

FORENSIC ACCOUNTING - A CONCEPTUAL FRAMEWORK

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ABSTRACT

Auditor should be watch dog and not be the bloodhound. Forensic account is a bloodhound of book keeping. Indian economy has been opened up to the world and some financial scandal involve corporate from other countries. Globalization of the economy and the fact that a fraudster can be based anywhere in the world has led to the problem of inter- jurisdiction. That again aggravated the problem for forensic accounts. Forensic accountants find it difficult to prosecute fraudster from other countries in jurisdiction. Forensic accounting is an expensive service in comparison to investigative auditing. Moreover, it is not mandatory for companies to appoint forensic accountant unlike internal/external auditors in order to prevent irregularities in their financial transaction. However, growing financial fraud cases, failure of non-financial banking companies, phenomena of vanishing companies and failure of the regulatory mechanism to curb it has forced the government of India to form serious fraud investigation office under ministry of corporate affairs which can be regarded the first steps of the control government to recognized the importance of forensic accounting. In this paper focus meaning of forensic-accounting role and importance of forensic accounting, forensic accounting in India and techniques of forensic accounting. At present, the role of forensic accountant is carried by chartered accountants along with their traditional accounting and auditing duties as per the companies act or income tax act.

KEYWORDS: *Forensic Accounting, Non-Financial Banking Companies, Economy, Fraud.*

Introduction

Upgrading Chartered accountants with forensic accounting skills and techniques seems to be a good option as they have good basic knowledge in auditing and fraud detection. Forensic accounting is the application of a special knowledge(Techniques of finding out the frauds one needs patience and analytical mindset).and specific skills to stumbles upon the evidence of economic transaction. "Forensic Accounting is the option of identifying , recording, setting, extracting. sorting, reporting and verifying past financial data or other accounting activities for setting current and perspective legal disputes or using such past financial data for projecting potential data to settle legal disputes."

History of Forensic Accounting

Forensic Accounting has taken many great leaps of growth in recent history. One of the most well known cases of forensic accounting is the capture of capone in 1931. There was strong linkage between accounting and law in the first official chartered accountancy profession of the 19 th century in Scotland. In the 1980 jaw a rapid expansion in demand for forensic accounting service from great recession. The association of certified fraud examiners(ACFE)was founded in tex as in1988 and the American College of forensic examiners was established in 1992. Interest in forensic accounting spread through the US and UK early in twenty century. One of the first institutions to use of the services of such investigative accountants was the IRS. In India Kautilya was the first economics famous fourty ways in

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his book ARTHASTRA in ancient times who openly recognised the needs of forensic accounting. Forensic accounting in India got more relevance after scan like satyam scam. Harshad Mehta, Ketan parekh, Kingfisher Airlines, coal block scam ,are improving the scope of forensic accounting in India. On the board of government of India was established in year 2003 period fraud investigation office (SFIO).Later SEBIS, RBI, and Government compulsory to have forensic accounting audit for institutes.

Role of Forensic Accounting:

Forensic accounting are the woke of the growing frauds. Growing cyber crimes, failure of regulators to track the security scams, series of co-operating banks bursting, all are the pinpointing the need of forensic accounting. The main role of forensic accounting is to assist the courts, solicitors ,and clients understand the complex, financial and accounting issues and presenting that information in a manner that all users can understand. The main role of forensic account as are follows:-

- **Fraud Detection:** The main purpose of forensic accountant is to prevent/detect the frauds in books deeply investigation to exhibit a true picture of books of accounts.
- **Criminal Investigation:** Forensic accountants are engaged for frauds and crime investigation for the purpose of civil and criminal action.
- **Arbitration Service:** Forensic accountants are trained in the area of dispute resolution so they can render arbitration and mediation for the business community.
- **Dispute Settlement:** Forensic accountants are the duty of dispute settlement like, contract disputes, construction claims, liability claims, infringement of potent and trademarks and so on.

