

REVISITING OF FORENSIC ACCOUNTING

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ABSTRACT: Forensic accounting in India is relatively new area of the study, a series of working and sharing of experiences should be undertaken and encouraged to ensure a common understanding. It is an investigation tool rather than preventing tool. Various courses are relating to forensic accounting now available in India. It has been suggested that forensic accounting should be made mandatory in various sectors; many of the scams may be restricted at early stage. It has been also suggested that appointment of forensic accountants should be made mandatory in public sectors and private sectors for the sustainable development of the economy.

Key Words- Forensic accounting, forensic science, white collar crime, forensic accounting tool.

1. Introduction

Popularity of forensic accounting has been increasing day by day due to increasing fraudulent activities in the world of business environment. Forensic accounting is a legal term as well as it is special application in accounting technique and concept which relates legal matter. Forensic accounting in India has come to the limelight (after Satyam Scam) in the recent past due to high rate of white collar crimes like embezzlement, fraudulent financial activities and various other financial ill nature treatment. Fraudulent activities are generally done from lower tier to upper tier. Banking fraud, corporate fraud, insurance fraud, cyber fraud, security etc are different areas of fraud. Harshad Mehta, Ketan Parekh, Sanjay Seth, Indiabull, Kingfisher Airlines' Credit card fraud, Sarada kanda, coal block , Punjab National Bank scam are reason of growing scope of forensic accounting in India.

2. Literature Review

DHAR, P. and SARKAR, A. (2010): In their study they revealed that forensic accounting disciplines deals with legal issues. Fraud which is committed mention in audit report in written form and this is reported to court as an evidence for result of constitutional review.

BISWAS, M., HIREMATH, G, K., AND SHALINI, R. (2013): In this study they stated that forensic accountants are facing problems for gathering information due to Indian complex traditional judicial system, political environment etc. It has also suggested mandatory use of forensic accounting for both in public sector and private sector (added) large scale companies.

SANA, M.(2016): In this study he stated that forensic accounting is important area and forensic accountant keep eye like a watch doing on financial work of the companies to minimise the financial fraud in future.

SHAH, S. (2018): In this paper it has been concluded that forensic accounting helps corporate and government by watching on financial fraud. Also concluded that forensic accounting is in general nature but forensic accountant is in specific nature.

3. Research Methodology

This present study is based on secondary data. Data have been obtained from various journal, articles, magazines, websites etc. It is pertinent to mention that the present paper is theoretical in nature.

4. Objectives of the study

The objectives of the paper are mention below:

1. Conceptual framework about forensic accounting
2. To know advantages and disadvantages of Forensic Accounting
3. To evaluate the technique of Forensic Accounting
4. To know the significance of forensic accounting in India
5. To know problems of forensic accounting in India
6. Concluding remarks

5. Conceptual Framework

The concept of forensic accounting has come from forensic science. Forensic science and forensic accounting are based on the same methodology; but there are quite different in subject matter they dealt with. Forensic science deals with physical evidence which is used to find suspect and victims. But forensic accounting deals with economic and financial matter. It is generally needed when financial dispute arise.

Forensic accounting is a special branch of accounting. The term forensic accounting has two words, one is forensic another is accounting. Forensic means as per welters' dictionary "belonging to used in or suitable to court or judicature or to public discussion and debate". Accounting means the system of recording, classifying and summarizing the monetary transaction;

and analysing, verifying and reporting financial results. So forensic accounting is a process of verifying company's financial operation by using accounting principle, auditing and investigation skill. It provides evidences by the court for prosecution through analysis and evaluation of financial accounting of the firm. Thus, forensic accounting is the integration of accounting, auditing and investigation skill.

6. Advantages of Forensic Accounting

Followings are the advantages of forensic accounting:

- **Reduce Financial Crimes:** Fraud becomes a common phenomenon in business environment. Forensic accounting helps to identify cover financial crime by analysing companies' financial operation. In brief, it helps to gather information about crime, detect crime and also helps to identify crime. By this way forensic accounting reduces financial crime.
- **Help in Thoughtful Decision Making:** Forensic accounting helps to unveil fraudulent activities. It helps to expose weakness or otherwise of any company. So, it helps an investor in the matter of taking thoughtful investment decision and also assists financial institutions in their decisions on whether or not to advance loans to a business.
- **Help in Formulating Economy Policy:** The data which are analyzed and its outcomes are used in formulating policies in an economy.

7. Disadvantages of Forensic Accounting

There are some limitations of forensic accounting. Some of them are listed below:

- **Costly and Time Consuming:** The process of forensic accounting is expensive because they use costly accounting software. This may be matter of concern to the company.
- **Reduce privacy in confidential work:** Financial operation is checked by external forensic accountant. So there is a probability of leakage of confidential matter. But according to business ethic, forensic accountant or any other member who involved in operation checking must not disclose any confidential matter of the company but there has a possibility of disclosing confidential matter which cannot be nullified.
- **Adverse publicity of company:** Forensic accounting involves detection of fraudulent activities and their representation in court of law. There is a risk of adverse publicity of the company, if any, fraudulent activities found from company's financial operation.

