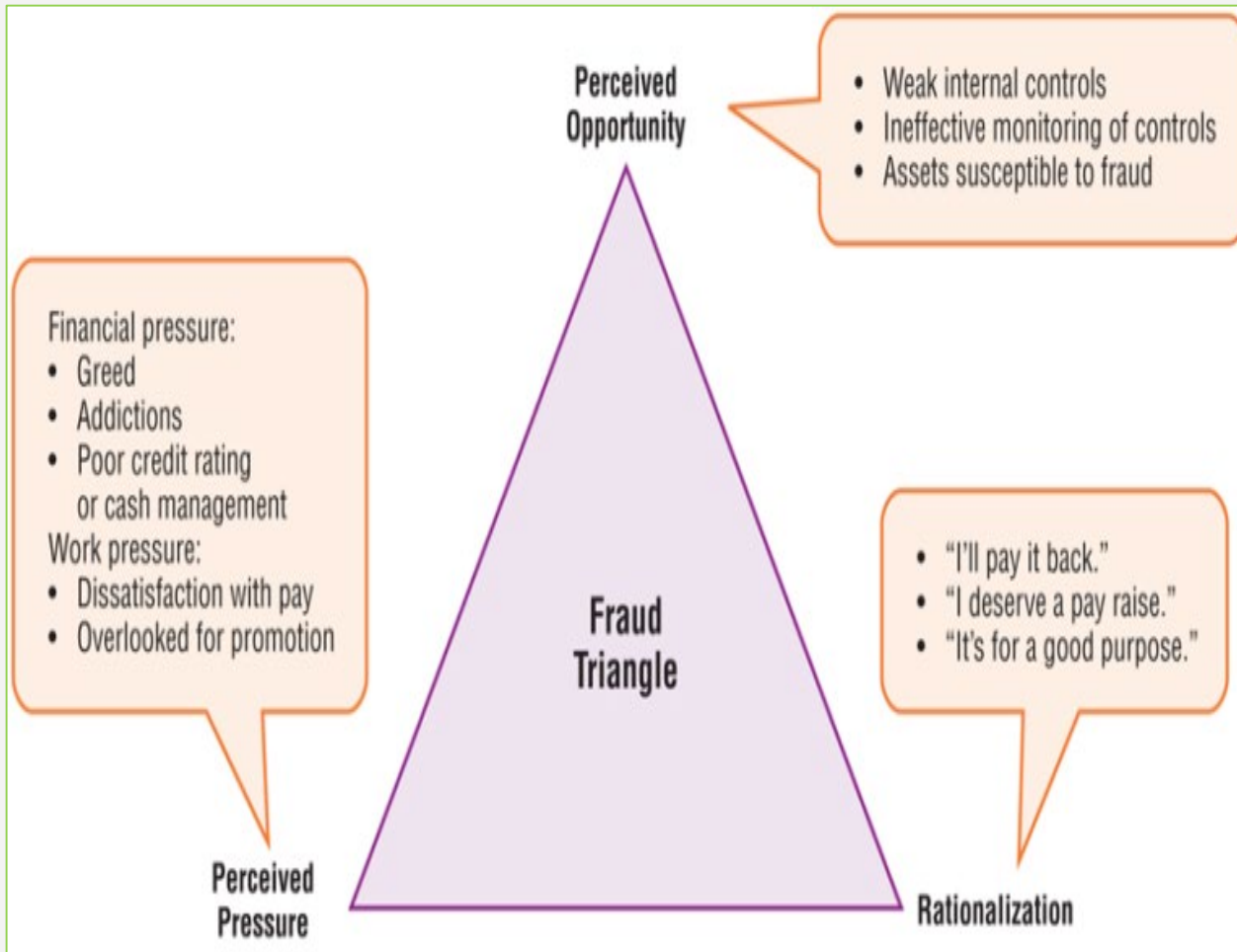
- A Fraud Triangle is a tool used in forensic auditing that explains three interrelated elements that assist the commission of fraud

-**Pressure** (motive),

-**Opportunity** (ability to carry out the fraud)

-**Rationalization** (justification Of dishonest intentions).







