

Forensic Accounting in India- A Literature Review

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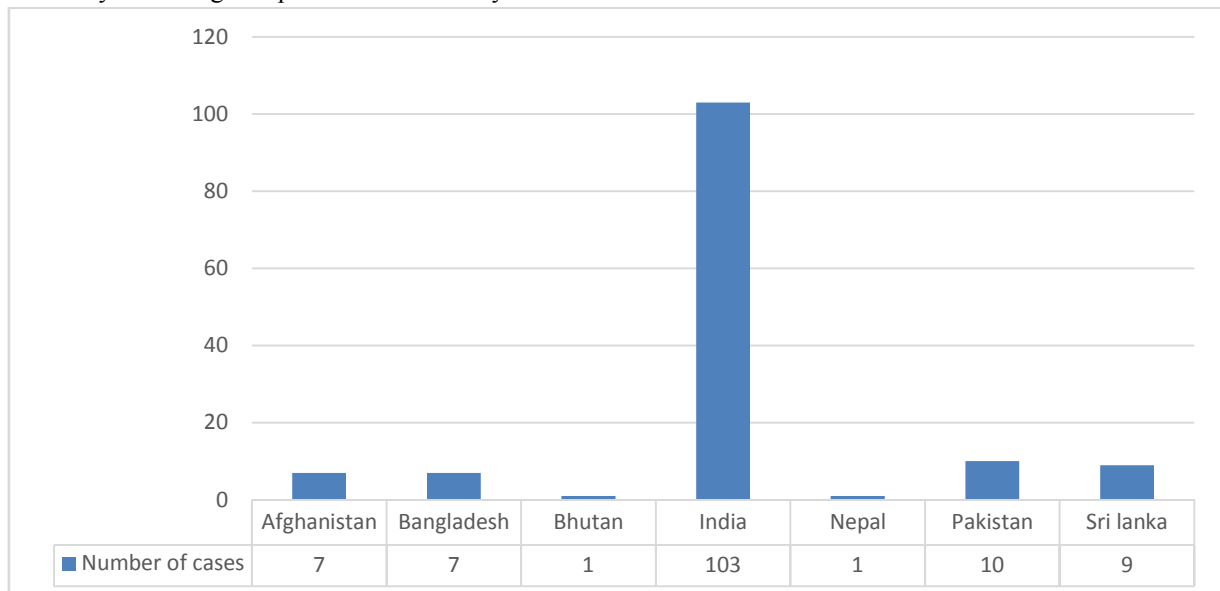
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Abstract: Financial irregularities are a big concern on a global scale. It is also a major problem for developing nations like India. With the increase in financial crimes in India, the need for forensic accounting is becoming even more significant. This paper discusses the evolution of forensic accounting, its various techniques to detect financial fraud, and the future prospects of the forensic accountant profession in India. The current study is based on secondary data which is acquired from various research papers, reports, etc. It has been concluded that forensic accounting is a broader word that incorporates skills and competency in all areas of finance, knowledge of numerous fraud cases, awareness of corporate ethics, understanding of market dynamics, and investigative capabilities. With rising levels of corporate fraud and economic irregularities, it is expected that demand for forensic accountants will increase in the near future.

Keywords: Forensic accounting, financial crimes

I. INTRODUCTION

Globally, financial irregularities are a major concern around the world. It is also a key issue for emerging countries like India, which is now the fifth largest economy according to International Monetary Fund (IMF) as on June 2023. India is ranked 85th out of 180 countries in Transparency International's Corruption Perception Index (CPI) for the year 2022. Its reputation for combating corruption is not encouraging. Fraud and corruption are so ubiquitous that they are continuously becoming accepted as a normal way of life.



Source: Report to the Nation's 2022 by ACFE

India Ranks No. 1 in terms of the number of fraud cases in **South Asian Nations**, as per the **Report to the Nation's 2022 by ACFE (Association of Certified Fraud Examiners)**.

There have been numerous instances of financial statement misrepresentation, which have negatively impacted both the auditors and companies like Enron, WorldCom, Adelphia, Global Crossing, Xerox, and many others like Cendant, Lincoln Savings, Sunbeam (Albrecht, 2005). For a nation in dire need of investment, eliminating fraud is important.

