

FORENSIC ACCOUNTING - A FRAUD INVESTIGATION APPROACH

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Abstract

Forensic accounting is a vital tool for identifying, investigating, and preventing frauds. Forensic accounting uses a variety of technologies to identify and stop financial frauds and other white collar crimes. Due to the public's growing desire for truth, justice, and transparency in reporting, forensic accountants are in high demand right now. To identify, analyze, communicate, and stop fraud, these forensic accountants require expertise in accounting, finance, law, investigative work, and research. It is becoming clear that the forensic accountant has a skill set that is very different from an auditor or a financial accountant as more and more businesses search for forensic accountants and professional organisations give certificates in the area. Forensic accountants are in high demand due to their expertise in accounting, auditing, law, and investigation in the present reporting environment. In order to identify frauds, this study aims to explain the function and significance of forensic accounting and a forensic accountant and also to study the value of forensic accounting in determining the authenticity of financial records.

Keywords: Forensic Accounting, Frauds, Scams, Investigation Approach, White Collar Crimes, Investigation Accounting

I. Introduction

An analysis of the evidence is all that forensic accounting does. The speciality professional area of accounting known as "forensic accounting" deals with engagements that arise out of actual or impending litigation. The term "forensic accounting" can be broken down into two sections. Forensic refers to or is utilised in legal proceedings, as well as in public discourse and arguments. Accounting is the use of words to convey details about a company's financial situation.

Forensic accounting is the application of accounting principles, theories, and disciplines to facts or hypotheses at issue in a legal dispute, and it incorporates every aspect of accounting expertise, according to the American Institute of Certified Public Accountants (AICPA).

To make it simple, the integration of

- Accounting skills
- Auditing skills and
- Investigative skills, creates the specialty known as Forensic accounting

The investigation of fraud claims includes gathering information, conducting interviews, preparing reports, and testifying. Forensic accounting is employed in this process. As the public contends with financial catastrophes, rising white collar crime, and an increase in instances of occupational fraud, the focus right now is on forensic accounting. Investigative tasks and litigation support services are provided by forensic accounting to comprehend the breadth and complexity of financial frauds occurring in any economy. India is ranked 94th out of 176 countries in Transparency International's Corruption Perception Index (CPI), reflecting little improvement in its reputation for fighting corruption.

Frauds in a variety of industries, including the banking, insurance, stock market, and online world, require an accurate tool for investigation and dispute resolution. "Using fraud to dishonestly generate a personal gain for oneself and/or create a loss for another" is the basic definition of the word

"fraud." Although there may be regional differences in the legal definitions of fraud, most of them centre on these broad concepts. Theft, corruption, schemes, theft, money-laundering, bribery, and extortion are a few frequent examples of fraud.

Forensic Accounting-What it is?

"Forensic" generally refers to information that is appropriate for use in a court of law. In this way, forensic accounting could be considered a branch of accounting with a connection to the legal system. Forensic accounting, however, is a formal engagement where qualified accountants expect that their conclusions or analyses may be subject to judicial or administrative review.

According to Journal of forensic Accounting

A finding regarding accounts, inventories, or their presentation that is of a calibre that would be sustained in some adversarial legal proceeding, under any judicial or administrative review, is delivered by an accountant using forensic accounting, which is sufficiently detailed and complete.

The fundamental focus of forensic accounting is the explanatory examination (cause and effect) of events introduced into the realm of an accounting system, including the identification of deceit (if any), and its effects. "Accountants look at the numbers, but forensic accountants look behind the numbers," is a common adage.

