

**A STUDY ON THE FORENSIC ACCOUNTING FOR FRAUD DETECTION & PREVENTION-
A REVIEW OF LITERATURE****Dr. Mini Amit Arrawatia,**

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Abstract - Forensic Accounting is a combination of Investigation, Auditing skills to detect the financial fraud. It is very unique and latest concepts i.e. correlate the accounting with investigation. Forensic Accounting belongs to that documentation which is useful and suitable in the courtroom as a legal proof. The main objective of the paper is to underpin the various review literatures pertaining to the Forensic Accounting for Fraud Detection & Prevention and analyse the studies on the various parameters of the topics like Forensic Accounting, Fraud Detection and Prevention and Finally to establish a relation between them with review of literature. Some rich set of questions and identify a number of important directions for future research in forensic accounting. This paper is intended to stimulate debates and future research of the issues identified.

1. INTRODUCTION

Forensic Accounting refers to Investigation and analysis of financial records. In simple words we can say, It is a combination of Two words

- **Forensic** means formal debate and argument i.e. acceptable in the courtroom.
- **Accounting** means recording, summarizing, reporting and analyzing financial data.

So in simple words, we can define Forensic Accounting is a combination of Investigation, Auditing skills to detect the financial fraud. It is very unique and latest concepts i.e. correlate the accounting with investigation. Forensic Accounting belongs to that documentation which is useful and suitable in the courtroom as a legal proof.

1.1 Definition

George, "Forensic Accounting as the science of gathering and presenting financial information in a form that will be accepted by a court of Jurisprudence against perpetrators of economic crimes."

It is also known as investigative accounting; under this include the expert knowledge and specific skills which is required to detect the financial fraud through collecting the data, interviewing, writing reports and testifying.

Forensic Accounting implemented into following cases or frauds-

- Bankruptcy
- Insolvency
- Tax Frauds

- Computer Frauds
- Bank Frauds
- Corporate Frauds
- Plastic Money forensic .etc.
- It is divided in to two parts-

A) **Investigative Accounting**:-It refers to Investigation of illegal & fraud matters relating to financial statements, employee of the firm, securities fraud and insurance fraud etc. Investigative Accounting is not limited to investigate the frauds even related to provisions of suggestions for the sufficient course of action.

B) **Litigation Support**:- In simple words Litigation means Legal Action. It is related to the process of taking a case into the courtroom so that the fraud detection can be done by legal way. Mainly it deals with the numerous figures to show the economic damages.

"Earth provides enough to satisfy every man's needs, but not every man's greed." By Mahatma Gandhi

The first time Forensic Accounting introduced by Maruice E. Peloubet in 1946essay, " Forensic Accounting." But after study of many years, finally in 1992 the Forensic Accounting developed and used by USA and established the first college as "American College of Forensic Examiners" in the same year. It is very helpful to control the white collar crimes because in these days main financial fraud/crimes is happening due to miss management on corporate Level as a example of following scams in

india, Harsad Mehta, Khaten Prakash & Satyam Faiscoand Coal Block Scam.

As per the recent analysis it shows the data of white collars scams only 5% but its effect the organisation more than 95%. So as per the study we need to aware the population about the forensic accounting because the economy of India depends upon per capital income and more taxes received from the white collar job holders. If the scam like above will happen frequently then the economy of India will not grow up to the mark.

1.2 Objective of the Study

The main objective of the paper is to underpin the various review literatures pertaining to the Forensic Accounting for Fraud Detection & Prevention and analyse the studies on the various parameters of the topics like Forensic Accounting, Fraud Detection and Prevention and Finally to establish a relation between them with review of literature.

2. REVIEW OF LITERATURE

Boligna and Linquist (1995) defined forensic accounting as the application of financial skills and investigative mentality to unresolved issues, conducted within the context of the rules of evidence. Forensic accounting involves the application of accounting and auditing, financial and investigative skills, to unsettled issues, conducted within the context of the rules of evidence (see. Aroki-asamy and Cristal-Lee, 2009; Ozkul and Pamukc, 2012). Following this definition, the focus of forensic accounting is to identify and review fraudulent transactions to identify the real intent of the perpetrator. Such review may take the form of document reviews, interviews, examination of electronic documents, etc.

From an auditor's perspective, forensic accounting deals with the application of auditing methods, techniques or procedures to resolve legal issues that require the integration of investigative, accounting, and auditing skills (Arokiasamy and Cristal-Lee, 2009; Dhar and Sarkar, 2010). From the perspective of an attorney or a litigator, forensic accounting involves gathering, interpreting, summarizing and presenting complex financial issues in a clear, succinct and factual manner

often in a court of law as an expert (Howard and Sheetz, 2006; Stanbury and Paley-Menzies, 2010).

