

## **Forensic Accounting Is A Best Tool For Detecting Fraud Happens In Corporate**

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### **ABSTRACT**

*India is one of the struggling countries to tackle the corruption. It has been taken more number of steps to overcome that like digital money, online transaction, demonetization, new taxation policy etc. but it is not succeeded yet. While comparing past years, India has become 78<sup>th</sup> place in corruption as per Corruption Perception Index (CPI) 2018 published by Transparency International. There are so many corporate scam is still happening in India. The following are the few among that viz., Harshad Mehta scam (1992), C.R Bansali scam (1992), Cobbler Scam (1995), Ketan Parekh scam (1999), Sanjay agarwal Scam(2001), Dinesh Dalmia Scam(2001), Satyam Scam(2009), Speak Asia scam(2011), Saratha chit fund scam(2013), PACL Scheme scam, etc., the total amount of above scam would be more than one trillion US dollars. They absolutely affect the growth of both corporate and non corporate sector. They all happened because of fraud which has been spread in all sector like banking, financial, insurance, stock market, cyber world etc., for mitigating this fraud, one scientific tool is necessary that will help to minimize the scam happened in different sector and that is forensic accounting. This article proves that the forensic accounting is the preeminent weapon against fraud, scam in corporate world.*

*Keywords: Forensic accounting, Fraud, Fraud Investigation, Corporate scam, white collar crime, forensic Accountant.*

### **Introduction:**

India is one of the struggling countries to tackle the corruption. It has been taken more number of steps to overcome that like digital money, online transaction, demonetization, new taxation policy etc. but it is not succeeded yet. While comparing past years, India has become 78<sup>th</sup> place in corruption as per Corruption Perception Index (CPI) 2018 published by Transparency International. There are so many corporate scam is still happening in India. The

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## **Model of forensic Accounting**

The word forensic is derived from the Latin word “forum” which means of , or relating to, the legal system or court. Forensic means suitable for use in a court of law.

Forensic accounting defined as applying scientific knowledge to legal issues. It includes financial investigation, investigate accounting and fraud examination.

Forensic accountants are accountants specially trained as financial investigators and fraud experts.

## **Literature reviews**

In India, Kautilya was the first person to mention the famous forty ways of misappropriation in his famous book Kautilya Arthashastra. In India Chartered Accountants are called upon to take up such investigative assignments.

Birbal was the Scholar in the time of King Akbar. He used various tricks to investigate various crimes. Some of his stories give the fraud examiner a brief idea about the Litmus test of investigation. Gem of Indian Fraud Examiners, Chetan Dalal can be credited with actually applying the stories of the Birbal to the Investigation of the frauds

Forensic means, "belonging to, used in or suitable to courts of judicature or to public discussion and debate" (Webster's Dictionary). Forensic Accounting provides an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution (Zysman 2004).

According to AICPA: “ Forensic Accounting is application of accounting principles, theories and discipline to facts or hypothesis at issues in a legal dispute and encompasses every branch of accounting knowledge.” Similarly, forensic accounting is defined by Horty as: “The science that

deals with the relation and application of finance, accounting, tax and auditing knowledge to analyse, investigate, inquire, test and examine matters in civil law, criminal law and jurisprudence in an attempt to obtain the truth from which to render an expert opinion.”

Howard and Sheetz (2006) defines forensic accounting as simply the process of interpreting, summarizing and presenting complex financial issues clearly, succinctly and factually often in a court of law as an expert witness. This presupposes that forensic accounting is legally and scientifically inclined.

Crumbley, (2003) defined forensic accounting as the application of the laws of nature to the laws of man. He describes forensic scientists as examiners and interpreters of legally admissible evidence and facts in cases that also requires expert opinions regarding their findings in law court.

Forensic accounting approach differs from auditing, investigation, enquiry etc. One of the attributes of forensic accounting is the retrieval of concealed data most essential for investigation in the economic offences. Recent investigation in the sub-judice case of Sarada chit fund is an example.

The work of forensic accountant and financial investigator is exciting and varied. Forensic accountants do not spend their workdays sitting in a cubicle staring at a computer screen. Forensic accountants plan, coordinate, and direct financial aspects of investigations in cooperation with prosecutors, attorneys and other investigators. Forensic accountants investigate complex financial crimes involving all types of fraud including corporate fraud, financial institution fraud, securities fraud and insider trading, health care fraud, money laundering, commodities fraud and governmental fraud.

Federal law enforcement agencies also use financial investigators in counterterrorism, public corruption, bribery, counterintelligence, cybercrime and organized crime matters. Today’s complex cases and prosecutions always include a thorough financial investigation regardless of the nature or type of crime committed.