History of Forensic Accounting

According to Crumbley (2001), the origins of forensic accounting can be found in a court ruling from 1817. The first mention appeared in a Glasgow, Scotland, accountant's advertising circular in 1824. Both in court and throughout the arbitration, he testified. Commercial transactions were recorded on clay tablets during the Egyptian era (3300–3500 B.C.) which were then sealed. If the tablets were later discovered to have been tampered with, investigations were conducted (Ghosh et al 2011). Over 500 forensic accountants were employed by the Federal Bureau of Investigations (FBI) to investigate and keep track of financial transactions during World War II. (2003) Ziegenfuss

The fictional detective Sherlock Holmes, created by Sir Arthur Conan Doyle, is widely regarded as the father of forensic accounting. In his work "Arthashastra," the ancient Indian author "Kautilya" was the first to mention the well-known forty methods of embezzlement. The necessity for forensic accountants was first openly acknowledged by him as an economist. Similar to this, Birbal, a scholar during the reign of King Akbar, described various fraud examination techniques. Some of his tales give the fraud examiner a quick overview of the investigation's Litmus test (Bhasin, 2007).

Numerous publications have been created as the field of forensic accounting has developed through time to offer guidance. The term "forensic accounting" was presumably originally published by a New York-based accountant named Maurice Peloubet. He wrote an article titled "Forensic Accounting: Its Place in Today's Economy" and published it in 1946. Francis C. Dykeman published the book "Forensic Accounting: The Accountant as an Expert Witness" in 1982. Practice Aid 7, published in 1986 by the American Institute of Certified Public Accountants (AICPA), lists six categories of litigation services, including damages, antitrust, accounting, valuation, general consulting, and analysis.

The American College of Forensic Examiners was founded in 1992, while the association of certified Fraud Examiners (ACFE) was founded in Texas in 1988. These organisations provide the educational requirements for training and briefly discuss the necessity for skilled forensic accountants. In March 1997, the American Board of Forensic Accountants was established in

response to the profession's expansion. Several colleges and universities currently offer forensic accounting courses.

II. Need of Forensic Accounting

The goals of forensic accounting are to prove the existence of fraud, estimate the amount of losses or damage incurred as a result of the fraud or crime, and collect enough evidence for the courts to use in making a fair and just decision regarding identification and/or prosecution. There have been some relatively high profile cases involving the employment of forensic accounting services during the past few years. Forensic accounting is required in the following circumstances:

- 1) To find employee fraud, track down assets made from fund embezzlement, compile and examine the proof, and interview the employee who is allegedly responsible for the fund embezzlement, forensic accountants are hired.
- 2) The compensation for the retiring partner can be made with the aid of a forensic accountant.
- 3) Forensic accountants also take on matters involving malpractice in the accounting field. They must estimate the damage caused by such professional carelessness or a service failure.
- 4) Since forensic accountants receive specialised training in the field of alternative dispute resolution, they offer arbitration and mediation services to the corporate community.
- 5) To make an accurate assessment of the claims that need to be settled, insurance firms hire forensic accountants. In a similar vein, when policyholders need to contest the claim settlement determined by the insurance companies, they seek the assistance of a forensic accountant.
- 6) Business organisations hire forensic accountants to manage contract disputes, construction claims, product liability claims, litigation involving trademark and patent infringement, liabilities resulting from contract breaches, and other legal issues.
- 7) Forensic accountants take on instances involving matrimonial disputes when their only responsibility is to track down, identify, and assess any type of asset at issue.

III. Role of Forensic Accountant

The term "forensic accountant" refers to the accountant who performs forensic accounting. In each instance, forensic accountants play a different role. In order to provide complicated financial and business-related concerns for investigation, a forensic accountant must evaluate, interpret, summarise, and present them. Investigative accounting is performed by forensic accountants, who also help legal proceedings.

In order to evaluate, interpret, summarise, and explain complicated financial and business-related issues in a way that is both understandable and well supported, it is common to hire a forensic accountant. Insurance corporations, banks, police departments, governmental institutions, and other organisations may hire forensic accountants for their staff or for their own public practise.

➤ Criminal Investigations

Police may request the assistance of practising forensic accountants in their criminal investigations of either people or corporate entities. The forensic accountant would evaluate the documentary and other accessible evidence using their investigative accounting abilities before providing their expert opinion. Additionally, for investigation purposes, government agencies such as the Fire Brigade, the Revenue Commissioners, and others may need their assistance.

