INDIAFORENSIC PRESENTS

3rd Annual report on

STATUS OF FORENSIC ACCOUNTING IN INDIA

INDIA FORENSIC

Pioneers of forensic accounting education in India

PREFACE

This is the third year of the report on the status of forensic accounting in India. Every year, we at Indiaforensic come out with a compilation which helps the people at large to understand the forensic accounting community. Year 2008 was marked with revolutionary changes in the forensic accounting and anti-fraud community in India. Once again the scandals destroying the businesses in USA highlighted the increasing need for a rare breed of accountant termed as forensic accountant who is invited to investigate the scene of a fraud, money laundering, embezzlement, bankruptcy, securities scandal, or other conflicted situation and prepare a report identifying what happened. In addition to the regular analysis and compilation of the statistics this report highlights the career aspects of the forensic accountants. Some important facts about the salaries of the Indiaforensic certified members are included in this survey. In year 2008 the membership base has also grown up significantly by more than 200%. Now Indiaforensic is present in 6 countries. There are 69 Indian and MNC brands which have contributed to the membership of Indiaforensic in the last year.

In the month of March’2008 Indiaforensic brought the first foreign speaker to talk to the Indian anti-fraud community in the employee frauds conference held in Bengaluru. In this conference Indiaforensic quantified the loss to the Indian economy due to frauds.

June’2008 was most significant month in terms of the networking activities in India. We at Indiaforensic were successful in getting the World Bank to talk to Indian anti-fraud professionals. Mr. Christian Kammer who is the senior forensic accountant in World Bank was the keynote speaker in the conference in Mumbai.

In the month of September’2008 Indiaforensic released its survey on the corporate frauds which gained attraction worldwide and it was noted that more than 1200 Indian companies listed on the stock markets could be indulging in the financial statement tampering and now, at the time of compilation of the report, India’s biggest scam in the Corporate World has proved that our report was not improbable.

End of the year was completely shadowed by the economic downturn and the terrorist attacks on Mumbai. However it is really appreciated that Russian spy Kirill Chaschin visited India just to talk to Indian anti-fraud community in the conference held in Pune.

WHAT IS INDIAFORENSIC?

Forensic Accounting in India started with one word –Indiaforensic. A brand that has made a difference in the forensic accounting world. Started in year 2005, Indiaforensic now helps more than 69 business brands across the world to solve global financial fraud related problems by providing them education and customized training solutions. Indiaforensic is known for creating new educational and training products that breaks the industry norms.

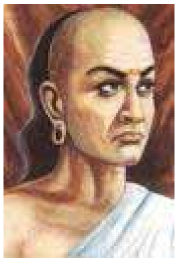
All the educational products are created based on the extensive research done by the team of in-house experts and the field experience of the board of the advisors of Indiaforensic.

Indiaforensic is the pioneer in the field of forensic accounting, well connected and networked with the industry. With about 20 representative offices across the country and a network of more than 400+ members, Indiaforensic leads the forensic accounting movement in India.

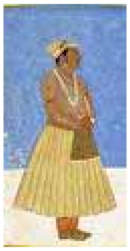
Today, Accounting and management students are sent into the market without the armor of forensic accounting. In such case, they are more likely to be the victims of the financial frauds. Sometimes the finance professionals and the auditors become the vehicle of the bigger financial scams as witnessed in the biggest fraud in Indian history. Such situations are avoided by obtaining the knowledge about the financial frauds and forensic accounting. Indiaforensic has come up with well structured programs for the auditors and the Chief Financial Officers of various businesses.

These programs particularly focus on the prevention as well as the indicators of the financial frauds in India. In order to make it convenient for the participants, Indiaforensic also offers the 'On-Site Training Programs' based on the requirements of the companies. These corporate training programs are especially useful for them who are looking for the sector specific modules over the generalized knowledge on the fraud investigations. Corporate training programs will actually give the participants an edge over their peers in the corporate world and help them not to be the passive victims of the financial frauds occurring in their organizations.

HISTORY OF FORENSIC ACCOUNTING



Kautilya



Birbal

Tenalirama

In 1940, Maurice Paulobet coined the term Forensic Accounting. 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. In an exercise carried out at "Indiaforensic" we called Kautilya into the 21st Century and started a series of conversations between the Computer and Kautilya. When Kautilya spoke to the Computer, he found that almost all the major failures in the corporate world of USA are the extended versions of what Kautilya had stated a few thousand years ago. Even the number of schemes has hardly changed. The detailed conversation is available in the Indian Forensic Accounting Manual published by "Indiaforensic."

Birbal was a Scholar in the time of King Akbar. He used various tricks to investigate various crimes. Some of his stories give the fraud examiners a brief idea about the Litmus Test of Investigation. Gem of Indian Fraud Examiners, Pradeep Akkunoor must be given the credit for actually applying the stories of Birbal in investigating frauds.