# FRAUD *diamond*

## OPPORTUNITY

- Environmental factors
- Victim characteristics

## MOTIVATION

- Financial pressure
- Monetary gain
- Achievement
- Manipulation

## CAPABILITY

- Knowledge about corporate governance
- Ability to manipulate others
- Technical knowledge to steal victim identities or exploit software weakness

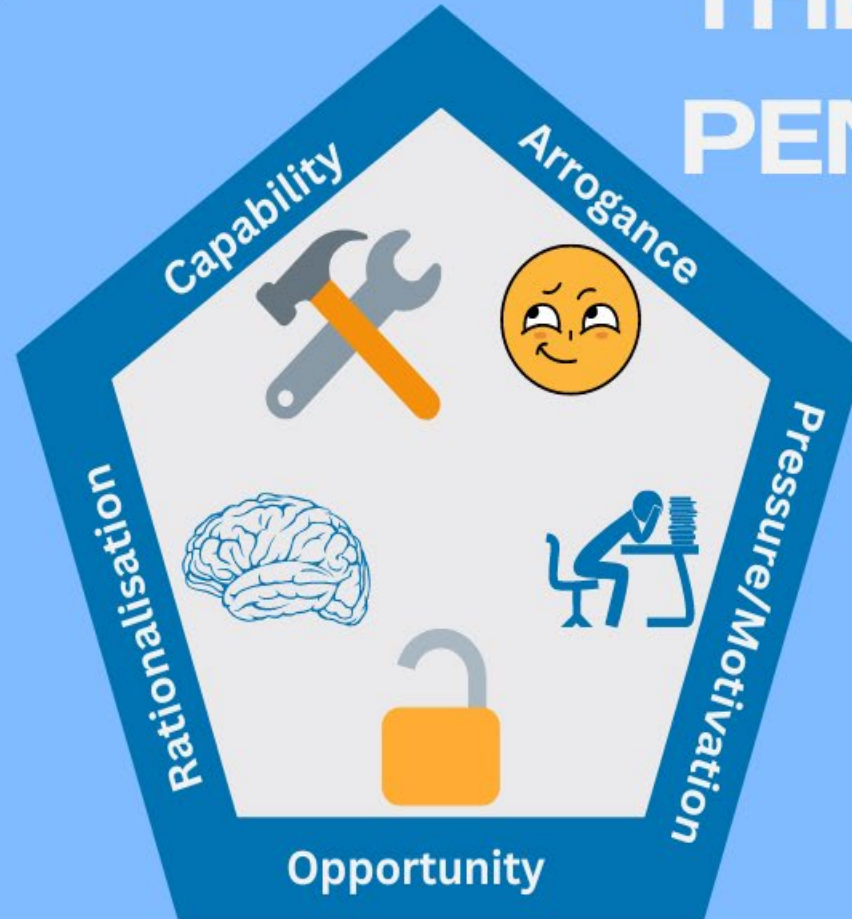
## RATIONALIZATION

- Belief that violating rules is acceptable
- Lack of respect for others



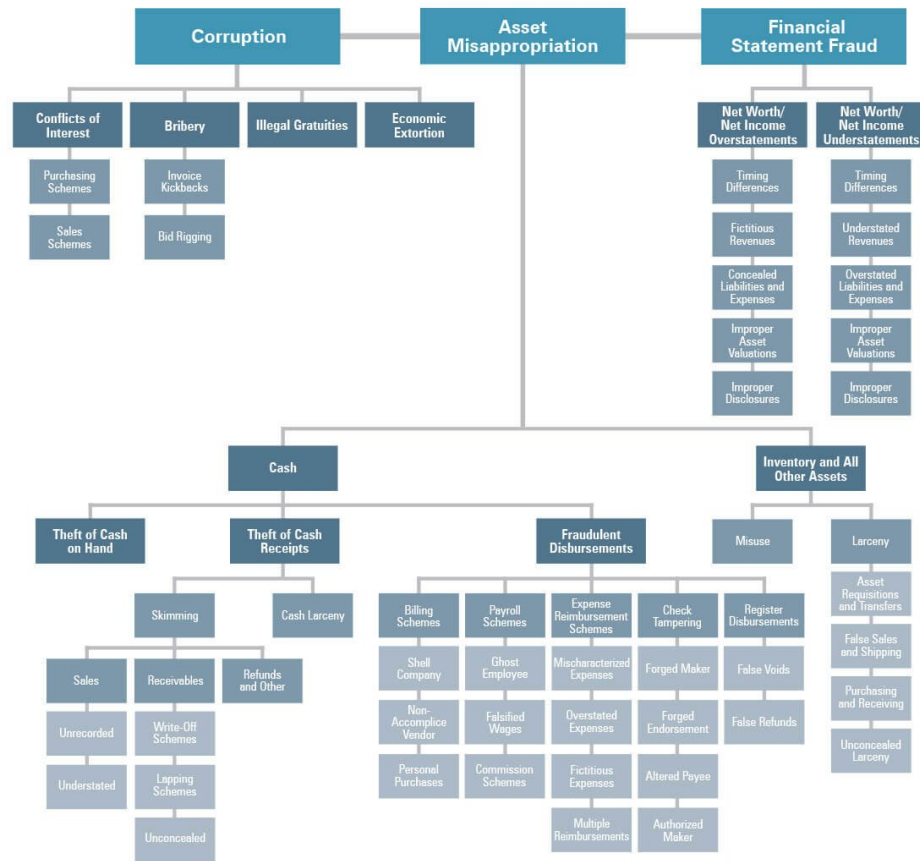
**SALVIOL**  
GLOBAL ANALYTICS

# THE FRAUD PENTAGON



# THE FRAUD TREE

OCCUPATIONAL FRAUD AND ABUSE CLASSIFICATION SYSTEM







# KARUVANNUR CO-OPERATIVE BANK SCAM

## HOW THE FRAUD UNFOLDED



1

Fake loan applications submitted to draw loans on properties that are already pledged in the bank

2

At least 46 property documents were used this way

3

Loan amount deposited in different bank accounts but finally reached a single beneficiary

4

Money then diverted to fund real estate deals

5

Nexus of bank officials, local real estate mafia operated for six years before the fraud was discovered



# ABG SHIPYARD CASE STUDY

**₹22,842** crore

Amount CBI says 28 banks lost  
in the ABG Shipyard fraud

**₹7,089** crore

ABG Shipyard's dues to ICICI Bank

**₹2,925** crore

Size of SBI's exposure to  
ABG Shipyard

**₹8.35** lakh crore

Indian banks' NPAs as of March 2021

## THE 'FRAUD'

The four instances of alleged  
misappropriation of funds by Rishi  
Agarwal and ABG Shipyard officials



**Rs 1,415 crore** was  
allegedly transferred through  
vendors and group firms and  
round-tripped back to the company.  
'Round-tripping' is circulation of  
money across jurisdictions, culminat-  
ing in its return to the jurisdiction of  
origin, usually as foreign investment.



ABG Shipyard invested in  
