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Fraud Examination in Government-Aided Institutions: Empirical Analysis of Red Flags, Detection and Prevention

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Abstract
In India, Government-aided institutions receive large sums of grant funding but because they depend on independent auditors, there are serious monitoring flaws that result in rampant financial fraud. In order to examine the underlying causes of audit failures, this study adopts a unique mixed-methods approach to investigate these audit shortfalls by applying Donald R. Cressey's Fraud Triangle model. The research uncovers pervasive financial irregularities and confirms that a significant gap exists between grants allocated and legitimate institutional expenditures. More Importantly, the application of the Fraud Triangle identifies how a combination of pressures, opportunities and rationalizations that drives these fraudulent activities. The study concludes that a policy paradox exists where Governments expand grant allocations into this vulnerable system amplifying fraud risk and underscores the urgent need for systemic reforms to restore financial integrity in the education sector.

Keywords: Asset Misappropriation, Fraud Triangle, Government-Aided Educational Institutions, Forensic Audit Procedures, Red Flag Indicators, Fraud Detection, Fraud Prevention, Institutional Fraud.

Introduction
Government-aided Private schools and Government-aided NGO schools have a special place in the Indian education sector not only are these schools established and run by the private trusts or the NGO's but at the same time, they receive routine financial support and subsidies from Central or State Governments to meet education costs, improve infrastructure and finance student activities. The dual character of these institutions private management and public subsidies is to leverage the efficiency and innovation of non-state actors while ensuring equity of access to and quality of education to historically disadvantaged groups.

The roots of Government support to privately managed schools can be traced back from post-independence era of initiatives to increase access to education without excessive burdening of public administrative capabilities. From the initial Government programs including the centrally sponsored scheme for strengthening of private aided schools which was launched in the 1970s (Ministry of Education, 2023). The following programs including the famous *Sarva Shiksha Abhiyan* & the *Rashtriya Madhyamik Shiksha Abhiyan*, expanded and broadened the scope of this model to include funding for buildings, mid-day meals and training allowances to teachers (Ministry of Education, 2021, 2022). State Governments currently release about approximately 20% to 30% of their total expenditure allocated towards the education sector which was about ₹16,000 crores annually to Government-aided private schools and

Government-aided NGO schools which reflect their pivotal role in enabling universal enrolment and improved learning outcomes.

Though Government oversight over fund disbursement and performance goals, independent chartered accountants (CAs) are left with the prime responsibility to ensure financial propriety. Private and NGO funded schools are beyond the direct audit jurisdiction of the Comptroller and Auditor General of India; instead, the annual audits are held by independent CAs and CA firms whose function is regulated by the Companies Act & the Institute of Chartered Accountants of India guidance (Institute of Chartered Accountants of India, 2023). Audit routines generally involve vouching of salary payments, verification of utilization certificates of funds received under centrally sponsored schemes, physical verification of assets and reconciliation of grant receipts with bank statements. However, evidence of systemic pilferage ranging from ghost beneficiaries on payrolls to misappropriation of capital grants towards unrelated overheads has clearly indicated glaring audit gaps. Auditors have signed off on unqualified reports in the presence of material irregularities in most of the instances, leaving a room full of questions of professional diligence, peer review processes and regulatory vigilance (Sharma & Gupta, 2024; Singh & Rao, 2023).

This study explores the profile and extent of financial corruption in private Government-aided schools and NGO Government-aided schools, evaluates the effectiveness of the governing audit systems, and considers possible policy reforms to support better fiscal management. Based on analysis of audit reports, utilization certificates, and cases of misappropriation, this study seeks to shed light on the loopholes of the current system and propose measures such as the application of risk-based audit planning, the release of third-party performance audits, and improving the training of auditors to ensure public investment in schooling equity translates into concrete improvements in school infrastructure and student achievement.

Literature Review

Several studies of the Indian Government-aided private and Government-aided NGO schools recognize a recurring tension between public priority support and private management strategies. Post-independence policy launched per-student grants for teacher compensation and overall maintenance under the Centrally Sponsored Scheme for Strengthening of Private Aided Schools (Ministry of Education, 2023) later expanded via the *Sarva Shiksha Abhiyan* and *Rashtriya Madhyamik Shiksha Abhiyan* to also cover infrastructure development, mid-day meals, teacher training allowance, and capacity-building workshops for administrators (Ministry of Education, 2021, 2022) Though with promises of almost ₹16,000 crore annually roughly 20–30% of state education expenditure, these schools fall outside direct audit scope by the Comptroller and Auditor General (C&AG) with instead independent chartered accountants engaged by school management committees and assisted by the ICAI guidance (Institute of Chartered Accountants of India, 2023).

A wide range of financial malpractices including misuse of cash, exaggerated or fake expenses and costs unrelated to school operations have been extensively recorded in the literature. Institutional funds which are actually meant for educational infrastructure are diverted into unapproved channels via the existence of ghost workers on the payroll and inflated invoice prices, according to consistent evidence (A. Kumar & Das, 2022; Sharma & Gupta, 2024). The systematic coverup of these malpractices is frequently made possible by auditors who via their lack of vigilance and excessive reliance on management prepared documents which allows the fraud to continue getting unnoticed. Unqualified audit opinions despite obvious substantial misstatements are frequently indicative of auditor collusion. The auditor's shallow physical verification and scant substantive testing (Institute of Chartered Accountants of India, 2023; Patel & Menon, 2021). Furthermore, the ICAI's mandatory professional accountability procedures and peer-review systems have come under criticism for their lax implementation which allows audit firms to avoid disclosing information and failing to disclose irregularities (Singh & Rao, 2023).

There is criticism of the judicial reaction to these fiscal irregularities as excessively passive, frequently calling for nothing more than self-reflective analysis of oneself instead of comprehensive outside forensic audits. This approach causes a lack of taking corrective measures against fraudsters and generating deterrent impacts (Nair, 2023). The lack of aggressive prosecution produces increasing opportunities for oversight with minimal openness and with minimal action towards correction of identified irregularities. The C&AG's evaluations also indicate inherent issues with the auditing, risk analysis, documentary evidence and remediation process quality (Comptroller and Auditor General of India, 2022). With inadequate protections, these governance weaknesses raise the chances of educational institutions misappropriate public assets and undermine the intent of financial accountability and educational equity. Recent scholarly literature supports reforms such as mandatory audit firm rotation to prevent complacency, risk-based audit planning to be prioritized in high-risk regions, improved forensic audit training tailored to the educational sector and the introduction of external performance audits that link academic performance and financial accountability in order to address common issues (Sharma & Gupta, 2024; Singh & Rao, 2023). All of the aforementioned specific reforms would seek to strengthen regulatory frameworks, encourage auditors to be more vigilant in their work and guarantee that government funds are used appropriately to improve student learning opportunities and school infrastructure rather than being wasted through dishonest tactics.

Gap Analysis

A review of the literature reveals that while much research clearly outlines several types of financial impropriety e.g., asset misappropriation, ghost disbursements, and auditor collusion in educational institutions there is a huge gap in studies that move beyond descriptive summaries to systematically derive effective corrective models. Most literature mainly aims to document exceptions and identify audit shortcomings but does not offer detailed, empirically based recommendations or tested countermeasures towards fraud prevention, specifically tailored to such organizations.

