



Forensic Accounting Concept in India

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Abstract

Forensic accountants are currently in great demand, with the public need for honesty, fairness and transparency in reporting increasing exponentially. These forensic accountants need accounting, finance, law, investigative and research skills to identify, interpret, communicate and prevent fraud. As more and more companies look for forensic accountants and professional organizations offer certifications in the area, it is becoming evident that the forensic accountant has a skill set that is very different from an auditor or a financial accountant. Forensic accounting is hardly a new field, but in recent years, banks, insurance companies and even police agencies have increased the use of these experts. Forensic accounting in India has come to limelight only recently due to rapid increase in white-collar crimes and the belief that our law enforcement agencies do not have sufficient expertise or the time needed to uncover frauds. A large global accounting firm believes the market is sufficiently large to support an independent unit devoted strictly to 'forensic' accounting.

Key Words: Forensic Accountant, Law, Investigative Auditing, Criminology, Fraud, and Evidence.

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1. INTRODUCTION

The forensic Accountant is a bloodhound of Bookkeeping. 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 mis-statements only but the Forensic Accountants find out the mis-statements deliberately. External auditors look at the numbers but the forensic auditors look beyond the numbers. Forensic Accounting (F.A.) is a specialized area of accounting practice that describes engagements which result from actual or anticipated disputes or litigation. The word "forensic" means "suitable for use in court". The forensic accountants have to keep in mind this statement while they have to work or chalk out their programme. The F.A. work is tailor made according to the situation and need. Forensic accounting has come into limelight due to rapid increase in financial frauds and white-collar crimes. But it is largely untraded area in India. The integration of accounting, auditing and investigative skills creates the specialty know as F.A. The opportunities for the Forensic Accountants are growing fast; they are being engaged in public practice and are being employed by insurance companies, banks, police forces, government agencies etc.

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There are two major aspects within forensic accounting practice; litigation services that recognize the role of a Certified Public Accountant (CPA) as an expert or consultant and investigative services that make use of the CPA's skills, which may or may not lead to courtroom testimony.

According to the Webster's Dictionary, Forensic Accounting mean, "Belonging to, used in or suitable to court, of judicature or to public discussions, debate and ultimately dispute resolutions, it is also defined as an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution."

Forensic accounting has been defined as "accounting analysis that can uncover possible fraud that is suitable for presentation in court. Such analysis will form the basis for discussion, debate and dispute resolution." A forensic accountant uses his knowledge of accounting, law, investigative auditing and criminology to uncover fraud, find evidence and present such evidence in court if required to.

2. HISTORICAL BACKGROUND

Forensic accountants have been around for nearly 200 years. The earliest reference was found in 1824 in an accountant's advertising circular in Glasgow, Scotland. These special accountants gave testimony in court and in arbitration proceedings. Interest in forensic accounting spread through the United States and England early in the twentieth century. One of the first institutions to use the services of such investigative accountants was the IRS. The story of Al Capone the famous mobster being caught on a tax evasion scheme is well-known. The FBI decided to use forensic accountants and employed nearly 500 such agents during World War II. As a profession, forensic

accounting continued to grow during the latter half of the century, as GAAP and tax laws became widespread and mandatory.

The following are a few major milestones in forensic accounting:

- 1942: Maurice E. Peloubet published "Forensic Accounting: its place in today's economy."
- 1982: Francis C. Dykman wrote "Forensic Accounting: The Accountant as an Expert Witness."
- 1986: The AICPA issued Practice Aid # 7, outlining six areas of litigation services – damages, antitrust analysis, accounting, valuation, general consulting and analyses.
- 1988: Association of Certified Fraud Examiners established
- 1988: A new genre of detective novels where the forensic accountant was the star.
- 1992: The American College of Forensic Examiners was established.
- 1997: The American Board of Forensic Accountants was started.
- 2000: The Journal of Forensic Accounting, Auditing, Fraud and Taxation were started.

Sherlock Holmes, the artificial character created by Sir Arthur Conan Doyle is considered the pioneer of forensic accounting. In fact, the concept of forensic accounting is not new in India. Kautilya, the first economist and Birbal, one of the nine gems of King Akbar have widely discussed the fraud examination methods.

While the forensic accounting and auditing practices started in the US as early as 1995, it is yet to come into limelight in India.

Collapse of the Enron Corporation and World Trade Centre's twin towers have given lots of good opportunities to American forensic accountants.

The infamous scams of Harshad Mehta, Ketan Parekh, Sanjay Seth and the recent India bulls scam and 'Kingfisher Airlines' credit card fraud' are still fresh in our minds. Whether it is stock market fraud or bank fraud or cyber fraud, forensic accounting has become an indispensable tool for investigation.

3. OBJECTIVES

1. To know the use of Forensic Accounting.
2. To know that, how to control Financial frauds in companies.

4. HYPOTHESIS

Forensic Accounting method is the effective tool to control the financial frauds, corruption, misappropriation and use of e- Accounting and taxation in the corporate world.

5. RESEARCH METHODOLOGY

The paper is based on secondary data and some discussion with eminent persons in the corporate sector. Forensic Accounting is investigation accounting which involves analyzing, testing, inquiring and examining the civil and criminal matters and finally giving an unbiased and true report. Just as forensic investigations and lab reports are needed in the court to solve the murder and dacoit mysteries. Similarly forensic accounting plays a key role in tracing the financial frauds and white-collar crimes. However, forensic accounting covers a wide range of operations of which fraud examination is a small part where it is most prevalent.

