

# THE MANAGEMENT ACCOUNTANT

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## [ Forensic Audit ] A STEP AHEAD



*Journal of*  
**THE INSTITUTE OF COST ACCOUNTANTS OF INDIA**  
(Statutory Body under an Act of Parliament)

[www.icmai.in](http://www.icmai.in)

1

# Benevolent Fund

## FOR THE MEMBERS OF THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

CMA Bhawan, 12 Sudder Street, Kolkata - 700016

### OBJECTIVE

The Fund has been created to provide outright grant of prescribed amount to the member in the event of critical illness of a member / beneficiary of the Fund. It is also for outright grant of prescribed amount to the beneficiary in the event of death of a member of the Fund.

### LIFE MEMBERSHIP FEE

Onetime payment of ₹7500/-

### BENEFITS

- ⊙ **Income Tax Benefit under section 80G**
- ⊙ **Outright grant not exceeding ₹3,00,000.00/- in each case to the beneficiary in the event of death of the member.**
- ⊙ **Outright grant not exceeding ₹1,50,000.00/- in each case to the member and beneficiary for critical illness duly certified by the doctor under whom the treatment is continuing.**

#### Coverage of Critical Illness, leading to hospitalization, may cover the following -

- ⊙ Cancer / Malignancy
- ⊙ Coronary Artery Bypass Graft Surgery
- ⊙ Stroke / Cerebral Attack / Paralysis
- ⊙ Heart Valve Replacement Surgery
- ⊙ Myocardial Infarction (heart attack) / Heart Failure / Pace Maker Surgery / Kidney Dialysis(CKD)/ Renal Failure
- ⊙ Major Organ Transplant
- ⊙ Hemophilia
- ⊙ Thalassaemia
- ⊙ Neurological Diseases
- ⊙ Flue Blown acquired Immune Deficiency Syndrome
- ⊙ Multiple sclerosis
- ⊙ Tuberculosis / Bronchopneumonia/ Pleurisy
- ⊙ Permanent disablement
- ⊙ Any other disease that may be considered by the Board of Trustees to be critical in nature.

To apply for life membership or for further details please visit

<https://eicmai.in/External/Home.aspx#>

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# ICMAI

## The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

[www.icmai.in](http://www.icmai.in)



- **THE INSTITUTE OF COST ACCOUNTANTS OF INDIA** (erstwhile The Institute of Cost and Works Accountants of India) was established in 1944 as a registered company under the Companies Act with the objects of promoting, regulating and developing the profession of Cost Accountancy.
- On 28 May 1959, the Institute was established by a special Act of Parliament, namely, the Cost and Works Accountants Act 1959 as a statutory professional body for the regulation of the profession of Cost & Management Accountancy.
- It has since been continuously contributing to the growth of the industrial and economic climate of the country.
- The Institute of Cost Accountants of India is the only recognized statutory professional organisation and licensing body in India specialising exclusively in Cost & Management Accountancy.

### VISION STATEMENT

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

### MISSION STATEMENT

"The CMA Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

### Institute Motto

असतोमा सद्गमय  
तमसोमा ज्योतिर् गमय  
मृत्योर्मांस्तं गमय  
ॐ शान्ति शान्ति शान्तिः

From ignorance, lead me to truth  
From darkness, lead me to light  
From death, lead me to immortality  
Peace, Peace, Peace

### IDEALS THE INSTITUTE STANDS FOR

- to develop the Cost and Management Accountancy Profession
- to develop the body of members and properly equip them for functions
- to ensure sound professional ethics
- to keep abreast of new developments



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Behind every successful business decision,  
there is always a **CMA**

*The Management Accountant, official organ of  
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(founder member of IFAC, SAFA and CAPA)*

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# From the EDITOR'S DESK

**F**orensic Audit is having an imperative role in assisting the corporates to maintain efficiency and unearth frauds. Forensic audit as tool-mix of accounting and investigation is serving towards good governance and makes the corporates to grow and develop on the parameters of being effective, efficient and empowered. In today's complex financial landscape, organizations face an array of challenges, from regulatory compliance to internal fraud. The increasing sophistication of financial crimes necessitates a proactive approach and forensic audit has emerged as a critical tool in this regard. By examining the underlying processes and potential discrepancies in financial reporting, forensic audits not only identify wrongdoing but also provide organizations with insights to fortify their defences against future risks.

This issue of Management Accountant carries several articles on the theme - Forensic Audit - A Step Ahead.

*Forensic Audit and The Role of Cost Accountants* explores the essential role of cost accountants in forensic auditing, a specialized field aimed at detecting financial discrepancies and frauds.

*Forensic Audit and Corporate Governance: A Step Beyond Traditional Auditing System and Synergistic Role of Artificial Intelligence* has tried to magnify that forensic audit is a step ahead of the traditional audit and AI integrated forensic auditing is a powerful tool to reduce corporate crimes and helps to achieve corporate governance goals.

*Cost & Management Accountants: Corporate Partner*

*as Forensic Professional - Forensic Audit: A Step Ahead* concludes that CMAs will play an important role in navigating these complexities, ensuring that forensic audits remain a powerful tool for upholding transparency and combating financial misconduct.

*Anomalous Detection in GST Collections: A Forensic Analysis Using Benford's Law* seeks to detect irregularities and potential frauds in GST collections from Karnataka using Benford's law and to assess the conformity of GST data (CGST, SGST, IGST and CESS) to expected patterns and distributions.

*Forensic Audit: Theoretical Insights and Practical Applications* explores the application of key forensic audit's theoretical frameworks across various industries.

*Locking Financial Depletion by Unlocking Frauds using Forensic Audit: A Lynchpin* asserts that frauds can be detected by applying the forensic audit which exhibits the motives of the perpetrators behind the occurrence of the fraud. Cost and Management Accountants can be judgmental in this task.

*Harnessing AI in Forensic Audit: Expanding Opportunities for CMAs* delves deeper into the concept of forensic audit, artificial intelligence (AI), how forensic auditors can leverage AI and how CMAs are well-suited for these engagements.

*Lending Through 'Digital Footprints' New Model for Micro, Small & Medium Enterprises Credit Appraisal Process of Banks* discusses a 'New Credit Assessment Model' for micro, small & medium enterprises (MSMEs), where banks will

assess them based on their 'digital footprints'.

The objective of the article *Beyond Internal Audit: The Advanced Scope of Forensic Auditing* is to create awareness about the growing importance of forensic audits and how this is important in promoting transparency, integrity and accountability

FAI work in payroll process is narrated in the article *Forensic Accounting & Investigation – On Payroll Costs*.

*Audit Through Artificial Intelligence Tools* analyses various steps in the audit process and the opportunity to use AI.

*Financial Frauds and Cyber Crimes in India* sheds light on the evolving landscape of cyber threats and the importance of proactive measures to combat cybercrime effectively.

*Role of 'Digital Footprints' in Business* underscores the need for business enterprises to establish a digital footprint to maintain relevance, competitiveness and prosperity within the online commercial arena.

*Applicability of Forensic Audit to Different Industries* gives an idea about the applicability and few case studies from different industries on forensic audit.

*Forensic Audits* explains the legislative details related to forensic audits, as most of the focus is laid on the guidelines by SEBI, Acts like the Companies Act 2013.

*Forensic Audit: A Step Ahead of Internal Audit* reveals that forensic audit is a purposeful process of getting evidence which can be used in a court of law. This process includes various audit techniques like analysis, inquiry, observation, evaluation and examination.

Apart from these thematic articles, this issue contains articles on various other contemporary matters too.

We look forward to your constructive feedback. You may send your comments and suggestions to [editor@icmai.in](mailto:editor@icmai.in).

Puja is more than just a religious observance; it is an expression of gratitude, love, and hope. Whether you celebrate in a grand manner or in quiet solitude, may the essence of Puja fills your heart with peace and happiness.

Wishing you all a joyful and blessed Puja!



# President's Communique

**CMA Bibhuti Bhusan Nayak**

President

The Institute of Cost Accountants of India

*"You cannot believe in God until you believe in yourself."*

-- Swami Vivekananda

My Dear Professional Colleague,

**A**s we approach the vibrant and joyous festival season, I extend my heartfelt wishes to each of you. This time of year brings with it a spirit of celebration, unity, and reflection. May this joyous period bring prosperity, happiness, and success to you and your loved ones. As we celebrate the triumph of good over evil, light over darkness, and knowledge over ignorance, let us reaffirm our commitment to excellence, integrity, and professionalism.

May Navaratri's vibrant energies inspire you to strive for excellence, Durga Puja's spirit of victory guide you towards overcoming challenges, and Diwali's radiant light illuminate your path to knowledge and wisdom.

### **Swachhata Hi Seva (SHS) – 2024 Campaign**

The Institute successfully organized the Swachhata Hi Seva (SHS) 2024 campaign from 17<sup>th</sup> September, 2024 to 1<sup>st</sup> October, 2024 with the theme of 'Swabhav Swachhata - Sanskaar Swachhata' with Swachh Bharat Diwas celebration on 2<sup>nd</sup> October, 2024 aligned with the overarching vision of the Swachh Bharat Abhiyan, aiming to enhance awareness on the importance of sanitation, hygiene, and sustainable environmental practices. Various activities as specified in the SHS guidelines issued by the Government of India were successfully conducted at Headquarters, Delhi Office, Regional Council Offices and various chapters across the country.

### **Meeting with Dignitaries**

I along with CMA Manoj Kumar Anand, Council

Member, ICAI and senior officials of PFC Limited, CMA R K Malhotra and CMA Rajesh Kumar Agarwal, called on Shri Harsh Malhotra, Hon'ble Union Minister of State for Corporate Affairs and Road, Transport & Highways on 24<sup>th</sup> September, 2024.

I along with CMA Ashwin G. Dalwadi, Immediate Past President, ICAI and CMA Manoj Kumar Anand, Council Member, ICAI, called on CMA (Dr). T.V.Somanathan, IAS, Cabinet Secretary to the Government of India on 13<sup>th</sup> September, 2024.

I along with my council colleagues CMA Rajendra Singh Bhati and CMA Manoj Kumar Anand met Dr. Manoj Govil, IAS, Secretary to the Government of India, Department of Expenditure, Ministry of Finance on 18<sup>th</sup> September, 2024 and discussed the matters related to the CMA profession & ongoing activities of the Institute.

### **Call for Nominations for 19<sup>th</sup> National Awards for Excellence in Cost Management 2024 and 8<sup>th</sup> CMA Awards 2024**

It gives me immense pleasure to inform you that the Institute is inviting nominations from the organisations to participate in the 19<sup>th</sup> National Awards for Excellence in Cost Management – 2024 and from the CMAs in employment for the 8<sup>th</sup> CMA Awards 2024.

I urge the organisations and CMAs in employment for their active participation. For details, please visit the website of the Institute:

- ⦿ For National Awards 2024: [https://icmai.in/Awards/National\\_Awards/index.php](https://icmai.in/Awards/National_Awards/index.php)
- ⦿ For CMA Awards 2024: [https://icmai.in/Awards/CMA\\_Awards/index.php](https://icmai.in/Awards/CMA_Awards/index.php)

### **Stakeholder consultation for Comprehensive Review of the Income Tax, 1961**

A Stakeholder consultation meeting for Comprehensive

Review of the Income Tax, 1961 was held under the chairmanship of Revenue Secretary, Ministry of Finance on 18<sup>th</sup> September, 2024 at North Block, New Delhi. The meeting was attended by me, CMA Rajendra Singh Bhati, Chairman, Direct Taxation Committee, ICAI, CMA Manoj Kumar Anand, Chairman, PD & CPE Committee, ICAI and CMA Shailendra Bardia and submitted the suggestions of the Institute for simplification of the language of the IT Act to make it concise, lucid and easy to read and understand; and to mitigate litigation, provide tax certainty, bring down the demand involved in litigation and reduce the compliance burden.

### **CAT Course for retiring/ retired Defence Personnel**

I am happy that CAT Directorate continued the Institute's association with Directorate General Resettlement (DGR) as two more batches of the CAT course for retiring/retired JCOs/OR and their equivalents, in association with the Directorate General of Resettlement (DGR), Ministry of Defence, Government of India, as per the approved calendar of the DGR for the training year 2024-25, commenced on 9<sup>th</sup> September & 23<sup>rd</sup> September, 2024 in Bhubaneswar and Noida respectively. Inaugural Ceremony of the batch commenced in Bhubaneswar was held on 13<sup>th</sup> September, 2024. Col Kirtiman Gautam Mohanty presided over the ceremony, interacted with the Faculty & course participants and delivered the opening address. My Council colleague CMA Rajendra Singh Bhati, Chairman-Committee for Accounting Technicians (CAT), in his address ensured the full support and commitment of the Institute towards the fruitful and quality learning. CMA Ramesh Chandra Patra, Chairman, Bhubaneswar Chapter of ICAI along with MC members of the Bhubaneswar Chapter and officials of the Institute were also present.

Further, on 30<sup>th</sup> September 2024, an interaction programme was held at the Udaipur Chapter, where candidates pursuing the CAT course had the opportunity to engage with Brigadier Randeep Singh Chatha, Additional Director General of DRZ (West), DGR, Ministry of Defence, who addressed them through the video-conferencing. CMA Rajendra Singh Bhati, Chairman-CAT also addressed the candidates online and boosted their morale while ensuring the wholehearted support of the Institute in their training. The session provided valuable insights and guidance, offering a platform for candidates to connect directly with their senior leadership. Discussions covered key aspects of CAT course training and future career prospects,

emphasizing the importance of continuous learning and leadership in shaping successful careers for those transitioning through Directorate General Resettlement (DGR) programs.

I would like to extend my heartfelt congratulations to the CAT Directorate for their outstanding efforts under the visionary leadership of CMA Rajendra Singh Bhati, Chairman (CAT). His dynamic and forward-thinking approach has been instrumental in ensuring the continued and fruitful association with the Ministry of Defence.

### **Seminar on SAP S/4HANA by Rourkela Chapter**

I had the pleasure of participating in the Seminar organized by the Rourkela Chapter of the Institute on the topic “अभिव्यक्ति 2024: S/4HANA, THE FUTURE ROADMAP” on 14<sup>th</sup> September, 2024 at Rourkela. The seminar provided deep insight into working under S/4 HANA environment coupled with Machine Learning and Artificial Intelligence capabilities especially focused on the FICO module. I commend CMA Dr. G S Dash, Chairman and other members of the Managing Committee of Rourkela Chapter for organizing a successful event, fostering knowledge sharing and professional development.

### **Annual Students' & Members' Meet – 2024 of South Odisha Chapter**

I am pleased to share that I participated as the Chief Guest at the Annual Students' & Members' Meet – 2024 organised by the South Odisha Chapter of the Institute at Berhampur on 20<sup>th</sup> September, 2024. The Chapter also organized a Mega Blood Donation Camp at the venue. I congratulate CMA Narasingha Chandra Kar, Chairman and other members of the Managing Committee of South Odisha Chapter of the Institute on the successful conduct of the Seminar.

Wishing you a delightful and peaceful festive season.

With warm regards,



**CMA Bibhuti Bhusan Nayak**

October 4, 2024



# BRIEF SUMMARY OF THE ACTIVITIES OF VARIOUS DEPARTMENTS/ COMMITTEES/ BOARDS OF THE INSTITUTE DURING THE MONTH OF SEPTEMBER 2024

## **BANKING, FINANCIAL SERVICES AND INSURANCE BOARD**

The Banking, Financial Services & Insurance Board of the Institute and the BFSI department continued its various activities and initiatives in September 2024, a synopsis of which is presented herein under:

### **A. Certificate Courses of BFSI**

- i. Advance Certificate Course on Fintech  
The admission for the 1<sup>st</sup> batch of Advance Certificate Course on Fintech is going on.
- ii. Investment Management in collaboration with NSE Academy  
The admission for the Level-1 (Fundamental Analysis & Valuations) Batch No. 2 of the Investment Management in collaboration with NSE Academy and Level-3 Batch No. 1 (Financial Derivatives & it's application) are presently going on.
- iii. Concurrent Audit of Banks  
The admission for the 11th batch of Concurrent Audit of Banks has started.  
The admission window for the courses is stated as follows:  
<https://eicmai.in/OCMAC/BFSI/DelegatesApplicationForm-BFSI.aspx>

### **B. Webinars**

The following webinars were organized by the BFSI on various topics:

- i. Webinar on 6<sup>th</sup> September 2024 was organized on the topic “Leveraging innovation for catalysing performance of Banks”. CMA (Dr.) S. K. Gupta, MD, ICAI Registered Valuers Organization, CEO, ICAI Social Auditors Organization, COO, ICAI International ADR Chamber was the Speaker.
- ii. Webinar on 18<sup>th</sup> September 2024 was organized on the topic “Assessment of Loans’ Based on ‘Digital Footprints’ of ‘Borrower/Business Entities’ and Not on ‘Balance Sheets’ of MSME Segment (Union Budget 2024-25)”. CMA (Dr.) P Siva Rama Prasad, Former Assistant General Manager, SBI was the Speaker.
- iii. Webinar on 21<sup>st</sup> September 2024 was organized on the topic “FinTech’s and their evolution in Indian Banking context”. CMA Manoj Batra, Head Product & Process, Government Business Group, Bandhan

Bank was the Speaker.

- iv. Webinar on 26<sup>th</sup> September 2024 was organized on the topic “Awareness Programme for Investment Management Course”. Shri Anish P Gandhi, Financial Markets Educator was the Speaker.

### **C. Publication of Aide Memoire on Infrastructure Financing (Revised and Enlarged 2<sup>nd</sup> Edition)**

The online purchase link of the publication titled Aide Memoire on Infrastructure Financing (Revised and Enlarged 2nd Edition) is as follows:

[https://eicmai.in/booksale\\_bfsi/Home.aspx](https://eicmai.in/booksale_bfsi/Home.aspx)

### **COOPERATIVE DEVELOPMENT BOARD**

The Cooperative Development Board had its 5<sup>th</sup> Meeting in Chennai on 4<sup>th</sup> September 2024 wherein certain important decisions were taken on the way forward for the Board. The Board has been making efforts for inclusion of CMAs in the conduct of audit and certifications in the respective State Acts for Cooperatives.

The Board also organized a webinar on the topic “Leadership Effectiveness and Good Governance in Cooperative World”. The guest facilitator for the session was Dr. Pranab Baishya, Institute of Cooperative Management, Guwahati who discussed at length about the pertinence of effective leadership and good governance in the functioning of cooperatives.

### **CAT DIRECTORATE**

CAT Directorate issued Notification for the CAT Course Part-I Examination – December 2024 term. The examination will be held on 14<sup>th</sup> December, 2024 through offline OMR-based format at designated centres. The students are urged to be careful while filling the application forms, and to follow the guidelines issued by the CAT Directorate in the said notification.

### **MEMBERSHIP DEPARTMENT**

During the month of September 2024, 124 new Associate memberships were granted and 37 Associate members were upgraded to Fellowship. Communications has been sent by the Membership Department of the Institute to all members of the Institute updating them on their status of membership fees dues for the year 2024-25. As a part of the Membership Drive, Membership Department alongwith the assistance of Regional Councils and Chapters of the Institute are making noteworthy efforts via phone calls and mails to reach the members of our Institute and assist

them concerning restoration of Membership and updating their communication details. For any further clarification, it is requested to contact the membership department at: [membership.director@icmai.in](mailto:membership.director@icmai.in) and [membership@icmai.in](mailto:membership@icmai.in), mentioning the membership number.

## **PROFESSIONAL DEVELOPMENT & CONTINUOUS PROFESSIONAL EDUCATION (PD & CPE) COMMITTEE**

New Okhla Industrial Development Authority considered Cost Accountants Firms for appointment as Internal Auditor. Further, Gujarat State Handicrafts Development Corporation Limited also considered Cost Accountants for Internal Audit.

Please visit the PD Portal for Tenders/EOIs during the month of September 2024 where services of the Cost Accountants are required in the West Bengal Power Development Corporation Limited, Rajasthan Housing Board, National Health Mission Idukki, Maharashtra Natural Gas Limited, Himachal Pradesh Power Corporation Limited, Engineering Projects (India), Rajasthan Urban Drinking Water Sewerage and Infrastructure Corporation Limited, Power Grid Teleservices Limited, Cement Corporation of India Limited (CCI Ltd.), West Bengal Forest Development Corporation Limited, Haryana Rail Infrastructure Development Corporation (HRIDC) Limited, Rajasthan State Cooperative Bank Limited, Fertilisers and Chemicals Travancore Limited, National Health Misson Ernakulam, Andrew Yule and Company Limited, Airports Authority of India Bhopal, Gliders India Limited, Artificial Limbs Manufacturing Corporation of India, Webel Technology Limited, Punjab National Bank, etc.,

The Professional Development & CPE Directorate is currently conducting online preparatory classes for 80 hours to guide the eligible CMA Candidates for the UPSC Recruitment Test for the recruitment of Assistant Director (Cost). The curriculum is meticulously designed to cover all the pertinent topics in the examination syllabus, ensuring thorough preparation and guidance for nearly 500 candidates by the distinguished panel of experts and academicians.

The practising members are urged to enroll for the 11th batch of online Mandatory Capacity Building Training (e- MCBT) at the earliest to complete their MCBT who have taken Certificate of Practice (COP) on and after 1<sup>st</sup> February, 2019 and have not undergone this training.

In the monthly Series, Professional Development & CPE Committee conducted 9th Webinar on 4<sup>th</sup> September 2024, discussion with practitioners on “How to identify Multibagger Stocks”, wherein CMA Gurvinder Malhotra made a comprehensive presentation sharing valuable insights and strategies. The session was very much appreciated by the participants and Chairman, Professional Development & CPE Committee also encouraged the

active interaction.

Professional Development & CPE Committee associated with PHD Chamber of Commerce and Industry for the seminar on “Insider Trading, Independent Directors, Forensic Audit & Fraud Detection” at PHD House, New Delhi on 20<sup>th</sup> September 2024 and webinar on “Decoding 54<sup>th</sup> GST Council Meeting’s Latest Amendments and Judgements” on 26<sup>th</sup> September 2024.

During the month of August, around 40 programmes in Physical mode and around 30 programmes in online mode were organised by the different Committees, Regional Councils and Chapters of the Institute on the topics of Blockchain Technology & Crypto Assets, Handling Litigations in GST, Financial Independence, Overview of Product Costing in SAP S4 HANA, Procedural and Practical insights of SME Listing, Cost Governance, FinTech’s and their evolution in Indian Banking context, Leadership Effectiveness and Good Governance in Cooperative World, TDS and TCS Compliances and Management and so on.

## **SUSTAINABILITY STANDARDS BOARD**

The Sustainability Standards Board had organized the 16th webinar of Vasudhaiva Kutumbakam Series on the topic ‘Green Costing’ on 13<sup>th</sup> September, 2024. CMA Subhasish Ghosh, General Manager, ITC Limited was the speaker for the webinar. The 17<sup>th</sup> webinar of Vasudhaiva Kutumbakam Series on the topic “ESG and PSUs” was organized on 27<sup>th</sup> September, 2024. CMA Ram Ganesh R., Company Secretary, Kerala State Beverages (M&M) Corporation Limited was the speaker for the webinar.

The last date of admission for the 2<sup>nd</sup> batch of Certificate Course on ESG is 15<sup>th</sup> October, 2024.

The admission link is as follows: <https://icmai.in/OCMAC/SSB/DelegatesApplicationForm-SSB.aspx>

The Sustainability Standards Board released the September 2024 edition of its monthly newsletter Sukhinobhavantu. The Download link is as follows:

[https://icmai.in/upload/Institute/Updates/SSB\\_September\\_2024.pdf](https://icmai.in/upload/Institute/Updates/SSB_September_2024.pdf).

## **TAX RESEARCH DEPARTMENT**

The “CMA Tax Volunteer Scheme” has been launched for CMAs, CMA Students and the general public to provide their inputs on the proposed changes suggested on the Income Tax Act, 1961. The last date of submission for the scheme was 30<sup>th</sup> September, 2024 and the department has received quite a few meaningful suggestions. In this regard, the Chapters of the Institute were also requested to contribute their views and suggestions in which many chapters have also contribute positively.

In the month of September, 2024 a very important workshop was conducted by the Department on the topic, “TDS and TCS Compliances and Management” during

17<sup>th</sup> to 20<sup>th</sup> September, 2024.

Another important webinar was conducted 25<sup>th</sup> September, 2024 on the topic, “GST and Cross-Border Transactions”. The transaction location in cross-border trade plays a critical role in determining tax jurisdiction and compliance requirements. It refers to the physical location where goods are dispatched or received, which affects how the transaction is treated under GST. The implication, documentation and compliance requirements of GST in both exports and imports were discussed.

A MoU has been signed between the Institute and the Scottish Church College, Kolkata for conduct of GST Course and Income Tax Course for College and University students for their students. CMA Kaushik Banerjee, Secretary of the Institute and Dr. Madhumanjari Mandal, Principal of the college signed the MoU. The college has already conducted 2 batches of the courses for its students.

Exams for GST Course for college and university students were conducted at Vidyavardhaka College Mysore on 25<sup>th</sup> September, 2024. Classes for the GST Course for college and university was completed at Taradevi Harakchand Kankaria Jain College (Batch: 3) on 23<sup>rd</sup> September, 2024.

The classes are continued for all the 7 taxation courses named below:

- a. Certificate Course on GST (Batch – 16)
- b. Advanced Certificate Course on GST (Batch – 12)
- c. Advanced Course on GST Audit and Assessment Procedure (Batch – 9)
- d. Certificate Course on International Trade (Batch – 6)
- e. Certificate Course on TDS (Batch – 12)
- f. Certificate Course on Filing of Returns (Batch – 12) and
- g. Advanced Course on Income Tax Assessment & Appeals (Batch – 9)

The quiz on indirect tax is conducted on every Friday Pan India basis. The Taxation Portal is being updated regularly with the circulars, notifications and press releases. 167<sup>th</sup> and 168<sup>th</sup> Tax Bulletin has also been published and circulated to the Government and corporates.

### **INSOLVENCY PROFESSIONAL AGENCY (IPA) OF THE INSTITUTE**

The Insolvency Professional Agency of Institute of Cost Accountants of India (IPA ICMAI), in its endeavour to promote professional development and sharpen the skills of the professionals, has constantly been conducting various professional & orientation programs across the country and publishing various publications and books for the benefit of stakeholders at large. IPA ICMAI has undertaken several initiatives, as enumerated below, during the month of September 2024.

- ⊙ A Five-day “Executive Development Program on “Successful Implementation of Resolution Plan” was held during 6<sup>th</sup> to 10<sup>th</sup> September 2024.
- ⊙ A Workshop on “Understanding the Waterfall Mechanism (Section 53 of IBC, 2016)” was conducted on 13<sup>th</sup> September 2024.
- ⊙ A two-day Online Learning Session on “Avoidance Transactions under IBC, 2016” was held from 21<sup>st</sup> September 2024 to 22<sup>nd</sup> September 2024.
- ⊙ IPA of ICMAI in association with National e Services Limited (NeSL), organised a Webinar on IU’s Technology Solutions for IPs on 23<sup>rd</sup> September 2024, which received an overwhelming response from over 90 participants who benefitted from the knowledge sharing.
- ⊙ The Cochin Chapter of ICMAI and IPA of ICMAI in Association with National Network for Insolvency Professional and Kerala Insolvency Professional Forum organised a Physical seminar on Insolvency and Bankruptcy code 2016 on 27<sup>th</sup> September 2024. The program was well appreciated by the participants who gained immensely with it. There were several take-aways for the benefit of participants.
- ⊙ A Workshop on “Judicial Pronouncements under IBC, 2016 was conducted on 29<sup>th</sup> September 2024 which discussed topics such as Landmark Judgements of NCLT, NCLAT, High Court(s), Landmark Judgements of Supreme Court and other important judgements.
- ⊙ In its endeavour to promote the profession, knowledge sharing and sensitisation of the environment, IPA ICMAI published Au-Courant (Daily Newsletter), a weekly IBC Dossier, and a monthly e- Journal which are hosted on its website.

### **ICMAI REGISTERED VALUERS ORGANIZATION (RVO)**

ICMAI RVO has successfully organized two “50 Hour’s training programs” for Securities or Financial Assets, one for Land and Building asset and also organized 11 “Professional Development Programs” in the month of September, 2024. In its efforts to bring out relevant publications for development of the valuation profession, ICMAI RVO also released its monthly Journal – The Valuation Professional.

### **ICMAI SOCIAL AUDITORS ORGANIZATION (SAO)**

ICMAI SAO organized “1” Proficiency Development Program and organized “1” Professional Development programs during September, 2024. ICMAI SAO also released its monthly Journal – The Social Auditor.



CMA Bibhuti Bhusan Nayak, President, ICMAI along with CMA Ashwin G. Dalwadi, Immediate Past President, ICMAI and CMA Manoj Kumar Anand, Council Member, ICMAI, called on Ms. Deepti Gaur Mukerjee, IAS, Secretary to the Government of India, Ministry of Corporate Affairs on 3<sup>rd</sup> September, 2024



CMA Bibhuti Bhusan Nayak, President, ICMAI, CMA Manoj Kumar Anand, Council Member, ICMAI along with senior officials of PFC Limited, CMA R K Malhotra and CMA Rajesh Kr Agarwal, called on Shri Harsh Malhotra, Hon'ble Union Minister of State for Corporate Affairs and Road, Transport & Highways on 24<sup>th</sup> September, 2024



CMA Bibhuti Bhusan Nayak, President, ICMAI, CMA Rajendra Singh Bhati, Chairman, Direct Taxation Committee, ICMAI, CMA Manoj Kumar Anand, Chairman, PD & CPE Committee, ICMAI and CMA Shailendra Bardia during the Stakeholder consultation meeting held for the Comprehensive Review of the Income Tax, 1961 on 18.09.2024 at North Block, New Delhi



CMA Bibhuti Bhusan Nayak, President, ICMAI along with CMA Ashwin G. Dalwadi, Immediate Past President, ICMAI and CMA Manoj Kumar Anand, Council Member, ICMAI, called on CMA (Dr). T.V.Somanathan, IAS, Cabinet Secretary to the Government of India on 13<sup>th</sup> September, 2024



CMA Bibhuti Bhusan Nayak, President, ICMAI, CMA Rajendra Singh Bhati, Chairman, Direct Taxation Committee, ICMAI, CMA Manoj Kumar Anand, Chairman, PD & CPE Committee, ICMAI and CMA Shailendra Bardia during the Stakeholder consultation meeting held for the Comprehensive Review of the Income Tax, 1961 on 18.09.2024 at North Block, New Delhi



Agreement signing between ICMAI and IIT Madras on 6th September, 2024 to offer skill enhancement courses for CMA students and members. (L/R) Ms. Bharathi, Senior Project Officer, NPTEL, IITM, Dr. Arun Kumar G, Professor, IITM, Dr. Vignesh Muthuvijayan, Professor, IITM, Dr. Andrew Thangaraj, Professor, IITM, Prof. R.Sarathi, Dean-Planning, IITM, CMA (Dr.) Kaushik Banerjee, Secretary, ICMAI, CMA Vinayranjan P, Council Member, ICMAI, CMA Ashwin G. Dalwadi, Immediate Past President, ICMAI and CMA (Dr.) D.P. Nandy, Addl. Secretary, ICMAI



ICMAI organized the SafaiMitra Suraksha Shivir on 23<sup>rd</sup> September 2024 as part of 'Swachhata Hi Seva (SHS) – 2024' Campaign



Inaugural Session of fifth batch of CAT Course, ICMAI (under Directorate General Resettlement, Department of Ex-Servicemen Welfare, Ministry of Defence, GOI) at Bhubaneswar on 13.09.2024. Col Kirtiman Gautam Mohanty and CMA Gagan Bihari Swain, Director (Finance) Odisha Power Generation Corporation Ltd., graced the programme in the presence of CMA Rajendra Singh Bhati, Council Member & Chairman, Committee for Accounting Technician, ICMAI, CMA Damodar Mishra, RCM & Secretary, ICMAI- EIRC and CMA Ramesh Chandra Patra, Chairman, ICMAI-Bhubaneswar Chapter.



CMA Manoj Kumar Anand, Council Member, ICMAI felicitating CMA Daljeet Singh Khatri on assuming the charge of Director (Finance), HUDCO



Brig Randeep Singh Chatha, ADG, DRZ (West), DGR, Ministry of Defence interacted with the third batch of CAT Course, ICMAI (under DGR, Department of Ex-Servicemen Welfare, Ministry of Defence, GOI) at Udaipur on 30.09.2024 through video-conferencing in the presence of CMA Rajendra Singh Bhati, Council Member & Chairman, Committee for Accounting Technician, ICMAI



Ganesh Puja at Institute Headquarters



Signing of MOU between Scottish Church College and the Institute of Cost Accountants of India for GST and Income Tax Courses for college students conducted by the Tax Research Department



Cleanliness drives by ICAI under SHS-2024 campaign at Kolkata, Delhi and Noida. #Swachhata Hi Seva 2024# ICAI

**ICMAI**  
THE INSTITUTE OF  
COST ACCOUNTANTS OF INDIA  
(Statutory Body under an Act of Parliament)

स्वच्छ भारत  
एक कदम स्वच्छता की ओर

**SWACHHATA  
HI SEVA 2024**  
17 September- 2 October 2024  
Swabhav Swachhata, Sanskaar Swachhata

ICMAI is actively participating in the 'Swachhata Hi Seva (SHS) – 2024' campaign, being observed from 17<sup>th</sup> September to 1<sup>st</sup> October 2024 with the theme of 'Swabhav Swachhata - Sanskaar Swachhata' with Swachh Bharat Diwas celebration on 2<sup>nd</sup> October, 2024



Swachhata pledge taking at ICAI Delhi & Noida Office under Swachhata Hi Seva-2024 Campaign. #Swachhata Hi Seva 2024 # ICAI



Tree Plantation Drive under “Ek Ped Maa Ke Naam” during the SHS-2024 campaign, undertaken by HQ, Kolkata. #Swachhata Hi Seva 2024# ICAI

ICMAI organized Tree Plantation Drive under “Ek Ped Maa Ke Naam” during the SHS 2024 campaign, undertaken by the Delhi office of the Institute along with NIRC. #Swachhata Hi Seva 2024# ICAI

# WEBINAR ON "CONTEMPORARY ASPECTS OF STRATEGIC MANAGEMENT ACCOUNTING"

Organized by  
Directorate of Journal & Publications on September 12, 2024

The Directorate of Journal and Publications, ICAI organized a webinar on "CONTEMPORARY ASPECTS OF STRATEGIC MANAGEMENT ACCOUNTING" on September 12, 2024.

CMA (Dr.) Girish P. Jakhotiya, Management Consultant, Mumbai was the resource person and he delved deeply into the topic. He discussed on SPEM –Strategic Planning Execution and Measurement, Contemporary aspects in Strategic Management Accounting, Cost Benefit Analysis for each and every strategy, risk and return mechanism, role of Management Accounting in Strategic Management Accounting, four Ps of performance, how a Management Accountant can reduce the gap between the CEO of a company and CFO of a company and he arrived at a conclusion that Management Accounting is an Accounting Facilitation of the managerial decision making process, decision

execution therefore monitoring and review performance measurement and correction and he asserted that fewer management accounting is applied to strategic formulation, its execution and analysis and measurement.

CMA Harshad Shamkant Deshpande, Chairman, Journal & Publications Committee, ICAI welcomed the speaker and concurred with eminent speaker that a CMA should look beyond the position of a CFO, he must aim to next higher level like Director Finance, CMD, COO

and many more even as entrepreneurs.

Ms Indrakshi Bhattacharya, Journal and Publications Directorate, moderated the webinar and it concluded with the vote of thanks by CMA Sucharita Chakraborty, HoD (Journal and Publications).

ICMAI  
The Institute of Cost Accountants of India  
(Statutory body under an Act of Parliament)  
www.icmai.in

WEBINAR ON  
Contemporary Aspects of  
STRATEGIC MANAGEMENT ACCOUNTING  
Organized by  
Directorate of Journal & Publications

THURSDAY  
SEPTEMBER 12, 2024  
05:00 PM - 06:00 PM

CPE Credit: 1 Hr

Resource Person  
CMA (Dr.) Girish P. Jakhotiya  
Management Consultant  
Member

CMA Abhishek Bhawan Bhatnagar  
President, ICAI

CMA TCA Srivastava Prasad  
Vice President, ICAI

CMA Harshad Shamkant Deshpande  
Chairman  
Journal & Publications Committee,  
ICMAI

Weblink: [https://eicmai.in/Webinar\\_Portal/Member/Memberlogin.aspx](https://eicmai.in/Webinar_Portal/Member/Memberlogin.aspx)

For more details, please mail at: [journal@icmai.in](mailto:journal@icmai.in)

Behind every successful business decision, there is always a CMA





# FORENSIC AUDIT AND THE ROLE OF COST ACCOUNTANTS

## Abstract

*This article explores the essential role of cost accountants in forensic auditing, a specialized field aimed at detecting financial discrepancies and fraud. It highlights how cost accountants, with their expertise in cost structures and financial analysis, contribute significantly to uncovering financial misconduct. By identifying irregularities, analyzing vast data sets, and evaluating internal controls, they enhance the effectiveness of forensic audits. Furthermore, the article emphasizes the importance of their skills in navigating complex financial transactions and adapting to evolving fraud techniques. Ultimately, the insights provided underscore the critical intersection of cost accounting and forensic auditing in maintaining financial integrity.*

## INTRODUCTION

**F**orensic auditing is a specialized field of accounting that focuses on investigating financial discrepancies, frauds, and misconducts. It integrates accounting expertise with investigative skills and legal knowledge to uncover illicit activities and provide evidence that may be used in legal proceedings. In this domain, Cost Accountants, who traditionally focus on budgeting, cost control, and financial analysis within an organization, play a crucial and often under-appreciated role. This article delves into forensic auditing, its significance and how Cost Accountants contribute to this field.

## UNDERSTANDING FORENSIC AUDIT

Forensic auditing involves a thorough examination of financial records and transactions to identify and address instances of fraud, financial misconduct, or other irregularities. The word “forensic” signifies that the results of the audit may be used in a legal context, such as court proceedings. Unlike traditional financial audits, which focus on verifying the accuracy of financial statements, forensic audits aim to uncover and document instances of financial wrongdoing.



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Bhuj

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## KEY OBJECTIVES OF FORENSIC AUDITING

- 1. Detection of Fraud:** Identifying fraudulent activities, including embezzlement, financial statement fraud and asset misappropriation.
- 2. Investigation and Evidence Gathering:** Conducting in-depth investigations to gather evidence that supports the discovery of financial misconduct.
- 3. Legal Support:** Providing expert testimony and presenting evidence in court or legal proceedings.
- 4. Risk Mitigation:** Recommending improvements to internal controls and procedures to prevent future fraud.

## ROLE OF COST ACCOUNTANTS IN FORENSIC AUDITS

Cost accountants traditionally focus on the management of costs and financial planning within an organization. They analyze cost data, prepare budgets, and ensure that expenditures align with financial goals. However, their expertise is invaluable in forensic auditing due to their deep understanding of cost structures, financial processes, and internal controls.

## KEY CONTRIBUTIONS OF COST ACCOUNTANTS IN FORENSIC AUDITS:

### 1. Identifying Cost Irregularities

Cost Accountants are adept in analyzing cost data and identifying irregularities. They use their expertise to detect anomalies in cost allocations, budgeting discrepancies and unexpected variances. These irregularities can be indicative of fraudulent

activities such as asset misappropriation or financial statement manipulation.

## 2. Analyzing Financial Data

Forensic audits often involve the analysis of large volumes of financial data. Cost Accountants bring their skills in data analysis to the table, using techniques such as variance analysis, cost comparison, and trend analysis to uncover hidden patterns or unusual transactions that may suggest fraud.

## 3. Understanding Cost Structures

Cost Accountants have an in depth understanding of an organization's cost structures and budgeting processes. This knowledge allows them to evaluate whether costs are being accurately reported and allocated. In forensic audits, this understanding helps in identifying discrepancies between actual costs and reported figures, which can signal fraudulent activities.

## 4. Investigating Discrepancies

When discrepancies are detected, Cost Accountants use their investigative skills to trace the source of the problem. They examine supporting documentation, review transactions, and interview personnel to uncover the root cause of the irregularities. Their familiarity with cost accounting systems and procedures enables them to identify areas where financial misconduct may have occurred.

## 5. Evaluating Internal Controls

Cost Accountants assess the effectiveness of internal controls related to cost management and financial reporting. In forensic audits, they review these controls to determine if they were circumvented or inadequately designed, leading to fraud or mismanagement. Their recommendations for strengthening internal controls are crucial for preventing future financial misconduct.

## 6. Preparing Detailed Reports

After completing their investigation, Cost Accountants prepare comprehensive reports detailing their findings. These reports include evidence of financial misconduct, analysis of cost irregularities, and recommendations for corrective actions. The clarity and precision of these reports are essential for legal proceedings and organizational decision-making.

## 7. Providing Expert Testimony

In cases where forensic audits lead to legal action,

Cost Accountants may be called upon to provide expert testimony. They explain their findings and methodology to judges, presenting complex financial data in an understandable manner. Their expertise is crucial in establishing the credibility and reliability of the audit results.

## 8. Recommending Preventive Measures

Based on their findings, Cost Accountants recommend improvements to internal controls and cost management practices. These recommendations aim to address vulnerabilities and prevent future occurrences of financial misconduct. Effective internal controls and robust cost management practices are key to maintaining financial integrity and reducing the risk of fraud.

