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## THE ROLE AND NECESSITIES OF FORENSIC ACCOUNTANT IN ACCOUNTING



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**Abstract:**Forensic Accounting concept coined after 9/11 mishap in USA to combating frauds. In India, Kautilya mentioned misappropriation and Maurice E. Peloubet coined the concept. Forensic accounting is the specialty practice area of accountancy that describes engagements that result from actual or anticipated disputes or litigation. Forensic Accountants work throughout the business world, in public accounting, corporations, and in all branches of government. Forensic accounting is unique in that it combines accounting with investigation. These bloodhounds as opposed to the watchdogs that are auditors attempt to sniff out fraudulent transactions from the financial records of banks and companies. Forensic accountant should have some skill regarding investigation of accounting books. Government of India is taking efforts for detecting frauds through separate agencies. Some fraud detecting also developed in India to combat fraud. It can be helpful for forensic accounting and can be easily supportive to the forensic accountants.

**Keywords:**Forensic Accounting, Fraud, Auditing

### 1.0 INTRODUCTION

Fraud examinations were recognized by FBI to help them in combating the frauds after the mishap of 9/11 in United States of America, consequently the forensic accountants' confinement in Corporate America. Past few years were marked with the fast developments in India Forensic Accounting is still in embryonic condition.

### 2.0 RESEARCH REVIEW:

Nigrini, Mark (2012), explains the limitation of detecting of fraudulent use Benford's Law to detect manipulation in a single annual or interim report. The general conclusions are that accounting numbers and financial data conform to Benford's Law. However, analytic and analysis methods alone usually cannot detect fraudulent financial reporting.

Pedneault, Stephen Sheetz, Michael Rudewicz, Frank (2012), opinions on forensic as forensic accounting definitions commonly refer to fraud, fraud prevention and fraud investigation as the role of the forensic accountant. While those definitions are not necessarily inaccurate, they provide a definition of forensic accounting only within the specific context of fraud. Many books have been written about forensic accounting that focus the writing on fraud schemes, preventing them as well as investigating them, and include a wealth of information relating to fraud.

Vona, Leonard (2008) discuss the theory of fraud, like all costs of doing business, fraud must be managed. Management must recognize that people commit fraudulent acts because of the pressures and rationalization aspects of the fraud theory. The control opportunity provides people with the ability to commit the acts. Due to the concealment or

trickery aspect of the fraud theory, fraud occurs in both poorly managed and well managed departments. Organizations need to talk about fraud, not merely hope that it will not happen. The antifraud program in all organizations needs to remain alert and diligent to fraud.

Tickner, Peter (2012) discusses the prevention of fraud, when an organisation has been struck by a large fraud, there is an immediate and understandable desire to clamp down on almost anything that might allow any kind of fraudulent activity to take place. Unfortunately, this often manifests itself in excessive and draconian controls over good innocent and loyal employees who can then feel somewhat unloved and blamed for something that they didn't do. In time, it can cause almost as much trouble as the repeat fraud that it is trying to prevent.

Biegelman, Martin T.; Biegelman, Daniel R. (2010), gives the forensic program includes Awareness/communications, Training Internal audit Internal controls Review of promotions to certain levels or positions within the company A due diligence process that covers, Contracts with government officials or their relatives, Contracts with a government entity, Contracts with any third party dealing with official, Any proposed gifts, meals, lodging, or provided to government officials, Political or charitable donations, Entering into a joint venture, Membership in trade associations, A process for review of proposed facilitating payments ... also includes due diligence and business conduct/FCPA integration for acquired companies.

### 3.0 HISTORY OF FORENSIC ACCOUNTING:

In India, Kautilya mentioned the famous forty ways of misappropriation in his famous book entitled

“Arthashastra” during the ancient Mauryan times. Birbal was also the Scholar in the time of King Akbar, who used various tricks to investigate various crimes. Some of his stories give the fraud examiner a brief idea about the investigation. Famous detective Sherlock Holmes contributed of some of the historic characters regarding investigation. In 1946 the term "forensic accounting" was first used by Maurice E. Peloubet, in a New York. He wrote about the use of accounting in courtroom proceedings as part of testimony, but acknowledged that investigation was becoming more prevalent for accountants due to the increase in government agencies that regulated financial practices. Journals began to publish articles about the connections between law and accounting. In 1953, a lawyer Max Lourie in New York, claimed that he invented the phrase "forensic accounting," but Peloubet wrote about it first, although he stressed the need for forensic accounting literature and training. Later in 1990s Forensic accounting service has been the growth industry. Broadly saying in the corporate culture, forensic accountants must have an investigative mentality. A normal accountant acts like a watchdog, but a forensic accountant must be trained to act like a bloodhound. They look behind the facade and do not accept financial records at their face value.