There exists a significant research void in the research on the root causes of auditor complacency, particularly in empirical research on the incentive structures, peer review processes, and supervisory regulation that result in auditor complacency or collusion. There is also limited use of internal audit reforms, forensic auditing techniques, and risk-based audit planning in the discussion, particularly in the complex operating environment of Government-sponsored schools and colleges.

Additionally, empirical studies barely bridge the empirical chasm between fiscal compliance audits and student performance, and the effects of fiscal governance weaknesses on infrastructure quality, instructional performance, and student performance are not established.

Another subject that remains unexplored is measuring and implementing international best practices on fraud prevention and internal control strengthening for India's distinctive model of education financing.

Judicial response to fraud unearthed is another field where minimal research is available: research does not frequently study the effectiveness of judicial and administrative sanctions or responsibility enforcement mechanisms after audits. This absence offers an incomplete image of the systemic barriers to deterrence and corrective action. More broadly, the research gap is in moving from problem identification to solution formulation via longitudinal studies examining the effects of audit reforms, in-depth analysis of auditor behavioral dynamics, and cross-sector comparisons of fraud-proofing designs—thereby laying the basis for evidence-based policy reforms that advance financial transparency and secure educational equity in Government-supported institutions.

Objectives

The main objective of this research is to frame a sound framework for analyzing and controlling financial fraud educational institutions. This is done by incorporating theoretical as well as practical insights as follows:

- Select and tailor an extensive set of red-flag indicators financial anomalies, behavioral warnings, document inconsistencies, and governance deficiencies that indicate elevated fraud risk in grant-reliant educational institutions.
- Integrate theoretical understanding, prevention methods into practicable advice for policymakers, audit regulator organizations, and school administrations to promote audit rigor, strengthen governance systems, and protect educational resources for inclusive learning outcomes.
- Suggesting targeted anti-fraud measures based on global best practices, such as Organization for Economic Co-operation and Development (OECD) anti-fraud risk-management guidelines and control models from similar jurisdictions, to enhance segregation of duties, authorization controls, ongoing data-analytics auditing, whistle blowing mechanisms, and systematic risk assessments specific to grant utilization procedures.

Research Methodology

The study will identify the conditions that can compel the auditors to help government-aided education institutions hide financial misconduct. This inquiry aims to determine the conditions and motivations responsible for the cooperation by the auditor in covering up the fraudulent activities taking place in education institutions while shedding light on ways to detect, prevent and recommend steps to combat fraud in educational intuitions.

In order to analyze the phenomenon properly, the research uses primary, secondary sources of information:

Primary Data: This will comprise meticulous analysis of the audit documents, financial statements and supporting materials for the selected Government-aided educational institutions. Examples in the paper are drawn from the actual financial records of real schools; however, they have been modified for better comprehension and also to ensure the confidentiality of the schools who are found engaged in questionable accounting practices. In addition to the above, qualitative data will also be obtained through direct observation by firsthand experience, school authorities and statutory auditors to provide experiential insights on the audit techniques and the enabling of fraud.

Secondary Data: The research conducts a systematic analysis of documents, case illustrations, and enforcement actions by audit oversight bodies including the Comptroller and Auditor General of India (C&AG), the Institute of Chartered Accountants of India (ICAI), judicial rulings and relevant governmental agencies. This will give contextual background, validation and triangulation for the results based on primary data.

The methodology involves a thematic content analysis of qualitative information, a quantitative analysis of identified financial misconduct through audit reports and an in-depth analysis of the institutional drivers of auditor behavior. This mixed-methods approach aims to unveil the operational dynamics driving audit failures as well as the socio-psychological drivers for auditor complicity, thus informing the development of area-specific reforms in audit supervision and deterrence of fraud. The analytical framework will adopt the structure following Donald R. Cressey's Fraud Triangle model which holds that fraud is present where the three components—pressure, opportunity and rationalization co-exist in an individual or collectively, thereby offering an analytical systematic theoretical perspective for examining the behavior by the auditors in enabling the hiding of fraud.

Audit & Compliance Procedures for Education Institutions in India[1]

The following audit procedures are equally applicable to all government-aided educational institutions. These might be established as Societies under the Societies Registration Act, 1860; Public Charitable Trusts under State Public Trusts Acts (such as the Maharashtra Public Trusts Act, 1950); or under Section 8 Companies of the Companies Act, 2013. Each one is governed by the same Standards on Auditing, General Financial Rules, and grant-specific rules. Statutory auditing of educational institutions comprises a formal review of grant utilization, collection of fees, expenditure, assets, statutory compliance, internal controls and reporting. All this is in conformity with the Standards on Auditing (SA), relevant statutes as well as Government Grants' General Financial Rules (GFR).

Revenue and Grant Verification

The auditor commences the process by ensuring that the fee schedule approved by the governing body of the institute is consistently applied and duly documented (SA 230; SA 500). Records of enrolment are reconciled with entries in the cash book and related bank deposits, while a sample of fee concessions and scholarships are subjected to testing in determining proper approval (SA 330). Government grants are then tested by reviewing sanction orders so as to ensure receipt deposits are made only in bank accounts earmarked for specific grants. Utilization certificates presented in grant-giving agencies are carefully checked for completeness and accuracy, and all grant proceeds—it goes without saying—all interest accrued are verified against provisions in GFR 2017 (SA 250; SA 505).

Expenditure Verification

Payrolls involve vouching salaries against sanctioned pay scales, appointment letters and attendance records. Provident Fund, TDS and bonus statutory deductions are verified for timely remittance in respect of provisions stipulated in the Employees' Provident Funds and Miscellaneous Provisions Act 1952, Income Tax Act 1961 and Minimum Wages Act 1948 (SA 500; SA 250). Cost of operations in utility consumption, upkeep and study materials are

[1] This section is compiled from materials and resources issued by the Institute of Chartered Accountants of India (Standards on Auditing, 2023) and the Ministry of Finance, Department of Expenditure (General Financial Rules, 2017). For information on this subject, please refer to the respective government websites.

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http://eelet.org.uk

vouched against vendor bills and purchase orders. Payment-authorization hierarchy is verified by the auditor and ensured that procurement in respect of grant-aid items is in accordance with GFR 2017 Chapter 9 standards (SA 330).

Assets and Liabilities Verification

Physical inspection is made for fixed assets which are reconciled with the register of assets, purchase invoices and depreciation schedules in line with Schedule II Companies Act 2013 (SA 501; SA 540). Further verification is also made for insurance coverage and ownership documentation. Current assets such as bank and cash balances are also supported by external confirmations and bank counts, while investments and receivables up to outstanding fees and grants are assessed for valuation as well as recoverability (SA 505; SA 501).

Statutory Compliance Testing

Taxation and regulatory compliance are identified by checking income-tax returns, TDS and GST return and professional-tax remittances in line with Income Tax Act 1961 and GST Act 2017 (SA 250). Mandates in the educational sector such as compliance with the Right to Education Act 2009, renewals of boarding affiliation, as well as safety-certificate renewals are also checked for conformity with applicable state legislation.