The prevention and investigation of white-collar crime are two primary issues that are better addressed with the help of forensic accounting. The surge in white-collar crime and the challenges that law enforcement agencies encounter while detecting fraud has also assisted in the development of the forensic accounting profession. With the surge of fraud in India, the necessity for forensic accounting becomes even more important. Forensic accounting is still evolving in India, because of the increasing scale of organizations and the complexity of financial scams (Bhasin, 2017). Opportunities for forensic accountants have significantly increased in recent years as white-collar crime has risen.

The word forensic accounting is a combination of two significant words i.e., forensic and accounting. The word forensic comes from the Latin word forensis, which means "of or before the forum."

According to AICPA (1993) "Forensic accounting is the application of accounting principles, theories, and discipline to facts or hypotheses at issues in a legal dispute and encompasses every branch of accounting knowledge."

In order to uncover fraudulent activity both within and outside an organization, forensic accounting is a new field of accounting that integrates accounting, auditing, and investigative skills. Forensic accounting is the use of accounting, auditing, and investigative skills to provide professional assistance in litigation (Apostolou, Hassell, and Webber, 2000). A forensic accountant is a representative with experience in financial accounting, auditing, and legal issues who acts as a referee, expert, inspector, or proxy, particularly in cases of financial claims and financial fraud (Ozkul and Pamukcu 2012). The use of forensic accountants by banks, insurance firms, and even the police has increased recently, despite their recent origin. The current substantial increase in white-collar crime and the challenges faced by law enforcement in addressing it has greatly contributed to the profession's expansion.

II. REVIEW OF LITERATURE

The majority of forensic accounting literature is explanatory in nature and is based on secondary data sources by combining relevant studies and gathering perspectives from experts in the field.

According to Zysman (2004), forensic accounting is the practice of conducting an investigation by integrating accounting, auditing, and investigative abilities. He also believed that in a legal context, the capacity for quick responses and the ability to communicate financial information simply and precisely is equally vital.

According to Mazumder (2011), law enforcement officials lacked the training and experience required to effectively address the rise in white-collar crimes. They are effective in preventing violent or disruptive crimes, but they need to broaden their abilities and knowledge to include economic crimes.

Bhasin (2017) used survey-based research to figure out the qualifications for forensic accountants in India who can improve corporate governance. He emphasized that the important skills necessary for forensic experts include those linked to auditing, communication (both written and verbal), analytical, cognitive, and deductive ability, legal domain knowledge, unorganized problem-solving, and investigative adaptability, among others.

Dhami (2015) examined the significance and potential future of forensic accounting in India as well as the effects of various financial and economic crimes on the Indian economy. The importance of forensic accounting is stressed by the researcher in order to identify and stop financial crimes. The demand for forensic accountants has increased recently due to the surge in financial fraud cases in India. According to the report, if forensic auditing is made compulsory for many industries, particularly for large corporations and the public sector, it will aid in the reduction of fraud. Instead of being utilized for investigations, it ought to be used for prevention.

Amutha and Shankari (2021) explored the role of forensic audit in identifying dishonest accounting practices in commercial enterprises. The researcher used secondary sources of data and discovered that, in most cases, original documentation stating hidden transactions are not kept in company records and that false documents are frequently created to prove fictitious transactions, which are investigated by forensic auditors using a systematic procedure and a variety of techniques. The study recommended forensic accounting as a rapid cure to fraudulent activities in order to shed light on the scams.

III. OBJECTIVE OF THE STUDY

This paper attempts to address the following issues in light of the apparent increase in corporate failures brought on by various financial and economic scams and the statutory auditor's failure to stop them:

- To know about the evolution of forensic accounting in India.
- To know about various techniques adopted by forensic accountants.
- To enquire into the future prospect of the forensic accountant profession.