## **SKILLS AND QUALIFICATIONS OF COST ACCOUNTANTS IN FORENSIC AUDITS**

To effectively contribute to forensic audits, Cost Accountants require a specific set of skills and qualifications as set out in the following paragraphs.

### 1. Strong Analytical Skills

Cost Accountants must possess strong analytical skills to examine financial data, identify discrepancies and uncover fraudulent activities. Their ability to interpret complex data and detect anomalies is crucial in forensic investigations.

### 2. Attention to Detail

Precision is essential in forensic auditing. Cost Accountants must meticulously review financial records and transactions to identify subtle discrepancies that may indicate fraud.

### 3. Knowledge of Fraud Schemes

Understanding common fraud schemes and red flags is important for Cost Accountants involved in forensic auditing. This knowledge helps them to recognize patterns and potential indicators of financial misconduct.

### 4. Expertise in Cost Accounting

A deep understanding of cost accounting principles, budgeting processes and financial reporting is essential. Cost Accountants use this expertise to evaluate cost data and identify irregularities that may suggest fraud.

### 5. Legal Acumen

Though not necessarily legal experts, Cost Accountants involved in forensic auditing should have a basic understanding of the legal concepts and procedures. This knowledge helps them to

navigate legal contexts and provide accurate testimony if needed.

#### 6. Effective Communication

Cost Accountants must be able to communicate their findings clearly and effectively. This includes preparing detailed reports and providing expert testimony in a manner that is understandable to non-accounting professionals, such as judges and judicial officers.

#### 7. Ethical Integrity

Forensic audits require a high level of ethical integrity. Cost Accountants must conduct their investigations impartially and adhere to professional ethical standards to ensure the credibility of their findings.

### CHALLENGES FACED BY COST ACCOUNTANTS IN FORENSIC AUDITS

Cost accountants face several challenges when involved in forensic audits:

#### 1. Complexity of Financial Transactions

Modern financial transactions can be complex, involving multiple entities and intricate arrangements. Cost Accountants must navigate these complexities to uncover fraudulent activities.

#### 2. Evolving Fraud Techniques

Fraudsters continually develop new methods to evade detection. Cost Accountants must stay updated on emerging fraud schemes and adapt their investigative techniques accordingly.

#### 3. Limited Resources

Forensic audits can be resource-intensive and Cost Accountants may face constraints in terms of time, budget, and access to information. These limitations can impact the thoroughness and effectiveness of the audit.

#### 4. Data Security

Handling sensitive financial data requires strict adherence to data security protocols. Cost Accountants must ensure that confidential information is protected from unauthorized access and breaches.

#### 5. Legal and Regulatory Changes

The legal and regulatory environment is constantly

The clarity and precision of these reports are essential for legal proceedings and organizational decision-making

evolving. Cost Accountants must stay informed about changes that may impact forensic auditing practices and reporting requirements.

### CASE STUDIES AND PRACTICAL EXAMPLES

#### Case Study 1: Misallocation of Costs in a Manufacturing Firm

In a manufacturing firm, Cost Accountants were involved in a forensic audit to investigate discrepancies in cost allocations. The audit revealed that certain costs had been improperly allocated to specific product lines, leading to inflated cost reports and distorted financial statements. The investigation uncovered that these misallocations were deliberate, intended to conceal the true cost of production and mislead stakeholders. Cost Accountants' analysis of cost data and internal controls played a critical role in identifying the fraud and recommending corrective actions.

#### Case Study 2: Financial Statement Fraud in a Retail Company

A retail company faced allegations of financial statement fraud, prompting a forensic audit led by Cost Accountants. The auditors discovered irregularities in revenue recognition and inventory management. The investigation revealed that the company had inflated its sales figures and understated its inventory costs to present a more favourable financial position. The Cost Accountants' expertise in cost analysis and internal controls was instrumental in uncovering the fraudulent activities and providing evidence for legal action.

### CONCLUSION

Forensic auditing is a vital component of ensuring financial integrity and addressing financial misconduct. Cost Accountants play a crucial role in this specialized field, leveraging their expertise in cost analysis, financial data examination, and internal controls to uncover fraud and provide valuable insights. Their contributions to forensic audits include identifying cost irregularities, analyzing financial data, investigating discrepancies and recommending preventive measures.

As financial environments become increasingly complex and fraud schemes evolve, the role of Cost Accountants in forensic auditing has become more important than ever before. Their skills and expertise help organizations to detect and address financial misconduct, ultimately contributing to stronger internal controls and a more transparent financial system. By understanding the role of Cost Accountants in forensic auditing, organizations can better appreciate their contributions and enhance their efforts to maintain financial accountability and integrity.

# FORENSIC AUDIT AND CORPORATE GOVERNANCE: A STEP BEYOND TRADITIONAL AUDITING SYSTEM AND SYNERGISTIC ROLE OF ARTIFICIAL INTELLIGENCE

## Abstract

*Detecting and preventing white-collar crimes is the most critical challenge faced by the traditional auditing system, which lacks investigative expertise. Corporate fraud and willful misstatement of financial information downgrade the true spirit of corporate governance objectives. In contrast, forensic auditing is a step ahead of traditional auditing systems because of its robust and proactive investigative proficiency in unraveling complex financial irregularities and contributing to achieving corporate governance objectives. Artificial Intelligence has revolutionized the world as a substitute for human intelligence; integration of AI with forensic auditing has created a synergy to combat corporate crimes much more efficiently and effectively than traditional auditing systems. This study has tried to magnify that forensic audit is a step ahead of the traditional audit and AI Integrated forensic auditing is a powerful tool to reduce corporate crimes and help to achieve corporate governance goals.*

## INTRODUCTION

**W**hite-collar crimes in the form of corporate money laundering and willful mis-statement of financial transactions in Enron, WorldCom, Adelphia, Madoff, Satyam and more recently, AGB Shipyard Ltd. Raised several questions about the reliability, efficiency, effectiveness, and integrity of traditional auditing and reporting system in fulfilling the corporate governance (CG) objectives and



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policies (Bhasin 2016). These questions are (i) the incapability of the traditional (internal and statutory audit) auditing system to detect and prevent complex business frauds (Eyisi, Ezuwore 2014); (ii) business frauds downgrade corporate governance objectives and policies that significantly affect the sentiments of business stakeholders (Emmanuel, Sunday, Christian, 2019., Bhasin, 2016) and (iii) the need for an efficient and effective auditing system equipped with real-time internal control system, investigative capability and legal knowledge (Meenu, Pradeep, Rekha, 2023., Eyisi, Agbaeze, 2014). Traditional auditing (internal and statutory audits) ensures compliance with regulatory requirements to certify that the published financial statements exhibit a true and fair view of the affairs i.e. the guidelines of GAAP and Accounting Standards (AS) have been duly adhered to (Mircheskaa, Karadjovab, Blazhevac, Malakovskad, Nikolovskie, 2020., Gray, 2008). The pre-defined scope of traditional audit system makes it more of an error-detecting and preventing system that does not guarantee the detection of serious and complex financial fraud. (Gray, 2008., Deb 2018). Corporate and banking frauds have serious adverse implications on CG practices i.e. safeguarding stakeholders' interests, monitoring effective internal

control, maximizing shareholders' value, and ensuring sustainable growth (Dada, Igbekoyi, Dagunduro, 2023). The theoretical background of the present study is based on the *Agency theory* (Jensen and Meckling, 1976), *Policeman theory*, and *Routine Activity theory* (Mishra, Azam, Junare, 2021). The Agency theory encompasses the conflict of interest

between the agent (managers and directors) and principal (owner/promoter); the Policeman theory assumes the forensic auditor as a policeman and the Routine Activity theory highlights the importance of the internal control system.

It has been observed that the company's executives (managers and directors) indulge in complex financial manipulations and frauds that can only be detected with a 'full population audit system' contrary to the traditional 'sampling audit system' (Noordin, Hussainey, Hayek, 2022. Gary, 2008). In the light of the above discussion, to overcome the limitations of the traditional audit system, Forensic Audit (FA) has emerged as a powerful auditing system for detecting and preventing corporate crimes in general and protecting the interest of the stakeholders in particular. FA is robust, proactive and efficient in detecting white-collar crimes and ensures compliance with legal requirements (Mircheska, Karadjova, Blazheva, Malakovska, 2020). Further, by strengthening corporate governance practices, FA helps to prevent corporate frauds (Gupta, Aggarwal, Gupta, 2023).

Artificial intelligence (AI) and its elements like machine learning (ML) etc. are man-made programs or systems that can think, analyze, judge, and suggest like humans (Noordin, Hussainey, Hayek, 2022). In recent years, the emergence of AI has revolutionized the field of FA and made it a powerful tool for investigating, detecting and resolving corporate frauds (Dukic, Pavlovic, Grdinic, 2023). The present study tries to magnify the synergistic role played by AI with FA in exposing fraudulent financial transactions and strengthening CG practices.

The study follows the *Theoretical* (Deb, 2018) and the *Conceptual research framework* (Mamahit, Urumash, 2018). Theoretical and conceptual research is based on established theory and helps conceptualize how a particular theory works in a specific system. It provides the foundation for any research and helps to answer basic questions concerning an area of research.

**"An unqualified audit report only certifies that the audited financial statements adhered to the accounting principles and standards but does not guarantee the absence of fraudulent affairs"**

In the light of the above discussion, this study embarks on a quest to answer the following two pertinent questions:

1. Is forensic auditing a step ahead of traditional auditing and perpetrate corporate governance objectives?
2. Is AI synergistic with forensic auditing in detecting and preventing white-collar crimes?

The study contributes to the literature highlighting AI-integrated forensic audit's growing pertinence in accomplishing corporate governance objectives by detecting and preventing complex and serious white-collar crimes.

The discussion unfolds as follows: firstly it explains the theoretical foundation; secondly it answers the two questions posed in the introduction and finally concludes with certain recommendations.

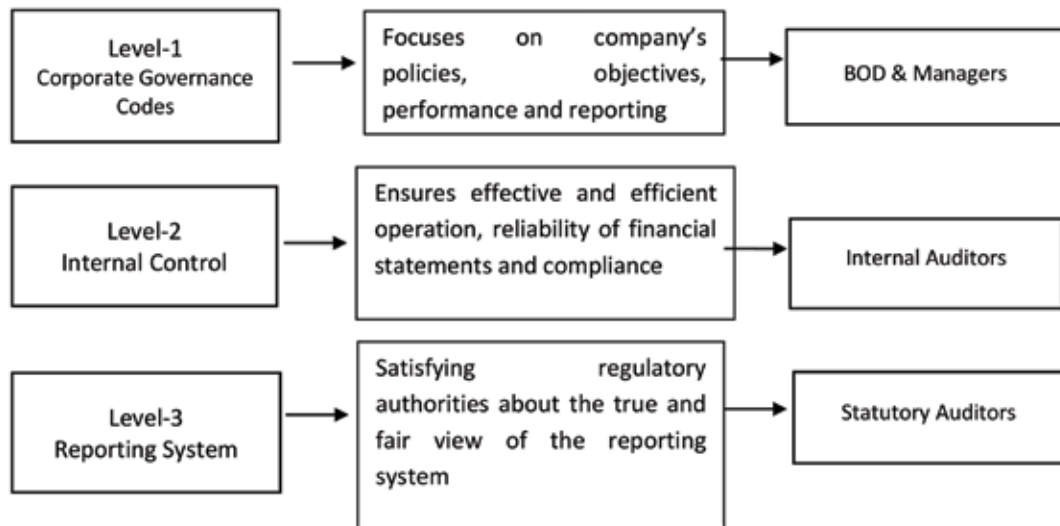
## THEORETICAL FOUNDATION

The theoretical background of the present study is based on three theories, *Agency*, *Policeman*, and *Routine Activity*. The Agency theory highlights the issues where an agent indulges in corporate fraud and financial misconduct to maximize his interest at the cost of the stakeholders (Mamahit, Urumsah, 2018). The Policeman theory considers auditors as policemen whose duty is to detect and resolve corporate fraud (Mishra, Azam, Junare, 2021). The Routine Activity theory assumes that there may exist fraudsters and the need for effective internal and external control on a routine basis cannot be ruled out to detect fraudulent financial activities (Mishra, Azam, Junare, 2021). The mapping of theories mentioned in the present study provides a solid foundation for the study.

### Q1: Is forensic auditing a step ahead of traditional auditing to perpetrate corporate governance objectives?

Ramaswamy (2005) and others argued that corporate governance (stakeholders) objectives in general and shareholders' interest, in particular, can be protected and achieved with the help of a three-level security (control) system (Figure-1). Figure 1 highlights the functions and responsibilities of different internal and external parties associated with the accomplishment of the desired CG objectives.

FIGURE-1\*.



CG is the system, practice, and process to govern, administer, and control business activities to ensure transparency in dealing with the stakeholders through true and fair reporting of financial information (Bhasin *et al.* 2016). In other words, CG aims at mitigating agency loss through effective internal control, safeguarding stakeholders' interests, maximizing shareholders' value, and ensuring sustainable growth (Dada, Igbekoyi, Dagunduro, 2023).

It has been observed that self-interest and irresponsibility on the part of managers and BOD lead to white-collar crimes which damage the true spirit of CG policies and objectives i.e. agency theory.

Internal audits are carried out by the employees of an organization being audited. Internal audit systems ensure fairness and transparency of the financial statements and report the deviations of the accounting principles. The scope of the internal audit function compels the auditors to adhere to the accounting principles and guidelines specified in the GAAP and Accounting Standards (Gary, 2008). Moreover, internal audits are more of an error detector than a fraud detector auditing system. Similarly, the statutory (external) auditing system certifies that financial statements exhibit a true and fair view of the affairs. The scope of statutory audit allows the issue of unqualified or qualified audit reports by examining whether an organization adheres to the GAAP and Accounting Standards. An unqualified audit report only certifies that the audited financial statements adhered to the accounting principles and standards but does not guarantee the absence of fraudulent affairs (Gary, 2008). Hence, a statutory audit is more compliance-oriented than a fraud-detecting and resolving auditing system (Deb, 2018).

The limitations of the traditional audit system forced the stakeholders to realize and triggered the need for a pragmatic auditing system that detects and prevents complex financial malpractices and exposes the structural weakness of the corporate reporting framework. (Bhasin, 2016., Eyisi, Agbaeze. 2014).

In *SBI v. Rajesh Agarwal (Golden Jubilee Hotels Pvt. Ltd.)*, *M/S Ranasaria Poly Pack Pvt. Ltd. V.M/S Uniworld Sugars Pvt. Ltd*, *B. Hariharan (CG Power and Industrial Solutions Limited) v. SEBI Bikram Chatterji (Amrapali Group of Companies) v.UOI*, etc. the court has directed conduct of forensic audit where statutory audit has been conducted initially and the verdicts have been pronounced based on the findings reported in the forensic audit report.

According to Webster's Dictionary 'forensic' means "suitable to a court of judicature or public discussion and debate". Forensic auditing considers accounting principles and applies investigative techniques to uncover potential corporate crimes that can be used as evidence in a court of law (Dukic, Pavlovic, Grdinic, 2023). In other words, FA is a system of collecting, verifying, analyzing financial data, and gathering evidence regarding financial misconduct suitable for legal proceedings and preventing fraud (Noordin, Hussainey, Hayek, 2022) i.e. policeman theory.

FA is few steps ahead of SA in more than one way. *First*, FA heavily relies on investigative tools and techniques that unravel and resolve complex white-collar crimes. Investigative mechanisms were found to be completely missing in the SA system. *Second*, the FA report authenticates proper detection and investigation of corporate fraud and the audit report is widely recognized as a shred of valid evidence in a court of law (Mircheska

*et al.* 2020). The SA report only ensures and approves that financial statements exhibit a true and fair view of a business. In many cases, the approved financial statements contain omission of facts and financial anomalies which make the SA report unacceptable in legal proceedings. In a nutshell, FA ensures compliance with legal and regulatory requirements. *Third*, SA uses outdated sampling auditing technique for scrutinizing financial transactions considering the increasing business complexity and comparatively large volume of financial data (Noordin, Hussainey, Hayek, 2022). In contrast, FA follows the “full population sampling” technique for identifying and detecting abnormal patterns in financial transactions and complex corporate frauds (Noordin, Hussainey, Hayek, 2022).

The most significant objective of FA is to enhance and improve CG practice among others by protecting the interest of the stakeholders in general and shareholders in particular (Dada, Igbekoyi, Dagunduro, 2023). FA system’s investigative characteristic and the recognition of the FA report as evidence in a court of law try to fulfill the shareholder’s expectation by unearthing white collar crimes and the audit report further provides mileage to the legal proceedings. Unlike SA, FA improves the CG practice of a company.

## Q2: Is AI synergistic with forensic auditing in detecting and preventing white-collar crimes?

It is beyond doubt that the advancement and upgradation of technology such as AI, machine learning (ML), data analytics, big data, blockchain, etc. have improved the efficiency and accuracy of handling, analyzing, and interpreting structured and unstructured data to a large extent (Dukic, Pavlovic, Grdinic, 2023). FA has undergone a paradigm shift due to technological advancement, and the following discussion delves into the synergistic opportunities created by integrating AI with FA practice to detect and prevent corporate crimes.

The basic technology that has been in use has not necessarily revolutionized the technological environment but the algorithm it uses and the outcomes it generates are revolutionary. AI and ML technologies use predictive rules to detect future risks of financial irregularities (Quest, Charrie, Roy, 2018). AI tools can perform process automation, and carry out multistep deep learning analysis for uncovering and predicting corporate crimes more quickly and economically than ever before (Dukic, Pavlovic, Grdinic, 2023). AI uses algorithms that help auditors detect anomalies in financial statements and reporting systems (Noordin *et al.* 2022). Further, AI tools have reduced the requirement of manual work in detecting and predicting financial crimes. (Quest,

Charrie, Roy, 2018).

IDEA (Interactive Data Extraction and Analysis) and ACL (Audit Command Language) help forensic auditors to analyze and detect financial anomalies and irregularities. .

Some of the key AI tools used in forensic auditing by audit firms at present are the following:

- ⊙ PM (Predictive Modelling) under ML can forecast potential risk and suggest deeper investigations.
- ⊙ NLP (Natural Language Processor) is capable of analyzing unstructured data such emails, social media posts to have a better insight into the corporate crimes.
- ⊙ RTA (Routine Task Automation) under Robotics Process Automation helps to automate repetitive tasks and allows auditors to focus on more complex transactions.
- ⊙ Fraud management systems use AI tools continuously to monitor fraudulent transactions in real times.
- ⊙ BCA (Blockchain Analysis) tools analyze blockchain transactions and help to detect and investigate financial irregularities.

The growing need to integrate AI and FA practice is due to large volumes of structured and unstructured data generation coupled with growing business complexity and corporate crimes (Sharma, Biswas, 2021). The application of AI in FA practice has improved and enhanced the efficiency, robustness, and accuracy of investigation, handling of large volumes of complex data and reporting of financial irregularities as a piece of evidence in the eyes of the law (Dukic, Pavlovic, Grdinic, 2023). In addition the fusion of AI and FA proactively detects fraud through continuous real-time monitoring i.e. routine activity theory and enhances reliability through reduced human errors (Aurex, 2023). The AI-integrated FA has a synergistic impact on FA practice, where, AI expedites the automation of audit tasks, enhances data processing and helps to predict and identify patterns of fraudulent transactions.

## CONCLUSION & RECOMMENDATIONS

The present study has tried to answer two pertinent questions. The preceding discussion concludes that FA is better than traditional auditing in more than one way and the integration of FA practice and AI technology has created a synergy that helps to detect and prevent corporate crimes thereby helping achieve the objectives of CG.

No doubt, the use of technology (like AI, ML, etc.)

enhances the efficiency of the auditing profession but human intelligence i.e. professional judgment and ethical standards cannot be ruled out. Hence, auditors should strike a balance while integrating new-age technologies and human intelligence to maximize the efficiency of the auditing profession moving forward.

The study will help regulators and policy makers to understand the importance of extending the scope of auditing as per Clause 49(V) of the NSE and BSE listing requirements by including FA practice in the public and private domain as a statutory practice and integrating AI technology in auditing to reduce corporate crimes and safeguard the interests of business stakeholders. **IMA**

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# COST & MANAGEMENT ACCOUNTANTS: CORPORATE PARTNER AS FORENSIC PROFESSIONAL - FORENSIC AUDIT: A STEP AHEAD

## Abstract

*In an increasingly complex financial environment, the importance of forensic audits for ensuring transparency and accountability in organizations has grown significantly. This article highlights the pivotal role of Cost & Management Accountants (CMAs) as key players in forensic auditing, emphasizing their unique skills in managing financial misconduct and fraud.*

*The piece discusses how CMAs, with their expertise in management accounting and risk management, are evolving into forensic professionals. Their contributions extend beyond compliance, as they actively investigate financial discrepancies, assess internal controls, and recommend improvements to mitigate future risks.*



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forensic professionals, CMAs apply these skills to investigate financial discrepancies, detect fraud, and provide actionable insights.

CMAs are increasingly being recognized for their ability to blend traditional accounting skills with forensic techniques. Their role extends beyond mere compliance; they actively engage in uncovering financial irregularities, assessing the effectiveness of internal controls, and recommending corrective measures. This shift positions CMAs as essential partners in forensic audits, contributing significantly to the detection and prevention of financial crimes.

## FORENSIC AUDIT: A STRATEGIC APPROACH TO CORPORATE INTEGRITY

Forensic audits are specialized investigations designed to uncover financial misconduct, fraud, and irregularities. They involve a meticulous examination of financial records, transactions, and internal controls to identify anomalies and gather evidence for legal proceedings. Unlike traditional audits, forensic audits focus on detecting fraud and ensuring compliance with legal and regulatory requirements.

CMAs, with their expertise in financial management and analysis, are uniquely positioned to conduct comprehensive forensic audits. Their strategic approach involves not only identifying potential fraud but also understanding the underlying causes and recommending

In today's complex financial landscape, forensic audits have become crucial for maintaining transparency, integrity, and accountability within organizations. Cost & Management Accountants (CMAs) are emerging as pivotal players in this domain, leveraging their unique skills and expertise to tackle financial misconduct and fraud. As corporate partners in forensic auditing, CMAs are stepping ahead to redefine how organizations manage and mitigate financial risks. This article explores the evolving role of CMAs as forensic professionals and highlights the significance of forensic audits in advancing corporate governance.

## EVOLVING ROLE OF CMAS IN FORENSIC AUDITING

Cost & Management Accountants bring a wealth of knowledge in management accounting, financial analysis, and strategic decision-making. Their training in these areas equips them with a deep understanding of financial systems, internal controls, and risk management. As

improvements to prevent future occurrences. This proactive stance enhances corporate integrity and strengthens the overall governance framework.

### LEVERAGING CMA EXPERTISE IN FORENSIC AUDITS

CMAs bring several key competencies to forensic auditing that make them valuable assets:

- ⊙ **Analytical Skills:** CMAs possess advanced analytical skills that enable them to scrutinize complex financial data, identify patterns, and detect anomalies. Their ability to perform in-depth analysis aids in uncovering hidden fraud and assessing the impact on financial statements.
- ⊙ **Internal Controls Expertise:** With a deep understanding of internal controls, CMAs can evaluate the effectiveness of existing control mechanisms and identify weaknesses that could be exploited for fraudulent activities. Their recommendations help in fortifying the control environment and mitigating risks.
- ⊙ **Legal and Regulatory Knowledge:** CMAs are well-versed in regulatory requirements and legal frameworks, which is crucial for conducting forensic audits. Their knowledge ensures that audits are conducted in compliance with relevant laws and standards and that findings are presented in a legally defensible manner.
- ⊙ **Communication Skills:** Effective communication is essential in forensic auditing. CMAs excel in presenting complex financial findings in a clear and understandable manner, making it easier for stakeholders to grasp the implications and take appropriate actions.

### CASE STUDIES: CMAS IN ACTION

Several high-profile cases have demonstrated the critical role CMAs play in forensic auditing:

- ⊙ **Corporate Fraud Investigation:** In a case involving a large corporation accused of financial fraud, CMAs were instrumental in tracing illicit transactions, uncovering evidence of manipulation and presenting a detailed report that facilitated legal action against the perpetrators.
- ⊙ **Internal Control Review:** CMAs conducted a forensic audit for a financial institution facing regulatory scrutiny. Their audit revealed significant weaknesses in internal controls, leading to the implementation of robust control measures and

"Unlike traditional audits, forensic audits focus on detecting fraud and ensuring compliance with legal and regulatory requirements"

enhanced compliance with industry standards.

These case studies underscore the value CMAs bring to forensic audits and their ability to drive meaningful change within organizations.

### FUTURE OF FORENSIC AUDITING WITH CMAS

As financial environments become more sophisticated, the role of CMAs in forensic auditing is expected to grow. The integration of advanced technologies, such as data analytics and artificial intelligence, will further enhance their capabilities. CMAs will need to continuously update their skills and knowledge to stay ahead of emerging threats and evolving regulatory requirements.

Forensic auditing, with CMAs as key players, will continue to be a critical component of corporate governance. By providing expertise in detecting fraud, assessing controls and recommending improvements, CMAs contribute to a culture of transparency and accountability.

### CONCLUSION

Cost & Management Accountants are stepping ahead as corporate partners in forensic auditing, leveraging their expertise to advance corporate integrity and governance. Their role in forensic audits goes beyond traditional accounting, encompassing strategic analysis, internal control evaluation and regulatory compliance. As organizations face increasing financial challenges and risks, CMAs will play an essential role in navigating these complexities, ensuring that forensic audits remain a powerful tool for upholding transparency and combating financial misconduct. **MA**

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# ANOMALOUS DETECTION IN GST COLLECTIONS: A FORENSIC ANALYSIS USING BENFORD'S LAW

## Abstract

*In the modern financial landscape, ensuring the accuracy and integrity of financial data is crucial. Forensic auditing provides a robust mechanism to detect and investigate irregularities, frauds, and errors in financial records. The aim of the present study is to detect irregularities and potential frauds in GST collections from Karnataka using Benford's Law and to assess the conformity of GST data (CGST, SGST, IGST, and CESS) to expected patterns and distributions. The dataset comprises of monthly GST collections of Karnataka State from July 2017 to May 2024, segmented into CGST, SGST, IGST, and CESS. The methodology for this forensic audit study involves two primary techniques: Benford's Law analysis and Anomaly Detection. The analysis indicates that CGST and IGST show acceptable conformity to Benford's Law with moderate distortion, suggesting relatively reliable data. In contrast, SGST and CESS show marginal conformity with higher distortion, indicating potential anomalies or irregularities.*

## INTRODUCTION

**I**n the modern financial landscape, ensuring the accuracy and integrity of financial data is crucial. Forensic auditing provides a robust mechanism to detect and investigate irregularities, fraud and errors in financial records. Forensic auditing is a crucial tool in detecting frauds, errors and anomalies in financial data. It involves the application of accounting, auditing, and investigative skills to examine financial records and identify discrepancies. Two prominent techniques in forensic auditing are Benford's Law analysis and Anomaly Detection. *Nigrini (1996)* was one of the first to popularize the use of Benford's Law in forensic



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accounting. He demonstrated how the law could be used to detect anomalies in tax data, expense reports, and accounting records. Subsequent studies (*Durtschi et al., 2004; Giles, 7*) have validated the effectiveness of Benford's Law in identifying irregularities and potential fraud in various financial datasets.

Benford's Law, named after physicist Frank Benford, is a mathematical principle that predicts the frequency distribution of leading digits in naturally occurring datasets. *Benford (1938)* observed that in many datasets, the first digit is more likely to be small (e.g., 1, 2) rather than large (e.g., 8, 9). This phenomenon is often used to detect anomalies in financial data, as fraudulent or manipulated data often deviate from this expected distribution.

While Benford's Law is a powerful tool, it has limitations. Not all datasets conform to Benford's Law, particularly those with non-naturally occurring numbers or constrained data ranges (*Fewster, 2009*). Additionally, the law is less effective for small datasets, as the expected distribution may not emerge clearly.

## OBJECTIVES OF THE STUDY

- ⊙ To detect irregularities and potential frauds in GST collections from Karnataka using Benford's Law.
- ⊙ To assess the conformity of GST data (CGST,

SGST, IGST, and CESS) to expected patterns and distributions.

**METHODOLOGY:**

The dataset comprises monthly GST collections for Karnataka State from July 2017 to May 2024, segmented into CGST, SGST, IGST, and CESS. The methodology for this forensic audit study involves two primary techniques: Benford’s Law analysis and Anomaly Detection. These methods are employed to identify anomalies and potential irregularities in the GST data collected from Karnataka State. Only secondary data is used for this study. Data collected is systematically tabulated, scientifically analysed and meaningfully interpreted. R is used for analysing data.

**BENFORD ANALYSIS**

**Mean Absolute Deviation (MAD)**

This is a critical measure in Benford’s analysis. It quantifies the average deviation of the observed digit frequencies from the expected frequencies under

Benford’s Law.

**MAD conformity**

It provides an interpretation of the MAD value in terms of conformity. Generally, values are interpreted as follows:

Close conformity:  $MAD < 0.004$

Acceptable conformity:  $0.004 < MAD < 0.008$

Marginal conformity:  $0.008 < MAD < 0.012$

Non-conformity:  $MAD > 0.012$

**Distortion Factor**

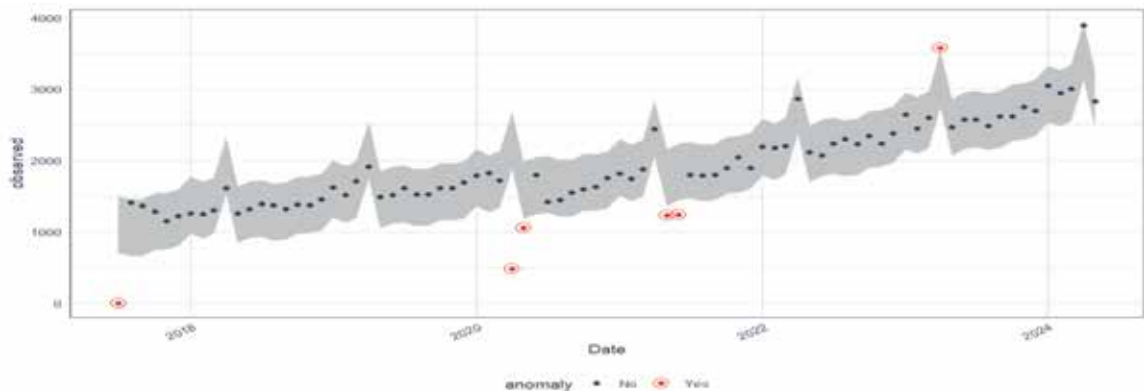
This value indicates the extent of distortion in the data. Higher values suggest greater deviation from Benford’s Law.

**Benford Distribution Table (bfd)**

This Table compares the expected and actual frequencies of each digit according to Benford’s Law. Significant deviations might indicate potential anomalies.

**RESULTS**

CHART.1: ANOMALY DETECTION OF GST TYPES



The observed values show a generally increasing trend over time, with periodic spikes. The red-circled points represent anomalies, which occur at various points, particularly in 2018, 2020, and 2023. The anomalies suggest that there are irregular data points that deviate significantly from the expected pattern, which may indicate data errors or unusual events. The specific time periods with anomalies should be closely examined to determine the cause, whether it’s due to external factors, data issues, or other irregularities.

TABLE 1: DESCRIPTIVE STATISTICS OF GST TYPES

Tax Type	Min.	1st Qr.	Median	Mean	3rd Qr.	Max.
CGST	0.42	1426.8	1787.49	1888.28	2320.01	3896.36
SGST	0.4	1970.3	2263.5	2421.9	2905.8	4715.3
IGST	1.61	2213.59	2595.15	2938.85	3594.58	5791.48
CESS	0	746.2	876.7	917.2	1065	1682.5

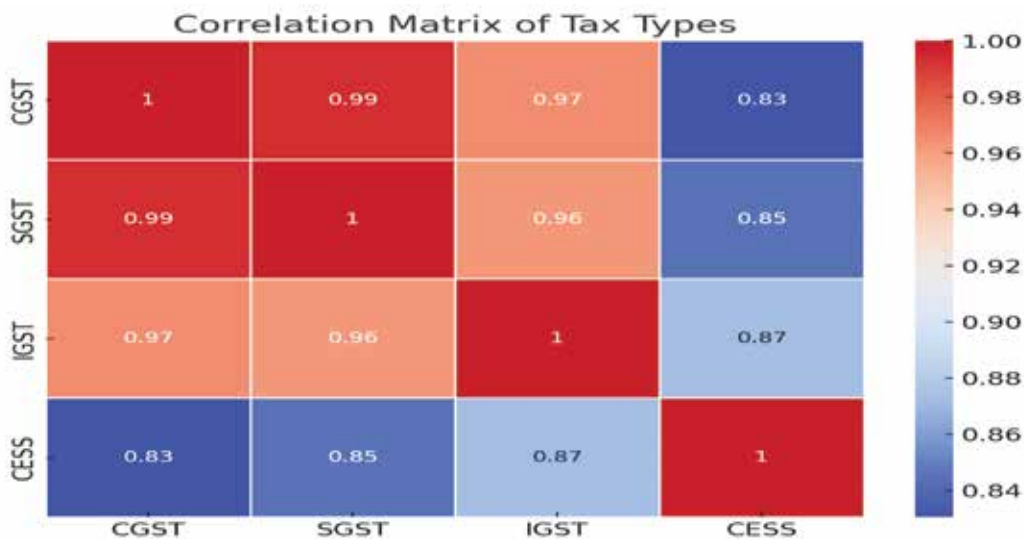
CGST has moderate spread with a maximum of 3896.36, indicating few high values. SGST has higher spread and maximum value of 4715.3, suggesting significant variation. IGST has the largest spread with a maximum of

5791.48, indicating the highest variability. CESS has lower values overall with a maximum of 1682.5, showing less variability.

CGST & SGST data is moderately consistent but with notable outliers. IGST has high variability suggesting more irregularities. CESS is relatively stable with lower risk of anomalies.

	CGST	SGST	IGST	CESS
CGST	1	0.993202	0.96518	0.830612
SGST	0.993202	1	0.962133	0.845016
IGST	0.96518	0.962133	1	0.872261
CESS	0.830612	0.845016	0.872261	1

CHART .1: CORRELATION MATRIX OF GST TYPES



CGST and SGST are highly correlated (0.993), indicating similar patterns. CGST and SGST are probably driven by similar factors, making them more predictable together. IGST shows a strong correlation with both CGST (0.965) and SGST (0.962). IGST consistently aligns with CGST and SGST, indicating similar influences. CESS has the lowest correlations, especially with CGST (0.831), suggesting different patterns. CESS may require separate analysis due to its distinct behaviour from other taxes.

Date	CGST	SGST	IGST	CESS
Jul-17	0.42	0.4	1.61	0
Apr-24	3896.36	4715.34	5791.48	1574.97

Jul-17 had extremely low values across all taxes suggesting potential issue or anomaly in data recording.

Apr-24 had exceptionally high values for all taxes, indicating significant outliers requiring

further investigation to understand the cause of these extreme values, as they could indicate error or unusual transactions.

Tax Type	Mean Absolute Deviation (MAD)	Conformity	Distortion Factor
CGST	0.006	Acceptable conformity	1.2
SGST	0.008	Marginal conformity	1.5
IGST	0.005	Acceptable conformity	1.3
CESS	0.01	Marginal conformity	1.7

CGST and IGST showed acceptable conformity to Benford’s Law, indicating relatively reliable data with

minor anomalies. SGST and CESS showed marginal conformity with higher distortion factors, suggesting potential anomalies or irregularities. These deviations could be due to data entry errors, intentional manipulation, or unusual economic activities.

The results suggest that while CGST and IGST data are relatively reliable, SGST and CESS data may require closer scrutiny. Identifying and addressing the root causes of these anomalies can help to improve the accuracy and integrity of GST collections.

**"Forensic auditing using Benford's Law and Anomaly Detection provides a comprehensive approach to identifying irregularities in financial data"**

### 3. Conduct Detailed Audits:

Perform detailed audits on records corresponding to the categories showing the most significant deviations (SGST and CESS).

### 4. Continuous Monitoring:

Implement continuous monitoring using Benford's analysis as part of regular audit processes to detect potential anomalies early and maintain data integrity.

## CONCLUSION

Forensic auditing using Benford's Law and Anomaly Detection provides a comprehensive approach to identifying irregularities in financial data. The application of these techniques to Karnataka's GST data revealed potential areas of concern in SGST and CESS collections.

The analysis indicates that CGST and IGST show acceptable conformity to Benford's Law with moderate distortion, suggesting relatively reliable data. In contrast, SGST and CESS show marginal conformity with higher distortion, indicating potential anomalies or irregularities. Further investigation and continuous monitoring are recommended to ensure data integrity and address any discrepancies. **MA**

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Tax Type	Conformity	Implication
CGST	Acceptable conformity with moderate distortion	Data is relatively reliable with minor anomalies
SGST	Marginal conformity with higher distortion	Data may have more anomalies or irregularities as compared to CGST
IGST	Acceptable conformity with moderate distortion	Data is relatively reliable but with some anomalies
CESS	Marginal conformity with higher distortion	Data may have more anomalies or irregularities as similar to SGST

## SUGGESTIONS

1. **Investigate Significant Deviations:** Focus on transactions or records where the first digits show significant deviations from Benford's Law, particularly for SGST and CESS.
2. **Review Data Collection Processes:** Ensure that the data collection and recording processes are accurate and free from errors or manipulation, especially for SGST and CESS.

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# FORENSIC AUDIT: THEORETICAL INSIGHTS AND PRACTICAL APPLICATIONS

## Abstract

*This article explores the application of key forensic audit theoretical frameworks across various industries. By examining the fraud triangle, agency theory, internal control theory, red flags theory, and compliance theory, the study highlights how these frameworks are utilized to detect and prevent fraud. The analysis provides insights into the practical implications of these theories in enhancing financial integrity and organizational governance.*



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## INTRODUCTION

**A** forensic audit refers to the specialized examination of an organization's financial records, aimed at uncovering fraudulent activities, financial misrepresentations and other irregularities. Unlike traditional audit, which focuses on verifying the accuracy and completeness of financial statements, a forensic audit is investigative in nature and is often used in legal proceedings to provide evidence of wrongdoing. In an increasingly complex

and regulated business environment, where financial fraud is a significant concern, forensic audit plays a crucial role in maintaining financial integrity. This article examines the application of five fundamental theories namely Fraud Triangle theory, Agency theory, Internal Control theory, Red Flags theory, and Compliance theory. By analysing how these theories guide the detection and prevention of fraud, this article provides a comprehensive understanding of the critical role forensic audit plays in safeguarding organizational assets and ensuring regulatory compliance.

## THEORETICAL FRAMEWORK AND PRACTICAL APPLICATIONS

TABLE 1: THEORETICAL FRAMEWORK AND PRACTICAL APPLICATIONS

### Fraud Triangle Theory

**Key Concept:** The Fraud Triangle theory, developed by Donald R. Cressey, posits that fraud occurs when three factors are present: opportunity, pressure and rationalization. Opportunity refers to the ability to commit fraud due to weak controls or access to assets. Pressure involves external or internal motivations such as financial hardship or job-related stress. Rationalization is the mental process by which an individual justifies the fraudulent act.

**Application in Forensic Audit:** Forensic auditors apply this theory by conducting a thorough assessment of the organization's internal controls, identifying areas where employees might perceive opportunities to commit fraud without being detected. They also analyse organizational culture and employee behaviour to detect potential pressures, such as financial difficulties or unrealistic performance targets, that could drive individuals to commit fraud. Auditors look for rationalization patterns by reviewing communication, employee surveys, and other indirect indicators to understand how individuals might justify unethical actions.

### Examples of Industrial Application

**Banking:** Auditors review loan approval processes to prevent manipulation by employees under financial



pressure. For example, a bank employee might manipulate customer information to approve loans that should not be granted, justifying it by thinking that the customer will pay back despite poor credit. Auditors scrutinize these processes to ensure that such opportunities are minimized.

**Healthcare:** Auditors investigate billing practices to identify cases where healthcare providers might overbill insurance companies or patients, rationalizing the act as compensation for perceived underpayment by insurers. For instance, a doctor might bill for more expensive procedures than those actually performed (upcoding) because they believe insurance reimbursements are too low.

**Retail:** In the retail sector, auditors assess inventory controls to prevent employee theft. An employee might justify stealing inventory by rationalizing that they are underpaid or that the company can easily afford the loss. Auditors ensure that inventory systems are robust and regularly monitored to prevent such theft.

**Insurance:** Auditors analyse claims processing to detect fraudulent claims, such as policyholders inflating the value of a loss or claiming for events that never occurred. Policyholders might rationalize fraud by convincing themselves that they deserve the payout due to the high premiums they pay. Auditors check for patterns and anomalies in claims that suggest such fraud.

### Agency Theory

**Key Concept:** Agency theory, proposed by Michael C. Jensen and William H. Meckling, examines the conflicts of interest between principals (owners) and agents (managers) in an organization. These conflicts arise because agents may prioritize their own interests over those of the principals, leading to issues such as moral hazard and adverse selection. **Application in Forensic Audit:** Forensic auditors use Agency theory to identify and mitigate conflicts of interest within an organization. They assess the governance structures, such as Boards of Directors and Audit Committees, to ensure they effectively monitor and control managerial actions. Auditors also review executive compensation packages and performance incentives to determine if they align with the long-term interests of shareholders. Additionally, auditors examine major business decisions, such as mergers and acquisitions, to ensure they are made in the best interest of the shareholders rather than for personal gain by the executives.

