

Importance of Forensic Accounting

¹Joli N. Gajjar

¹Research Scholar, M.B.A Finance,

¹Ahmedabad, India,

Abstract: As the use of technology continues to increase in all business areas, it is inadvertently leading to more sophisticated and complex fraud than ever before. This is increasing the challenge for regulators and business leaders to respond to such threats. As a result of these frauds and threats to your business, forensic accounting helps your business prevent fraud and detect the presence of such fraud at an appropriate time before it is too late. Forensic accounting is the application of financial accounting and investigative techniques to the standards that the courts allow to resolve disputes in the context of civil and criminal proceedings. This study focuses on the historical perspective of Indian forensic accounting. The study also focuses on how the government of India brings about a change in law and enforces forensic accounting in India as an integral part of the legislative system in India.

Index Terms - Forensic accounting, fraud, investigate.

I. INTRODUCTION

Forensic accounting concepts have been introduced as part of fraud investigations. Forensic accounting has become even more important after the collapse of companies like America's WorldCom and Enron. In simple terms, forensic accounting is a mixed bookkeeping, verification and examination. In today's bulging economy, fraud is intensifying and demand for industrial investigators is increasing. The Legislative Accountant assigns the duty to investigators and litigators to investigate these frauds. The skills and expertise of forensic accountants are different from those of the Board of Audit and Investigate each case considering fraudulent entry. Because you have expertise in accounting, law, and computer forensics, you need to be responsible for establishing these frauds. Discovery of this fraud is considered evidence in court. They needed exceptional expertise and transparency in completing the assignment.

Their duties are the same as audits, but not audits that you have planned on a two-year or one-year basis. Because fraud is unpredictable and can happen anytime and anywhere, the role of forensic accountants is important in controlling these frauds. Because a forensic accountant has knowledge of law as well as accounting, it is easy to calculate the damage and to prove the amount of fraud that occurs in court. They not only detect fraud, but also prevent fraud. New measures have increased due to the demands of various regulatory agencies for fraud prevention and regulation. Professionally certified CPAs have a good scope to expand their services as forensic accounting professionals. Many large CPAs in India provide services such as consulting, legal procedures, expert representatives, arbitrators, arbitrators appointed by courts, and other litigation support required by clients. Forensic services go beyond the organizational level to the individual level. It plays an important role in detecting divorce incidents, personal injury of insurance forms, or terrorist financial activities.

Recent EY surveys, based on Indian Fraud Survey 2012, have consistently led to the use of technology in all areas, leading to more complex and more complex fraud than ever before. This is increasing the challenge for regulators and business leaders to respond to such threats. Nearly three of the respondents reported that their company suffered at least one economic crime during the past year. Incidence was particularly high in financial services, real estate and telecommunications. The five major fraud risks from the survey have potential risks that could pose a threat to India's business. Forensic accounting is defined as the application of financial accounting and investigative techniques to standards that are allowed by courts to address disputes in the context of civil and criminal proceedings. Forensic accounting as a discipline includes financial expertise, a strong understanding of fraud knowledge and business reality and legal system operations. Its development can usually be achieved through on the vocational training and surveillance officer and legal counseling and experience. A forensic accountant succeeds in detecting fraud and criminal transactions in the financial records of a bank, corporation, public sector, or other organization.

In the business world today, forensic accountants are needed in the industry because of increasing daily fraud in a highly trending and volatile market environment. In addition to adopting the organization's case, the accountant of the Legislature also needs to take the case of other specialists to identify cases of professional error. Expert negligence can be understood if the auditor does not perform his or her duties to verify fraud. The gravity of expertise is based on analysis performed by a forensic accountant. It also provides services for personal reasons, including financial consequences such as alimony, or in the case of legal heirs, calculating child support and equal amounts of money in the family. They are employed only after fraud occurs in the organization. They are experts with sound knowledge of accounting and law. So they engage themselves and understand the organization's internal accounting system.

II. NEED FOR STUDY

Due to poor corporate governance, mismanagement, fraud, and other misconduct leading to corporate failure, forensic accountants must have the skills and skills to identify, discover and preserve evidence of all forms of financial abuse. Although accounting practices have improved dramatically, recent electronic scams are becoming more complex and elaborate, and may not be

recognized. Because statutory audits fail to detect, prevent, and reduce the embezzlement of corporate fraud and the increase in corporate crime, professional forensic accountants and legal practitioners are pressing to find better ways to expose fraud in the business world.