Forensic accountants also develop profiles of individuals and groups, conduct interviews of subjects and witnesses, gather evidence and prepare affidavits for use in court. A forensic accountant will often conduct a detailed financial analysis of business and personal records in a never ending quest to follow the money. They summarize their findings and conclusions in financial investigative reports and exhibits and frequently testify about their financial investigations before grand juries and as a fact or expert witness at criminal and civil trials.

## **Objectives of the study**

The following are the main objectives of this paper are as below:

1. To know the model of forensic accounting
2. To emphasize the need and role of forensic accounting in solving financial problems like fraud and malpractice in corporate world.
3. To understand the forensic accounting is a best tool for detecting fraud happens in corporate.
4. To express the role of forensic accountant.

## Methodology

This research based on theoretical analysis of the role of forensic accountant in solving financial problem of corporate world, it used secondary data which is collected from various literature on forensic accounting published in different journal.

## Need of Forensic Accounting

Generally all acts of fraud can be distilled into four basic elements

1. A false representation of a material nature
2. Scienter—knowledge that the representation is false, or reckless disregard for the truth
3. Reliance—the person receiving the representation reasonably and justifiably relied on it
4. Damages—financial damages resulting from all of the above

Corruption „Corruption, Bribery & Corporate Fraud“ continues to be one of the biggest risks faced by businesses in India, and ranks eighth in the India Risk Survey 2018. The perception of the risk has fallen, with India incorporating economic reforms to ensure that global investors are appeased. According to the World Bank’s Doing Business 2018 rankings, India has jumped from 130 in 2017 to 100 in 2018 out of 189 countries. „Corruption, Bribery & Corporate Fraud“ as a risk however, continues to hinder growth and cause disruptions in progress. It dissuades potential investors and diminishes the growth opportunities of existing players. Investors have called for better corporate governance and more stringent regulation of business corporations. Business Espionage remains in the ninth position in the India Risk Survey 2018. As per the Transparent International’s Corruption Perception Index 2017, India ranks 81 with a score of 40. This is in contrast to a ranking of 79 in 2016, also with a score of 40. While the India Risk Survey 2018 places Business Espionage on the ninth spot, business developers and investors should remain focused on the risks associated with it, which should be mitigated at all costs. Due to the sensitive nature of critical infrastructures of businesses today, particularly the cyber-domain, business espionage is becoming increasingly more sophisticated and more covert. Hence,

detecting and mitigating the risks involved becomes more difficult.

This will ultimately affect the economic system of our country. So, for mitigating this one scientific system is needed that is forensic accounting which has been needed because of failure of audit system which failed to figure certain malpractices and errors in managerial system. so many companies wound up because of bankruptcy. Forensic accounting is solution for that.

- i) It helps to investigate fraud, find the asset created out fund embezzlement, gather and review evidence and interview the employee alleged to have embezzled the funds
- ii) It helps in preparing and presenting evidence to solve the criminal investigation.
- iii) It helps in resolving contracts disputes, construction claims, product liability claims, infringement of patent and trade mark cases, liabilities arising from breach of contracts and so on.
- iv) It helps in settlement of consequential policy, property loss due to various risks, fidelity insurance and other types of insurance claims.
- v) It helps to create more employment opportunity because job involved in this field is currently in high demand.
- vi) It also helps to save time of lawyers and attorney by providing them details information about their clients.

### **Role of Forensic Accounting**

Forensic accountant plays different role like deterring, detecting and investigating fraud. It is totally different from independent auditor as financial statement examiner.