#### Examples of Industrial Application

**Publicly Traded Companies:** Auditors examine executive compensation structures to determine if they align with shareholder interests. For instance, if executives are compensated based on short-term stock performance, they may be incentivized to take risky actions that boost short-term profits at the expense of long-term stability. Auditors review these structures to ensure they encourage decisions that benefit the company in the long term.

**Banking:** In the banking sector, auditors review loan approvals to detect conflicts of interest where managers might approve loans to entities in which they have a personal stake, such as friends or family members. This could lead to loans being approved that would not meet the bank's standard criteria, increasing the risk of default. Auditors check for such biases in the approval process.

**Investment Firms:** Auditors assess the alignment of investment decisions with clients' best interests versus the firm's profit motives. For example, an investment manager might push products that generate higher fees for the firm but are not necessarily the best options for the client. Auditors review the suitability of investment advice provided to ensure it aligns with client needs.

**Government Contracts:** Auditors investigate procurement processes to identify conflicts of interest in awarding contracts. For instance, a Government official might favour a supplier with whom he may have personal or financial ties, leading to contracts that are not awarded on merit. Auditors scrutinize the selection process to ensure it is fair and transparent.

### Red Flags Theory

**Key Concept:** Red Flags theory is based on the idea that certain indicators or "red flags" can signal the presence of fraud. These indicators may include unusual financial transactions, discrepancies between financial records and actual assets, or behaviours that deviate from the norm.

**Application in Forensic Audit:** Forensic auditors use Red Flags theory to focus their investigations on areas

where there are signs of potential fraud. They systematically review financial statements, transaction records and employee behaviour to identify inconsistencies that might indicate fraudulent activity. Auditors also educate management and staff on recognizing red flags so that potential fraud can be detected and reported promptly. **Examples of Industrial Application:**

**Healthcare:** Auditors investigate discrepancies in patient billing records, such as unusually high billing for specific procedures, which could indicate fraudulent billing practices. For example, if a healthcare provider is billing for a high volume of a specific procedure that is not supported by patient records, this could be a red flag for upcoding or billing for services not rendered.

**Retail:** Auditors flag sudden increases in returns or discounts as potential indicators of fraud. In retail, if there is an unexpected spike in product returns or excessive discounting, it might indicate fraudulent activities such as employees processing fake returns to steal cash or goods.

**Construction:** Auditors review cost overruns and change orders as potential red flags for kickbacks or bid-rigging. In the construction industry, frequent and unexplained cost overruns or numerous change orders can be a sign that contractors are inflating prices to cover kickbacks or are involved in collusion to rig bids.

**Telecommunications:** Auditors monitor irregular billing patterns and unauthorized discounts as signs of potential fraud. In the telecommunications industry, irregular billing patterns, such as repeated adjustments or unusual discounting, can indicate fraud, such as employees giving unauthorized discounts in exchange for kickbacks.

### Internal Control Theory

**Key Concept:** Internal Control theory emphasizes the importance of robust internal controls in preventing and detecting fraud. Internal controls include processes and procedures that safeguard an organization's assets, ensure the accuracy of financial reporting and promote operational efficiency.

**Application in Forensic Audit:** Forensic auditors evaluate the design and effectiveness of an organization's internal controls by testing the adequacy of safeguards against fraud. They review the segregation of duties to ensure that no single employee has control over all aspects of a transaction, reducing the risk of fraud. Auditors also assess the adequacy of authorization processes, ensuring that all significant transactions are reviewed and approved by multiple levels of management. Regular audits and monitoring activities are examined to ensure that they are sufficient to detect and correct anomalies before they result in significant losses. **Examples of Industrial Application:**

**Manufacturing:** Auditors assess controls over inventory management to prevent theft or misreporting of materials. In manufacturing, where large quantities of raw materials and finished goods are handled, weak inventory controls can lead to significant losses through theft or mismanagement. Auditors review how inventory is tracked, recorded, and reconciled with physical counts to ensure accuracy and detect any discrepancies.

**Banking:** Auditors review controls over fund disbursement to prevent unauthorized transactions. For example, in a bank, auditors would ensure that multiple levels of approval are required before large funds are transferred and that each step in the process is documented and monitored to prevent unauthorized disbursements.

**Retail:** In retail, auditors evaluate controls over point-of-sale systems to detect and prevent cash skimming. Cash skimming occurs when employees take cash from sales before it is recorded. Auditors check that point-of-sale systems are designed to accurately record all transactions and that cash is regularly reconciled to detect discrepancies.

**Technology Firms:** Auditors assess access controls to prevent unauthorized access to intellectual property. In technology firms, where intellectual property is a key asset, unauthorized access can lead to significant losses. Auditors review who has access to sensitive data and whether appropriate controls are in place, such as encryption and multi-factor authentication, to protect against unauthorized access.

### Compliance Theory

**Key Concept:** Compliance theory focuses on how organizations adhere to laws, regulations, and internal policies to avoid legal penalties and maintain their reputation. It suggests that strong compliance frameworks are essential for ensuring that organizations operate within the bounds of the law and follow industry standards.

**Application in Forensic Audit:** Forensic auditors evaluate whether organizations have effective compliance programs in place and whether these programs are being properly implemented. Auditors review policies and procedures to ensure they align with regulatory requirements and industry standards. They also test compliance by examining transactions and activities to detect any deviations from established rules. Additionally, auditors assess the organization's culture to determine whether compliance is genuinely valued or if it is viewed as a mere formality.

### **Examples of Industrial Application:**

**Pharmaceuticals:** Auditors focus on compliance with drug safety regulations and accurate reporting of clinical trial data. In the pharmaceutical industry, compliance with regulatory standards is critical for ensuring the safety and efficacy of drugs. Auditors review clinical trial records, manufacturing processes and reporting to regulatory bodies to ensure that all activities meet the required standards and that any deviations are promptly corrected.

**Finance:** Auditors assess compliance with anti-money laundering (AML) laws and regulations. In financial institutions, strict adherence to AML regulations is essential to prevent illegal activities such as money laundering and terrorism financing. Auditors review transaction records, customer due diligence processes, and reporting practices to ensure that the institution is fully compliant with AML laws.

**Construction:** Auditors review adherence to safety and environmental regulations to prevent legal liabilities. In the construction industry, non-compliance with safety and environmental regulations can lead to accidents, fines, and reputational damage. Auditors assess whether companies are following regulations related to worker safety, waste disposal, and environmental impact, ensuring that all practices are compliant and reducing the risk of legal issues.

**Telecommunications:** Auditors evaluate compliance with data privacy regulations, ensuring customer information is securely handled. In the telecommunications industry, where vast volume of personal data is handled, compliance with data privacy regulations is critical. Auditors review data handling practices, security measures, and customer consent processes to ensure that all customer information is protected and that the company complies with relevant regulations.

## **CONCLUSION**

The application of forensic audit theories is essential for detecting and preventing fraud across various industries. This article demonstrates how the Fraud Triangle theory, Agency theory, Internal Control theory, Red Flags theory, and Compliance theory offer a robust framework for maintaining financial integrity. As industries continue to evolve, the relevance of these theories will only increase, underscoring the need for continued vigilance and effective audit practices. MA

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# LOCKING FINANCIAL DEPLETION BY UNLOCKING FRAUDS USING FORENSIC AUDIT: A LYNCHPIN

## Abstract

*The value of the financial system is getting dilapidated as frauds are increasing both at a domestic and international level. Audit assignment performed by the several categories of auditors demonstrated only the deviations or non-compliance of the clientele's performance in their audit reports but not taken to the court of law for scrutinization in the presence of the auditor. Therefore, the frauds can be detected by applying the forensic audit which exhibits the motives of the perpetrators behind the occurrence of the fraud. Cost and Management Accountants can be judgmental in this task.*



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## INTRODUCTION

John L Carey, the former President of the then AICPA said that audits were required by law as early as 1845 to save the shareholders from the hands of misjudgment, corruption and malpractices. But due to the lack of standardization, non-availability of auditing professions, training and adequate qualifications, the needs of the hours mostly remained under the discretionary powers of those auditors who were forced to be in the stake holding pattern of the organizations. Later came the enactment of Federal securities laws and it became prominent that audit needs evolvement as a branch of study to detect frauds and errors and handle the compliance procedure. Coming to India, audit emerged well before independence. The branches of audit are many and the types of auditors also being as per the category of the audit work performed.

The table below shows the different types of auditors and the nature of the audit work performed by them.

TABLE 1: TYPES OF AUDITORS AND THE

## NATURE OF AUDIT WORK PERFORMED

Sl No.	Type of Auditor	Nature of work
1	External	<ul style="list-style-type: none"> <li>➤ The external auditors are under the compulsion to follow the professional code of ethics by adhering to the International Standards on Auditing and local Standards as per law.</li> <li>➤ Proper audit reports to be maintained</li> <li>➤ In case of conflict of interest, proper measures to be taken by the auditors.</li> </ul>
2	Internal	<ul style="list-style-type: none"> <li>➤ The auditor attempts to improve the value of the entity by undertaking the audit assignment objectively and independently.</li> <li>➤ It assesses risk management, internal control and corporate governance.</li> <li>➤ It controls internal operation, fraud investigation and keeps internal checks and balances.</li> </ul>

3	Statutory	<ul style="list-style-type: none"> <li>➤ The auditors are required to conduct the audit of the entity's financial statements as needed by the local law.</li> <li>➤ Audit report will be issued by the auditor and submitted to the Government by the entity and not the auditor.</li> </ul>
4	Financial	<ul style="list-style-type: none"> <li>➤ This type of audit is also performed quarterly if needed.</li> <li>➤ This audit is performed by an external auditor and is known as financial statements auditing.</li> <li>➤ The financial statements if prepared as per GAPP or IFRS, then financial statements are to be audited against GAAP or IFRS.</li> </ul>
5	Tax	<ul style="list-style-type: none"> <li>➤ The auditor performs this audit as a result of any non compliance found by a Government agency or as per the requirement of the Government tax department.</li> </ul>
6	Information system	<ul style="list-style-type: none"> <li>➤ This type of audit is done by the auditor to check the reliability of the security system, information security structure and the integrity of the system.</li> <li>➤ The auditors may need to alter their approach towards auditing as per the change in the approach of the management in maintaining their records and reports of the financial system.</li> </ul>
7	Compliance	<ul style="list-style-type: none"> <li>➤ The auditor looks into the aspects of complying with the internal rules, regulations, policies, decisions and procedures.</li> <li>➤ Compliance auditor performs under certain requirements namely local law and regulation and business-related regulation and framework.</li> </ul>
8	Integrated	<ul style="list-style-type: none"> <li>➤ This type of audit is performed by the auditors when they involve in auditing the social and financial segments.</li> <li>➤ The entity can operate in different countries and the financial statements are audited by different audit firms.</li> </ul>

9	Special	<ul style="list-style-type: none"> <li>➤ This audit is performed in cases of special occurrences such as fraud, unnatural developments in business etc.</li> <li>➤ The internal staffs are the auditors for the special cases who work as a team, prepare the audit report and submit to the Audit Committee or Board of Directors or in certain cases to the CEO of the entity.</li> </ul>
10	Value for Money	<ul style="list-style-type: none"> <li>➤ The value for money audit measures the economy, efficiency and effectiveness of the entity.</li> <li>➤ The auditor ensures the improvement of the entity's efficiency usage of resources. This audit enables the entity to procure, at a competitive rate, quality materials.</li> </ul>
11	Operational	<ul style="list-style-type: none"> <li>➤ Auditors in this type of audit control the procedures, systems and processes.</li> <li>➤ They also control the leakage and wastage of resources and recommend improvement to the organization.</li> </ul> <p>The auditors perform the task with high degree of sincerity and discipline.</p>
12	Forensic	<ul style="list-style-type: none"> <li>➤ Auditors in this case are both forensic accountant and investigator who handle frauds, crimes, insurance claims and disputes.</li> <li>➤ The findings and outcome of the audit work is taken before the court of law for settling the conflicts.</li> <li>➤ It is different in terms of the assignment performed by the special auditor as special audit is carried out by the team of internal auditors only.</li> <li>➤ The auditors need to plan properly for this audit engagement as in other audits; this audit is also popular like audit of financial statements or statutory audit.</li> </ul>

Forensic audit gained popularity over a period of time to cure with care the financial and non-financial paralysis. Except forensic audit, other types of audit have their own limitations of the performance and are

restricted to the fact findings and data presentation which if proved to be disastrous may or may not be modified but forensic audit is an analysis of crime and a systematic study of any disorder of financial dimension or policy related matters. *Edwin Sutherland in 1939*, introduced his theory “*Differential Association Theory in Criminology*” where a crime is a process involving three persons namely, an offender, a victim and an accomplice.

- ⊙ **Offender:** Is a person who commits the crime irrespective of age, gender and social standing. The offender can be self-activated who does it for releasing his own tensions, thrill seeking, can be the ones who does for own excitement and the habitual offenders are with very low tolerance of frustration and lastly the opportunity offenders seek opportunities over and above their self-motivation.
- ⊙ **Victim:** An individual becomes a victim when he/she suffers from violation of law due to their inability to control others’ behavior.

⊙ **Accomplice:** Sutherland pointed out in his theory that the accomplice is a third party who approves the criminal act. There are various types of accomplices such as:

- **Behavioral:** Advocates others’ criminal acts.
- **Informational:** Provides crime related information
- **Instrumental:** Provides the necessary materials for execution of crimes
- **Moral:** Approves crime without direct participation.
- **Bystander:** Overlooks the crime related acts but approves.

Crimes in financial spectrum have increased over the years and demanded revelation, scrutinization and production before the court of law to arrest the future deterioration of reputation and financial failures of the organizations. Following diagram sets out the steps in which the forensic audit is executed. :

**DIAGRAM 1: PHASES OF EXECUTING THE FORENSIC AUDIT**



**LAWS GOVERNING FORENSIC AUDIT**

The Governance structure involves multiple bodies, regulatory set ups reflecting comprehensive approaches to tackle financial frauds and misconducts. The key laws and regulations underwhich forensic audit operate in India are set out in Table 2.

**TABLE 2: DIFFERENT LAWS ENCOMPASSING THE PERFORMANCE OF FORENSIC AUDIT IN INDIA**

Act/Law	Governing features
Companies Act, 2013	Central Government can order conduct of the forensic audit in case there are reasonable grounds to suspect frauds in the organizations.

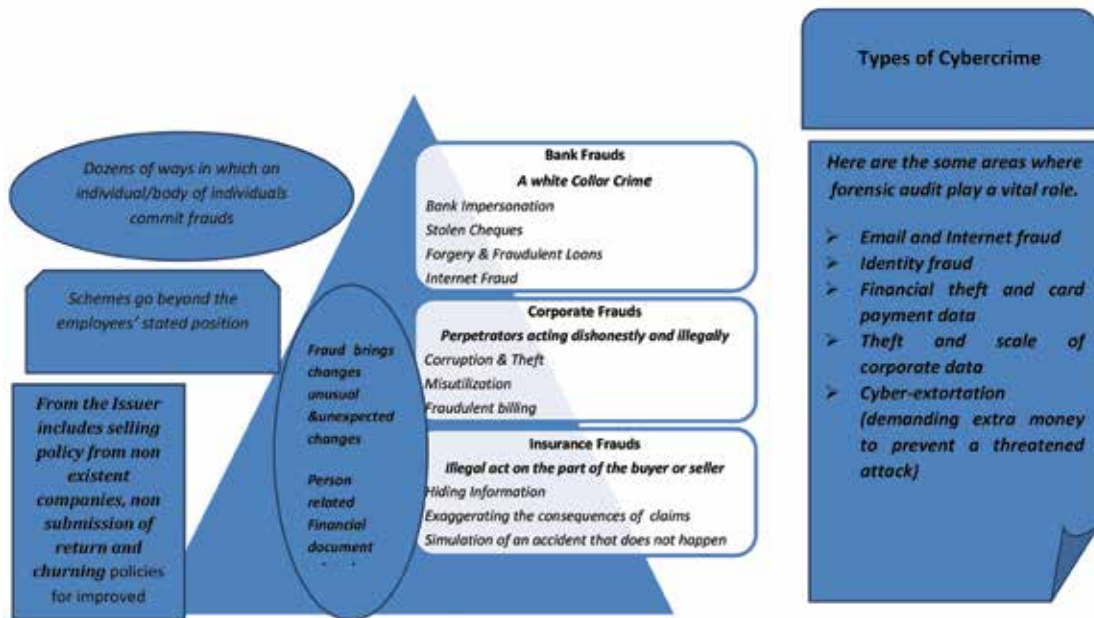
Prevention of Money Laundering Act (PMLA) 2002	Forensic audit aim to unearth the source of the funds, appropriation of the funds and trace the proceeds of the crime.
Insolvency and Bankruptcy Code, 2016	Forensic audit is conducted in case of insolvency and bankruptcy for detecting the fraudulent items and any misconduct by the debtors and creditors.
Income Tax Act, 1961	To discover the undisclosed assets and liabilities and also in cases of tax evasions and fraud, forensic audit is conducted.

Banking Regulation Act, 1941	To identify frauds, embezzlement of cash and non-compliance with regulatory standards, forensic audit needs to be conducted.
Securities and Exchange Board of India Act, 1992	To pinpoint the insiders trading, market manipulation and violations of SEBI guidelines forensic audit becomes pertinent.
Information Technology Act, 2000	In cases of cyber frauds, cyber crimes forensic audit needs to be performed and also to examine the digital records and transactions as per the guidelines of the IT Act, 2000.

The transformation in the field of commercialization, particularly during post liberalization era was rapid and the same is also marked by the growth of industries and professional bodies. Managements became murky, frauds increased, errors got multiplied and the ethical focus of the audit profession started losing its core emphasis.

Forensic audit appeared as an instrument for investigation of fraud, accounting for it by keeping track of its forensic evidences and also prosecuting those involved in embezzlement of funds.

**DIAGRAM 2: TYPES OF FRAUD**



Frauds in today’s scenario have increased at a faster rate. Frauds are committed by people in the organizations driven by many reasons which can be personal, behavioral, situational and many more. The incremental trend of the value of the bank fraud is shown below:

**FIGURE 1: VALUE OF BANK FRAUDS**



**Source:** Prepared + by using the data from [www.statista.com/statistics/1012762/india-value-of-bank-fraud/](http://www.statista.com/statistics/1012762/india-value-of-bank-fraud/)

TABLE 3: DIFFERENT MODELS OF FORENSIC AUDIT

S NO	Model, Author, (Year)	Concept of the model in comparison with the Fraud Triangle
1	Fraud Scale (I) Albrecht, Howe and Romney (1984)	Albrecht, Howe and Romney (1984) developed a “fraud scale” relying on two components of the fraud triangle, pressure and opportunity, but replacing rationalisation with personal integrity (Free, 2015, p.183)
2	Fraud Cube Doost (1990)	“Underlying this concept is the ideology that there are three dimensions encompassing computer crime relationship, expertise and motivation” (Tran, 1992, p. 21)
3	Fraud Diamond Wolfe and Hermanson (2004)	In addition to incentive, opportunity, and rationalization, the authors proposed the fourth side, which changed the triangle into diamond. Four-sided “fraud diamond also considers an individual’s capability: personal traits and abilities that play a major role in whether fraud may actually occur even with the presence of the other three elements (Wolfe & Hermanson, 2004). “Based on the fraud diamond theory, the person also must have the capability to recognize the open doorway as an opportunity and to take advantage of it” (Ruankaew, 2016, p. 476)
4	Fishbein and Ajzen’s Theory of Planned Behaviour (TPB) Carpenter and Reimers (2005)	The four dimensions of the TPB are: attitude (toward fraud), subjective norms, perceived behavioural control and moral obligation. The TPB is not a fraud model as such; however, its purpose is to explain any planned, or intentioned, action. Since fraudulent acts are essentially planned behaviours contingent upon the will of the actor, the TPB framework is relevant in financial fraud research (Raval, 2016, p. 2).
5	Fraud Square (I) Bressler and Bressler (2007)	Four elements of the fraud square proposed: incentive, opportunity, capability, and realization (Mackevicius & Girunus, 2013, p.152).
6	ABCs of White Collar Crime Ramamoorti (2008)	ABC: A-the Bad Apple: individual personality characteristics of those that commit fraud; B the Bad Bushel: group dynamics of collusive behaviour, C the Bad Crop: the larger cultural/societal factors that enhance or permit fraud.
7	Fraud Pentagon (I) Marks (2009)	Fraud pentagon consists of five elements: pressure, opportunity, rationalization, competence, and arrogance, where “competence expands on Cressey’s element of opportunity to include an individual’s ability to override internal controls and social controls to his or her advantage. Arrogance or lack of conscience is an attitude of superiority and entitlement or greed on the part of a person who believes that corporate policies and procedures simply do not personally apply” (Marks, 2009, p. 3).
8	Fraud Square (II) Cieslewicz (2010)	The notion of societal influences added to the fraud triangle (Free, 2015, p.182).
9	Fraud Pentagon (I) Goldman (2010)	Goldman adds the dimensions of personal greed and employee disenfranchisement (Free, 2015, p.182)
10	Triangle of Fraud Action Dorminey, Fleming, Kranacher and Riley (2012)	While the Fraud Triangle identifies the conditions under which fraud may occur, the Triangle of Fraud Action describes the actions an individual must perform to perpetrate the fraud. The three components of the Triangle of Fraud Action are the act, concealment, and conversion. “The act represents the execution and methodology of the fraud, such as embezzlement, check kiting, or material fraudulent financial reporting. Concealment represents hiding the fraud act; examples of concealment include creating false journal entries, falsifying bank reconciliations, destroying files. Conversion is the process of turning the ill-gotten gains into something usable by the perpetrator in a way that appears to be legitimate; examples include laundered money, cars, or homes. (Dorminey et al., 2012, p. 559)
11	M-I-C-E Dorminey, Fleming, Kranacher and Riley (2012)	M’ means ‘money’, ‘I’- ‘ideology’, ‘C’ coercion’ and ‘E’ means ‘ego’ or ‘entitlement. M- I-C-E modifies the pressure side of the Fraud Triangle, as it provides an expanded set of motivations beyond a non-shareable financial pressure (Dorminey et al., 2012).



12	Fraud Scales (II) Mackevicius and Giriunas (2013)	“The elements of the fraud scales are the following: motives, conditions, capabilities and fulfilment. The first element of the fraud scales is the motive. It determines whether an employee tends to behave unfairly and why. The second element of the fraud scales is the study of the conditions that increase their risk. The third element is the possibilities, which are treated as an option granted to an employee who is hoping to commit a fraud. The fourth element is realization, which is seen as a means by which employees justify unfair behaviour” (Mackevicius and Giriunas, 2013, p. 159-160).
13	The Auditor’s Model with Respect to Fraud Trompeter, Carpenter, Desai, Jones and Riley (2013)	Is a kind of adopted model of fraud triangle as a pre-fraud state of nature in combination with post-fraud state, which focuses on the specific elements of fraud: the act, the effort to conceal the act and an identification of the benefits that accrue to the fraudster (Trompeter, Carpenter, Desai, Jones, and Riley, 2013, p. 290).
14	Symbiosis of Fraud Triangle and Crime Triangle Mailley (2015)	The Crime Triangle is introduced as a complement to the universally accepted Fraud Triangle. The Crime Triangle’s macro view of a fraud event expands the Fraud Triangle’s perpetrator- centric (micro) focus to provide a comprehensive perspective of a fraud event (Mailley, 2015. p. 56).
15	A Disposition-based Fraud Model Raval (2016)	“A complete model of human behaviour should include the two interacting elements: organism (agent) and environment (context)... This model frames financial fraud as an act of indulgence: People commit fraud by indulging in a moral temptation, leading to an intentional act... Thus, the Disposition-based Fraud Model is essentially an interaction between (a) circumstances represented by stimuli that make up the moral temptation on hand, and (b) the actor’s character (disposition)” (Raval, 2016, p. 4)

Source: <https://www.atlantis-press.com/article/25864767>

A lot of theories ratified the actions of the fraudsters. The most popular theory was the Fraud Triangle Theory introduced by Donald Cressey in 1950. Here the fraud is committed on the premise of three elements namely pressure or incentive, an opportunity and rationalization. The other theories are mentioned in the above Table. The defaulters may be willful and situational but the number of cases is increasing rapidly and the defaulters of sums over and above ₹ 1 crore in different States in India and also in countries abroad are becoming alarming.

TABLE 4: SUIT FILED ACCOUNTS - DEFAULTERS RS 1 CRORE FROM MARCH 2020 TILL AUGUST 2024

Suit Filed Accounts - Defaulters of Rs 1 crore and above as on 31-Mar-2020 [Search Details Date of extraction 16-Sep-2024 Suit-Filed Cases by Geographic Distribution]		
State/Union Territory	No. of records	Outstanding Amount (₹ in Lacs)
Maharashtra	6679	31016781.49
Delhi	2350	9125062.06
Telangana	1361	5566580.90
Tamil Nadu	2380	4954013.41
West Bengal	2157	4796607.27

Gujarat	2027	3127600.20
New Delhi	576	1999728.80
Punjab	1429	1986524.10
Karnataka	1089	1587883.08
Uttar Pradesh	1003	1555646.39
Madhya Pradesh	820	1350852.48
Andhra Pradesh	1109	1282413.20
Chandigarh	465	1233261.27
Haryana	605	849551.40
Kerala	834	496853.34
Orissa	405	389637.16
Chhattisgarh	165	199934.53
Bihar	255	172978.73
Jharkhand	245	165409.12
Rajasthan	360	165261.12
Assam	143	120612.36
Daman and Diu	8	97813.96
Bahrain	7	90602.17
Jammu & Kashmir	146	85512.47
Overseas	5	82056.66
Bhopal	12	77402.94
Uttarakhand	132	77362.18

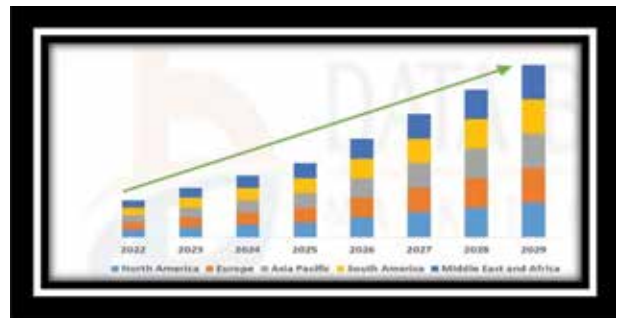
Himachal Pradesh	113	59155.38
Goa	79	56637.88
Belgium	7	32718.00
Singapore	8	30170.83
Dubai	6	27022.03
Puducherry	35	24603.64
Hong Kong	5	22816.39
Dubai, UAE	3	21085.42
Germany	4	17371.00
Hyderabad	10	15718.90
Panama	1	14620.38
Washington	1	10089.30
United states of America	1	8559.00
Meghalaya	6	8029.05
Bangladesh	10	6032.00
Tripura	8	4064.42
Uttaranchal	2	3505.00
Sikkim	3	3057.91
Arunachal Pradesh	9	2713.20
Dadra and Nagar Haveli	3	2179.00
Nagaland	7	2144.90
Israel	2	1394.00
Sri Lanka	1	1389.00
United Kingdom	1	1011.00
Lakshadweep	2	625.55
Japan	1	558.00
Mizoram	3	456.93
<b>Total</b>	<b>27098.0</b>	<b>73031670.90</b>

**Source:** CIBIL | Suit Filed Database

The above Table highlights that the cases are more sensitive in case of India in contrast with other countries and the strength of the defaulters are highest in Maharashtra, the financial hub of the country. It shows lack of management in the hands of the financial institutions and therefore the need for monitoring through the implementation of proper code of ethics, discipline and required audit procedures. The normal audit process can't be enforced through the courts of

law but the same can be done by the different models of forensic audit. The spread of the frauds is not confined only to India but is at the global level. With the advent of machine learning and artificial intelligence, the extent of fraud will be high in the future as reflected in the following Figure.

**FIGURE 2: GLOBAL FINANCIAL FRAUD MARKET FROM 2022 TO 2029**  
(In \$ 82.53 Billion)



**Source:** www.databridgemarketresearch.com

The above graph shows that financial fraud market will turn to \$ 82.53 billion with a CAGR of 18.80 per cent as against \$20.80 billion in 2021. Controlling fraud and its prevention from recurrence is the need of the hour and therefore forensic audit can be utilized to arrest the spread of such frauds. Firms should target the application of forensic audit to bring out the reasons behind the fraud and the consequences can be judged duly in the court of law and it can be set as precedence for the future. Experienced Cost & Management Accountants can be drafted into bank Boards to undertake the task of the forensic audit provided they possess the required qualification criteria as they are pioneers in monitoring, controlling and reducing the cost over runs which can also be instrumental in tracing the fund siphonage made by the borrowers. **MA**

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# HARNESSING AI IN FORENSIC AUDIT: EXPANDING OPPORTUNITIES FOR CMAs

## Abstract

*In today's world, with the rising focus on governance and fraud risk management, forensic audit plays an important role. With its focus on verifying the existence and extent of an alleged fraud or financial misconduct, it differs from regular audits, both in scope and approach. CMAs are well-suited for conducting forensic audits given their knowledge, skillsets and the ability to be impartial and exercise professional judgment. Forensic auditors can augment their procedures with AI tools upping the ante against fraudsters. This article delves deeper into the concept of forensic audit, artificial intelligence (AI), how forensic auditors can leverage AI and how CMAs are well-suited for these engagements.*

## INTRODUCTION

Time and again, the world has witnessed frauds and other financial irregularities, small and large. As frauds are designed to deceive and are inherently covert, by the time they come to surface, it may already be too late to contain its effects. The suddenness of the impact often compounds the consequences for the stakeholders of the entity fraught with fraud.

When red flags arise, it is necessary that the regulators act swiftly, lest the fraudsters destroy the evidence and escape the clutches of law. The perpetrators can be brought to justice only by establishing the fact of fraud in a court of law with unassailable evidence. It needs an expert who understands the nuances of both the law and the fraud. In order to achieve this, a specialised audit or investigative process needs to be performed with the objective of corroborating or dismissing the suspicion or allegation. This is where forensic audit comes into the picture.



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## FORENSIC AUDIT AND ITS BENEFITS

Forensic audit is the examination of financial information, documents and records to gather sufficient appropriate evidence on whether frauds and other

financial irregularities have taken place, in a manner that the evidence obtained in the process can be produced as evidence in courts of law. It is a specialized field focused on unearthing the existence and extent of frauds and other irregularities. Although the term is not strictly defined in law, breaking down the term into its parts could help us to understand the concept clearly. The term 'forensic' refers to matters relating to courts of law. 'auditing' refers to examination of records and performing other audit procedures to enable expression of an opinion thereupon. Hence, we can say that the function of forensic audit is to gather and present evidence and to report observations before the courts of law on the allegations of fraud and other misconduct.

This discipline combines accounting, auditing, and investigative skills to gather evidence and form an opinion on it. It involves analyzing financial data, interviewing witnesses and collaborating with law enforcement agencies and usually culminates in expert testimony if the case proceeds to trial in courts of law.

Forensic audit may be undertaken pursuant to an order by a court or authority or may even be voluntarily taken up by an entity to prove its innocence or to look into the alleged misconduct of an employee or Board member. In the famous *Satyam* case, as quoted in the class action complaint before the United States District Court, the Government examiner of questioned documents, under the Ministry of Home Affairs, performed a forensic examination of the company's documents in the course of the criminal investigation, which confirmed the existence of forged bank statements.<sup>1</sup> In the *IL&FS* case, the newly-formed Board had appointed an audit firm to conduct forensic audit, to audit the role of credit-rating agencies.<sup>2</sup> As per an article published in *reorg.com*, the report had, *inter alia*, highlighted evergreening of loans between IL&FS group and certain other entities.<sup>3</sup> In 2020, *Infosys* undertook a voluntary forensic review to probe into whistle-blower allegations of financial impropriety and irregularities.<sup>4</sup>

The benefits of forensic audit can be understood from the following angles:

- ⊙ **Aiding regulators:** Forensic auditors provide expert testimony in courts, thereby helping regulators launch an airtight case in criminal courts against the perpetrators.
- ⊙ **Enterprise risk management:** Given the

<sup>1</sup> <https://static.blbglaw.com/docs/Consolidated%20Class%20Action%20Complaint%20Filed%20on%207-17-09.PDF>

<sup>2</sup> <https://cfo.economictimes.indiatimes.com/news/grant-thornton-submits-forensic-audit-to-ilfs-management/70286581>

<sup>3</sup> <https://reorg.com/articles/srei-group-audit-report/>

<sup>4</sup> <https://www.infosys.com/newsroom/press-releases/documents/audit-committee-finds-no-evidence-financial-impropriety.pdf>

potential of forensic audits to deter frauds and improve efficiency of businesses by identifying internal control weaknesses, forensic audits can also double up as tools of business transformation.

- ⊙ **Compliance and corporate governance:** Forensic audits, when undertaken as a voluntary exercise, can form an important part of risk management and governance. This would help companies to navigate complex regulatory environments, reducing the risk of legal penalties and reputational damage.

### DIFFERENCE BETWEEN REGULAR AUDITS AND FORENSIC AUDITS

In the normal course of business, a corporate entity is subject to different types of audits – cost audit, secretarial audit or statutory audit of financial statements. Forensic audit is much different from a regular audit in terms of purpose, scope and approach.

Although a well-planned regular audit can unearth red flags, frauds deep entrenched in businesses can hoodwink the auditors too. This is both due to the clandestine and deliberate nature of frauds as well as the inherent limitations of a regular audit. A regular audit is approached with a well-balanced professional skepticism and not full-blown suspicions unless circumstances exist that provide a reasonable ground for it. A regular audit involves expressing an opinion on the true and fair nature of the financial statements, cost records or on the compliance aspects of an organization.



FIGURE 1 (Conceptualised By Authors)

Unlike regular audits, forensic audit is geared towards potential legal proceedings. It starts with a suspicion and hence, is not blindsided by benefit of doubt.

What's more important here is that the element of *malafide* intention or *mens rea* must be established for the act to constitute a fraud or deceit. Corroborating this is not the objective of a regular audit.

### LIMITATIONS OF FORENSIC AUDIT

Conducting forensic audits comes with significant limitations:

- ⊙ They can be costly and time-consuming. The inherent nature of frauds results in convoluted documentation designed to divert the attention towards unimportant matters. This may make it a time-consuming process.
- ⊙ Finding qualified and skilled professionals to conduct forensic audits can be challenging because the facts and circumstances of each case may differ calling for different areas of expertise in each situation.
- ⊙ The effectiveness of forensic audit depends on the availability of reliable financial data.
- ⊙ The process may potentially disrupt normal business activities, as employees may need to support the forensic auditor during the process. It may also create a tense environment hindering productivity.
- ⊙ Implementing audit recommendations can also face resistance from within the organization.
- ⊙ Most times, unless specifically required, forensic audits may have a narrow focus on fraud detection and gathering evidence and may not address broader organizational issues within the organization.
- ⊙ As sensitive data and documents are shared with forensic auditors, confidentiality concerns arise.
- ⊙ Forensic audit may result in inconclusive results due to the complexity of financial transactions, especially in areas like cross-border transactions involving layers of entities and transactions and complex financial instruments. Depending on which body or authority is conducting the audit, there could be legal limitations to the methods that could be employed too. For example, private forensic auditors cannot examine witnesses under oath or undertake a search and seizure. This way it is very limited compared to an investigation by authorities.

Understanding these limitations would help entities to decide how to approach forensic audit effectively.

### AI AND ITS CAPABILITIES

AI refers to technologies that mimic human thought processes behind learning, decision-making and responding. The concept of AI has long been in human imagination as our literature and movies bear witness. AI in reality has evolved from rule-based systems to machine learning and deep learning. We are witnessing AI in various domains like user recommendations, generative AI like ChatGPT, Gemini, etc., environmental preservation, governance dashboards and regulatory supervision technologies. AI could be narrow AI or general AI. Narrow AI is operating within a narrow domain and performing specific functions like in the case of AI chatbots or financial applications. General AI, is capable of performing a wide-range of functions just as a human would do or perhaps even better.

The following are some of the capabilities of AI in the context of forensic audit:

- ⊙ **Data analysis:** AI has the ability to analyze vast amounts of financial data at speeds unimaginable for human beings. It can sift through volumes of data and identify patterns and red flags emerging out of the data that may not be visible due to the human eyes due to the vastness of data.
- ⊙ **Predictive analytics:** AI can predict potential areas of fraud based on the pattern recognition and by identifying weaknesses in internal controls.
- ⊙ **Automation of routine tasks:** AI can automate routine accounting and audit tasks, freeing up time for more substantive matters.
- ⊙ **Natural language processing (NLP):** AI can review contracts, emails, and other documents for red flags.

### APPLYING AI TOOLS IN FORENSIC AUDIT

AI tools can be applied in the following areas in forensic audit:



- ⊙ **Correlation and pattern identification:** AI helps in culling out unexpected patterns and relationships that may not occur to human mind. AI helps in identifying possible correlation between apparently disconnected parameters like sales and employee turnover, repairs and

capital expenditure, operating cashflows and investments, occurrence of specific transactions during a specific employee's absence, and so on. While every correlation observed between pairs of variables may not be causal and may only be coincidental, it can point to areas that should be explored further.

- ⊙ **Exception analysis:** AI can bring out the aggregate effect of smaller instances of peculiar transactions. For example, minor unexplained transactions in the accounting system occurring randomly but entered by the same person, minor arithmetic mistakes in relation to the same party strewn across the audit period, and so on. All these require analysis of 100 per cent of the population, which is possible only with AI.
- ⊙ **Using NLP capabilities for verifying logic:** The forensic auditor can run through his observations and insights with AI to identify any bias or logic flaw. In a way, he acts as AI's reviewer and AI could act as his reviewer – a powerful symbiotic relationship.
- ⊙ **Using NLP capabilities for analysing communication:** Very often, it is the communication that could contain clues pointing to frauds and not the accounting information. And an entity could have reams of communication, which can be analysed only with the capabilities of AI.
- ⊙ **Sifting through volumes of related party transactions data:** Related party transactions are often used as the medium to carry out fraud, tax evasion and money laundering. Usually, they are structured in a convoluted manner to hoodwink auditors and regulators. The origin of transactions must flow from product design to bills of materials to procurement to processing to sales orders to dispatch and realization of payment.

### LIMITATIONS OF AI

Like any technology, AI is fraught with limitations that are important to understand:

- ⊙ **Bias:** If the data fed to the AI tool either in training phase or during the forensic audit is biased, conclusions reached by AI tools cannot be relied upon. Usually, bias will be unavoidable in training data, and hence, AI's conclusions must be subject to human judgment and instincts.
- ⊙ **Ethical concerns:** The way in which AI captures data and images may sometimes lead

to unauthorized use of data. It is necessary that the algorithm behind the tool enables only authorised use of data. Not just data privacy, it should also be ensured that the AI does not pose a cybersecurity threat by opening the doors to malicious software.

- ⊙ **Hallucinations:** Generative AI tools can hallucinate and produce incorrect results.
- ⊙ **Non-explainability and unpredictability:** The inherent nature of AI is that the exact output cannot be predicated just as human behaviour cannot be predicted.

The above limitations clearly underline why human judgment is irreplaceable in the process of forensic audit. The forensic auditor's work may be facilitated better by AI but AI cannot supplant his judgment. Evaluating AI's outputs by the forensic auditor is an absolute must.

### DUTIES OF FORENSIC AUDITOR AND PRECAUTIONS IN AN AI ENVIRONMENT

**Professional skepticism:** The forensic auditor must exercise professional skepticism in the course of his audit. In fact, since allegations of fraud are already present, he must perform the audit in a manner that unearths the truth.

**Balanced approach:** He should neither be intent on proving the allegation nor in disproving it. He must be neutral towards both these outcomes in his mind. This will help him to remain balanced when evaluating evidence and AI's conclusions. Since grounds of suspicion are already present, it is necessary to become aware of and overcome confirmation bias while evaluating evidence.

**Respecting intuition:** The forensic auditor must learn to identify and trust his instincts, and this requires emotional integrity and intelligence. This is something that cannot be substituted by AI.

**Ethical behaviour:** The forensic auditor must always perform his functions with integrity and objectivity. He must also respect data privacy and take measures to protect it.

**Understanding the AI tools:** The forensic auditor must understand the nuances and the technology behind the AI tools he is using in order that he understands the gaps and weakness in the AI's decision-making logic and takes measures to counter them. It is necessary that the auditor remain updated on the advancements in the technology.

### WHY CMAS ARE WELL SUITED TO DO

**FORENSIC AUDIT?**

Cost Accountants (CMAs) are well-suited to undertake forensic audit engagements as they have the knowledge, skills and insight required to evaluate evidence in an objective manner.

CMAs have a strong foundation in costing, financial management and compliance aspects, all of which are necessary to perform effective forensic audits.

Their familiarity with the cost structure of various products can help them intuitively identify inconsistencies.

The Institute of Cost Accountants of India has introduced specialized courses in forensic audit, to equip and strengthen the skills of CMAs. The Institute has also incorporated forensic audit in the CMA course curriculum. Several courses aimed at enhancing information technology skills are also being imparted.

With the increasing complexity of laws, scrutiny by regulatory bodies and a heightened focus on corporate governance, forensic auditing can become a flourishing area of practice for CMAs.

The natural synergy between AI's capabilities and the requirements of forensic auditing can be leveraged by CMAs in their engagements

**CONCLUSION**

Given India's 78th position in the Global Corruption Perception Index, the need for forensic audits has become increasingly important to improve stakeholders' confidence in its economy and businesses. AI can be harnessed to imbue the forensic audit process with thoroughness and robustness. The natural synergy between AI's capabilities and the requirements of forensic auditing can be leveraged by CMAs in their engagements. However, it must always be remembered that nothing can replace human judgment, instincts and insights. Hence, even if AI tools are used, it must always be subject to the professional's judgment at every stage. And for this reason, technology cannot replace the services of a thorough professional.