Internal Controls Review

A comprehension of the internal control environment of the entity is derived when segregation of cash handling duties, authorizations for payments and record-keeping are assessed. Bank reconciliation procedures are tested by the auditor, while he reviews budget-monitoring reports prepared by management (SA 265; SA 315; SA 265). Compliance with keeping statutory registers in respect of such items as governing-body minutes and records of compliance with trusts deeds is verified in line with Section 88 of the Companies Act 2013 and Societies Registration Act 1860 (SA 250).

Reporting

At later stages, analytical review procedures involving ratio analysis and budget variance evaluations are used to identify unusual trends (SA 520). Written representation is obtained in a letter from management to confirm information completeness and grant stipulations (SA 580; SA 560). Finally, an audit report is issued in compliance with SA 700, expressing an opinion about financial statement fair presentation and grant use. A management letter, drafted in accordance with SA 265, reports internal controls deficiencies and recommendations for financial control improvements.

Procedure Area	Standards/Laws	Key Focus
Fee Collections	SA 230; SA 500; SA 330	Governing-body approval; reconciliation; concession testing
Government Grants	SA 250; SA 505; GFR 2017	Sanction-order review; receipt confirmation; utilization audit
Salaries & Statutory Deductions	SA 500; SA 250; EPF Act 1952; IT Act 1961; MW Act 1948	Payroll vouching; statutory-deduction verification
Operating & Grant Expenses	SA 330; GFR 2017 Ch. 9	Invoice vouching; authorization hierarchy; procurement norms

European Economic Letters
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Vol 15, Issue 3 (2025)
http://eelet.org.uk

Fixed Assets	SA 501; SA 540; Companies Act 2013 Sch. II	Physical verification; depreciation; insurance confirmation
Current Assets & Receivables	SA 505; SA 501; SA 540	Cash counts; bank confirmations; receivables assessment
Tax & Regulatory Compliance	SA 250; IT Act 1961; GST Act 2017; RTE 2009	Tax filings; statutory dues; education-act adherence
Internal Controls	SA 315; SA 265	Segregation-of-duties testing; control-deficiency reporting
Documentation & Governance	SA 250; Companies Act 2013 §88; Societies Act 1860	Statutory register maintenance; governance-record review
Reporting	SA 520; SA 580; SA 560; SA 700; SA 265	Analytical review; representations; audit opinion; management letter

Table 1: Summary of Standards, Laws, and Procedures.

The Standards on Auditing (SAs) and the General Financial Rules (GFR) of 2017 lay out a comprehensive framework for determining responsibility and the effective use of finances from the public purse in government-aided private educational institutions. Even so, empirical inquiries suggest a continuous failure to comply with those provisions, reflected in a lack of internal controls and weak management oversight. This institutional failure can be traced to a pervasive absence of integrity and due diligence at every level of governance: the legislating bodies often pass programs and legislations that open up exploiting loopholes such as the recent spurt of incremental grants without a corresponding control mechanism; independent auditors might succumb to the pressure of commercial considerations and thus compromise the stringency of evaluation; and judicial and regulatory bodies often have limited success in curbing established infringements. Similar failure exists in other regulatory regimes including the Maharashtra Self-financed Schools Act, 2012, the Maharashtra Educational Institutions (Regulation of Fee) Act, 2011 and relevant labor and reservation legislations. The gap between stated standards and their practice underscores the need for effective mechanisms for enforcement and a regime of compliance that is internalized in order to translate strong normative frameworks into effective outcomes in financial governance.

Fraud Schemes in Educational Institutions

Educational institute fraud is an increasingly prevalent issue in India, especially within Maharashtra, a region in which public and private educational institutions direct massive flows of government grants, tuition fees, and other monetary assets. Educational institute fraud can generally be characterized as the theft or misuse of institutional funds, usually masked by questionable accounting practices or complicity among stakeholders (Button & Brooks, 2016).

The diagram provided shows the flow of funds that reveal vulnerabilities in educational institution's finance systems. Unrecorded school revenues, related-party transactions and lending activities usually evade transparent accounting procedures. Such funds, along with legitimate government subsidies, are channeled into school bank accounts. Payments from there could be diverted into personal spending, unauthorized lending services, or related-party transactions. The most important enabler in the process is the role played by the school accountant, who could disguise irregularities through the preparation of false support documents, altering bank statements, or colluding with account auditors. In certain instances, the irregularities remain undisguised, depending on fragile mechanisms of supervision.

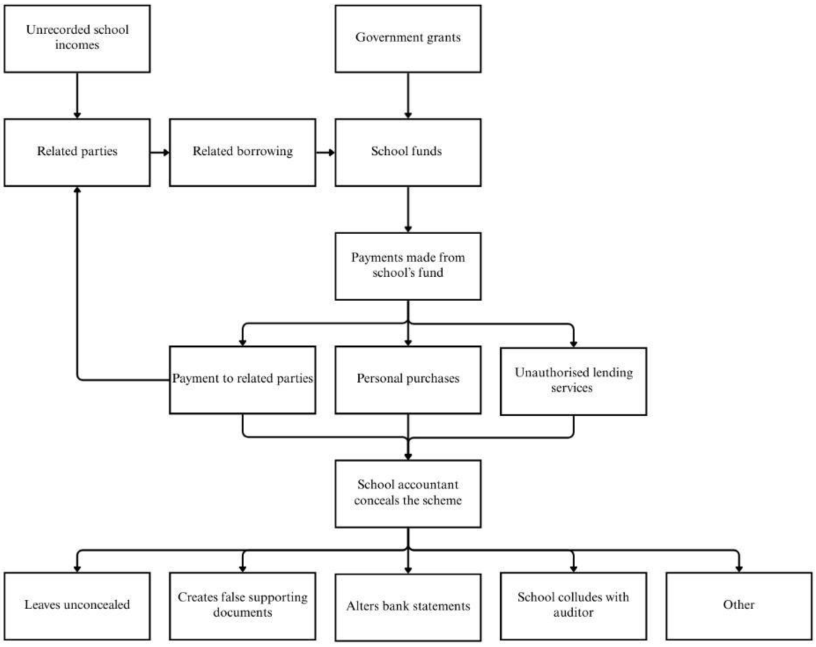

Figure 1: Flowchart depicting common methods of misappropriation and concealment of institutional funds (author's own work).

These schemes pose serious risks in addition to fraud. The use of layering in transactions, the use of related-party transactions and the use of obscurement through false records are all consistent with methods typically linked with money laundering (Ferwerda, 2009). Furthermore, the potential for kickbacks to government education officers, who themselves could be motivated to turn a blind eye despite statutory controls is another red flag (Transparency International, 2020). This paper does not assert the presence of substantiated money laundering or bribery in the education field, but the noted patterns are ones that need investigation, in part considering public sector governance weaknesses and dependence on education spending as a development priority in India.

Classification of education institution fraud schemes:

- Overstatement of expenses
- Unauthorized loans
- Personal purchases through false invoicing
- Understatement of income
- Related party borrowing

Overstatement of Expenses

The rise in costs in educational institutions forms a fraudulent practice whereby institutions deliberately inflate their recorded expenses to siphon off grant money from genuine educational projects (Transparency International, 2019). One of the most common methods is to use fictitious invoices, whereby administrators draft completely fictitious bills on a blank paper usually handwritten in local languages or using obscure scripts or oblige genuine suppliers to issue fake invoices for goods/services not provided (Flagright, 2025; Houston Community College System, 2024). Another used method is related to fabrication of invoices whereby genuine billing forms are altered by changing quantities, unit rates or amounts on the original source invoices, then entering the inflated figures in the institution's accounting records, effectively masking the unauthorized change in costs. Finally, the overstatement in salary expenses occurs when the pay grades are falsified beyond authorized ceilings or unauthorized allowances are claimed leaving the government pressured and to ultimately release larger salary grants under fraudulent pretexts.