3. IMPROVEMENT OF ASSEMBLY LINE

Ms. Shruti Garg (2014), "Forensic Accounting and its Relevance in Indian Context". She explained the Forensic Accounting and its importance in Indian Economy. As per her opinion, A forensic Accountant deals with analysis, interpret, summarize and showed the financial data and business issues. But for the completion of these duties forensic Accountant must be aware and have knowledge about the legal concept and procedure. Basically Forensic Accountant deals with the criminal investigation, shareholder and partnership disputes, Employee fraud investigation etc. She discussed the study of "Early Warnings Signals of Corporate Frauds" i.e. conducted by Pune Based India forensic Consultancy Services (ICS) and stated that the GDP of India influenced by 28% manufactured and Real estate sector. As per her study the main reason of fraud incidence is credit hungry. Credit hungry means sometime companies/industries change the financial figures to clear the credit application in the bank and some time they also manipulate the financial statements to increase the price of share to influence the Investors. In India, to become a Forensic accountant you have to clear some examination like The Institute of Chartered Accountants of India introduced the certified course "Forensic Accounting and fraud detection". But finally we can say Indian government need to take a hard step to control financial frauds and make it compulsory subject in academics in commerce domain.

Dr. Manas Chakrabarti (2014), "Problems and Prospects of Forensic Accounting Profession in India". Dr. Chakrabarti discussed about the problems in implication of Forensic Accounting in India. Forensic Accounting is a mixture of three skills like accounting, investigation and Auditing. As per writer opinion the demand for Forensic Accounting is increased after the collapse of World Trade Centre twin towers in USA. Because the financial frauds increased very frequently since 2011. It deals with the criminal investigation and matters related with

professional negligence. Under this study, He also explained the types of fraud investigation. As per his opinion, we need to aware the population about the forensic accounting and its uses because right now more than 50% population of India thinking Auditing, Investigation and forensic Accounting is the same thing. But it is entirely different from each other. So we need to introduced Forensic accounting courses in the Indian universities similarly other certified courses. As per this study SEBI also going to start up the Forensic accounting cell to enhance the quality of the financial reports.

Dr.Partap Singh, Mr. Joginder Grewal, Mr. Virender Singh (2015), "Forensic Accounting as Fraud and Corruption Detection Tool (An Empirical Study)". The writer stated that Forensic Accounting is very important tool for the detection of numerous frauds. They explained in their data analysis only 90% of local organisations have no knowledge about this concept and if we talking about the MNC's they have more knowledge (83%) about it. After the analysis of knowledge they examined the application of forensic accounting in corporate sector and found that Chartered accountant, CMA (Cost and Management Accountants) believes or use 80% and MNC's (34%) forensic accounting .But if we are analysis the Local organisations, they are using it 5% only. So as per this study the conclusion is Multinational Companies are adopting forensic accounting very rapidly. In these days needs to spread more knowledge about the forensic accounting to local organisations as well as to Accounting professional persons because it is more beneficial concept for developing countries.

Nisha Chaturvedi (2015), "Forensic Accounting in India (Future Prospects for its Application)". Under this study she examined the various uses of Forensic accounting and its role to solving the financial problems and how to reduce the financial frauds India. She discussed the major financial scams happened till now like 2G Scam and Harshad Mehta case etc. She used the data base of Economic Intelligence Unit Overview -2013 to show how the fraud cases realised and found that maximum crime or fraud is happening due to **Theft of Physical assets and information theft**. But as per

her survey the maximum fraud is happened due to information theft as well as corruption & Bribery. Forensic accounting is a very beneficial in these days to control quantification of economic losses. In these days as we know the bank crimes, online frauds increasing day by day, we have to introduce and aware the India population about the forensic accounting and its uses. RBI needs to set the committee i.e. especially deals with the financial frauds whether it is related to manual crime/ fraud or digital fraud.

Poonam MurlidharLohana (2013), "Forensic Accounting – At Nascent Stage in India".He stated that for all financial crimes, we are not totally blame on top management or declared as a white collar crime because they are not willingly doing the frauds/ crimes but they forced to do by the company trustees to save the money in form of Taxes, so they manipulate the actually financial statements. He discussed the major cases like Satyam Scam in India , Under this crime the main culprit person is founder of the company and made a financial fraud of Rs. 8000 Cr. So as per writer study forensic accounting play a very vital role to unveil the financial frauds. It is also helpful to control the corruption in India. No doubt Ex-employee for the organisation having knowledge about the financial procedure as well as the computer information may they attempt to harm the firm but the chances of this very low. So for the prevention of these types of frauds we can control easily. But if we are talking about the frauds which happen at the top level management we have to increase the uses of Forensic Accounting.

Such forensic evidence must meet standards required by courts of law and be presented in a manner that will be accepted by a court of jurisprudence.

A.O. Enofe, P.O.Okpako (2013), "The Impact of Forensic Accounting on Fraud Detection". Under his paper he discussed the present situation and awareness of forensic accounting in Nigeria. He found that the government of Nigeria doing very big effects to promote the forensic accounting. He shown in his data base, it is very growing concept because in these days e- business more popular and useful & forensic accounting provide the litigation support.

The previous auditing and investigation system has a limitations and weak to detect the financial and corporate frauds. So in this study we learned how forensic accounting helpful to prevent and control the corporate frauds. It is very emerging trend in Nigeria.

