

## FORENSIC ACCOUNTING: A DIFFERENT PROSPECTIVE OF ACCOUNTING

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### ABSTRACT

*In an effort to unearth in addition as curb the incidence of white collar frauds in business, ideas are being drawn from various forensic sciences to supplement the thought process of accountants and auditors. The term forensic' means suitable to be utilized in court. Forensic accounting could be a rapidly developing area of specialization primarily concerned with fraud deterrence, fraud detection and fraud investigation. Forensic accounting could also be defined as systemized knowledge addressing application of accounting facts gathered through auditing methods and procedures to resolve legal problems. Forensic accountants are certified fraud auditors. Financial auditors observe the numbers but the forensic accountants look behind the numbers. Now a day's business and criminal activities became so complex that lawyers and criminal investigators often don't have the expertise necessary to discharge their responsibilities. Moreover marked increase in white collar crimes, marital and business disputes have created the necessity of forensic accounting. However in India forensic accounting as a course also as a profession has not yet been adequately addressed in academic discourse. An in-depth and systematic study of this critical area of specialization is so far hard to return by. Few articles are available in leading accounting journals that have attempted to analyse, normally terms, the effectiveness of forensic accounting to detect and stop white collar crime. However several illuminating works on forensic accounting are done by academicians in the west in addition as in India. So to check the applicability of forensic accounting in detecting and preventing nonviolent white collar crimes is the main inspiration behind this study.*

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**Keywords:** *Financial, Prevention, Detection, Fraud, Forensic, Criminal, Auditing.*

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### Introduction

The term financial auditor applies to any auditor of financial information or the financial reporting process. Mainly financial auditors are people who work for public accounting firms and perform audits of financial statements for public companies. They're traditionally number oriented. Forensic auditors are generally accountants or auditors who, by virtue of their attitudes, attributes, skills, knowledge and skill are experts at detecting and documenting frauds in books of account. Financial auditor is simply sort of a watchdog who looks at the amount but forensic accountant is sort of a bloodhound who looks behind the amount. Usually in corporate organisations there are three stages of fraud detection and prevention: pre- fraud stage, ongoing fraud stage and post-fraud stage. The organisations which are always responsive to occurrence of fraud and check out to forestall it at initial stage can arrange ethics training/ adopt regular statutory audit/ periodic fraud audit or forensic accounting as a fraud preventive mechanism. For ongoing fraud detection, corporate organisations can encourage whistle blowing/ refer the concern a disciplinary committee or can use forensic accounting as a curative strategy. Finally if fraud is detected after it's actually been committed, forensic accounting may be used as revival/ survival tool. So at each and each stage of fraud detection and prevention, forensic accounting as an emerging fraud management mechanism plays a very important role. Now the important question is how far forensic accounting is effective in detection and prevention of white collar crime. At the identical time, how far it's acceptable to Indian Corporate Sector.

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### **What is Forensic Accounting**

In general forensic accounting is the application of a specialized body of information to the evidence of economic transactions and reporting, suitable to the purpose(s) of creating accountability and/or valuation, often in a court of law or administrative proceeding. In wide sense it is said because the integration of accounting, auditing and investigative skills to get a specific result. Forensic accounting is not traditional accounting and do not involve any debit or credit, but it helps in sorting out various disputes in an entity. It's got two main areas to cover:

- Litigation Support and Investigation
- Dispute Resolution.

The former represents the factual presentations of economic issues associated with existing litigation. On the opposite hand the later is the act of determining criminal matters and to recommend some actions which will be taken to reduce future risk of loss. The need for forensic accounting aroused due to the failure of audit systems in the organizations because the organizational internal audit and other audits did not figure certain errors in the managerial systems. Experts in the field got wind that the extreme economic pressure with more companies facing bankruptcy jobs and careers are in danger and employees feel pressured to take care of and support performance levels forcing many to commit corrupt acts. regardless of the reasoning could also be more and more forensic accountants are being called upon to meticulously search through documents, discover new information and help in creating the irregular pieces of a company's financial puzzle to resolve the vexing problems. Forensic accountants are utilized by attorneys in a very broad range of activities from witness testimony to special counsel's investigation of fraud, to bolster corporate governance. Such services include fact-finding in both discovery and analysis of relevant data for fraud investigations; damage claims; lost property calculations; valuations of business; and determination of matrimonial assets in divorce actions and expert testimony with regard to these findings.