Although verification procedures presently lack effectiveness due to negligence or potential collusion between institutions and education officers which permits trustees and administrative personnel to misappropriate institutional funds for personal gain while preserving the facade of legitimate operational expenses. This scheme proves particularly effective within educational institutions owing to the routine character of such expenses and the generally minimal oversight is applied to mostly smaller, recurring operational costs.

Unauthorized Loans

Indian educational institutions operate under the regulatory structure which mandates strict controls over lending activity making unauthorized lending to any individual or company a significant breach of compliance. Societies registered under the Societies Registration Act of 1860 are prohibited from running loan operations extending beyond the stated educational objectives of the society while Public Charitable Trusts that fall under the purview of a State statute like the Maharashtra Public Trusts Act of 1950 face similar prohibitions that aims at protecting charitable assets for specified beneficiaries. Section 8 of the Companies that are established under the Companies Act of 2013 and are registered as not for profit companies are categorically prohibited from engaging in income generating activities that would financially accrue to the respective individual members (Ministry of Corporate Affairs, 2013). Despite the legal prohibitions, management and officials of the trustee often grant loans to individuals frequently to themselves or some related parties which go unpaid intentionally and permanently remaining in the balance sheet as loans and advances. This practice actually converts institutional assets into personal benefits while sidestepping the proscription of distributing profits since the "borrower" enjoys resultant economic benefits without a legal duty to repay (Henry et al., 2012; Kushwaha & Dixit, 2024).

Personal Purchases Through False Invoicing

Trustees and administrative staff abuse their procurement discretion to acquire personal items using institutional funds by creating phony invoices. This scheme covers the procurement of personal electronics, home entertainment systems, jewelry, and other household consumable items that are later accounted for as legitimate institutional disbursements under equipment purchases, office supplies, or learning materials. The individual involved in this practice either collaborates with lenient vendors who issue deceptive invoices claiming personal items as institutional purchases, or creates totally fictional invoicing documents. The implementation of this ruse is made possible by lax internal controls over procurement procedures and mediocre physical verification protocols for acquired assets. Personal items acquired through this method oftentimes fail to arrive at institutional premises, while the financial statements reflect what would appear as legitimate company expenses. This scheme is rampant in most institutions but however fails to get reported because of either staff are acquainted with the wrong doers or they fear termination if the crime is reported, which could be deterred with the presence of structured reporting channels to enforcement agencies governing educational institutions (Baker Tilly., 2024; Vendr, 2024).

Understatement Of Income

The best way to receive a grant is by overstating expenses as mentioned above or simply failing to record incomes, creating no audit trail in the process. It involves the deliberate hiding or withholding of legitimate income earned by institutions for the purpose of creating a semblance of financial need and thus justifying grant requests for higher amounts. Educational institutions can underreport student fee collections by maintaining parallel systems for cash collections, hide receipt of donation gifts by withholding proper acknowledgment, or defer income recognition within different periods of accounting. The suppressed income might be misappropriated for personal gain or saved in hidden accounts for later use by trustees and administrators (Association of Certified Fraud Examiners, 2020; Kirya, 2024; Wrenn, 2025).

This fabricated decrease in reported income at the same time decreases tax obligations and gives impetus for higher grant requests based on alleged financial need. This was found to be highly effective because grant awarding bodies generally assess financial need based on audited financial statements without independent verification of sources of income.

Related Party Borrowing

Educational institutions possessing sufficient cash reserves and operational liquidity engage in the artificial creation of loan obligations from external entities or insider trustees for the purposes of laundering undisclosed sources of income or converting legitimate institutional funds into personal gains. This practice entails documenting cash receipts derived from undisclosed income sources such as unreported donations, fee collections, or rental income as loan proceeds instead of classifying them as institutional revenue.

In another approach, trustees may extend ‘loans’ of institutional funds to themselves via related entities, thereby establishing fictitious loan obligations that validate cash outflows while circumventing the acknowledgment of the economic substance inherent in the transaction (Wells, 2017). This strategy facilitates tax avoidance concerning the concealed income while also offering a means for the personal appropriation of institutional assets. The constructed loan obligations are typically arranged without authentic repayment conditions or collateral, which serves to highlight their fraudulent characteristics. Related party borrowings not only are fraudulent when not disclosed but poses major risk of money laundering with government intermediaries playing a part by negligence or probable collusion in many cases (Mao, 2022).

Red Flags in Educational Institutions

Based on the most common schemes observed in most of the educational institutions, the following signs could indicate signs or vulnerability to fraud or suggest that fraud has occurred:

- Missing or inadequate supporting documents for regular expense such as utility bills, maintenance or office supplies, in the school’s financial records.
- Repeated use of handwritten receipts, altered invoices or loose-leaf records instead of standardized and official documents.

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http://eelet.org.uk

- Unusually high cash payments or petty cash payments or petty cash withdrawals for institutional purchases that typically require checks or electronic transfers.
- Loans and advances issued by the institution to individuals including staffs or related parties contrary to governing statutes or remaining outstanding beyond reasonable periods.
- Related party transactions (RPTs) involving trustees, management or staff that aren't disclosed or lack supporting agreements.
- Significant discrepancies between the asset registers and the results of physical asset verification particularly for items such as electronics, laboratory equipment, or instructional materials.
- Salary expenses that exceed reasonable levels for the verified number of teaching and non-teaching staff as per market standards or government norms.
- Employees listed on payroll who don't appear on attendance records or can't be physically identified in the institution.
- Overstated expenses or unexplained spikes in categories of expenditure especially near or during the end of financial periods.
- Parallel cash collection system for student fees or other revenues that aren't integrated with the official accounts.
- Underreported income in form of tuition, donations or other legitimate sources without adequate justification or disclosure.
- Institutional purchases classified as educational equipment but matching personal consumption patterns of the trustees or the staffs.
- Recurring advances or loans on the books of account that lack evidence of recovery, prepayment terms or formal approval.
- Delays or reluctance by management to provide the auditors with access to financial records, personnel files, premises, etc.
- Frequent changes in accounting or administrative staff very particularly in positions responsible for handling funds.
- Organizational structures involving multiple entities with unclear links to educational activities, possibly used to move or obscure funds.
- Lack of compliance with grant utilization certificates or certificates that can't be reconciled with actual expenditure.
- Auditor recommendations or findings regarding financial irregularities that are repeatedly left unaddressed in the following subsequent years.
- Procurement from vendors with personal or familiar connections to the trustees/administrators or without competitive bidding.
- Routine override of internal controls or standard financial approval processes by small group of individuals or a single authority in the institution.

Detection of Fraud Schemes in Educational Institutions

Institution fraud can be committed by any member of the organization whether a senior executive or a facilities attendant but a rigorous examination of financials records elucidates the overall magnitude of the wrong doing and uncovers the involvement of external parties, hereby providing a robust evidentiary foundation for the fraud examination process (Association of Certified Fraud Examiners, 2023).

