

Forensic Accounting: Modern Tool For Fraud Prevention

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ABSTRACT:

Forensic accounting plays a very crucial role in accounting sector. Financial fraud in India increasing day by day which leads to increase in forensic accounting demand. There are so many scandals in financial sector which is not easy to investigate by traditional method. In this research paper researcher discuss about the needs and importance of forensic accounting. The concept of this paper includes- introduction, significance of study, review of literature, conceptual framework, objectives and methodology of study, procedure and problems of forensic accounting in India, suggestions and conclusion.

Keyword: awareness regarding forensic accounting, forensic accounting, auditing, fraud, procedure.

Introduction:

According to Webster dictionary forensic means belonging to, used in or suitable to court of law to public discussion and debate. Whereas, accounting means the system of recording and summarizing business and financial transaction and analyzing and reporting the result.

Hence forensic accounting means provide an accounting analysis that is suitable to the court which will form the basis of discussion debate and ultimately dispute resolution.

The technology and scam in India gradually increasing day by day. Because of increase in non-violent crime in business and banking sector in India and the difficulty faced by the law agencies to deduct those frauds in financial sectors. In recent era there are banking frauds for e.g. PNB bank fraud. Indian government need to resolve those frauds they need some expertise in such field. After which there are increase in technology and frauds goes hand in hand in recent scenario that's why the role of financial accounting and auditing is very important to prevent such fraud and reduce financial scam.

According to latest report (December 2023) there are 12000 fraud cases happen in India which include plastic money like card / ATM, debit/ credit card etc. and internet banking fraud. There are many corporate frauds also involve for e.g. Satyam Computer Scam, Vijay Maliya scam, Indian Bank, PNB bank Nirav Modi fraud, common wealth game scam and mudra scam etc.

There are many varieties of business frauds for e.g. embezzlement of fraud, Assets taken without authorization corruption, vendor fraud, customer fraud and investment scam, financial fraud and employment fraud etc.

SIGNIFICANCE OF STUDY:

Forensic accounting is a legal procedure to resolve financial fraud. Forensic accounting can deal with traditional methods and also with their techniques and concepts of financial issues. A forensic accountant is trained to detect fraud and collect evidence.

In the era of increase in technology, the fraud rate is also increasing in different sectors and different ways. Which leads to the need for a forensic accountant. Forensic accounting can help to rectify financial fraud, wrong accounting management, and other money laundering things, etc.

Forensic accounting can help to lower risk management and help to grow business shareholders' and stakeholders' trust. Forensic accounting can also decrease the fraud rate in businesses and other financial institutes.

The study on forensic accounting will create awareness regarding fraud cases and the importance of forensic accounting in different sectors. The study will also assist the techniques and tools applications used by forensic accountants to determine fraud. It will focus on an outline of forensic accounting and its importance in banking and other business sector. In India there are very few forensic accountants after so many fraud cases by banks and businesses there is an indication call for the awareness and requirement of forensic accountants.

REVIEW OF LITERATURE:

1. Settupalli A, yagnamurthy H, in the article of “forensic accounting and fraud” author find out that the forensic accounting came in lime light only when blue collar crime takes place, in that case they try to link that fraud by forensic accounting. but in reality, white collar crimes are also more dangerous for society. According to researcher government should take initiative to create awareness among accounting sector to reduce fraudulent by educating them about forensic accounting.
2. Chaturvedi N (march 2015) research on Forensic Accounting in India (Future Aspects For its Application) studied the crimes and financial fraud and complexities of the corporate environment this author discussed the concept of forensic accounting needs and its role in the accounting sector. Researchers found that forensic accounting can be very beneficial for dealing with financial fraud. It also suggested that forensic accounting is much less familiar in India. Increasing financial fraud can lead to an increase in demand for financial expertise. For which we need more forensic accountants to deal with financial fraud.
3. Mashel A, Bakhit A (Dec 2023) The role of forensic accounting is to reduce financial corruption and improve the quality of financial reports. Studies on the role of forensic accounting in reducing corruption practices. The study shows how forensic accounting affects financial corruption. It also focused on forensic accounting and an important role in the accounting sector's different business strategies. The author also focused on the specialization and the importance of the accounting sector in reducing financial corruption can be very helpful. The second d scope of forensic accounting in the field of accounting in academic sessions. According to the authors conclusion forensic accounting can improve the quality of audit reports.

Conceptual Framework:

Concept related to Forensic:

- A. Forensic is described by the **Merriam-Webster dictionary** as, relating to the use of scientific knowledge or methods in solving crimes or relating to, used in, or suitable to a court of law.
- B. The word “**forensic**” means “**pertaining to the law**”; forensic science resolves legal issues by applying scientific principles to them. (**Hall Dillon, Bureau of Labor Statistics**).

Concept related to accounting:

Accounting Principles by Jerry J. Weygandt, Paul D. Kimmel, and Donald E. Kieso. "Accounting is a system that collects and processes financial information about an organization and reports that information to decision makers."