**\$43.5 million (Rs 326  
crore)** worth of securities of ABG  
Singapore. According to EY's forensic  
audit, the money may have been  
siphoned out of the system.



ABG Shipyard transferred  
**Rs 83 crore** to related  
firms, but the assets were  
allegedly not shown as  
part of the company's asset pool.



Under restructuring, lenders set  
up a trust and retention account  
(TRA). The money coming into the  
company during the period is held  
in the TRA so that lenders can monitor  
its use. The SBI says over 50 per cent  
of ABG Shipyard's receipts had been  
outside this arrangement—a breach of  
the restructuring agreement.





punjab national bank  
*...the name you can BANK upon!*

**RS 11,400 CRORE**



**FRAUD**



# ❖ PNB CASE STUDY

- ❑ Jeweler Nirav Modi wants to import diamonds to design high-end collection. He approaches PNB and asks for a Letter of Undertaking (LOU)
- ❑ In PNB's case, LoUs had been issued by the branch officials through SWIFT without the approval of the competent authorities and the necessary documents of import
- ❑ Not knowing Nirav Modi or his credit history, the overseas bank extends credit based entirely on PNB's LOU.
- ❑ The money was not paid back by Nirav Modi, By rolling over the credit, he had ensured that subsequent LoUs repaid the dues on the earlier LoUs.
- ❑ This scam worth **Rs. 14,000 crores** became public on Jan 29,2018 after whistle blowing by a PNB official.
- ❑ Later BDO India was hired to carry out the forensic ACCOUNTING and uncover the truth of money rolling



# ANATOMY OF A FRAUD

The genesis of the fraudulent financial accounting at Satyam Computers lies in the fact that the facts started unraveling and after the company's stock price fell to a low of 100 rupees, the company was forced to file for insolvency.

