

A STUDY ON FORENSIC ACCOUNTING- DESCRIPTIVE STUDY

Vishnu Keeriyat¹, Bikash Lama², Adarsh Nishad³

I Year B.Com, Acharya Institute of Graduate Studies¹

I Year B.Com, Acharya Institute of Graduate Studies²

I Year B.Com, Acharya Institute of Graduate Studies³

Abstract: The research study is to record and to analyse the need, purpose and the effective use of forensic accounting in different fields. Forensic accounting is the combination of accounting, auditing and investigative abilities. It provides investigative functions and litigation support services to understand the depth and width of the financial scams happening in any economy. The forensic accounting mainly focuses on finding the frauds, and scams committed in different fields in a wide angle. This study investigates the capabilities and litigation support services to understand the financial scams going on in any economy in depth. This research discusses the idea and history of forensic accounting, the need for it and offerings given through forensic accountants.

Keywords: Forensic Accounting, Financial Scams and Fraud, Investigation

INTRODUCTION

Forensic accounting is basically the use of accounting skills to investigate fraud and to analyze financial information for use in legal proceedings. Forensic accounting combines the work of an auditor and a private investigator, not like auditors whose purpose is only centered on locating and stopping mistakes, the role of a forensic accountant is to identify instances of fraud. Some of the common kinds of fraud schemes consist of overstating revenues, understating liabilities, stock manipulation, and asset misappropriation.

Forensic accounting is the application of investigative and analytical skills to resolve financial issues in a manner that meets the standards required by the court of law. It is the application of accounting techniques to the monitoring and collection of forensic evidence, generally for the investigation and prosecution of criminal acts such as embezzlement or fraud.

Forensic accounting was developed or first used by **Maurice E. Peloube** in **1946**. He describes the use of accounting in the courtroom as a piece of evidence or proof to resolve financial scams and frauds in major industries. **In 1953**, a New York lawyer named **Max Lourie** claimed that he invented the word "Forensic Accounting," even though Peloubet wrote about it first. Lourie stressed the need for forensic accounting literature and education.

Forensic accounting is a wide concept that is used by industrialists and accountants to prevent themselves from false claims and associated damages.

Forensic Accounting can sometimes be referred to as **Forensic Auditing** and its purpose is: -

- Forensic Auditing can be performed with the intention to prosecute a party for fraud, embezzlement, or other financial claims.
- Forensic Auditing may be conducted to determine whether negligence occurred.

LITERATURE REVIEW

The function of a forensic accountant cover investigation which includes the collection of evidence. Nowadays every accounting firm in the country has forensic accounting and more forensic accountants have emerged as frauds and scams are also increasing widely in different fields. Forensic accounting is currently being applied to tackle issues of fraud in the entire world. Various studies have been performed on the use of forensic accounting methods in fraud investigation.

Forensic accounting techniques help in fraud investigation. They have assisted in uncovering fraudulent activities and prosecution of culprits. Such has resulted in fraud reduction in various organizations, especially the big organizations. This could also be of great assistance to the small organizations in the areas of controlling and preventing fraud.

Many researchers studied forensic accounting its importance and establishment in India. Steny Anu Philip, Nithasha Kuttibi Pk and Aruna .P in 2009 researched in "Problems on Implementing Forensic Accounting -Indian Context"

which deals with making awareness about forensic accounting among small accounting firms and industries in India and explaining their sole purpose as well. A.G.H.S.K.Wijerathna and H.A.P.L.Perera 2020 also researched “A Systematic Literature Review on Forensic Accounting” which purely states multi-disciplinary areas which include; auditing, accounting, statistics, information technology, legal rules and human skills in forensic accounting. Moreover, modules on big data should be included in the curriculum of forensic accounting. Owojori, A. A and T. O. Asaolu in 2009 made a research study on “The Role of Forensic Accounting in Solving the Vexed Problem of Corporate World” which explains the skills required for a forensic accountant and their role in resolving problems in the corporate world. Pearson, Timothy A Singleton and Tommie W researched “Fraud and Forensic Accounting in the Digital Environment” in the year 2008 which deals with the necessity of forensic accounting and accountants in the emerging digital world. James A. DiGabriele and Wm. Dennis Huber in 2015 July prepared a research study on “Topics and methods in forensic accounting research” which describe or highlight the forensic accountant which have less attention in society along with explaining their practical implications.

RESEARCH DESIGN

STATEMENT OF THE PROBLEM:

Forensic accounting or forensic accountants are hired by banks, government agencies, the police force, public accounting firms and many industries like the insurance industry. This type of accounting system is developed to evaluate potential financial crimes and many more which are listed below.

- Calculation of economic damages.
- Calculation of the value of a business.
- Detection of fraud.
- Insolvency(bankruptcy) legal support
- Investigation of computerized accounting records is currently known as forensic analytics.
- Money laundering investigations.
- Professional negligence claims.
- Reconstruction of accounting records usually for insurance claims.
- Royalty audits.

OBJECTIVES OF THE STUDY:

1. To study the theoretical concept of Forensic accounting.
2. To understand and analyze the advantages of Forensic Accounting in different sectors.

DATA COLLECTION:

The primary data is collected through interacting with Chartered Accountants and Secondary data is collected through articles, journals, websites, etc.

Forensic Accountants are not simply those who show up to work on criminal or civil disputes, these accountants possess extra talents. They should conduct an investigation, realize the way to use an expansion of computer applications and speak properly. some forensic accountants specialized in unique Industries which might be prone to fraud, including coverage or banking and learn the business practices related to those fields.

