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FORENSIC ACCOUNTING: MUCH NEEDED ASPECT IN CURRENT TIMES

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ABSTRACT:

An advanced mechanism for fraud detection is demanded due to financial frauds in the past and beginning of this century. The new branch of accounting called "Forensic Accounting" came in to limelight to cover limitations of existing accounting and auditing. Need for Forensic accounting is recognized worldwide to fight against financial frauds, scams and white collar crimes. Developed economies are using this technique in very effective and efficient manner to fight against white collar crimes. In current scenario, India is facing huge problem of financial frauds and scams. But to

detect and prevent such scams and frauds, tool and technique like forensic accounting is unexplored against traditional accounting tools. Even academicians and auditors are unaware about such effective tool. Now a days persons involved in financial frauds use latest technology and their expertise to commit frauds and scams and they are changing technology frequently. So new generation accountants and auditors have to update themselves with latest technologies and tools to be one step ahead from the criminals. The article attempts to explore much needed branch of accounting named forensic accounting.

KEYWORDS: Forensic accounting, auditing, financial fraud, White collar crimes, Scams.

INTRODUCTION

In present time, financial frauds and scams become a severe problem not just in India but also around all over the world. It is very surprising to see that frauds and corruption gradually become a normal way of life. Single penny of money which has legal use, if used for illegal means or misappropriated, then it creates a very negative impact on its actual use. These financial frauds can be done by small employees to high level executives. However, in most of

cases, frauds and scams are committed by top executives having higher post and power, who is entrusted with the responsibility of taking care of funds. If we look at the frauds and scams that took place in the last few years, the amount involved is shocking and unbelievable.

SCAMS	AMOUNT
Coal Gate Scam	1,86,000 crore
Punjab national bank scam	13,600 crore
2G Spectrum scam	1,75,000 crore
Commonwealth Games	35,000 crore
Abhishek verma arms deal scam	80,000 crore
Saradha Group scandal	40,000 crore
Satyam Scandal	8,000 crore
Harshad Mehta	4,000 crore
Ketan Parekh	1,500 crore
C.R bhansari	1,200 crore

Due to these white collar crimes, investor's confidence on accounting records has decreased and it resulted in a serious question on the reliability of Auditing, Financial reporting, Accounting standards and auditing standards. Traditional auditing system provides for only an expression of opinion on the truth and fairness of financial statements. So an auditor gives an assurance and not a confirmation on the truth and fairness of financial records. So it is said that auditors are not "Bloodhounds" but "Watch Dog". But in present time, stakeholders expect the auditors to take responsibility of detection and prevention of financial frauds.

The work of an auditor is not only limited to the giving expression of opinion, rather spotlight is now on fraud detection, investigation and solution seeking.

MEANING OF FORENSIC ACCOUNTING:

Forensic accounting is the integration of Accounting and Auditing with investigative skills for accounting analysis that is suitable for court. Unlike the traditional auditing system, forensic accounting checks each and every suspected transaction and collects each and every evidence that can be presented as a evidence in court of law. It is an art and science of doing auditing with investigation.

According to George A. Manning, "Forensic Accounting is a science of gathering and presenting financial information in a form that will be accepted by the court of jurisprudence against perpetrator of economic crimes".

According to AICPA, "Forensic accounting is the application of accounting principles, theories and discipline to facts or hypothesis at issues in legal dispute and includes every branch of accounting knowledge.

HISTORY OF FORENSIC ACCOUNTING IN INDIA

In India , Acharya Chanakya who was known as "Kautilya" in his book "Arthashastra" mentioned the famous 40 ways of embezzlement. Means from ancient times system of forensic accounting was present . In his time King Chandragupt Maurya has appointed his ministers (Aamatyas) for fraud findings . Similarly one of the nine gems of king Akbar, Birbal explained different fraud examination and detection methods. In era of 1990, after the Harshad Mehta and other scams , Indian government felt serious need of forensic accounting. Government felt like they need to have someone who is specialized to detect and prevent such financial crimes. So in year 2003 Government of India formed Serious Fraud Investigation office (SIFO) in New Delhi on the basis of recommendation made by 'Naresh Chandra Committee'. Then after SEBI formed a forensic accounting cell to improve the quality of financial information and ensure its quality. RBI also made compulsory to have forensic audit to all banks.

DIFFERENCE BETWEEN TRADITIONAL ACCOUNTING AND FORENSIC ACCOUNTING

There are some common differences between traditional accounting and forensic accounting ,which are as under.

