

FORENSIC ACCOUNTING FOR FRAUD PREVENTION AND DETECTION

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ABSTRACT

Forensic accounting is a combination investigation of audit skills, to check the financial fraud. It is very unique and the latest concept i.e. correlation accounting with the investigation. Forensic Accounting is related to the document that is useful and suitable in the court room as a legal proof. The main purpose of the paper is to underline various review literatures related to forensic accounting for Fraud Detection and Prospects and analyze the study on various parameters of topics such as forensic accounting, fraud detection and prevention and finally establish a relationship between them. With the review of literature, identifies some rich sets of questions and several important directions for future research in forensic accounting. The white collar crime crimes are becoming more popular in the world of financial scams. This is a financial racket which is committed by the country's educational citizens. They are kept on top positions in large corporate houses and make criminal action to become rich person in less time. In this research paper, we try to uncover the latest initiatives by the Government of India along with the ICAI Specialist Committee in the field of Forensic Accounting. We strive to put the proposed forensic accounting standards also planning to implement in India. Along with this, India has become the first country which is thinking about forensic accounting and investigation standards and another part of this paper is about white-collar crimes. Forensic accounting is the beginning of the white-collar crimes. On September 1, 2020, ICAI offers proposed forensic accounts and investigation standards. The purpose of this letter is to encourage debate and future research on the issues identified.

Keywords: Financial, Crimes, Forensic, Corporate, Organisation, Intrinsic, Investigate, Initiatives.

Introduction

The white-collar crime is an important part of the forensic accounting. As we know that forensic accounting is related to detection of financial crimes which are done by the organization's high paying employees. They want to become the richest person of society and want to adopt a shortcut of success. They are taking bribe to earn more, are the misuse of the organization's property or are convincing the financial statements of the commercial organization. All the above activities are considered a white-collar crime in the corporate area. The percentage of professional crime is becoming more popular. Its percentage in India is increasing rapidly. We have heard about new financial crimes which are committed by the organization's high officials or high salaried persons. These relative experts in internally law, management, engineering, auditors, along with government official or software engineer etc. The best example of white-collar crimes in India is Amarpali scam or Punjab National Bank scam. Forensic Accounting refers to the investigation and analysis of financial records. In simple words we can say that it

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is the mail of two words. Forensic means the formal debate and logic is acceptable in the court room. Accounting means the record, summary, reporting and analyzing financial data. So in simple the word, we can define that the requirement of forensic accounting financial fraud is a combination of audit skills. It is very unique and the latest concept i.e. correlation accounting with the investigation. Forensic Accounting is related to the document that is useful and suitable in the court room as a legal proof.

Review of Literature

Dr. Manas Chakrabarti 2014, has written a book on Problems and Prospects of the Forensic Accounting Profession in India. Dr. Chakrabarti discussed the problems coming in India's implications in forensic accounting. Forensic accounting is a mixture of three skills such as accounting, checking and audit. According to the author's opinion, after the collapse of the World Trade Center Twin Towers in the United States, the demand for forensic accounting has increased. Because, since 2011 financial frauds have increased many times, it deals with matters relating to criminal investigation and professional negligence. Under this study, they also describe the fraud investigation. According to their opinion, we need to make the population about forensic accounting and its uses, because now more than 50% population of India is thinking that auditing, investigation and forensic accounting is the same thing. But it is absolutely different from each other. Therefore, we need to start the forensic accounting course like other certified courses in Indian universities. According to this study, SEBI is also going to start forensic accounting cell to enhance the quality of financial reports.

Dr. Pratap Singh, Mr. Joginder Greval, Mr. Virendra Singh (2015), Forensic Accounting as Fraud and Correction Detection Tool (an empirical study). The author said that forensic accounting is very important tools to detect many frauds. He explained in his data analysis that only 90% of local organizations have no information about this concept and if we talk about multinational companies, they have more information about it (83%). After analyzing the knowledge, he examined the application of forensic accounting, in which the corporate sector and chartered accountant, CMA (Cost and Management Accountants) 80% and MNC (34%) believe or use them, but if we are analyzing local organizations, they are using only 5%. So the conclusion is completed by this study that multinational companies are adopting forensic accounting very fast. These days, with local organizations, accounting professionals need to spread more knowledge about forensic accounting for people, because it is more beneficial concept for developing countries.