The following case study illustrates the concept involved in the fraud examination process. Although the financials are based on an actual incident, the names and certain other facts have been changed for the purpose of illustration.

Income & Expenditure Account for the year ended on 31st March

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Salaries to Teachers & staff	₹ 1,18,16,745.00	**By Grant Received**	
To Medical Expense	₹ 1,64,861.00	Salary Grant from Govt	₹ 1,18,16,745.00
To Extra Salary Grant Expense	₹ 3,42,536.00	Medical Grant	₹ 4,88,599.00
To Accidental Insurance Expense	₹ 6,372.00	Extra salary Grant	₹ 3,42,536.00
To Advertisement Expense	₹ 3,000.00		
To Audit Fees Accrued	₹ 15,340.00		
To Computer Repair Expense	₹ 20,500.00		
To Dead Stock	₹ 17,000.00	By Accident Insurance Grant	₹ 6,372.00
To Garden Expense	₹ 12,050.00	By Bank Interest	₹ 10,372.00
To Income Tax Fee	₹ 4,800.00	By Non Salary Grant	₹ 3,36,205.00
To Electricity Expense	₹ 29,595.00	By Revenue Stamp Income	₹ 149.00
To Telephone Expense	₹ 9,118.00	By Sanstha Usanwar	₹ 1,12,700.00
		By SC Student Grant	₹ 3,033.00
To Excess of Income over Expenditure Transferred to Balance sheet	₹ 6,74,794.00		
	₹ 1,31,16,711.00		**₹ 1,31,16,711.00**

Balance Sheet as of 31st March

Liabilities		Amount (Rs)	Assets		Amount (Rs)
Capital/Reserve Fund			**Fixed Assets**		
Opening Balance	₹ 4,89,000.00		Computer		₹ 48,700.00
Add : Surplus	₹ 6,74,794.00	₹ 11,63,794.00	Furniture		₹ 27,910.00
			Printer		₹ 17,000.00
			TV		₹ 43,495.00
			Loans Recievable:		
			H.M. Usanwar Temp Loan		₹ 3,65,715.00
			Temp Loan		₹ -16,900.00
			Usanwar Aditya S.		₹ 16,000.00
			Cash & Bank Balance		
			Cash	₹ 3,352.80	
			SDCB-501	₹ 3,24,674.80	
			SDCB-008	₹ 3,33,846.40	₹ 6,61,874.00
Total		**₹ 11,63,794.00**	**Total**		**₹ 11,63,794.00**

Figure 2: Financial statement excerpt derived from actual data with certain figures and names altered to maintain confidentiality while illustrating key financial components essential for audit analysis.

Overstatement of Expenses

Fraudulent grants received from the Government cause the greatest financial damage by dollar amount. Fraud detection for the source of such fraudulent gain is hence paramount when investigating, since these funds pose a potential risk of funding criminal activities. A fraud examiner thus must estimate the salary of the school using publicly available data and in the present case the UDISE+ portal and the Schedule 'C' of the Maharashtra Employees of Private Schools (Conditions of Service) Rules, 1981 were the primary sources for calculating salary disbursements. Since compensation structures differ across provinces, states and jurisdictions, it is recommended to check the statutory requirements that govern the educational institutions in their respective jurisdiction.

European Economic Letters
ISSN 2323-5233
Vol 15, Issue 3 (2025)
http://eelet.org.uk

Classes Taught				Nature of Appointment		Gender	
1-Primary	0	2-Up.Pr.	4	Regular	12	Male	8
3-Pr. & Up.Pr	2	5-Sec. only	6	Part-time	0	Female	4
6-H Sec only	0	7-Up pri and Sec.	0	Contract		Transgender	0
8-Sec and H Sec	0	10- Pre-Primary Only.	0	Total			12
11-Pre- Pri & Pr	0			Academic Qualification			
Teachers Aged above 55			0	Below Graduate	1	Graduate	7
No. of Total Teacher Received Service Training			0	Post Graduate and Above			4
Total Teacher Involve in Non Training Assignment			0	Total Teacher Trained in Computer			12

Figure 3: School report card retrieved from UDISE+ portal.

The salary estimations are predicated on the number of reported teachers via the UDISE+ portal as shown in the figure above. Average market salaries have been used and are calibrated as a *liberal* or *upper-bound* approximations when calculating the salary cost for all personnel employed by the institution. While Schedule 'C' of the Maharashtra Employees of Private Schools (Conditions of Service) Rules, 1981 delineates the statutory minimum and maximum remuneration for a position, actual compensation (including bonuses and allowances) falls within the first three quartile of the prescribed salary range.

Position	**Average Government Notification Annual Salary (₹)**	**Average Market Salary for Mumbai (₹)**[2]
Trained Primary Teachers: S.S.C. and D.Ed. (Two years) [S-13]	₹8,86,800	₹4,40,000
Primary Teachers: Head Master of Primary School (having enrolment over 200 pupils or I to VII Stds.) [S-15]	₹10,44,600	₹7,50,000
Non-Teaching Staff in Non-Government Junior College of Education: Senior Clerk [S-8]	₹6,39,600	₹2,06,976
Non-Teaching Staff in Non-Government Junior College of Education: Peons [S-1]	₹3,75,600	₹1,80,000

Table 2: Comparison of average salary slabs by position as per Schedule 'C' of the Maharashtra Employees of Private Schools (Conditions of Service) Rules, 1981, alongside prevailing average market salaries.

Calculation of Salary Cost

Position	**Number of Staff**	**Annual Salary per Person (₹)**	**Total Annual Cost (₹)**
Regular Teachers	12	₹4,40,000	₹52,80,000
Principal/Headmaster	1	₹7,50,000	₹7,50,000
Clerks	2	₹2,06,976	₹4,13,952
Peons	3	₹1,80,000	₹5,40,000
TOTAL	18	₹-	₹69,83,952
Add: Miscellaneous/Unaccounted Salary (10%)			₹6,98,395

[2] Average market salary for Mumbai compiled from Indeed.com and PayScale.com as of 19th September 2025.

Estimated Salary Cost **(A)**			₹76,82,347
Grant for Salary **(B)**			₹1,21,59,281
Difference in Estimated Salary Cost and Grant for Salary **(A) – (B)**			₹44,76,934

Table 3: Estimated salary cost calculation for school personnel based on publicly available data and benchmarked market information, illustrating the projected annual compensation for various positions within the institution.

Based on the estimate, estimated salaries exceed the actual grant received by 36%. Considering that the teachers form most of the employed personnel for which grants are received coupled with the sheer difference in estimated salary as compared to the grant received warrants a detailed investigation into the payroll and internal control practices in such institutions.

Unauthorized loans

Educational Institutions—private, non-profit or Government also experience budgetary shortfalls whose implications threaten continuity of operations and educational standards. To bridge such shortfalls and make investments in infrastructure or technologies, they are required to typically borrow from regulated financial intermediaries such as commercial or NBFCs rather than from individual members of the public.

However, in the above balance sheet, the institution has received a loan to the tune of ₹16,900. This raises the following red flags:

- Loans received are from parties not authorized to lend (lender details are not mentioned/missing).
- Institutional funds are capable of funding operational and capital needs without needing to resort to loans.