Concept related to Forensic accounting:

Forensic accounting is defined in various books and academic sources as follows: "Forensic Accounting and Fraud Examination" by Mary-Jo Kranacher, Richard Riley, and Joseph T. Wells: "Forensic accounting is the use of professional accounting skills in legal matters. Forensic accountants are used in areas such as investigation of financial fraud, including white-collar crimes like embezzlement and securities fraud, as well as analysis of financial statements in litigation support."

Concept related to Fraud:

Forensic Accounting and Fraud Examination by Mary-Jo Kranacher, Richard Riley, and Joseph T. Wells: "Fraud is a deliberate deception to secure unfair or unlawful gain, or to deprive a victim of a legal right."

Concept related to Auditing:

Auditing and Assurance Services by Alvin A. Arens, Randal J. Elder, Mark S. Beasley, and Chris E. Hogan: "Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria."

Concept Related to Risk:

Principles of Risk Management and Insurance by George E. Rejda and Michael McNamara: "Risk is the uncertainty concerning the occurrence of a loss."

Concept related to Fraud triangle:

The Fraud Triangle is a concept that explains the factors contributing to fraudulent behavior within organizations. It is typically attributed to Donald Cressey, a criminologist, and has been widely discussed in various books and academic literature on fraud and white-collar crime. Here is how the Fraud Triangle is defined in books:

a). Principles of Fraud Examination by Joseph T. Wells: "The Fraud Triangle consists of three elements that, when combined, lead individuals to commit fraud: pressure (or motivation), opportunity, and rationalization."

Forensic Accounting Growth in India:

Forensic accounting sector growing rapidly In Indian economy, because of high level of fraud cases people are getting aware about the forensic accounting. Which can reduce financial crime in India.

Companies act 2013 introduced requirement of transparency of financial statement to employ forensic accountant to prevent fraud. The prevention of money laundering act 2002, this legislation focused on detecting frauds in financial crimes, this leads to increase in forensic accounting services in India.

In India forensic accounting came in lime light after Satyam computer scam. This was the largest corporate scam in India until 2010. The Satyam fraud committed in 2009 by ramlinga Raju. The founder and

chairmen of Satyam computer services.in India before Satyam computer scam accounting sector only prefers traditional accounting method for detecting accounting fraud. Afterwards forensic accounting method led significance reforms in corporate government and in auditing practices in India.

Forensic Accounting Expertise:



Needs And Importance of Forensic Accounting

SR NO	PARTICULARS	NEEDS	IMPORTANCE
1	Detection and prevention fraud	Forensic accountant investigates fraud and financial misconduct by assessing internal controls organization and also prevent fraud	Forensic Accounting can ensure reliability of Financial Statements and Reports and detecting fraud for early can save Financial Losses and fraud.
2	Legal regulatory compliance	Forensic accounting can help with legal requirements and anti-fraud regulation.	Help organization to avoid penalties and provide crucial evidence that give outcome in legal cases.
3	Dispute resolution and litigation support	Forensic <u>accountant</u> analyze financial disputes and they calculate financial damages and losses.	Forensic accounting assist in resolving legal disputes and ensure in determine fair compensation.
4	Enhancing financial transparency	Forensic accountant helps to enhance transparency by finding financial misconduct.	Because of transparency it helps to build confidence among investors, creditors and stakeholders.
5	Post investigation remediation	After investigation of financial misconduct forensic accountant can recommend and help to focused on weakness and assist in implementing controls.	Forensic <u>accountant</u> ensure that correct action should be taken to prevent failure in financial misconduct
6	Specialized expertise in complex case	Forensic accounting can deal with complex financial transaction and utilize advance tools to analyze large scale data.	Forensic accounting can uncover complex fraud which may not be evident through traditional accounting practices. It also offers in depth analysis for proper decision making.

Problems Of Forensic Accounting in India:

- There is a lack of training and education regarding forensic accounting.
- Forensic accounting is in developing stage in India.
- Lack of uniformity and guidelines to forensic accounting practices. This leads to variation in quality.
- Limited access in data accessing due to bureaucratic and organizational barriers.
- There is a shortage of professional services can be very costly for small and medium industries.
- Because of reputational damage organization may not be much cooperative which leads to incomplete findings.

Suggestions:

1. Government should develop uniform standard guidelines and frameworks.
2. By promoting forensic accounting through universities and institutes for public awareness.
3. By developing advance training program with latest techniques, technology and regulations and by promoting specialized certification in forensic accounting for e.g. certified forensic examiner (CFE) And certified forensic accountant (CFA).

4. By providing affordable services to small and medium enterprises and other sectors.
5. By emerging public sector to utilize forensic accounting audits.

Conclusion:

Forensic accounting is growing stage in India, the needs for forensic accounting in India are multifaceted, encompassing fraud prevention, regulatory compliance, risk management, litigation support, and more. As the business environment becomes more complex and regulatory requirements tighten, the role of forensic accountants will continue to be vital in safeguarding financial integrity and supporting legal and regulatory frameworks. Organizations, government agencies, and legal systems increasingly rely on forensic accounting to address and manage financial risks and challenges effectively.

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