

* FORENSIC ACCOUNTING *

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Forensic accounting, forensic accountancy or financial forensics is the specialty practice area of [accounting](#) that describes engagements that result from actual or anticipated disputes or [litigation](#). "[Forensic](#)" means "suitable for use in a court of law", and it is to that standard and potential outcome that forensic accountants generally have to work. Forensic accountants, also referred to as forensic auditors or investigative auditors, often have to give expert evidence at the eventual trial. All of the larger accounting firms, as well as many medium-sized and boutique firms and various police and government agencies have specialist forensic accounting departments. Within these groups, there may be further sub-specializations: some forensic accountants may, for example, just specialize in [insurance claims](#), [personal injury](#) claims, [fraud](#), [anti-money-laundering](#), [construction](#), or [royalty audits](#).

Forensic accounting is defined as "the application of investigative and analytical skills for the purpose of resolving financial issues in a manner that meets standards required by courts of law. Forensic accountants apply special skills in accounting, auditing, finance, quantitative methods, certain areas of the law, research and investigative skills to collect, analyze and evaluate evidential matter and to interpret and communicate findings."

Financial forensic engagements may fall into several categories. For example:

- [Economic damages](#) calculations, whether suffered through [tort](#) or [breach of contract](#);
- Post-acquisition disputes such as [earnouts](#) or breaches of [warranties](#);
- [Bankruptcy](#), [insolvency](#), and [reorganization](#);
- [Securities fraud](#);
- [Tax fraud](#);
- [Money laundering](#);
- [Business valuation](#); and
- [Computer forensics/e-discovery](#).

Forensic accountants often assist in professional [negligence](#) claims where they are assessing and commenting on the work of other professionals. Forensic accountants are also engaged in [marital and family law](#) of analyzing lifestyle for spousal support purposes, determining income available for child support and equitable distribution.

Engagements relating to criminal matters typically arise in the aftermath of fraud. They frequently involve the assessment of accounting systems and accounts presentation—in essence assessing if the numbers reflect reality.

Some forensic accountants specialize in forensic analytics which is the procurement and analysis of electronic data to reconstruct, detect, or otherwise support a claim of financial fraud. The main steps in forensic analytics are (a) data collection, (b) data preparation, (c) data analysis, and (d) reporting. For example, forensic analytics may be used to review an employee's purchasing card activity to assess whether any of the purchases were diverted or divertible for personal use.

HISTORY OF FORENSIC ACCOUNTING

Forensic accounting was not formally defined until the 1940s. Originally Frank Wilson is credited with the birth of Forensic Accounting in the 1930s. When Wilson was working as a CPA for the US Internal Revenue Service, he was assigned to investigate the infamous gangster, Al Capone and his transactions. Capone was known for his involvement in illegal activities, including violent crimes, However it was his failure to report Federal Income Tax was discovered by Forensic Accountants. Wilson's diligent analysis of financial records, of Al Capone indicted him for Federal Income tax evasion. Capone owed the government \$215,080.48 from illegal gambling profits and guilty of tax evasion for which he was sentenced to 10 years in Federal Prison. Since this case the significance of Forensic Accounting was established.

FORENSIC ACCOUNTANTS

Forensic accountants, investigative accountants or expert accountants may be involved in recovering proceeds of serious crime and in relation to confiscation proceedings concerning actual or assumed proceeds of crime or [money laundering](#). In the [United Kingdom](#), relevant legislation is contained in the [Proceeds of Crime Act 2002](#). Forensic accountants typically hold the following qualifications; [Certified Forensic Accounting Professional](#) [Certified Forensic Auditors] (CFA - England & Wales) granted by the [Forensic Auditors Certification Board of England and Wales](#) (FACB), [Certified Fraud Examiners](#) (CFE - US / International), [Certificate Course on Forensic Accounting and Fraud Detection \(FAFD\)](#) by [Institute of Chartered Accountants of India \(ICAI\)](#), [Certified Public Accountants](#) (CPA - US) with [AICPA's](#) [Certified in Financial Forensics est. 2008] (CFF) Credentials, [Chartered Accountants](#) (CA - Canada), [Certified Management Accountants](#) (CMA - Canada), [Chartered Professional Accountants](#) (CPA - Canada), [Chartered Certified Accountants](#) (CCA - UK), or [Certified Forensic Investigation Professionals](#) (CFIP). In India there is a separate breed of forensic accountants called Certified Forensic Accounting Professionals.