Related Party Borrowings

Irrespective of how an educational institution is incorporated legally aren't legally sanctioned to function as financial intermediaries and are precluded from extending credit to external parties as mentioned in the previous section.

In the above balance sheet, the institution has extended financing to the tune of ₹3,81,715 to two individuals namely, *H.M. & Aditya S.* This poses a significant risk as the funds can be shown as loans and advances (asset), however it could be a one-time payment per se rather than a genuine loan. This raises the following red flags:

- Loans are furnished to individuals who may not satisfy loan covenants.
- Individuals who receive the loan aren't subject to KYC or CDD norms set by banks and financial institutions.

Understatement of Income

Incomes for educational institutions come in many forms and ways such as fee collections, rental receipts, unutilized balances and other sources. However, these incomes will never show up on published financial statements as seen in the financials above. Instead, such funds may be diverted to related parties or slush funds or merely be shuffled between bank accounts to present an artificially weak financial position and thereby justify larger grant allocations. This practice has been noted as a form of financial misreporting and misuse of discretionary funds in research and educational institutions which undermines transparency and accountability in the management of funds (Wrenn, 2025).

A fraud examiner's responsibility in educational institutions is to detect and verify various discrepancies across disbursements, incomes and loans assessing the risk of fraud and illegal activities such as money laundering and tax evasion. Effective fraud detection is a combines traditional forensic accounting with advanced data analytics techniques such as anomaly detection, behavioral analytics and machine learning algorithms which helps in continuously monitor transactions for suspicious patterns or signs (Al Marri, 2020; Chen et al., 2025). Making use of the publicly available data and normative salary benchmarks alongside with internal records enables fraud examiners to identify unauthorized loans and inflated expenses. These data driven methods improve detection's speed and accuracy and hence reducing financial damage and helping prioritize high risk audits. Recently, several frameworks have been developed specifically for educational institutions which highlight the importance of staff training and adopting new digital tools (Hilal, 2022; Motie, 2024).

Prevention of Fraud Schemes in Educational Institutions

The following preventive controls reduces the risk of fraud schemes in educational institutions:

- Encourage and promote an ethical culture with a clear leadership communication and accountability emphasizing a zero tolerance for fraud.
- Implement a written anti-fraud polices and code of conduct specific to the educational institutions.
- To make sure segregation of duties in financial processes also even using manual checks where resources are limited.
- Necessitate dual approvals on significant expenditures and related party transactions (RPTs).
- Conduct a frequent and surprise audits including physical verification of assets.
- Create protected, private channels for whistleblowing to promote reporting.
- Encourage transparency by informing stakeholders about grant utilization and financial disclosures.
- Give administrators and employees regular, specialized fraud awareness training.
- Involve representatives of the community or independent members in governance and audit supervision.
- Implement timely and regular anti-fraud remedial measures.
- With the right documentation, standardize the grant management, admissions and procurement procedures.
- Adopt technology controls that are appropriate for the institution's capacity, such as basic digital record-keeping.
- To avoid collusion, rotate employees in important finance positions.
- Urge departments to communicate openly in order to spot anomalies early.
- Review and update controls often to satisfy new compliance requirements and fraud risk.
- Demand thorough reporting of all revenue sources, including fees and donations, along with an independent check of bank deposits.
- Put risk-based audit planning into action, paying particular attention to high-risk areas including hiring costs, asset acquisition, and grand fund use.

Although the aforementioned preventive measures have the theoretical ability to reduce the risk of fraud in educational institutions, their implementation in the Indian context is hampered by several persistent issues. Even so, the regulatory framework, as expressed in laws, regulations, and various forms of supervision, addresses every aspect of operations and assigns enforcement duties. In reality, high levels of complexity can encourage the spread of fraud schemes rather than impede them.

The multi-step approval process for grant disbursement which usually involves several administrative levels from the institutional head to state and treasury officials, is a major source of concern. Although this structure is meant to reduce risk and guarantee accountability, research shows that it frequently creates chances for payoff solicitation, rent seeking and bureaucratic cooperation, institutionalizing channels for corruption (Saraf & Jain, 2012). According to UNESCO's empirical research highlights that the Indian education system is consistently susceptible to "systematic corruption" and other administrative rungs which compromises the effectiveness and spirit of regulatory regulations and compliance (UNESCO, 2013). It is important to note that this research doesn't imply beyond a reasonable doubt that corrupt actions are the cause of every observed cost overstatement such as salary grants that exceed actual requirements but given the thorough anti-fraud framework, the persistent occurrence of such anomalies suggests that the current framework may actually be used to conceal rather than reveal illegal financial behavior (Rani, 2019).

Educational institutions in lower-tier urban and rural regions are particularly vulnerable to insufficient oversight due to less stringent enforcement, limited accounting competencies among local administrators and a lack of reliable technological systems. The fact that daily petty corruption is most noticeable at the operational level, with marginalized communities being disproportionately impacted, exacerbates these flaws (Transparency International, 2013). Legal enforcement and judicial reaction have been shown to have deficiencies, which further reduces the deterrence impact of the current anti-corruption system. Research continuously shows that financial crimes in the education sector are dealt with leniently and that conviction rates are low. This undermines the credibility of regulatory agencies like the Central Vigilance Commission (CVC) as well as the deterrent effect of laws (S. Kumar & Tapas, 2025). When combined with institutional inertia, this regulatory ambivalence discourages whistle blowers and makes it more difficult to report anomalies to the proper authorities (Biplab Kumar Lenin, 2019).

All these operational and structural flaws work together to create an environment of impunity that encourages fraud schemes to continue and erodes public trust in regulatory and educational organizations (Criminal Law Journal, 2025). These results highlight the urgent need for regulatory reform as well as a cultural change in India's educational system towards moral leadership and efficient independent enforcement.

Challenges

Various states have numerous enforcement agencies, in the case of Maharashtra, agencies such as the Maharashtra Anti-Corruption Bureau (ACB), Economic Offenses Wing (EOW) of the Maharashtra Police, Special Investigation Team (SIT), CBSE Vigilance Cell and the State Education Vigilance Division enforce and investigate frauds the education sector. However, while these agencies have strenuous investigations, they have a low conviction rate, as low as just 10% of cases (NDTV, 2025). While the reason for such low convictions could vary from negligence or pressure from political parties who have interest in education institutions, this is up for debate which isn't the crux of this paper. The cases which are convicted are handled by courts which are overburdened by cases which fail to prosecute in a just manner.

Example

In Central Bureau of Investigation v. State of Maharashtra (2022), the Bombay High Court declined to frame charges under the Prevention of Corruption Act against school officials, stating that "technical discrepancies in the utilization of grants are best addressed by detailed audit reports rather than criminal proceedings" (Bombay High Court, 2022)

The failure to set a stern tone by the judicial system leads to offenders having no regard for the rules set in place leading to such offenses being repeated. This however is caused due to the following reasons:

- Slow and delayed investigations by agencies due to layered bureaucracy and the lack of trained forensic accountants and digital experts give fraudsters an opportunity to cover up their tracks by altering or destroying evidence causing hinderances in the investigative procedure by diminishing the quality of the evidence (Saraf & Jain, 2012; Transparency International, 2013).
- Due to the inherent lack of relevant, material and admissible evidence, courts reject the evidence. The lack of time and resources compel the courts to order re-audits of institutions by financial experts before framing criminal charges which eventually represent financials in favor of the wrongful institutions (Criminal Law Journal, 2025; S. Kumar & Tapas, 2025).