The Institute's logo bears the words, "*Tamaso ma jyotirgamaya*" meaning, "Lead me from darkness to light." CMAs are well-suited to take up forensic audits to dispel the darkness and chaos surrounding the businesses and be the beacon light guiding towards responsible and sustainable business conduct. **MA**

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# LENDING THROUGH 'DIGITAL FOOTPRINTS' NEW MODEL FOR MICRO, SMALL & MEDIUM ENTERPRISES- CREDIT APPRAISAL PROCESS OF BANKS

## Abstract

*The Union Budget 2024 presented by Finance Minister Smt. Nirmala Sitharaman on 23rd July, 2024 announced a 'New Credit Assessment Model' for micro, small & medium enterprises (MSMEs), where banks will assess them based on their 'digital footprints' and not on their balance sheets.*



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**M** SME Lending Day functions as a pertinent reminder of the indispensable role that micro, small, and medium enterprises fulfil in the economic advancement of India. Their substantial contributions to job creation and gross domestic product (GDP) render them the foundational element of the nation's economy. The landscape of MSME lending in India is currently witnessing remarkable growth. According to the most recent TransUnion Report, the MSME loan market is projected to experience a significant surge by the year 2025, propelled by:

- ⊙ Government initiatives.
- ⊙ Digital transformation.
- ⊙ Rising awareness

The MSME lending sector encompasses a heterogeneous array of lenders, including:

- Public sector banks.
- Private sector banks.
- Non-banking financial companies.
- Small finance banks.
- Fintech startups like LendingClub, NeoGrowth etc.

Technological Advancements are serving as a transformative force in MSME lending, dismantling conventional barriers and establishing a more streamlined, accessible, and inclusive financial ecosystem for these essential MSME enterprises.

- ✓ **Rationalization of Loan Applications:** The era of protracted paperwork and obligatory visits to bank branches is a relic of the past. Online loan application platforms, accessible through web or mobile applications, enable MSMEs to submit loan requests conveniently, at any time and from any location. This advancement markedly reduces processing durations and empowers MSME entrepreneurs to concentrate on their primary business endeavours.
- ✓ **Substitute Data Scoring:** Conventional credit evaluation methodologies frequently place excessive emphasis on credit history, which can disadvantage nascent or smaller enterprises. Fintech firms are harnessing the potential of alternative catascoring. This technique involves the examination of data points such as business transactions, utility payments, and digital footprints to formulate a more comprehensive credit profile. This innovative approach unlocks



loan opportunities for MSMEs that may lack a traditional credit history.

- ✓ **Quick Decision-Making:** The emergence of artificial intelligence (AI) is significantly influencing MSME lending by automating the assessment of loan applications. AI-driven algorithms possess the capability to analyse extensive datasets in real time, facilitating swifter and more efficient loan approvals. This not only reduces the turnaround times for MSMEs but also liberates human resources for more intricate tasks.
- ✓ **Improved Customer Experience:** Technological innovations are reshaping the customer experience for MSMEs seeking financial assistance. Mobile applications provide real-time loan tracking, promoting transparency and effective communication throughout the lending process. Furthermore, AI powered Chatbots can address fundamental enquiries and offer round-the-clock support, enabling users to navigate the loan application process seamlessly.
- ✓ **Risk Management & Fraud Recognition:** Sophisticated analytical tools assist lenders in recognizing potential risks and fraudulent activities. This not only safeguards lenders but also cultivates a more secure and trustworthy lending environment for MSMEs.

By adopting these technological advancements, lenders operating within the MSME sector can cultivate a more efficient, accessible, and inclusive Financial Ecosystem that serves as a Growth Catalyst for the Indian economy.

The trajectory of MSME lending in India appears promising. As technological innovations progress and Governmental initiatives advance, we can anticipate:

- ▲ Enhanced accessibility to credit
- ▲ A broader array of loan products
- ▲ Improved financial inclusion.

As the landscape of MSME lending continues to transform, collaboration among traditional financial institutions, Fintech entities, and Government bodies is essential to closing the credit disparity and enabling MSMEs to realize their complete potential. By promoting innovation and establishing a nurturing environment, India can unlock the full capabilities of its MSME sector and attain sustainable economic advancement. By cultivating a robust MSME lending ecosystem, we can empower these MSME enterprises to propel India's economic engine to even loftier heights.

## NEED FOR CASH FLOW BASED LENDING

Currently, the discourse surrounding cash flow based lending (CFBL) in a digital format for financing the working capital (WC) requirements of MSMEs has gained significant traction, particularly in the context of inadequate provision of institutional credit to these entities.

### Factors Contributing to the Credit Gap

Firstly, there exists a deficiency in Tangible Assets among MSMEs to secure Asset-backed Working Capital Financing.

Secondly, Banks encounter significant challenges in evaluating Credit Risk due to the absence of Comprehensive Financial Data pertaining to Small Borrowers and the credit histories of micro-enterprises.

The disparity in credit supply within the MSME sector appears to be substantial, as evidenced by the estimation of the Expert Committee appointed by the Reserve Bank of India (RBI) in 2019, which quantified this gap at ₹ 20 - ₹ 25 lakh crores.

According to the Census of MSMEs conducted by the Government of India in the fiscal year 2015-2016, an alarming 95 percent of micro-enterprises reported experiencing a severe deficit in institutional financial resources.

In the wake of the recent pandemic, particularly during the years 2020 and 2021, the operational viability of MSMEs was critically undermined due to insufficient bank credit. In this context, the findings of the Local Circles Survey conducted in April 2020 indicated that 47 percent of small industrial enterprises reported possessing merely one month's worth of cash reserves necessary for sustaining their business operations.

Approximately one-third of the MSMEs that were financed by public sector banks were experiencing considerable financial distress, with their gross non-performing assets ratio remaining alarmingly elevated at 18.5 percent as of the end of September 2021.

Recognizing the insufficient provision of bank credit, in December 2021, the Governor of the Reserve Bank of India (RBI) articulated thus:

“To enhance the credit to gross domestic product ratio, it is imperative to address access to credit and the cost of credit through reduced reliance on collateral security and an increased emphasis on cash-flow based lending.”

In response to this situation, banks and non-banking finance companies have commenced the introduction of innovative platforms and digital cash flow-based credit

products aimed at MSMEs to augment their lending capabilities. In this milieu, various digital CFBL-based offerings such as “Buy now pay later”, invoice-based financing, supply chain financing, co-lending, and peer-to-peer (P2P) lending, among others, are being rolled out.

Looking ahead, the prospects for CFBL appear promising, as underscored by a recent address from an Executive of the Reserve Bank of India (RBI), who stated, “The provision of suitable credit for MSMEs, which contribute approximately 45 percent of total exports and provide employment to over 11.1 crore individuals through seamless and digital cash-flow based lending, will furnish them with the essential impetus. This approach could enable lenders to leverage real-time cash flow data to fundamentally transform the end-to-end lending process.”

“Up to ₹5 crore, we want to move from collateral-based lending to cash-flow based lending, backed by guarantee, which will give enough traction to the growth of micro enterprises to become small and small to become medium,” [Shri C.S. Setty, Chairman, State Bank of India at the Financing 3.0 Summit organized by the Confederation of Indian Industry ]

### **BUSINESS RULE ENGINE – LENDING THROUGH DIGITAL FOOTPRINTS**

Finance Minister Nirmala Sitharaman’s Budget 2024 initiative for public sector banks to devise a novel credit assessment methodology for micro, small, and medium enterprises is progressing, with the anticipated model set for introduction in the forthcoming year. This MSME credit assessment framework, which will leverage digital footprints, is projected to transform the manner in which public sector banks ascertain the creditworthiness of MSMEs.

With approximately fifty percent of the development accomplished, the model is anticipated to be finalized by the close of the current financial year (2024-25). The innovative model will equip public sector banks with the internal capabilities necessary to appraise small enterprises for credit, thereby diminishing reliance on external evaluations.

### **THE NEW MSME CREDIT ASSESSMENT MODEL:**

The declaration signifies a pivotal transformation in

**By adopting these technological advancements, lenders operating within the MSME sector can cultivate a more efficient, accessible, and inclusive Financial Ecosystem**

the banking sector’s methodology towards financing small and medium enterprises. Presently, credit assessment frameworks predominantly depend on credit scores, necessitating that MSMEs seeking loans exceeding a specific threshold, typically ranging from ₹ 30 crore to ₹ 50 crore to secure external credit ratings. This prerequisite can impose significant

costs and constraints upon these MSMEs.

In certain instances, even loans below ₹ 30 crore are subjected to this requirement, frequently demanding additional data from a credit monitoring arrangement (CMA). This methodology is fraught with limitations, often resulting in MSMEs being inadequately financed or excessively financed, thereby obstructing their growth and sustainability.

The proposed internal system aspires to mitigate this encumbrance by reducing or abolishing the necessity for external ratings and providing a more comprehensive approach. It will assess a diverse array of factors, including an MSME’s supply chain dynamics, digital presence and sector-specific conditions, thereby ensuring a more nuanced and precise evaluation.

The proposed model has the potential to enhance traditional credit eligibility assessments, which generally hinge on asset or turnover criteria. This paradigm shift would more effectively support MSMEs, a sector frequently neglected in terms of credit allocation.

### **CONCLUSION**

With the evolution in the methodologies employed for transaction processing and payment execution, it is imperative that the framework for evaluating risks or loan underwriting undergoes corresponding modifications. Lending institutions are indisputably a vulnerable target for fraudulent activities, particularly in the era of digital banking. In cases where conventional credit scoring mechanisms prove to be inadequate in the context of digital lending, the analysis of digital footprints can serve to compensate for the absence of critical data. **MA**

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# BEYOND INTERNAL AUDIT: THE ADVANCED SCOPE OF FORENSIC AUDITING

## Abstract

*This article emphasizes the growing importance of forensic audits in promoting transparency, integrity and accountability which are crucial for India's global economic growth. Forensic audits help in identifying and holding culprits accountable, ensuring good governance and upholding ethical standards. They offer benefits like impartiality, reliability, expert accounting and improved efficiency, aiding corporate development and economic progress.*

*Professionals must master forensic auditing concepts and techniques to effectively combat corporate frauds and strengthen India's corporate culture. Implementation of robust forensic auditing practices is essential for safeguarding stakeholder's interests, fostering trust and ensuring sustainable development. By prioritizing forensic audits, India can enhance its global economic standing, attract foreign investment and promote a culture of honesty and efficiency ultimately leading to the nation's economic prosperity.*

## INTRODUCTION

An audit is the examination of books of accounts and physical inventory by an auditor to ensure all departments adhere to documented transaction recording systems. This process verifies the accuracy of the organization's financial statement (*The Economic Times*). Audits conducted internally by employees or externally by independent auditors, ensure financial statements are accurate and free from misrepresentation or fraud. Internal audits evaluate internal controls and compliance while external audits provide unbiased assessments. Auditors examine accounts and inventory, reporting findings and recommendations to maintain transparency, accountability and trust.



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Origin of forensic auditing can be traced to the early 20<sup>th</sup> century when the need for specialized accounting to investigate financial discrepancies and fraud became apparent. During the early 1900s, the term "forensic accounting" appeared in literature primarily focused on detection of frauds in financial records. By the mid-20<sup>th</sup> century, forensic accountant's role had expanded to include serving as expert witnesses in legal proceedings, providing crucial evidence in cases of financial frauds and embezzlements. This period marked the growing recognition of forensic auditor's value in legal contexts. By the late 20<sup>th</sup> century, high profile financial scandals such as Enron and Worldcom underscored the necessity for more specialized forensic auditing practices. Regulatory bodies like the U.S. Securities and Exchange Commission (SEC) began to

stress the importance of forensic auditing in ensuring market integrity. The 21<sup>st</sup> century has seen further evolution with technological advancements and the globalizations of business operations adding complexity to financial crimes. Today, forensic auditing is essential in addressing various economic crimes including money laundering, cyber fraud and corporate misconducts. Its role in detecting and preventing financial malpractices has become increasingly critical in maintaining the organizational transparency and regulatory compliance.

A forensic audit is the analysis and review of

company's or individual's financial records to extract facts that can be used in court. Forensic auditing is a speciality in accounting industry and most of the large firms has a forensic auditing division. Forensic auditing requires experience in accounting and auditing practices as well as expert knowledge of the legal framework. Forensic audit has been recognised as an important concept in today's business environment. There are several key factors contribute to its significance as shown in Fig:1

FIGURE 1\*



\*Source: Authors Study

The global landscape of forensic auditing is transforming rapidly due to the integration of advanced technologies and the escalating complexity of financial crimes. A significant trend is the adoption of artificial intelligence (AI) and data analytics in forensic auditing. These technologies allow auditors to swiftly and accurately analyze large volumes of financial data, pinpointing anomalies that may suggest fraudulent activities. For instance, AI algorithms can uncover patterns and correlations not immediately visible to

human auditors thereby enhancing the efficiency and effectiveness of fraud detection and prevention efforts.

Another important trend is the rise of cyber forensic accounting which tackles the growing threat of cybercrimes. As businesses increasingly depend on digital platforms, the incidence of cyber frauds has surged. Cyber forensic accountants employ specialized techniques to investigate breaches, trace digital footprints and recover compromised data. This emerging field is

vital for maintaining the integrity of financial systems in the digital era as recent studies emphasize the integration of cybersecurity measures with traditional forensic accounting practices. Additionally, globalization of business operations has intensified the need for forensic auditing to combat financial misconduct across borders. Multinational corporations encounter unique challenges due to varied regulatory environments and intricate supply chains. Forensic auditors are crucial in ensuring compliance with international standards and detecting financial irregularities stemming from cross-border transactions. Their role in navigating these complexities is indispensable for maintaining organizational integrity and adhering to global regulations. The increasing prominence of forensic auditing in global market underscores its essential role in fostering transparency, accountability and trust in the financial sector. As forensic auditing continues to evolve, its importance in safeguarding financial systems and promoting ethical business practices becomes even more critical in our inter-connected world. This evolution highlights the ongoing need for specialized skills and advanced technologies in the fight against financial crime.

### INTERNAL AUDIT

The concept of internal audit encompasses an efficient, documented procedure to gather audit evidence and evaluate it objectively to ensure compliance with audit criteria, enhancing the “Quality Management System” and “Organizational Performance”. Internal audit serves as a vital tool to verify organizational practices, ensuring that they align with quality objectives and relevant standards, ultimately enhancing product or service quality to meet client needs. It is considered a type of internal economic control with business entities, focusing on efficiency, productivity and cost-effectiveness to improve the accounting system and overall operations. The effectiveness of internal audit is contingent upon well-organized internal audit systems, auditor’s activities and audit processes within an enterprise.

The primary objective of an internal audit is to evaluate and improve the effectiveness of risk management, control and governance processes within an organization. Internal audits are typically conducted regularly and are designed to provide management with insights into the efficiency and effectiveness of operations, reliability of financial reporting and compliance with laws and regulations (worldbank)(Deborah S. , Todd DeZoort, & P, 2008).

### INTERNAL AUDIT VS FORENSIC AUDIT

Auditing is a critical function within organizations

which ensures that the financial operations are conducted accurately, transparently and in compliance with relevant laws and regulations. Two important types of audits are internal audit and forensic audit. While both play vital methodologies, their scope and outcomes areas shown in the following Figure:2

FIGURE 2\*

<b>Key Differences</b>	<b>Internal Audit</b>	<b>Forensic Audit</b>
<i>Purpose and Objectives</i>	<i>Focuses on evaluating and improving internal processes, controls and compliance</i>	<i>Focuses on investigating and uncovering financial misconduct for legal purposes</i>
<i>Timing</i>	<i>Conducted regularly as part of ongoing risk management</i>	<i>Conducted as needed, usually triggered by suspicious of fraud or misconduct</i>
<i>Methodology</i>	<i>Utilizes standard auditing techniques and follows a structured audit plan</i>	<i>Employs investigative techniques and forensic accounting methods to gather evidence</i>
<i>Scope</i>	<i>Broad, covering all aspects of the organization.</i>	<i>Narrow, focused on specific issues or transactions</i>
<i>Outcome</i>	<i>Reports with recommendations for improving processes and controls</i>	<i>Detailed reports that can serve as evidence in legal proceedings</i>

\*Source: Authors Study

Both internal and forensic audits are crucial for maintaining the financial integrity and transparency of organizations. Internal audits play a preventive and corrective role, helping organizations to optimize their operations and control systems. In contrast, forensic audits are reactive, focusing on identifying and addressing specific instances of financial misconduct. Understanding the differences between these two types of audits is essential for organizations to effectively manage risks and ensure compliance with legal and regulatory standards.

## PROCEDURE FOR STANDARD FORENSIC AUDIT

FIGURE 3\*



\*Source: Authors Study

- ⊙ **Planning the Investigation:** Auditors meticulously plan investigations to ensure thoroughness and achieve the audit's objectives. The key considerations include identifying the specific fraud, determining its duration, understanding the root cause and pinpointing involved employees. They assess both financial and non-financial losses incurred by the company due to the fraud. Auditors also focus on gathering solid evidence suitable for court proceedings. Additionally, they provide recommendations to prevent similar frauds in the future. This comprehensive approach ensures that no aspect of the fraud is overlooked and that effective measures are suggested to safeguard against future occurrences.
- ⊙ **Collecting Evidence:** Forensic audits critically include evidence collection that can withstand judicial scrutiny. After detecting fraud, auditors gather substantiated evidence showing how the fraud occurred, identifying the perpetrators and quantifying the company's losses. Consider a scenario where a vendor is suspected of irregularities in raw material procurement. The auditor would examine:

  - ▲ Who approved the vendor
  - ▲ Whether the company's policy was adhered to during finalization
  - ▲ Whether quotations were obtained from 3-4 other vendors
  - ▲ Whether these quotations were compared for price and quality
  - ▲ Whether the vendor delivered the promised quality of material post-finalization

This detailed investigation ensures that all aspects of the procurement process are scrutinized highlighting any deviations from company policy or standard procedure. The gathered evidence must clearly document these findings, making it possible to trace the fraud's execution and impact.

This approach not only helps in addressing the current issue but also aids in preventing future frauds by identifying and closing procedural loopholes. By meticulously examining each step and gathering robust evidence, forensic audits provide a clear picture of the fraud, ensuring accountability and reinforcing trust in the auditing process.

- ⊙ **Reporting:** After completing the investigation, the forensic auditor prepares a comprehensive report summarising the audit findings and presents it to the management or client. The report includes the following points:

  - ▲ Observations and findings during the audit
  - ▲ Evidence gathered to substantiate the fraud
  - ▲ The extent of the company's loss due to the fraud
  - ▲ Detailed description of how the fraud was conducted
  - ▲ Recommendations for preventing similar fraud in the future

This report provides a clear and concise summary of the audit, offering management a thorough understanding of the situation. The evidence presented in the report supports the findings, making it a crucial document for any potential legal proceedings. It details the financial or non-financial impact on the company, ensuring that management is fully aware of the consequences. Additionally, the report outlines preventive measures to mitigate the risk of future fraud, helping the company strengthen its internal controls and procedure. Based on this detailed report, management can make informed decisions on whether to pursue legal action against the perpetrators. This structured approach ensures that the company can address the current fraud effectively and implement strategies to prevent future occurrences, thereby safeguarding its interests and maintaining trust in its operations.

- ⊙ **Court Proceedings:** If the management decides to pursue legal action based on the forensic audit report, the auditor must be present in court to elucidate the fraud and validate the evidence. The forensic auditor plays a crucial role in the legal process as they provide expert testimony that clarifies how the fraud was executed and how the evidence supports their findings. In court, the auditor will breakdown complex accounting fraud into simple and understandable terms. This simplification is vital for ensuring that judges

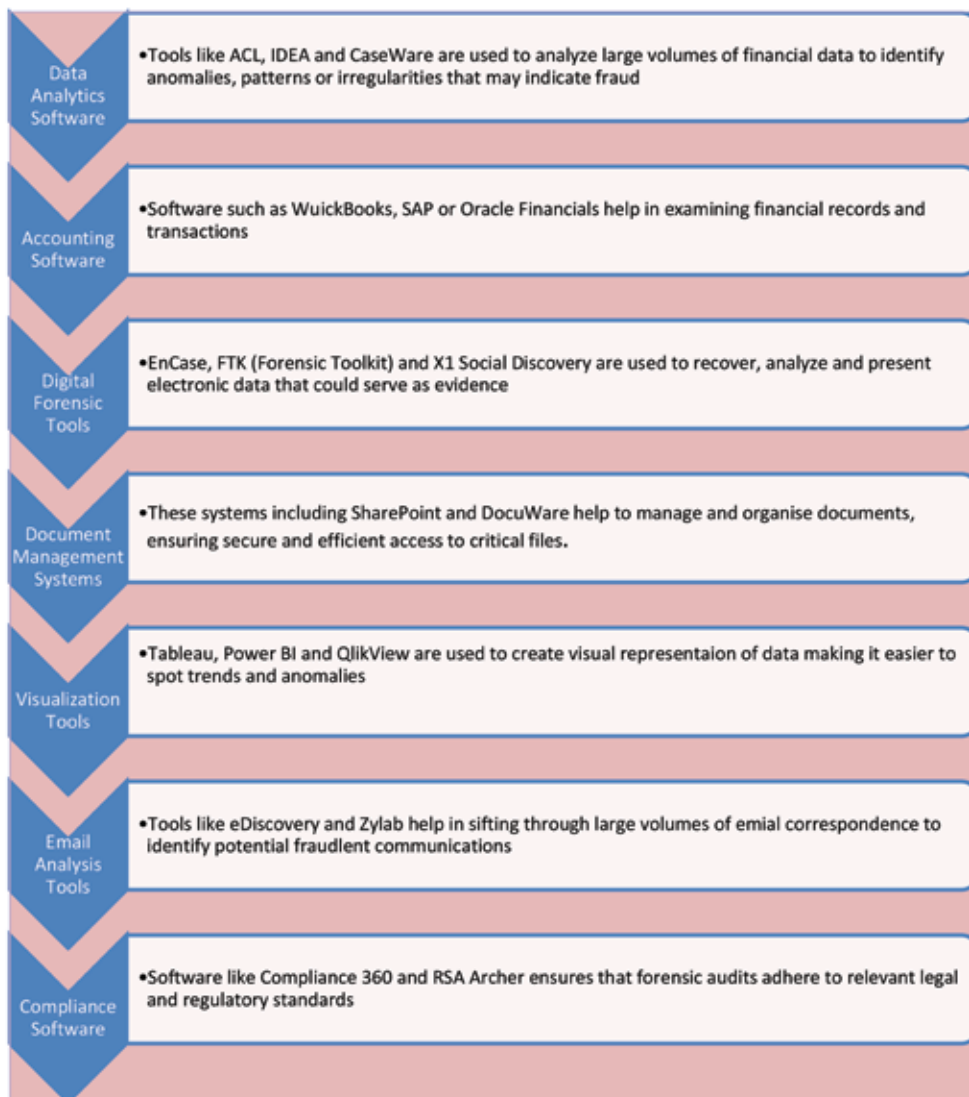
and legal professionals who may not specialised accounting knowledge can grasp the intricacies of the case. The auditor will detail the steps taken during the investigation including how they identified the fraud, the methods used to gather evidence and the specific transactions or actions that constituted fraudulent activity. Additionally, the auditor will explain the impact of the fraud on the company, highlighting both financial and non-financial losses. They will demonstrate the chain of events leading to the discovery of the fraud, making it clear how each

piece of evidence fits into the overall narrative. Their testimony is essential for establishing credibility and reinforcing the findings of the forensic audit report. By clearly communicating the fraud’s mechanics and the evidence supporting it, the forensic auditor ensures that the court can make an informed decision regarding the case.

**TOOLS FOR HANDLING FORENSIC AUDITS**

There are many tools for conducting forensic audits as shown in the following Figure 4

FIGURE 4\*



\*Source: Authors Study

**KEY PARTIES RESPONSIBLE FOR CONDUCTING FORENSIC AUDIT**

The responsibility for conducting a forensic audit typically falls on specialized professional of firms with

expertise in forensic accounting and investigation. Here are the key parties involved:

- ⊙ **Forensic Auditors/Accountants:** These professionals, often Chartered Accountants (CAs) with specialized training in forensic accounting are primarily responsible for carrying out forensic audits. They use their expertise to investigate financial records, detect fraud, gather evidence and provide detailed reports of their findings.
- ⊙ **Audit Firms:** Specialized audit firms or divisions within larger accounting firms often have dedicated forensic accounting departments. These firms are engaged by organisations to conduct forensic audits. They bring a team of experts who can handle complex financial investigations.
- ⊙ **Internal Audit Departments:** In some cases, an organisation's internal audit department may conduct or assist with forensic audits. While they may not always have the same level of specialization as external forensic auditors, they can play a crucial role in initial investigations and in coordinating with external experts.
- ⊙ **Legal Authorities and Regulators:** Legal authorities such as law enforcement agencies, regulatory bodies (like the Securities and Exchange Board / Commission) and Government agencies may initiate and oversee forensic audits in response to suspected financial crimes or regulatory violations. These entities often collaborate with forensic accountants to ensure thorough investigations.
- ⊙ **Board of Directors and Audit Committees:** The Board of Directors or the Audit Committee within an organisation may be responsible for commissioning a forensic audit especially if there are allegations of fraud or financial irregularities. They may engage external forensic auditors to ensure an independent and objective investigation.
- ⊙ **Corporate Management:** Senior management particularly the Chief Financial Officer (CFO) or Chief Audit Executive (CAE) may also play a role in initiating forensic audits. However, to maintain objectivity and independence, they typically rely

**Fraud, particularly, is a critical issue that not only impacts the organisations where it occurs but also shakes the entire economy and social framework of the nation**

on external forensic auditors or involve the Audit Committee in the decision-making process.

⊙ **Shareholders and Stakeholders:** In some situations, shareholders or other stakeholders may demand a forensic audit if they suspect financial mismanagement or fraud. This can put pressure on the Board of Directors to take action and engage forensic auditors.

Overall, while forensic auditors and accounting firms are the primary executors of forensic audits, the initiation and oversight of these audits involve a collaborative effort among various internal and external parties to ensure a thorough and unbiased investigation.

### **REQUIREMENT OF FORENSIC AUDIT IN DEVELOPMENT OF INDIA**

Forensic auditing as a rapidly growing specialized branch of accounting and investigation is vital for detecting and preventing financial fraud and white-collar crimes. With the vision of making a New India free from corruption, forensic audits are indispensable for promoting a robust and viable economic environment. In this way, it would ensure that corporate growth is aligned with the principles of good governance and integrity, fostering an efficient and transparent corporate culture. To achieve this, the Government of India (GOI) has adopted a highly collaborative approach to address various challenges such as fraud, deceit and financial misplacement which significantly hinder the inclusive growth of corporations and other entities in the country. Fraud, particularly, is a critical issue that not only impacts the organisations where it occurs but also shakes the entire economy and social framework of the nation. To combat this, forensic audits play an imperative role in the timely detection and investigation of fraud. By uncovering and examining fraudulent activities, forensic audits help to maintain efficiency and uphold integrity. These audits provide a thorough analysis of financial records and transactions, identifying irregularities and gathering evidence to support legal proceedings if necessary.

The Government's emphasis on forensic audit ensures that cases of fraud are detected early and investigated properly thus safeguarding the economic and social stability of the country. This approach not only strengthens corporate governance but also enhances



public trust in the financial systems. Overall, forensic audits are essential for maintaining transparency, accountability and merit in India's growing Economy.

In this lead, even the Reserve Bank of India (RBI) has mandated forensic audits for large advances and cases involving the restructuring of accounts and highlighting the mounting importance of these audits in combating financial malpractices. The Enforcement Directorate (ED) and the Serious Fraud Investigation Office (SFIO) have also stressed the need for forensic audits due to the rise in money laundering and wilful default cases impacting the banking system. The enactment of The Prohibition of Benami Property Transactions Act, 1988 further underscores the significance of forensic audits in addressing financial crimes.

### CONCLUSION

The primary objective of this article was to create awareness about the growing importance of forensic audits and how this is important in promoting transparency, integrity and accountability through identification and holding the real culprits accountable as well as how forensic audits are essential for the growth of the Indian economy on the global stage, ensuring good governance, transparency and uprightness. The benefits of forensic audits include objectivity, credibility, expert accounting and enhanced efficiency which contribute to

the growth of corporations and the overall development of the Indian economy.

To effectively combat corporate frauds and strengthen corporate culture in India, professionals must be well-versed in the basic concepts and techniques of forensic auditing. As India aims to become one of the fastest growing economies in the world, it is crucial to address challenges that hinder economic growth. This includes tackling frauds and scams which are significant obstacles to the country's progress. **MA**

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# FORENSIC ACCOUNTING & INVESTIGATION – ON PAYROLL COSTS

## Abstract

*Forensic Accounting & Investigator's (FAI) Report is invariably used to support legal cases. FAI can provide expert testimony in courts, trial support in the direct or cross examination, evidence under BSA 2023 (Bharatiya Sakshya Adhiniyam), dispute settlement scenarios in arbitration and insolvency litigations.*

*FAI work involves (a) gathering of documents, records, information & facts and (b) in-depth examination of evidence and correlation of events. FAI is not just an audit and it is a more detailed verification to provide evidence on irregularities & its impact.*

*FAI work in payroll process is narrated in this article.*



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**F**AI makes critical examination of various evidences (original documents, electronic evidence, technical evidence, camera evidence, oral evidence, substantive evidence) to detect fraud & other irregularities.

Forensic Accounting & Investigator's Report provide the findings on the following:

- ⊙ Fraud, negligence & other irregularities by pin pointing those who caused the losses,
- ⊙ Violations in ethical code, legislations / regulations / contractual covenants
- ⊙ Over or understatement of revenue & costs, assets, liabilities, claims in documents, records, reports and other financial crimes
- ⊙ Financial loss arising out of disasters, data breaches & other event claims
- ⊙ Verification results on complaints received from insiders/ outsiders /anonymous

In a nutshell, FAI work is carried out with the objective of detecting any irregularities, misappropriation of funds & other assets, identification of liability if any with list of causes and evidence to support legal action.

## PAYROLL COSTS

Payroll cost includes fixed pay, variable pay, retiral

benefits. Wage field components may be basic pay, allowances, benefits (PF/ESI/medical /canteen / furniture /car & other transport/ education & training /uniform / housing / leave /stores concession / seminar & sports events, loans & advances etc), bonus & incentives, ESOP, final settlement compensation, gratuity / pension benefits, statutory benefit deductions, tax & other deductions), reimbursements on driver / servant salary, conveyance, medical & other events.

## ENGAGEMENT

FAI work may be assigned by the management or in other situations e.g. due diligence by a lender or by an external investor etc.

FAI has to assess what can go wrong in payroll costs.

1. Most common issue in payroll is by falsification of data relating to-
  - i. attendance, leave, date of joining & separation
  - ii. wage / allowance rate,
  - iii. benefit criteria or grade or classification or effective date
  - iv. deductions –error or omission or deferral in statutory tax & other deduction,
  - v. gross/net pay -error due to omission or alteration in CTC,
  - vi. beneficiary bank account –error in remittance to wrong beneficiary
2. The management itself may introduce errors in payroll costs to reduce taxes or attempt misclassification e.g., to report regular workers as

temporary or contract workers to avoid statutory contributions

FAI has to study the control environment in the organization:

- ⊙ Systems and service providers in use from ‘recruit’ to ‘retire’ process.
- ⊙ HR policies & its communication, track on compliance to contractual terms with employee on period based benefit and terminal benefit with cost accruals in accounts
- ⊙ Reconciliation of --attendance / user log-in data, pay-outs with CTC master data and resolution of un-reconciled items timely ;
- ⊙ Monitoring of actual employee status and benefits entitlement over the tenure documentation, system data & segregation of duties in pay process
- ⊙ Organisation structure, MIS reports and past Audit Reports

The following Table reflects the fraud risks in payroll costs and the detection process in FAI work.

SI	Fraud Risks in Payroll Costs	Detection Process in FAI work
1	Falsification of Employee Count :	Forensic Accounting & Investigation Standards issued by ICAI effective 1 <sup>st</sup> July 2023 is applicable for FAI work.
	a) Inclusion of fake employee in the payroll cost file or in the employee id generation with interface to attendance system also or inclusion of contract employee in regular status and <i>vice versa</i>  Employee id creation & Status updation in system	i) Reconciliation of payroll head count with count in attendance and remittance file ;  Reconciliation of offer letters / employment agreement issued during the period vis a vis employee id's generated  ii) Comparison of Name, PAN, DOB, parent name in payroll database with attendance records, PF/TDS Returns, IT login, Medical Insurance, ID card, email id, ESOP database  iii) Above listed mismatch items to be cross supported with identity documents in employee files / contractor files  iv) Physical check of mismatch individuals list with respective employee location & reporting manager to list the final mismatch / fake or ghost employees included in payroll
		Further to analyse consequential effects

		v) investigation as to who initiated the employee id creation in the system by analysing log reports to know the date of creation and who authorised those fake id's in the system so as to report the findings.  vi) to examine further to understand the reason for such acts and to detect other frauds committed / conspired by the same persons  vii) Assess the implication of fake employee id in the system in regard to payroll costs, contract employee costs  vii) investigation of fake employee email id usage from the mail box as to financial or other impact on such usage ; approval access or generic id access in system to such fake employees and its usage
2.	(a) Falsification of hours or days worked or number of leave days or inclusion of OT on hours not worked.  These may happen at source system attendance or in payroll system ;  reducing pay in one or more persons and paying to the fake employee id  Wrong adjustment of gross / net payroll for the month ;	i) Comparison of payroll days worked with number of days / hours worked & leave & OT approved as per attendance.  ii) Correlation of extra days / hours worked to the output and co-workman data  iii) Comparison of gross / net payroll for the previous month.  iv) Comparison of CTC for the month / YTD for respective wage field for respective employee & changes between the months.  v) Comparison of pay register with pay slips issued to employees & statutory returns on PF/ESI/TDS / gratuity actuary  Moon lighting i.e falsely claiming to the company as sick Leave while working for some other employer –these situations can be detected only with spot checks  vi) Spot checks and detailed review of pattern of discrepancies, basis of approval by reporting manager will indicate negligent or willful behaviour / intentions

<p>b) Falsification of master data --Wrong date of joining / date of separation – Last working day / date of transfer in system  --Changes in grade / work location  --Classifying non exempt PF employee as exempt employee / vice versa  --Classifying non exempt wage as exempt wage in tax calculation  --Substitution of pay of one person with other person's pay --change in CTC or benefits</p>	<p>i) Verify existence or absence of process of multi-factor authorisation and password updates reflect security layers before giving effect to change of master data / key fields in system  ii) Comparison master data DOJ/LWD in payroll with attendance records, PF/ TDS returns, CTC with offer letter database will provide list of mismatch items  iii) Comparison of support documents used for changing master data and basis of approval and access log can clinch the evidence</p>
<p>c) Falsification of basis applicable for entitlement of bonus / incentives</p>	<p>i) Manipulation of sales data or other performance metrics while computing bonus / incentives It may be by inflating sale data / non-existent sales / inclusion of wrong period or uncollected sale or other metrics  ii) Root cause of these situations might be due to vague policy, non-communication, Investigate collusion or inadequate data check by accounts and sales team for the respective region or product or period or customer.</p>
<p><b>3.</b> Reimbursement Claims frauds (conveyance, medical expense, travel cost, etc)</p>	<p>Reimbursement claims vs settled Data analytics for the period and per person vs eligibility as per policy -and upon choosing outliers -to conduct spot check for inspecting the documents and approval supports  Fraud can happen by inflating a. claim amount b. claim period c. inclusion of ineligible elements in the claim d. fake documents  List of no support documents or inconsistency in date of transaction &amp; claims, cross checking of support document with vendor / service provider will clinch the evidence of wrong claims</p>

		<p>Root causes of fraud can be due to lack of  a. proper work flow systems to track eligibility, period of claim, b. maker-checker controls, c. support documents verification with third parties, d. clarity in policies &amp; approval process</p>
<p><b>4.</b></p>	<p>Employee bank account changes resulting in remittance to wrong bank account</p>	<p>i) Analyse the existence or absence of multi factor authorisation to access payroll data  ii) Ascertain the list of changes to master data which happened during the period including list of changes to bank account  Cybercriminals impersonate employee through phishing attacks to enable change in bank account data  ii) Bank account changes can also be in pay files communication to bank – lapse by maker checker has to be investigated  iii) Complaints list in regard to payroll process and its frequency period, resolution status must be investigated to know the aggrieved employees to get insight by interview with them  iv) FAI can identify who made un-authorized changes to bank account after going through the employee bank mandate document and log on changes</p>
<p><b>5.</b></p>	<p>Misuse of Advance received from the entity (Employee receives advance but did not settle the unspent amounts or provide sufficient proof of spends –impact interest lost )  Misuse of other assets –e.g., car, furniture, laptops –for unauthorised uses – impact waste of company resources</p>	<p>(i) List of outstanding advance with its age and total list of advances during this ageing period will highlight the pattern. Verification of support documents with supplier can clinch the evidence  ii) To report absence of monitoring outstanding and weak internal control by granting further advance when earlier advance remains unsettled and implications in income tax on interest free advance  iii) Spot checks and interview with the users and relevant personnel on overall usage of car, furniture, laptops can provide evidence. Vehicle logs &amp; fuel reimbursement trends can support</p>

The above steps are some of the tips and actual list of activities have to be customised using professional judgment in the field.



**REFERENCE**

1. ICAI – Forensic accounting and investigation standards.

# AUDIT THROUGH ARTIFICIAL INTELLIGENCE TOOLS

## Abstract

*Using artificial intelligence (AI) in the audit process offers new opportunities to improve the efficiency, productivity and importance of activities taken up by the auditors. To implement AI properly, it is desired that the auditors understand the nuances of the technology and its advantages/limitations. While the auditors possess all the desired skills, using AI will improve their performance by moving them away from routine activities and enabling them to use their energies to bring out better insights to the organisation. This is the right time for the audit teams to start working on bringing the synergy between the audit process and AI, to ensure a win-win situation for the auditors and their clients.*

**A**I is a buzzword nowadays. Every organisation is working on bringing artificial intelligence (AI) into its domain to achieve optimum benefits. Auditing is not an exception to this. The usage of AI in the auditing process is expected to yield many advantages in all phases of the audit cycle.

Let us see the various steps in the audit process and the opportunity to use AI.

## RISK ASSESSMENT

Traditionally, the process of audit risk assessment is happening through in-person interviews which are time-consuming and subjective. Over a period of time, these interviews changed forms and took the shape of questionnaires as well as self-assessment formats. The responses have been tabulated and meaningful insights have arrived. However, it is a laborious process and has its own bias in interpreting the data.

However, natural language processing (NLP) will bring a new dimension by passing through the text of these responses and arriving at proper insights. This will help in codifying the risks captured through the responses. AI can be leveraged to go through large datasets to discover patterns, trends and changes that evolved over the time. This will help in the identification of potential risks and ensure prioritization of the important critical areas for suitable remedial action.

The auditor will be able to create a list of key risk indicators (KRI) which can be focussed upon by the firm to have a



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meaningful follow-up and continuous improvement over the period. The integration of machine learning will ensure identification of false positives through the reverse feedback mechanism and improve accuracy in the long run.

## PLANNING

Keeping all the risk elements in perspective and devising the audit plan involves a lot of work in large and critical organizations, specifically in the financial domain. Planning involves, to be precise, two aspects. First, prepare the draft audit plan based on the variables available through the risk assessment. Second, (a) capture the sample data and self-assessments, (b) run the data through rigorous testing, (c) arrive at the results and (d) compare them with expected results. Based on the variations, a re-work has to be done as to whether the audit plan is to be tightened further or not.

In this context, artificial intelligence will come to the rescue of the planning team. For example, designing a rule set, feeding sample data and comparing the results can be automated through certain algorithms. AI will help run the programme several times to arrive at better accuracy for the audit plan. Instead of sample data, if the organization had proper datasets of the previous periods, which are validated, the same datasets could be used in generating the model, which would be more effective.

## SCHEDULING

For many large organizations, the audit teams will be working in agile mode and they will be auditing different units at the same time at other geographies. So, scheduling the audit according to the geographies, type of activities involved and type of required skill sets of the auditors, becomes all the more critical.

Here also, AI will come in handy as the manual work of segregating the jobs, and identifying the right team can be handed over to the technical team which will use the best methodologies of AI to create a proper audit schedule, thus

reducing the burden on the human resources and ensuring timely and suitable resources working at the right place.

### **PERIODICITY**

While the audits will go through a predictable pattern of quarterly, half-yearly or yearly based on the complexity of activities, there will be occasions where some instances leading to loss/fraud may happen in between successive audits.

To avoid such situations, the risk assessment may be designed in a way that by inputting certain data points at regular intervals, the AI will bring out alerts to the management on certain benchmarks, which may necessitate spot audits.

### **FIELD WORK**

Many times, the auditors are bogged down with the work of sifting through large data sets, which is boring and results in losing focus. The results arrived will also be subjective and biased, as the human brain will get tired of this monotonous task. The quality time of the auditor will be wasted, as he is bound to certify having seen the data sets and the results are not cost-effective either to the auditor or to the firm.

AI will complete these monotonous tasks without any issues, as the AI models are trained to go through the data sets systemically and provide the results/information in a more structured way. It will bring out the trends, anomalies, areas of concern and accurate authentic insights. Moving away from these repetitive tasks will enable more power to the auditors to concentrate on the quality interpretations and arriving/suggesting better strategies.