Accountants follow some forensic accounting steps while conducting their investigations: -

1. Initial Research –

Step one is to meet a government representative, legal professional/lawyer, or another client to examine the specifics of the claimed frauds. Then, they being their preliminary research and plan the logistics of the investigation.

2. Gathering Records –

The next step is to search the data from bank statements, credit statements, journals, ledgers, databases, email and memorandums.

3. Interviews -

After gathering the required records, the forensic accountant's next step is to have an interview with the accused and others involved in the crime. For this forensic accountants must process observational skills to pick up hints or suspicious clues that may eventually lead them to a conclusion.

4. Analysis -

After collecting all the information, a forensic accountant begins the evaluation process. Then she or he may trace the property of the organization, calculate the overall loss and search precisely how it took place and summarize numerous transactions.

5. Litigation Support –

The final step is to provide all legal support in court with all data collected and the forensic accountant also acts as evidence in the court to explain all the documents accrued.

LIMITATIONS OF FORENSIC ACCOUNTANTS:**1. TIME-CONSUMING.**

Forensic accounting requires accountants to go through every piece of record and information to ensure that their investigation is complete and that they'll uncover every piece of evidence that will solve the case. This process takes several days, months some may even last years.

2. EXPENSIVE PROCESS.

Forensic accounting can turn out to be expensive as this process takes a long period. This process can be an issue for small-scale companies but not for long scale that has huge funds with them.

3. Distracting.

Forensic accounting can become an issue as they are an outside entity of the firm and this may disturb the routine of the staff.

4. Affect Employee Morale.

Forensic accounting can cause employees to feel like their integrity is doubted, which can lead to lower staff morale.

RESULTS AND DISCUSSIONS

The services rendered by the forensic accountants are listed below: -

1. Detection of Fraud Committed by Employees:

Identifying the frauds and scams conducted by employees in a firm or a department.

2. Criminal Investigation:

Identification of white-collar crimes and taking civil and criminal actions against such individuals or groups of individuals.

3. Subjects Associated with Expert Negligence:

Misconduct of the accounting practices and ethical code of the profession.

4. Arbitration Service:

Acts as an arbitrator to resolve the dispute that occurs in a firm or department.

5. Settlement of insurance claims:

Settle the toughest or most challenging claims.

6. Dispute settlement:

Settle certain disputes such as construction claims, product liability claims, violation of laws, etc.

The work of a forensic accountant is to use his accounting skills to investigate fraud and analyze financial information for use in legal proceedings. After demonetization in India the

Forensic accountants found millions of black money which are enlisted below

| Year | Amount of Black Money |
|------|--|
| 2016 | 17.74trillion-1,35,57,15,63,60,00,000 Indian Rupee Approx |
| 2017 | 15.28trillion- 1,16,80,24,59,20,00,000 Indian Rupee Approx |
| 2018 | 18.17trillion-1,38,89,40,23,80,00,000 Indian Rupee Approx |

From this, it is clear that forensic accountants' necessity has increased drastically over the period.

FINDINGS

This research has identified key themes and areas relating to forensic accounting. From the research certain needs of forensic accounting were found which are listed below

❖ CORPORATE INVESTIGATIONS

Investigations of serious frauds or accounting irregularities within an organization may be disruptive and time-consuming. To solve this problem forensic accountants are hired for these jobs.

❖ LITIGATION SUPPORT

A forensic accountant provides all legal support in court with all data collected and the forensic accountant also acts as evidence in the court to explain all the documents accrued.

❖ **CRIMINAL MATTERS**

Forensic accounting investigations can assist law enforcement with cross-border investigations and figuring out those people liable for engaging in such a crime and assist within the asset forfeiture process.

❖ **INSURANCE CLAIM**

Forensic accounting is applied in the insurance enterprise for the reason of documenting and calculating the monetary losses of an insured or claimant.

❖ **GOVERNMENT AND OTHER AGENTS.**

Forensic accounting is an accounting skill of finding frauds and others things hidden in the financial transaction process. The government uses them to find all financial frauds done by the accused and find all the black money and other assets.

SUGGESTIONS

Forensic accounting or accountant is hired in corporate investigations to resolve serious frauds or accounting irregularities that occurred within an organization, but if this account is hired before the issues occur it could save a lot of time dispute and money.

Forensic accountants provide litigation support in court by providing all legal support with all data collected and the forensic accountant also acts as evidence. Forensic accountants in this field must have a fair judgment mind and they should get protection from the court for their lives as well.

Forensic accountant helps in criminal matters but they can create issues as they make have to question or doubt peoples which make start dispute and conflict. It is to be taken care that the forensic accountant is not a relative, friend, or accomplice of the accused and also the accountant is not a money-minded person who will save the accused for some ransom.

Forensic accountants in the insurance field must be experts in accountant and investigatory skills.

He should not trust everyone blindly and should check and evaluate everything precisely. Forensic accountants determine if the claim request is correct and so they should decide wisely without any personal grudge or any mistakes. Due to the increase in technology in accounting and auditing, there are more chances of occurrence of fraud. There is a huge future in forensic accounting at a professional level. Given the rising stages of economic irregularities, the requirement for forensic accountants is certain to rise in the coming times significantly in government departments. This accountants were hired during the time of issues but now the government office hired them permanently to solve an issue occurring before itself but still, they are not receiving any reputations or fame in government offices.

CONCLUSION

Forensic accounting is a work of years of practice and this type of accounting requires investigatory knowledge and skills as well.

With an increase in the use of Computers in accounting and auditing, there are more chances of occurrence of fraud. There is a huge future in forensic accounting at a professional level. Given the rising stages of economic irregularities, the requirement for forensic accountants is certain to rise in the coming times significantly.

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