

FORENSIC ACCOUNTING & FRAUD

Dr. Shalini. N*

Assistant Professor, Dept. of Commerce, S.S.M.R.V College, Bengaluru, Karnataka.

Atoofa Rahmath*

S.S.M.R.V College, Bengaluru, Karnataka

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Abstract: *Accounting involves the recording of financial transactions of a particular firm, organization or business enterprise. Forensic Accounting, on the other hand, involves financial transactions that are being misinterpreted to hide any kind of fraudulent activity that is done without the awareness of the organization. Frauds have become part and parcel of any business organization because of the advanced hacking technologies and also because of the trust the organization places on an employee who bears the responsibility of handling all finance-related activities. This can probably be avoided by replacing all finance-related activities that are employee based with artificial intelligence and other advanced technological tools to avoid these kinds of frauds and increase data security. The Purpose of the study is to save the big shot and corporate companies from huge financial frauds and scams in general, avoiding millions and billions of money going to lose that is later difficult to retain. The impact of every business organization is greater on the economy. More improvement in the sales or profits of a firm enables them to raise the level of competition by a step higher. However, it is important to safeguard the finance of these firms that involve great efforts of many people and professionals and the process of Forensic Accounting facilitates this.*

Introduction

Forensic Accounting refers to the process of detecting and rectifying any kind of fraud within the accounts of a Business Organization. It helps in identifying any kinds of fraudulent activities that are committed by the employees of the organization who are entrusted with the assets that are legally bound under the governance of that particular company. For any activity to process, the concerned professional needs to take charge and the processing of forensic accounting is incomplete without a 'Forensic Accountant' who has a major role to play in case any kind of financial fraud occurs.

It is said that the term 'Forensic Accounting' is not new. It spread its roots in ancient times and was also mentioned in Kautilya's 'Arthashastra' belonging to the Mauryan Empire. However, the importance of Forensic Accounting has been intensive and vital because where there is wealth and money there is an expectancy of more frauds and misappropriation, leading to losses.

The process of Forensic Accounting and Frauds involves identifying and classifying the frauds that go against the Generally Accepted Accounting Principles (GAAP) and Generally Accepted Auditing Standards (GAAS), interpreting all the financial reports of the fraud

subjected organization and communicating or presenting the same in front of the Court of Law with the available evidence.

Thus, a Forensic Accountant is a sandwich consisting of different layers that involve numerical and auditing knowledge, as well as investigative and problem-solving skills.

These professionals are like saviours to organizations that have suffered financial losses as they help them in recovering their losses and solving their finance-related issues.

Analysis of the frauds in the accounting reports is done with the help of detailed research and study based on the financial information that is available with the Forensic Accountant.

Let's glance through some objectives of Forensic Accounting:

- It is the sole responsibility of the Forensic Accountant to investigate and precisely test the accuracy of the reports and shreds of evidence found.
- Thorough checks and communication of the same with the organization are mandatory to avoid any kind of further misunderstandings.
- The Forensic Accountant is expected to assist the court in equally participating in further legal proceedings that may occur on the case undertaken.
- Any suitable computer application that guides the leads during the fraud analysis or detection of frauds can be optimized.
- As looting the finance of a company or any business organization is a punishable and criminal offence it is important to file a case if any kind of fraudulent activity occurs and demanding for a criminal investigation on the same is compulsory.
- It is important to seek litigation support services from professionals.
- It facilitates solving disputes consisting of shareholders, settling disputes of partnership firms and of retiring partners.
- The biggest benefit of Forensic Accounting is that it can help in settling insurance claims and any kind of vehicle accident.

Examples:

A few examples of why forensic accounting can be used is when there is any kind of contract fraud, embezzlement (breach of fiduciary responsibilities), misappropriation of assets, fraud of securities (stock market issues), frauds in the financial statement of a company, Credit card or bankruptcy fraud etc.

In the above cases, you can easily avail of forensic accounting services to claim recovery on the losses incurred.

Further simple examples of other major frauds that frequently occur and seek the attention of

forensic accounting or a forensic accountant are money laundering cases, frauds that are concerned with telemarketing, violations of GAAP AND GAAS (Accounting Principles and Auditing Standards), Ponzi schemes that tempt the customers, claims on Insurance, mishandling of funds of the company which are entrusted under the employees and investigations on frauds committed by employees are some of the most common cases over the years that are hindering the Indian economy in the name of financial frauds and crimes.