### **INSIGHTS**

Previously, the audit reports brought out routine observations, in the absence of loss of time in monotonous activities. The basic data analysis procedures have not captured the intricate fraudulent activities carried out by certain firms.

Now, AI can go beyond the basic computations and bring out the intricate patterns within the datasets, thus, allowing the auditors to understand better the organization's control mechanisms. By employing suitable algorithmic models developed by data analysts, audit firms can locate irregularities in a more sophisticated manner with clear understanding by capturing the right proof. They are able to suggest remedial measures to the organisation to avert such activities in future.

### **AUDIT CALENDAR**

For years together, there used to be an audit calendar that took care of the audit, as per the standard timelines, ensuring point-in-time testing. This will miss the important aspect of blunders committed by certain elements in the organisations who will cover up such activities before the audit commences.

With the usage of AI in auditing, going forward, we can ensure real-time monitoring/testing, instead of point-in-time testing. That concept will bring out any fraudulent activities happening between two different audits, quickly to the knowledge of the top management of the organisation by way of immediate alerts, exception reports, and escalations.

This will help the organization conduct a thorough probe and weed out such elements from the organisation. This will also help in averting potential conflicts of interest in the position and power of the employee.

### **DOCUMENTATION**

Towards the end of any audit, the auditors will convey the outcome of their fieldwork. While some of the auditors are good at finding out the anomalies and threat patterns, they may not be good at producing the report in the required manner. They may need to bring in another expert who is good at report writing. However, in the process, the criticality of the finding may get lost in the language.

Here again, the magic of NLP tools will come into the picture, to enhance the report by showcasing it through better language and grammar. This will reduce the editing requirements. As the AI model improves, it can generate the draft report simultaneously when the findings of fieldwork are captured, as the model will be scaling up its accuracy by using the analysis of the previous reports and their findings. Thus, it will ensure timely reports, more coherently.

### **KEY LEARNINGS**

The auditor while concluding the report may come up with a letter addressed to the management highlighting the critical observations. This will give key insights to the management to know about their organisation and will be like key learning for future endeavours. They may need to take appropriate action to mitigate future risks based on these learning.

AI will be fulfilling this aspect as well by generating insights backed by data and presenting the results in a more effective visual way. This type of presentation will help articulate the important findings and recommendations to the stakeholders in the game. Having trained on many such reports over a period of time using machine learning capabilities, AI algorithms process the new report by learning from the historical data, the patterns and the outcomes. Thus, the management letter generated by AI will have more meaningful learning and may be able to suggest the best possible risk mitigation measures.

### **CONDUCTING AN ARTIFICIAL INTELLIGENCE AUDIT**

The audit process is always evolving keeping up with the new trends and requirements. Similarly, using artificial intelligence in auditing is poised to move in the right direction in the coming years. The auditors will be deriving the benefit of moving away from routine activities, and at the same time, utilising their knowledge for the strategic planning support to the organisation which they are auditing.

The auditors must be expected to keep in mind that any technology will be useful only when (i) the model is robust and accurate, (ii) transparency is maintained, (iii) it is ethically implemented and (iv) it follows the rule of the land. **MA**

### **REFERENCE**

1. *Guidance Note on Internal Audit issued by ICMAI*

# FINANCIAL FRAUDS AND CYBER CRIMES IN INDIA

## Abstract

*The aim of this article is to study cybercrimes in India and find out the present scenario of cybercrime in India. It is also aimed to identify the different types of financial frauds that occur in banking industry. In depth knowledge, awareness and trends of cybercrime will help the common people to understand and carry out e- transactions safely. It has been found that UPI is the most popular device to trap people. The study on cybercrime in India is significant due to the increasing rate of cybercrimes in the country, as evidenced by a substantial rise in reported cases. Understanding the types of cybercrimes, their impact on individuals and organizations, and the preventive measures is crucial for enhancing cybersecurity practices and protecting against digital threats. This study sheds light on the evolving landscape of cyber threats and the importance of proactive measures to combat cybercrime effectively.*

## INTRODUCTION

Technology makes our life easier, but they also put us at the risk of getting hacked. So, this is the problem that people are facing now. Financial fraud is the number one form of crime in India, according to the study of Future Crime Research Foundation and IIT Kanpur incubator startup. The study shows that financial frauds accounted for more than 75 per cent of the cybercrime in India between January 2020 and June 2023. The National Payment Corporation of India (NPCI) informed the committee that, on an average, 2,000 customers are impacted by cyber fraud in India every month. As the coverage of internet and technology is increasing, we are moving towards the digital world. Simultaneously, the digital frauds, cyber frauds and financial frauds are also increasing. Before entering the world of AI (artificial intelligence), we will have to pay attention to cyber



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security. Before entering the digitized artificial world, we will have to pay attention to the security aspects. Otherwise, criminals will continuously be increasing their presence in financial frauds; sextortion, child pornography will increase by using artificial and internet server. All over records are digital. There are many such key areas where, we are dependent on technology like hospitals, railway, and air traffic and every year around 80 per cent of banking transaction are done through the internet worth rupees 72 lakh crore rupees.

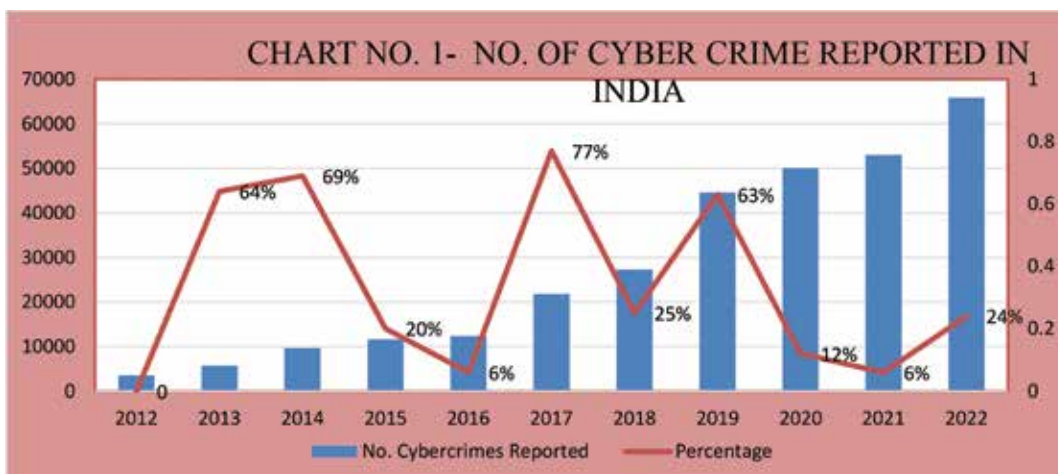
There is a dark world of internet due to which the security of our country is in danger. We are talking about the cyber security of our National and International Banks, Hospitals, ISRO and even our nuclear power plants have faced cyber attacks in the last few years. The cyber security threat in India is quite enormous than what we think. India is emerging as a strong economic power.

The aim of this research is to study cybercrimes in India. The reason behind choosing this research topic is that technology and digitalization have become popular in

last few decades. But there are lots of challenges and also fear among Indian citizens about financial frauds and cyber-crimes

**TABLE NO. 1- NO. OF CYBERCRIMES REPORTED IN INDIA**

Years	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cybercrimes Reported	3477	5693	9622	11592	12317	21796	27248	44546	50035	52974	65893
Percentage	-	64%	69%	20%	6%	77%	25%	63%	12%	6%	24%



**LITERATURE REVIEW**

- i. *Ojedokun & Oshilaja, 2022*: This paper explores the landscape of cybercrime policing within the Lagos State Command of the Nigeria Police Force. Challenges faced by officers such as lack of equipment, obsolete technologies, inadequate databases, financial constraints, and interference in cases by political figures hinder effective cybercrime policing. The findings highlight the importance of specialized units, adequate funding, training programs and collaboration with stakeholders to enhance cybercrime policing efforts in Lagos State.
- ii. *Dr. Giridhari Mohanta et al., 2017*: This study explores the rising concern of cybercrime in India, highlighting the necessity of safeguarding personal information in the digital realm. It offers guidance on identifying, protecting, detecting, responding to, and recovering from cyber-attacks. The paper stresses the collective responsibility of individuals, institutions, and Governments in combating cyber threats, emphasizing the need for a cohesive approach to cybersecurity.

**RESEARCH OBJECTIVE**

- i. To study the nature of financial frauds recorded

in cybercrime office

- ii. To analyse the number of cybercrime reported during the last ten years

**RESEARCH METHODOLOGY**

The data for the study is collected from both primary and secondary source of data. An interview method is used for collecting data in which qualitative and open-ended questions were posed to the assigned cybercrime police officers. Secondary data includes various newspaper, journals, Government websites and articles.

**TYPES OF FINANCIAL FRAUDS AND CYBERCRIMES**

Assigned police officer deeply explained the various situations and about the cases of cybercrimes that are commonly reported by people with respect to different places, age groups and gender specific cases.

Sl. no.	Types of Financial frauds recorded in cybercrime office	
1	Fraud through phishing links-	Manipulative URLs used for phishing OTP Scams, exploiting one-time passwords for illicit purposes



2	Malware	Viruses in devices found in public places like charging cable, Pen drive, Wi-Fi (in good faith)
3	Sextortion	Exploiting victims through social engineering tactics, Fraud through email and video calls scam; banking apps, messages (30-50 age groups)
4	KYC Frauds	Fraudulent Know Your Customer processes, sharing any type of confidential details; OTP, Card number, CVV, personal details etc
5	KBC Scams, exciting gift offers frauds	Scams involving gift purchases. Fake and unrealistic offers, frauds through lottery, gift card, deceptive online quiz shows and contest scams
6	Debit/Credit Card Frauds	ATM card skimming frauds, unauthorized card transactions
7	Frauds using screen sharing app	Remote access, SIM swap cloning; 4G to 5G upgrade
8	Loan App harassment	Harassing individuals using digital lending platforms fake application for loan with stolen documents
9	Customer Care Fraud	Fraud by impersonating customer support on search engines like Google and social media platforms like customer care number or complaint numbers
10	Fake online job appointment	Part time job mirror app installed in victim's by criminals
11	Social Engineering Scams	Manipulating individuals through psychological tactics contacted through social medias platforms; Facebook, Instagrams
12	Fake call and messages	It may for any type of Government scheme related services and current yojanas like vaccination Mahtari Vandan Yojana, Ujjwala gas connection yojana & for KYC, loan offer, cashback, and discount offer
13	Online payment on unsecured sites	E-commerce shopping websites- by giving you attractive offers, hackers use Wi-Fi to get access to users data and use it for illegal purpose
14	Online trading scams	Job and investment frauds, deceptive employment, and investment schemes

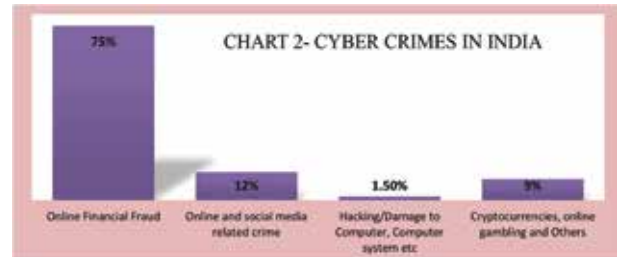
15	Matrimonial Frauds	Deceptive practices on matchmaking websites, online social welfare schemes scam, Fraud multilevel marketing scam, etc.
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Source- Collected through Interview method

**CYBERCRIME DISTRIBUTION TREND IN INDIA**

Cybercrime and financial frauds have been divided into four parts for better understanding according to the nature of the fraud. These include credit card frauds, business email, internet banking related fraud and UPI related frauds. Nearly 50% of these cases were related to UPI, internet banking and social media related crimes.

Sl. No.	Categories	Percentage
1	Online Financial Fraud	75%
2	Online and social media related crime	12%
3	Hacking/Damage to Computer, Computer system etc	1.5%
4	Crypto currencies, online gambling, and Others	9%



**CATEGORIES OF CYBERCRIMES IN INDIA**

Online Financial Fraud	Percentage
Business e-mail compromise/e-mail takeover	0.24
Debit/credit card fraud/sim swap fraud	11.27
Demat/depository fraud	0.61
E-wallet related fraud	3.45
Fraud call/vishing	5.32
Internet banking related fraud	9.28
UPI Fraud	47.25
<b>TOTAL</b>	<b>77.41</b>

Online and social media related crime	Percentage
1. Cheating by Impersonation	1.71
2. Cyber bullying/stalking/sexting	3.87

3. Email phishing	0.13
4. Fake/impersonation profile	2.38
5. Impersonating e-mail	0.03
6. Intimidating e-mail	0.02
7. Online job fraud	0.94
8. Online matrimonial fraud	0.10
9. Profile hacking/identity theft	2.37
10. Provocative speech for unlawful act	0.47
<b>TOTAL</b>	<b>12.02</b>

Cheating by Impersonation cyber bullying, stalking, sexting, and email phishing accounted for 12 per cent and all the online offences during this period, crypto currencies, cyber terrorism that accounted for 9 per cent of the total online crime in India.

Hacking/ Damage to Computer, Computer system etc	Percentage
1. Damage to computer, computer system etc.	0.11
2. E-mail hacking	0.38
3. Tampering with computer source documents	0.05
4. Unauthorized access/data breach	0.92
5. Website defacement/hacking	0.11
<b>TOTAL</b>	<b>1.57</b>

The study suggests that 1.5 per cent of online crimes related to hacking or damage to the computer system; this includes unauthorised access, Data breach, email and websites hacking. Ransom ware is a digital kidnapper, like kidnapper asking for ransom amount and then releasing a kidnapped child. Ransom ware attack is dangerous software that leaks your private photos or any data. Such ransom ware attacks are quite well known in America.

Online frauds dominate and UPI frauds peak at 47.25 per cent

To protect themselves from falling victim to cyber fraud in the banking sector, individuals and organizations can take several proactive measures.

### REASON BEHINDS CYBER CRIMES AND FINANCIAL FRAUDS

- 1. Low Skills Required:** Low technical barriers enable individuals with limited expertise to engage in cybercrime using readily available hacking tools and malware.
- 2. Availability of Fake Resources:** Mobile and SIM purchased in kilogram in Metro cities.

- 3. Poor KYC and Verification:** KYC verification processes on online platforms allow criminals to create fake identities, making it challenging for officers to trace them.
- 4. Affordable AI Tools:** The low cost of AI-powered cyber attack tools allows hackers to fully automate and expand their attacks, enhancing their efficiency.
- 5. Accessible VPNs:** Virtual private networks (VPNs) allow fraudsters to remain unidentified, making it harder for authorities to track their online presence and whereabouts.
- 6. Limited access** to digital education and cybersecurity resources may leave the population susceptible to online fraud.
- 7. Lack of digital literacy-** Awareness may contribute to the vulnerability of the local population. Always verify the messages or call received before trusting them.

### SUGGESTIONS

Safety Measures-Individuals and organizations can take many proactive efforts to prevent themselves from becoming victims of cybercrime in the banking sector.

#### DO's

- i. Use Strong Passwords:** Create complicated and unique passwords by using special characters especially for online banking accounts.
- ii. Two-Factor Authentication (2FA)-** Enable 2FA for an extra layer of security. This typically involves receiving a code on your phone or email to verify your identity.
- iii. Secure Networks-** Stay away from public wi-fi networks specially while doing banking transactions. Use secure and private networks to minimise the possibility of hacking.
- iv. Regular Monitoring-** Keep a close eye on your bank statements and transaction history. Report any suspicious activity to your bank immediately.
- v. Secure Websites-** Make sure the website you are using for online banking is secure. Look for "https://” in the URL and a padlock symbol in the address bar.
- vi. Beware of Phishing-** Be cautious of e-mails or messages asking for personal or banking information. Do not click on links or download attachments from unknown sources.
- vii. Limited Access-** Restrict access to sensitive banking information within your organization.

Only provide access to authorized personnel.

- viii. **Employee Training-** Educate employees on cybersecurity best practices and the importance of safeguarding sensitive financial data.
- ix. Follow *Cyber Dost MeraYaar*” on Instagram, Facebook, Twitter, YouTube, and Telegram. To stay updated about approaching trends of crime or Dial 1930.

### DON'TS

- i. Do not use public wi-fi,
- ii. Never share your confidential details like Aadhar, PAN, mobile number, email-id, card details,
- iii. Do not use charging adopter from stranger,
- iv. Do not make any types of payment in expectation of high returns,
- v. Do not scan any QR Codes to receive payments,
- vi. Do not be misled by any tall claims made in advertisements
- vii. Do not trust any unknown caller. It may be for credit card activation or anything else.

### CONCLUSION

The present study was conducted to know the current scenario of cybercrimes in India with special reference to Banking sector. The main types of cybercrimes handled by the Cybercrime Police were identified as ATM/debit card fraud, sextortion, bullying, hacking, identity theft and fraudulent online money transfers. Cybercrime Police had developed several kinds of techniques to tackle cybercrimes as they can easily track up to three layers of money transferred. However, the cybercrime police is still face several challenges to know the various types of financial frauds commonly reported by people in banking sector. Statistics regarding the trend financial frauds in India especially in scheduled commercial banks showed that UPI is the most common device to trap people. There is an urgent need to carefully understand cyber-crimes relating to financial transactions and its trends in recent years. The National Cybercrime Reporting Portal run by MHA (Ministry of Home affair) and Government of India includes citizen manual, cyber safety tips, cyber awareness in daily digest which helps us to be aware about cyber fraud modus operandi One has to dial 1930 to file a complaint of any cybercrime. Also, we can register our complaint on [cybercrime.gov.in](https://cybercrime.gov.in). The Government tries to educate people through the massive open online courses platform National Cybercrime Training Centre (CYTRAIN). One can Follow “Cyber Dost MeraYaar” on various platforms

Instagram, Facebook, Twitter, YouTube, Telegram to stay updated. **MA**

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# ROLE OF 'DIGITAL FOOTPRINTS' IN BUSINESS

## Abstract

*In the modern digital era, business enterprises must establish a digital footprint to maintain relevance, competitiveness and prosperity within the online commercial arena. A digital footprint denotes the existence and visibility of a business enterprise on the internet via diverse online channels and platforms.*



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A digital footprint, alternatively referred to as a 'digital shadow', constitutes the distinctive compilation of data generated by individuals and organizations during their interactions within the online realm. This encompasses a wide range of elements, including

websites visited, content produced, and data accumulated by various sites and Applications. This evolving Trail significantly influences the manner in which others perceive an organization in the digital sphere.



**Active Digital Footprints:** These refer to the conscious and purposeful measures undertaken by a company to establish its online presence.

## SOURCES TO THE COMPANY'S ACTIVE DIGITAL FOOTPRINTS

- ⊙ **Business Website:** Serving as the foundation of digital existence, a meticulously designed and informative website effectively showcases the company's brand, products, and core values.
- ⊙ **Social media:** Platforms such as Facebook, LinkedIn, and Instagram facilitate direct connections between the company and its customers, promoting engagement and enhancing brand visibility.

- ⊙ **Content Marketing:** Blog entries, articles and other informative materials exemplify the company's expertise, engage customers, and enhance search engine optimization.
- ⊙ **Advertising through Online:** Strategically crafted advertisements target new customers and increase traffic to the company's website.
- ⊙ **Marketing through e-mail:** Cultivating leads, engaging current customers and promoting products through focused email campaigns.



**Passive Digital Footprints:** The data, generated by the company's actions as well as collected passively, also contributes to the formation of the company's footprints.

- ⊙ **Website Analytics:** These tools reveal demographic information, interests and website behaviours of the audience, providing insights that inform future strategies.
- ⊙ **Reviews of Customers:** Online evaluations on platforms such as Google and Yelp serve as social validation, influencing consumer purchasing decisions.
- ⊙ **Data App.:** Should the company utilize applications, the data collected from users provides insights into user engagement and preferences.
- ⊙ **News References and Public Records:** Even information obtained offline, such as business licenses and media articles, plays a role in shaping the online presence.

Both active and passive digital footprints operate synergistically. The company's content marketing initiatives can elicit favourable reviews, while website analytics guide the formulation of future content strategies. Achieving a harmonious balance and ensuring compliance with data privacy regulations is imperative for cultivating a constructive digital footprint.

### BENEFITS OF A STRONG DIGITAL FOOTPRINT

- ⊙ **Brand Awareness and Reputation Management:** An affirmative online presence fosters trust and attracts new clientele. Consistent engagements and favourable reviews reinforce the company's brand identity and reputation.

- ⊙ **Customer Acquisition and Engagement:** Targeted content and social media engagement draw potential customers, while prompt communication nurtures loyalty and encourages repeat business.
- ⊙ **Market Research and Competitor Analysis:** Analysing the company's online audience and competitor strategies yields valuable insights and uncovers avenues for growth.
- ⊙ **Building Trust and Credibility:** A meticulously maintained website, educational content, and positive reviews reflect professionalism and expertise, distinguishing the company from its rivals.

### RISKS OF POORLY MANAGED DIGITAL FOOTPRINTS

- ⊙ **Security Breaches and Data Leaks:** Compromised data can undermine trust, result in legal consequences, and diminish the company's brand image.
- ⊙ **Negative Online Reviews and Reputation Damage:** Unaddressed negative evaluations and online criticisms can dissuade customers and harm the company's standing.
- ⊙ **Difficulty in Attracting Customers and Talent:** An insufficient online presence or a detrimental footprint significantly impairs the ability to attract potential customers and recruit high-calibre talent.
- ⊙ **Non-compliance with Regulations and Fines:** Non-adherence to data privacy regulations may result in substantial fines and legal ramifications.

### MANAGING COMPANY'S DIGITAL FOOTPRINTS



The establishment and cultivation of a robust digital footprint necessitate a proactive strategy.

#### 1. Develop a Digital Footprints Strategy

- ⊙ **Define Company's Objectives:** What aspirations does the company seek to fulfil in the online realm? Is it to enhance brand visibility, augment sales figures or to attract potential talent?
- ⊙ **Identify Company's Target Demographic:** Whom does the company aim to engage? A

comprehensive understanding of their online behaviours and preferences is of paramount importance.

- ⊙ **Select the Appropriate Channels:** Establish social media profiles on platforms pertinent to the company's audience and objectives. Avoid diluting the company's efforts across too many

platforms.

**2. Conduct Regular Audits and Monitor Digital Presence**

- ⊙ Utilize online reputation management instruments to oversee mentions and reviews.
- ⊙ Evaluate website traffic and social media interactions to gain insights into audience behaviour.
- ⊙ Timely identification and rectification of any negative feedback or outdated information.

**4. Exhibit Responsiveness and Foster Engagement with Customers**



- ⊙ Participate in discussions on social media platforms and engage in pertinent online communities.
- ⊙ Encourage user-generated content to foster authenticity and trust.

**5. Invest in Content Marketing and Positive Online Narratives**

- ⊙ Develop high-quality, informative content that resonates with the company’s clientele.
- ⊙ Disseminate industry insights, provide valuable



It is vital to recognize that managing the company’s digital footprints constitutes an ongoing endeavour. By adhering to these recommendations and maintaining a steadfast commitment, the company can cultivate a robust online presence that propels success and lays the groundwork for a prosperous future.

**3. Implement Cyber security Protocols and Data Protection Frameworks**

- ⊙ Strengthen the company’s website and online accounts with robust passwords and encryption measures.
- ⊙ Instruct employees on data privacy protocols and compliance standards.
- ⊙ Devise a comprehensive data breach response strategy.

- Address online reviews, both favourable and unfavourable, in a timely and professional manner.

resources and highlight the company’s expertise.

- ⊙ Collaborate with influencers and thought leaders to extend reach to new audiences.

**6. Remain Informed about the Evolving Digital Landscape**

- ⊙ New platforms and technologies are perpetually emerging. Stay apprised and adjust the company’s strategies as may be necessary.
- ⊙ Monitor alterations in data privacy regulations and ensure adherence.

- ≈ Be prepared to engage in continuous learning and enhance the company’s digital footprints management practices.

**PERSONAL DIGITAL FOOTPRINTS INFLUENCE THE ENTERPRISE FOOTPRINT**

While often perceived as primarily a corporate issue, the digital footprints of employees, executives and even partners can profoundly influence the company’s enterprise footprint.

- ⊙ **Blurring Lines:** In the contemporary hyper-connected environment, the boundaries between personal and professional online existences frequently become indistinct. Employees disseminate company-related news on social media, engage in industry discussions and interact with customers online, all of which contribute to both their individual digital footprints and that of the company.

The online personas of executives can markedly affect public confidence in the organization.

Ethical breaches or contentious remarks can yield reputational repercussions for the entire enterprise.

- ⊙ **Positive Synergy:** Employee advocacy can serve as a potent catalyst. When employees convey positive experiences or insights regarding the company online, it engenders trust, attracts talent and fortifies the overall brand identity. Engaged employees promoting the company through their personal brands can function as invaluable brand ambassadors.



**Potential Risks:** Conversely, unchecked personal digital footprints may also present threats. Negative personal online activities, ranging from controversial posts to data breaches, can tarnish the company's reputation and induce security vulnerabilities. Unprofessional online conduct may cast a negative light on the company culture and dissuade prospective customers or partners.

**Bridging the Gap:** Establishing a robust and cohesive digital presence necessitates the following proactive initiatives:

- ⊙ Formulate explicit guidelines for social media engagement and online communication that employees are expected to adhere to.
- ⊙ Instruct employees on best practices related to cybersecurity and the regulations governing data privacy.
- ⊙ Promote responsible online conduct that is congruent with the core values of the organization.
- ⊙ Utilize the personal brands of employees to enhance the company's image in a favourable manner.

By cultivating a culture that emphasizes awareness and accountability, organizations can leverage the affirmative aspects of individual digital footprints while alleviating potential risks. A formidable organizational

presence commences with empowered employees who comprehend the ramifications of their online conduct.

**Learnings from the Best or the Worst:** Illustrative cases of renowned companies' digital footprints. Every action generates an imprint, influencing the online reputation of the organization and affecting customer perceptions. This serves to exemplify the significance of a meticulously managed (and poorly managed) digital footprint, drawing upon both positive and negative instances from prominent brands.

**POSITIVE EXAMPLES**

**Lego:** The prominent toy manufacturer effectively employs social media platforms such as Instagram and YouTube to produce engaging and interactive content geared towards both children and adults. User-generated content showcasing Lego constructions cultivates community and strengthens brand allegiance.



- b) **Spotify:** The organization strategically utilizes its digital footprints to tailor the user experience and forge deeper connections with aficionados of music. Their recommendation algorithms capitalize on user data to assemble personalized playlists, while their social media channels provide exclusive content and insights into behind-the-scenes activities, thereby nurturing a dedicated and engaged audience.

## NEGATIVE EXAMPLES

a) **United Airlines:** A viral video depicting the forcible removal of a passenger from a flight incited widespread indignation and calls for

a boycott across social media platforms. The airline's sluggish and tone-deaf response exacerbated the negative sentiment, adversely affecting their brand reputation.



b) **Pepsi:** The “Kendall Jenner protest” advertisement by Pepsi met with extensive criticism for cultural appropriation and the trivialization of serious social issues. This adverse sentiment rapidly proliferated through social media, resulting in substantial reputational harm.

## CONCLUSION

In an era characterized by instantaneous information and perpetual connectivity, the digital footprint of the organization precedes its physical presence. It constitutes the narrative that unfolds online, incrementally shaping the perceptions of potential customers, partners, and even competitors regarding the business.

The comprehension and management of this narrative have transitioned from being optional to imperative for successfully navigating the competitive digital milieu.

The active digital footprints of the organization represent the deliberate narrative crafted through meticulously curated website content, interactive social media engagements and well-planned marketing initiatives.

Equally significant are the passive digital footprints of the organization, which embody the subtle data cues that

By recognizing both active and passive components and integrating them into a cohesive narrative, organization can unlock the genuine potential of its digital footprints

create a less overt portrayal. Website analytics elucidate user behaviours, online reviews sway purchasing decisions and application data provides insights into consumer preferences.

By recognizing both active and passive components and integrating them into a cohesive narrative, organization can unlock the genuine potential of its digital footprints.

The organization can attract clientele, cultivate trust and secure a competitive advantage. Conversely, the neglect of this narrative may yield detrimental outcomes, leading to adverse perceptions and squandered opportunities. MA

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# APPLICABILITY OF FORENSIC AUDIT TO DIFFERENT INDUSTRIES

## Abstract

*Forensic audits can help organizations to identify and address financial vulnerabilities, enhance compliance with regulatory requirements and mitigate risks associated with fraud and misconduct. Forensic audit is the need of the hour and is the future for prevention of various financial fraud, money laundering activities etc. This article gives an idea about the applicability and few case studies from different industries on forensic audit.*

## INTRODUCTION

**F**orensic audit is the process of examining and evaluating the financial records of an individual or firm in order to obtain evidence that can be used in a court of law or legal proceedings. In contrast to conventional audits, the goal of forensic audits is not only to guarantee accuracy and compliance, but also to identify instances of financial fraud, money laundering, embezzlement, or other illicit activities. Expert knowledge in investigative and accounting skills are required in forensic auditing to reveal concealed financial misconduct and collect evidence to prosecute the perpetrator.

In India, forensic audits have been gaining momentum across a wide range of industries due to the growing incidence of financial crimes and regulatory scrutiny. The Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), and other regulators has increased the focus on transparency, fraud prevention, and corporate governance, creating a demand for forensic audit services.

This article explores the applicability of forensic audits across different industries in India and highlights the relevant data and cases that illustrate the critical role of forensic audits in identifying and combating financial crimes.

## FORENSIC AUDIT IN THE BANKING SECTOR

The banking industry is among the largest users of



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forensic audit services due to the high risks of loan fraud, embezzlement, and financial mismanagement. Indian banks are susceptible to fraud from both internal and external sources, including loan defaulters, fake accounts, and money laundering activities.

### Example: Punjab National Bank Fraud (2018)

One of the most notorious cases of financial fraud in India's banking sector involved the Punjab National Bank (PNB). In 2018, a forensic audit revealed that diamond merchants Nirav Modi and Mehul Choksi colluded with certain bank employees to issue fraudulent Letters of Undertaking (LoUs) to the tune of over ₹13,000 crores. The LoUs were issued without collateral, allowing the duo to obtain credit from overseas banks fraudulently. The forensic audit was instrumental in uncovering the irregularities, providing critical evidence for prosecution.

### Key Applicability in Banking:

- ⦿ Detection of loan fraud and non-performing assets (NPAs)
- ⦿ Uncovering money laundering activities
- ⦿ Preventing embezzlement and insider fraud
- ⦿ Regulatory compliance for anti-fraud measures

## FORENSIC AUDIT IN THE TELECOM INDUSTRY

The telecom sector, with its vast number of transactions and complex billing systems, is prone to fraud, including revenue leakages, misreporting of subscriber data, and

violation of spectrum license terms. Forensic audits can help in identifying and mitigating these risks.

#### Example: Vodafone Idea Case (2020)

A forensic audit commissioned by the Department of Telecommunications (DoT) in 2020 revealed that Vodafone Idea had under-reported its revenues to avoid paying its due share of license fees and spectrum usage charges. The audit uncovered discrepancies amounting to ₹50,000 crores over several years. This case highlighted the importance of forensic audits in preventing revenue loss to the government and ensuring compliance with telecom regulations.

#### Key Applicability in Telecom

- ⊙ Detection of revenue leakages and under-reporting of income
- ⊙ Ensuring compliance with regulatory norms
- ⊙ Verifying accuracy of subscriber and billing data
- ⊙ Detecting misuse of spectrum or illegal telecom practices

### FORENSIC AUDIT IN THE MANUFACTURING SECTOR

The manufacturing industry involves significant capital investment, procurement processes, and supply chains, making it vulnerable to procurement fraud, supply chain manipulation and financial misrepresentation. Forensic audits help in monitoring transactions, identifying overbilling, and detecting kickbacks and bribes.

#### Example: Satyam Computer Services Fraud (2009)

In what was termed “India’s Enron,” the Satyam Computers fraud case involved the company’s chairman, Ramalinga Raju, falsifying financial statements to the tune of ₹7,800 crores. Forensic audit revealed inflated revenues, understated liabilities, and fictitious cash reserves, causing one of the largest corporate collapses in India. The case highlighted the need for forensic auditing in the manufacturing and IT sectors to ensure the accuracy of financial reporting and prevent corporate fraud.

#### Key Applicability in Manufacturing:

- ⊙ Detection of procurement fraud, such as overbilling and false invoicing
- ⊙ Preventing manipulation of financial statements
- ⊙ Monitoring supply chain transactions for fraud
- ⊙ Ensuring ethical practices in contract management and vendor relationships

### FORENSIC AUDIT IN THE REAL ESTATE SECTOR

The real estate sector in India is known for being highly unregulated, with frequent occurrences of money laundering, unreported transactions, and tax evasion. Forensic audits play a vital role in curbing financial crimes in this sector by tracing the flow of funds and identifying irregularities in land acquisition, construction contracts, and project financing.

#### Example: Unitech Group Fraud Case (2017)

In 2017, Unitech Group, a major real estate developer, was embroiled in a legal battle when homebuyers filed complaints alleging non-delivery of properties despite full payments. A forensic audit revealed that the company had diverted over ₹5,000 crores of funds collected from homebuyers for personal investments and unrelated ventures. The audit evidence was crucial in the legal proceedings and in protecting the interests of homebuyers.

#### Key Applicability in Real Estate

- ⊙ Detecting money laundering and unaccounted cash transactions
- ⊙ Investigating diversion of funds and financial mismanagement
- ⊙ Ensuring transparency in land deals and project financing
- ⊙ Verifying compliance with RERA (Real Estate Regulation and Development Act)

### FORENSIC AUDIT IN THE HEALTHCARE INDUSTRY

The healthcare sector is vulnerable to fraud in areas such as insurance claims, procurement of medical equipment and billing for medical services. Forensic audits are increasingly being employed in hospitals, insurance companies, and pharmaceutical firms to prevent misuse of funds and ensure compliance with medical regulations.

#### Example: Fortis Healthcare Fraud Case (2018)

In 2018, allegations surfaced that Fortis Healthcare’s promoters, Malvinder Singh and Shivinder Singh, had siphoned off nearly ₹500 crores from the company through fraudulent transactions. A forensic audit confirmed the diversion of funds, which were used for personal investments and to settle unrelated debts. The findings prompted regulatory action, and the Singh brothers were ousted from the company’s board.

### Key Applicability in Healthcare

- ⊙ Detecting insurance fraud and false claims
- ⊙ Preventing procurement fraud in the purchase of medical equipment
- ⊙ Verifying billing accuracy for patient services
- ⊙ Investigating financial mismanagement in hospitals and clinics

### FORENSIC AUDIT IN THE RETAIL SECTOR

In the retail industry, where large volumes of transactions occur daily, forensic audits are vital for identifying fraud related to inventory management, vendor payments, and sales misreporting. Retailers often face the risk of shrinkage, including theft and misappropriation of goods, making forensic audits essential for maintaining financial integrity.

#### Example: Future Retail Case (2021)

In 2021, the Future Group, one of India's largest retail conglomerates, was embroiled in a legal tussle with Amazon and other creditors over its proposed deal with Reliance Retail. A forensic audit was ordered to investigate allegations of fund diversion and mismanagement of creditors' dues. While the investigation is ongoing, the case underscores the importance of forensic audits in safeguarding stakeholders' interests and ensuring financial transparency in the retail sector.

### Key Applicability in Retail

- ⊙ Detecting inventory fraud and theft
- ⊙ Verifying accuracy of vendor payments and purchase orders
- ⊙ Investigating sales misreporting and revenue leakage
- ⊙ Ensuring compliance with financial regulations and tax laws

### FORENSIC AUDIT IN GOVERNMENT AND PUBLIC SECTOR ENTERPRISES

Government and public sector enterprises (PSEs) are prone to corruption, misappropriation of funds, and procurement fraud. Forensic audits in these sectors help ensure that taxpayer money is used appropriately and prevent financial misconduct in public projects.

#### Example: Coal Allocation Scam (2012)

In the infamous coal allocation scam, a forensic audit was conducted to investigate the irregular allocation of coal blocks to private companies. The Comptroller and Auditor General of India (CAG) alleged a loss

of ₹1.86 lakh crore to the Government due to non-transparent bidding processes and favoritism in coal block allocations. Forensic audit played a pivotal role in uncovering the discrepancies and led to a series of legal actions against the accused parties.

### Key Applicability in Government and PSEs

- ⊙ Detecting corruption and kickbacks in public procurement
- ⊙ Investigating financial mismanagement in Government projects
- ⊙ Ensuring transparency in the allocation of public resources
- ⊙ Verifying compliance with government regulations

### EMERGING TRENDS IN FORENSIC AUDITS IN INDIA

- **Digital Forensic Audits:** With increasing digitization of financial transactions, digital forensic audits have gained prominence in India. These audits focus on detecting cybercrimes, such as hacking, data breaches, and identity theft, as they relate to financial fraud. The Reserve Bank of India has also mandated stronger cybersecurity measures for banks, further increasing the need for digital forensic audits.
- **Anti-Money Laundering (AML) Audits:** Regulatory bodies like SEBI and RBI are intensifying their scrutiny of companies to ensure compliance with anti-money laundering laws. Forensic audits are used to track the source and flow of funds in businesses to detect money laundering activities, particularly in sectors such as real estate and banking.
- **Environmental, Social, and Governance (ESG) Audits:** As companies worldwide adopt ESG frameworks, forensic audits are being used to ensure that businesses are adhering to environmental and social governance principles. For instance, forensic audits can investigate false claims about sustainable practices or fraudulent activities in green financing projects.

### CHALLENGES IN CONDUCTING FORENSIC AUDITS IN INDIA

Despite the growing importance of forensic audits in India, there are several challenges as outlined in the following paragraphs.

- ⊙ **Limited Awareness:** Many businesses, particularly smaller ones, are unaware of the

benefits of forensic audits and may only seek such services after a fraud has occurred.

- ⊙ **Lack of Regulatory Clarity:** While various regulators mandate forensic audits, there is still a lack of standardization in the audit process, making it difficult to ensure consistency and comprehensiveness.
- ⊙ **Data Privacy Concerns:** With digital forensic audits becoming more prevalent, there are concerns about data privacy and the ethical handling of sensitive information.
- ⊙ **Resource Constraints:** Forensic audits require highly specialized skills and access to technology, which can be expensive and out of reach for smaller companies or government entities.

### CONCLUSION

Forensic auditing has become a critical tool for uncovering financial misconduct and ensuring compliance with legal and regulatory frameworks across various industries in India. From banking to healthcare, the use of forensic audits has proven invaluable in identifying fraud, protecting stakeholders' interests, and promoting transparency. As financial crimes evolve and become more sophisticated, the role of forensic

**As financial crimes evolve and become more sophisticated, the role of forensic auditors will continue to grow**

auditors will continue to grow, offering enhanced safeguards against malpractices. **MA**

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## Corporate Corner

# Congratulations!!!



Our heartiest congratulations to CMA Daljeet Singh Khatri, Member of the Institute, for being elevated to the post of Director (Finance), HUDCO w.e.f. 14<sup>th</sup> August, 2024.

Shri Daljeet Singh Khatri has over 26 years of experience in various Financial Institutions such as REC, SIDBI and NHB. Prior to joining HUDCO, he was working with REC as Executive Director (Finance). He was instrumental in implementation of various systemic improvements in REC. He has diverse experience in core finance functions such as Domestic and International Funds Mobilization, Treasury Management, Project Appraisal, Assets and Liability Management, Risk Function, Financial Concurrence and Formulation of Financial Policies, Contracts and Procurement Management etc.

We wish CMA Daljeet Singh Khatri, the very best for all his future endeavours.

# FORENSIC AUDITS

## Abstract

*Forensic audits have evolved in recent years as a necessity for controlling corporate misconduct, fraud, and misrepresentation of financials. In India, the regulator that monitors and administers the financial affairs of listed firms is the Securities and Exchange Board of India (SEBI). SEBI guidelines are integral parts of the overall legislative ecosystem governing forensic audits. This paper explains the legislative details related to forensic audits, as most of the focus is laid on the guidelines by SEBI, acts like the Companies Act 2013, and further real-life case studies based on the application of these laws. We will also go into the aspects in which forensic audits maintain transparency and compliance within the financial realm.*

## INTRODUCTION TO FORENSIC AUDITS

**A** forensic audit is an evaluation of the financial records of an entity or company that would provide evidence upon which a court could base its argument. It is, in fact, critically important in the determination of fraud, embezzlement and other forms of malpractice. Crucially, it helps organizations to prevent financial manipulations and enforce the law at the same time. Forensic audits have recently been introduced as part of the regulatory machinery in India, particularly in the context of corporate governance and the protection of shareholder interests.

### Definition

Normally conducted where there are suspected financial misdeeds, a forensic audit is more detailed than a regular audit. It goes beyond routine tests and can identify or quantify fraud. The final report is often used as evidence in legal proceedings.

## SEBI AND ITS ROLE IN FORENSIC AUDITS

The Securities and Exchange Board of India (SEBI) is the regulatory body of the securities market in India. SEBI was established under the SEBI Act, 1992 with the



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mandate to protect the interests of investors and regulate the development of capital markets., Over the years SEBI has issued some guidelines for better corporate governance, of which forensic audit is a significant part of the regulatory framework.

### SEBI Act, 1992

The SEBI Act, 1992, empowers SEBI to regulate the entities in the securities market like stock exchanges, brokers, and listed companies. Section 11 of the SEBI Act further provides that SEBI can carry out inspections, investigations, and audits for the protection of the interest of the investors. Under this section, SEBI is empowered to direct forensic audits whenever it suspects malpractice in the financial affairs of a company.