## SATYAM SCAM 2009

India's biggest  
Accounting Scam



# ❖ SATYAM CASE STUDY



- The founder and chairman of Satyam Computers, **B. Ramalinga Raju** created **false invoices** to show **inflated sales** which artificially inflated the accounts receivable account thereby **inflating the company's revenues**
- Mr. Raju **forged** board of director resolutions. Mr. Raju shipped money to offshore accounts and tax havens and re-routed it back to India for his own use...**money laundering**
- Mr. Raju and others on the inside offloaded worthless stock and participated in **insider trading**
- Even the Statutory Auditors of Satyam – PWC India was found **guilty**
- Disclosed on **Jan 7, 2009**, It was biggest accounting fraud **amounting over Rs. 7,000 crores** in the country which ran almost **14 years** and gained recognition to the forensic accounting as the profession.
- Satyam Share price fell to Rs. 11.5 after that day compared to the previous height of Rs. 544

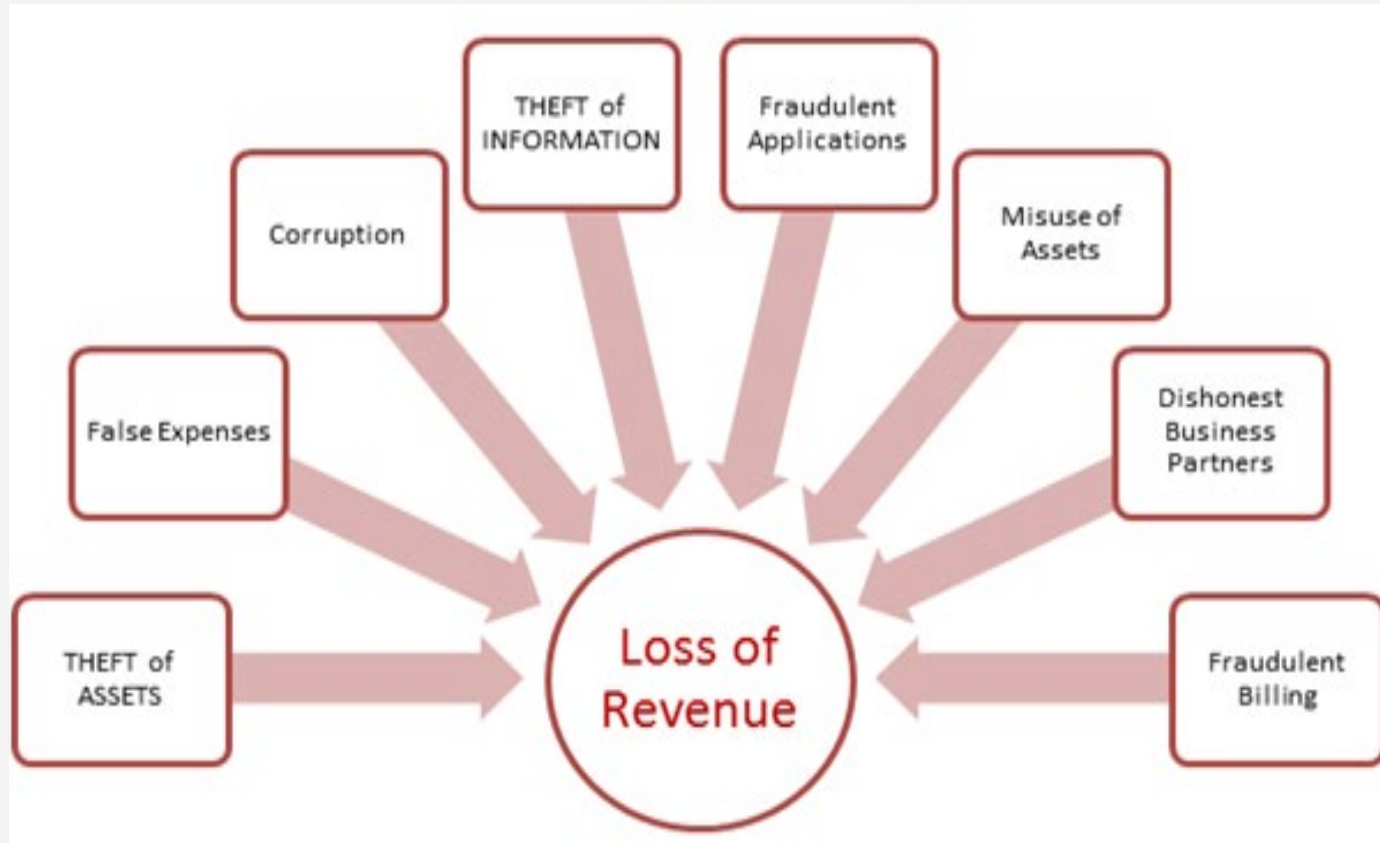
# ❖ TELGI STAMP FRAUD CASE STUDY

- Abdul kalim Telgi - The lead role of the fake stamp paper scam
- Scam exposed links with various politician and top officials
- One of the biggest scam India have ever faced.
- Telgi's network spread across 13 states involving 16 offices, 1000 employees and 123 bank accounts in 74 cities



## 03 *Types of Fraud*

# ❖ MAJOR TYPES OF FINANCIAL FRAUDS



# ❖ WAYS OF COMMITTING FINANCIAL FRAUD

1

- Fictitious income

2

- Improper expenses recognition

3

- Incorrect asset/liabilities valuation

4

- Hidden liabilities and secret reserves

5

- Unsuitable disclosures.

6

- Deception such as manipulation, falsification or alteration of accounting records or supporting documents.