The **Certified Forensic Accountant (CRFAC)** program from the **American Board of Forensic Accounting** assesses Certified Public Accountants (CPAs) knowledge and competence in professional forensic accounting services in a multitude of areas. Forensic accountants may be involved in both litigation support (providing assistance on a given case, primarily related to the calculation or estimation of economic damages and related issues) and investigative accounting (looking into illegal activities). The American Board of Forensic Accounting was established in 1993.

In 2016, the Forensic Auditors Certification Board (FACB) of England and Wales was established by the major forensic auditing and accounting bodies from across the world with its registered address in London. FACB is a professional bodies membership body comprising the International Institute of Certified Forensic Accountants (IICFA) of USA, Institute of Forensic Auditors of Zimbabwe (IFA), Institute of Forensic Accountants of Pakistan (IFAP), Institute of Certified Forensic Accountants (ICFA) of USA and Canada and the Institute of Forensic Accountants of Nigeria (IFA). FACB plays several roles and one the roles is standardization of the examination and certification of forensic auditors globally. Forensic auditors and accountants sit for one examination that is set by FACB and upon passing and meeting all the professional requirements, are awarded the credential, Certified Forensic Auditor (CFA) or the Registered Forensic Auditor (RFA) for practitioners who intend to go into public practice. All certification is renewed on an annual basis. Apart from practitioners certification, FACB is an oversight body which accredits prospective member organization before admission as part of quality checks. Persons with the FACB credential can practice as forensic auditors on a global scale.

Forensic accounting and fraud investigation methodologies are different than internal auditing. Thus forensic accounting services and practice should be handled by forensic accounting experts, not by internal auditing experts. Forensic accountants may appear on the crime scene a little later than fraud auditors, but their major contribution is in translating complex financial transactions and numerical data into terms that ordinary laypersons can understand. That is necessary because if the fraud comes to trial, the jury will be made up of ordinary laypersons. On the other hand, internal auditors move on checklists that may not surface the evidence that the jury or regulatory bodies look for. The fieldwork may carry out legal risks if internal auditing checklists are employed instead asking to a forensic accountant and may result serious consultant malpractice risks.

Forensic accountants utilize an understanding of [economic theories](#), [business information](#), [financial reporting](#) systems, accounting and auditing standards and procedures, [data management](#) & [electronic discovery](#), [data analysis techniques for fraud detection](#), [evidence](#) gathering and investigative techniques, and litigation processes and procedures to perform their work. Forensic accountants are also increasingly playing more proactive risk reduction roles by designing

and performing extended procedures as part of the statutory audit, acting as advisers to audit committees, [fraud deterrence](#) engagements, and assisting in investment analyst research.

KEY TRAITS OF A FORENSIC ACCOUNTANT

- **Attention To Detail**
- **Tech Savvy**
- **Integrity**
- **Patience**
- **Problem-Solving Skills**

Forensic accounting is a specialized field of accounting that combines the profession with forensics in order to uncover financial crimes such as money laundering, embezzlement, tax fraud and more. Students interested in this career path should understand the common characteristics of a forensic accountant. Students who possess these characteristics are likely to make good future forensic accountants.

1. Attention To Detail

Forensic accountants must have an extremely strong attention to detail. They must be able to analyze significant amounts of financial data and notice subtle patterns or other abnormalities in that data. They cannot afford to overlook details because any one small detail may determine the outcome of a case. Any occupation that requires working with numbers requires strong attention to detail, but this one does more so than most.

2. Tech Savvy

It should go without saying that forensic accountants need to have vast knowledge of technology and software products. This includes most accounting programs commonly used by businesses, such as QuickBooks, as well as technology and software tools that forensic accountants use to uncover fraud. Much of their job is spent on computers and other devices to detect and analyze fraudulent financial data. As technology becomes more advanced, forensic accountants will need to keep up to remain as knowledgeable as the individuals committing financial fraud they seek to uncover.

3. Integrity

Forensic accountants often must pass background checks and be eligible for certain levels of security clearance, according to [PayScale](#). They have to be honest and dependable because of the sensitive nature of their work. Some forensic accountants work as private consultants and constant and consistent honesty and integrity is one of the best ways to gain clients. Becoming a Certified Public Accountant (CPA) is one very important way to showcase integrity and professional dedication.