➤ Personal Injury Claims

When losses come from personal injury, insurance companies occasionally consult a forensic accountant for advice before determining if the claim is legitimate and how much to pay.

➤ **Fraud Investigations**

In company investigations, forensic accountants may be requested to help with fund tracking, asset identification and recovery, forensic intelligence gathering, and due diligence assessment. The forensic accountant will be needed to provide his or her expert judgement concerning the nature, scope, and most likely individual or group of perpetrators of the fraud in cases involving fraud committed by an employee. The forensic expert conducts a thorough analysis of the available documentary evidence before formulating an opinion based on the knowledge gained from that analysis.

➤ **Matrimonial Disputes**

Forensic accountants are frequently required by lawyers in divorce situations involving disagreements over marital property. These kinds of assignments could call for forensic accountants to track down and assess assets. For instance, such assets can theoretically belong to a company that one of the parties to the divorce case owns a stake in. To ensure equality while dividing the assets and obligations of the separating couples, the assets would need to be appropriately evaluated.

➤ **Professional Negligence**

In a case involving professional negligence, the forensic accountant may be consulted to determine whether professional negligence occurred and to estimate the loss brought on by the negligence. Any professional and their client could have a conflict of this nature. The expert could be an engineer, an accountant, a lawyer, etc. The forensic expert performs the services necessary for this task using his or her investigative abilities.

➤ **Expert Witness Cases**

In both civil and criminal court proceedings, forensic accountants frequently appear in person to testify as expert witnesses. In these situations, they appear to provide investigation evidence to the court to aid the presiding judge in making a decision about the case's result.

➤ **Meditation and Arbitration**

Some forensic accountants have expanded their forensic accounting businesses to include offering customers Alternative Dispute Resolution (ADR) services as a result of the specialised training they would have acquired in legal mediation and arbitration. Through this service, the forensic accountant helps parties involved in commercial disputes with third parties resolve issues through mediation and arbitration that would otherwise be costly and time-consuming. Litigation Consultancy The forensic accountant offers assistance with case preparation, evidence collection, and litigation strategy while working with attorneys and their clients.

IV. Objectives of the Study

In order to ascertain whether or not the figures reported are accurate, forensic accounting engagements frequently require a thorough analysis of a company's accounting system and procedures. Thus, the following are the paper's goals:

- To understand the need of forensic accounting.
- To study the value of forensic accounting in determining the authenticity of financial records.
- To bring attention to the role of forensic accountants.

V. Methodology of the Study

The information in the current paper is entirely derived from secondary sources and is conceptual in character. This essay is based on a review of forensic accounting material that has already been published. For this, a number of forensic accounting articles at the national and international levels,

working papers, e-papers, and newspaper reports are thoroughly examined. It is therefore a review research. The notion of forensic accounting, its history, its necessity, and the function played by forensic accountants are all theoretically analysed in this essay.

VI. Conclusion

The role of the forensic accountant in identifying fraud is becoming increasingly crucial. These financial investigators are today valuable resources for contemporary legal teams because of their combination of expertise. Simply put, forensic accounting is a subset of the larger accounting field.

Although it has gained prominence recently, it is stated in this study that the notion of forensic accounting is not new. The field of forensic accounting has emerged as a result of an increase in financial fraud incidents. In order to ascertain whether or not the figures reported are accurate, forensic accounting engagements frequently require a thorough analysis of the accounting system and procedures used by the organisation.

There is a high demand for the expertise and services offered by forensic accountants as a result of public fraud scandals, technical advancements such as the internet, and even terrorist threats. Due to their crucial role in the investigation of alleged financial scandals and asset theft, forensic accountants are in great demand. Examining the idea of forensic accounting, the services offered by forensic accountants, and the need for forensic accounting are among the goals outlined at the outset.

The conclusion showed that forensic accounting is one of the most recent and rapidly expanding fields of accounting. Forensic accountants' services will be required by the many organisations against corruption around the world to reduce fraudulent activity and create fraud-proof control systems.

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