IV. EVOLUTION OF FORENSIC ACCOUNTING IN INDIA

In the renowned text Arthashastra, Kautilya was the first to define multiple types of misappropriation. After the ENRON and SATYAM scandals, forensic accounting has become a normal practice. In the ENRON scam, the company's shareholders suffered a \$74 billion loss over a four-year period, forcing it into bankruptcy, and the pension benefits of its workers were cut significantly. The scandal has shown the globe how a crime of numbers can result in losses of billions and drew the attention of mainstream media agencies and the general public. In the Satyam Computer Scam, Chairman Ramalinga Raju confessed that the company's accounts had been fabricated. Chartered accountants were tasked with conducting these investigations, but only a limited fraction of chartered accountant firms offered the specialist service of fraud examination. This area used to be dominated by the big four consultancy firms viz. KPMG, PWC, Ernst Young(E&Y), and Deloitte (**Ozkul and Pamukcu, 2012**). The establishment of the Serious Fraud Investigation Office (SFIO) under the control of the Ministry of Corporate Affairs is a major milestone for forensic accountants in India. Due to a rise in financial crimes and offences and a shortage of skilled specialists to identify the offenders, the subject has gained popularity in India. Later, in accordance with American Law and the UK Bribery Act, the Companies Act 2013 added various provisions related to the prevention of economic fraud and the protection of national treasure. So, forensic accountants were required to identify the fraud's detection planning, implementation, and effects in order to identify the perpetrators as soon as possible.

V. TECHNIQUES USED IN FORENSIC ACCOUNTING

When investigating financial fraud or irregularity, forensic accounting techniques should be tailored to the situation and used as needed, as opposed to the standard procedures used in statutory auditing techniques. This article highlights a few significant forensic accounting approaches as under:

- **Benford's law:** In this technique, mathematical analysis is required to determine if the discovered irregularity is the result of an inadvertent error or fraudulent behaviour. Patterns of the figures of the variable under investigation are examined and compared to predefined criteria using the Z-test at a given degree of confidence in this technique. Significant disparities between them may be interpreted as a signal for additional examination in order to uncover any potential fraud.
- **Theory of Relative Size Factor (RSF):** In this technique, RSF may be computed as the ratio of the greatest number to the second largest number in the dataset to identify the presence of any outliers in the dataset that may have formed as a result of fraud. An exceptionally high RSF indicates that the top number does not correspond to the other numbers in the dataset and so requires more analysis to discover any potential fraud.
- **Computer-Assisted Auditing Tools (CAATs):** These tools support auditors in carrying out their audit procedures, such as comparing transactions and balances, spotting unusual variations, rechecking, etc. while dealing with a large number of client data.
- **Data Mining Techniques:** These techniques make it easier to extract large amounts of information for further analysis, identify hidden patterns through trends and variations, forecast outcomes based on those patterns, identify items that deviate from accepted norms, and find any unusual patterns by using a diverse range of graphical methods.
- **Ratio Analysis:** If there are any indications of fraud, ratio analysis can detect them. For example, it includes the ratio of a maximum to the minimum value, its maximum to its second maximum, its present value to its prior value, etc. Any unusual ratio is a sign of probable fraud and may require further investigation. These ratios help detect links. The capital adequacy ratio, gross margin index, sales to receivables ratio, etc. are a few examples of widely used ratios.

VI. FUTURE PROSPECTS OF THE FORENSIC ACCOUNTANT PROFESSION IN INDIA

With the surge of financial scams in India, the necessity for forensic accounting becomes even more important. Forensic accounting is still progressing in India. There is no specific qualification for becoming a forensic accountant in India. However, Chartered Accountants with post-qualification in forensic audit can execute the work as Forensic Accounting specialists to handle cases of financial violation and submit master declarations in a Court of Law. In India, forensic accounting has only recently gained attention due to the rapid rise in white-collar crime. As modern technology has advanced and fraud cases in India have increased, several industries, including banking institutions, corporations, etc., have begun implementing Forensic accounting. Forensic accountants may serve as an advisor to lawyers during the litigation process or provide testimony in a financial case (Hegazy et al., 2017). The Indian laws such as The Companies Act, 2013, SEBI Act, 1992, the Insurance Act, 1938, Prevention of Money-Laundering Act, 2002 also amended to incorporate provisions relating to forensic audits

VII. CONCLUSION

After the above discussion, it is apparent that forensic accounting is a broader term that includes skills and competence in all areas of finance, knowledge of various fraud schemes, awareness of corporate ethics, ability to comprehend market dynamics, and investigative capabilities. The Serious Fraud Investigation Office (SFIO) was established under the Ministry of Corporate Affairs as an important initial step by the Government of India to highlight the importance and necessity of an effective regulatory system to root out fraudulent practices from its roots as a result of an abnormal rise in the rate of financial scandals, financial markets scams, failure of non-banking finance companies, etc. With increasing levels of corporate fraud and economic irregularities, it is estimated that the demand for forensic accountants would spike in the near future (Saha, 2014).

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