4. Patience

Financial crimes are not always readily apparent, making one of the biggest forensic accountant characteristics a great deal of patience. Traces of fraud are often very well-hidden and forensic accounting investigations can move incredibly slowly. This requires patience to avoid getting frustrated and attempting to usher the investigation along. The patience to look at everything and pick out every detail makes a stronger forensic accountant because they are likely to build a stronger case when they do.

5. Problem-Solving Skills

Because they investigate potential crimes, forensic accountants must have impeccable problem-solving skills in order to determine how a crime was committed. They are often involved in a case after fraud has already occurred and thus must puzzle out all the different aspects of the crime. However, sometimes forensic accountants help companies and other organizations guard against financial fraud, in which case they need to understand and utilize the best techniques for preventing fraud from occurring in the first place.

KEY STEPS INVOLVED IN FORENSIC ACCOUNTING

Maybe you suspect fraud in your business, or maybe you need an expert to review an insurance claim or divorce proceeding. Regardless, when there's a financial dispute, forensic accountants use a certain methodology to find the truths and the transgressions hidden in the numbers.

Below are four steps that forensic accountants follow when investigating financial crimes or issues.

1. Map out the investigation.

The first step involved in investigative accounting is preparation. A good forensic accountant will start with the end in mind and will create a master plan to help guide his or her research and analysis.

The investigative plan includes tasks like these:

- Meeting with the client to understand and capture his/her view of the dispute
- Probing deeper to understand all aspects of the dispute
- Locating and organizing all relevant financial documents
- Identifying anomalies and inconsistencies
- Postulating motives and seeing if any evidence supports them

2. Gather evidence to support the case.

Evidence is the most important outcome of investigations. Forensic accountants have a specialized skill set which allows them to analyze complex and opaque financial issues.

And you can imagine how much more complex the process becomes when a perpetrator has purposefully covered his or her tracks and "cooked the books."

In order to find irregularities, investigative accounts use various tools and techniques, which include the following:

- Accounting skills needed to read financial records
- Deep analysis needed to turn up clues, identify patterns, and make the numbers tell the truth
- Applying computer-assisted auditing techniques
- Testing internal financial controls in order to find loopholes that may have allowed fraud to occur
- Interviewing individuals involved in the case
- Observing suspects in order to detect suspicious behavior and evidence of fraud
- Interrogating suspects in order to get them to admit their misconduct

3. Prepare the report.

Once the forensic accountant has gathered all necessary evidence, he or she must lay it all out in a clear and orderly fashion. Providing a comprehensive report may seem like a boring detail, but the data collected and explained within it could mean the difference between a positive outcome at the trial or a lack of evidence.

The report must hold up even when the opposing party seeks to discredit or disprove it. A typical forensic accounting report provide answers to questions like these:

- Was there fraud or misconduct? If so, what type?
- When did the fraud or misconduct happen (or not happen)?
- How did the misconduct happen and how was it concealed?
- Who were the responsible parties?
- What were total loss and damages caused by the misconduct?

The report may also help to prevent further fraud by revealing the tactics or loopholes used by the perpetrator and recommending improvements to internal auditing controls.

4. Testify in court

Forensic accountants gather evidence and may also serve as testifying experts in trials. Their expert testimony gives the report greater credibility and context because they can explain the data and findings in clear, concise language.

The world of accounting has its own terminology and slang, and a skilled forensic accountant can help translate dense language into layman's terms.

FORENSIC ACCOUNTING TOOLS

1. Reviewing Public Documents and Doing Background Checks

The documents made available to the public are scrutinised as they are the easiest to obtain. Also, thorough background checks of a particular company are done to see the past dealings of the business. Public Documents would include any information in the public database, the corporate records and any information which is legally available on the internet.

2. Conducting Interviews

Conducting an interview is an essential technique which can transform an unwilling person into a source of valuable information. It helps in fully understanding all the facts. An interview should be conducted by accurately assessing the gravity of the situation and preparing the questions according to it. Discussions should take every little detail into account and look at the greater picture to figure out the magnitude of the illegal activity and the culprit responsible.

3. Gathering Information from Trustworthy Sources

Information provided by a confidential and trustworthy source can be precious to any case. When a piece of information is gained from a confidential source or a confidential informant, all the necessary precautions should be taken to hide the identity of the so-called cause. A forensic accountant should try to have as many confidential sources possible because such sources can virtually guarantee a correct result.

4. Analysing Evidence

Proper analysis of the obtained evidence can point to the guilty party and can also assist to understand the extent of the fraud committed in the business. This analysis would also help in understanding how secure the company is against financial scams and installing various austerity measures to prevent any such future situation.