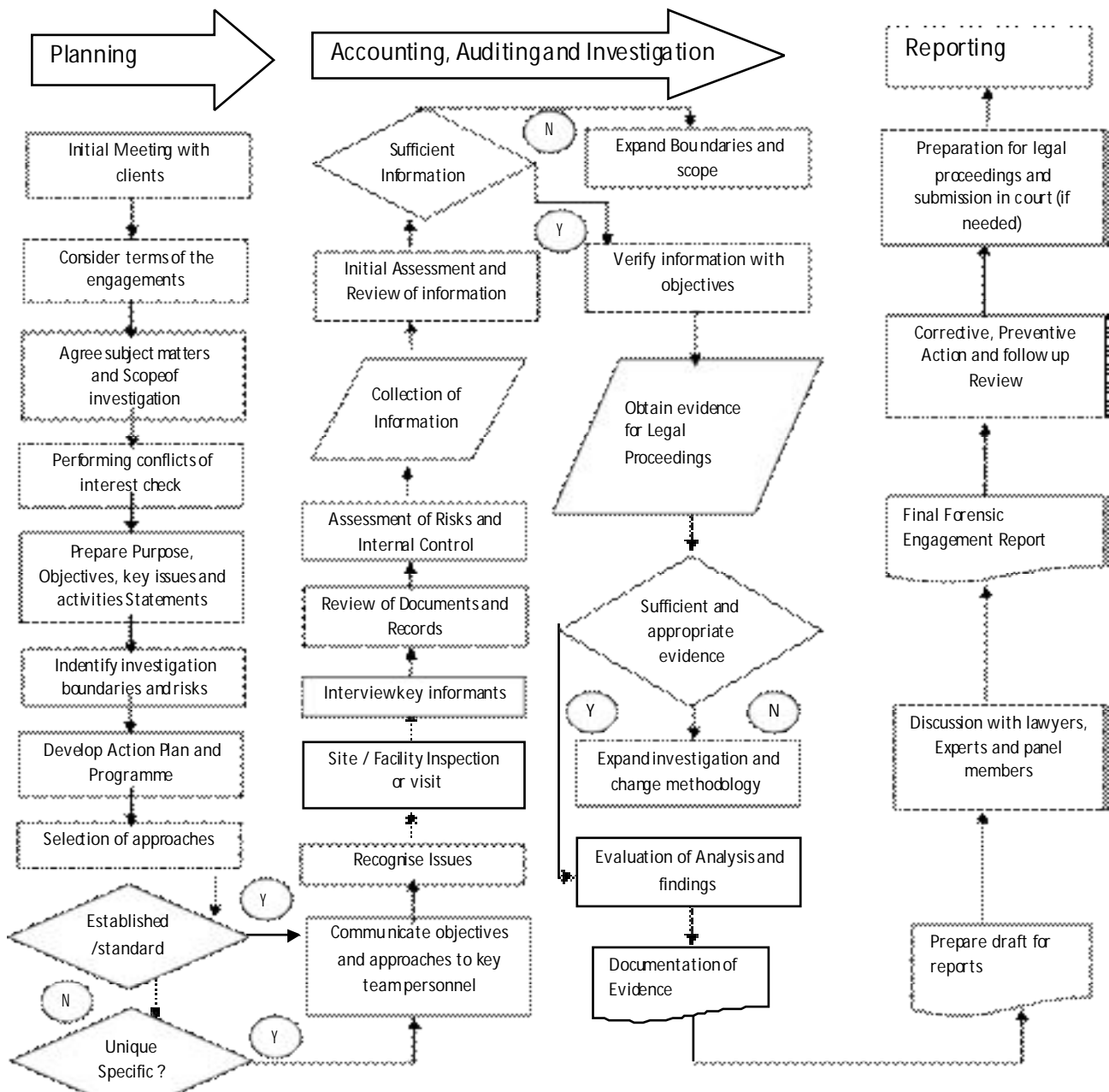
The auditor's responsibility is to detect material deficiencies in the financial statement. Auditors are charged with making appropriate reasonable efforts to detect material misstatements in financial statements and causing management to correct misrepresentation before the financial statements are shared with the user community. So simply say, auditor plays a role in reasonable assurance, material misstatement, detection as distinct from deterrence and investigation and expectation about the efficacy of the auditing process.

Forensic accounting is not only reacting with general opinion on financial statements take as whole derived from reasonable efforts within a reasonable materiality boundary. Forensic accounting's reports are included with detailed development of factual information derived from both documentary and testimonial evidence about the who, what, when, where, how and why of a suspected or know impropriety.

Sampling and materiality concepts are not used in determining the scope of forensic accounting. Instead, all relevant evidence is sought and examined. Forensic accountant assess and measures losses or other forms of damage to the organization and recommends and implements corrective actions, often including changes in accounting process and policies and personal actions.

Sometimes the forensic accountant takes preventive actions to eliminate recurrence of the problem. Their recommendation based on the basis of testimony in litigation proceedings or criminal against the perpetrators. They may also be used in testimony to government agencies

such as the Security and Exchange Commission in the US , Serious Fraud Office in the UK, or Securities Exchange Board of India in India. It clearly states that both auditor and forensic accountant are like patrolmen and detective. The worlds of the auditor and the forensic accounting investigator are complex fast paced, constantly changing and diverse. Complexity and changes are important considerations for the both because separately and together, they create uncertainty about the outcome of business affairs. The quest for uncertainty in business affairs motivates business and business people the world over to take charge, excise control, hedge risks, and secure bottom line. The following flow chart clearly explains the function of forensic accountant



**Conclusion**

White color crime is increasing in all over the world. The main share of that is corporate, if it is controlled in corporate world that will also help to improve the economy. For that, forensic accounting plays major role. It is not new concept which has been growing from so many years ago, but nowadays the demand for forensic accountant is increasing each and every year. A nationwide study conducted by Kessler international showed that 39 percent of organization have considered the need for a forensic accountant within the past. 28 percent said that they already sought help from a forensic accountant, so the forensic accountants' role important in both corporate and non corporate sector. This article concludes with following sentences, forensic accounting has come up as an effective tool for preventing white collar crimes. It is still in a nascent stage and requires technological reinforcement on a continuous basis and global corporation. It will develop as a specialized profession of accountancy and its importance to law enforcing agencies and also regulators will increase day by day.

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