

# Financial Forensic and Fraud- A Holistic Perspective

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## ABSTRACT

Forensic Accounting is an art of investigation over accounting records, financial statements, and other related financial records. The result of the investigation is mostly used for legal support and resolving conflict. “Forensic evidence” before, which simply means evidence that is able to be presented in a court of law. Hence, forensic accounting is a term to describe an analysis of financial information that can be used to support a case in a court of law. The current scenario of forensic accounting in India is spread through Government jobs and agencies, insurance companies, several police jobs, public banks and other firms undertaking public functions etc. Both the financial knowledge as well as knowledge in computers are mandatory to excel in the domain of forensic accounting. The research study is basically exploratory in nature and depends exclusively on secondary data which are collected from websites, periodicals, accounting journals, related books, various reports published by Govt. of India, RBI and different associated agencies. The researchers in the paper focussed on knowing the areas of forensic accounting with respect to the duties of the forensic accountants, as well as to understand the role of Forensic Accounting (techniques) in fraud examination; and finally, to know the prospects of Forensic Accounting in India in the context of growing of multiple frauds.

**Keywords:** *Forensic accounting, forensic evidence, frauds.*

## INTRODUCTION

The statutory audit currently with the advancement of the corporate world fails to prevent and reduce the mis-appropriation of the corporate fraud, thus accountants and practitioners is bound to find a better way solving this issue for the business world. The scams and frauds currently demand more acumen in accounting and finance that calls in for recent financial crisis, threatening to hamper the liquidity, efficiency, and safety of the transactions of all the financial markets (Black) 2010. The emergence of the scams and scandals led to the practise of 'forensic accounting' for the better display of disclosures for the transactions that effects the overall impact of the company as a whole.

Besides the importance of forensic accounting in detecting frauds it also covers other domains like as valuation. The forensic accounting utilizes the auditing, accounting, investigative skills in conducting an in-depth analysis of the company finances that ultimately provides a legal approach in detecting and solving fraud pilferage cases. Business reality plays a vital role in forensic accounting where the accountants play with beyond the age-old concept of accounting. The current scenario of forensic accounting in India is spread through Government jobs and agencies, insurance companies, several police jobs, public banks and other firms undertaking public functions etc. Both the financial knowledge as well as knowledge in computers are mandatory to excel in the domain of forensic accounting(<https://www.simandhareducation.com/blog/post-scope-of-forensic-accounting-in-india..php>).

According to Webster's Dictionary, Forensic Accounting means, "Belonging to, used in, or suitable to courts of judicature or public discussion and debate." Thus, resolving the disputes along with intricate accounting analysis that is the basis for investigative skills to aid in legal proceedings through a specialized institute of knowledge with respect to the economic transactions and conveying that is sufficient to satisfy the accountability and valuation of administrative matters.

## LITERATURE REVIEW

Some Forensic Accounting researches are reviewed as follows.

- Owojori. A.A et al (2009): This research titled 'The role of Forensic Accounting in Solving the Vexed Problem of Corporate World', analyses the role of forensic accounting in solving the complex problems by analysing the scopes of forensic accounting through the skills required by

the accountants in doing this accounting in the corporate world. The article emphasizes that the role of forensic accounting is controlling the fraudulent activities will prove to be an internal control system not only in the corporate field but also in the public accounting domain making government aware of the administrative and financial matters.

- DiGabriele. J (2015): This study titled ‘Topics and Methods in Forensic Accounting Research’, explains what actually matters for the forensic accounting execution analysed with respect to the study done by Stone and Miller’s (2013). Several domains of the forensic accounting along with several professional practices has been analysed in this study.
- Dhami. S (2015): This study ‘Forensic Accounting: Signaling Practicing Accountants To Improve Skillset And Forming Regulatory Body For Forensic Accountants In India’, identified some ways that improved the various skills needed by the accountants to perform the forensic accounting. The firms providing the forensic accounting services along with the scopes therein has been analysed in this study. The study proves the overall aspects of the forensic accounting that portrayed forensic accounting as a preventive measure rather than to have it as Investigative techniques.

## **OBJECTIVES**

The study is basically exploratory in nature and depends exclusively on secondary data which are collected from websites, periodicals, accounting journals, related books, various reports published by Govt. of India, RBI and different associated agencies. The main objectives of study are:

1. To know the areas of forensic accounting with respect to the duties of the forensic accountants.
2. To understand the role of Forensic Accounting (techniques) in fraud examination.
3. To analyse the techniques of forensic accounting in fraud examination along with the functions of the forensic accountants in the aspect of fraud determination.
4. To know the prospects of Forensic Accounting in India in the context of growing of multiple frauds.