## LEGISLATIVE FRAMEWORK GOVERNING FORENSIC AUDITS

The legal environment regulating the conduct of forensic audits in India is provided by the Companies Act, 2013, the SEBI Act, 1992, and SEBI's regulations on forensic audits.

### Companies Act, 2013

Companies Act, 2013 is applicable to the companies located in India for maintaining transparency and accountability. Section 143(12) of the Act, stipulates that the auditor should report if they come to know of fraud. This effectively asks the auditor to conduct a forensic audit to detect any financial wrong.

### SEBI Guidelines on Forensic Audits

In 2020, SEBI put in place broad guidelines with respect

to forensic audits for listed companies. These guidelines establish the formal procedure of commencement of forensic audits and ensure that these audits are not done haphazardly. SEBI requires entities to conduct a forensic audit in case of a suspected irregularity or where financial disclosures require validation.

### **EXTENT OF FORENSIC AUDITS UNDER SEBI GUIDELINES**

SEBI guidelines articulate the circumstances under which a forensic audit should be done and thus ensure that entities go through the right procedure so that investor confidence is safeguarded.

#### **When are Forensic Audits Ordered?**

Forensic audits are normally ordered under the following circumstances:

- ⊙ Suspected financial fraud, when a company's financial statements do not add up to market realities.
- ⊙ Charges of insider trading, when corporate insiders have been alleged to manipulate stock prices.
- ⊙ Price manipulation: Normally, forensic audits are directed by SEBI if there is a suspicion of companies artificially inflating or deflating share prices.

### **FORENSIC AUDITS AND CORPORATE GOVERNANCE**

Forensic audits become crucial in corporate governance in a manner that companies effectively and efficiently undertake transparent financial reporting practices. Corporate governance practices are integral to sustaining investor confidence. Forensic audits provide a way of uncovering irregularities that compromise the reputation of the company.

#### **Role of the Board of Directors**

Forensic audits are done as they have been commissioned by the Board of Directors. Under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations), the Board has to decide whether financial malpractices and improprieties should be investigated comprehensively.

### **KEY SEBI GUIDELINES AND THEIR IMPACT ON AUDITS**

SEBI has come out with a variety of orders and

guidelines related to forensic audits. Such guidelines are designed to achieve a state of compliance and better corporate governance. (*BusinessLine, 2020*)

#### **Mandatory Disclosures**

Listed companies have a legal obligation to provide information that has relevance to their shareholders. SEBI mandates that whenever a forensic audit is conducted, the companies must disclose the same to its investors so that the complete financial condition of the company is visible to the investors, especially when the financial integrity of the company is in doubt.

#### **Audit Committees**

Companies need to have Audit Committees as per SEBI rules. These committees determine the need for a forensic audit and oversee that the audit is conducted in a time-bound and cost-effective manner.

### **CASE STUDIES**

#### **Satyam Computers (2009)**

The scam relating to Satyam Computers was one of the largest corporate frauds in India, where the founder of the company admitted to inflating profits for several years. Following this, SEBI asked for a forensic audit to ascertain the overall extent of the financial fraud that had occurred. The findings proved severe cases of financial mismanagement, resulting in India making radical reforms in corporate governance. (*Jaiswal, 2023*)

#### **IL&FS (2018)**

Infrastructure Leasing & Financial Services (IL&FS) saw forensic audits being carried after the firm defaulted on its loan, which led to a liquidity crisis. The audit showed scandalous financial impropriety and fraud, and it led to the introduction of new rules for overseeing large financial organizations. (*Alok, n.d.*)

### **PROBLEMS IN FORENSIC AUDIT**

Forensic audits help to create accountability in business, although they experience some problems as set out hereunder.

#### **Sharing of Information**

Forensic auditors sometimes experience problems in accessing information concerning the finances of organizations. Companies can make information sharing difficult or be less cooperative, thereby slowing the audit process. SEBI has reacted to this by making auditors

more empowered to ask for access to company records.

### Expertise of Auditors

Forensic audits require skilled and experienced auditors. A lack of forensic auditors could lead to partial investigations. SEBI has initiated the process of empowering auditors with expert training and certification to handle such advanced cases.

### REFORMS AND FUTURE OF FORENSIC AUDITS

Forensic audit in India is experiencing quick changes and SEBI has been a leader in setting the guidelines and the regulations.

### Recent SEBI Amendments

SEBI keeps amending its guidelines with changing times and new threats appearing in the financial domain. New amendments have brought emphasis to the auditor's accountability and the need for fair and transparent forensic audits.

### Role of Technology

It can be seen that SEBI is increasingly adopting the use of data analytics and artificial intelligence in forensic audits. Adoption of technology is expected to improve both speed and accuracy in forensic investigations.

### CONCLUSION

Forensic audits are the appropriate tools for ensuring corporate transparency and safeguarding financial fraud. SEBI guidelines alone are not sufficient to

## SEBI is increasingly adopting the use of data analytics and artificial intelligence in forensic audits

regulate forensic audits. The same is complemented with other legislative frameworks like those of the Companies Act, 2013. Several case studies, such as Satyam Computers and IL&FS, have shown how this type of audit

helps in detecting financial malpractices and enhancing corporate governance. Much effective forensic investigation has followed reforms and technological enhancement, though challenges still remain. **MA**

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## Obituary



The Institute and its Members deeply mourn the demise of CMA Kirit B Mehta (M/4105), Member of the Institute, Past Chairman, WIRC of ICAI (1985-86) who left for heavenly abode on 1<sup>st</sup> October, 2024.

Our heartfelt condolences & respected homage to the departed soul. This is a great loss to the Profession and CMA fraternity at Large.

May his family has the courage and strength to overcome the loss.



# 23<sup>rd</sup> Edition COST CONGRESS 2024

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- Navigating Green Transition - Sustainable and Equitable growth through TCM
- Competitive Indian Industry - Driving the next phase through TCM.

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Chairman  
CII National Committee for  
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**Mr. Navtez Bal**  
Chairman, Cost Congress 2024  
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**Mr. Asim Mukhopadhyay**  
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# FORENSIC AUDIT: A STEP AHEAD OF INTERNAL AUDIT

## Abstract

*Forensic is process of establishing evidence scientifically to prove a crime. Such evidences are required to be presented before any court to render appropriate judgment over crime. 'Audit' can be defined as examination of facts and state of any item.*

*Forensic Audit is a purposeful process of getting evidence which can be used in a court of law. This process includes various audit technique like analysis, inquiry, observation, evaluation and examination.*

*Without technology doing any business by any organization is very difficult nowadays. Technology provides ease for doing business. Many businesses are now running on screen based platforms and most businesses now cannot be imagined without technology. Technology has its own risks. Technology can also be used for carrying out frauds. Therefore many organizations have established their own Risk Assurance / management cells. Where this is not the case they hire external forensic expert to unearth frauds.*

## INTRODUCTION

Recently in the month of May 24 one of the leading newspapers highlighted requests made by one financial service firm against the regulator for its inaction on complaint made. The financial service firm requested the Court to direct the regulator to conduct a forensic audit to reveal the facts behind the complaints raised by it.

The term 'forensic audit' was comparatively new for common man. Even many students of commerce are not fully aware of this term. However relating forensic with accounting and audit started 100 years ago.

## HISTORY OF FORENSIC AUDIT

### Story of Frank Wilson and AL Capone

Beginning of forensic accounting and auditing starts with this interesting real event based story. This is story



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of real crime world. In this story Frank Wilson has played heroic role of a professional who was chief of the United State Secret Services. AL Capone was a criminal who was involved in various criminal activities. His crimes were very organized. He was involved in crimes such as tax evasion, but was never punished. He bribed officials and created an atmosphere of threat for witnesses of crimes so that they never came forward to depose against him.

In such a situation Frank Wilson started working with officials. He created links between payments made to Capone and tax evasions. Frank proved all these with the help of documents which was not required to be testified by anybody else. Due to this Capone was punished and his stories of crime came to an end.

## MEANING OF FORENSIC AUDIT

The term "forensic audit" is made up of two terms namely 'forensic' and 'audit'. To understand this combined term we need to understand the terms individually. 'Forensic' can be elaborated as a process of establishing evidence scientifically to prove a crime. These evidences were required to be presented before any judicial body to render appropriate judgment over crime. The second term is 'audit' which can be defined as examination of facts and state of any item. Therefore we can define forensic audit as a purposeful process of getting evidence which can be used in a court of law. This process includes various audit technique like analysis, inquiry, observation, evaluation and examination.

Forensic audit is broadly related with financial crimes.

### Need of Forensic Audit

There are various ways to indulge in crimes. These crimes also become complicated. Proving crime has always been a difficult task. Traditionally, proving a crime was depending on testifying by any human being. It was also evident that these witnesses often were not helpful in the judgment process due to various reasons. In recent times crimes have become more complicated due to the use of advanced technology and use of sophisticated devices.

It is vital to establish the very purpose of crime and also to find the actual criminal. To meet this requirement forensic audit was invented.

### INDICATORS WHICH SHOWS REQUIREMENT OF FORENSIC AUDIT

Forensic audit is not the requirement of any statute, but it is very useful in certain circumstances like the following:

- ⊙ Assets owned by organization found in other's name
- ⊙ Compromise in debtors/ creditors payment related transaction
- ⊙ Unidentified/untraceable transaction found in bank records
- ⊙ Deviation from established policies and practices
- ⊙ Security breaches and theft of information
- ⊙ Regular violation of laws and regulations
- ⊙ Serious ethical lapses
- ⊙ Situations other than fraud which requires forensic audit are bankruptcy filing, business mergers, divorce cases and winding-up of business,

### WAY OF CONDUCTING FORENSIC AUDIT

Forensic audit is just like traditional audit with an additional step of appearing in court. It has all the steps as in normal audits as set out in the following paras.

#### Planning of Forensic audit

For a good end the first step is very important. In the field of audit it starts from planning. For planning clarity of following points are necessary

- ⊙ Understand the circumstances and chances of fraud done
- ⊙ Identification of key areas
- ⊙ Allocation of resources
- ⊙ Work allocation
- ⊙ Deciding the time line

- ⊙ Reporting requirement

### Collecting evidence

Evidence in fraud related activity should be those which can prove the act of fraud and those who are responsible for these acts.

- ⊙ For identification of fraudster
- ⊙ Also motive behind the fraud
- ⊙ Identify and determine the kind of fraud done
- ⊙ How the opportunity of committing fraud occurred
- ⊙ Determine the period of fraud
- ⊙ Find the manner y of committing the fraud and the loopholes in the system
- ⊙ Find whether fraud was committed with internal help
- ⊙ Determination of loss
- ⊙ Collect evidence which can be admissible in court of law
- ⊙ Any kind of physical evidences
- ⊙ Precaution should be taken that evidences are not compromised or damaged

For collecting evidence many techniques can be used such as the following:

- ⊙ **Analytical procedures:** - Trend analysis, deviation statement, exceptional reporting are some analytical procedure techniques which can be used.
- ⊙ **Investigation :-** Public documents, confidential reports, physical and computer forensics
- ⊙ **Substantive Techniques:-** Reconciliations, counting, rechecking , documents verification from issuer.
- ⊙ **Testing of controls :-** By this it can be identified what was the weakness of controls which provide opportunity to fraudsters to do fraud
- ⊙ **Computer aided techniques :-** IP address, GPS location, call records, instruments used, service providers' assistance can also provide vital information for solving the case.
- ⊙ **Questionnaire:** - Asking random questions which seem to irrelevant can provide vital information, as users do not take them seriously and may reveal the truth occasionally.
- ⊙ **Interview:-** Face to face interview can also be beneficial. For interview the forensic auditor should prepare himself, provide adequate time to employee or officer with a comfortable environment, should listen carefully, and obtain

answers to the questions posed with details such as who, what, where, how and when. He should obtain the signature of the persons on the conclusion of the interview.

### Report of Forensic Audit

Reporting is the most important part of any audit. In forensic audit this is very vital for any legal proceedings and hence the auditor should prepare this report very carefully and after due diligence of all the facts. Some important points which may be considered are as follows:

- ⊙ Details of fraud and determination of losses
- ⊙ Manner in which the fraud was committed.
- ⊙ Investigation approach
- ⊙ Outcomes of investigations
- ⊙ Evidences collected
- ⊙ Identification of fraudsters or suspicious persons

### Preparation for court proceedings

This is the main differential point of forensic audit which gives a separate identity to this field. In court proceeding the forensic auditor should present his report of findings. For court proceedings the forensic auditor should take care of following points.

- ⊙ Clarity about how the fraud has been identified
- ⊙ Define complex financial transactions in easy and simple way so that a normal person can get a clear picture of the fraud
- ⊙ Establish how the evidence established the fraud
- ⊙ How the evidence proves the identification of the persons behind the fraud

### Other important aspects

Suggest preventive measures for prevention for frauds

### FORENSIC AUDITOR'S FOCUSED AREAS OF WORKING

**Fraud:-** This is key area in which the forensic auditor

works. Fraud can be defined as knowingly wrongful or criminal act of gaining financial benefits which results in loss to others and deprives a person of his legal rights.

**Corruption:** - Following can be included in corruption

- ⊙ **Extortion:-** Act of getting cash or properties by use of force or any kind of threat.
- ⊙ **Conflict of interest:** - When any higher position holder gains benefits which are not legitimate to himself or persons close to him.
- ⊙ **Bribery:-** Offering money to employees/ officers for doing or not doing an act/ function

**Asset Misappropriation:** - This is the most common type of fraud, which may include providing false discount to debtors, submitting false claims or invoices, stealing organization's assets or inventory, misusing assets of organizations, creating false creditors and making payment to them, issuing false purchase orders, personal purchases, ghost employees, declaring an organization's good asset or inventory as bad or not useful.

**Financial statement based frauds:** -These frauds relate to fraudulent reporting.

Financial statements show the financial health of organizations. By this type of fraud entities show false information to obtain some benefit like by increasing turnover they get/obtain incentives, bonuses, loans, better rating etc.

### ELEMENTS RELATED TO FRAUD

Generally it is found that there is a combination of three main elements which encourage someone for committing fraud. These are -

1. **Motive** which drives a person to conduct a fraud
2. **Opportunity** which enables one to commit a fraud
3. **Rationalize** the ability of the fraudster.

### DIFFERENCE BETWEEN NORMAL AND FORENSIC AUDIT

<u>S.No.</u>	<u>Basis of Difference</u>	<u>Traditional Audit</u>	<u>Forensic Audit</u>
1	Objective	Evaluation of financial statements, finding of errors or frauds	Collection of facts which can be presented in court as proof/ evidence of financial crime
2	Content of Report	Showing overall financial position of an entity	Reporting precise information about specific crime done by entity
3	User	Investor, general reader, management, lenders, creditor etc	Court of Law

4	Conducted By	Chartered Accountants, Cost Accountants in case of audit of Cost Statement, Company Secretaries in case of secretarial audit	Certificate holders from professional bodies
5	Period	Annual	No such prescribed period, generally based on events
6	Reporting	Auditors are required to report in the prescribed manner and in forms prescribed by the statute.	No such prescribed reporting formats,
7	Techniques	Substantive and compliance	Trend and in depth

### QUALITIES OF SUCCESSFUL FORENSIC AUDITOR

**Keen observer:** - Forensic auditor should be keen who can sense irregularities and discrepancies in shorter time by observing data pattern.

**Good influencer:-** For finding the details of fraud, the auditor is required to communicate with various persons. An influenced person can easily derive desired information from the information provider.

**Analytical:-** This is the most common quality which every auditor should have.

**Effective Communicator:-** Complex financial transaction and technical details are difficult to understand for a common man and hence the auditor should be a good communicator both verbal and writing.

**Result oriented interviewer:-** The auditor should have taken various interviews; he is required to be straight forward or strict sometimes to find the fact.

**Fact finding interpreter:-** Many a time, facts are not clear and unambiguous and hence the forensic auditor should be able to interpret them properly.

**Having resolving mind set:** - As frauds can do damage to a very large extent in a very short time the forensic auditor is required to have a problem solving mind set which can resolve issue in a short period of time and effectively.

**Accounting and Auditing:-** Forensic auditor should have control on these subjects.

**Researcher and innovative:** - As the field is very vast and require knowledge of various industries, the forensic auditor should be a good researcher for new things and techniques. Fraudsters find newer ways to do frauds and hence the forensic auditor should also be innovative.

**Attentive to details:-** This requires detailing of minor things which can open new doors of information and

hence attention to details is very much required.

**Critical thinker:-** Audit requires new ways to find the facts and hence one is required to think differently as well as critically in advance.

### ADVANTAGES OF FORENSIC AUDIT

There are many benefits from forensic audit. Some of the benefits could be as under:

- ⊙ Detection of frauds
- ⊙ Identification of culprits
- ⊙ Fixation of responsibility
- ⊙ Prevention from future frauds
- ⊙ Helps in making sound policy
- ⊙ Assessment of weakness of security system

### PROFESSION IN FORENSIC AUDIT

Without technology doing any business by any organization is very difficult. Technology provides ample benefits of ease of doing business. Many businesses are now running on screen based platforms and maximum businesses now cannot be imagined without technology. But technology has its own risks. Technology can also be used for frauds Therefore many organizations have established their own risk assurance/management cells. Where this is not the case they hire external forensic experts.

The primary role of a forensic auditor is to find the frauds, investigate frauds and suspicious financial transaction. Uncovering complex financial transactions and scrutiny of financial misconduct is part of their job. Testifying in a court of law as an expert is also warranted from forensic auditor. Additionally he has to suggest measures to prevent these frauds.

Presently there is a wide scope in the field of forensic audit. This field can provide a satisfying career for new aspirants possessing the required skill and knowledge.

## INSTITUTES HELP IN DEVELOPING FORENSIC AUDITORS

Many institutes are working to produce good forensic auditors to the society. Some such important bodies /institutes are the following:-

The institute of Cost Accountants of India

The Institute of Chartered Accountants of India  
The Institute of Certified Forensic Accountants (ICFA)  
Association of certified Fraud Examiners (CFE)

### Qualification of Forensic Auditor

To become a forensic auditor one should proceed as under:

- ⊙ *Academics:* - Candidates having good academic degree in finance, accounts and audit can enter the field of Forensic.
- ⊙ *Professional Degrees:* - Professional degrees and certificate courses conducted by professional bodies provide additional advantages.
- ⊙ *Work experience:-* Work experience is also required to become a forensic auditor

Different Institutes have different systems for awarding forensic auditor certificates

Subjects are mainly based on financial transactions, Law, Investigation, interview techniques, financial regulation and Fraud preventions.

Many businesses are now running on screen based platforms

### CONCLUSION

Engagement as forensic auditor is specialist kind of work. Forensic Audit requires highly skilled professionals. Those who have specialized knowledge of accounts, law, audit, techniques are able to successfully adopt this field. This field requires regular training and updating of knowledge as frauds are not going to stop and news frauds emerge now and then. **MA**

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## Obituary



The Institute and its Members deeply mourn the demise of CMA Dr. Sreehari Chava, Member of the Institute, who left for heavenly abode on 21<sup>st</sup> September, 2024.

He was one of the rare CMAs holding Ph.d for his thesis on "Analysis of Cost Behaviour of Indian Industry" & D.Litt.in management for the treatise "Financial Performance index". He was also a member of Agriculture Cost Management Board of the Institute and a prime mover of the DACM Course with IGNOU.

He was a professional with over five decades of exposure in Financial & Cost Management of medium scale industrial enterprises- spread over Government for 14 years, Public Sector for 2 years and Private Sector for 34 years. The exposure includes telecommunications, engineering, textiles, cable and conductors, paper, transport, steel, education, sugar and power sectors.

Our heartfelt condolences & respected homage to the departed soul. This is a great loss to the Profession and CMA fraternity at Large.

May his family has the courage and strength to overcome the loss.

## Abstract

*This is first article in a series of case studies in valuation. I shall be covering some illustrative case studies based on actual facts. The idea is to start thinking in completely new way, which is spirit of our nation looking for transparency and corporate governance with new dynamic models of start-ups emerging and intangible assets dominating mergers of this century.*

# VALUATION



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## Start-up valuations

Valuation has become a buzz-word. ICAI is playing very pivotal role and can play role internationally as well.

An appeal to Government of India, MCA & IBBI is now a must by ICAI RVO and all other RVOs is a must to convert Valuation bill 2020 into Valuation Act requested as Deepawali & Navaratri Durgapuja Gift from Government.

As it will be right step towards Governance not just corporate Governance but also Government Governance along with transparency.

Further, in this article, I am covering **start-up valuation**.

Is it old-wine in new bottle?

Decades back our Institute, as I remember 1984 when I became member exactly 4 decades back, we were taught zero-based-budgeting. I remember those theories today and look forward to our professional using ZBB for start-up valuation.

Start-ups also start with ZERO and reach great heights of UNICORNS & DECACORNS

A unicorn startup is a privately-owned startup company that reaches a valuation of over \$1 billion and is not listed on the stock market. The term was coined in 2013 by venture capitalist Aileen Lee to describe the rarity of such successful ventures, comparing them to the mythical unicorn.

A decacorn is a privately-held startup company that has a valuation of over \$10 billion. The term is a combination of the prefix “deca-” (meaning 10) and the word “unicorn”, which refers to a startup valued at \$1 billion or more.

Decacorns are considered to be among the most valuable startups in the world and are often highly disruptive and innovative. They are typically young, high-growth companies that are often in technology & healthcare.

**Hectocorn:** Hectocorns are even more rare and prestigious. These are companies with a valuation of over \$100 billion. This term is used for the absolute giants in the startup world that have not only disrupted markets but have also become household names.

**Mincorn:** This term is less commonly used and is not as standardized as the others. It generally refers to startups with a valuation of less than \$1 billion. Essentially, these are companies that are on their way to potentially becoming unicorns but haven’t reached that milestone yet.

**Soonicorn:** A “Soonicorn” is a term used to describe startups that are likely to become unicorns in the near future. These companies are usually growing rapidly and are attracting significant interest from investors.

(<https://www.linkedin.com/pulse/what-unicorn-decacorn-hectocorn-minicorn-soonicorn-startups-hossain-1n4bf/>)

There are not 1 or 2 but 10 methods of valuation of start-ups. And in my opinion, it is high time both international and Indian valuation standards include them as a separate chapter for same.

Let us see what are those methods

1. Scorecard method
2. Dave Berkus method
3. Risk factor summation method
4. Venture capital method
5. Ownership method
6. First Chicago method
7. Comparable method
8. Discounted cash flow method
9. Cost to duplicate method
10. Book value method

Every CMA should start using those and become

start-up valuation champion. All/most of these start-ups are young, started by youngsters, and look forward to young CMAs who should enter into this Blue Ocean part of profession wherein experts are missing.

And who also other than CMAs who are known to be best analysts and full of creativity and good at doing unstructured work. Forecasting had been the biggest strength of management accountants and this is the best opportunity.

Typically knowing methods like GMV model are still traditionally ruling start-up valuation and more the critics it is creating, more the liking it is creating.

OLA-UBER

SWIGGY-ZOMATO

NETMED-PHARMEASY- TATA:1MG

AIR-BNB-FAB-OYO-ROOMS

PhonePe-PayTM- Gpay-BHIM-Amazonpay

Zepto-Blinkit-Big-basket

Porter-Dunzo-Shipsy

Bookmyshow – with hardly any competitors

Nykaa- Myntra-Ajio

Learning all these valuations is nothing but a treat as to how they evolve

In India with huge population “AGGREGATORS” are becoming major start-up opportunity.


While this article was a teaser the scope of next article is will be for beginners, to understand basic approaches and how to select them in each case. **MA**

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**THE INSTITUTE OF COST ACCOUNTANTS OF INDIA**  
Statutory Body under an Act of Parliament

Behind every successful business decision, there is always a CMA

# ONE STRATEGIC PRODUCT - A GAME CHANGER!

## Abstract

*This case reveals the close relationship between a strategic product and strategic cost management. A product which proves to be a 'driving engine' of the organization, also acts as a 'game changer' who elevates the fortune of all the stakeholders.*

The management of Oriental Auto Limited (OAL - name changed) was somewhat clueless about its future growth. New foreign players in the market seriously impacted its market share. Young customers were very demanding about their choice of a passenger car or a multiutility vehicle. OAL's dealers and distributors too were worried as they had extra employee and asset capacities. Quite a few of them were facing highly geared balance sheets. Reducing volumes put a lot of pressure on them in terms of 'unrecovered capacity cost' and 'fast reducing debt service coverage'. Gradually the organisational work culture too started getting affected. Many young engineers recently resigned for better assurance of career elsewhere. With a considerable reduction in the company's 'economy of scale', the 'cost competitiveness' as a sustained competitive advantage was facing a serious setback. The ultimate impact was visible through the eroding market price of OAL's share. Overall, it was a dim situation which all the stakeholders of the company were facing now.

The management was in search of a strategic product that would serve multiple purposes of "business excellence", both short-term and long-term. OAL was forced to fight on multiple fronts. It knew that the 'renaissance approach' was going through five parallel lenses viz business growth & development, strategic cost management, employee satisfaction & development, technology & process management and financial resource management. The challenge was to search and develop a strategic product that would conduct the expected renaissance and bring back the company to its original rhythm of «organisational effectiveness» needed in a highly competitive market. The product was really expected to be a «game changer» which was supposed to be a generic combination of an elephant and tiger. Like an elephant, it should offer sustenance, stability and size to the business. It should be a provider of a tiger's three basic features - aggression, flexibility and speed.

With rigorous research and innovative pursuits, OAL ultimately found a suitable product. It was a 'new generation multi utility vehicle'. Strategically three goals were identified with this 'game changer' viz reconsolidation



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of the market position, a new - born product brand and a drastic improvisation in organisational effectiveness. The initial performance of this MUV was to serve these three goals with a marginal sacrifice of the "take off ROI". This was because of a substantial increase in the brand - building cost, capex of the new production facility, incremental cost of employee development and cost of renewed margins offered to the dealers.

OAL tactically invited its major vendors to put up their production facilities on its idle land. This could considerably reduce the "component supply cost". It converted a sizable portion of its fixed committed costs into variable discretionary costs by negotiating with the logistic arrangers, service providers and employee unions. The cost of borrowing too was connected with business performance, by prescribing a logical interval between the floor and rates of interest. The brand - building cost was capitalised. Business of this new MUV was treated as an independent "Investment Centre". This could later facilitate an appropriate valuation of this new business.

Soon the new product became a "Power Engine" and a "Lead Brand". First three years of its 'life cycle' experienced a break - even ROI equal to the 'weighted average cost of capital' of the company. Next four years yielded a normal ROI of the MUV business. Last thirteen years offered a "Branded ROI" which a market leader normally earns. OAL gained a "Mother Brand" during this exciting journey which endorsed many new products later. Today this mother brand is proving to be much more powerful than the corporate brand of OAL. It contributes 37% to the "Gross Margin" of the company and absorbs 45% of its common cost. It earns 50% of the total Business ROI, using only 22% of the total investment. Of course, the earning power of this strong brand may flatten soon as its natural fate. OAL will have to either reincarnate this brand or compliment it with new competitive advantage. Before the 'market game' changes, this 'game changer' will have to strategically strengthened. **MA**



# INTERNET OF BEHAVIOUR - THE CRUCIBLE FOR IDEATING DIGITAL TRANSFORMATION OF BUSINESS WITH NEW REVENUE MODELS

## Abstract

*Professor Gote Nyman, a curiosity-driven humanist and innovator, essayed to convey that sensible businessmen cannot make effective strategic business decisions in the future without understanding human behavior. This paper aims to examine his statement in the emerging digitalised world. It tries to simplify how IoTs, spread over the gigantic digital ecosystem, are used by business organisations to generate and extract data, study, analyse and appreciate the revealing behavior of consumers and netizens on various commercial and societal aspects linked to their demographic features.*

## Introduction - Digitalisation Transformation

The digitalisation of processes for operating and service functions of any business does not necessarily ensure its digital transformation. Digitalisation, including robotic process automation (RPA), leads to a more efficient and effective way of conducting the existing business, resulting in cost savings. This is the digital transformation of business processes, not the transformation of the business itself. The common belief is that enabling a bank's customers to conduct banking transactions through the Internet using a computer or a smartphone is equal to a bank's digital transformation. The reality is that they are delivering the age-old banking services using integrated digitalised processes through the internet. All these have helped banks quickly respond to society's latent demand for branchless banking and achieve cost reduction. However, no additional revenue from an entirely new business models has been generated.

On the other hand, eCommerce and QCommerce (please read Q as Quick) operators like Amazon and Zepto have created a new method for conducting the same buying-selling business by bringing sellers and buyers across a broad spectrum of products together on



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one common digitalized platform. They do not own any shops, and Uber and Ola do not own any cars.

These again clarify that the digital transformation of business is not an exclusive technological affair. Technology is undoubtedly the most critical facilitator. However, digital transformation can better be described as the fusion of technology, the internet (please read Web3), technology integration, and organisational culture that facilitates business transformation. It can potentially create entirely new business models with new revenue models.

Integrating the digitalised platform of an eCommerce player with that of the lending platform powered by RPA, of a bank can generate new business opportunities for the bank to sanction instant loans. When a buyer checks out from the eCommerce platform after buying a costly item, e.g., a smartphone, a popped up message asks whether she/he intends to avail of a loan. Her/his affirmative answer will shift the customer to the bank's lending platform to fill out a few details and upload two/three documents. Once done, the loan will be sanctioned, and the payment remitted to the eCommerce player if the buyer is found eligible as per the bank's lending policy. Thus, the bank could create a new business model with additional revenue generation through interest only because it has powered the lending processes with RPA. In the process, the buyer leaves behind many digital marks of her/his characteristic features and buying behavior. These marks are also called 'Digital Dusts', about which the author has written a chapter in his book<sup>1</sup>.

## Objective

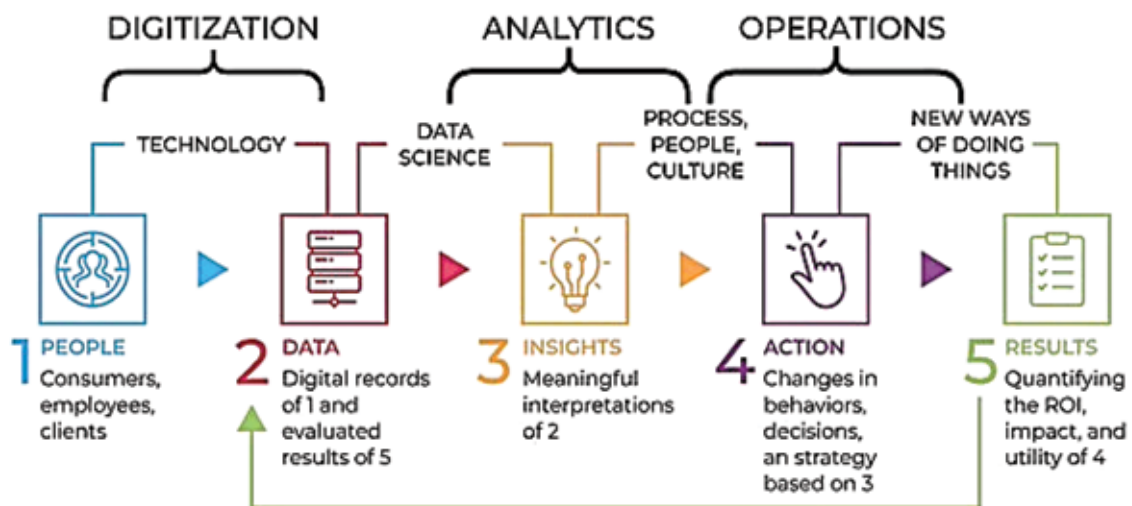
The primary objective of this paper is to simplify how IoTs, spread over the gigantic digital ecosystem, are used by corporations to generate and extract data to study the behavior of consumers and netizens on various commercial and societal aspects. Readers will get more clarity on how insights and inferences from the data analyses help them introduce new business and revenue models. It will also facilitate understanding how IoTs can help study the operating behavior and efficiency of machines, the driving behavior of drivers, etc. These again help business entities to make strategic business decisions for more profit and profitability. Besides references in the Webliography and Bibliography, there are references underneath the three graphics. Readers will get the treasure of knowledge there.

## Data Providing Pattern of Behaviour and Latent Demands

Potential opportunities for generating new business using digitalised processes continue after one transaction, as explained in the Introduction section. Commercial service deliveries by any organisation through the Internet, eCommerce players, car-hailing service

providers like Ola, etc., generate millions of transactional data. Analyses of such data can indicate customers' frequency of using the internet-based facility, choices, and buying behavior linked to their demographic characteristics and homogeneity as groups, payment patterns, loan-taking frequency, etc. Similarly, millions of data generated from the frequency of users visiting social media platforms, patterns of text and picture-based content postings, responses to others' posts, etc., indicate many behavioral and societal features of users' characteristics.

Such behavioral understanding is also drawn from platforms not meant for commercial or financial transactions and social media platforms. One case in point is the 'My Gate' software application used by large residential complexes. Initially, it started to alert residents about visitors, delivery agents, daily domestic help, etc. Then, it enabled capturing requests for maintenance work at flats. Commercial organisations now use this app to advertise daily consumable products, new housing projects, etc. Decisions for such advertisements are based on insights drawn from analyses of data captured by the 'My Gate' APP using AI, Machine Learning, and Deep Learning tools.



Source: <https://twitter.com/antgrasso/status/1640655355767078914/photo/1>

The above graphic explains the entire process of extracting from transactional/usage data to meaningful conclusions, inferences, and insights for business decision-making. The process is iterative, as indicated by the reverse arrow from step 5 to 2. Corporates make business-specific strategic decisions, e.g., selecting digital Apps through which advertisements are to be pushed, changes in the specifications of products, etc. In the second round, the post-decision transactional data are also analysed to assess the decision's impact

and draw more insights.

Essentially, what is being analysed is the impact on customers' buying behavior. If several such corrective actions do not increase sales, one must appreciate that consumers are looking for a better product or a new mode of selling and buying. Such types of analyses only helped to ideate qCommerce. Customers have happily shifted from eCommerce. Even some eCommerce players are opening new business models that open up another revenue model with faster business.

Again, when such data are further analysed using statistical and visualisation tools, the platform owner can generate many trends and patterns about the users. They can also develop a general understanding from an overall societal and commercial perspective to exploit the same for various new business models/opportunities by selling the findings or collaborating to start new ventures with business entities. Organizations like the house of Zara have already opened their e-commerce platforms in addition to physical shops.

Intelligent analyses of such data using AI tools like Neural Networks and Generative AI can also generate society's latent demands that lie unfulfilled at a particular time. For example, suppose there is a perceptible trend of users posting pictures and videos on Facebook or Instagram with comments on the unavailability or insufficiency of certain facilities at specific tourist locations, e.g., decent hotel rooms or surface transport. In that case, one gets an indication about potential locations for new business.

### IoT-Enabled Data Collection

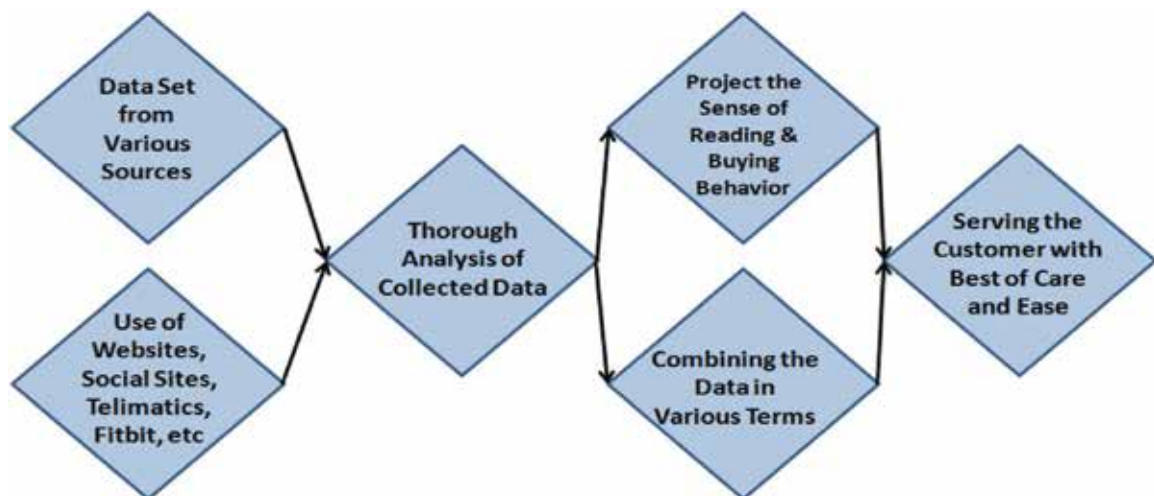
Human beings use a device to access and participate in a computing system and cyber network through the world wide web (www). Such a device can be a personal computer, tablet, handheld phone, or wearable like a smartwatch. In the contemporary environment, a person can join only through voice by advising digital assistants like Alexa and Siri. Each such device is called an Internet of Things (IoT). Such IoTs are the sources from which the computing platforms/systems of various apps like mobile banking apps of banks and non-financial apps like 'My Gate' collect users' data.

Even wearable devices like smartwatches linked to smartphones are primary IoTs, while the phone is

the secondary. They capture data, among other items, for daily physical exercises and send it to the user's smartphone. The App, in turn, allows the provider to pick the data for subsequent analysis and commercial exploitation. All primary and secondary digital devices are the Internet of Things or IoT, which function as crucibles for generating ideas for new products and/or business and revenue models.

IoTs are also used in industrial and agricultural activities. Machines are fitted with IoTs containing robust sensors and cameras to capture and send to connected computers the machine's performance data and behavior related to input and output, rejections, breakdowns, consumption of utilities like electricity, etc. Plant managers gain insights and inferences drawn from analyses of such data for meaningful use in plant management, initiating maintenance actions, fixing specifications for materials utility usage, etc. Finally, each machine's operating behavior and performance can also be revealed by data analyses and visualisation.

In the surface transport sector, insurance premiums are being proposed to be dynamically fixed by the driver's driving behavior and the routes adopted on different days. Cars can be fitted with specially designed IoTs to collect the related data and provide daily data to the insurer's computing systems. Even the 'Fastag' straps pasted on the vehicle's windshield help camera-fitted IoTs fitted at the Toll lane cross pass without payment, and the linked banks get intimation for collecting money from the owner's account. Subsequent analyses of all such data help insurers strategically decide insurance policies and premium pricing terms, manage customer relationships, and provide care services (CRM&CS). The following is a typical flow diagram that can be considered for this purpose:



Source: [https://ars.els-cdn.com/content/image/1-s2.0-S2666351121000437-gr4\\_lrg.jpg](https://ars.els-cdn.com/content/image/1-s2.0-S2666351121000437-gr4_lrg.jpg)

Drones can be fitted with cameras and edge computers and powered by the GPS App to send pictures of crops' physical conditions linked to the geophysical location, the quantum of insecticides and pesticides sprinkled, and crop conditions after such treatment. The concerned business entities can use inferences drawn by analyses of such data to make several strategic decisions related to crop management, crop insurance management, pesticide quality and delivery, and so on. Such drones are also considered as IoTs.

### IoT Influenced CMC

Computer-mediated communication, or CMC, takes place when two computer users communicate with each other through computers. It can be written or verbal. The latter takes place in virtual meetings and conferences. Readers might have observed that off-late, various professional and social media Apps like LinkedIn, Instagram, Facebook, etc., prompt what is to be written against pasted pictures or replies to be given against other persons' posts. LinkedIn even provides an AI-based drafting facility. Such Apps have opened up business opportunities for AI tool providers to provide embedded AI Tools.

These embedded AI tools influence, guide, and direct users to write what the App providers want, which can create future business opportunities. Again, analyses of the narratives finally posted by the users indicate the behavior of the users and collectively all users in terms being influenced or not. All these can collectively be called Computer-Mediated Communication or CMC.

Linda K. Kaye et al. (December 2022)<sup>2</sup>, concluded that *"In an Internet-enabled era, we are citizens in a vast array of different online spaces, and the behaviours afforded to these spaces are becoming increasingly complex. Within the study of computer-mediated communication (CMC), there is an assumption that behaviour occurring in CMC is equivalent to that depicted in the communicated message. However, we note that this is not always the case."* The objective of their paper was to clarify *"different typologies of online behaviour."*

### IoT Influenced Business

Many readers and authors, even five years before, have taken travel insurance before foreign travel by filling up physical forms through an agent. The same is no longer required courtesy of the 'Ola' App on the Smart Phone. Once a car is booked to travel to the airport, the app will prompt whether the user is interested in buying travel insurance. Ola also provides a facility for availing

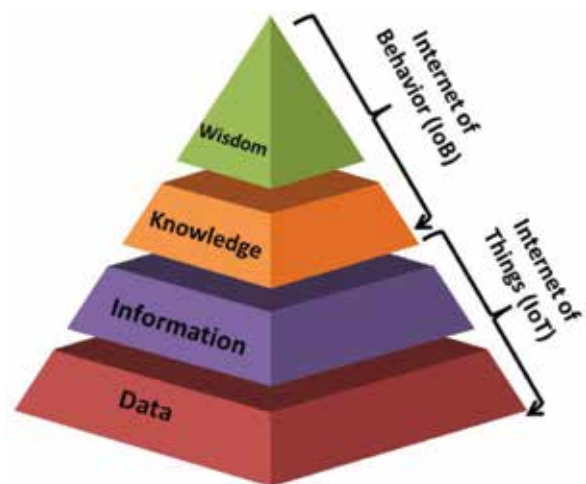
of credit facility provided based on the pattern of use.