- The scope of Traditional Accounting is limited to record and present financial transactions. Whereas the scope of forensic accounting is beyond to the scope of traditional accounting to ensure the validity of financial information.
- The traditional accounting is done without any suspicious state of mind, whereas the forensic accounting is always done with suspicious state of mine.
- There are certain rules, principles, generally known as GAPP and Accounting standards according to which traditional accounting is done. But there are no rules and principles to do forensic accounting. It can be attained only by massive experience.
- Traditional accounting uses vouchers and rough notes as raw base information to make entry in accounting system. Whereas forensic accounting uses evidences in form of any supporting documents, audit trails, testimonials or interview or observation or cross verification to prevent and detect financial frauds.

FUNCTIONS OF FORENSIC ACCOUNTING

Functions performed by forensic accounting are as follow:

1. **Prevention and Detection of fraud:** The primary duty of forensic accountant is to understand the nature of fraud committed and detect the whole real picture of fraud committed and find persons who are responsible to commit such financial crimes. For that forensic accountant deeply investigate each and every aspect related to fraud committed.
2. **Criminal Investigation:** It is the duty of forensic accountant to report for criminal and civil actions as per the law against those who are involved in financial frauds.

3. **Reporting professional negligence:** it is duty of forensic accountant to report any professional negligence like non conformation of GAPP, Accounting standards and auditing standards or non compliance with professional ethics. Moreover he is also report financial loss due to such negligence.
4. **Arbitration services:** Over and above fraud findings, forensic accountants can act as arbitrator and serve mediation services between business organizations. So they can work in area of alternative dispute resolution.
5. **Insurance claim settlement:** Both insurance company and policyholder seek help of forensic accountant for settlement of their insurance claims.

Techniques of Forensic Accounting:

So many techniques are used in the forensic accounting to prevent and detect fraud and also to render above mentioned services. Some of them are traditional auditing techniques like observation, interview, inquiry, collection of evidences and looking at audit trails ,Ratio analysis etc. on the other hand there are some new techniques policed with latest technologies. Some of the techniques used in forensic accounting are as under.

1. **Traditional auditing tools:** When the nature of crime is not so serious or amount involved is not material then traditional auditing tools are useful. These tools includes 'Ratio Analysis', 'Cash Flow Statement' and collection of supportive evidences. It may also include interviewing related persons, observation, and inquiry methods. When technology used in committing fraud is not advanced then these auditing tools are useful.
2. **Benford's Law:** This is mathematical technique used to analyze financial data and detect frauds. This law assumes that database follows a rule called Benford's law..This rule allows to predict number of times each number 1 to 9 will appear in the first non zero digits in database. If numbers in database differs from the numbers predicted as per benford's law, we can say that data is manipulated.
3. **Computerized techniques and software:** This is most advanced tools used in forensic accounting to detect frauds in financial data. In this tool latest software were embedded in the computer which will act as a eyes of database. Software like CAAT (Computer Assisted Auditing Tool) will tag suspicious transaction in database and forensic accountant can easily detect any unexpected transactions. Techniques like Screenshot and audit hooks can also be used for the detection of fraud.
4. **Relative Size factor theory:** This technique follows normal range concept. Here forensic accountant will find out two highest and two lowest factors for each subset. This is known as range. Any data beyond the range is known as fluctuation. So relative size factor is noted for each subset of database. Suspected fraud and errors are generally falls outside this relative size factor. It will help to detect abnormality in data.

Challenges for Implementation of Forensic Accounting in india:

- Now a days persons who commits white collar crimes, uses latest technology and they are changing is very frequently. So forensic accountant have to be updated with the latest technology to be one step ahead from criminal.'
- In India corruption is biggest problem now a days. So financial frauds are detected but due to corruption they are intentionally unnoticed .
- In big scams and scandals in India top most businessman and politicians are involved. So evidence collection in these cases is difficult due to political pressures to forensic accountants.
- In recent times due to Globalization many foreign companies are also involved in the scams . So action against them is difficult in Indian legal jurisdiction.
- Reporting of fraud and taking legal action against those who involved will take time and high cost. So companies are more interested in settlement outside court.
- Awareness of forensic accounting is very less in India.

- There is no legal framework and guideline for implementation of forensic accounting by government.

CONCLUSION

For accounting profession financial fraud is a serious concern now days. Such financial frauds will decrease the confidence of investors on the financial statements and they will feel that their money are not safe. So early prevention and detection of such financial frauds and scams is so much important. So forensic accounting is a effective tool to detect such frauds and scams. In today's era in India where political leaders are involved in big scams , government should realize the need of forensic accounting. So government should make framework of forensic accounting and make it compulsory for every organization. Academician and auditors should creat awareness about forensic accounting in the general public.



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