Forensic Accounting follows these Steps

1. Firstly it is important to physically meet the client or a representative of the organization who is the witness of the fraud that has occurred in the organization. This assists the forensic accountant to conclude and gives the professional investigator a clear picture of the incident.
2. The forensic accountant needs to initiate a conflict check to ensure the whereabouts of the event and to further verify the credentials given.
3. This is further followed by Initial Investigation or Interrogation by the Forensic Accountant where he investigates the occurrence of financial losses within the organization that has hired the professional.
4. For any professional to reach a conclusive point it is important to plot the right action plan and the same is expected from a forensic accountant.
5. In such cases, it becomes difficult to search for evidence and clues regarding the investigation. So this becomes a tedious task for the professional. To find the right evidence because the prime intention of every fraudster after a crime is to destroy the evidence and mislead. However, the forensic accountant must be clever and cautious about the same and work effectively.
6. It becomes obligatory to perform a strict and thorough analysis to summarize the investigation based on data and evidence collected so far.
7. The ultimate aim now is to communicate and present the same data and evidence in front of the court of law and communicate the same to the legal authorities signifying the fraud that the concerned organization is subjected to.

Objective

The main purpose or objective of the study is to curb the activities of Financial fraud that are increasing at a faster pace each day and making it complicated for various organizations to cope up with smooth and successful functioning. It is well known that the pandemic has undoubtedly affected all fields but the field of businesses has been deeply impacted and there

has been no end to the frauds that have been taking place in the long run.

The phase of the pandemic made it difficult for people as well as business persons as it was difficult to find a source of income and also most of them lost their jobs. In these severe times, it was obvious that people were seeking opportunities through which they could earn benefits or profits and many fraudsters couldn't see a better opportunity to loot various companies holding good financial positions in the business market.

Key Objectives:

- To reduce any kinds of financial fraud that occurs regularly.
- To avoid depletion of finance of a business organization.
- To investigate the financial crime and present in the court of law with genuine facts and figures.
- To trace funds, identify and recover assets and ascertain DDR (Due Diligence Reviews)
- To assist Insurance companies through claims by recovering damages
- To avoid inconsistency in the swift functioning of a business.
- To avoid losing the goodwill of a company.

Methodology

Throughout the research, I have learnt the Importance of Forensic accounting and its impact on any organization that is subjected to financial fraud. The whole world works to generate finance. Finance in large numbers and if life could symbolize a human body then finance would be the heart of that human body for its vast contribution to the lives of people.

For any activity to commence finance needs to be involved whether directly or indirectly and it also facilitates all other business activities. Now if the finance of any organization involves hindrance internally (the employee of an organization) or externally (fraudsters or spammers) it is obvious that the organization wants a professional to understand and rectify the same. That is done by the Forensic Accountant, who is a certified professional and who studies all the financial frauds and is also aware of legal regulations on how forensic accounting has to be treated.

Case Studies

India or any other country for that matter has seen financial frauds in the name of big financial institutions opting for unhealthy business and finance practices that have been a major burden on people as well as the economy in the long run. Various Ponzi schemes and attractive ads and adversely false appealing words of fraud business persons or fraudsters are one such greater example of why forensic accounting has taken birth and laid its roots in

various countries across the globe.

Here are some case studies that will help us understand how the concept of forensic accounting holds well in various scenarios.

Case study 1

The famous scandal of 'Satyam Computers' which was an Indian-based corporate company and its founder was Ramalinga Raju who was alleged of falsifying the accounts of its company and misrepresenting it in the eyes of the public. Also, the auditors of the company were caught for misrepresenting accounts and violating auditing standards and principles. The Incident took place in the year 2009 and is still used as the best example in the world of financial fraud.

In this case, forensic accounting can be applied and the forensic accountant can play a major role by exposing the accounts of the company to thorough checks to identify where and how the accounts have been misled. Following with the same the forensic accountant can even lead legal proceedings and work on presenting proofs and precise documents in the court of law to support his statements in the process of proving the act of scandal or money laundering and also use the proofs against the people or professionals who have had an equal hand in making the scandal turn into action.

Case Study 2

The I Monetary Advisory Scam / IMA Scandal

The IMA scandal is one of the recent scandals that took place just before the pandemic laid its roots. In this scam, the proprietor Mohammed Mansoor Khan was alleged to have promised better and permissible returns in the name of religion. But later did not return the money of various investors because of the inadequacy of funds and because of unnecessarily optimizing the funds of the organization for other personal chores. However, this was noted by the government and other authorities in the year 2019 and a case was filed against the proprietor. But many investors committed suicide because many investors belonged to the middle class and had invested their savings. The case is still under surveillance and investors are under hope.

The solution a forensic accountant can come up with, in this case, is making note of errors that have been made and investigating where the money has been laundered.

The forensic professional can also come up with an action plan to generate income by recovering assets and utilizing the same for repaying the investors and the physical and documentary proofs can be used to be presented in the court.