The benefit to the customer is that even if she/he readily does not have money in hand or the bank for payment using UPI, she can avail herself of Ola and pay after a few days. Ola charges Rs. 100/- as a fee even if the payment is delayed by one day on a credit value of Rs. 2,500/-. They also have a 'Cash Wallet' model where riders can deposit cash instead of carrying physical cash. This model has lost its utility after the proliferation of UPI.

FinTech terminologies christen the above facilities to customers as 'Embedded Finance' and 'Embedded Insurance.' Thus, Ola is operating one new business model besides car-hailing services by selling travel insurance policies on behalf of insurers and earning commissions. By giving credit facilities to customers for a few days, Ola does not lose anything because it pays drivers and its other service vendors after some days. Moreover, this might have also increased their sales.

### IoB – The Crucible for New Business and Revenue Models

The above discourse essentially deals with understanding users' behavior marks, which have been left on the internet through a wide array of computer applications and Apps operated using smartphones. Thus, the internet contains gigantic exhibits of human beings' online behavior pocketed in many social platforms and apps used by customers and recipients/beneficiaries of services provided by commercial or governmental organisations. Business entities use all these as crucibles containing enormous potential for crafting new business models and revenue models.



Source: <https://www.sciencedirect.com/science/article/pii/S2666351121000437>

The above pyramidal graphic delineates the hierarchical dimensions of the Internet of Behaviour (IoB), from data to providing wisdom to business leaders to take forward their businesses with sustainable prosperity. IOTDesignPro<sup>3</sup> has defined IOB as “.... a source connecting an electric device to the Internet, and .... is the extension of IoT that reveals significant information about our behavior. It is the interconnection of devices that provides vast data and valuable insights into user experience, search experience optimization, behavior, interests, and preferences”. Gartner has defined IoB in a little more advanced way, adding location tracking and facial recognition into it. and is a combination of technologies that focuses on “tracking location and facial recognition of the people, connecting the data, and mapping them to behavioral events”.

### Conclusion

The author will consider his efforts in writing this paper to have met some success if this paper helps business entities achieve the goals narrated in the Objective section of this paper. The author will be happy if CMAs feel encouraged and appreciate the necessity of acquiring the knowledge and skills of data scientists so that they can participate in the strategic decision-making process of business entities in the emerging digital era. **MA**

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<https://www.sciencedirect.com/science/article/pii/S0747563222002655#:~:text=A%20taxonomy%20of%20online%20behaviours&text=Online%2Dexclusive%20behaviour%20%2D%20behaviours%20which,%2C%20online%20purchasing%2C%20hacking>
3. <https://iotdesignpro.com/articles/what-is-internet-of-behavior-iob>

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Referencing is a crucial aspect of writing a journal article to avoid plagiarism. ‘Plagiarism’ refers to the act of using someone else’s work or ideas without giving proper credit to the original source. To avoid plagiarism in your writing, you must properly reference all the sources that you use in your research.

- ⊙ **Choose a referencing style:** There are many different referencing styles, such as APA, MLA, Chicago, and Harvard, each with its own specific format and rules. Choose the style that is most appropriate for your field and stick to it consistently throughout your paper.
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# AI-POWERED TRANSFORMATIVE LEARNING: A LEARNING ODYSSEY

## Abstract

*The advent of AI in education marks a paradigm shift, transforming the learning landscape into a "Learning Odyssey", a journey of intellectual exploration that unlocks transformative learning experiences. AI makes learning more personal, efficient and effective, automating administrative tasks to free up teachers for teaching and facilitating immersive experiences. AI-driven platforms use machine learning, natural language processing and data analytics to create adaptive pathways, real-time feedback, and intelligent tutoring systems. While AI brings benefits like improved student engagement, knowledge retention, and accessibility, it also raises concerns about data privacy, bias, and fairness. As AI advances, it will revolutionize education, making high-quality education more accessible and impactful. Ultimately, it underscores the importance of blending AI's power with a passionate teacher's gentle art of teaching with inspiration and personal touch to unlock true transformative learning.*

## INTRODUCTION

In this hubris of technological ascendancy, artificial intelligence (AI) stands at the fore of innovation, reshaping the contours of human progress. From a pedagogical perspective, AI is the transforming spark igniting a boundless journey of intellectual exploration and growth, propelling learners into an expanse of unlimited, uncharted possibilities—a growth curve that is unprecedented. AI indeed turns the learning experience into a journey of transformative learning, a 'learning odyssey', literally speaking.

The deeper one goes into this odyssey, the more AI-driven insights and analytics become like a treasure map, uncovering new opportunities and unlocking secrets of human learning and growth.



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## ROLE OF AI IN TRANSFORMING LEARNING

Artificial intelligence is making the learning process more personal, efficient and effective. AI-driven learning platforms and tools are using machine learning, natural language processing, and data analytics to fashion adaptive learning pathways, real-time feedback and intelligent tutoring systems. AI has also been institutionalized to automate administrative tasks, which in turn enables an educator to concentrate on what is most important: teaching and mentoring. Moreover, AI has started to facilitate new and more immersive and interactive learning experiences that include virtual and augmented reality to simulate the real world and make learning interesting. As AI continues to advance, it is poised to transform the learning landscape, making high-quality education more accessible, affordable and impactful for

learners worldwide.

### REVOLUTIONIZING THE LEARNING PROCESS

Shifting the paradigm of traditional learning, AI is really revolutionizing the way we digest, propagate and even interact with educational content. Learning platforms with AI at the helm make use of machine learning algorithms to deep-scan learner behavior and pinpoint knowledge deficiencies in the best possible ways for the purpose of fine-tuning learning material. Personalized support and guidance for students are delivered by AI-powered chatbots and virtual assistants, while natural language processing is focused on creating more engaging and immersive content. In addition, AI is making the process of grading and feedback simpler, freeing up the teachers from most of the time-consuming tasks so they can turn their attention to more high-touch, human-centered teaching practices that inspire a level of understanding and connection. AI, ultimately, makes learning activity much more dynamic, adaptive, and efficient.

### TRANSFORMATIVE BENEFITS OF AI-MEDIATED LEARNING

AI is bringing a lot of transformative benefits to learning, the biggest one being the ability to create personalized and effective learning experiences. AI tailors the learning process by analyzing each student's data and adjusting content in real-time to match his or her needs, abilities, and learning styles. This approach not only fills in knowledge gaps but also boosts student engagement and motivation, leading to better academic results and a truly transformed learning experience. Additionally, AI helps to streamline resources, automatically assigns tasks, and reduces the administrative burden, making the learning process smoother, more efficient, and cost-effective. Additional advantages include improved accessibility, scalability and flexibility, enabling learners to access quality educational content at their convenience, anytime, and from anywhere. Ultimately, with the help of AI, educators can create more engaging, inclusive, and effective learning experiences that set students up for success in today's digital age and beyond.

### APPLICATIONS OF AI IN LEARNING

AI is really transforming the way we learn, bringing in a whole new range of possibilities. For instance, AI can take over tasks like grading and giving feedback, making it easier for teachers to focus on their students. It also powers smart tutoring systems that adjust to each individual's learning style, providing a more customized experience. Besides, there are AI-powered chatbots and

virtual assistants that offer help and advice just when you need it, while machine learning identifies areas where you might need some extra practice and recommends what to do next.

But AI doesn't stop there it is also making learning more fun and engaging through virtual reality, augmented reality and interactive simulations and games. These tools create immersive environments that bring subjects to life. Further AI is making learning materials more accessible to everyone, including those with disabilities, through tools like text-to-speech and speech-to-text systems. All these advancements mean teachers can better understand how their students are doing, spot where they might need help and make decisions that improve learning for everyone. AI is thus helping to create a future where education is more personalized, engaging, and inclusive.

### TRANSFORMATIVE IMPACT OF AI ON LEARNING

The seamless integration of AI in education is opening up a new era of change, marked by groundbreaking innovations and remarkable progress, ultimately reshaping how we learn into a rich landscape full of endless possibilities. AI's impact on learning brings three major benefits: better student engagement, improved knowledge retention and greater accessibility. By creating personalized learning experiences, AI is boosting student motivation and involvement, leading to better academic results. Additionally, AI-powered learning helps students grasp complex topics more effectively, making it easier for them to understand and remember key concepts. Furthermore, AI is making education more accessible by providing crucial support to students with disabilities, those in remote or underserved areas and those who need extra help. AI also allows teachers to focus on what they do best teaching and mentoring by taking over administrative tasks, offering valuable insights and enhancing their ability to teach. As AI continues to grow, it will further change the learning environment, making education more adaptable, flexible, and centered around the needs of each individual.

### LIMITATIONS AND CHALLENGES

While AI-driven learning is bringing about a major transformation in education, it comes with its fair share of challenges and limitations that need careful attention. One of the major concerns is data privacy: AI systems require vast personal data from learners, which raises serious questions about security, consent and potential for misuse. Additionally, if AI decision-making is based on biased data or developed with a narrow perspective, it can reinforce

existing inequalities, leading to unfair outcomes. Another key challenge is the need for extensive training and support for educators to effectively incorporate AI into teaching practices, which would require significant investment in professional development. There are also equity issues to consider, as digital divide can leave many students behind, without access to devices, internet or the skills to use AI-powered tools, making it even harder for them to succeed. Finally, an over-reliance on AI could lead to a decline in critical thinking and human interaction skills, which are essential for holistic human development. These challenges need to be addressed promptly to ensure that AI-driven learning is not only effective but also inclusive and beneficial for all learners.

### FUTURE OF AI-DRIVEN LEARNING

The future of AI-driven learning holds incredible promise, set to transform education with groundbreaking advancements. Technologies like augmented reality, blockchain and Internet of Things (IoT) are expected to blend seamlessly with AI-driven learning platforms, which can create engaging, secure, and interactive educational experiences that captivate and inspire. We might soon see AI-powered systems that adapt in real time to meet each learner's needs, tools that automate content creation to lighten teachers' workloads, and assessment mechanisms that offer instant feedback and guidance. AI could also address important issues like learning analytics, student mental health and accessibility, leading to more personalized, effective, and inclusive education. As AI continues to advance, we can look forward to new applications and innovations that will transform the learning landscape in a manner that redefines the future of education with uncharted possibilities.

### A WORD OF CAUTION

As we stand at the threshold of an AI-fueled revolution, an important question echoes through the halls of learning: Can a machine, no matter how advanced, truly replace the life-changing power of a human touch or the dedication of a committed teacher? Can artificial intelligence-driven learning ever ignite the flames of passion, creativity, or heart like a gifted educator does? These questions remain a million-dollar mystery. While artificial intelligence may instruct, it is the gentle guidance of a teacher that truly imparts the gift of knowledge, nurturing our minds and nourishing our souls. We may work with the mighty power of AI, but we must never forget the radiant light

AI indeed turns the learning experience into a journey of transformative learning, a 'learning odyssey', literally speaking

of a teacher's inspiration. In the sacred union between the human heart and artificial intelligence, the true potential of transformative learning may be unlocked.

### CONCLUSION

The AI-Powered learning odyssey is a transformative journey, fueled by the vast and untapped transformative potential of AI-driven learning, poised to revolutionize the education landscape. As we navigate this odyssey, we see how AI can boost student engagement, improve knowledge retention and make education more accessible and inclusive. With its potential to personalize, optimize and democratize education, AI is empowering learners, educators, and institutions to redefine the frontiers of knowledge and skills. But as we embrace this powerful tool, we also need to tackle important issues like data privacy, bias, and fairness to ensure everyone benefits from these advancements. As we gaze into the horizon of tomorrow, one truth stands tall – the AI-driven learning odyssey will forever reshape education, driving us to adapt, innovate, and evolve, and unlocking transformative growth at every turn. And yet, in the midst of this technological revolution, let us not forget that the spark of transformative learning is ignited not by machines alone, but by the tender flame of a committed teacher's love, inspiration, and personal touch, which, when harmoniously blended with AI's power, unlocks the full potential of transformative learning, making the Learning Odyssey a journey of unparalleled growth and discovery. **IMA**

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# REDUCING LITIGATION COST IN CORPORATES THROUGH ADR: ISSUES AND SUGGESTIONS

## Abstract

*Commercial disputes between parties are inevitable and increasing with complexity of business. However, intelligent, smart and thoughtful strategies can be taken to reduce disputes, if not avoid the disputes. This article suggests a few actions to be taken and a few issues to be addressed to reduce commercial disputes. However, where disputes have already arisen, the logical sequence should be to settle the dispute. The article suggests ways and means of settling such disputes with timelines and seamless means through ADR, which has now been accepted universally as preferred mode of dispute resolution. However, each ADR mode has its advantages and disadvantages. Reducing dispute and early settlement of diffracts shall drastically reduce direct and indirect of the company.*

## INTRODUCTION

Litigation is inevitable in society. The evolution of society evolved the rights and liabilities, claims and counter claims and therefore, litigation. In good old days, there were disputes which were settled by leaders of the group, thereafter the King and in course of time judiciary took shape. Most people confuse dispute with disagreement and difference of opinion. Dispute is a situation when one party claims something from the other, which the other party ignores, rejects, disagrees or having agreed, fails to take action within reasonable time.

Logical sequence of dispute is to settle a dispute. Unfortunately, we live in a society where people opt for illogical sequence than logical sequence for reasons like ego, “teach a lesson”, “see you in court” or establishing that he is right. This article has listed out issues where corporates do not want to settle and also the reasons for settling disputes. Before that, let us go to the grass root and find out few reasons of corporate commercial disputes which lead to litigation. Dispute occurs mainly due to



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the following reasons:

- i. Improper drafting of commercial contracts and legal documents.
- ii. Lack of domain knowledge by the dealing officers on the subject of the contract.
- iii. Lack of specific legal knowledge.
- iv. No proper due diligence about the other party or the deal.
- v. Concluding deals in haste.
- vi. Immediate commercial gain.
- vii. Casual approach in creating business relations.
- viii. Aggressiveness by one or both the parties.
- ix. Overconfidence in self; totally believing the other party.
- x. *Mala fide intention ab initio* (since the beginning).
- xi. Poor business/ corporate vision.

Some reasons for corporates not solving disputes are:

- i. Outsider’s claim considered being irrational and therefore not settled; the party likely to be benefitted keeps quiet.
- ii. Intentional: party liable avoids/ defers liability.
- iii. Time consuming.
- iv. To avoid cost.
- v. Diversion of business attention; more attention is given to legal issues.
- vi. Wastage of manpower resources- people are engaged to settle litigation.

- vii. Not happened during the tenure of the present CEO. The CEO lacks emotional and professional commitment to settle the issue.
- viii. Casual approach in dispute settlement.
- ix. “Wait and see” approach.
- x. Current financial figures would be affected - so let things remain as it is.
- xi. Noncurrent contracts ignored/ monitored; contracts which are not active remain unnoticed.

**BENEFITS OF REDUCING LITIGATION**

A company having less litigation will always be better placed than a company with more litigation and pending cases. No shareholder is happy with a company bogged down with litigations.

- i. Reducing the litigation pending will enable the company to focus on business, diversification and growth.
- ii. Smooth sailing for mergers/amalgamation/JVs/ IPOs.
- iii. Increase receivables in the long run.
- iv. Avoid blockage of other projects.
- v. Reduce litigation costs in the long run, thereby increasing profit, in the long run.
- vi. Reduce manpower resources and time.
- vii. Facilitates smooth management (non-generational)
- viii. Seamless next generation takeover. (in case of family business)
- ix. Enhances corporate personality/ emotional/ status.

**WHAT IS LITIGATION COST?**

Cost of litigation with parties may include any cost of initiating and maintaining disputes with following entities:

- i. Employees.
- ii. Operational creditors.
- iii. Financial creditors.
- iv. Business associates.
- v. Govt.

**TYPES OF LEGAL EXPENDITURE**

Depending on the nature, size, age of the company, legal expenditure will be under the following heads:

- i. Consultancy/ opinion from legal experts.
- ii. Compliance of law: directly or through agents/ consultants.
- iii. Appearance fees of lawyers.
- iv. Govt. revenue/ duty on legal documentation.
- v. Filing fees to Govt.

Therefore, all legal costs cannot be grouped under litigation costs. A company may have legal costs even with zero pending litigation.

When a company decides to litigate an issue there is also a few one-time costs. A comparison between on-going or continuing legal cost and legal settlement cost is worth noting:

Sl. No.	Regular litigation cost	Settlement
1	Continual.	One time.
2	Keeps litigation live.	Closes the litigation.
3	Parties are against each other and continue to blame each other, till court decides.	Parties want to end the dispute knowing each other’s negative and positive aspects
4	Aggressive- non mutuality.	Non-aggressive- mutuality.
5	Good for the company if the case is strong in its favour.	Good for the company even if the case is not strong in its favour.
6	Not advisable, if early settlement is required for any reason, may be blocking other projects.	Advisable, when early settlement is required.

However, the litigant company has to pay some price, which may not be accounted for at face value since they remain latent.

- i. *Opportunity cost:* Time and money spent on litigation could have been better utilized.
- ii. *Reputational loss:* Name of the company appearing frequently at courts do not augur well for the company.
- iii. *Time lost by non-legal team:* If commercial executives are with the legal team that results in loss of their in time and efforts in core business.

**SUGGESTIONS TO REDUCE LITIGATION COST.**

A company cannot continue litigation unless it has robust and regular earnings. They cannot discontinue cases and surrender their rights. However, some actions may be taken by the company to reduce legal cost in the long run. Some of the actions suggested are:

- i. Updating legal knowledge of the commercial executives.
- ii. Vetting by legal department of documents or transactions which may lead to legal complication
- iii. Explain legal implications to operational

- executives.
- iv. Legal audit
- v. Withdraw cases which have no material significance.
- vi. Go for one-time settlement (OTS)
- vii. Go for Alternate Dispute Resolution (ADR)

**FORMS OF ADR**

<b>Negotiation</b>	Mutual discussion by the parties to dispute.	Most suitable and popular mechanism worldwide
<b>Mediation</b>	Mutual discussion in the presence of a third person with a very limited involvement.	Not much popular; personality of the mediator important
<b>Conciliation</b>	Mutual discussion in the presence of a third person with a limited involvement but more involvement than mediator.	Not much popular; personality and domain knowledge of the conciliator important. Popular mechanism in labour disputes
<b>Arbitration</b>	Delegation by third party to a person(s) to decide on the dispute, acceptable to both.	Gaining popularity in business

Mandate for arbitration is specifically mentioned in the following Acts.

Civil Procedure Code	Section 89	Court has power to refer the dispute for mediation/ conciliation
Companies Act, 2013	Section 442	Parties to the proceedings under Tribunal may apply for reference to mediation/ conciliation to CG. CG to appoint, CG has <i>suo moto</i> power to refer.
Commercial Courts Act, 2015	Section 12A	Suit shall not be instituted unless the plaintiff exhausts the remedy of reinstatement of mediation, unless interim relief is sought for.
RERA	Section 32(g)(2)	Authority can recommend to Govt. for amicable conciliation between the customer and the promoter.
Consumer Protection Act	<i>Afcons International vs Varkey Construction</i> (2010)	SC ruled that consumer dispute can also be mediated

MSME Act.	Section 18	MSME Council may refer to arbitration
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**PRIMA FACIE COMPARISON OF VARIOUS MODES OF ADR**

	<b>Litigation</b>	<b>Arbitration</b>	<b>Mediation And Conciliation</b>
Nature	Aggrieved party approaches court; adversarial.	Impartial, judgement by third parties appointed by the parties	Impartial third-party intervention to make the parties go for settlement
Process	Formal/ lengthy	Formal/not lengthy	Informal
Venue	Court	Determined by parties	Determined by parties
Role	Judge	Judge	Facilitator
Ultimate decision by	Judge	Arbitrator	Parties
Basis of proceeding	Facts, evidence, law	Facts, evidence, law	Rights, interests, intention of the parties.

**ADVANTAGES AND DISADVANTAGES OF ADR**

<b>Advantages</b>	<b>Disadvantages</b>
Continuity of the role of the arbitrator, till disposal of the case.	Judges may change.
Involvement of expert/domain specific person,	Arbitrator may not understand the problem
Flexibility of date, venue.	Character of the arbitrator/ conciliator
Freedom in procedure	Withdrawal of stand by any party
No technicalities of court procedure	Arbitrator may not have adequate domain knowledge, which may affect the judgement
Less time and convenience of time	No appeal
Sustainable outcome, since parties want to settle: no adversarial attitude towards each other.	Parties/ arbitrator may withdraw.

## CONCLUSION

Good performing companies are those which have fewer disputes and are eager and serious about settlement of disputes. With ADR, capturing a larger space in dispute settlement mechanism, parties are not dependent on judiciary, which is already bogged down with huge pending litigations. The Govt. as well as the judiciary is promoting ADR. Enactment of Mediation Act, 2023 is a testimony, though it is yet to come into force. **MA**

Most people confuse  
dispute with disagreement  
and difference of opinion

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**ICMAI**  
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Statutory Body under an Act of Parliament



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### CATEGORY

**A**

Class VIII - X

**B**

Class XI - XII /  
Pursuing CMA Foundation / CAT

**C**

Pursuing Graduation /  
CMA Inter / CMA Final

### REGISTRATION STARTS



16<sup>th</sup> August 2024



**NYCO 2024 ONLINE EXAM**

Sunday, 17<sup>th</sup> November 2024



**REGISTRATION FEE: ₹50**

1<sup>st</sup> Rank - ₹1,00,000

2<sup>nd</sup> Rank - ₹50,000

3<sup>rd</sup> Rank - ₹20,000

(Under each category)

Consolation Prize of ₹500 for  
Next 100 Participants from each category

*Digital Certificate of Participation for All*

Registration Closes: 03<sup>rd</sup> November, 2024

ICMAI invites students from all over India to register for the CMA National Youth Commerce Olympiad (NYCO 2024). The aim of organizing NYCO 2024 is to unearth hidden Management Accounting talents and ignite a deep appreciation for the subject among young minds.



**CMA Bibhuti Bhusan Nayak**  
President, ICMAI



**CMA TCA Srinivasa Prasad**  
Vice President, ICMAI



**CMA Vinayranjan P.**  
Chairman - TEF and CC &  
Placement Committee, ICMAI



**CMA Rajendra Singh Bhati**  
Chairman - Committee for  
Accounting Technicians & PR, ICMAI



<https://icmai.in/nyco/>

# CAPITAL MARKETS IN INDIA VS GLOBAL MARKETS IN 2024 AND WAY FORWARD

## Abstract

*Capital markets are vital to every economy, aiding in the mobilization of resources and fostering economic growth. They serve as a platform for businesses to raise funds, for investors to park their capital and for Governments to issue bonds. This comprehensive comparison will explore the evolution of India's capital markets against the backdrop of global capital markets, emphasizing key factors such as structure, regulation, growth, and investment behaviour.*



**CMA Kamal Varandani**

Management Consultant

New Delhi

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## SIZE AND MARKET CAPITALIZATION

### India's Market Size

India's stock markets have experienced a significant increase, with the BSE's market capitalization increasing from \$140 billion in the early 2000s to over \$3 trillion in 2023. The NSE, known for its high liquidity and large volumes, has also made India one of the top ten stock markets globally in terms of capitalization. Despite this, India's market is still comparatively small in comparison to giants such as the U.S. and China.

### Global Market Capitalization

Global markets, which are dominated by the U.S., have a market capitalization of over \$100 trillion. The U.S. alone accounts for around \$45 trillion of this, making it the world leader in terms of financial market size. European markets, including the U.K., France, and Germany, collectively contribute significantly but have been dwarfed by the rapid rise of China's Shanghai and Hong Kong exchanges, which together command over \$10 trillion in market cap.

## REGULATORY FRAMEWORK

### Regulation in India

Established in 1992, the Securities and Exchange Board of India (SEBI) oversees India's capital markets. SEBI has played a crucial role in ensuring

## OVERVIEW OF CAPITAL MARKETS: INDIA AND GLOBAL

### Capital Markets - India

Though India's capital markets are relatively new compared to global giants like the U.S. and the U.K., they have experienced a change since economic liberalization in the early 1990s. The two major Stock Exchanges—Bombay Stock Exchange (BSE) and National Stock Exchange (NSE)—form the backbone of India's capital markets. The BSE is one of the oldest Stock Exchanges in the world, established in 1875, while the NSE, launched in 1994, revolutionized trading with its automated, electronic platform.

### Capital Markets - Global

Global capital markets include Stock Exchanges, bond markets and derivatives markets that spread across major financial hubs, such as the U.S., Europe and emerging markets in Asia. The U.S. Stock Exchanges, primarily the New York Stock Exchange (NYSE) and Nasdaq, dominate in terms of market capitalization and liquidity. European markets such as the London Stock Exchange (LSE) and Deutsche Börse are significant, though they are challenged by the rise of Asian markets, particularly in Hong Kong and Shanghai.

market transparency, protecting investor interests, and mitigating systemic risks. Key reforms introduced by SEBI include mandating dematerialization of shares, streamlining the Initial Public Offering (IPO) process, and implementing stringent insider trading regulations. Moreover, SEBI has encouraged corporate governance reforms to enhance accountability and transparency among listed companies.

### Regulation in Global Markets

Globally, capital markets are regulated by a combination of government bodies and independent agencies. Capital markets are governed by the Securities and Exchange Commission (SEC) in the U.S., which ensures compliance with the Securities Act of 1933 and the Securities Exchange Act of 1934. In Europe, financial markets are regulated by institutions like the Financial Conduct Authority (FCA) in the U.K. and the European Securities and Markets Authority (ESMA). Regulations tend to be more stringent in developed markets, focusing heavily on corporate disclosures, anti-money laundering and data protection. Emerging markets, while modernizing regulations, still lag in enforcement and transparency.

## STRUCTURE AND PRODUCTS

### Indian Market Structure

India's capital markets have evolved to provide a diverse selection of products, such as equities, bonds, derivatives, and mutual funds. Equities dominate in terms of participation and liquidity. India has also developed a well-structured corporate bond market, though it remains underdeveloped compared to the equity market. The derivatives market, particularly in futures and options, is highly active, with the NSE being one of the largest derivatives exchanges globally.

### Global Market Structure

Global capital markets are well-diversified, offering a wide range of products that include equities, corporate and government bonds, foreign exchange (forex), commodities, and derivatives. The U.S. leads in equity market innovation, with sophisticated instruments like exchange-traded funds (ETFs), hedge funds and real estate investment trusts (REITs). Europe and Asia have robust bond markets, with high liquidity in both sovereign and corporate bonds.

In recent years, alternative investments such as private equity, venture capital, and crypto currency

have gained popularity globally, though these markets remain relatively smaller in India due to regulatory concerns and limited adoption.

## GROWTH AND PERFORMANCE

### Growth in India's Capital Markets

Over the past two decades, India's capital markets have experienced a consistent increase, aided by economic reforms, foreign investment inflows and a rapidly growing middle class. The Indian stock market, particularly the NSE, has been one of the best performers globally, with indices like the Nifty 50 and BSE Sensex delivering annual returns in the range of 10-12% over the long term. The rise of retail participation, aided by the digital revolution, has also been a significant factor in market growth.

India's capital markets are still susceptible to global volatility, as evidenced by the 2008 financial crisis and COVID-19 pandemic. However, following the pandemic, the recovery has been quick, with indices reaching record highs and being bolstered by government stimulus and a surge in retail and foreign institutional participation.

### Global Market Growth

Global capital markets have expanded exponentially, particularly in the U.S. and China. The U.S. market's dominance is supported by strong institutional participation, innovation and deep liquidity. Despite market corrections, such as the 2008 financial crisis and the 2020 COVID-19 crash, U.S. markets have consistently outperformed over the long term.

Asian markets, particularly in China and Hong Kong, have grown rapidly, driven by robust economic growth and the globalization of trade. Even though European markets are still significant, they have experienced slower growth due to economic stagnation and political uncertainties like Brexit.

## FOREIGN INVESTMENT AND CAPITAL FLOWS

### Foreign Investment in India

Foreign portfolio investment (FPI) and foreign direct investment (FDI) have all made India a major destination. FPI, primarily through foreign institutional investors (FIIs), has played a pivotal role in India's capital markets. FIIs are attracted to India's growth potential, favourable demographics, and improving ease of doing business. However, FIIs have also been

quick to withdraw during times of volatility, leading to short-term instability.

FDI flows have also surged, especially in sectors like technology, e-commerce, and telecommunications. India's liberalized FDI policies and government incentives have made it one of the top FDI recipients globally.

### Global Capital Flows

Globally, the U.S. remains the top destination for both FDI and portfolio investment, thanks to its mature capital markets, strong corporate governance and stable economic environment. European markets attract significant FDI but have seen fluctuations due to geopolitical tensions and regulatory changes. China's capital markets, while growing, remain restricted due to stringent Government control, though gradual liberalization has made them increasingly attractive to foreign investors.

## INVESTMENT BEHAVIOUR AND PARTICIPATION

### Investor Behaviour in India

Recent years have seen significant changes in investment behaviour in India. Gold and real estate were traditionally preferred by Indian households as safe investments, as equities were considered too risky. However, the rise of digital platforms, improved financial literacy, and regulatory reforms have increased retail participation in stock markets. Mutual funds, particularly via the systematic investment plan (SIP) route, have become popular among middle-class investors looking for long-term wealth creation.

### Global Investment Behaviour

In contrast, global markets, especially in the U.S., have a long history of equity investment, with a larger proportion of household wealth tied to capital markets. Institutional investors, including pension funds, sovereign wealth funds, and hedge funds, dominate in developed markets, making up a significant portion of market activity. The trend toward passive investing through ETFs and index funds has also gained traction globally, reducing the cost of participation for retail investors.

## CHALLENGES AND OPPORTUNITIES

### Challenges and Risks in India

India's capital markets are facing several challenges

despite their impressive progress:

- ⦿ **Market Depth:** Despite strong growth, the Indian market lacks the depth of developed markets, with limited participation in the corporate bond market.
- ⦿ **Volatility:** Global factors like U.S. interest rate hikes and geopolitical tensions can lead to significant short-term volatility.
- ⦿ **Regulatory Issues:** While SEBI has done a commendable job, issues like insider trading, corporate governance lapses, and limited enforcement of penalties remain concerns.

### Global Challenges and Risks

**Global capital markets face their own set of challenges:**

- ⦿ **Geopolitical Risks:** Trade tensions, wars, and political instability can cause sudden market disruptions. The current middle east war like situation (end of Sept 24) caused a huge slide in the Indian stock market.
- ⦿ **Regulatory Uncertainty:** Changes in regulations, especially around data protection and environmental, social, and governance (ESG) criteria, are reshaping global markets.
- ⦿ **Technological Disruption:** Fintech, cryptocurrency, and blockchain technologies are introducing new opportunities but also creating regulatory and security challenges.

## CONCLUSION

To sum up, India's capital market, despite still being in developing stage, has made significant progress and are now in line with many emerging markets around the world. With the ongoing implementation of regulatory reforms, an increase in retail participation and robust foreign investments, it is expected to grow and expand significantly in the future.

India's capital markets are poised for sustained growth and greater integration with global financial systems. The focus on innovation, transparency, and governance will further enhance market depth, making it an increasingly attractive destination for both domestic and international investors. **MA**

## REFERENCES

1. NSE
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3. NYSE

# Down The Memory Lane

October, 2014



CMA D.L.S. Sreshti, Central Council Member, lighting the lamp on the occasion of a seminar on 'MACA-Business Analytics for Competitive Advantage' held on October 26, 2014. CMA Radha Krishna Komaragiri, Chairman, Hyderabad Chapter and other members were also present.



CMA (Dr.) S. C. Mohanty, Immediate Past President of the Institute addressing the gathering at a programme on 'Role of CMAs in Compliances under Income Tax Act' held on October 10, 2014 at CMA Bhawan, New Delhi. CMA Nisha Dewan, Joint Secretary of the Institute and Prof. S Sampath, Tax Consultant are others on the dais.



Glimpses of 'Rashtriya Ekta Diwas Shapath' on 31st October 2014 in various offices of the Institute.



October, 2004

Seminar on "Cost Management in Industry-A Vital Need" organized by Visakhapatnam Chapter of Cost Accountants.



Lighting of Lamp by Rear: Admiral Ajit Tewari, AVSM, NM, IN (Retd.), Chairman and Managing Director, Hindustan Shipyards Ltd, Visakhapatnam. Seen from his right: S Satyananda Rao, Chairman, VCCA, D. Ramana Murthy, Secretary, VCCA, DLS Sreshti, Secretary, SIRC, M. Gopala Krishnan, Central Council Member, K Srinivasa Rao, Committee Member, VCCA.



# Down The Memory Lane

October, 2004

Lighting of Lamp by M. Gopala Krishnan at the Seminar on “Cost Management in Industry-A Vital Need”, organized by Visakhapatnam Chapter of Cost Accountants.

Seen from left: DLS Sreshti, Secretary, SIRC, D. Ramana Murthy, Secretary, VCCA, S. Satyananda Rao, Chairman, VCCA, Rear: Admiral Ajit Tewari, AVSM, NM, IN (Retd.), Chairman and Managing Director, Hindustan Shipyard Ltd, Visakhapatnam and G.S.R. Krishna Murthy, Chairman, Professional Development Committee, VCCA.



October, 1994



The 13<sup>th</sup> Session of the Oral Coaching was inaugurated by S.K. Mohanty, Director (Finance), Orissa Power Generation Corporation Ltd, on 17 October, 1994, in the premises of Maharshi College, Bhubaneswar.

October, 1984

On 18<sup>th</sup> October '84, Shri M. Koteeswaran, Regional Officer, Engineering Export Promotion Council, Madras, addressed a Professional Development Meeting of S.I.R.C. on 'Engineering Exports and the Role of Export Promotion Council'.

October, 1974

Shri V. C. Shukla, Minister of State, Defence Production (now Minister of State for Planning) visited the Institute on 8<sup>th</sup> October 1974. He was welcomed by the local members of the Council and the E.I.R.C. and Officers and Members of the Institute.



Shri N. K. Bose garlanding Shri V. C. Shukla, Union Minister of State



Shri N.K. Bose delivering the address of welcome

*Source: Extracted from the various issues of The Management Accountant Journal*

## EASTERN INDIA REGIONAL COUNCIL

### Felicitation of President and Vice President of ICAI

On 2nd August 2024, ICAI-EIRC honored CMA Bibhuti Bhusan Nayak (President) and CMA T C A Srinivasa Prasad (Vice President) for their contributions to the institute. The event was held at the EIRC Auditorium in Kolkata.

### CEP on Union Budget and Cost Accounting

On 2nd August 2024, ICAI-EIRC held a CEP on "Union Budget & Cost Accounting." The program featured discussions on the Union Budget and a committee report on cost accounting records and audits. Key speakers included CMA Bibhuti Bhusan Nayak (President, ICAI), CMA T C A Srinivasa Prasad (Vice-President, ICAI), and CMA N. Radhakrishnan. The event was well-attended and generated significant interest.

### Independence Day Celebrations

On 15th August 2024, ICAI-EIRC celebrated India's Independence Day. The event featured a flag-hoisting ceremony and a tree plantation drive led by President CMA B.B. Nayak. Several ICAI dignitaries, including the Vice President, former Presidents, CCMs, RCMs, and past chairmen, attended the celebration. The event was also attended by faculty members, members, and employees of the institute.

### Faculty Meet at EIRC

On 16th August 2024, ICAI-EIRC held a faculty meet to discuss issues related to student development and training. The event was organized by the Student Facilities & Training Committee. Several faculty members attended the meet, where topics such as student development and oral coaching were discussed.

### Inaugural program of the 207<sup>th</sup> session of Oral Coaching

The inaugural program of the 207th session of Oral Coaching was held on August 20, 2024, under ICAI-EIRC's Student Facilities & Training Committee. CMA Damodara Mishra, Secretary and Chairman of the Committee, welcomed the dignitaries and students. Other dignitaries who addressed the students included CMA Avijit Goswami, CMA Chittaranjan Chattopadhyay, CMA Subhasish Chakraborty, CMA Arati Ganguly,

CMA Abhijit Dutta, and CMA Kallol Mukherjee.

### Discussion Meet with Chapters

ICMAI-EIRC organized a Discussion Meet with Chapters on August 21, 2024, at the EIRC Auditorium in Kolkata. The meeting aimed to discuss various issues faced by the Chapters, exchange ideas, and explore suggestions to enhance the visibility of the CMA profession.

### CEP program on "Navigating Financial Distress"

ICMAI-EIRC organized a CEP program on "Navigating Financial Distress" on August 30, 2024. Key speakers were Shri Raj Singhania, CMA Susanta Kr Choudhury, and CMA Alope Kr Bardhan. Other dignitaries included CMA Subhasish Chakraborty, CMA Arati Ganguly, CMA Abhijit Dutta, and CMA Bidyadhar Prasad. CMA Arati Ganguly delivered the welcome address. The session was interactive and received an overwhelming response.

## THE INSTITUTE OF COST ACCOUNTANTS OF INDIA BHUBANESWAR CHAPTER

### Career Awareness Programme

The Career Awareness Programme held at Kendriya Vidyalaya No. 02 (KV2), CRP Square, Bhubaneswar on September 2, 2024, was a success. Students interested in commerce learned about the CMA course and its career prospects. Speakers emphasized the importance of pursuing a professional course like CMA. The students were attentive and asked questions. The programme is hoped to inspire many students to pursue the CMA course.

### Career Awareness Programme Cum Seminar on "Skills, Entrepreneurship & Jobs : Opportunities & Concern for Youth"

The 15th CMA Career Awareness Programme and Seminar on "Skills, Entrepreneurship & Jobs: Opportunities & Concern for Youth" were held at KIIT Deemed to be University on September 4, 2024. Over 180 students and faculty members attended. CMA Ramesh Chandra Patra and CMA Soumya Ranjan Jena highlighted the Institute's course curriculum and career prospects. CMA Avinash Kotni delivered the keynote address on the theme of the seminar. Prof. Keshab Das, Dr. Pinaki Nandan Pattnaik, and Dr. Smruti Ranjan Das also addressed the audience. The programme was

interactive and informative, and students were given the opportunity to ask questions and learn more about the CMA course. The programme is hoped to inspire many students to pursue the CMA course and achieve their career goals.

### **Celebration of Teachers Day**

The students of the CMA Chapter celebrated Teachers' Day on September 5th. Faculty and staff shared their blessings and wished students success. A few students expressed gratitude. This event was a great opportunity for students to show appreciation and connect with each other.

### **Ganesh Puja**

The CMA Chapter celebrated Lord Ganesh Puja on September 7, 2024. About 500 people attended. CMA Ramesh Chandra Patra was the "Karta." The event was successful and brought people together.

### **Pre-Placement Orientation Programme for the qualified CMA**

The CMA Chapter in Bhubaneswar successfully conducted a Pre-Placement Orientation Programme (PPOP) from September 9th to 19th, 2024. The program was designed to prepare June, 2024 term qualified Cost Accountants for the job market.

The PPOP included sessions on various topics such as communication skills, GD techniques, interview techniques, indirect taxation, e-filing, SAP-FICO, Oracle, Tally Prime, IND AS, cost and financial management strategies, IBC and valuation, cost audit, financial audit, capital market, data analytics, direct tax, e-filing, stress management, information system security, corporate law, MS Advanced Excel, and mock interviews.

Renowned experts from the industry and academia delivered the sessions, providing valuable insights and guidance to the participants. The program concluded with a valedictory ceremony where participants received certificates and medals.

The PPOP was a great success and helped prepare the participants for their future careers.

### **Career Awareness Programme**

The 16th CMA Career Awareness Programme was held at Nimapara Autonomous College on September 12, 2024. CMA Rabindra Kumar Nahak and Shri Saroj

Kanta Sahoo presented the course and career prospects. The program was informative and helped students learn about the CMA course.

### **CAT Course Inauguration Function**

The inaugural ceremony of the Certificate in Accounting Technicians (CAT) course was held on September 13, 2024. The course is for retiring/retired JCOs/OR & their equivalent. Col Kirtiman Gautam Mohanty inaugurated the program. Other dignitaries included CMA Gagan Bihari Swain, CMA Rajendra Singh Bhati, CMA Damodar Mishra, and CMA Ramesh Chandra Patra. Few Faculties of CAT Course also attended.

### **Seminar on "The Future of Portfolio Investment: Sunrise Sectors and Asset Classes for the Next 25 Years"**

The CMA Chapter in Bhubaneswar organized a seminar on "The Future of Portfolio Investment: Sunrise Sectors and Asset Classes for the Next 25 Years" on September 18, 2024. The seminar featured CMA Umesh Kumar Gupta, CMA Damodara Mishra, and Shri Vivor Tandon as speakers. The event was attended by more than 100 participants.

### **Ten Days Industry Oriented Training Programme**

Ten days IOTP (Industry Oriented Training Programme) commenced on September 27, 2024. The program was inaugurated by CMA Srikanta Kumar Sahoo, CMA Damodara Mishra, CMA Ramesh Chandra Patra, and CMA Avinash Kotni.

The first few days of the program covered topics such as bookkeeping, MIS, group discussion skills, finalization of accounts, direct taxation, cost and other audits, interview skills, and MIS in various sectors. The program featured experienced professionals from the industry who shared their practical knowledge with the participants.

### **Seminar on "Role of RERA in the Real Estate Sector"**

The ICAI – Bhubaneswar Chapter and Odisha RERA jointly conducted a successful seminar on "Role of RERA in the Real Estate Sector" on September 28, 2024. The seminar featured speakers from Odisha RERA who discussed various rules and regulations enforced by the authority. The event was attended by more than

150 participants, including CMA members, executives from Odisha RERA, members of CREDAI, promoters, agents, home buyers, apartment associations, builders, advocates, and other stakeholders.