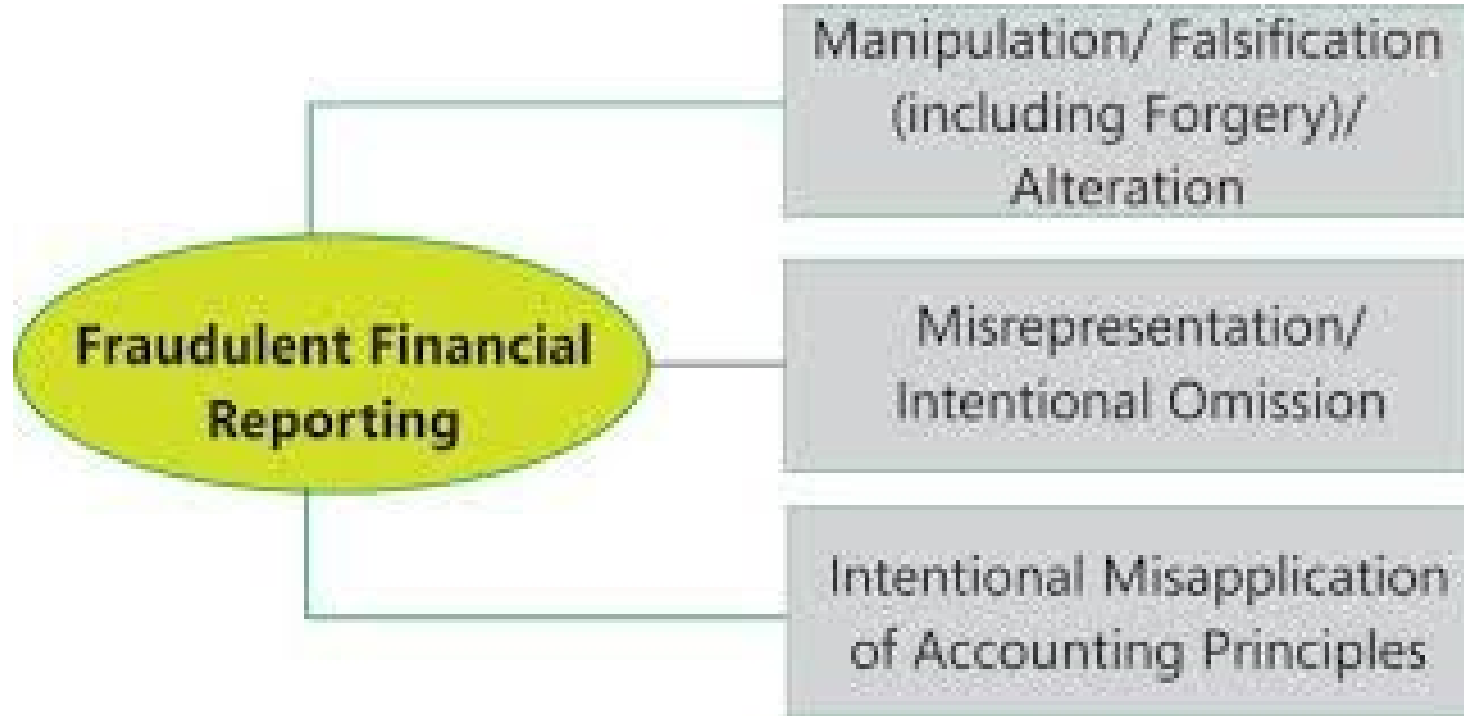
7

- Misrepresentation in or intentional omission from the financial statements, significant events, transactions or other information.

8

- Intentional, mis-application of accounting principles

# ❖ FRAUDULENT FINANCIAL REPORTING



# ❖ FRAUDULENT FINANCIAL REPORTING

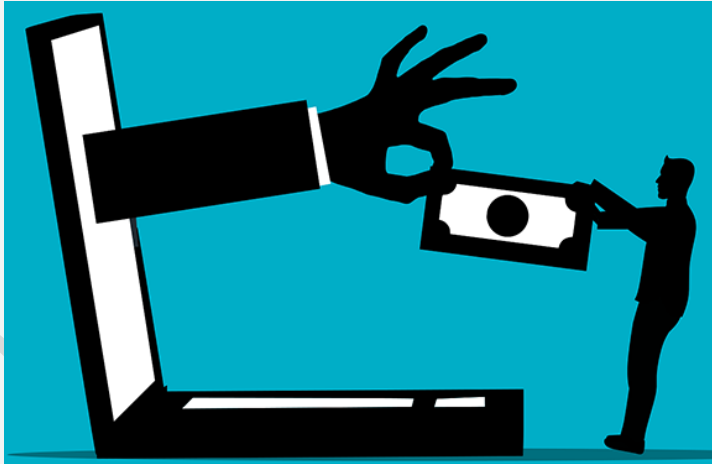
## ➤ Manipulation/Falsification/Alteration:

Manipulation or falsification in fraudulent financial reporting **involves deliberately altering financial data to mislead stakeholders**, often by inflating profits or hiding liabilities, leading to deceptive financial statements.

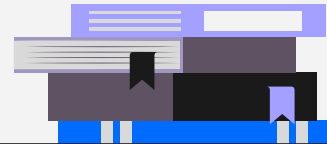




# ❖ FRAUDULENT FINANCIAL REPORTING



- Misrepresentation / Intentional omission: Misrepresentation or intentional omission in fraudulent financial reporting involves deliberately **providing false information or omitting key details**, such as liabilities or expenses, to distort the true financial health of an organization, misleading investors and regulators.



# ❖ FRAUDULENT FINANCIAL REPORTING

- **Intentional misapplication of accounting Principles** : Intentional misapplication of accounting principles involves deliberately **using incorrect or inappropriate accounting standards to manipulate financial statements**, such as overstating assets or understating liabilities, to present a distorted view of a company's financial condition.