Here it should be noted that Forensic accounting is different from financial auditing and fraud auditing. Forensic accounting incorporates all the terms involved investigation, including fraud auditing. So fraud auditing may be a subset of forensic accounting. Financial auditors specialise in fairness of overall financial statements on sampling and selective basis to test the existence of ordinary rules, principles and conventions. Forensic auditors provide a basis for forensic accountants to actively hunt for sign of deception to detect and investigate fraud. By possessing requisite qualities and qualifications, forensic accountants can look behind the amount to perforate the origin of fraud. The areas of application of forensic accounting are vast, only the initiative and acceptability are required for its implementation.

### **Development of Forensic Accounting in India**

Forensic accounting has acquire limelight because of rapid increase in financial frauds and white-collar crimes. But, it's a largely untrodden area in India. Management development programs will actually give the academic partners a footing over their peers in the educational market. With about 20 representative offices across the country and a network of over 600+ members India forensic leads the forensic accounting movement in India. In India serious fraud office and IRDA have special target the frauds however there's no specialized education provided by any of the colleges in the country. White Collared crime is an ignored area therein sense. Forensic accounting offers a good range of opportunities for people, who possess sound knowledge in financial procedures and have analytical skills. One can find employment with clients, who are charged with allegation of fraud against the government, public, or private business, or a fraud involving insurance claims, assets, investments, and financial instruments. The proficiency of a forensic accountant is employed to detect any financial crime. Someone can utilize his/her forensic accounting skills to resolve divorce disputes, business carelessness investigation claims, and individual injury claims. Forensic accountants also are hired by accounting companies. Numerous government agencies just like the FBI, IRS, CIA, and native government offices, at times, require their services. A forensic accountant is an experienced auditor, who acts as a watch-dog of the accounts of an organization, so as to stay a check on the frauds. With the growing number of fraud cases, the demand of fine forensic accountants is on the increase. The task of a forensic accountant is quiet challenging, because it requires commitment, loyalty, and devotion. Keeping visible of the increasing demand for forensic accountants, many institutes in India are offering courses to make a career in the same. India's economy has been rising for the previous few years. But this rise is amid some evils yet. India has also experienced white collar crimes and scams for the previous couple of years. Thus the requirement of forensic accountants was realized. Forensic accountants played a serious role in letting the cat out of the bag in 2008 Satyam Scam. Another International Investigation Organisation has also put its feet on Indian land. Serious Fraud Investigation Office (SFIO) is another noteworthy organisation founded in India for serving the identical purpose.

### **Indian Legal System's Response towards Forensic Accounting**

In India, forensic accounting has not got its due recognition even after alarming increase in the complex financial crimes and lack of adequately trained professionals to analyze and report on the complex financial crimes. The task of Forensic Accountants is handled by Chartered Accountants who except for handling traditional practice of auditing as needed under the companies Act, 2013 or Income tax Act are called upon by the enforcement agencies or the businesses or private individuals to help in investigating the financial crime or scam. The CA or CWAs in India are best fitted to this profession due to their financial acumen acquired during their rigorous training which may be further honed by introducing post qualification degree or diploma in Investigating and Forensic Accounting almost like one introduced by CICA. The CA or CWA who acquire post qualification in Investigative & Forensic Accounting can use the designation CA-IFA or CWA-IFA and be legally recognized because the Forensic Accounting Experts to handle the investigation of monetary crimes and provides expert testimony in the Court of Law. However, no efforts has to this point been made by the ICAI and ICWAI, the 2 leading statutory accounting professional bodies to maneuver in this direction and founded a institute which may offer the post qualification diploma in Investigative and Forensic Accounting to its members. To curb various financial scams and failure of various government authorities in detecting the same, has forced the government of India to make Serious Fraud Investigation Office (SFIO) under Ministry of Corporate Affairs which might be regarded the primary step of state of India to acknowledge the importance and advance the profession of forensic accountants. The SFIO consist of various Experts. These experts are taken from various organizations like banks, Securities & Exchange Board of India, Comptroller and Auditor General and anxious organizations and departments of the government. However, the most important enforcement agency involved directly in combating white-collar crimes is the Police, CBI, DRI etc. there's a complete lack on the part of these enforcement agencies to coach their investigators during this specialized part of investigating white-collar crimes involving forensic accounting.

