



CONCEPTUAL FRAMEWORK OF FORENSIC ACCOUNTING

***DR. K.K. CHOUDHARY & **DR. ANIL KUMAR JHA**

****Assistant prof., Dept. of commerce, M.M.T.M. College, Darbhanga**

****Assistant prof., Dept. of commerce, M.L.S.M. College, Darbhanga**

ABSTRACT

Forensic Accounting is the modern and fastest growing area of Accounting. It is different from the debit or credit accounting as it provides an accounting analysis that is suitable to the organization, which will help in resolving the disputes that arise in the organization. This paper highlights the conceptual framework of forensic accounting for giving some idea to young researcher and students of Commerce stream.

Keywords: - Forensic Accounting, investigation ICAI.

INTRODUCTION

Forensic Accounting is the practice of utilizing accounting, auditing and investigative skills to assist in legal matters and the application of specialized body of knowledge to the evidence of economic transaction and reporting, suitable to the purpose of establishing accountability or valuation of the administrative proceeding. In wide sense it can be said as the integration of accounting, auditing and investigative skills to obtain a particular result. It is a profession which specifically uses investigative methodologies combined with financial experience to a legal end. It provides a base for accounting analysis in courts. It is different from the old debit or credit accounting as it provides an accounting analysis that is suitable to the organization, which will help in resolving the disputes that arise in the organization. Forensic accountants employ their investigative techniques in an effort to find fraud to focused locations where fraud is believed to be. They utilize accounting, auditing and investigation skills while conducting an investigation. These accountants are trained to look in to the dispute in a number of ways. They often retain to analyze, interpret, summarize and present a complex problem or business

issue in a manner, which is understandable and probably supported. Also they are often involved in various activities such as investing and analyzing financial evidences, developing computerized applications, communication, exhibiting documents and presenting the evidences obtained. In modern technological age forensic accounting is most important areas in accounting. At present, the role of forensic accountant is carried by chartered accountants along with their traditional accounting and auditing.

REVIEW OF LITERATURE

Several studies have been conducted in past about forensic accounting.

James A. DiGabriele (2015) in his study on the topic “Topics and Methods in Forensic Accounting Research” found out that Forensic research is a function of the purpose (S) of forensic accounting. Through this study, it was found out that the purpose of forensic accounting research is to equip practitioners to do their job, and not to provide citation for future research than forensic accounting research that matters most as a focus on all domains of forensic accounting.

Ruchita Verma, Ms. Urvi Singh (2017) did a study on “Barriers in the Implementation of Forensic Accounting in India: An Analysis of Academicians’ perception” and found out that almost half of the professors and academic scholars were aware of forensic accounting. The lack of training to these professionals and various other factors act as a barrier in developing and applying forensic accounting.

Ozili Peterson K (2015) in his study on the topic “Forensic accounting and fraud – A review of literature and policy implications” found that it was important to know that while forensic accounting is gaining significant research interests among academics, progress in forensic accounting research will continue and will depend on the extent to which fraud perpetrators leaves. This is because fraud perpetrators leave traces after performing the act.

Partap Singh, Mr. Joginder Grewal, Mr. Virender Singh (2015) did a study on “Forensic Accounting As A Fraud And Corruption Detection Tool: An Empirical Study” and they found out that concept of forensic accounting is entirely new to them and people were to be made known about the same. It is not only used for fraud identification in some of the leading companies but can be used any type of organization. Through forensic accounting, the risk factor can be reduced, but not fully eliminated.

OBJECTIVES OF THE STUDY

- To understand the concept of forensic accounting and forensic audit.
- To understand the difference between traditional accounting and modern accounting.
- To analyse the need and importance of forensic accounting in India.
- To understand the tools, techniques of forensic accounting.
- To evaluate the stages in forensic accounting.

RESEARCH METHODOLOGY

The paper is exploratory and analytical in nature primarily based on secondary data collected from the internet, books and published research paper. The main motto of this paper is to aware people about the importance and necessity of forensic accounting for detecting fraud.