While these are the shortcomings in the judicial and enforcement, the whistleblowing procedures are nothing short of a failure since the fear of retaliation among staff covers reporting, this is due to the Whistle Blowers Protection Act, 2014 which covers only public servants, this coupled with the lack of awareness and administrators maintaining close ties with political parties derails one of the most significant detections for a fraud, i.e. tips from employees or third parties[3] (Abbas & Ashiq, 2020; Nishith & Desai LLP, 2025; The Amikusqriae, 2024).

The Fraud Triangle Analysis

The Fraud Triangle is a framework for understanding why individuals commit fraud. It was established by American Sociologist Donald R. Cressey, which developed from his final hypothesis of his research published in *Other People's Money: A Study in the Social Psychology of Embezzlement.* He hypothesized that employees who become "trust violators" do not take up jobs with the intent of stealing, rather they are driven to embezzlement when personal financial pressures and circumstances tempt them, while still they to maintain their image of being trustworthy (Cressey, 1953).

Cressey's Hypothesis

Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable, are aware this problem can be secretly resolved by violation of the position of financial trust, and are able to apply their own conduct in that situation verbalization which enabled them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of entrusted funds or property.[4]

[3] According to "Report to the Nations", the Association of Certified Fraud Examiners found 43% of all fraud cases are uncovered via tips, far outpacing internal audit, management review, or external audit detections.

[4] Donald R. Cressey, Other People's Money: A Study in the Social Psychology of Embezzlement (Montclair: Patterson Smit, 1973), page 30

This hypothesis came to be known as the Fraud Triangle. The triangle is made up of three sides elements namely, perceived non-sharable financial/non-financial needs (pressures), the perceived opportunity, and the rationalization.

Pressures

The first element of the Fraud Triangle, non-shareable problems or pressures can be both “financial” and “non-financial”. Financial pressures can be solved by theft of cash or other assets to pay off debts or satisfy other needs. Non-financial pressures are those problems which could be solved by misappropriating funds through violation of trust.

Opportunity

The perceived opportunity or opportunity constitutes the second element and is made up of two components: general information and technical skills. General information is the knowledge that an employee’s position could be violated. Technical skill refers to the ability of the employees needed to commit the violation.

Rationalization

It is the rationalization of the violation before it has taken place and not after. It is a part of the motivation as violators do not view themselves as criminals, rather they justify their misdeeds before they commit the crime.

While Cressey’s study was done in the early 1950’s it remains relevant since employees still face the pressures, opportunity and rationalization they used to. Similarly examining the pressures, opportunity and the rationalization of auditors in regard to auditing and re-auditing financials of educational institutions is critical to identify risk factors and implement controls since their actions can significantly influence the outcome of investigations and the likelihood of securing convictions.

Fraud Triangle Analysis of Auditors in India

Auditors play a pivotal role in auditing and re-auditing education institutions. Auditors owe a duty of loyalty to users of the financial reports the certify but auditors are hired and paid by the institutions whose reports they review; the duty of loyalty an auditor owes to investors can be at odds with the auditors need to the company-its clients-happy as well as with the institution’s desire be perceived as compliant with rules and regulation. A violation of such duty is a breach of an auditors professional and personal ethics.

Pressure in the form of financial problems is experienced in the form of competition since schools which fail to receive a desired audit report simply prepare their audits with another auditor or audit firm, luring them with the prospect of kickbacks, bribes, preferential treatment. Non-financial pressures stem from coercion from institutions manifesting as threats, intimidation retaliation or mere collusion resulting from a breakdown of integrity and ethical culture (Dellaportas, 2013).

Opportunity can be divided into general information and technical skills of which auditors are acquainted with. General information refers to the auditor knowing that his/her position can be violated, in audits and re-audits auditors have unquestioned authority and access to financial records, source documents and approval processes and exploit this in the absence from oversight and monitoring. Furthermore, collusion with management reduces the risk of detection creating a strong opportunity to cover up. Needless to say, auditors have a throve of technical skills spanning from accounting and auditing expertise, IT skills and forensic techniques which enable them conceal financial fraud in educational institution (Gullkvist & Jokipii, 2013).

Rationalization is the belief an audit holds before committing a violation serving as a psychological justification that allows them to reconcile unethical behavior with their self-image. Some of the common rationalizations of auditor used to justify their unethical deeds are as follows:

- They often rationalize their actions by believing they are helping the institution survive or achieve goals.
- They may perceive themselves as the victims assuming no one is truly harmed by the manipulation.
- They a tendency to behave like those around them rather than using their own personal judgment by believing that “everyone does it”, normalizing the unethical behavior.
- They view their actions as an altruistic deed by believing they are acting in the best interest of the institution or community.

In conclusion the fraud triangle analysis paints a clear picture in understanding why auditors do the things they do and poses a cause of concern such as pressures stemming from financial competition and institutional coercion which often put auditors in ethical dilemmas. The inherent opportunities arising from their unquestioned authority and technical expertise can be misused in the absence of oversight and when collusion persist. Coupled with rationalizations that enable the justification of their actions breaching professional and personal ethics. Auditors have the potential to decisively curtail such violations but often fail to do so due to the lax regulations, poorly conducted investigations and unfavorable ethical climate. Addressing these challenges requires the implementation robust oversight mechanisms and professional vigilance fostering transparency, accountability and professionalism.

Suggestions

The suggestions below are specifically tailored to India and are necessary for strengthening protections, audits, and prosecutions critical to reduce corruption:

- Extending the Whistle Blowers Protection Act, 2014 to include private school staff is imperative to safe guard identity, transparency and accountability in private education institutions.
- Appointment of government audit agencies such as the Comptroller and Auditor General (C&AG), other government audit departments, specialist audit firm empaneled by the judiciary, or independent private auditors whose audit findings must be verified by a court-appointed expert or judicial authority for institutions under the radar of investigative agencies suspected of wrongdoing.
- Ensure impartial disciplinary action on financial experts to ensure that members of a professional institute or association adhere to their code of ethics.
- Government schemes enabling user friendly digital accounting coupled with localized training for staff.
- Publish public and aided private school financials and audit reports on the UDISE+ portal for promoting transparency, accountably, and trust.

- Appointment of auditors should be by a neutral authority such as a court, government audit department rather than by the school itself.
- Implementation of a centralized, technology driven grant management system (provided supporting documents are deemed legitimate by school staff responsible for grant oversight), ridding the need for multiple Government officers that share overlapping functions without clearly defined accountability, minimizing corruption risks and increasing transparency.
- Implementation of AML policies that require institutions to verify the sources of funding for large anonymous donations and payments linked to politically exposed persons (PEPs). This aids in detecting and blocking illicit funds early in the process.
- Implementation of risk-based funding audits similar to the UK's framework with the Education and Skills Funding Agency (ESFA) that prioritizes verification and monitoring of grants and loans in institutions exhibiting high financial risk indicators (transactions flagged due to size of grant amounts, Suspicious Transaction Reports (STRs), or a history of non-compliance) to prevent fraud and illegal lending.
- Implementation of an AI powered systems to automatically analyze financials, and deliver real time alerts on potential fraud or misappropriation of institution funds.[5]

While the matter of statues that govern and regulate education institutions are complex and difficult to reform simply with recommendations, it is crucial to examine the pressure, opportunity and rationalization of auditors in enabling corrupt institutions, since their work can determine whether fraudsters are held accountable.

