

Forensic Accounting – The Way Forward.

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Abstract- Forensic Accounting, though a relatively new concept, it has its roots stretching back to ancient times. Forensic accounting is an approach to accounting which utilises accounting and investigative skills, to conduct and examine the finances of an individual or a business. In this paper we are studying the historical development of forensic accounting focusing on the evolution of this field from ancient to the medieval and modern India. We consider the practices of various civilizations and kingdoms to maintain their accounts and prevent financial frauds. In this paper, we are also going to study about the development of skills and cognitive abilities that are essential for the process of executing investigation in the field of accounting.

INTRODUCTION:

Forensic accounting is the analysis of financial evidences by which detection of occurrence of fraud is determined.

The word forensic accounting is divided into two parts-

Forensic- relating to or used in the court of law, public debates or arguments.

Accounting- the language that provides information about the financial position of an organisation.

American Institute of certified public accountants (AICPA) defines forensic accounting as-

“Forensic accounting is the application of accounting principles, theories and disciplines to facts or hypothesis at the issues in a legal Dispute and encompasses every branch of accounting knowledge “

HISTORICAL PERSPECTIVE:

Indus Valley & Forensic Accounting.

The Indus valley civilization’s economy based on animal rearing and agriculture, with wheat, barely, pulses being the chief crops. Apart from this, life depended on the making of ceramics, weaving and hunting. Financing was done with metals like gold, silver and copper.

Cotton was utilised for weaving while the other crops complemented people’s nutrition. The Indus civilization supported overall agricultural development by developing the plough, the domestication of zebu cow supplied oxen to plough fields.

Phenomenal economic development was witnessed during this civilization. The people of Harappa were auditing their accounts and kept all records of the statements of financial transactions. Whenever they supplied any articles to the buyer, they kept the amount record in which the outstanding was recorded. Whenever there was any errors in the account, they conducted the investigation about the account to match with the record and kept the record book up to date.

Bronze and Silver coins were used to make financial transactions and business conducts. They believed in business ethics, so there was very less chances of financial fraud.

CHOLAS:

The economy of cholas depended on rural land revenues. The revenue management system was administered by chola empire.

The chola revenue administrative structure based on three-tier system.

- 1) **Local Level – agriculture auditing and settlements.**
- 2) **International Level- Nagram Artisans for international auditing.**
- 3) **Merchant Group (Swayam) - international maritime shipping auditing.**

Internal trade in several articles was carried on by organized mercantile corporation in various parts of the country. The metal industry and jewellery arts reached high levels of business. Here by they had to take care about inward and outward in accounts. The gain and loss through business transactions were recorded as well as statements and receipts were formed and manged.

METHODS OF FORENSIC ACCOUNTING:

Forensic accounting is the combination of the working of a forensic auditor and a forensic investigator. When the audits are investigated and admitted in the court of law, then it is considered as forensic accounting. The role of the auditor is not to find fraud, but to obliterate the errors and prevent from re-occurring. The most common type of fraud schemes are overstating revenues, understating liabilities, inventory manipulation and asset misappropriation. In order to discover these financial frauds, forensic accountant must use many techniques which are classified as quantitative and qualitative methods to prevent the financial frauds by forensic accountant.

Methods of financial accounting.

- A) **Qualitative Method.**
- B) **Quantitative Method.**
- C) **Analytical Techniques.**

A) **Qualitative Method** - Studies the personal characteristics of the individual who is indulged in Financial Fraud. Fraud Triangle classifies the three elements of fraud.

- a) **Perceived Opportunity**
- b) **Perceived Needs.**
- c) **Rationalization.**

Recently forensic accountants have also taken an initiative to focus on behavioural characteristics of financial fraudsters.

B) **Quantitative Method** - mainly focused on the financial data information and to search for any abnormalities or patterns which would predict misconduct.

Data analytics and analysis is another skill of forensic data auditor and accountant.

The important aspect of forensic accounting and auditing is data collection and data mining, proper analysis and interpretation is required to identify any financial frauds.

Forensic Accounting requires Predictive modelling which detects potentially fraudulent activities, entity resolution algorithms and social network analytics which identifies hidden relationship. Text mining allows the forensic account to conduct investigation and search the nature of liquidation fraud.

C) **Analytical Techniques.**

The forensic accountants utilise an understanding of the economic theories, business data such as Information, financial reporting systems, the accounting and auditing standards and procedures, data management & electronics discovery, data analysis techniques and method for fraud detection and finally evidence gathering and investigative technique to make the evidence admissible in the court of law in case of currency related liquidation frauds.

Whenever forensic accountant wants to detect any fraud in a public organisation, they must investigate areas such as billing, corruption, cash and non-cash assets, misappropriation, refund and issues in the payroll department.

Management review is playing vital role in detecting the financial frauds but in order to prevent the fraud before it happens, the accountants must correct the errors and check operations as well as investigate poorly documents transactions.

The sources of information to detect the financial frauds-

A) **Collection of Information by primary sources,**

- 1) Clients.
- 2) Suppliers
- 3) Stakeholders.
- 4) Anyone involved in the business.

B) Analyse the Financial Statement.

C) Interviewing the Employees

D) Reviews, Management Styles & Overall Structure of The Company.

E) Draw conclusion from the Findings.