On the opposite hand if we glance at the western countries particularly USA, the enforcement agencies of which like DEA, FBI, CIA has well marshalled its pool of special agents having forensic accounting backgrounds that are the backbone of the bureau's financial crimes and terrorism financing units and investigate with professional acumen, the complex financial crime like concealment, internet crimes, financial organization fraud and other economic crimes. Today, there are over 600 FBI agents with accounting backgrounds. Thus, it's highly imperative on the a part of enforcement agencies in India that they follow the suit and have interaction specialist forensic accountant on its roll whose engagements referring to criminal matters typically arise in the aftermath of economic fraud. The difficulty of Cyber crime & digital evidence in India is primarily addressed by the knowledge Technology Act, 2000 (IT Act), the Indian legal code (IPC), the Code of Criminal Procedure (CrPC). The Indian parliament considered it necessary to offer effect to the resolution by which the overall Assembly adopted Model Law on Electronic Commerce adopted by the international organization Commission on Trade Law. As a consequence of which the data Technology Act 2000 was passed and enforced on 17th May 2000. The preamble of this Act states its objective to legalize ecommerce and to manage and control the affairs of the cyber world in a very simpler manner. In IT Act, sections 43 to 45 are regarding penalty for damages to computers. Sections 65 to 74 contain provisions regarding various cyber crimes. Subsequently on the report submitted by Santhanam committee certain legislations earlier enacted were amended as - Anti-Corruption Laws (Amendment) Act, 1964; interchange (Amendment) Act, 1964; Prevention of Food Adulteration Act, 1954, Wealth Tax (Amendment) Act, 1964 and more powers are conferred on the investigating officers and on the Magistrates for conducting the proceedings of the summary trials. The Criminal Justice Act 2011 was also signed into law on 2nd August 2011. The Minister for Justice and Equality has made an Order commencing various provisions of the Act with effect from 9th August 2011. The most purpose of the legislation is to supply for simpler investigation of white collar crime. It sets out new procedures to facilitate free access to information and documentation including that which is held electronically. The Act provides that it's a criminal offence to fail to furnish to the guardian information which could prevent the commission of white collar crime or to help the investigation into white collar crime. The Act includes provisions to safeguard whistleblowers.

It is the time for India to administer a concept for modifying its present scheme which is traditional and sophisticated. A regulatory body of forensic accounting has to be founded to control the role, duties, responsibilities and power of forensic accountant. There's also a requirement to create a replacement law for the prosecution of fraudsters, regardless of their domicile. To tackle the matter of prosecution of fraudster from different domicile apart from India, the problem has to be preoccupied to

international regulatory body. In this regard, international cooperation has to be sought to realize some variety of legislative consistency. Appointment of forensic accountants should be made mandatory all told the businesses especially publically sector companies and enormous scale companies to detect and stop fraud.

### Conclusion

The scandals of the previous couple of years come as a shock not simply because of the enormity of failures like Enron and WorldCom, but due to the invention that traditional accounting practices are less prone to detect these all. An explicit link between these accounting failures and poor corporate governance has emerged. An increasing number of researches in recent times are finding that poor corporate governance ends up in manipulated financial reports and white collar crime. Corporations and regulatory bodies are now trying to investigate and proper any existing defects in their reporting system. In this connection the role of whistleblowers to reveal wrongdoings in their organisations is additionally important. However, the dearth of protection for whistleblowers prevents people from coming forward to focus on illegal or unethical acts by companies. Efficient and effective functioning of forensic accounting profession in India will certainly reduce the incidents of economic frauds and other economic crimes in the country. But in India forensic accounting continues to be in its infancy stage. The slow/no progress of forensic accounting in India is also because of Forensic accounting is seen as an upscale service where only the large companies can afford it. Moreover, it'll even be costly if the suspected wrongdoing is dropped at court especially if it involves forensic accountant as a witness. Also there's no mandatory requirement for companies to conduct forensic accounting, whenever there's any sign of deception or on regular basis.

If we would like to appear forward to forensic accounting as a tool to detect and stop white collar crime in Indian corporate sector forensic accounting should become an institutionalized system for combating white collar crime. At the same time to simply accept forensic accounting as a profession, it should be first introduced at educational level. It often included as a curriculum at various stages of professional courses and it can even be recognized as a specialization at Post Graduate level. The foremost definite conclusion is: it's the time to use forensic accounting as a weapon to combat white-collar crime in the corporate sector. White-collar crime must come to an end; as an alternative, forensic accounting must rule to cleanse the company sector of white collar criminal behaviour.

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