#### **4.0 MEANING OF FORENSIC ACCOUNTING:**

"Forensic" means "suitable for use in a court of law", it was originated from Latin word forensis means related to forum. It is to that standard and potential outcome that forensic accountants generally have to work and “Forensic accounting” is the practice of utilizing accounting, auditing, and investigative skills to assist in legal matters.

Forensic accounting can involve the application of special skills in accounting, auditing, finance, quantitative methods, certain areas of the law and research, and investigative skills to collect, analyze, and evaluate evidential matter and to interpret and communicate findings.

#### **5.0 MAJOR ASPECTS OF FORENSIC ACCOUNTING:**

There are two major aspects within forensic accounting practice.

1.Litigation support services that represent the factual presentation of economic issues related to existing or pending litigation. In this capacity, the forensic accounting professional quantifies damages sustained by parties involved in legal disputes and can assist in resolving disputes, even before they reach the courtroom. If a dispute reaches the courtroom, the forensic accountant may testify as an expert witness.

2.Investigative services that make use of the forensic accountant's skills, which may or may not lead to courtroom testimony. It is the act of determining whether criminal matters such as employee theft, securities fraud (including falsification of financial statements), identity theft, and insurance fraud have occurred. As part of the forensic accountant's work, he or she may recommend actions that can be taken to minimize future risk of loss. Investigation may also occur in civil matters. For example, the forensic accountant may search for hidden assets in divorce cases.

An important criterion is the ability to respond immediately and to communicate financial information clearly and concisely in a courtroom setting. A forensic accountant must be open to examining all alternatives, scrutinizing the fine details and at the same time seeing the big picture.

#### **6.0 APPLICATION OF PRINCIPLES OF FORENSIC ACCOUNTING TO AN ORGANIZATION:**

One premise of forensic accounting is to look for indications of abnormal occurrences in the accounting and financial reporting systems.

Having a forensic accounting orientation to designing the accounting processes will provide an opportunity to design in steps for verification of key assumptions and data while also providing the opportunity for identifying possible fraud. The related area of forensic auditing can help in reducing the transaction processing risk by helping to perform audit type procedures on a routine schedule.

Timely performance of audit type procedures can help management and internal audit function is more effective by helping to identify and resolve potential internal control breakdowns quickly and thoroughly. It can reduce external audit costs by regularly completing testing procedures that are part of the annual certified audit.

In instances where information processing systems cover a broad array of businesses and/or locations establishing routine or continuous monitoring of all transaction processing systems, it can be considered as a type of forensic accounting.

#### **7.0 AREAS OF FORENSIC ACCOUNTING TO APPLY IN ORGANIZATION:**

Some of the areas that the principles and activities of forensic accounting can apply in an organization include:

- 1.Reviewing operational transactions for compliance with standard operating procedures and approvals.
- 2.Completing analysis of financial disbursement transactions in the accounting system to determine if they are normal or outside company policy and, thus, possibly fraudulent.
- 3.Reviewing general ledger and financial reporting system transactions for possible improper classification or manipulation of data or accounts and its impact on the resulting financial reports.
- 4.Examining warranty claims or returns for patterns of fraud or abuse.
- 5.Helping estimate the economic damages and the resulting insurance claims that stem from calamities such as fires or other natural disasters.
- 6.Evaluating or confirming business valuation in mergers and acquisitions.

#### **8.0 ROLE OF FORENSIC ACCOUNTANTS:**

Forensic accounting requires the most important quality a person can possess the ability to think. There is no book that tells you how to do a forensic investigation. It is about solving a puzzle or peeling an onion. It takes creativity. All of the larger accounting firms, as well as many medium-sized and boutique firms 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, construction, or royalty audits. Forensic accountants may be involved in recovering proceeds of 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. In India there is a separate breed of forensic accountants called Certified Forensic Accounting Professionals. Some forensic accountants are also Certified Fraud Examiners, Certified Public Accountants, or Chartered Accountants. Forensic accountants utilize an understanding of business information and financial reporting systems, accounting and auditing standards and procedures, 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.