Hence, in both case studies, we can observe that Forensic accounting proves to be a boon as complicated financial crimes can be dealt with, seeking the right assistance, guidance and approaching a professional financial analyst or investigator i.e., the Forensic accountant.

Results

Wherever there is money or flow of finance, it is observed that there are more and more crimes. Finance is the lifeblood of society and every business activity comprises generating finance in greater numbers than any other industry. That is why business involves comparatively higher risk factors than any other industry.

These crimes variably occur due to one's hunger for money or to avail of desired luxury that cannot be derived from casual earnings. Luxury is a desire of the common. But because of less source of income and more expenditure, it becomes difficult to avail every desired luxury.

However, various fraudsters commit financial crimes to satisfy their financial desires and this is the reason we have a rise in financial crimes every year despite adopting various security measures.

Since the pandemic addressed the world, it was seen that every single person suffered great loss in terms of life, health and wealth. It was a disappointing fact and most of them went short of money because of losing employment and the people who were badly in need of money had no other way to gain finance rather than looting money from various financial institutions or business organizations or by being involved in serious fraudulent activities.

The shortage of finance and managing domestic expenses without having a source of income was a tedious task and a greater conflict among people. As 'Food' and 'Finance' are the bases for survival, setting new norms for the mankind of the 21st Century.

India ranks second in the list of Asia's top internet countries according to a survey made in 2014 and there's no doubt an increase in cybercrimes as well.

India is a developing nation. But its extraordinary and constant effort to excel in all fields has been marked over the years and the same has been observed because of various platforms from different streams that have been flourishing. However, India cannot afford to completely replace security systems with Artificial Intelligence and Advanced Technologies because of bearing responsibilities of Employment Issues. This is why taking alternative actions to these serious financial cybercrimes is mandatory.

Data Security or Securing finance or money has been a bigger concern in the coming days because of the increase of scams and frauds. As previously stated it is better to replace

security controls in the hands of artificial intelligence or advanced technological tools that will enable the security of finance of any business organization or enterprise in general.

For instance, we use 'tally' which is computer software and advanced technological software to record all kinds of accounting transactions technically facilitating financial data security.

Likewise '**Block chain Technology**' can be used to avoid major frauds.

This is an advanced technology that facilitates data security controls and helps in neglecting any kind of fraudulent activity.

Conclusion

Having a business involves risks and uncertainties but most of them occur because there is a huge amount of money or finance involved that makes it more uncertain to be subjected to frauds and scams but with the assistance of forensic accounting this can be avoided and any kind of fraud can be detected and rectified and the fraudsters can be legally punished.

It was undoubtedly noted that banking frauds were reduced by 25% during the pandemic because of the absence of people as physical movements were restricted due to the rise in the covid cases but the crimes continued in various online banking and other business platforms which turned out to be a major issue.

Moving on, the biggest question revolving around our minds is, how do we believe that a forensic accountant is of any help or assistance? Why is a forensic accountant important to approach? What are the roles of forensic accounting in case a company or an organization is exposed to any kind of monetary fraud?

These are some of the simple questions that can be effectively answered with a few reasonable statements

Answer to Q 1. A Forensic Accountant is a professional who has mastered the concept of Forensic Accounting and also studied law. So when your company or organization has faced any kind of financial loss subject to any kind of fraud then you needn't wander in police stations and run around a lawyer. You can approach a Forensic accountant who will analyze and investigate and come to a conclusion chalking out ways and means on how to present the incident in front of the law and take preventive measures in regaining or redeeming back the stipulated lost amount.

Answer to Q 2. In case of frauds regarding business or finance, it however becomes compulsory to approach a Forensic Accountant because of their vast knowledge on how to deal with fraudulent cases and also because of their professional background in this field. A Forensic Accountant is an expert analyst, investigator and professional who not just works for

Companies that undergo fraud but also for insurance companies, public accounting firms, banks and various other financial institutions, police forces, government agencies and also for courts. So they are probably exposed to flexible roles in various fields.

Answer to Q 3. The main motive Forensic accounting was established was to detect and identify frauds that gulp in more money every year and we can't deny the fact that it indirectly affects our economy in ways that we can never imagine. Like accounting is the study of finance and other related financial activities that a business organization pesters, forensic accounting is also one such study that enables in identifying financial frauds and curb unhealthy practices that curb the smooth functioning of various business organizations diligently working on improving their stability and striving for a better business position contributing to the economic condition of the country.

Unlike other studies, forensic accounting also involves embezzlement and accounting analysis. The stream seeks not just accounting knowledge but also auditing skills and cracking investigations and reaching conclusions.

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