HISTORY OF FORENSIC ACCOUNTING

Forensic Accounting has taken many great leaps of growth in recent history. One of the most well known cases of forensic accounting is the capture of Capone in 1931. There was strong linkage between accounting and law in the first official chartered accountancy profession of the 19th century in Scotland. In the 1980s a rapid expansion in demand for forensic accounting service from great recession. The association of certified fraud examiners (ACFE) was founded in text as in 1988 and the American college of forensic examiners was established in 1992. Interest in forensic accounting spread through the US and UK early in twenty century. One of the first institutions to use of the services of such investigative accountants was the IRS. In India Kautilya was the first economist to mention the famous forty ways of fraud in his book 'ARTHASTRA' during the ancient times who openly recognized the needs of forensic accounting. Similarly 'Birbal' was the scholar in the time of king Akbar. He used various tricks to investigate various types of crimes that happened in the kingdom and beyond the kingdom for which people came searching for him. Forensic accounting in India got more relevance after scam like satyam scam. Harshad Mehta, Ketan Parekh, Kingfisher Airlines, coal block scam are improving the scope of forensic accounting in India. On the board of government of India was established in year 2003 period fraud investigation office (SFIO) Later SEBI, RBI, and Government compulsory to have forensic accounting audit for institutes. Thus, in the present economic scenario forensic accounting is becoming essential tool for identifying controlling fraud.

NEED OF FORENSIC ACCOUNTING

Due to failure of audit systems in the organizations, forensic accounting has aroused. Forensic accounting is used to detect not only all sorts of fraudulent activities as well as recovery of necessary as well as destroyed documents. The most important thing is to conduct every investigation in a manner that meets the standards of our legal system. Following are some of the important reasons for the growth of forensic accounting:-

1. Internal audit and audit committees as a part of the management function could not throw light on different facts and other hidden aspects.
2. The internal auditors can surely detect what was happening but they are hardly in a position to initiate proper action in proper time.
3. When the employees submit misrepresented records, the forensic
4. Accountant tries to find any benefits made by them out of the assets misapplied, and then take an attempt at questioning them and attempting to discover the concealed truth.
5. The certificates of the auditors are hardly scrutinized carefully, especially when the reports are unclear and qualified.
6. There has been increasing fraud in accounting work and necessity of experts to fight against these.
7. Trade transactions are increasing and getting more complex.

ROLE AND IMPORTANCE OF FORENSIC ACCOUNTING

Forensic accounting is a legal term. It is the application of accounting techniques and concepts in issues concerning legal matters. A Forensic Accountant is involved in the investigating and analyzing financial evidence, Developing Computerized applications to assist in the analysis and presentation of financial evidence, communicating their findings in the forms of reports, exhibits and collections of document and assisting in legal proceedings, including testifying in court as an expert witness and preparing visual aids to support trial evidence. Forensic accountant helps in investigate various financial frauds by the employees, clients & customers. It also help the Government in the enforcement of regulatory requirements. Thus, the role of forensic accountant arose as the statutory and internal auditors act. In present age Forensic accounting / accountant renders a variety of services in the corporate field:-

- (i) Investigate business / employee Fraud. Business investigation involves funds tracing, asset identification and recovery. Employee fraud investigations involve procedures to determine the existence nature and extent of fraud.

- (ii) Forensic account analyse the financial statement of company and submit evidence in a court of law for discussion and ultimate dispute resolution.
- (iii) They help in partnership and shareholders disputes, personal accident claims, insurance frauds, financial frauds by management.
- (iv) They also engage him in criminal investigations on behalf of the police force.
- (v) Forensic accountants are trained in the area of dispute settlement like, contract dispute, construction claim etc.

TECHNIQUES OF FORENSIC ACCOUNTING

There are different techniques which are used and followed by the forensic accountants, which are as follows:

- **Benchmarking**

It is one of the main tools and techniques of forensic accounting. Through this tool, financial results of one period over another, of one cost Centre, or business unit is compared with one another and overall performance of the business is analysed with its pre determined standards.