# Teeming and lading

Transaction 1 –



Amount collected from  
customer A of NPR 100



No Recording



Misappropriate  
cash of NPR 100

Transaction 2 –



Amount collected from  
customer B of NPR 100



Recorded as  
Collection from A



No Recording  
of collection from B

**Credit Card Frauds**

**Insurance Fraud**

**Money Laundering**



**Phishing**

**Embezzlement**

**Tax Evasion**

**Mortgage Fraud**



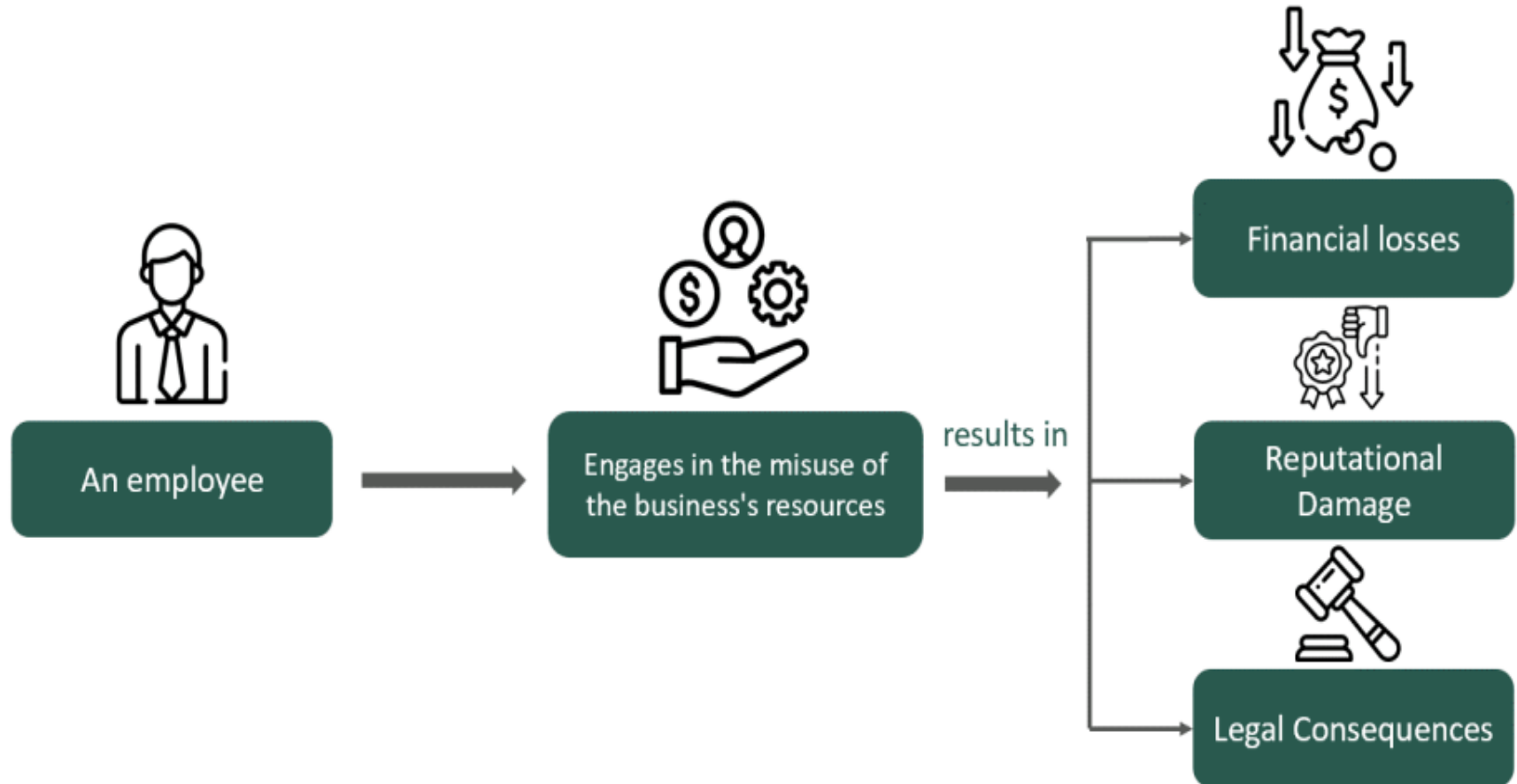
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# ASSET MISAPPROPRIATION FRAUD

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# Asset Misappropriation



# ❖ ASSET MISAPPROPRIATION

- Asset misappropriation involves **the theft or misuse of a company's assets** by employees or other insiders.
- This can include **activities like stealing cash, falsifying expense reports, or diverting company resources for personal use.**
- It's one of the most common forms of occupational fraud, leading to significant financial losses for organizations.