### **Areas of Forensic Accounting with respect to the duties of the forensic accountants**

Forensic accounting involves both “ **Litigation Support**” and “**Investigative Accounting**”. That is, litigation support means providing accounting assistance related with ongoing or unsettled litigation cases. Specifically, this area of forensic accounting mainly deals with calculating or valuing economic damages. Investigative accounting on the other hand investigates only the criminal matters involved in the accounting, auditing and investigative skills used to analyse information that is suitable for use in a court of law.

A Forensic Accountant analyses, interprets, summarizes and reports all the vexed financial issues related with the business that are comprehensible and supported legally too. The area of work of the forensic accountants covers the following specific domains of work:

- Fraud risk management involving the operational risk management is the primary work of the forensic auditor that actually gives in hand solutions to all the complex fraudulent activities involving financial matters.
- Investigation and analysing financial evidence.
- Constructing applications that support in the analysis and presentation of financial evidences.
- Information security risk assessment is performed by the forensic accountants that formulates policies, practices and procedures to secure the client from any loss of private and sensitive information.
- Tracing and identifying client assets that are not legally possessed by the third parties are analysed by the forensic accountants.
- Forensic accountants are also involved in monitoring their clients’ details, deals with several money laundering compliance programs, detecting several litigation cases etc.
- Forensic accountants present reports and exhibits their findings that assists in all sorts of legal proceedings in the court of law.

#### **Role of Forensic Accounting techniques in fraud accounting**

The dictionary meaning of fraud is “deceit, impersonation with intent to deceive, criminal deception done with the intention of gaining an advantage.” According to the Association of Certified Fraud Examiners (ACFE), fraud is “a deception or misrepresentation that an individual or entity makes knowing that misrepresentation could result in some unauthorized benefit to the individual or to the entity or some other party.” Mainly the objectives of fraud are to increase the market value of the business along with obtaining unfair earnings by

misrepresenting the value of the business. Several frauds in the areas of accounting, banking, insurance, electronic, and also employees lead the forensic accounting to sense the extent of frauds involved in the working of a company or any other authorised body corporates etc.

Several techniques of forensic accounting are:

- Conducting background checks of a particular company to view and analyse the past transactions and events of the business.
- Reviewing public documents, i.e, to search any information in the public database, corporate records and also other legally available information on the internet.
- Through detailed interview processes some valuable information can be availed that gives a useful insight into the company.
- Forensic accountant should gather the information from trustworthy source that virtually guarantees a correct result by giving protection against scams.
- The analysis of the gathered evidences provides various useful measures to prevent any scams and frauds in the future.
- Conducting physical or electronic surveillance is a conventional measure to uncover any frauds.
- Detailed analysis of the financial statements helps the forensic accountants to easily figure out the scam and frauds happening in an organisation.
- Data analysis ratios are also used for detecting frauds and errors by the forensic accountants.

### **Analysing Forensic Accounting Techniques**

The forensic accounting has a series of steps to be performed to come to a solution. These steps depend upon case to case we work. Basically, the following steps are performed in forensic accounting:

**a) Interview Techniques** – Forensic accounting evaluations often use interview techniques designed to obtain an admission of guilt by the person(s) involved with fraud scheme. These results form an integral part to be used in court and adjudication process.

**b) Investigating and analysis of financial evidence** – Forensic accounting involves complete analysis of financial evidence i.e, Balance Sheet, Profit and Loss Statement , Cash flow statements , Notes to accounts and other related

information to quantify the loss and loopholes in accounting such as loss of profit, financial solvency, loss of goodwill etc.

c) **Data mining with computers** – Data mining is a process where auditors look for trends, patterns and anomaly in data sets. If any unusual transactions are noticed then they should be immediately reported to concerned authorities.

d) **Developing computerised application to assist in analysis of financial evidence** – This involves making use of computer applications like excel, tally etc. which can make speedy calculations and within a short time detect any unusual transactions in the financial evidences. An example of computerised application can be:- preparation of ratio analysis with the help of excel tools which can depict the true picture of financial statements.

e) **Communicate findings in form of reports** – The subject of the forensic audit is a serious matter that may go to adjudication or to court, those being audited will have an incentive to develop situations where the audit team obtains documents in an improper manner with the ultimate goal of excluding the evidence contained in the document from the court proceeding. It is imperative, therefore, that the forensic accounting team maintain proper documentation for the audit. This applies to interview material and items from computerized data bases as discussed above.

f) **Assisting in legal proceedings** – The last but not the least objective of forensic accounting is to assist the organization in its legal proceedings by preparing suitable evidences, reports, charts which can be used in legal proceedings.

#### **Activities carried out by Forensic Accountants**

Forensic accountant carries out investigative accounting and provides litigation support. The services of forensic accountants are in great demand in the following areas:

a) **Detection of fraud committed by employees** : Where the employee indulges in fraud, forensic accountants are engaged. They detect fraud, trace the asset (if any) created out of fund embezzlement, gather and review the evidence, and interview the employee alleged to have embezzled the funds.

b) **Criminal Investigation**: Where the matter under investigation involves financial implications, the services of a forensic accountant are availed of by the investigation department, law society, etc. The report of an accountant is very much useful in preparing and presenting evidence.

c) **Settlement for outgoing partner**: When the retiring partner feels that he has been unjustly settled with, he can challenge the settlement with the help of a

forensic accountant, who can correctly assess the value of assets and liabilities due to his client.