Reason of audit Failure: Auditors follows, the Basic Principle of Auditing, he does all precautionary steps to still the fraud remains undetected by the auditors. Some of the reason is as follows:

- Object of Audit : The main object of audit is to express Detection and prevention of frauds are the incidental object and not the main object of auditing.
- Responsibility fixed on Management: Responsibilities are fixed on Management and not on auditor as a result there is chance of Professional negligence on the part of the auditor.
- Mechanical Process: Audit has become more mechanical process and hence auditor cannot think beyond number.
- Dependence on client to provide document: They rely on the documents provided by the client and hence they focus on the document provided rather than searching alternative source of documents.
- Lack of training to detect fraud: Auditors do not have any training to identify frauds and hence many fraud indicators are ignored by them
- Engagement letter: Auditor works as per audit engagement entered with the client and hence ignore the other material element beyond his scope of audit.
- Quality of support staff: Auditor though is a Chartered Accountant, they do not have qualified team member to detect fraud. They only verify and check arithmetic accuracy along with accounting principles.
- Lack of concentration on clients : Auditor handles many assignments and hence it becomes difficult for him to go in details for each and every assignment.

Different procedures used by Forensic Account: Following methods are used by the forensic accountant while performing their duties. These techniques cover from observation to analysis and review to investigation. They are widely used techniques such as:

- Document verification
- Alternative sources to verify
- Informal information techniques
- Interviewing the employees
- Back ground verification of the employee
- Analyzing Physical and Electronic Verification
- CCTV cameras
- Analyzing financial transaction
- Observing verbal and non-verbal communication
- Surprise visits

III. OBJECTIVES OF STUDY

- To understand the historical perspective of forensic accounting in India.
- To understand the implementation of Forensic Accounting in India

IV. THE INDIAN LAW WHICH REFERS TO FORENSIC ACCOUNTING:

The Companies Act, 1956: Section 235 and 237: There is a corporate law (Articles 235 and 237) that allows a central accountant to inspect a company's account books, direct special audits, order investigations on company affairs, and initiate prosecutions for company violations Act, 1956. The company's books of accounts and other documents are inspected by the Inspection and Investigation Director and the officers of the Company Register. These inspections determine whether the company is operating a company in accordance with the provisions of the Companies Act 1956, investigate whether unfair practices in violation of the public interest are entrusted by the company or group companies, and adversely affect the interests of shareholders, creditors, employees, Whether there is a mismanagement that could result in Whether or not the inspection report discloses information that is of interest to other departments, agencies such as Commerce and Industry, the Central Executive Committee, the Executive Board, the State or the NEC Funding Authority, this information is passed on to that information. If the prosecutor discloses a copy of fraud or fraud, the measure is taken in accordance with the provisions of the Companies Act 1956 or referred to the Central Bureau of Investigation.

Provisions of Sick Industrial Companies Act incorporated into the Companies Act, 1956: Company Code Section 424A (5) of 1956 authorizes the National Company Law Tribunal (NCLT) to investigate whether a company is a sick industrial company as a preliminary sentence. 2 (46AA). Therefore, NCLT can verify the authenticity of references made by NCLT before reviewing the

feasibility of the company-proposed revival plan. The inquiry by the operating agency is therefore to enable NCLT to determine the feasibility of the plan and to evaluate the company's ability to recover on its own. The operating organization is a group of experts consisting of persons with expertise in the banking and industrial sectors in which the sick leave industry company is engaged, including public financial institutions, state agencies, planned banks, or other persons designated as general or special orders. Therefore, the law council accountant can be a member of an operating agency and will investigate whether the reference information created by the company is true or NCLT has declared it as a sick company and manipulated or tampered with the plan as referred to in the NCLT to collect public funds.

SEBI Act, 1992: The stock market is very unstable and brokers are inundated with a variety of unfair and fraudulent trading practices such as stock trading synchronization, bookkeeping operations and manipulation, and deceptive investor tricks. Section 11C of the SEBI Act of 1992 grants SEBI the authority to direct SEBI to investigate the work of an intermediary or intermediary in relation to a securities market that is traded in a manner that is detrimental to investors or securities markets. Thus, fraud and unfair trading practices of brokers or market brokers are investigated by an investigator appointed by SEBI to a broker or market broker to provide information books such as accounts, registers, documents or records analyzed by the investigator. Broker manipulation, fraud Or other. Therefore, law enforcement officers can play a leading role in SEBI's search for complex stock-related frauds that brokers have committed.