6. FORENSIC ACCOUNTING: A STUDY

6.1. Introduction

If we are concerned about financial discrepancies and financial fraud, we need more than an accountant. Forensic accounting is the combination of the Accounting, Auditing and Investigation skills. Forensic accounting is the specialty practice area of accounting that describes engagements, which result from real or anticipated litigation. Broadly speaking, these engagements fall into one of three categories: economic damages, assurance as to fraud in accounts or inventories or the presentation thereof, and business valuation. However, forensic accounting is a gross area of operations of which fraud examination is a small part.

External Audit is compulsory by company Act, 1956 for every company. The main object of audit is to find out after going through the books of accounts, whether the Balance Sheet and Profit & Loss A/c are properly drawn up according to company's Act and whether they represent true & fair view of the state of affairs of the concern. But forensic auditing is a new concept of investigation. It involves analyzing, testing, inquiry and examining the civil and criminal matters and finally giving an unbiased and true report.

6.2 Difference between External Auditor and Forensic Auditor

External Auditor	Forensic Auditor
External Auditor is an examination of books of accounts and other records such as documents, vouchers etc. which confirms or support the correctness of the entries in the books of a business or concern to enable an auditor to satisfy himself as to whether the P & L A/c and Balance Sheet exhibit true and fair view of state of affairs of the concerns.	The forensic Accountant is a bloodhound of Bookkeeping. These bloodhounds find 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 mis-statements only.	The Forensic Accountants find out the mis-statements deliberately.
External auditors look at the numbers.	The forensic auditors look beyond the numbers.

6.3 Use of Forensic Accounting

The services rendered by the forensic accountants are in great demand in the following areas:

- 1. Fraud detection where employees commit Fraud:** Where the employee indulges in fraudulent activities and are caught to have committed fraud, the forensic accountant tries to locate any assets created by them out of the funds defalcated, then try interrogating them and trying to find out the hidden truth.
- 2. Criminal Investigation:** Matters relating to financial implications the services of the forensic accountants are availed of. The report of the accountants is considered in preparing and presentation as evidence.
- 3. Outgoing Partner's settlement:** If the outgoing partner is not happy about his settlement he can employ a forensic accountant who will correctly assess his dues (assets) as well as his liabilities.

4. **Cases relating to professional negligence:** Professional negligence cases are taken up by the forensic accountants. Non-conformation to Generally Accepted Accounting Standards (GAAS) or non compliance to auditing practices or ethical codes of any profession they are needed to measure the loss due to such professional negligence or shortage in services.
5. **Arbitration service:** Forensic accountants render arbitration and mediation services for the business community, since they undergo special training in the area of alternative dispute resolution.
6. **Facilitating settlement regarding motor vehicle accident:** As the forensic accountant is well acquainted with intricacies of laws relating to motor vehicles, and other relevant laws in force, his services become indispensable in measuring economic loss when a vehicle meets with an accident.
7. **Settlement of insurance claims:** Insurance companies engage forensic accountants to have an accurate assessment of claims to be settled. Similarly, policyholders seek the help of a forensic accountant when they need to challenge the claim settlement as worked out by the insurance companies. A forensic accountant handles the claims relating to consequential loss policy, property loss due to various risks, fidelity insurance and other types of insurance claims.
8. **Dispute settlement:** Business firms engage forensic accountants to handle contract disputes, construction claims, product liability claims, infringement of patent and trade marks cases, liability arising from breach of contracts and so on.
9. **Matrimonial dispute cases:** Forensic accountants entertain cases pertaining to matrimonial disputes wherein their role is merely confined to tracing, locating and evaluating any form of asset involved.

Apart from knowledge of accounting, law and criminology, a forensic accountant also needs to be familiar with corporate financial planning and management. He also needs to have computer skills, good communication and interview skills.

6.4. Why is forensic accounting so popular?

According to some experts, this increased interest is because of the struggling stock market and lack of investor confidence which has forced many organizations to take a long, hard look at their financial statements. A sluggish economy with its attendant problems might also be an incentive to commit fraudulent acts, thus requiring the services of an expert. The increase in white-collar crime and the difficulties faced by law enforcement agencies in uncovering fraud have also contributed to the growth of the profession. Many accounting firms believe that the market is sufficiently large to support an independent unit devoted strictly to forensic accounting. Whatever the reasoning may be, more and more forensic accountants are being called upon to use their investigative skills to seek out irregularities in their companies' financial statements.

7. CONCLUSION

Forensic accountants are currently in great demand, with the public need for honesty, fairness and transparency in reporting increasing exponentially. These forensic accountants need accounting, finance, law, investigative and research skills to identify, interpret, communicate and prevent fraud. As more and more companies look for forensic accountants and professional organizations offer certifications in the area, it is becoming evident that the forensic accountant has a skill set that is very different from an auditor or a financial accountant.

Considering above mentioned points, it is proved that the set hypothesis, "Forensic accounting method is the effective tool to control the financial frauds, corruption, misappropriation and use of e- accounting and taxation in the corporate world" has proved. Hereafter, all corporate sector units should use Forensic Accounting for minimization of frauds.

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