



A STUDY ON FORENSIC ACCOUNTING: FINDING THE SOLUTION FOR FINANCIAL FRAUD

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ABSTRACT: Thousands of businesses across this advanced technological global world are suffering from the disease of financial fraud and economic environment is severely affected. It has abode in every field resulting in gigantic economic losses to the entire fiscal system by misappropriation of assets & fraudulent financial reporting of a business may be either through the embezzlement, mismanagement, manipulation or misrepresentation by the defalcation. Common types of financial fraud in India include theft, bribery, money laundering, insider trading, and Ponzi schemes. In providing the exact evidence, the corporations have botched and tainted the image of the company by incongruous disclosures of financial statements scandals and frauds ending in losing the shareholders and confidence in the public. For the development of any company regarding efficient capital marketing, original and quality financial reporting is crucial. To save the business companies from the clutches of fraudulent demons, Forensic Accounting employs accounting & audit skills & investigative techniques in piloting meticulous examination & microscopic scrutiny for detection of financial crimes like fraud and forgery, misstating assets and liabilities, misleading accounting practices, Overstated revenues, understated expenses, non-recording of a transaction, market manipulation, misuse of corporate funds, misappropriation, money laundering, Government bribes, fraudulent invoices, falsified accounts, illegal payments, conflict of interest, etc., how, why and by whom the fraud was committed. For lawsuit in the court, its report is utilised for settlement of disputes between the parties and Forensic accountant may be an adept onlooker. He is rented for litigation related to insurance claims, insolvency, skimming & any financial theft. For claiming any damages from Insurance Company regarding accidental cases, forensic accounting plays a vital role.

Keywords: embezzlement, litigation, skimming, overstated revenues, understated expenses.

I. INTRODUCTION: -

Mahatma Gandhi once famously stated, "Earth provides enough to satisfy every man's needs, but not every man's greed." This quote highlights the detrimental effects of greed and the importance of contentment. In the realm of finance, fraudulent activities often serve as a companion to those who are morally corrupted. Financial shenanigans encompass a range of actions that aim to distort the true financial performance or position of a company, varying from minor infractions to outright fraud. These deliberate manipulations of financial data are intended to mislead investors, government authorities, lenders, and other stakeholders.

The term "Forensic Accounting" was coined by Maurice Paulobet in 1946. He noted that while the preparation of financial statements shares some characteristics with forensic accounting, it does not encompass all aspects of this field. This highlights the significance of forensic accounting for chartered accountants. The American Institute of Certified Public Accountants (AICPA) defines forensic accounting as the application of accounting principles, theories, and disciplines to facts or hypotheses involved in a legal dispute, covering all branches of accounting knowledge.

In recent times, forensic accounting has gained prominence due to the alarming rise in financial frauds and white-collar crimes. The integration of accounting, auditing, and investigative skills forms the foundation of this specialized field. The term "forensic" signifies suitability for use in a court of law, and forensic accountants typically work to meet this standard and achieve potential legal outcomes. They utilize their accounting, auditing, and investigative expertise to conduct thorough investigations into cases involving theft, fraud, and other financial crimes. With the increase in employee and management fraud, theft, embezzlement, and similar offenses, the demand for forensic accountants is expected to soar. According to a report by the Reserve Bank of India, the banking sector alone reported fraud losses of approximately Rs.60,389 crores in the fiscal year 2020-21. This staggering figure further emphasizes the urgent need for forensic accounting professionals to combat financial crimes effectively.

II. Research Methodology:

Much of the data collected as part of research is of secondary data. The data is collected from various books, Journal, Websites, and newsletters. Analysis is conducted on the data collected through various methods.

Forensic Accounting:

Human errors and stress often result in mistakes when individuals are overwhelmed with work. Fatigue can lead to either underwriting or overwriting of amounts, which may seem insignificant to accountants but can cause significant damage to a business. When entering large sums of money into the books of accounts, even a small additional number at the end can result in losses that the business owner will bear if the accounts are not thoroughly scrutinized. A single mistake by an accountant reflects their inefficiency and negligence, highlighting the importance of careful writing. Fraud poses a significant threat as it is intentionally committed by professionals seeking personal gain, leaving innocent individuals in dire situations. Detecting fraud is extremely challenging, which is why forensic accounting plays a crucial role in investigating accounts to protect organizations, the public, and the government.

Forensic accounting is a specialized field that combines accounting, auditing, and investigative skills. It involves the study and interpretation of accounting evidence and the application of accounting methods to track and collect forensic evidence. This evidence is typically used in the investigation and prosecution of criminal acts such as embezzlement or fraud.

Types of Frauds:

Fraud auditing is designed to look for six types of fraud, according to Business Network's "Recognizing Fraud Indicators."

These are embezzling, bribes, stealing, extortion, fictitious transactions, kickbacks and conflict of interest. Although not all fraud cases can be easily classified, they will always---at the very least---involve one of these categories.