The Prevention of Money-Laundering Act, 2002: Section 3 of the Prevention of Money Laundering Act, 2002 defines the offence of money laundering as involvement of a person in any process or activity connected with the proceeds of crime and projecting it as untainted property. The three important stages in the money laundering process are:

- Placement: Physical disposal of cash acquired from illegal sources by depositing the cash in domestic banks or other kinds of financial institutions.
- Layering: Working through complex layers of financial transactions to distance the illicit proceeds from their source and disguise the audit trail.
- Integration: Making the wealth derived from crime appears legitimate. Forensic Accountant can often be involved in the following antimony laundering activities
- Investigating and analyzing financial evidence to establish a suspicious transaction
- Developing computerized applications to assist in the analysis and presentation of financial evidence
- Communicating their findings in the form of reports, exhibits and collections of documents that assist the banks in submission of the suspicious transaction report to the regulator; and Assisting in legal proceedings, including testifying in court as an expert witness and preparing visual aids to support trial evidence.

The Companies (Auditor's Report) Order, 2003: CARO, 2003 requires the auditor to report to the effect that if a substantial part of fixed assets have been disposed off during the year, whether it has affected the going concern status. In order to carry out the duties, the auditor has to draw a corollary and reference to the section 293 of Companies Act, 1956, AS 24 ('Discontinuing Operations') and to AAS 16 (Going Concern) and thereafter make his observations on this matter. It also requires the auditor to report on Frauds.

V. VARIOUS TOOLS USED BY FORENSIC ACCOUNTANT

Identifying and preventing fraud is a major challenge for forensic accountants. This can only be achieved through a variety of tools used in different scopes. They cover all levels of technology that are simple and complex. Because the tools used by forensic accountants are complex, they require a lot of training to understand them. Because all cases are unique, you can not use the Decision Tool. It provides a new experience in deciding which tools are available in all cases. The various tools used by forensic accountants are as follows (Luhar & Sharma, 2012) & (Ghosh & Banerjee, 2011):

- i. Theory on Benford's law: This is a way to find rare transactions in your data. It is generally used with the help of software. With exceptional help, you can easily identify the uncommon number of groups. If the range of numbers exceeds a probability of 64, Benford's pre-determined number is considered to be a problem with the information provided.
- ii. Relative size factor : One of the expertise helps the examiner to identify unusual transactions in the system. During this period, you can compare and perform various other transactions. For example, the travel expenses shown will increase by three times in the case of the Fiscal Year 2016-17 45,000 Rupee, Fiscal Year 2015-16 Fiscal Year 15,000 Rupee, and 2014-2015 Rupee Expense 18,000 Rupee. This information is useful for examiners to go and investigate further. The only expectation is that costs may have risen due to an increase or increase in the number of employees. So the number is higher than in the last few years, so it's not a scam, but it gives you a chance to see the details in detail. The examiner can easily select items from the list.
- iii. Same, Same, Different : In this kind of technique to follow, the examiner must understand the common and infrequent relationship. For example, there was a refund for a customer to pay for a defective product. Your customer name and number may be the same, but your bank account information may be different. So every time you pay you go to another account to

the same customer. Therefore, when more items are returned to the same type of item, you should also check this type of item.