8. Technique of Forensic Accounting

- a) **Benford's law:** It is called first digit law which helps in frequency distribution in many real life sources of data. Parametric test, z test is used under this law to measure significant variance between Benford's % number of first digit and observed % number of first digit for particular level of confidence on the mass of data, if both % is matched; it means there is no chance of error or misprint.
- b) **Relative's size factors test:** The purpose of relative factor test is to identify uncommon financial operation. It is calculated on the basis of ratio of largest number to second largest number in given set of data. So it is used largest and second largest amount to identify fraudulent work from data of company's financial operation.
- c) **Computer assisted audit tools (CAAT):** CAAT are useful for the management to control deficiencies and risk, investigation of 100% of population of data, identification of business improvement opportunities, improve data integrity and fraud detection mechanism.
- d) **Data mining:** Data mining is used to find the information which is hidden and unexpected. It may not be irrelevant to mention the meaning of data mining. This is simply the process of extracting valid, unknown, actionable transaction from huge data base and using Id to make important business decisions is known as data mining. Data mining provides huge paybacks for companies who have significant investment in data warehousing. The application of data mining is visible in retail marketing, banking sector, insurance sector, medicine sectors etc. There are four major operation associated with data mining technique which are predictive modelling, database segmentation, link analysis and deviation detection.
- e) **Benchmarking:** This is also a simple and useful technique to detect fraud by comparing one financial period with another or the performance of one cost centre, or business unit, with another, overall business performance with its standard defined.
- f) **Ratio analysis:** It is another actionable technique to find out fraudulent activities, like financial ratio which gives idea about company's financial condition, and also gives indication of fraud health by finding probable symptoms of fraudulent activities. Three ratios are commonly used, such as ratio of highest amount to lowest amount, ratio of highest amount to second highest amount and ratio of current year and previous year. It is used to analysis abnormal trends and changes.
- g) **System analysis:** To examine the system and identification any weakness, if any, that could be opportunities for the fraudsters.

9. Significance of Forensic Accounting in India

For the purpose of the present study, some alleged scams have been selected which are political, financial, corporate etc. Alleged scams are arranged according to the reported year.

Table-1

Scams	Year reported	Amount involve
2G scam	2008	1760 billion
Satyam scam	2010	14000 corers
Common wealth game scam	2010	35000 corers
Indian coal allocation scame	2012	186000 corers
Sarada group financial scame	2013	40000 corers
NSE co location scam	2015	5000 corers
Punjab national bank	2018	13600 corers
Source: Author's collection		

Forensic accounting has played a crucial role to uncover the above scams. It has been played as investigation tools when document relating to the scams are sent to laboratory. If forensic accounting becomes mandatory then many scams and fraudulent activities can be stop in early stage.

10. Course available in India

Forensic accountants have huge opportunities because the demand of such professionals is high as compared to the supply. Forensic accountant are involved in investigating merger and acquisition, business careless investigation claim, personal injury claim, banking fraud, cyber fraud and other kind of civil litigation support, economic investigation, tax investigation even in divorce disputes and terrorist investigation. To build a strong carrier in forensic accountant various institute like The Institute of Chartered Accountants of India, Association of Chartered Certified Accounts of India, The Instituted of Chartered Financial Analysts of India (I.C.F.A.I), Indian forensic, provide courses in forensic accounting like

- ❖ PG Diploma in Forensic Accounting
- ❖ Certificate Course in Forensic Accounting Professional
- ❖ Certified Anti-Money laundering Expert
- ❖ Certified Bank Forensic Accounting
- ❖ Certified Vigilance and Investigation Expert

11. Problems of Forensic Accounting in India

- In India, there is drastic shortage of qualified forensic accountants with adequate technical knowledge of forensic issue.
- In India, politicians and high profiled people involved in most the financial fraud crimes. So it is pivotal to find evidences against them.
- Still now Indian follows traditional judicial system which is expensive rather than investigation field and also difficult to bring the matter to court and hire expert advocates.
- Due to liberalization and globalization, more and more investors from other countries invest in India. It is difficult to take action against financial fraudsters.
- Due to adoption of modernization and upgradation of technology used by fraudster; it is difficult to Forensic Accountant to cope up with them.
- Still now it is not mandatory for companies to appoint forensic accountant.
- There is no a specific guideline or act or accounting standard on forensic accounting in India.

12. Conclusion

Forensic accounting is a new growing area of accounting field with the detection and prevention of financial fraud and white-collar criminal activities. Forensic accounting is a mixture of accounting, auditing and investigative skills which are used to find out uncovered financial frauds. It is helpful for legal action as well as analytical accounting. Through different techniques and tools, forensic accountant detect frauds and scams, if any, and make an attempt to prevent them at their early stage.

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