Fraud auditors are trained to look specifically for indicators to any of these fraud types. If we classify frauds based on industry,

Following are the types of frauds:

- I. **Bank frauds:** is the use of potentially illegal means to obtain money, assets, or other property owned or held by a financial institution, or to obtain money from depositors by fraudulently posing as a bank or other financial institution.
- II. **Corporate frauds:** it refers to illegal activities undertaken by an individual or company that are done in a dishonest or unethical manner. Often, this kind of business fraud is designed to give an advantage to the perpetrating individual or company. Corporate fraud schemes go beyond the scope of an employee's stated position and are marked by their complexity and economic impact on the business, other employees, and outside parties.
- III. **Insurance frauds:** is any act committed to defraud an insurance process. It occurs when a claimant attempts to obtain some benefit or advantage they are not entitled to, or when an insurer knowingly denies some benefit that is due.
- IV. **Health Care Frauds:** includes "snake oil" marketing, health insurance fraud, drug fraud, and medical fraud. Health insurance fraud occurs when a company or an individual defrauds an insurer or government health care program, such as Medicare (United States) or equivalent State programs.
- V. **Cyber frauds:** can be considered as any fraudulent crime which is conducted via a computer or computer data. The crimes are extensive. Fraudsters can use the cyber world to gain access to victims' personal identity, their online accounts and their bank accounts. They can then use the money and information from this to fund terrorism.
- VI. **Securities frauds:** is an illegal or unethical activity carried out involving securities or asset markets in order to profit at the expense of others. This type of fraud is a serious crime usually involving the investment world. Examples of securities fraud include Ponzi schemes, pyramid schemes, and late-day trading.
- VII. **Consumer frauds:** occurs when a person suffers from a financial or personal loss. The fraud can involve the use of deceptive, unfair, misleading, or false business practices. Fraudsters typically target senior citizens and college students, but all consumers are at risk of fraud.

III. Objectives of the study:

1. To know the meaning and importance of forensic accounting
2. To know the challenges related to forensic accounting in India
3. Using the conclusions of the forensic accountant to facilitate settlement, claim or jury award by decreasing the financial element as an area of on-going debate
4. Avertingscam and burglary
5. Rejuvenationcorruptedcommunityconfidence
6. Formalizing and forming a comprehensive corporate governance policy
7. Establishing a positive business environment

IV. Overview of Literature:

India, a rapidly developing country, is susceptible to any minor setback that could hinder its economic growth. According to a joint study conducted by ASSOCHAM and Grant Thornton, prominent frauds in the corporate sector in India include bribery, fraud, corruption, money laundering, tax evasion, and window dressing. To address these issues, forensic accounting is carried out by finance professionals to resolve disputes related to fraudulence, allegations, and misconduct in the corporate sector. The main objective of conducting a forensic audit is to promote transparency and accountability in the transaction system.

PwC's Global Economic Crime and Fraud Survey (GECS) 2022 examined 1,296 organizations worldwide, with 112 organizations representing 32 diverse industries in India. An overwhelming 76% of the Indian respondents held positions in the C-suite. The survey encompassed both small and large organizations in India.

The survey revealed that 40% of these companies incurred losses ranging from USD 50,000 to 100,000. Additionally, 17% suffered losses between USD 1 million and 50 million, while 5% experienced losses exceeding USD 50 million due to disruptive incidents of fraud or crime. The year 2022 witnessed some of the most shocking accounting fraud cases in history. Furthermore, approximately 40% of large businesses admitted to violating accounting rules in previous years. Businesses are facing legal scandals related to financial misconduct, including crypto scams and money laundering.

Emerging Field of Accounting in India, Because:

The Role of the Forensic Accountant

Over the years, Forensic Accountants have taken part in various types of criminal financial investigations. These include:

- i. Arson For Profit, such as Insurance Fraud
- ii. Bank Fraud
- iii. Pilfering
- iv. Health Care Fraud
- v. Insurance Fraud
- vi. Money Laundering
- vii. Mortgage Fraud
- viii. Organized Crime Business Enterprises
- ix. Ponzi Schemes
- x. Securities & Commodities Fraud
- xi. Tax Evasion
- xii. Terrorist Financials

The value of the Forensic Accountant is clear, and while their presence is reputable within their partnership with law enforcement, many other needs exist for their work, such as:

1. Disputes among Shareholders and between partners
2. In case of Personal injury claims from the Insurance companies, resulting from various motor vehicle accidents
3. Business interruption or other insurance claims
4. Examine Internal scams of businesses or corporations
5. Business economic loss
6. Professional negligence
7. Disputes recognized in divorce proceedings
8. Arbitration and mediation

Forensic Accountants have the duty of examining and scrutinizing financial evidence, developing and utilizing computerized tools to assist in the display and examination of evidence, delivering findings through standardized reports or gathering legal evidentiary documents, and appearing in court to offer expert testimony. Their expertise is usually sought after by attorneys, law enforcement agencies, insurance firms, government entities (such as the FBI or SEC), courts, businesses, and financial institutions