## 04 *Emerging Opportunities in Forensic Accounting*



# ❖ **OPPORTUNITIES IN FORENSIC ACCOUNTING**

- Forensic Audit Is An Emerging Field For Professionals.
- The Number Of Frauds Are Increasing And So The Need Of Forensic Auditors.
- Banks And Other Regulatory Bodies Are Empaneling CAs And Other Professionals And Making Their Own Panel Of Forensic Auditors

### **AI and Machine Learning**

Using algorithms to detect financial irregularities.

### **Cyber Forensics**

Investigating digital evidence related to financial crimes.

### **Blockchain Audits**

Examining cryptocurrency transactions for illicit activities.

### **ESG Fraud**

Detecting fraud related to environmental, social, governance.

### **Data Analytics**

Visualizing complex financial data for fraud detection.

### **Regulatory Compliance**

Understanding changing regulations in forensic accounting.

# ❖ EMERGING OPPORTUNITIES IN FORENSIC ACCOUNTING

- *Artificial Intelligence and Machine Learning:* AI and machine learning tools help forensic accountants analyze vast data sets quickly, identify unusual patterns, and predict potential fraud, making investigations more efficient and accurate.
- *Cyber Forensics and Digital Evidence Analysis:* With rising cybercrimes, forensic accountants increasingly work on tracing digital footprints, investigating data breaches, and collecting electronic evidence to support fraud detection and litigation.



# ❖ EMERGING OPPORTUNITIES IN FORENSIC ACCOUNTING

- **Blockchain and Cryptocurrency Audits** : The adoption of blockchain and cryptocurrencies calls for specialized audits to verify transaction authenticity, detect manipulations, and trace illicit fund flows within decentralized systems.
- **ESG Fraud Detection** : As ESG reporting gains importance, forensic accountants verify the accuracy of environmental and social responsibility claims, helping prevent misleading disclosures and building stakeholder trust.



# ❖ EMERGING OPPORTUNITIES IN FORENSIC ACCOUNTING

- Advanced Data Analytics and Visualization : Forensic professionals use powerful analytics and visualization tools to uncover hidden trends, anomalies, and suspicious transactions in complex financial data sets.
- Regulatory Changes and Compliance Requirements : Evolving regulations mandate stricter fraud detection and reporting standards, requiring CAs to stay updated and skilled in forensic compliance and legal frameworks.



# ❖ FORENSIC ACCOUNTANT REMUNERATION OVERVIEW



## Senior-Level

Senior forensic accountants with 8+ years of experience earn ₹21,05,000 per year.



## Average Salary

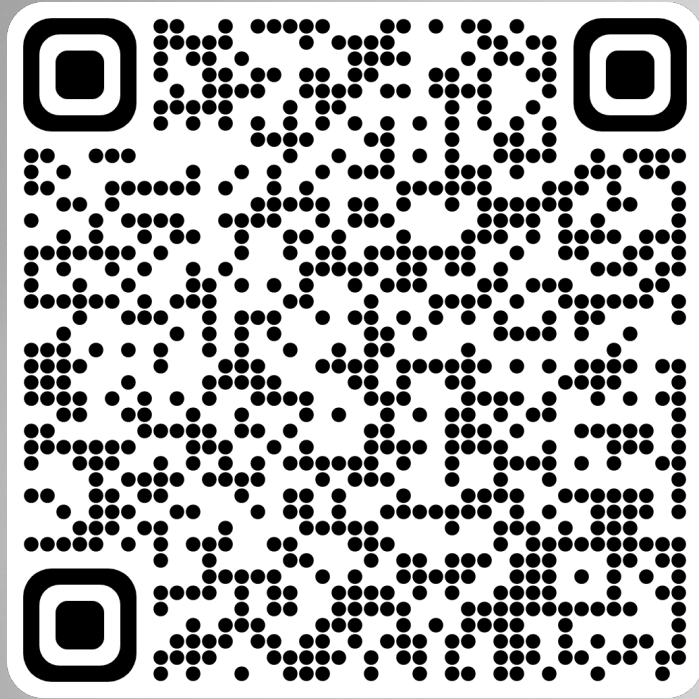
The average salary for forensic accountants is ₹16,78,000 per year.



## Entry-Level

Entry-level forensic accountants with 1–3 years of experience earn ₹12,19,000 per year.









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