### Swachhata Hi, Seva (SHS)

The CMA Chapter in Bhubaneswar has undertaken various activities to commemorate the 10th anniversary of Swachh Bharat Mission. These activities include cleaning up garbage spots and recognizing sanitation workers. The activities are based on government guidelines.

#### THE INSTITUTE OF COST ACCOUNTANTS OF INDIA CUTTACK JAGATSINGHPUR KENDRAPARA CHAPTER

### Visit of the President and Vice President of the Institute

The President and Vice President of the Institute visited the chapter on August 11, 2024. They were welcomed and honoured by the members. There were about 50 people in attendance, including members and students. CMA Damodar Mishra, Secretary of the EIRC of ICMAI & CMA Uttam Kumar Nayak, Past Chairman of EIRC of ICMAI along with Senior Members CMA (Dr) Gyana Sharma and CMA (Dr) B.N. Bal along were present. The Chairman of the Chapter CMA Mihir Kumar Mohapatra & Vice Chairman of the Chapter CMA (Dr) Suresh chandra Nanda along with other members were present and felicitated the President and Vice President of the Institute. Around thirty members and twenty students attended the programme.

#### THE INSTITUTE OF COST ACCOUNTANTS OF INDIA SOUTH ODISHA CHAPTER

### Teacher's Day Celebration

The Gurudivas celebration at ICMAI-South Odisha Chapter honored teachers. The function was presided over by CMA Narasingha Chandra Kar, chairman of the chapter. Other dignitaries included CMA Akshya Kumar Swain, secretary, CMA Ashwini Kumar Patro, vice chairman, CMA Prasanta Kumar Pani, treasurer, and CMA Benumadhab Nayak, MC member. Speeches were delivered by the chairman, secretary, vice-chairman, and senior faculty members. Several students also participated. CMA Benumadhab Nayak concluded the event with a vote of thanks. The MC members of the chapter played a crucial role in ensuring the smooth

conduct of the function. The Gurudivas celebration was a meaningful event that recognized the contributions of teachers and fostered a sense of community within the chapter.

### Ganesh Puja

South Odisha Chapter in Brahmapur successfully celebrated Lord Ganesh Puja on September 7, 2024. The event brought together the Managing Committee, faculty members, students, and staff of the chapter. The puja ceremony concluded with great success, followed by a Prasad Sevan for all participants.

### Annual Students' & Members' Meet – 2024

ICMAI's South Odisha Chapter held its Annual Meet on September 20, 2024, featuring a Mega Blood Donation Camp. Guest speakers highlighted the importance of practical skills and knowledge-based professionalism. 27 units of blood were collected, and students were recognized for their achievements. Over 350 students and 50 members attended. The event concluded with a cultural program and national anthem.

#### THE INSTITUTE OF COST ACCOUNTANTS OF INDIA ROURKELA CHAPTER

On September 14, 2024, the Rourkela Chapter of the Institute of Cost Accountants of India (ICMAI) organized a seminar on SAP S4 HANA. The seminar was graced by the presence of CMA Bibhuti Bhusan Nayak, President of ICMAI, and other distinguished guests. The keynote speaker was Shri Amitav Manna from Ernst & Young LLP.

The seminar covered the practical implications and challenges of transitioning from legacy systems to S4 HANA. The speaker emphasized the importance of process and technology knowledge for cost accountants. CMA Bibhuti Bhusan Nayak requested the RSP management to build an E-Auditorium at the Rourkela Chapter.

Several awards were given, including recognition for CMA Ch. N.K Nanda and felicitations for CMA Inter and Final students. Ms Sunita Goel, who secured the All India 7th rank, was awarded a cash prize of Rs. 5000.

The seminar concluded with a formal vote of thanks offered by CMA N K Rao, Vice Chairman of the Rourkela Chapter, and a well-hosted program by CMA student Abhipsa Biswal.

## Glimpses of Eastern India Regional Council



*Eastern India Regional Council*



*Eastern India Regional Council*



*Eastern India Regional Council*



*Bhubaneswar Chapter*



*Bhubaneswar Chapter*



*Cuttack-Jagatsinghpur-Kendrapara Chapter*



*South Odisha Chapter*



*Rourkela Chapter*

## NORTHERN INDIA REGIONAL COUNCIL

### THE INSTITUTE OF COST ACCOUNTANTS OF INDIA CHANDIGARH PANCHKULA MOHALI CHAPTER

#### Industrial Training Visit to Saurav Chemicals

On September 14, 2024, the chapter organized an industrial visit to Saurav Chemicals Limited. All 22 students participated, learning about API/Bulk Drugs manufacturing and CDMO services. The students interacted with company personnel and gained insights into pharmaceutical processes. CMA CL Bansal and CMA Anil Gupta accompanied the students.

### THE INSTITUTE OF COST ACCOUNTANTS OF INDIA AGRA-MATHURA AND MEERUT CHAPTER

On September 11, 2024, the Chapters hosted a joint webinar titled "Entrepreneurship for CMAs" from 6:30 p.m. to 9:00 p.m. The keynote address was delivered by CMA Rajneesh Jain, CFO of Reliance Jio, who participated in a talk show alongside CMA Harpreet Singh and CMA Prashant Varshney. During the discussion, he openly shared valuable insights from his professional journey, including his secrets to success and perspectives on macroeconomic factors. Following his talk, two knowledgeable speakers took the stage: CMA Pankaj Jain, Founder of Jain Ventures, who provided a holistic view of the journey from intrapreneurship to entrepreneurship, and Mr. Mukesh Garg, Founder and CEO of Raymotoss Electric Vehicles, who inspired CMAs to embark on their own entrepreneurial journeys. The event concluded with a heartfelt vote of thanks from CMA Dinesh Sharma, Founder Chairman of Meerut Chapter, who praised the Chief Guest,

both speakers, program directors CMA Harpreet Singh and CMA Prashant Varshney, the entire teams from the Agra-Mathura and Meerut Chapters, and the audience for their invaluable contributions.

### THE INSTITUTE OF COST ACCOUNTANTS OF INDIA JAIPUR CHAPTER

#### Inauguration of Pre-Placement Orientation Program

The Chapter held an 11-day pre-placement training program for CMA Final qualified students. The program was inaugurated on September 6 by CMA Ashu Mathur. 112 aspiring CMAs from 8 northern Indian states participated. This initiative demonstrates the chapter's commitment to supporting CMA students.

#### Valedictory session of Pre-Placement Orientation Program

The Jaipur Chapter of ICMAI concluded its 11-day pre-placement training program on September 16. The event featured a keynote speech, certificate distribution, and awards for top performers. Cash prizes were also given to the top three All India Rank Holders from Jaipur. This program aimed to prepare newly qualified CMAs for their professional careers.

#### Seminar on Costing and Organ Donation

The Chapter held a seminar on September 22, focusing on activity-based costing and organ donation. Key speakers were CMA Sankalp Wadhwa, Leading Cost Practitioner and Dr. Anushree Nair, Project Director from Mohan Foundation Jaipur Citizen Forum. The event provided valuable insights to attendees.

## Glimpses of Northern India Regional Council



Chandigarh Panchkula Mohali Chapter



Agra-Mathura Chapter & Meerut Chapter



Jaipur Chapter

## SOUTHERN INDIA REGIONAL COUNCIL

**Professional Development Meeting on Cost Accounting Records and Cost Audit**

The Southern India Regional Council (SIRC) of ICAI held a PD meeting on August 3, 2024, focusing on the MCA Committee Report on cost accounting records and cost audit. Past presidents CMA M. Gopalakrishnan and CMA P. Raju Iyer moderated the event. CMA Girish Kambadaraya welcomed participants, while CMA Vishwanath Bhat highlighted the importance of cost accounting records and cost audit reports. The meeting concluded with a vote of thanks by CMA K. Gomathisankar.

**Inauguration of the SIRC Oral Coaching Classes**

The inauguration of the SIRC Oral Coaching Classes was a significant milestone for aspiring cost accountants. The event was graced by distinguished dignitaries who emphasized the importance of education and the career prospects available for CMA graduates. The speakers encouraged students to approach their studies with enthusiasm and perseverance, and to remain focused on their goals. The event also celebrated the achievements of the SIRC Oral Coaching Toppers, setting a high standard for future students. Overall, the inauguration inspired students to embark on their academic journey with renewed determination.

**Independence Day Celebrations**

The Southern India Regional Council (SIRC) of ICAI celebrated the 78th Independence Day on August 15, 2024. CMA Vishwanath Bhat, SIRC Chairman, hoisted the flag and addressed the gathering, highlighting the significance of the day and India's progress. As a tribute to war martyrs, the Chairman and Council Members honored their families. Other SIRC members also addressed the gathering, reinforcing patriotism and unity. The event was attended by senior members, faculty, staff, and students, concluding with a renewed sense of pride and commitment to the nation's growth.

**Southern Region Chapters Meet**

The Southern India Regional Council (SIRC) of the Institute of Cost Accountants of India (ICMAI) held a virtual meeting on August 16, 2024, to discuss challenges and gather input from Chapter Managing Committees. CMA T.C.A. Srinivasa Prasad and CMA Dr. K. Ch. A. V. S. N. Murthy were the Chief Guest and Guest of Honour, respectively. CMA Vijay Kiran Agastya led the discussions, and approximately 19 chapters participated, contributing to a fruitful exchange of ideas.

**Professional Development Meeting**

The SIRC of ICAI held an online meeting on August 17, 2024, to discuss the Foreign Trade Policy 2023. Shri M.G. Kodandaram, IRS (Retd.), led the session, sharing insights on the policy's key features. The meeting aimed to help participants understand recent developments in foreign trade regulations.

**Professional Development Meeting**

The SIRC of ICAI held an online meeting on August 24, 2024, to discuss ESG trends and opportunities. Dr. V. Raghavendra Prasad, a Deep Tech Startup Investor and Mentor, led the session, sharing insights on the evolving landscape of ESG and highlighting opportunities for accounting professionals.

**Meeting with Member of Parliament**

The meeting between the Chairman of SIRC and MP Tejasvi Surya discussed the importance of cost accounting records for transparency, efficiency, and accountability. They highlighted the societal benefits of robust cost accounting practices, including sustainable growth and financial discipline. The meeting concluded with a commitment to implement the report's recommendations to benefit industry, government, and society.

**Meeting with Chief Commissioner of Income Tax**

The meeting between the delegation of ICAI and Shri Sunil Mathur, Chief Commissioner of Income Tax for Tamil Nadu and Puducherry discussed the empanelment of Cost Accountants within the Income Tax Department. The delegation emphasized the vital role of Cost Accountants in areas such as audit, tax compliance, and advisory services. They stressed the need for expanding the opportunities for Cost Accountants in areas like tax assessments, audits under Section 142(2A) of the Income Tax Act, and their inclusion in various other professional roles within the tax framework. The meeting concluded with a positive exchange of ideas, with Shri Sunil Mathur acknowledging the role of Cost Accountants in the evolving tax landscape and expressing interest in further collaboration to explore the empanelment process and expand their contributions to the tax administration system.

**Program on Students Empowerment Session**

The SIRC Students Forum organized a Students Empowerment Session on Skill Enhancement through Management Games on 31st August 2024. Dr. R. Sundari, Assistant Professor, PG & Research Department of Commerce, Dwaraka Doss Goverdhan Doss Vaishnav College, was the Chief Guest.

**Career Upliftment Professional Development**

## Programme

The Southern India Regional Council (SIRC) of the Institute of Cost Accountants of India (ICMAI) organized a professional development program titled "What Next!!! - Career Guidance to Choose the Different Certification Courses Conducted by the CMA Institute" on 31st August 2024. The session was led by CMA Dr. Debaprosanna Nandy, Additional Secretary (Delhi Office) & Head of Studies, ICMAI. The Career Counselling were done at four colleges in and around Chennai. The program provided guidance to students on various certification courses offered by the CMA Institute, helping them make informed decisions about their career paths.

### Career Counseling Program

CMA Vishwanath Bhat conducted career counseling sessions at Sathyabama Institute of Science and Technology on September 4, 2024, and at Loyola College on September 19, 2024. The primary objective of these programs was to provide students with comprehensive guidance on career opportunities within the field of Cost and Management Accounting. By offering insights into the various professional pathways available, the sessions aimed to assist students in making informed decisions about their future academic and career pursuits.

### Members Meet with President, Vice President, and Council Members

The SIRC of ICMAI hosted a members meet on September 5, 2024, featuring a talk by CMA Manoj Kumar Anand, Council Member of ICMAI. Anand's presentation focused on the "Report of the Committee on Cost Accounting Records," providing valuable insights into recent developments in the field. The event offered an opportunity for members to interact with ICMAI's leadership and gain a deeper understanding of the latest updates in cost accounting records. In conjunction with Teachers' Day, all teaching faculty members were recognized and honored with gifts.

### Pre-Placement Orientation Program

The Pre-Placement Orientation Program (PPOP) for qualified CMAs of June 2024 was held at SIRC from September 9 to 19. About 175 students attended. Industry experts conducted sessions on various topics, including soft skills, technical skills, and career development. The program concluded with a valedictory function on September 19 at Rani Seethai Hall.

### Professional Development Meeting

The SIRC of ICMAI conducted two Professional Development (PD) meetings. The first meeting was on "CFO Services" on September 13. The second meeting was

on "New Opportunities under Income Tax Act for CMAs" on September 28. Both meetings were aimed at enhancing the knowledge of participants on their respective topics.

### Faculty Meet

The SIRC of ICMAI held a Faculty Meet on September 18, 2024. Faculty members discussed concerns and received guidance from SIRC leaders. The meeting focused on academic and professional matters related to the ICMAI curriculum and training programs.

### Swachhata Hi Seva (SHS)

The SIRC of ICMAI celebrated Swachhata Hi Seva (SHS) 2024 on September 28. The event included a cleanliness drive, focusing on clearing black spots, and recognition of sanitation workers. The activities aimed to promote cleanliness and community participation.

## THE INSTITUTE OF COST ACCOUNTANTS OF INDIA TIRUCHIRAPALLI CHAPTER

### Career Counseling Program

The Tiruchirappalli Chapter of the Institute held a career counseling program at Jamal Mohamed Arts & Science College. Dr. Marimuthu welcomed attendees, followed by Dr. D.I. George Amalarethinam's emphasis on the importance of the CMA course. CMA P Manoharan presented the CMA course, its objectives, and career opportunities in various industries. The program was well-attended by the college's management committee, faculty, and students. Dr. N. Mohamed Siddiq delivered the vote of thanks.

## THE INSTITUTE OF COST ACCOUNTANTS OF INDIA KOZHIKODE MALAPPURAM CHAPTER

### Seminar on the Insolvency and Bankruptcy Code (IBC) 2016

A joint seminar on the Insolvency and Bankruptcy Code (IBC) 2016 was held on September 5, 2024, by ICMAI, ICAI, and ICSI in Kozhikode. Speakers from the Institutes presented on corporate insolvency, liquidation, and personal insolvency. A panel discussion followed, and the event concluded with a vote of thanks.

## THE INSTITUTE OF COST ACCOUNTANTS OF INDIA BENGALURU CHAPTER

Professional Development Programme on Recent trends in Adjudication & compounding of Offences under The companies Act, 2013" at Bengaluru chapter Premises on 14.09.2024. CMA CS Chandra Sekhar, Practicing Company Secretary, CMA Abhijeet S Jain – Chairman BCCA, CMA Rajesh Devi Reddy – Secretary



BCCA, CMA Devarajalu B – PD Chairman BCCA were the speakers of the programme. Other Programme on Guru-vandane followed by Faculty Meet at Bengaluru Chapter Premises on 05.09.2024. CMA Abhijeet S Jain, Chairman BCCA, CMA G C Rao, Vice Chairman & Chairman Coaching BCCA, CMA G N Venkatraman – Former President ICAI were the speakers. Pre-Orientation Programme for June-2024 batch Students on various dates of October 2024. Brand Building of CMA Course at Various Colleges on various dates of September 2024. Career Counselling on 24.09.2024 at Padmashree Institute of Management and Sciences, Tavarekere, Kengeri, Kommaghatta Main Road-Bengaluru. CMA Abhijeet S Jain, Chairman BCCA was the speaker.

#### THE INSTITUTE OF COST ACCOUNTANTS OF INDIA RANIPET-VELLORE CHAPTER

On September 25, 2024, the chapter honored the cleaning staff of the Katpadi Corporation for their hard work in keeping the city clean. Fifteen cleaning staff members were recognized and given awards for their important job. The event included speeches and a ceremony to show appreciation for their work.

#### THE INSTITUTE OF COST ACCOUNTANTS OF INDIA COIMBATORE CHAPTER

##### Teacher's Day Celebration

The Coimbatore Chapter of The Institute of Cost Accountants of India celebrated Teacher's Day on September 6, 2024. Dr. A. Ponnusamy, Principal of Hindustan College of Arts & Science, was the Chief Guest. In his address, he shared inspiring stories about teachers' impact on students' lives and careers. The event recognized the invaluable contributions of educators to the field of cost accountancy.

##### Meeting with President, Vice President and SIRC Chairman

On September 5, 2024, representatives from the Coimbatore Chapter of The Institute of Cost Accountants of India attended a meeting at SIRC, Chennai, to congratulate the newly elected President and Vice President of ICAI.

##### Orientation Programme

On 24th September, 2024, The Chairman Dr.R.Maheswaran gave an orientation programme to the students of Sree Saraswathi Thyagaraja College, Pollachi. Around 200 students attended the programme.

##### National Conclave - Role of Cost Accountants in Nation Building

PSG College of Arts and Science hosted a national-level conclave on September 27, 2024, focusing on the contributions of Cost Accountants to national development. Key industry experts and academic leaders discussed the profession's role in areas like cost optimization, economic growth, FDI, and employment. The event highlighted the importance of Cost Accountants in strengthening India's economy.

##### Professional Development Program on Blockchain Technology and Crypto assets

The Coimbatore chapter of ICAI organized a professional development program on September 28, 2024, exploring the potential of blockchain technology and crypto assets. Industry experts emphasized the benefits of blockchain in enhancing transparency, security, and decentralized control. The event provided valuable insights into the future applications of these emerging technologies.

#### THE INSTITUTE OF COST ACCOUNTANTS OF INDIA THRISSUR CHAPTER

##### Onam Celebration

The Onam celebration was graced by the presence of CMA Praveen Kumar, Secretary of the Southern India Regional Council (SIRC) of ICAI, along with local Chapter officials. The event commenced with a traditional lamp-lighting ceremony. CMA Praveen Kumar delivered the inaugural address, highlighting the significance of Onam and its cultural heritage.

##### Independence Day Celebration

On Independence Day, the Chapter hoisted the Indian flag. CMA Sreepriya K, Chairperson of the Thrissur Chapter, presided over the ceremony. CMA Vinod T V, Treasurer, and CMA Anoop.N.G, Managing Committee Member, addressed the gathering, emphasizing the importance of national unity and the sacrifices made by our freedom fighters.

##### All Kerala CMA Chapters' Association Meeting

On August 25, 2024, the Thrissur Chapter hosted a meeting of the All Kerala CMA Chapters' Association. CMA Praveen Kumar, Secretary of SIRC, was felicitated by the Chairman and Chairperson of the Association for his contributions to the profession.

## Glimpses of Southern India Regional Council



*Southern India Regional Council*



*Southern India Regional Council*



*Tiruchirapalli Chapter*



*Kozhikode Malappuram Chapter*



*Bengaluru Chapter*



*Bengaluru Chapter*



*Ranipet Vellore Chapter*



*Coimbatore Chapter*



*Thrissur Chapter*

**WESTERN INDIA REGIONAL COUNCIL**

**THE INSTITUTE OF COST ACCOUNTANTS OF INDIA  
NAVI MUMBAI CHAPTER**

**Independence Day Celebrations**

The Chapter celebrated India's 78th Independence Day on August 15, 2024, at KB Patil College. CMA BN Sapkal, the Chairman, along with CMA Vinod Jadhvani and Aparna Merekar, participated in the event. The Chapter's participation highlights its commitment to patriotism and civic responsibility.

**Program on “Features of Finance Bill 2024”**

The Chapter conducted a program on "Features of Finance Bill 2024" on July 28, 2024. CMA Amit Sarker and CMA Arup Bagui discussed changes in GST, Customs, Central Excise, Direct Tax rates, reassessment timelines, and more. The audience of 16 actively participated. CMA BN Sapkal, Chairman, welcomed the speakers. CMA Vaidyanathan Iyer, Past Chairman, welcomed the participants. CMA Debasish Mitra, Past CCM, and CMA BN Sapkal proposed the vote of thanks.

**Webinar program on “Commodity Trading”**

The Chapter conducted a webinar on "Commodity Trading" on August 4, 2024. Mr. Manoj Heda spoke about agriculture, energy, and metals sectors. The audience of 37 actively participated. CMA BN Sapkal, Chairman, welcomed the participants. CMA Arup Bagui, Secretary & PD Committee Chairman, welcomed the speaker. CMA Vaidyanathan Iyer, Past Chairman, proposed the vote of thanks.

**Inauguration of Oral Coaching Program**

The Chapter launched its Oral Coaching Program on August 11, 2024. CMA Rajendra Natekar, MD (Energy) at Esser Capital Advisory Services Ltd., was the Chief Guest. The program featured welcome addresses, a

lamp-lighting ceremony, and a presentation on the course curriculum. The Chief Guest emphasized the importance of CMAs in achieving operational excellence and contributing to nation-building. Other dignitaries motivated the students and highlighted the significance of the CMA course. CMA BN Sapkal, Chairman, urged students to dedicate themselves to their studies and complete the CMA Course. The event concluded with a vote of thanks.

**THE INSTITUTE OF COST ACCOUNTANTS OF INDIA  
AURANGABAD CHAPTER**

**ICMAI-Aurangabad Chapter Honors Top Students**

The ICMAI-Aurangabad Chapter held a felicitation ceremony on September 6, 2024, to honor top-performing students who passed the Intermediate and Final Course examinations in June 2024. The event featured speeches from distinguished guests, including Prof. Dr. Syed Azharuddin and Prof. Dr. Rajesh Lahane, who emphasized the significance of the CMA profession in today's global economy. The ceremony concluded with a vote of thanks and was attended by other chapter members, parents, and students. Key Highlights of the function were Recognition of top-performing students, Industry-academia collaboration, Emphasis on professional development and opportunities and Showcase of chapter's commitment to student support.

**THE INSTITUTE OF COST ACCOUNTANTS OF INDIA  
SURAT SOUTH GUJARAT CHAPTER**

**Pre Placement Orientation Programme**

The Chapter hosted a Pre-Placement Orientation Program for June 2024 term qualified students from September 9 to 20, 2024. Twenty-two participants attended the comprehensive program, gaining invaluable insights from industry experts. Key topics covered included CV writing, interview techniques, presentation skills, Excel, personal branding, tax planning, corporate behavior, data analytics, leadership, litigation, system

security, data visualization, GST, self-development, communication, financial modeling, startup ecosystem, public speaking, group discussion, e-filing, and cost audit. The program concluded with a Valedictory Session on September 20, 2024.

### THE INSTITUTE OF COST ACCOUNTANTS OF INDIA AHMEDABAD CHAPTER

#### Twelve Days Orientation program

The chapter hosted a 12-day Pre-Placement Orientation Program for June 2024 qualified CMAs. The program featured expert sessions on various topics and concluded with a valedictory ceremony where participants received certificates. The event aimed to equip CMAs with essential skills for their professional journey.

#### CEP – ESG & Sustainability

The chapter hosted a two-part webinar series on Environmental, Social, and Governance (ESG) and Sustainability. The series, presented by CMA Siddhartha Pal, delved into key topics such as sustainability frameworks, United Nations Sustainable Development Goals (UN SDGs), and key performance indicators. The webinars attracted significant participation from industry professionals and offered valuable insights into the growing importance of ESG in business.

#### Celebration of Hindi Diwas

On September 14, 2024, the chapter hosted a Hindi poetry and song competition to celebrate Hindi Diwas. Sixteen participants showcased their talents, with Mr. Mihir Pujara serving as the judge. The winners were announced as follows:

First: Ms. Prerna Pandey and Mr. Satendra Jaiswal

Second: Mr. Jay Lakhani

Third: Mr. Ayush Rawal, Mr. Nitin Jinjala, and Mr. Yug Patel

The event concluded with applause from all attendees.

#### IOTP for Final Students

ICMAI Ahmedabad chapter conducted an Industry Orientation Program for final-year students. The program featured lectures from industry experts on various topics, including cost audit, account finalization, soft skills, company formation, contract management, project management, project financing, working capital management, taxation, and communication skills. Students also presented group presentations on related subjects.

### THE INSTITUTE OF COST ACCOUNTANTS OF INDIA PUNE CHAPTER

#### Pre-Placement Orientation Programme Inaugural session

The ICMAI-Pune Chapter recently hosted a 12-day Pre-Placement Orientation Programme (PPOP) for newly qualified CMAs. The programme, held at CMA Bhawan Pune Chapter, was designed to equip participants with the essential skills and knowledge required for a successful career transition. Thirty-five newly qualified CMAs attended the programme, which featured a comprehensive curriculum aligned with the Institute's guidelines. The inaugural session was graced by distinguished members of the ICMAI-Pune Chapter, including CMA Meena Vaidya (Advisor), CMA Rahul Chincholkar (Secretary), CMA Himanshu Dave (Treasurer), CMA Abhay Deodhar, and CMA Nilesh Kekani (Chairman). CMA Himanshu Dave welcomed the participants and provided an overview of the PPOP schedule, emphasizing its significance in preparing them for campus placements. Throughout the programme, participants were exposed to practical guidance, industry insights, and effective career strategies. The ICMAI-Pune Chapter's successful execution of the PPOP demonstrates its commitment to supporting the professional development of newly qualified CMAs and fostering their integration into the corporate world.

#### Pre-Placement Orientation Programme Valedictory session

The ICMAI-Pune Chapter's 12-day Pre-Placement Orientation Programme concluded successfully on September 16. The programme, designed to equip newly qualified CMAs with essential career skills, featured expert guidance and practical exposure. The valedictory session was graced by industry leaders, and certificates were distributed to participants. The programme was well-received, with participants appreciating the faculty, facilities, and overall experience.

#### CAT Course Exam Part – I under DGR

The ICMAI-Pune Chapter recently hosted a CAT Course Batch-2 for JCOs/OR officers under the Directorate General Resettlement (DGR) Department of Ex-Servicemen Welfare. The programme, conducted at CMA Bhawan, Karvenagar, catered to 42 Defence Personnel. The course culminated with a successful examination for CAT Course Part-I on September 25.

The examination was conducted in accordance with the Institute's guidelines, ensuring a fair and transparent assessment of the participants' knowledge and skills.

### **CPE Webinar on Topic - Procedural and Practical insights of SME LISTING**

The ICAI-Pune Chapter organized a successful webinar on "Procedural and Practical Insights of SME Listing." The webinar, held on September 28, featured CS Manoj Soni as the speaker. The session provided

valuable insights into the process and practical aspects of SME listings, benefiting participants through a clear and informative presentation.

## Glimpses of Western India Regional Council



*Navi Mumbai Chapter*



*Aurangabad Chapter*



*Surat South Gujarat Chapter*



*Ahmedabad Chapter*



*Ahmedabad Chapter*



*Pune Chapter*

## Direct & Indirect Tax Updates - September 2024

### DIRECT TAXES

- **Notification No.102/2024 Dated 18th September 2024:** In exercise of the powers conferred by clause (iii) of sub-section (1) of section 35 of the Income-tax Act, 1961 (43 of 1961) read with Rules 5C and 5E of the Income-tax Rules, 1962, the Central Government hereby approves Auroville Foundation (PAN: AAATA0037B) as 'Other Institution' for research in social science or statistical research for the purposes of clause (iii) of sub-section (1) of section 35 of the Income-tax Act, 1961 read with rules 5C and 5E of the Income-tax Rules, 1962.
- **Notification No.103/2024 Dated 19th September 2024:** In exercise of the powers conferred by sub-section (2) of section 88 of the Finance (No. 2) Act, 2024 (15 of 2024), the Central Government hereby appoints the 1st day of October, 2024 as the date on which the Direct Tax Vivad Se Vishwas Scheme, 2024 shall come into force.
- **Notification No.104/2024 Dated 20th September 2024:** In exercise of the powers conferred by section 99 of the Finance (No. 2) Act, 2024 (15 of 2024), the Central Government hereby makes the rules. These rules may be called the Direct Tax Vivad se Vishwas Rules, 2024.
- **Notification No.105/2024 Dated 27th September 2024:** In the notification of the Government of India, Ministry of Finance, Department of Revenue, (Central Board of Direct Taxes) published in the Gazette of India, Extraordinary, Part-II, Section 3, Sub Section (i), vide G.S.R. 584(E) dated the 20th September, 2024: (i) at page number 28, in schedule V, in row A, the words "OR to be filed" shall be omitted (ii) at page number 32, in Schedule XXIII, in row A, the words "or appeal to be filed" shall be omitted (iii) at page 29, in schedule XII in row X and row Y, last term of the formula represented in the form of  $[(\text{figure}) * B]$ , for new appellant case and old appellant case shall be omitted (iv) at page 31 and 32, in schedules XX, XXI, XXII, XXIII, XXIV, XXV and XXVI, in their respective row X and row Y, last term of the formula represented in the form of  $[(\text{figure}) * C]$ , for new appellant case and old appellant case shall be omitted.
- **Circular No. 10/2024 Dated 29th September 2024:** Extension of time lines for filing of various reports of audit for the Assessment Year 2024-25.

On consideration of difficulties faced by the taxpayers and other stakeholders in electronic filing of various reports of audit under the provisions of the Income-tax Act, 1961 (Act), the Central Board of Direct Taxes (CBDT), in exercise of its powers under Section 119 of the Act, extends the specified date of furnishing of report of audit under any provision of the Act for the Previous Year 2023-24, which was 30th September, 2024 in the case of assessee referred in clause (a) of Explanation 2 to sub-section (1) of section 139 of the Act, to 07th October, 2024.

### INDIRECT TAXES

#### GST

- **Notification No. 17/2024-Central Tax Dated 27th September 2024:** In exercise of the powers conferred by clause (b) of sub-section (2) of section 1 of the Finance (No. 2) Act, 2024 (15 of 2024), the Central Government hereby appoints (a) the date of publication of this notification in the Official Gazette, as the date on which the provisions of sections 118, 142, 148 and 150 of the said Act shall come into force and (b) the 1st day of November, 2024, as the date on which the provisions of sections 114 to 117, 119 to 141, 143 to 147, 149 and 151 to 157 of the said Act shall come into force.
- **Circular No. 230/24/2024-GST Dated 10th September 2024:** Clarification in respect of advertising services provided to foreign clients. In view of the difficulties being faced by the trade and industry and to ensure uniformity in the implementation of the provisions of the law across field formations, the Board, in exercise of its powers conferred by section 168 (1) of the Central Goods and Services Tax Act, 2017 (hereinafter referred to as "CGST Act"), hereby clarifies certain issues regarding advertising services in brief.
- **Circular No. 231/25/2024-GST Dated 10th September 2024:** Clarification on availability of input tax credit in respect of demo vehicles. In case of capitalization of demo vehicles, availability of input tax credit would be subject to provisions of section 16(3) of CGST Act, which provides that where the registered person has claimed depreciation on the tax component of the cost of capital goods and plant and machinery under the Income-tax Act, 1961, the input tax

credit on the said tax component shall not be allowed. It is further mentioned that in case demo vehicle, which is capitalized, is subsequently sold by the authorized dealer, the authorized dealer shall have to pay an amount or tax as per provisions of section 18(6) of CGST Act read with rule 44(6) of the Central Goods and Service Tax Rules, 2017.

- Circular No. 232/26/2024-GST Dated 10th September 2024:** Clarification on place of supply of data hosting services provided by service providers located in India to cloud computing service providers located outside India. It is clarified that the data hosting services cannot be considered as the services provided directly in relation to immovable property or physical premises and hence, the place of supply of such services cannot be determined under section 13(4) of IGST Act. The place of supply for the data hosting services provided by data hosting service provider located in India to overseas cloud computing service providers does not appear to fit into any of the specific provisions outlined in sections 13(3) to 13(13) of the IGST Act. Therefore, the place of supply in such cases needs to be determined according to the default provision under section 13(2) of the IGST Act, i.e. the location of the recipient of the services. Where the cloud computing service provider receiving the data hosting services are located outside India, the place of supply will be considered to be outside India according to section 13(2) of the IGST Act. Supply of data hosting services being provided by a data hosting service provider located in India to an overseas cloud computing entity can be considered as export of services, subject to the fulfillment of the other conditions mentioned in section 2(6) of IGST Act.
- Circular No. 233/26/2024-GST Dated 10th September 2024:** Clarification regarding regularization of refund of IGST availed in contravention of rule 96(10) of CGST Rules, 2017, in cases where the exporters had imported certain inputs without payment of integrated taxes and compensation cess. It is clarified that where the inputs were initially imported without payment of integrated tax and compensation cess by availing benefits under Notification No. 78/2017-Customs dated 13.10.2017 or Notification No. 79/2017-Customs dated 13.10.2017, but subsequently, IGST and compensation cess on such imported inputs are paid at a later date, along with interest, and the

Bill of Entry in respect of the import of the said inputs is got reassessed through the jurisdictional Customs authorities to this effect, then the IGST, paid on exports of goods, refunded to the said exporter shall not be considered to be in contravention of provisions of sub-rule (10) of rule 96 of CGST Rules.

## CUSTOMS

- Notification No. 42/2024-Customs Dated 6th September 2024:** In exercise of the powers conferred by sub-section (1) of section 25 of the Customs Act, 1962 (52 of 1962), read with section 3 of the Customs Tariff Act, 1975(51 of 1975) the Central Government, on being satisfied that it is necessary in the public interest so to do, hereby rescinds the notification of the Government of India in the Ministry of Finance (Department of Revenue) No. 26/2011-Customs, dated the 1st March, 2011, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) vide number G.S.R. 152(E), dated the 1st March, 2011, except as respects things done or omitted to be done before such rescission.
- Notification No. 43/2024-Customs Dated 13th September 2024:** In exercise of the powers conferred by sub-section (1) of section 25 of the Customs Act, 1962 (52 of 1962) read with section 124 of the Finance Act, 2021 (13 of 2021), the Central Government, on being satisfied that it is necessary in the public interest so to do, hereby amends the notifications of the Government of India in the Ministry of Finance (Department of Revenue), specified in column (2) of the Table to the extent specified in the corresponding entries in column (3) of the said Table.
- Notification No. 44/2024-Customs Dated 27th September 2024:** In exercise of the powers conferred by sub-section (1) of section 25 of the Customs Act, 1962 (52 of 1962), the Central Government, on being satisfied that it is necessary in the public interest so to do, hereby makes the following further amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No. 27/2011-Customs, dated the 1st March, 2011, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R. 153(E), dated the 1st March, 2011.

after S. No. 6, the following serial numbers and

entries shall be inserted

6A	1006 10 90	Rice in the husk (paddy or rough)	10%
6B	1006 20 00	Husked (brown) rice	10%
6C	1006 30 10	Rice, parboiled	10%

after S. No. 7, the following serial number and entries shall be inserted

7A	1006 30 90	Semi-milled or wholly-milled rice, whether or not polished or glazed (other than Parboiled rice and Basmati rice)	Nil
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- **Circular No. 13/2024-Customs Dated 4th September 2024:** Implementation of automation in the Customs (Import of Goods at Concessional Rate of Duty or for Specified End Use) Rules, 2022 in respect of EOUs.
- **Circular No. 15/2024-Customs Dated 12th September 2024:** Extending export related benefits for exports made through courier mode.
- **Circular No. 16/2024-Customs Dated 17th September 2024:** Implementation of automation in the Customs (Import of Goods at Concessional Rate of Duty or for Specified End Use) Rules, 2022 in respect of EOUs.
- **Circular No. 17/2024-Customs Dated 18th September 2024:** Amendment of Circular 07/2024-Customs to further ease the process of publication of automated exchange rate.
- **Circular No. 18/2024-Customs Dated 23rd September 2024:** Classification of laboratory chemicals.

**CENTRAL EXCISE**

- **Notification No. 22/2024-Central Excise Dated 2nd September 2024:** In exercise of the powers conferred by section 5A of the Central Excise Act, 1944 (1 of 1944) read with section 147 of the Finance Act, 2002 (20 of 2002), the Central Government, on being satisfied that it is necessary in the public interest so to do, hereby makes the following further amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No. 18/2022-Central Excise, dated the 19th July, 2022, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R. 584(E), dated the 19th July, 2022,

namely: In the said notification, in the Table, (i) against S. No. 2, for the entry in column (3), the entry “Aviation Turbine Fuel, when cleared for export to countries other than Bhutan” shall be substitute (ii) after S. No. 2 and the entries relating thereto, the following S. No. and entries shall be inserted.

3	2710	Aviation Turbine Fuel, when cleared for export to Bhutan	Nil per litre”
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- **Notification No. 23/2024-Central Excise Dated 2nd September 2024:** Seeks to amend No. 04/2022-Central Excise, dated the 30th June, 2022 to exempt export of Petrol and Diesel from the Special Additional Excise Duty when exported to Bhutan.
- **Notification No. 24/2024-Central Excise Dated 2nd September 2024:** Seeks to amend No. 10/2022-Central Excise, dated the 30th June , 2022 to exempt export of Petrol and Diesel from the RIC when exported to Bhutan. In exercise of the powers conferred by section 5A of the Central Excise Act, 1944 (1 of 1944) read with section 112 of Finance Act, 2018 (13 of 2018), the Central Government on being satisfied that it is necessary in the public interest so to do, hereby makes the following further amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No. 10/2022-Central Excise, dated the 30th June, 2022, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R. 498(E), dated the 30th June, 2022.
- **Notification No. 25/2024-Central Excise Dated 17th September 2024:** In exercise of the powers conferred by section 5A of the Central Excise Act, 1944 (1 of 1944) read with section 147 of the Finance Act, 2002 (20 of 2002), the Central Government, on being satisfied that it is necessary in the public interest so to do, hereby makes the following further amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No. 18/2022-Central Excise, dated the 19th July, 2022, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R. 584(E), dated the 19th July, 2022. In the said notification, in the Table,-(i) against S. No. 1, for the entry in column (4), the entry “Nil per tonne” shall be substituted.

**Sources:** *incometax.gov.in, cbic.gov.in*





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# THE MANAGEMENT ACCOUNTANT

## PAPERS INVITED

Cover Stories on the topics given below are invited for 'The Management Accountant' for the four forthcoming months

November 2024	Theme Energy Consumption Management: A holistic approach to greener future	Subtopics <ul style="list-style-type: none"> <li>⊙ Energy Management &amp; ESG</li> <li>⊙ Challenges of Energy Management</li> <li>⊙ Understanding Energy Management for achieving Energy Security</li> <li>⊙ Renewable Energy Source - A gateway to energy independence</li> <li>⊙ Energy Management Software - dynamic &amp; strategic tool for corporates</li> <li>⊙ Role of CMAs in Energy Audit</li> <li>⊙ Strategic Management of Energy Consumption - a damage control mechanism</li> <li>⊙ Urban Energy Planning - Synchronization of demand &amp; supply chain</li> <li>⊙ Solar Power Generation and Energy Management</li> <li>⊙ Solar Energy Technology and its roles in Sustainable Development</li> </ul>
December 2024	Theme Vikshit Bharat 2047: Transform India to Developed Nation	Subtopics <ul style="list-style-type: none"> <li>⊙ Strategic plan to achieve Vikshit Bharat 2047</li> <li>⊙ Envision India after 100 years of Independence</li> <li>⊙ Vikshit Bharat - Ensuring Farmer Welfare</li> <li>⊙ Vikshit Bharat - New Momentum for Nari Shakti</li> <li>⊙ Vikshit Bharat - Empowering India's young professionals</li> <li>⊙ Vikshit Bharat - Honouring the marginalized</li> <li>⊙ Vikshit Bharat - Northeast - A Growth Engine</li> <li>⊙ Infra at speed and scale</li> <li>⊙ Environment and Sustainability</li> <li>⊙ Nuclear Energy - A transformative energy source of Vikshit Bharat</li> <li>⊙ Budget 2024-25 - Highlights to achieve Vikshit Bharat 2047</li> </ul>
January 2025	Theme Banking in India - Today & Tomorrow	Subtopics <ul style="list-style-type: none"> <li>⊙ UPI - A way forward for cashless Banking</li> <li>⊙ Portfolio management - A new segment of Banking</li> <li>⊙ Banking with the Advent of ML and AI</li> <li>⊙ Infrastructure Financing: Role of Banks and ways to address them</li> <li>⊙ Peer to peer lending a new paradigm for retail loans</li> <li>⊙ Reform, enhance the effectiveness of auditing process</li> <li>⊙ Bank merger - Impact on credit growth</li> <li>⊙ MSME credit assessment model for PSBs</li> <li>⊙ RRBs heading for new face off through IPO</li> <li>⊙ Neo Banking</li> <li>⊙ Role of CMAs in Due Diligence Audit, Risk Based Internal Audit and Stock Audit</li> </ul>
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# RESEARCH BULLETIN

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Research Bulletin, Vol. 50 No. II July 2024 (ISSN 2230 9241)

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We invite you to contribute research paper/article for "Research Bulletin", a peer-reviewed Quarterly Journal of The Institute of Cost Accountants of India. The aim of this bulletin is to share innovative achievements and practical experiences from diverse domains of management, from researchers, practitioners, academicians and professionals. This bulletin is dedicated to publishing high quality research papers providing meaningful insights into the management content both in Indian as well as global context.

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