The types of information and documents Forensic Accountants are charged with reviewing and analysing include:

- a. Real Estate Possession
- b. Automobile Registrations
- c. Professional Licenses
- d. Cashier Check Attainments
- e. UCC Filings / Liens
- f. Business Rights and Ownership
- g. Judgments / Garnishments
- h. Investments (stocks/bonds)
- i. Filings of Bankruptcy
- j. Retirement Funds
- k. Government Benefits
- l. Litigation Settlements
- m. Safe Deposit Boxes (Cash, Jewellery)
- n. Boat / Aircraft Ownership
- o. Insurance Policy Ownership
- p. Inheritance
- q. Gambling / Lottery / Powerball Winnings
- r. Foreign Bank Accounts
- s. Credit Reports
- t. Insurance Payments
- u. Domestic Bank Accounts
- v. Collections (Art, Antiques, Sports Memorabilia, etc.)
- w. Employment History
- x. Tax Liens

The economic institutions in India are diverse and constantly evolving. The pursuit of wealth often leads to financial crimes, and the complexities of individual and corporate financial matters necessitate specialized analysis. As a result, the demand for Forensic Accountants is expected to increase. Many of these roles require a Certified Public Accountant degree, while others may require additional certifications and expertise, such as the Certified Forensic Accountant® program, the Certified in Financial Forensics credential, or the Certified Fraud Examiner designation. Nevertheless, this field can be both thrilling and highly rewarding for individuals with exceptional accounting skills and a meticulous approach to uncovering the truth.

Forensic Accountants are retained by following groups:

- I. Lawyers
- II. Police Forces
- III. Insurance Companies
- IV. Government Regulatory bodies and Agencies
- V. Banks
- VI. Courts
- VII. Business Community

Tools used in Forensic accounting:

There are several Recognized Investigative Tools and Techniques Used by Forensic Specialists/ Fraud Examiners. Few of those are detailed below.

- **General Audit Techniques**
Most businesses and other organizations have procedures and defences set up to prevent the occurrence of fraud. A good initial forensic audit technique is to attempt to circumvent these defences yourself. The weaknesses you find within the organization's controls will most probably guide you down the same path taken by suspected perpetrators. This technique requires you to attempt to put yourself in the shoes and think like your suspect.
- **Technology Based/ Digital Forensics Techniques**
Every transaction leaves a digital footprint in today's computer-driven society. Close scrutiny of relevant emails, accounting records, phone logs and target hard drives is a requisite facet of any modern forensic audit. Before taking steps such as obtaining data from email etc. the forensic auditor should take appropriate legal advice so that it doesn't amount to invasion of privacy. Digital investigations can become quite complex and require support from trained digital investigators.
- **Computer Assisted Auditing Techniques (CAATs)/ Computer Assisted Audit Techniques and Tools (CAATT)**
Computer-assisted audit techniques (CAATs) or computer-assisted audit tools and techniques (CAATTs) are computer programs that the auditors use as part of the audit procedures to process data of audit significance contained in a client's information systems, without depending on him.
- **Data mining techniques**
It is a set of assisted techniques designed to automatically mine large volumes of data for new, hidden or unexpected information or patterns.
 - ❖ If You Know Exactly What You Are Looking for, Use Structured Query Language (SQL).
 - ❖ If You Know Only Vaguely What You Are Looking for, Turn to Data Mining.

Solutions for the Financial Fraud:

1. Daily Income and Expenses registers should be checked thoroughly
2. Accurate Records should be maintained
3. Include finances in your business plans
4. Maintaining Book keeping system in the organisation
5. Use Inventory control methods
6. Accounts should be computerised
7. Internal Audit/Check should be done frequently
8. Trustworthy Accountant should be employed
9. The Punishment should be severe for the fraudulent
10. Special Training should be given to the Chartered Accountant regarding forensic services
11. The CA or CWA who acquires post qualification in investigative & forensic accounting can use the designation CA-IFA or CWA-IFA and be legally recognised as forensic accounting expert to handle the investigation of financial crimes and give expert testimony in the court of Law.
12. Employing SFIO – Serious Fraud Investigation Officer to investigate growing financial fraud cases.

V. Conclusion:

To conclude, forensic accounting is an emerging profession that is crucial for both society and investigators. However, the lack of professionals and proper training for forensic experts poses a challenge and makes it difficult to detect and prevent fraud in corporate settings. With the increasing use of computers in accounting and auditing, the risk of fraud is also on the rise.

Fortunately, institutions like the Institute of Chartered Accountants of India (ICAI) and the Association of Chartered Certified Accountants (ACCA) now offer forensic auditing courses in India. This means that chartered accountants will find themselves more involved in this type of forensic practice. The changing nature of accounting, auditing, and assurance standards further supports this trend. According

to accounting today, nearly 40% of the top 100 American accounting firms are expanding their forensics and fraud services. If this trend holds true for the Indian scenario, it won't be long before forensic practice becomes a significant contributor to the total revenue of Indian CA firms.

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