- iv. **Outlier Detection** : This is a technique that the examiners use to distinguish between normal and abnormal transactions. Therefore, a pattern is generated based on the information generated. This pattern is observed so that normal and abnormal behavior can be generated in the system. Investigators can draw attention to transactions rather than the basics of available data. This pattern is used primarily by banks to identify money laundering transactions. For example, a payroll customer earns a monthly salary on the 1st of the month and suddenly charges a huge amount on his or her bank account. In such cases, it becomes a serious investigation subject. This kind of analysis is even used to track black money and terror money. Therefore, changes in transactional anomalies or behavior or patterns will draw attention to the examiner. With this technology, it's easy for an investigator to investigate important data instead of wasting time on other normal transactions. The most important part of this technique is that the organization can also use it to study employee behavior. If the salary is not high but his high standard of living is suspected, then they can focus on activities at the base to see if fraud has occurred.
- v. **Trending** : Trend is one of the important techniques to identify fraud. The examiner has a lot of data even if there is evidence to confirm this data. He has to focus on de facto exceptional deals. It is difficult to identify this transaction from the current date. By comparing the current data with the previous year's data, fraud can be easily identified. For example, if you compare sales data throughout the year and compare it to the bad debts that arise in your organization, it is easy to understand if the sales increase and the bad debt provision increases at the same level. That bad debt is just a fake sales bill entered into the system is. Such fraud can not be verified unless it is compared during this period. It may be accurate for the fiscal year, but may not be the same over the period. This technique is useful for viewing inventory movements.
- vi. **Advanced Statistical Techniques** : As the fraud increases in your organization, a simple technique can not help you identify these frauds, so the statistical tools should be used to analyze these data. Nowadays, data is large and can not be controlled by large organizations, for example. There can be many employees, which makes salary data and other analytical data difficult. Therefore, with the help of the computer, this statistical tool becomes easy to analyze.
- vii. **Ratio Analysis** : One of the best techniques for analyzing transactions is rate. There are various ratios in the analysis. Examples of ratios are current ratios, liquidity ratios, debt ratios, inventory turnover rates, debtor and creditor turnover rates, and many other ratios. This ratio is one of the benefits of covering all financial statements. You can compare your profit and loss accounts and balance sheet items. They can be further compared among companies of the same kind in the industry. This will help them to assess their current position in the market. Even this analysis can compare transactions over a year, which can help you understand and analyze your growth path as well as increase or decrease your data.

VI. CONCLUSION

Therefore, as the world changes dynamically, the morale increases. Now the fraud methodology has been redefined and is easily occurring in a complex environment. Traditional auditors were not trained enough to identify and report such fraud. However, the complexity of fraud may be to identify whether the forensic accountant's skills and quality can be acquired by the auditor. Another limitation of the auditor is limited to a sound knowledge of accounting, while forensic accountants have a broad range of identifiable upgrades and updates, covering accounting, legal, cyber legal and technical information, beyond accounting. The most important point is forensic scientists to confirm fraud and submit a report, and the court will decide based on the fact that fraud has occurred. They not only actively participate in fraud detection but also make various suggestions to management to prevent fraud at all levels. The role of a forensic accountant goes beyond personal level responsibility arising from family disputes, insurance or any dispute involving all kinds of disputes and financial effects that arise, while the role of the auditor is limited to financial accounting books. The organization now understands the relevance of a forensic accountant to a cost-effective department. Based on the research performed by the researcher, the results are as follows.

- That the services provided by the Forensic Accountant are different from the Traditional Auditor.
- The use of Forensic application tools and techniques can help internal auditor, statutory auditor, Audit committee members etc.; to perform their duties in better manner.
- Increase in the fraud has created a new careers opportunity in the field of professional are in excessive demand.
- Forensic Accountant has better accounting skill, investigative and analytical skills to identify fraud than traditional auditor.
- Methodology applied by forensic accountant is much wider and different from traditional auditor and hence detection of fraud becomes easy.
- Failure of Audit to prevent and detect frauds has increased the demand of Forensic Accounting.
- Forensic accounting control all possible fraud and mismanagement what traditional audit fails to do.
- Forensic Accounting direction to planning the accounting process which in turn help in identify possible fraud.
- Risk calculation process in organization will help professional to identify areas of frauds.
- Forensic accounting is stronger than audit to control fraud.
- Forensic accounting engagement can be specifically tailored to deter fraud and potentially prevent it what audit fails to do.

- Investigation report under forensic accounting is the good evidence and accepted under court of law.
- Forensic accountant takes a more active, uncertain method in investigation of books of accounts.

References

1. Charles, D., Farrell., & Ogilby,S.(2009). Characteristic and Skills of the Forensic Accountant. FVS Section (AICPA).
2. Ghosh, I., & Banerjee, K. K. (2011). Forensic Accounting Another Feather in the Hat of Accounting. The Chartered Accountant, 60-63.
3. Luhar, A.; & Sharma, H. (2012, June).Can Corporate Fraud Be Controlled By Forensic Accountant?, WIRC Bulletin.
4. Mukoro, D., Yamusa, O., & Faboyede, S. (2013). The Role Of Forensic Accountants In Fraud Detection And National Security In Nigeria. Change and Leadership Manager, 90-106.
5. Okoye, & Gbegi. (2013, March). Forensic Accounting: A Tool for Fraud Detection and Prevention in the Public Sector. International Journal of Academic Research in Business and Social Sciences, 3(3)
6. Zadeh,H.,& Ramazani, H. (2012, March). Accountant’s Perception of Forensic Accounting (Case Study of Iran) Global Journal of Management and Business Research. XII(VI)