Dr. Anita Sharma (2014), "Frauds in India and Forensic Accounting". She stated that forensic accounting is a very useful tool to overcome the corporate scams. She gave the detailed study on forensic accounting and also shown the big corporate scams which has been happened in India, like:-

2G Spectrum Scam

Common wealth Games Scams

Satyam Scams etc.

In this paper she explained the types of frauds. The major frauds has been happened in Banks, Corporate Frauds, Insurance Frauds, Cyber Frauds and more popular fraud in these days is Securities Fraud. We can detect and know about the fraud through SFO, CBI & CVC. Her main objective is "To know the role of Forensic Accounting (Techniques) in fraud examination". Forensic Accounting doing its work with the help of some techniques like Theory of Relative Size Factor also known as RSF, Computer assisted Audited Tools (CAATs), Ratio Analysis and Benford's Law. In this study we know the white collar crimes happened more than other frauds and its influenced our economy on high range. So forensic accounting techniques more effective tool to control the corporate scams.

Aaron J. Singleton (2010), "Fraud Auditing and Forensic Accounting", Forensic accounting has also been defined, in his words of as a general term used to describe any financial investigation that can result in a legal consequence. Fraud auditing is a specialized discipline within forensic accounting, which investigates a particular criminal activity, namely fraud. Investigative auditing involves reviewing financial documentation for a specific purpose, which could relate to litigation support and insurance claims as well as criminal matters.

Rasey (2009), "Relevance of Forensic Accounting in the Detection and Prevention of Fraud in Nigeria", opined very differently from his scholars friends. According to him—Forensic accounting relies on the fraud triangle to identify

weak points in the business systems and find possible suspects in cases of fraud. It consists of three core concepts which together create a situation ripe for fraud: incentive, opportunity, and rationalization. People must have the incentive and opportunity to commit financial fraud, as well as the ability to justify it. Recent analysis has suggested adding a fourth concept to make a diamond—capability. Just because someone has the opportunity or incentive to steal does not necessarily mean that they have the capability to do so. For example, if someone does not understand how to make journal or ledger entries in the books of accounts, they would not know how to manipulate numbers no matter what the incentive or opportunity is.

Dr. Sonal Nena (2015), "An Overview of Forensic Accounting". She gave the detailed study on Forensic accounting with the help of this paper we able to know the meaning and concept of Forensic accounting. As she explained the Forensic accounting also known as Investigative Accounting that involves with the application of accounting concept and techniques to legal conflicts. The writer also discussed the difference of accounting, Auditing and Forensic accounting. In simple words Accounting is the preparation of financial statements based on Accounting Standards and Auditing refers to checking and verifying the financial statement of any organisation whether it is under Accounting standards or not.

But if we talking about the Forensic Accounting it is different from both, its related to those documents which is support or helpful for legal formalities. In this study we also became to know the case of Satyam Computer Limited Scam. It is very big example of corporate fraud or scam which is happened due to its Board of directors. The founder of the company Mr. Ramlinga Raju main culprit person in this case. Because he allowed to manipulate the Company accounts or financial statements for numbers of years. He overstated the company assets and loan details. So in the deduced words we can say Forensic Accounting is a play very vital role but the awareness about this concept in the country very low. We have to take a step for more awareness.

Lakshmi P., Ganesh Menon (2016), they proved the forensic accounting as a checkmate for corporate Fraud. As per their study forensic accounting helpful to overcome the corporate financial crimes or scams. The study is based on the survey which is organised in 2011-2012 by interviewing practicing on Forensic accounting in India. Most of times the numerous accounting scams more reflect the economy than other scams because the economy of any country based on business rather than other sectors. Forensic Accounting acts as an investigator because he is keeping his eyes on the corporate houses. Basically he deals with the detection of frauds committed by employee or head of the company and helpful for the settlement of the insurance claim. The main function of forensic accountant is settlement of the dispute between the company and their shareholders. If we are talking about the professional qualities of Forensic Accountant, he must be having knowledge about forensic accounting and how its working and other personal qualities required is discretion sound professional judgement and curiosity etc. But the biggest problem is every business house cannot higher the Forensic accountant separately because any corporate house must have chartered accountant but not forensic accountant. Due to this problem more of business houses neglect to higher the forensic accountant. They more believe on CA than forensic accountant. So as per the study the forensic accountancy play a vital role for the growth of economy but without any awareness its not possible.

4. CONCLUSION

In this review, we have examined several issues: the nature of fraud, forensic accounting, core and enhanced skills of the forensic investigators as well as issues with forensic education. This review discussed some practical and policy issues. In conclusion, it is important to note that while forensic accounting is gaining significant research interests among academics, progress in forensic accounting research will continue will depend on the extent to which fraud perpetrators leave traces. This is because fraud perpetrators do

leave traces after performing the act. However, in the coming years, regulators will be more concerned about fraud perpetrators who do not leave any trace of some sort. This will pose a problem for regulators if perpetrators have thorough knowledge of accounting standards, auditing techniques and investigative skills. This knowledge will help perpetrators to eliminate a possible trace of fraud. This will remain a supervisory and policy issue in the coming years. Finally, the progress in the forensic accounting literature will also depend on the extent to which forensic accounting informs practice and policy.

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