Traditional Accounting Vs Forensic Accounting

- Traditional accounting focus on error identification and prevention but forensic accounting focus on detect the frauds in book committed by investigating a true picture of books of account.
- Forensic accounting use any type of evidence can be used as information, documentary paper, video or audio.
- Traditional-accounts book whether accounts are made on the basic of GAAS, GAAP, etc. whereas Forensic accountant use physical evidence, testimonial evidence, document etc for identifying the subject and culprits.
- Forensic accountant is often asked to export witness for law suit or criminal case. he exports witness is a recognized specialist relative to the principal and method played to the sufficient fact.
- Forensic accounting need to possess the expertise and skills in these field like private investigator and accounting are specially required to great forensic accountant.

Forensic Accounting Education in India

In the current scenario, education in forensic accounting has emerged as a lucrative option in India. View of increasing demand for forensic accountants ,many institution in india are offering course to build a career.

- The institute of chartered Accountants of India (ICAI). Offer Certificate course on forensic accounting and fraud prevention in the emerging economic scenario.
- The Institute of Chartered Financial Analysis of India University (ICFAI) has offering Certificate and diploma course in forensic accounting Education.
- Gujarat forensic science University offering MBA finance with specialization in forensic accounting and P.G. Diploma forensic Accounting.
- International Forensic Science (IFS): Launched course like, short term certificate course in forensic accounting .Advance Diploma Certificate course in forensic and fraud examiner, professional specialized certificate course in forensic accountancy and fraud examiners.
- BML Munjal University-MBA finance and specialized forensic Accounting and corporate fraud.

Techniques of Forensic Accounting

Forensic accountant use are many- techniques including accounting and auditing like fund flow statement, cash flow statement, ratio analysis and statistical techniques some techniques of forensic accounting are as follows:

- **Ben Ford's Law:** Ben ford's law is a mathematical statistical technique. It is very simple method. It also works for maximum numbers, decimal numbers and rounded numbers. It is not effected the scale invariance and also help in situation when there is no supporting documents to prove guidelines of the theoreticals. It finds amounts shows in books are right or not.

- **Theory of Relative Size Factor (RSF):** RSF is the technique of detecting fraud from unusual fluctuations. Forensic accountant here compared to highest two amounts for each subset and calculates RSF for each. If there is any fluctuation beyond normal range, then it will deeply examined suspected errors in the records. These records need to relate to other variables in order to locate the relationship, thus establishment the truth.
- **Computer Assisted Auditing Tools (CAATs):** CAATs provides auditors with tool that identify unexpected or unexplained patterns in data that may indicate fraud whether the CAATs is simple or complex, data analysis provides many benefits in the prevention and detection of fraud. The techniques will helps the forensic accountant in identifying fluctuations and inconsistency sampling programs to extract data for auditing testing of calculations done by accountant.
- **Data Mining Techniques:** Data mining techniques is a statistical tool. It is about processing data and identifying patterns and trends in that decide data mining techniques are categorized in three ways like discovery, predictive modeling and deviation and link analysis. Process of data mining consists of three stages:- 1) exploration 2) model building and validation 3) deployment. Data mining is relatively less concerned with identifying the specific relations between the involved variables.
- **Ratio Analysis:** Ratio analysis is the accounting technique of fraud detection. Just like financial ratio indicates financial health, data analysis ratio finds the manipulations by identifying possible systems of frauds. Three important ratio are:
 - The ratio of highest value to lowest value (max/min)
 - The ratio of highest value to second highest value (max1/max2)
 - The ratio of current year to previous year

Conclusion

In India forensic accounting are the most required in the wake of the growing frauds. Forensic accountants take a more proactive approach in examining the books of accounting. They make no assumption of management integrity show less concerns for the arithmetical accuracy having nothing to do with the accounting standards but are keen in exposing any possibility of fraud. Forensic accountant to serve an expert witness for a lawsuit or criminal case in a court, the forensic accountant needs to have applied reliable principles and method to sufficient facts or data.

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