FORENSIC ACCOUNTING – THE WAY OF FRAUD DISCLOSURE

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ABSTRACT:
One of the major expenses to the company is Fraud and it is a virus that is hardly investigated and eliminated. Forensic accounting is a type of engagement of the independent auditor wherein the auditor is cautious to every circumstance that could increase the risk of fraud in the organisation. It is an art of investigating the accounting records, financial statements, and other related financial records. The result of the investigation is mostly used for legal support and resolving conflict. The evidence found through forensic accounting plays a significant role in judicial decision making. The fraud investigation could be performed in different types of organizations like corporate, public, or private organizations. This paper is focus on understanding the importance of forensic accounting in detecting frauds.

Key words: Forensic accounting, Frauds, Investigation, Forensic Accountants.

INTRODUCTION:
'Forensic’ means being able to meet the exact standards of a court of law. Some forensic accountants' primary skills include;

- Understanding of the legal process
- How to conduct investigations?
- Conducting financial analyses and other accounting procedures at a level acceptable to the legal system.
Detecting fraud or white collar crime was thought to be the part of accounting function. Fraud was something the internal or external auditors were supposed to guard against by their periodic audits. Conversely, now the auditors can only check for the compliance of a company’s books to generally accepted accounting principles and company policy.

Thus, a new category of accounting was needed to authenticate the fraud for companies who identified fraudulent transactions. This area of accounting is known as forensic accounting.

Forensic accounting is a type of accounting that examines financial information for potential evidence of crimes. Forensic accountants use accounting, auditing, and investigative skills to understand whether a person or company has committed financial misconduct, such as misappropriation or fraud.

One unique aspect of forensic accounting is that the forensic accountants use legal skills to define if financial activity is illegal and often present their findings in court.

**OBJECTIVES OF FORENSIC ACCOUNTING:**

- To provide evidence: It provides evidence to the financial fraud that has taken place in the Company and presents the results of an investigation in such a way that it can endure cross-examination in court. It also aims at identifying those who have involved in fraudulent activities.

  An investigation does the following:

  1. Prove that a business or individual has suffered financial loss
  2. Identify the wrongdoers of said fraud
  3. Establish the motives and methods used by the fraudsters
  4. Prove beyond reasonable doubt the involvement of the alleged perpetrators

- To assess things such as quantifying loss of profits and earnings as the result of personal injury due to negligence.
- To resolve commercial disputes like divergences between shareholders and cases where a business has suffered losses due to disruption of its trade which was caused by a third party.
- To provide assistance during court proceedings.

**REVIEW OF LITERATURE**

Luke (2013), In his paper forensic accounting is described as an exercise complementary to the statutory audit, that ensures the strength of the audit report.

Bhasin (2017) in another study conducted a survey based research to identify the skills, training, and education required for forensic accountants in India that can strengthen the corporate governance. He pointed out that skills relating to auditing, communication (both written and oral), critical, analytical and
deductive proficiency, domain of knowledge related to law, unstructured problem-solving and investigative flexibility etc. as the relevant skills required for the forensic experts.

Mehta and Mathur (2007) described a forensic accountant as a financial detective with a suspicious mind, a financial bloodhound, someone with a sixth sense that enables reconstruction of past accounting transactions and an individual who looks beyond the numbers.

Prof. Shimoli Dhami (2015) focused on Forming Regulatory Body For Forensic Accountants In India, skills needed for forensic accountants in detecting frauds and effectiveness of forensic accounting functions.

Ashwin, Parasuram Praveen M, Shashank Subbaiah and Asra Khan (2018), In this paper main focus was on the impact of forensic accounting on fraud detection and stock prices of 5 selected companies.

Nisha Chaturvedi (2015) Describes forensic accounting as a tool that offers highest level of assurance and add credibility to the financial statements by tracing the financial frauds and white collar crimes.

OBJECTIVES OF THE STUDY

- To study the concept of Forensic Accounting.
- To understand the importance of Forensic accounting in detecting Frauds in an organization.
- To know the uses of Forensic Accounting.

RESEARCH METHODOLOGY:

The study is based on the Secondary data. The data was obtained through Journals, reports, publication of professional and research organizations.

LIMITATIONS

All the secondary data have been taken from web sources. The information and data may not be precise.

CONCEPT OF FORENSIC ACCOUNTING:

It is a group of accounting, auditing, and investigation skills that deals with financial collusions such as money laundering, misappropriation, securities funds, bankruptcy, asset misappropriation, insurance claims, debt defaults, tax evasion and financial frauds. It is also known as financial forensics.