5. Surveillance

This can be done physically or electronically and is one of the conventional measures conducted to uncover any fraud. It can be done by monitoring and tracking all the official emails and messages.

6. Going Undercover

This is an extreme measure and should be used only as a last resort. It is best left to the professionals as they have the proper knowledge of how and where to conduct the investigations. Even a small mistake while being undercover can signal the offender that something is wrong and the person might vanish.

7. Analysing the Financial Statements

This is a precious tool for finding out the fraud committed. All the necessary details are summarised in the financial statement, and the analysis of these statements can help a forensic accountant to figure out the scam.

NEEDS OF FORENSIC ACCOUNTING

Nowadays the economic conditions are getting stricter, and each country's government is now implementing tighter laws in terms of the governance of the businesses. As the companies are increasing the level of sophistication, so is fraud. This has led to a higher sensitivity to fraud which can be interpreted as a massive demand for the services of forensic accountants by all the businesses.

- Discovery: Identifying the relevant key issues and information
- Analysis: Interpreting the discovery results
- Communication: Presenting the information verbally and in writing

Forensic accountants may be involved in either civil disputes or criminal investigations. Civil matters might include:

- Asset location and recovery
- Bankruptcy, insolvency, and reorganization
- Business valuations, including transactions such as acquisitions, mergers, buy-sell agreements, and initial public offerings
- Contract and other business disputes
- Calculation of economic damages in lawsuits involving personal injury, medical malpractice, etc
- Family law, including divorce cases

For example, in divorce cases forensic accountants may value marital assets, calculate and testify to the reasonableness of alimony or child support payments, determine cash flow from a spouse's business operations, or search for a spouse's hidden income or assets.

In criminal investigations, forensic accountants often work closely with law enforcement personnel. Areas that forensic accountants might investigate include:

- Financial statement fraud
- Embezzlement or theft by employees
- Insurance fraud
- Money laundering or other use of money in non-financial crimes
- Securities fraud and embezzlement
- Asset tracing: Forensic accountants may work with law enforcement to locate the financial assets of criminals or may work in a divorce case to find assets one spouse is attempting to hide from the other. This work usually involves a paper or digital trail of financial transactions.
- Business valuation: The fair market value of a business is important in many business transactions, including acquisitions, mergers, and initial public offerings. By reviewing the assets, liabilities, and other financial metrics, forensic accounts can help arrive at a fair market value.
- Employee crime: Forensic accountants may work with businesses to find employees who steal property, use accounting records to disguise a misappropriation, or take kickbacks.
- Fraud investigation and prevention: This large area may include anything from insurance or securities fraud to businesses that produce fraudulent financial statements. Depending in the nature of the case, fraud investigations may involve reviews of financial and business documents, interviews with involved parties, asset tracing and background investigations, evaluation of computer and electronic data, or tracing and reconstructing individual financial transactions.

- Litigation services and expert witness: Lawyers hire forensic accountants to evaluate the financial aspects of a case and often to testify in courts about their findings.

Prevention and Compliance

Forensic accountants also help to prevent fraud or proactively identify the potential for financial problems. For example, a business may hire a forensic accountant to review financial records and processes so as to identify areas that might permit fraud or financial problems. This practice has become more common as accounting scandals have increased the demand for financial transparency.

Problems that forensic accountants look for include misleading financial reporting, personal gain of corporate insiders, and violations of the law or tax codes. Forensic accountants may serve as advisers to audit committees or assist in investment analyst research.

Forensic accountants also conduct compliance audits. A compliance audit reviews how well an organization is complying with legal and regulatory guidelines. Forensic accountants review organizational policies, documentation management, user access controls, compliance and risk management procedures. This type of audit includes interviewing corporate management as a component of the investigation, which is a practice unique to forensic accounting.

CONCLUSION:- After concluding above the study we have to say that Forensic accounting as the application of investigative and analytical skills for the purpose of resolving financial issues in a manner that meets standards required by courts of law. Forensic accountants apply special skills in accounting, auditing, finance, quantitative methods, certain areas of the law, research and investigative skills to collect, analyze and evaluate evidential matter and to interpret and communicate findings. This is a precious tool for finding out the fraud committed. All the necessary details are summarised in the financial statement, and the analysis of these statements can help a forensic accountant to figure out the scam.

SOURCES:- Wikipedia.org

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