

FORENSIC ACCOUNTING: AN OVERVIEW

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ABSTRACT

India an emerging economy and having inestimable resources is continuously moving towards sustainable growth and development. Finance plays significant role in construction of a strong economy and its well-being. Hence increasing rate of financial crimes lowers down the graph of economic growth and development. Country has witnessed various scams and scandals. Forensic Accounting which is a standardized and specialized form of Accountancy can be proved helpful to reduce the risk of financial frauds and misconducts. The paper focuses on the concept of Forensic Accounting. Paper presents an overview on Forensic Accounting. The main objective of this paper is to describe the need and significance of Forensic Accounting in India. To attain these objectives data has been collected from secondary sources such as news-papers, various websites and reports issued by authorities of Government of India. Content analysis method has been used in this exploratory study. This study concludes that Enforcement of Forensic accounting in present scenario can be proved more beneficial for good financial health of Indian economy.

Keywords: Forensic Accounting, Forensic Accounting Techniques, Financial Crimes.

Introduction

The term 'Forensic' originates from a Latin word *Forensic* which means 'in open court' and when the financial transactions are recorded in a proper and systematic way it is known as Accounting. Hence Forensic Accounting is a specialized version of accounting in which financial records are maintained and final reports are prepared in such a way which is also valid and acceptable in the court of law. Forensic Accounting is a strategic combination of Accounting, Auditing and Investigation to prevent from financial crimes Forensic Accounting is also known as Forensic Auditing and Financial Forensics.



Accounting + Auditing + Investigation = Forensic Accounting

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Forensic Accounting is an advanced version of accounting. India an emerging and fast growing economy and having inestimable resources, is continuously moving towards sustainable growth and development. Finance plays significant role in construction of a strong economy and its well-being. Finance is one of the significant factors which strengthen the foundation of economic development of an economy. Hence increasing rate of financial crimes lowers down the graph of economic growth and development. Country has witnessed various scams and scandals. Thomson Reuters presented a study which shows that about 53 percent Indian corporations have been a victim of financial frauds in the year 2017. This type of accounting system is the need of hour as it can be seen that no domain including financial area is untouched from misconduct and frauds. Realizing the significance of Forensic Accounting the Council of the Institutes of Chartered Accountants of India launched a certificate e-learning course on Forensic Accounting and Fraud Detection. RBI Central Bank of India is also responding and taking actions to implement Forensic Accounting practices in financial context.

Objectives of the Study

There are two main objectives of the present study which are as follows:

- First objective of this study is to present an overview on Forensic Accounting System.
- Second objective of the present study is to understand the concept of Forensic Accounting in Indian context.
- Third objective of this study is to analyses the significance and challenges of Forensic Accounting in Indian Context.

Limitations of the Study

Entire study is based on the existed and published data or referred as secondary data. Therefore the study is limited to the available data and information.

Research Methodology

Present study focuses on one phenomenon which is 'Forensic Accounting'. Newspapers, various websites and official reports issued by either various private organizations or government authorities. Present study rely on content analysis. It is exploratory in nature.

- **Origin of Forensic Accounting**

The term Forensic Accounting is firstly introduced by Maurice Peloubet in 1946.

- **Nature of Forensic Accounting**

Forensic Accounting can be characterized as:

- It has multidisciplinary approach as it combines Accounting, Auditing and investigative skills.
- It is analytical in nature as the whole concept is based on in-depth analysis of the concerned matter.
- It is a transformed version of normal accounting.
- It is more complex in nature than traditional accounting.
- It is a specialized version of Accountancy.
- Investigative aspect is the core of Forensic Accounting.

- **Scope of Forensic Accounting in India**

Those crimes which are committed against wealth or property are commonly referred as financial crimes. In Indian context, increasing cases of financial frauds, money laundering and scams has widened the scope of Forensic Accounting. Banking and financial sector, Insurance sector, Stock market, Tax authorities, Business sector and E-Commerce can get benefited from it and can prevent themselves from frauds related to banking and financial transactions, invalid policy claims, stock market scams, tax evasion, default payments and cyber-crimes respectively. Increasing NPA is also threatening the whole system. It can also be reduced with the proper utilization of Forensic Accounting. Bankruptcy fraud and credit card fraud are also common now a days. Forensic Accounting can be proved a boon to check and effectively handle increasing financial disturbance in present scenario. Today when India is moving ahead with a tremendous vision of becoming five trillion economy in coming years, increasing financial crimes is matter of concern.

- **Need of Forensic Accounting in India**

With emergence of global economies and invention of new technologies at a very fast pace, crime rate is also increasing simultaneously. It has increased the need of Forensic Accounting.

- Increasing cases of money laundering. Such as DHFL money laundering case, YES bank money laundering case etc.
- Failures of cooperative banks and other financial institutions. Such as scam reported in Punjab and Maharashtra Cooperative Bank in 2019
- Increasing fraud cases in online transactions.
- Frauds in banking transactions. Such as Nirav Modi PNB bank fraud
- Financial scams. Such as Satyam scam, Commonwealth Games scam etc
- Terror funding which destroys peace and harmony of nation
- Increasing Non Performing Asset mainly in public sector banks in India

According to the Reserve Bank of India 97 percent of all reported frauds were constituted because of loan related frauds by value in 2019.