The third scholar in the above picture is Tenaliram who emphasized on the investigative techniques used to find the perpetrators.

FORENSIC ACCOUNTING EDUCATION

In order to create an awareness about forensic accounting in India, in the year 2005, we started a course on bank frauds. In year 2006, we started the course on Anti-Money Laundering to help the compliance professionals across the world. In year 2007, Certification on Corporate Frauds was initiated. Indiaforensic is the only dedicated organization that provides formal education about forensic accounting in India.

Certified Forensic Accounting Program - CFAP

Certified Forensic Accounting Program is the course dedicated to Corporate Frauds in India. It speaks about the classification of the Corporate Frauds and the ways to investigate the frauds in various sectors.

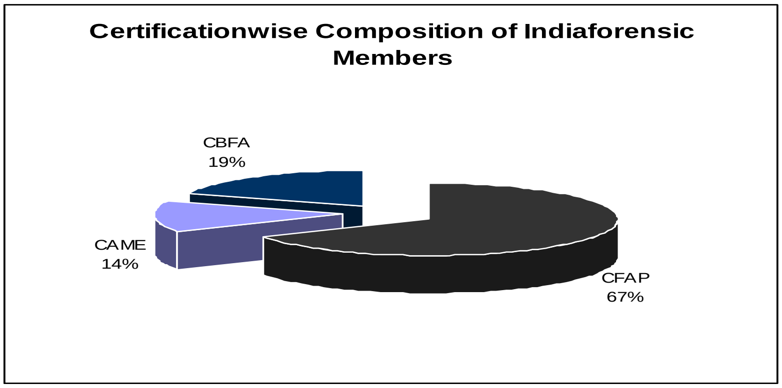
This course is now recognized by the Institute of Certified Forensic Accountants in Canada. Professionals who have cleared the certification offered by Indiaforensic can now undergo training program for obtaining the CrFA designation at substantially reduced points. CrFA will also entail the candidates to obtain the migration points.

Certified Bank Forensic Accounting - CBFA

Certified Bank Forensic Accounting is the course dedicated to Bank Frauds in India. This certification is very unique to Indian scenario of frauds. It covers various angles of financial frauds in India. Computer based examination is required to obtain the certifications.

Certified Anti-Money Laundering Expert – CAME

Certified Anti-Money Laundering Expert is a course dedicated to Anti-Money Laundering. It also focuses on the various aspects, that a good software should detect in its AML solution. Basic concepts are also explained in the same course.



In addition to this, Indiaforensic is also affiliated to the University of Wollongong as the Channel Partners. University of Wollongong is the first university in the world to offer the masters program in forensic accounting.

Nikhil Parulkar

Nikhil Anant Parulkar *[Certified Anti-Money Laundering Expert at Indiaforensic]* is the first Indian to participate in the Masters program in forensic accounting, offered by the University of Wollongong. University of Wollongong is the first University in the world to offer the Masters program in forensic accounting and also the partners of Indiaforensic.

Becoming Forensic Accountant

In addition to obtaining the Certifications offered by Indiaforensic, it requires courage to be a forensic accountant, says Nikhil Parulkar. “To become a Forensic Accountant, by qualification you must have a basic accounting degree or economics degree and understanding of how business system works. Professional accountants once trained need to enhance and diversify their knowledge by acquiring the most important element: experience. This will make you think forward and look into the future. You need to be an enquiring mind and should not be hesitant to ask "Why? How? and Who?"

Nikhil further explains “A forensic accountant must have high level of communication skills, both written and spoken, as most accountants will be writing reports of their engagements. He should have a high level of understanding and creative thinking.. He should also have clarity of expression and must be impartial. To be a successful forensic accountant, accounting qualifications are not enough. In addition to it, one must also have patience and common business sense. It has been observed that the forensic accountants acting as expert witnesses in courts have always been attacked on personal level and their professional credibility. At such times, a forensic accountant should be insensitive to such attacks. An important quality that a forensic accountant should possess is to be mindful of others attitudes. Other qualities include proficiency in using computer skills, understanding body language, thorough knowledge of government policies, basic understanding of Criminal and Civil Law and the legal system.”

Rs.6.87 lacs — Average Salary of the Employed Certified Forensic Accountants in India

Rs.6.25 years — Average experience of Certified Forensic Accountant

IMPORTANT FORENSIC ACCOUNTANTS – 2008

Every year, Indiaforensic recognizes the members who have done an exceptional work in the field of forensic accounting in India.
There are two categories of the Indiaforensic Awards.