**d) Cases relating to professional negligence:** Forensic accountants also take up cases relating to professional negligence. Whenever there is a breach of generally accepted accounting standards (GAAS) or auditing practices or ethical codes of any profession, forensic accountants are required to quantify the loss resulting from such professional negligence or deficiency in service.

**e) Arbitration service :** Forensic accountants render arbitration and mediation services for the business community, since they undergo special training in the area of alternative dispute resolution.

**f) Facilitating settlement regarding motor vehicle accident :** As the forensic accountant is well acquainted with intricacies of laws relating to motor vehicles, and other relevant laws in force, his services become indispensable in measuring economic loss when a vehicle meets with an accident.

**g) Settlement of insurance claims:** Insurance companies engage forensic accountants to have an accurate assessment of claims to be settled. Similarly, policyholders seek the help of a forensic accountant when they need to challenge the claim settlement as worked out by the insurance companies. A forensic accountant handles the claims relating to consequential loss policy, property loss due to various risks, fidelity insurance and other types of insurance claims.

**h) Dispute settlement:** Business firms engage forensic accountants to handle contract disputes, construction claims, product liability claims, infringement of patent and trade-marks cases, liability arising from breach of contracts and so on.

#### **Future of Forensic Accounting in India**

Lack of strict rules and laws in recording and reporting of the financial statements often led to commit crimes by the fraudsters. Another reason of occurrence of fraud is due to the continuous evolution of the technology while conducting business. To combat such crimes something more than audit was required, and thus the need of forensic accounting was realised. Though forensic accounting was developed as early as 1995 in USA but in India it started to put its first step a few years back with the set-up of Forensic Research Foundation for investigation of frauds and crimes. International Investigation Organisation SFIO was also set up for this purpose.

Prior to introduction of the Companies Act 2013, this separate structure of the Forensic discipline had no mention in the Indian system of laws and regulations to stop frauds and crimes through detection in the financial statements. The

amended Companies Act 2013, separately outlines the risk of frauds together with do and don'ts in performing duties as well as accountability for the independent auditors and directors. Personal liabilities along with penalties in case of default all has been prescribed in the forensic law for the said auditors and the directors.

With the nature and different types of fraud in India, the apex bank Reserve Bank Of India (RBI) has made compulsory for all the banks within the country to follow forensic accounting audit specifically due to the growing online criminal offences, to trace and detect cyber-security frauds etc. ICAI should also formulate an accounting standard on Forensic Accounting to aid the regulatory legal bodies in detecting frauds and scams. The domain of Forensic Accounting extends even to support police, CBI, etc to aid in their investigative programmes.

## CONCLUSION

While the pandemic was an unexpected event that continues to shape the future of businesses, a similar inference can be drawn from the Satyam fraud, which over a decade ago forced the Indian government, law enforcement agencies, and the industry at large, to relook at the corporate fraud and compliance landscape of the country.

It was also the time that saw the rise of the forensic accountant or forensic investigator.

In 2009, "forensic accounting" was an unheard-of subject in the boardroom; much reliance was placed on the internal auditor to identify corporate malpractices. Over the years, the reliance on internal auditors remained, but there equal emphasis has been brought onto bringing forensic investigators in situations involving a conflict of interest, such as a possible collusion with employees.

Recognising these vulnerabilities, the government introduced multiple provisions in the Companies Act, 2013 to help combat fraud and brought the onus of these requirements on the management of companies. The Act also brought white-collar crime into the ambit of the Serious Fraud Investigation Office (SFIO). Over the last few years, the agency has been seen to pick up several investigations suo-moto.

The impact of these enforcement efforts are clearly reflected as 37.08 percent of respondents of our India Corporate Fraud Perception Survey, Edition IV



indicated that law enforcement agencies would undertake fraud investigations and in turn, help improve fraud risk management efforts in the future.

Despite the emergence of multiple players in the corporate fraud prevention, detection, and response arena, our survey indicates that the recognition of forensic investigators as experts remains the strongest. 69.23 percent of those surveyed believe that forensic investigators are the ones to turn to for fraud investigations

With state-of-the-art technology and the opportunity to observe fraud across multiple industries, forensic investigators are able to quickly recognise the modus operandi and structure the investigation to help ring fence issues. It is this differentiator, combined with the agility to work on multiple fronts simultaneously, that gives companies the confidence that is required while the investigation is underway. (<https://www2.deloitte.com/in/en/pages/risk/articles/evolution-of-the-forensic-industry.html>).

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