Future Outlook

According to a thorough analysis of fraud schemes in educational institutions, there is a troubling paradox for the future neither the central government nor the states have started significant reforms to address these vulnerabilities, despite ample proof of systematic misappropriation of public funds. Government interventions on the other hand have taken the form of enlarged financial channels that can unintentionally increase already existing dangers. The Maharashtra government's decision on August 25, 2025, to significantly increase the stepwise grant plans for unaided schools is a prime example of this situation. Benefiting more than 52,000 teachers and personnel, the expansion entails an annual financial commitment of over ₹970 crores approximately (Government of Maharashtra, 2025). Despite being supposedly created to assist educational infrastructure, this program raises serious questions about the effectiveness of control procedures, especially in light of the proven patterns of financial misappropriation found in this investigation.

Grant Percentage (previous)	Grant Percentage (new)	Number of Schools	Number of Staff Covered	Notes
20%	40%	2,079	15,859	Schools moving from 20% to 40% grant
40%	60%	1,871	13,959	Schools moving from 40% to 60% grant
60%	80%	1,894	19,744	Schools moving from 60%

[5] According to an article published in The Hindu, the Comptroller and Auditor General of India (C&AG) is set to implement a large language model (LLM) AI system to enhance audit efficiency and consistency, with deployment planned for November 2025.

				to 80%
N/A	20%	231	2,714	Newly eligible schools receiving 20% funding for the first time

Table 4: Expansion of stepwise grants for unaided and partially aided schools in Maharashtra, August 2025.

Research has repeatedly shown that increasing financing for education sector without improving oversight and accountability systems can lead to more additional potential for corruption (Transparency International, 2013; UNESCO UNDP, 2021). According to studies, nations that have rapid increases in financing for education frequently see corresponding rises in the dangers of corruption, especially when administrative capacity for monitoring does not improve in tandem with financial growth. One important aspect that has been shown to contribute to the continuation of fraudulent schemes in educational settings is the lack of strong anti-corruption measures throughout funding expansions (Shore, 2018).

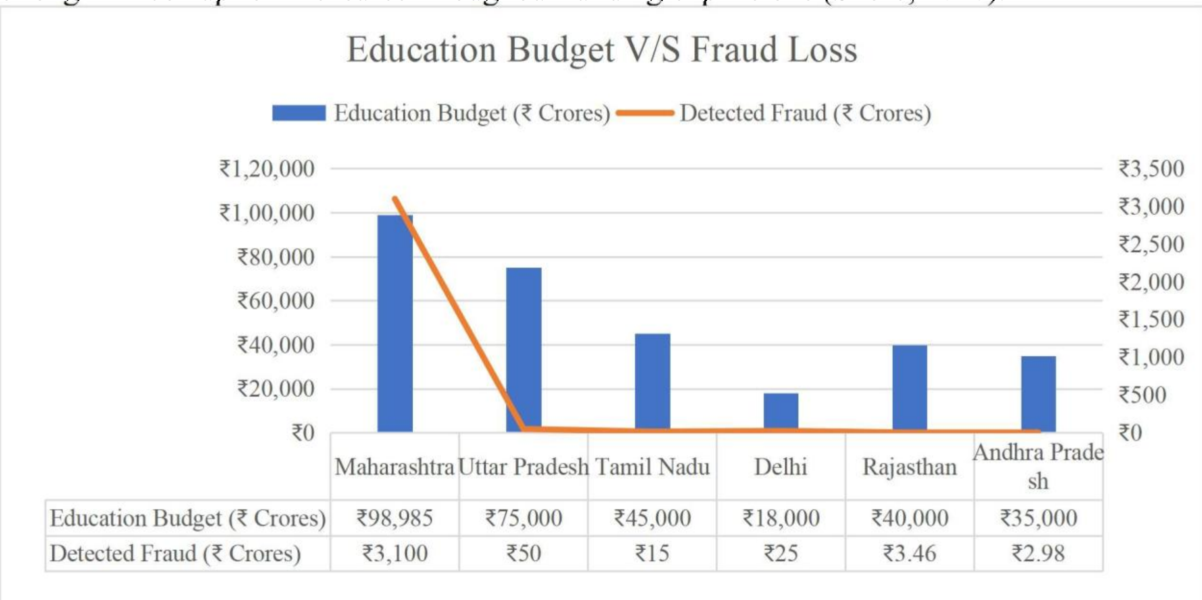

Figure 4: State-wise comparison of education budget allocation versus detected fraud losses across major Indian states (2024-25), showing Maharashtra's significant fraud impact representing 3.13% of its education budget.

Scholarly research indicates that although these expansions may improve access to education, they have what are known as “corruption multiplication effects” when they are carried out without matching improvements to control procedures (UNESCO UNDP, 2021). Research looking at comparable funding expansions in other countries has shown that once bigger grant programs were introduced, there were more cases of related party transaction schemes, overstated cost submissions and ghost beneficiaries.

Among the control mechanisms included in the Maharashtra expansion are biometric attendance systems and Aadhaar-based verification. Yet, studies show that without corresponding institutional and cultural reforms, technical measures by themselves are unable to mitigate systemic corruption concerns (Transparency International, 2013). Furthermore, there are practical obstacles that could compromise the efficacy of such measures when they are implemented in rural and resource constrained areas where many of the beneficiary institutions are located and operated.

This policy approach is characteristic of a broader international pattern whereby the government invests more in resolving education problems than in dealing with deeper governance vulnerabilities which facilitate fraud (Shore, 2018). Such approaches may, ironically, engender what scholars and researchers describe as "moral hazard" wherein parties within the institution interpret increased funding opportunities as clear indicators of weaker oversight (Kirya, 2024).

Conclusion

In summary, this study shows just how far financial improprieties and audit failings run deep in academic institutions. Systemic vulnerabilities, poor oversight and lack of preventative measures continue to endure in spite of established audit standards and review procedures. These factors have led to rampant fraud, poor management and diversion of public monies meant to provide high quality and non-discriminatory education. The expansion of questionable practices and breaches of fiduciary duty is made easier through prevailing financial pressures, unregulated means resulting from poor oversight and diffusion of responsibility beyond rational limits on the part of those who audit and administer institutions. The Maharashtra Government's recent decision to increase the stepwise grants for unaided and partially aided private education institutions is a cause of concern amidst the backdrop of pervasive fraud surrounding educational grants characterized by inflated invoices, diversion of funds and collusion. This significantly increases the risk of inflating vulnerabilities by channeling fund into a system already plagued by deficient controls, lack of transparency, accountability. The new grant conditions however offer hope for improved transparency with biometric attendance and Aadhar linked verifications, yet without rigorous audit reforms and independent oversight, these measures may prove insufficient.

This study underscores the urgent need for reform withing the audit and governance framework of educational institutions, without these reforms the cycle of financial mismanagement and ethical lapses will persist and can only be overcome through a cultural shift towards integrity, restoring public trust by ensuring effective oversight and the implementation of technology driven controls to enhance transparency and accountability.

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