Highest Scorer Award

The first award is given to the participant who scores maximum marks in the examinations held by Indiaforensic. The awardee has to be a member of Indiaforensic and should be the one who scores the highest marks in the any one of the three examinations conducted in the calendar year. Those who are eligible for waiver are not considered for this award. Last year was the first year of these awards and Ms. Vaishali Mahajan of KPMG won the award with the score of 99%.

Mr. **Ganesham Naidu** [Left] accepting the award from Capt. Percy Jokhi [Right] who was the winner of the last year's Indianveshan award. Mr. Naidu is the highest scorer in the courses offered by Indiaforensic. He works with CITI Group and he has scored 93% in CBFA – Certified bank forensic accounting course

Indianveshan

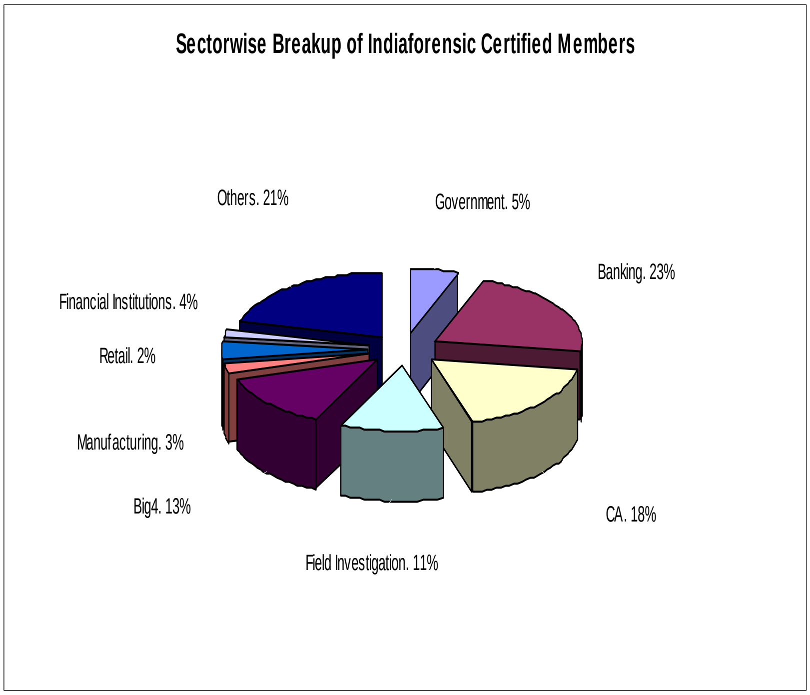
The second award termed as Indianveshan – which is the Oscar in the anti-fraud field is given to the person who has investigated the maximum number of fraud cases in India. Word *Anveshan* literally means Investigation. The objective of this award is to recognize the talent in the field of forensic accounting and fraud investigations.

This year the award was presented to Mr. Chandrashekhar Gokhale – MD of Astute Corporate Services Pvt. Ltd, which is the biggest company in India in the banking frauds domain.
The awardee may or may not be the member of Indiaforensic but should communicate the contribution in writing to Indiaforensic. Last year the award was given to Capt. Percy Jokhi of FirstSource who handled numerous fraud cases in the hospitality, banking and IT sector.

Mr. Chandrashekhar Gokhale [Left] accepting the award from Mr. Nagpal [Right] ex-Customs Commissioner of Mumbai. Mr. Gokhale who is MD of India's biggest banking fraud Investigation Company, Astute, has resolved the highest number of fraud cases in the banking sector in India.