- **Ratio Analysis**

It is the process of identifying the financial strengths and weakness of firm by establishing proper relationship between two different items of financial statement. It can be useful in detecting problems which need special attention for the purpose of fraud examination.

- **System Analysis**

- It is mainly used to oversee loopholes, if any, in the running of the business. Through this, the accountant will examine the system followed in the organization and identify and tap the weak spots which could be great opportunities for fraudsters.

- **Computer Assisted Auditing Tools (CAATs):**

It includes software for the purpose of audit like audit tools for data matching analysis. CAATs provides auditors with tool that identify unexpected or unexplained patterns in data that may indicate fraud whether the CAATs is simple or complex, data analysis provides many benefits in the prevention and detection of fraud. The techniques will helps the forensic accountant in identifying fluctuations and inconsistency sampling programs to extract data for auditing testing of calculation done by accountant.

- **Exception Reporting**

When the point of sale (POS) data is fed into this Exception Reporting System, it is compared with the typical daily transactions or regular transactions. Those transactions which when compared, fall out of this

range are considered suspicious and looked into it deeply. Exception reporting will allow you to quickly and easily flag up if your actual work has varied from your agreed work schedule.

FORENSIC ACCOUNTING EDUCATION IN INDIA

In the current scenario, education in forensic accounting has emerged as a lucrative option in India. View of increasing demand for forensic accountants, many institution in India are offering course to build a career.

- The institute of chartered Accountants of India (ICAI). Offer certificate course on forensic accounting and fraud prevention in the emerging economic scenario.
- The institute of chartered Financial Analysis of India University (ICFAI) has offering certificate and diploma course in forensic accounting Education.
- Gujarat forensic science University offering MBA finance with specialization in forensic accounting and P.G. Diploma forensic Accounting.
- International Forensic Science (IFS): Launched course like, short term certificate course in forensic accounting. Advance Diploma Certificate course in forensic and fraud examiner, professional specialization certificate course in forensic accountancy and fraud examiners.
- BML Munjal University-MBA finance and specialization forensic Accounting and corporate fraud.

CONCLUSION

Forensic Accounting is the integrating of accounting auditing and investigative skills to obtain a particular result. Due to failure of audit systems in the organization, forensic system has aroused. Institutes like ICAI providing opportunities to explore new areas of accounting like forensic accounting which will make better change for the future generation. A forensic accountant is involved in the investigating and analyzing financial evidence, developing computerized applications to assist in the analysis and presentation of financial evidence, communicating their findings in the form of reports. It helps in investigate various financial frauds by employee. Hence, there is a great scope for forensic accounting in investigation in mergers and acquisitions, tax investigations, economic crime investigation etc.

REFERENCES

1. Adeniji, A. A. (2004). Auditing and investigation, Lagos: value analysis consult.

2. Adesola, A. (2008). Government's anti-corruption initiative: The role of computer assisted audit techniques in fraud detecting and prevention. *Nigeria Accountant*, 41(1).
3. Agrawal, A., & Chadha, S. (2005). Corporate governance and accounting scandals. *Journal of Law and Economics*, 48:371-406. Ajie, H.A., & Ezi, C. T. (2000). *Financial institutions and markets*. Owerri: Corporate impression.
4. Albrecht, W.S. (2005). *Identifying fraudulent financial transactions: A framework for detecting financial statements fraud*, Brigham: Brigham Young University.
5. Certificate course on forensic accounting and fraud detection(2017) <http://cit.icai.org>
6. <http://www.ezenarticles.com/diffbetweentraditionala/candforensicaccounting>
7. <http://www.ibm.com/dataminingtechniques.html>
8. <http://www.ijifr.com/searchjournal.asp>
9. <http://www.indiaforensic.com>
10. <http://www.statsoff.com/textbook/dataminingtchiques>
11. www.icai.org