

Forensic Accounting: Relevance In Corporate Governance

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Abstract:

In India, the economic crimes have increased dramatically, in the recent years. Everybody wants to take a higher education and for this they are leaving their native place to take the education.

Forensic accounting may be defined as, the science of gathering and presenting financial information in a form that will be accepted by a court of Jurisprudence against perpetrators of economic crimes. The study covers the meaning and need and scope of forensic accounting. In the near future, the demand for forensic accounting is expected to increase and the most of the universities are planning to provide such kind of education.

Now a days, we are hearing about so many scams or frauds or scandals like Coal scam, Adarsh scam, 3G scam, Common wealth scam and so on. Our Prime Minister is became a puppet in the hands of these scams. Forensic accounting education is being relevant and beneficial to accounting students, business community, accounting profession and accounting programs.

The main aim of this paper is to identify the role of forensic accounting in fraud investigation and litigation support and proffer suggestions, that will be helpful to bring the awareness about the area of accounting.

Key words: *forensic accounting, fraud investigation, litigation support and judicial scrutiny.*

Introduction:

Now a days, fraud has become an industry. Academic professionals study it, investigators investigate it, and the lawyer litigate on it. The investigation of fraud is only one of the services offered by the professional forensic investigators. The creation of a culture and environment which is aimed to prevent fraud and response policy which is designed to respond to fraud detection as early as possible.

Now a days, we are hearing about so many scams or frauds or scandals like Coal scam, Adarsh scam, 3G scam, Common wealth scam and so on. Our Prime Minister is became a puppet in the hands of these scams. The fraud is a great difficulty in front of nation and wealth can be created out of calamities.

A large part of this amount can be attributed to white-collar crime. Fraud and its roots, greed and arrogance are the human nature. Fraud is a theft. It creates a direct impact on bottom line of the business. The extent of fraud and white-collar crime resulted in the formation of various specialized units in law-enforcement agencies. According to the survey of, India Forensic Centre of Studies, Pune, thousands of forensic accountant are to be required in future. In the year 2009, the scam of Satyam has been found and everybody is speaking on this scams or issues.

Then after many companies came forward with scams like Satyam and the era of forensic accounting started against the scam. Due to this scam, other companies came to know that such scam may cause great loss to the company. Many companies came forward to fight with such scam but, they have a little or short strength or attempt to fight with the scam.

Objectives and Methodology:

Now a days, forensic accounting has become a prominent issue. Many Chartered Accountants are working as a forensic accountant, but it is not necessary to be a chartered accountant to become a forensic

accountant. Certified forensic accounting is a professional course in the subject of forensic accounting and this course is run by the Fraudexpress, Pune. The provision of audit is not sufficient to ensure overall fairness of management, specially in identifying the corporate culprits.

Realizing this and considering the importance of the issue, we have made a little attempt to focus our study on this rising issue of frauds. The issue raised above, directs the following to be the objectives of the study.

1. To know about the nature of forensic accounting and services performed by forensic accountant.
2. To understand the need of forensic accounting.
3. To know the investigation procedures followed by the forensic accountant, while doing their work.
4. To find out the career opportunities in the forensic accounting.

Primarily the study is based on secondary data or information. The study was completed through the review on published books, articles, journals, papers and reports on newspapers and also from internet. However, this is a very little attempt to visualize the forensic accounting concept.

Definition of Forensic Accounting:

Forensic accounting, forensic accountancy or financial forensics is the specialty practice area of accountancy that describes engagements that result from actual or anticipated disputes or litigation. "Forensic" means "suitable for use in a court of law", and it is to that standard and potential outcome that forensic accountants generally have to work. Forensic accountants, also referred to as forensic auditors or investigative auditors, often have to give expert evidence at the eventual trial. All of the larger accounting firms, as well as many medium-sized and boutique firms, as well as various Police and Government agencies 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.

Financial forensic engagements may fall into several categories.

For examples:

- Economic damages calculations, whether suffered through tort or breach of contract;
- Post-acquisition disputes such as earn outs or breaches of warranties;
- Bankruptcy, insolvency, and reorganization;
- Securities fraud;
- Business valuation; and
- Computer forensics/e-discovery.

Forensic accountants often assist in professional negligence claims where they are assessing and commenting on the work of other professionals. Forensic accountants are also engaged in marital and family law of analyzing lifestyle for spousal support purposes, determining income available for child support and equitable distribution.

Engagements relating to criminal matters typically arise in the aftermath of fraud. They frequently involve the assessment of accounting systems and accounts presentation—in essence assessing if the numbers reflect reality.

Some forensic accountants specialize in forensic analytics which is the procurement and analysis of electronic data to reconstruct, detect, or otherwise support a claim of financial fraud.

The main steps in forensic analytics are (a) data collection, (b) data preparation, (c) data analysis, and (d) reporting. For example, forensic analytics may be used to review an employee's purchasing card activity to assess whether any of the purchases were diverted or divertible for personal use.

It may be defined as, assistance in disputes regarding allegations or suspicion of fraud, which are likely to involve litigation, expert determination and enquiry by an appropriate authority and investigations of

suspected fraud, irregularity or impropriety which could potentially lead to civil, criminal or disciplinary proceedings.

Using accounting, technology and investigation skills, evidence is gathered and can be produced in the Judicial court, is known as forensic accounting.

To complete the course of forensic accounting the candidate need at least three years experience in financial sector. The demand for candidates who completed this course is increasing day by day. For this course the candidate must pass the entrance examination. Whenever the chartered accountant doing audits, if he found frauds in financial matters, he should go at its root level for the investigation. To do the audit of books of accounts to find out the financial fraud, is called forensic accounting.