- **Significance of Forensic Accounting**

Importance of Forensic Accounting is increasing day by day. As,

- Detection of fraud and misconduct becomes easier as Forensic Accounting can be proved helpful in identifying the symptoms of fraud.
- After recognizing the fraud preventive measures can be taken in order to escape from huge damages.
- Forensic Accounting provides a dispute settlement mechanism which helps in sorting selective financial conflicts systematically.
- As it is new paradigm therefore new jobs creation is another significance of Forensic Accounting in India. Increasing demands for Forensic Accountants will push the employment graph up.
- Forensic Accounting proves to be helpful in taking effective decisions and pre-emptive actions.
- It also useful in framing effective economic policies according to the changing scenario of economy.
- Forensic Accounting minimizes irregularities in accounting records.
- It can easily find professional negligence in maintaining accounting records and rectify it.
- Forensic Accounting presents a verified report and cross checked accounting records which uplifts the faith of clients in accounting system.
- Forensic Accounting can be proved beneficial in augmenting transparency in financial activities which leads further to a more stabilized financial sector.
- Forensic accounting can be proved an effective way of lowering the graph of financial crimes.

- **Tools and techniques for Forensic Accounting**

Various techniques are used in Forensic Accounting which are as follows:

- Confidential resources are used for information and evidence collection
- Documents review in depth is significant tool for fraud identification
- Background of concerned party is also checked to detect hidden data
- Interviews are conducted to extract valuable information
- Collected evidences are carefully analyzed
- Surveillance by calls, messages and e-mail tracking is an important technique to unveil scams and frauds
- Benchmarking is an effective way to find gaps by conducting comparison.
- High-tech and specialized software are used for more strategic and quick analysis.

- Ratio analysis is an effective tool to find abnormal patterns of financial flow.
- Data mining for data exploration and data matching for identical records detection are commonly used techniques

- **Requirements to be a good Forensic Accountant**

A Forensic Accountant is not as same as a normal accountant. The complex nature of Forensic Accounting increases some additional skills and knowledge criteria to be a good Forensic Accountant which are as follows:

- Accountancy and auditing related knowledge
- Good understanding of legal processes
- Analytical approach to conduct financial analysis
- Good communication skills
- Good technological understanding
- Wide range of experience in forensic investigation
- Good understanding of Information Technology
- Professional approach
- Reasoning abilities and investigative approach
- Good understanding of Forensic Accounting Methodology

- **Challenges of Forensic Accounting in India**

Forensic Accounting has gained enough popularity in foreign countries. Deloitte, KPMG and McGladrey are some popular International Forensic Accounting firms. But in India it is not that much popular and used approach. Some problems which are facing by Forensic Accounting in India are as follows:

- Lack of awareness and knowledge about Forensic Accounting among people is a big problem.
- No specific act has been passed by the Government of India for compulsory enforcement of Forensic Accounting System in sectors.
- Lack of multidisciplinary approach can be seen in the curriculum and courses which is also a serious problem because a Forensic Accountant needs accounting, auditing and investigative skills.
- Political interference in scams and frauds makes situation worsen and more complex in India.
- Forensic Accounting is concerned with criminal activities, misconducts and frauds. Hence the possibility of risk remains present such as blackmailing, threaten calls etc.
- Forensic Accounting is quite expensive to adopt which causes increase in operating cost.
- In depth analysis is done in order to evaluate and verify financial records which is a time consuming process.
- Lack of technical skills or technical know-how in professionals
- Lack of uniform standards and common methodology for Forensic Accounting

- **Corrective measures to overcome the challenges of Forensic Accounting**

There is an urgent need to take some corrective measures to promote Forensic Accounting in India. These measures are as follows-

- Computerized applications must be constructed for compilation of data
- Technology based systems and high-tech systems must be installed for quick and accurate financial analysis
- Skill development courses and hands on training is required for knowledge enhancement and practical understanding
- Procedure and methods which are undertaken in Forensic Accounting should be standardized to augment uniformity and reliability in the system.
- An Act should be framed and implemented to enforce forensic accounting practices.
- Forensic Accounting must be included in curriculum or certificate courses on Forensic Accounting must be introduced by government and elite educational institutions to increase the popularity of Forensic Accounting among job seekers.

Conclusion

Present government has prioritized reducing financial misconducts. Various schemes and initiatives have been executed to enhance transparency in the financial system and to reduce financial arising due to financial scams. Digitalization is one of them. Enforcement of Forensic Accounting in present scenario can be proved more beneficial and effective for good financial health of Indian economy.

Suggestion for Future Research

Forensic Accounting Methodology and uniformity in Forensic Accounting procedure in various firms and organizations can be studied in future researches. A comparative study between developing and developed nations can also be taken into consideration for future studies to understand the difference between their approaches towards Financial Forensics respectively.

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