These bloodhounds sniff out fraud and criminal transactions in bank, corporate entity or from any other organization's financial records. They hound for the conclusive evidences. External Auditors find out the deliberate misstatements only but the Forensic Accountants find out the misstatements deliberately. External auditors look at the numbers but the forensic auditors look beyond the numbers.

Forensic accountant takes a more proactive, skeptical approach in examining the books of Accounting. They make no assumption of management integrity (if they can assume so then there is no need for their appointment) show less concerns for the arithmetical accuracy have nothing to do with the Accounting or Assurance standards but are keen in exposing any possibility of fraud.

In addition to the specialized knowledge about the techniques of finding out the frauds one needs patience and analytical mindset. One has to look beyond the numbers and grasp the substance of the situation. It is basically the work of the intelligent accountants. He needs to question seemingly benign document and look for inconsistencies. He searches for evidence of criminal conduct or assists in the determination of, or rebuttal of, claimed damages.

#### **9.0 NEEDS FORENSIC ACCOUNTANTS:**

Forensic accountants are more than just number crunchers who happen to work on criminal or civil disputes these accountants possess additional skills. They must conduct investigations, know how to use a variety of computer programs and communicate well. Some forensic accountants specialize in specific industries that are susceptible to fraud, such as insurance or banking, and learn the business practices associated with those fields.

#### **10.0 FORENSIC ACCOUNTING STUDY:**

Commerce graduates can easily take up forensic accounting as a career. After completing Chartered

Accountant course and then specialise in forensic accounting. The forensic accountants prior audit and accounting experience will be of tremendous assistance. But ultimately, it is only through working with experienced forensic accountants on various cases that one can learn the skills necessary to become a capable forensic accountant. Principles and activities of forensic accounting can apply in an organization.

Some places where one can study and/or obtain certifications as Forensic Accounting Professional are:

Institute of Chartered Accountants of India, New Delhi  
Association of certified fraud examiners (ACFE), USA  
Indiana University, Bloomington, USA  
British Columbia Institute of Technology, Canada  
Charles Stuart University, New South Wales, Australia

#### **11.0 GOVERNMENT IN COMBATING FRAUDS:**

There are three such agencies that are dedicated to the combating of the frauds.

1.SFIO: Serious Fraud Office is the dedicated division of the Department of Company affairs, which looks into the frauds that involves the violations of multiple laws such as Income Tax, FEMA and RBI Act etc. SFIO recognize CFE as the designation for the purpose of employment and empanelment.

2.CBI: Central Bureau of Investigations has its specialized wing to deal with the financial frauds called as economic offenses wing.

3.CVC: Central Vigilance Commission is the place, which handles the crucial part of the occupational frauds i.e. Corruption. It also helps in resolving the bank fraud cases.

#### **12.0 FRAUD RELATED SOFTWARE:**

Combating the frauds with software is just picking up in India.

The big companies have started spending on the software like ACL and IDEA.

Seth Services and the SAMA audit software are the distributors of the fraud related products.

TCS: Tata consultancy services Limited has recently come out with the software to combat the money laundering.

Subex Systems: Subex designs the softwares, which combat the telecom frauds.

#### **13.0 CONCLUSION:**

Forensic Accounting has long history originated in India. Forensic accounting is the application of accounting principles, theories, and disciplines to facts or hypotheses at issue in a legal dispute, and encompasses every branch of accounting knowledge. Forensic accounting provides litigation support services and investigative services. Forensic accounting requires the ability to think and creativity. He may be involved in recovering proceeds of crime in the process of investigation of crime or fraud. The forensic Accountant is a bloodhound of Bookkeeping. Forensic Accountants work in most major accounting firms and are needed for investigating mergers and acquisitions, and in tax investigations, economic crime investigations, all kinds of civil litigation support, specialized audits, and even

in terrorist investigations. Commerce graduates have great opportunity in forensic accounting. Some frauds detecting softwares are developed and three agencies are dedicated to the combating of the frauds in India.

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