Many different organisations consult forensic accountant, corporations hire forensic accountant to investigate allegation of fraud on the part of their employees, suppliers or customers. Attorneys consult forensic accountant to obtain estimates of losses, damages and assets related to specific legal cases, in many areas of the law including product liability, share holders disputes and breach of contracts. In criminal investigation, forensic accountants analyse complex financial transaction such as those in stock market manipulations and price fixing schemes. After conducting investigation, they write and submit a report on their findings. When a case goes to trial, they are likely to testify as expert witnesses.

Forensic Accounting as tool for Investigation :

The techniques of forensic accounting can assist forensic accountants in identifying illegal activity and discovering and preserving evidence. Forensic accounting is the application of accounting knowledge and investigative skills to identify and resolve legal issues. It is the science of using accounting as a tools and techniques can be invaluable for the investigation of fraud.

The need for forensic accounting is increasing in various sectors like banking sector, insurance sector, retail sector and telecom sector. There is a separate fraud control department in banks. This department will find out the frauds and they have to take the necessary steps to stop the frauds.

In the year 2009, Reserve Bank of India passed a resolution to appoint a forensic accountant to control frauds in the banking sector. Forensic accountants also requires the help of police departments. Everyday new frauds will come into existence and therefore, the demand for forensic accounting will be increasing.

Forensic accountants, investigative accountants or expert 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. In other countries, some forensic accountants are also Certified Fraud Examiners, Certified Public Accountants with AICPA's Certified in Financial Forensics (CFF) Credentials, Chartered Accountants (CA), Certified Management Accountants (CMA) or Chartered Certified Accountants.

Forensic accountants utilize an understanding of economic theories, business information, financial reporting systems, accounting and auditing standards and procedures, data management & electronic discovery, data analysis techniques for fraud detection, 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.

"While Forensic Accountants ("FAs") usually do not provide opinions, the work performed and reports issued will often provide answers to the how, where, what, why and who. The FAs have and are continuing to evolve in terms of utilizing technology to assist in engagements to identify anomalies and inconsistencies. It is important to remember that it is not the Forensic Accountants that determine fraud, but instead the court." (David Malamed, Forensic Accountant, Toronto Ontario.)

To qualify as a forensic accountant, one must possess the appropriate licence or qualification as recognized by the jurisdiction in which the lawsuit or dispute is taking place. Therefore, for a UK court a Chartered Accountant with the ICAEW would be qualified, while a CPA with the AICPA is qualified in a US court.

The types of crimes forensic accountants investigate are classified as "crimes against property." They investigate crimes such as fraud and give expert testimony in court trials. They also perform work related to civil disputes. Forensic accountants are also known as fraud investigators, investigative accountants, forensic auditors or fraud auditors.

Forensic Accounting Approaches:

Each forensic accounting assignments is unique and it has a peculiar approach. In general, many forensic accounting assignments will include the following detailed steps.----

1. Meeting the client
2. Conflict checking
3. Initial investigation
4. Developing the action plan
5. Obtaining the relevance evidence
6. Performing the analysis : it may involve
 - ✓ Calculation of economic damages
 - ✓ Summarization the large number of transactions
 - ✓ Performing a tracing assets
 - ✓ Performing present value
 - ✓ Regression or Sensitivity analysis
 - ✓ Utilization of charts and graphs for analysis explanation
 - ✓ Preparation of report

Role of Forensic Accountant:

The main role of forensic accountant is to assist the courts, solicitors, and clients understand the complex financial and accounting issues and presenting that information in a manner that all users can understand. In addition to that the opinions or results are supported by evidence that will hold up under cross examinations or scrutiny. The litigation process includes---

- Assisting in initial discovery: helping solicitors ask for the right information the first time that will provide them with the greatest level of information.
- Applying commercial knowledge and expertise: financial statements and income tax returns tell a story and apply it to the other information in the business.
- Providing expert evidence both written and oral: forensic accountants are able to provide expert evidence in written form and where necessary support those opinions and calculations in cross examination.
- Independence: the expert evidence rules mean that expert must give an objective, unbiased opinion. This provides a stronger arguments for acceptance by the court.

Difference of Forensic Accounting Services from fraud Auditing and Financial Auditing:

- ❖ **Fraud Auditing** : the objective of this is to assess the likelihood that fraud will be detected or prevented in a corporate or regulatory environment. Typically, the assessment is made by reviewing existing controls to prevent and detect fraudulent transactions. It is usually conducted on a proactive basis and should not be confused with fraud investigations, which are conducted after the fact and possibly by forensic accountant.

- ❖ **Financial Auditing** : in this the auditors objective is to render an opinion on whether the information appearing in a set of financial statements is presented fairly in conformity with generally accepted accounting principles (GAAP). These engagements are conducted after the transactions have occurred, and are performed in accordance with generally accepted accounting standards (GAAS). It is an attest functions and the auditor is responsible to the client and third parties that may rely on the financial statements issued.
- ❖ **Forensic Accounting** : its engagement is related specifically to the issue defined by the party engaging the accountants. The client defines a specific goal such as calculation of loss, calculation of royalty, calculation of value of pension plan etc. The forensic accountant, for instance, may examine a trial of paper work, to corroborate the calculations needed to meet the specific goal of the engagement. The forensic accountant is not performing an attest function and in responsible only to his client. Ultimately, the aim for hiring forensic accountant is to use the accountants conclusion to facilitate a settlement, claim or jury award by reducing the financial component as an area of continuing debate.

Conclusion:

Fraud is real and has so many branches, forensic accounting is the new branch in accounting which has the sole aim of unearthing fraudulent activities within and outside an organization so far as the third party's action is in anyway reflective on the activities of organization. While the study agrees that financial scams in business organization have raised awareness.

So, everyday new frauds will come into existence and therefore, the demand for forensic accounting will be increasing day by day.

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