Distinction Between Accounting & Forensic Accounting.

Forensic Accounting refers to accounting suitable for use in the court of law. But when compared to a common accountant, the forensic accountant must know how to collect the evidences in financial crimes, interview of third-party witnesses and testify as an expert-witnesses under Section 45 of the Indian Evidence Act, 1872.

Forensic accountant serves as a backing to prove fraud in the business in an apparent risk prone environment and to present analytical accounting as well as financial information to support legal and administrative decisions. The planning of tasks is aimed at documenting deterministic, calculative analysis which is necessary, particularly in accordance to the period stipulated by the judges and/or client.

The main difference between an auditor and forensic auditor is that an auditor prevents and detects fraud at the lowest level by auditing. A forensic auditing investigation is conducted fraud has occurred.

- 1) Auditing - Preventing & Detecting of any fraud.
- 2) Forensic Auditing - Investigation after economical fraud.

The role of Forensic Accountant in an organization (Public & Private).

Large organisations have a separate department of accounting, other organisations such as police and government agencies have a department of forensic accounting as well regular accounting. These sub specializations are insurance claims, personal injury claims, fraud, anti-money laundering, construction or royalty audits. Financial forensics is another name of Forensic Accounting. A Forensic accountant also has knowledge of law upon accounting skills, which is utilised by the accountant to resolve the problems in the company related to finance.

Forensic accounting helps the organisation to prevent corruption, fraud and embezzlement, also performing an audit of the company. Forensic accountants are also engaged in marital and family law to analyse life style for spousal support purpose, determining income available for child support and equitable distribution.

The main function of a forensic accountant is to determine whether a fraud has occurred in the organization or not. Important skills of micro-economics, cost centre accounting systems, coming up with conclusions with limited data, report writing, research skills and interview skills are a must.

The following techniques are used.

- 1) Reviews of public records.
- 2) Background investigation.
- 3) Interview of knowledgeable parties.
- 4) Analysis of evidence to identify possible forgery and/or document alterations.
- 5) Surveillance and inspections of business premises.
- 6) Analysis of individual financial transaction or statement.
- 7) Review of business records to identify fictitious vendors, employees and/or business activities.

Characteristics of forensic accountant.

- A) Full knowledge of accounting.
- B) Skills of auditing.
- C) Knowledge of micro-economics and macro-economics.
- D) Knowledge and practical aspects of law.
- E) Report writing.
- F) Conclusion driven skills.
- G) Decision making skills.
- H) Research skills.
- I) Investigative skills.
- J) Interviewing skills.
- K) Data collection and data interpretation skills.
- L) Communication skills.
- M) Cost centre Accounting.
- N) Skills to interpret financial transactions.
- O) Moral values and ethics in accounting.
- P) Good character.
- Q) Cognitive skills and abilities.
- R) Psychological strength
- S) Surveillance and inspections skills
- T) Skills of managing business discovery.

Application Areas.

The financial forensics engage into many fields and several sub categories-

- A) Financial damages, summation either suffered through tort or breach of contract.
- B) Breaches of warranties and disputes.
- C) Bankruptcy, insolvency and reorganization.
- D) Securities Fraud
- E) Tax Fraud
- F) Currency laundering.
- G) Business valuation
- H) Computer Forensics/ e- discovery.

Instruments development for further research in the area of forensic accounting- Auditor.

- a) Audit Due Diligence.
- b) Critical Thinking
- c) Investigative abilities
- d) Identifying the key issues
- e) Legal compliances
- f) Cross examination.
- g) Reliance on the report of Internal auditor.
- h) Communication with management.
- i) Adoption Of CAAT.

Academician.

- j) Career Path for Forensic Accounting.
- k) At what level subject should be included.
- l) Demand of Forensic Accounting in coming years.
- m) Whether computer based forensic accounting is necessary?

n) Inculcate the ideas of digital evidence recovery.

Forensic Auditor.

- o) Adoption of GAAP.
- p) Duly preparing the reports.
- q) Follow up of due dates.
- r) Managing collections and payment.
- s) Regular filling of mandatory returns and reports.
- t) Reporting to external auditors
- u) Testing the details of the transactions and balances.
- v) Influence of management in decision making.
- w) Checking trail of transaction.

AUTHOR REVIEW:

The role of the forensic accountant is pivotal in the fraud detection and prevention. In the large organizations, the separate department of the financial forensic must have to created in order to prevent the organisation from the Financial Fraud and precautionary measures will be taken in order to prevent as well as detect the crime. I would also say that the accounting and auditing is not new topic , even in the ancient times , the accounting and auditing was conducted but it was in different manner and styles. But now in this current scenario, we need to understand the situation of this digital marketing and digital business hence UPI , paytm , Google pay all are the applications which would be utilised to make a transactions hence in order to protect the the organisation from the financial fraud , we need to take precautionary measures through the forensic accounting by removing the vulnerability and strengthen the security.

CONCLUSION:

Forensic accounting is a highly skilled and interesting discipline of forensic science, which is useful to both society and the investigator. However, a forensic accountant must have to inculcate certain skills in order to conduct investigation in such circumstances where the financial crimes have occurred. In this current times, financial crimes is on the rise through computers and electronics devices which increase the chances of financial frauds, hence the forensic accountants are required to prevent and combat any fraudulent financial activity.

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