It deals with multifaceted financial and business problems. Those matters are investigated, construed, and summarized by the forensic accountants. Forensic accounting can be adopted by insurance companies, police forces, banks, government agencies and various public accounting firms. Forensic accountants are responsible to accumulate financial evidence, developing computer applications so that the collected information can be managed, and communicating their discoveries by using various reports or presentations. Forensic accountants are sometimes required to get additional training in Alternative Dispute Resolution (ADR) so that they can do their high-level work related to legal issues and the judicial system without any error or mistake.
Major aspects of Forensic accounting:

- **Litigation Support Services:** Forensic accountant measures the damages experience by the parties implicated in legal disputes and can aid in setting conflicts, if it reaches the courtroom, the forensic professional could give evidence as an expert advice.

- **Investigative Services**

**TYPES OF FORENSIC ACCOUNTING:**

- Financial theft
- Bankruptcy
- Professional negligence claims
- Merger & Acquisition related lawsuits
- Corporate valuation disputes
- Defaulting on debt
- Securities fraud
- Economic damages
- Tax evasion or fraud
- Money laundering

**IMPORTANCE OF FORENSIC ACCOUNTING:**

- Forensic accounting plays a vital role in solving financial crimes through identifying and detecting frauds in the companies.
- Forensic accounting used by organizations to detect abnormalities among their staff and with third parties which are linked with the business.
- Professional negligence can be detected by assessing the work of professionals and accountants through forensic accounting.
- Financial discrepancies and fraudulent activities generate cost to the business, through strong forensic accounting companies can minimize and prevent unnecessary financial losses.
- It is hugely disruptive and costly for the organization to deal with cases of fraud whether it is internal or external. Forensic accounting prevents such kind of scenarios by investigating fraudulent activities and compressing any issues detected in the initial stage.
- It will become very difficult for the stakeholders to trust, respect and connect with such companies, which can be easily manipulated and fraud can take place in it. Fraud and criminal activities can damage the reputation of the companies. It creates the demand for forensic accounting. Through detecting fraud, it helps in improving brand reputation of the companies.
- A knowledgeable forensics accountant employs financial records in order to help disclose illegal financial activity; as well as serve as a witness when court cases arise.
USES OF FORENSIC ACCOUNTING:

Forensic accounting is applied to investigate various falsifications which include the following:

- **Commercial Fraud**: Asset identification, due diligence reviews, forensic intelligence, asset recovery, suspect interviews, and tracing misappropriation are comprised of this investigation. Various intelligence measures are strategized and offenders are identified by the forensic accountants. For this purpose, they go through a detailed review of the company's different documents and books.

- **Tax Fraud**: It is seen that the businesses and individuals falsify their income and financial information so that they can get relaxation on tax liabilities. Forensic accounting can be applied to find out such cases.

- **Securities Fraud**: The misrepresentation of commodities, investments, and stocks is one of the most common white-collar crimes. It includes various wrongdoings such as late-day trading, pump and dump schemes (it is a form of securities fraud that involves artificially inflating the price of an owned stock through false and disingenuous positive statements) and Ponzi schemes (it is a form of fraud that persuades investors and pays profits to earlier investors with funds from more recent investors.). Forensic accounting can be used to detect such kind of white collar crimes.

- **Assets Misappropriation**: Many misappropriations of assets including property theft, payroll fraud, and embezzlement are detected by forensic accountants.

- **Shareholding & Partnership Disagreements**: Forensic accounting deals with the disputes and issues created among partners or shareholders in an organization which can be related to compensations, profit distributions, or others. In such a case, the investigation is done with detailed examination of accounting and financial records so that the issue can be quantified which the cause of the conflict is.

- **Insurance Claims**: The validity of false insurance claims is checked by forensic accountants by going through all the evidences related to the claim.

- **Economic losses and Bankruptcy**: In this case forensic accounting helps in measuring losses and determines the reasons behind losses. It also works on the corrective measures and recovery procedures.

- **Money laundering**: Forensic accounting is also used to identify the unlawful sources of money like money laundering and unrevealed bank accounts.
CONCLUSION

To conclude forensic accounting is the way of investigating the financial fraud or financial manipulation through detailed research and analysis of financial information. Forensic accounting is chosen by regulators and courts to look into complex fraudulent activities. It is an independent examination of suspected wrongdoing in the company’s accounting system. To conduct such kind of an examination, forensic accountants are appointed by courts, tribunals, and regulators on behalf of the public interest at large. Further research can be done on techniques followed by forensic accountant to investigate the financial frauds and measures can be suggested by them to overcome those frauds in an organization.

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