Poonam Murlidhar Lohana (2013), Forensic Accounting – in the newborn state in India. He said that for all financial crimes, we are not completely guilty on top management or are not declared as white-collar crime because they are not voluntarily fraud crimes, but for the money of the company's trustees, they have been forced to save money, so they really manipulate financial details. He discussed major cases like Satyam scam in India, under the crime, the main criminal person is the founder of the company and he has financed the fund of rupees. 8000 crores, Forensic Accounting play a very important role to disclose financial fraud according to the author's study. It is also helpful in controlling corruption in India. There is no doubt that the former employee of the organization has information about computer information as well as information about computer information, but they can try to harm the firm but its likelihood is very low. Therefore, we can easily control for this type of fraud prevention. But if we are talking about fraud in the top level management, then we have to increase the use of forensic accounting.

Dr. Sonal Nena (2015), an observation of forensic accounting. She gave detailed study on forensic accounting with the help of this paper, so that we can know the meaning and concept of forensic accounting. As she is known as Forensic Accounting as an inquiry accounting, in which the applications of accounting concepts and techniques for legal struggles are included. The author also discussed the difference of accounting, audit and forensic accounting. Simple words accounting is the preparation of financial statements based on accounting standards and the audit means to check and verify the financial details of any organization whether it is under accounting standards or not. But if we talk to Forensic accounting, it is different from both, it is related to those documents that are support or support for legal formalities. In this study, we also found the case of Satyam Computer Limited scam. This is a very large example of corporate fraud or scam which is caused by its board of directors. Company founder N. Ramalinga Raju is the main culprit in this case, because he allowed the company's accounts or financial statements to be falsified for many years. He extended the company's property and loan details. So in the deducted words, we can say that forensic accounting is a very important role but awareness about this concept in the country is very low. We have to take a step for more awareness.

What is Forensic Accounting

Forensic accounting as the science of collecting and presenting financial information in a form that would be accepted by a court of jurisprudence against perpetrators of economic crimes. It is also known as searchable accounting; under this, specialists include special knowledge and specific skills that are required to explore financial fraud through data, collecting interviews, writing and testimony. Forensic accounting was applied in the following cases or fraud -

- Bankruptcy
- Insolvency
- Tax Frauds
- Computer Frauds
- Bank Frauds
- Corporate Frauds
- Plastic Money forensic. etc.

It is divided in to two parts:

- **Investigative Accounting:** It refers to the investigation of illegal and fraud cases related to financial statements, firm employees, security fraud and insurance fraud etc. The search for accounting is not limited to the fraud, even the fraud related to the provision of suggestions for adequate courses of action.
- **Litigation Support:** Little action means in liters of simple words. It is related to the process of carrying a case in the Court Panel so that legally traces can be detected. Mainly it is related to many figures to showcase economic loss."

The earth provides enough to meet the needs of every man, but not every man's greed." Forensic accounting was first introduced by Mahatma Gandhi to Maruis E. Pelubet in 1946 with the essay, forensic accounting. But after many years of study, finally, in the 1992, forensic accounting developed and used by the United States and established the first college as the American College of Forensic examiners in the same year. It is very helpful to control the white collar crimes because these days are maintaining the main financial fraud crime due to Miss Management at the corporate level as the example of the following scams in India, Harmad Mehta, Khaten Prakash and Satyam Faisco and Coal Block Scam. According to recent analysis, it data only water 5% shows the data of the scandal but it is more than 95% on the organization. Therefore, according to the study, we need to consider the population about forensic accounting as India's economy depends on more taxes from capital income and white-collar job holders per capita. If scams like the above keep happening again and again, then India's economy will not develop.

Techniques of Forensic Accounting

Traditional accounting and auditing with the help of various accounting tools such as ratio technique, cash flow technique, a standard statistical tool examination of evidence are all part of forensic accounting. In cases related to significant amounts of data, the technique is to be available and presenting the current forensic accountant to the data or source, sorting and analyze data and even to measure the results through computer audit and various other techniques. There are some techniques involved in forensic accounting:

- **Benford's Law:** This is a mathematical tool, and one of the different ways to determine whether the study is unknowingly errors (mistakes) or fraud or not the case. On the address of any such incident, the wide variable of the variables are made investigation. The law says that fabricated statistics have different patterns from random data. The steps of Benford's rules are very simple. Once the variable or area of financial importance is fixed, under the study, the points of the most left side of the variable are extracted and summarized for the entire population. The condensation is conducted by calculating the field of the first points and calculating the percentage of its perverse. Then the set of Benford's is applied. A parametric test is called Z-Test to measure the importance of differences between two populations, i.e. Benford's percentile number of the first digit for a particular level of confidence. If the data confirms the percentage of the law of Benford, it means that the data is set of Benford, i.e. there is 68 % (about 2/3) chance of no error or fraud. The first digit cannot always be the only relevant field. Benford has given separate set for the second, third and last digit. This combination also works

for numbers, decimal numbers and round numbers. Benford's law has many advantages such as it is not affected by the scale invariance, and helps when there is no supporting document to prove the authenticity of the transaction.

- **Theory of Relative Size Factor (RSF):** It exposes all unusual fluctuations, which can be from fraud or actual errors. RSF is measured as the largest number of the highest number of set of the given set of the given set. Some limitations (such as financial) are present for each unit such as seller, client, employee, etc. These limits can be defined or analyzed from available data – if not defined. If any sporadic instance of this is very much above the normal range, then it needs to be further examined. It helps to find the better discrepancies or outliers. Records or errors in the record outside the prescribed limit are suspicious. These records or areas should be related to other variables or factors to find the relationship, thus installing truth.
- **Computer Assisted Auditing Tools (CAATS):** CAATS are computer computers that are used as part of audit processes to process data from the audit importance contained in the information system of the auditor client, depending on it. CAAT helps to make auditors various audit processes such as: (A) Testing details of the transaction and balance, (B) Identifying ordinary or voluntary, (C) Computer system generates only the form of application controls. (D) To remove data for audit test, sample programs, and € re-calculate the calculations performed by accounting systems.
- **Ratio Analysis:** Another useful fraud detection technique is calculated the data analysis ratio for major numerical areas. As the financial proportion that indicates the financial health of a company, the data analysis reports on the health of fraud by identifying potential symptoms of fraud.
- **Data Mining Techniques:** This is a set of assistant techniques designed to maintain large amounts of data in the new amount, new hidden or unexpected information or patterns. Data mining techniques are classified into three ways: Discovery, Predictive Modeling and Deviation and Link Analysis. It searches for general knowledge or patterns in the data, without any predefined ideas or hypothesis, what pattern can be, that is, without any pre-knowledge of fraud. It explains different similarities, union, trends and variations as a conditional argument. In predictive modeling, the pattern discovered from a database is used to predict the result and estimate the data of new value items. In deviation analysis the norm is first found, and then those items are detected that are distracted from normal within a given range (to find discrepancies by the extracted patterns). The recent link discovery has been displayed to find a suspicious pattern. It mostly uses the defective graphical techniques, Bayesian probabilistic convolution networks. This method includes "pattern matching" algorithm to remove any rare or suspicious cases.

Conclusion

The importance of the role of forensic accountant is increasing in the detection of fraud. Armed with the combination of skills, these financial detectives are important assets for modern legal teams today. Forensic accounting is only a special area within the wide area of accounting. It is the use of professional accounting skills in cases related to potential or actual citizen or criminal litigation, which usually contains acceptable accounting and audit principles, but not limited to them; Determination of lost benefits, income, property, or damages; evaluating internal controls; Cheat; and any other case related to accounting expertise in the legal system. In conjugated words, we can say, forensic accounting is the effective tool for identifying and prevention of white-collar crimes. According to the above study, we are able to understand the importance of forensic accounting and to check the position of white-collar crimes in India and found that it is going on by day since-day since 2010 Satyam Computer Scam. In this whole case, the count of millions of cases is increasing. From 2017 to 2020, we see many financial scams in India and affect the Indian economy. For the detection and prevention of financial scams, the Government of India used Forensic Accounting and received positive results. On September 1, 2020, they started the first phase of draft forensic accounting and investigation standards through press release and became the first country to consider legalization of forensic accounting. After receiving positive feedback from input stakeholders, the ICAI moves forward for its second phase and releases exposure draft for additional seven standards for forensic accounting. So in the understanding words, we can say that forensic accounting is a precious tool to overcome the white collar crimes. The purpose of the article is to find the role and importance of forensic accounting and forensic accountants in detecting fraud. In the background of the mounting level of fraud, the demand for forensic accountants in the future is to be significantly increased.

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