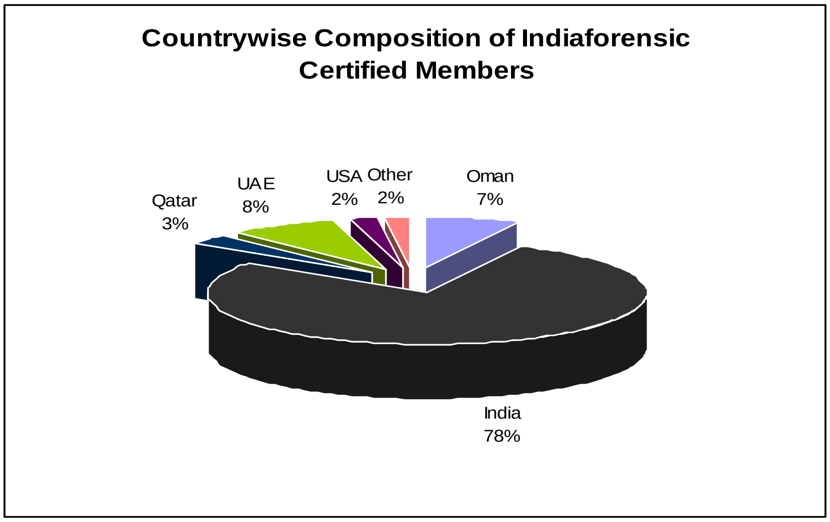
COMPOSITION OF FORENSIC ACCOUNTANTS

It is difficult to quantify the number of the forensic accountants in India. But the data is available for the Certified Forensic Accountants. Indiaforensic was probably the biggest organization to issue the certifications in the year 2008. Following graph shows the composition of the forensic accountants in different sectors. Banking is the single biggest sector which contributes 23% of the total certified members in India. Citi Bank is the single biggest bank in the banking sector which employs highest number of Certified Anti-money laundering experts and the Certified Forensic Accounting Professionals [CFAP]. Second sector that contributes to the highest number of certifications in India is the Big four accounting firms. KPMG is the biggest of them all. KPMG has strength of more than 300 professionals working for their forensic team.



Forensic Accounting in Various Countries

In last year Indiaforensic was able to expand its certifications outside India and the certified members are now in Qatar, UAE, USA, Oman and other countries as well. However 78% of the total members are based in India.



FORENSIC ACCOUNTING REQUIREMENTS

The statistics show that there are 4,900-odd companies listed on BSE and 1247 listed on NSE as of August'2008. After the Satyam Fiasco investors will be worried while investing every company listed on the stock markets and there will be huge demand for the forensic accounting professionals. Atleast 6000 professionals will be required to fight the frauds in the listed companies and to protect the interests of the investors.

However requirement of 6000 professionals is a pessimistic requirement looking at the size of the frauds in our country. India loses atleast $40 billion to the frauds. Considering the current scenario, every Indian Certified Forensic Accountant is required to fight the frauds worth of atleast Rs.480 crore. Considering US standards India will require atleast 25 times more forensic accountants.

In addition to law firms, accounting firms, insurance companies and Banks, forensic accountants will also be required by regulators.

We at Indiaforensic have started the process of empanelment of the forensic accountants for various different forensic accounting assignments. The regulators of various industries can look at these panel members for forensic accounting related work and will be provided the access to member's base of Indiaforensic.

Empanelment means enrolling the organization with specific forensic accounting skill sets with Indiaforensic database which will then be shared with the regulators as per their requirements.

Regulators in India that would require forensic accounting services

- Security Exchange Board of India
- Serious Fraud Investigation Office
- Central Bureau of Investigation
- Criminal Investigation Department
- Economic Offences Wing
- Insurance Regulatory and Development Authority
- Directorate of Revenue Intelligence
- Income Tax department
- Sales Tax department
- Central Vigilance Commission
- Central Information Commission
- Comptroller and Auditor General of India
- Telecom Regulatory Authority of India
- Central Board of Excise and Customs

Looking at the demand and supply gap in the forensic accounting profession Indiaforensic has come up with the specialized program for the following professionals

- Banking professionals working for the fraud control units
- Compliance professionals across the financial sector
- Equity analysts looking to invest in companies
- Insurance professionals in the special investigation units
- Financial executives in IT and ITES sector
- Investigative journalists
- CA and MBA students
- Law firms
- Law enforcement professionals
- Regulators like the RBI and SEBI

SCOPE OF FORENSIC ACCOUNTING

Abhijeet Mehendale [Above] , Chief of Education at Indiaforensic feels that there is a wide scope for the forensic accountants in the wake of Satyam Collapse.

India witnessed the biggest financial statement fraud amounting to more than Rs.7000 crores, when this report was under process of compilation. This collapse has once again emphasized on the importance of the forensic accounting in India.

Forensic accounting has come to light in view of increased in financial frauds popularly known as white collar crimes. This profile is currently unknown in India; however the future of forensic accounting in India is poised to grow. Over a period of time forensic accountants will be engaged in law firms, accounting firms (a few of them already have such practice), and insurance companies. Banks have yet to accept this concept. In my opinion commercial banks have much to lose in frauds/misconduct committed by employees/vendors at all levels in hierarchy. The changing nature of Indian accounting standards (moving towards IFRS) and international accounting standards, with top corporate entities who are going global, forensic accountants will provide an immense assistance to them in due diligence while going in for a major mergers and acquisitions abroad. Forensic accountants will be required over a period of time to provide expert consulting services to corporate entities and to provide expert witness services to courts. Currently lawyers, police force, insurance companies, regulatory bodies, courts and corporate are frequently utilizing the services of forensic accountants in western countries including oceanic regions (Australia). The traditional role of an auditor has now expanded with recent increase of national (Global Trust Bank, Satyam) and international corporate failures (Enron, WorldCom, HIH), hence the traditional role has now extended into reviewing the adequacy of fraud risk management procedures and assessing the potential impact of the fraud and containing such incidences.

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