

Impact of Forensic Accounting on Fraud Detection

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Abstract: *The paper seeks to explain the impact of forensic accounting on various industries. The paper mainly explains the impact of forensic accounting on stock prices of the company. Stock prices of 5 companies, namely, Health South, Enron, TYCO International, Freddie Mac and WorldCom has been studied. This paper examines the extreme impact forensic accounting has on the position and value of the company..*

Keywords: Forensic Accounting, Industries, Stock prices, Company

I. INTRODUCTION

Forensic accounting is a rapidly becoming prominent in accounting and legal communities. It uses accounting, auditing and investigate skills. Forensic accountants look beyond just the numbers in the financial statements. They analyze the financials and find sufficient and appropriate information to be presented in the court room. They interpret complex financial matters and help us understand the business reality behind numbers. Forensic accountants are employed in various sectors and fields these days, they interpret the financials of a company to find out any unfair means of presentation. Forensic accounting is rapidly improving and gaining status in the world. Just like how the discovery of frauds through fingerprints and DNA were a breakthrough in the 19th and 20th centuries, forensic accounting will be the same to the 21st century. Forensic accounting goes by the fact that 'Things are not what you think they are'. Forensic accounting and fraud auditing are not synonymous, forensic accounting requires an individual to have proper legal knowledge in addition to accounting language. Unlike an auditor, a forensic accountant doesn't limit the scope of the audit based on materiality, samples and integrity of management and thus it is highly time consuming. Forensic accounting has helped in giving important clues to solve cases too. An important element in forensic accounting is behavioral concepts, some frauds cannot be solely detected through data driven approaches. Fraud auditing is like an iceberg with many of the behavioral, covert aspects of the fraud below the water line. The aspects below the surface can be extremely important and this is where forensic accounting plays a major role.

II. LITERATURE REVIEW

The increase in financial frauds has brought forensic accounting into limelight. The combination of forensic science and accounting has helped to track many frauds, crimes and even terrorist attack funding. The failure of corporate structures, lack of internal control, poor corporate governance, fraudulent financial statements have led to the rise of forensic accounting. Forensic accounting were initially used by agencies like FBI, CIA and IRS but currently they are very prominent because they can play a vital role in coordinating company efforts to achieve a cohesive policy of ethical behavior within the organization. Forensic accountants should have a wide range of skills and knowledge, from financial accounting, internal control systems, law, *Prince Modugu, Dr. J. O. Anyaduba, 2013*)

Traditional auditing focuses on errors while forensic accounting focuses on fraud. Forensic practice was not recognized as a separate accounting practice area from auditing at one time. Over the decades, auditing separated itself from fraud detection. As that occurred, the forensic practice began to developed and provide fraud investigation and litigation services. The increase in financial frauds has brought forensic accounting into limelight. The combination of forensic science and accounting has helped to track many frauds, crimes and even terrorist attack funding. The failure of corporate structures, lack of internal control, poor corporate governance, fraudulent financial statements have led to the rise of forensic accounting. Forensic accounting were initially used by agencies like FBI, CIA and IRS but currently they are very prominent because they can play a vital role in coordinating company efforts to achieve a cohesive policy

of ethical behavior within the organization. Forensic accountants should have a wide range of skills and knowledge, from financial accounting, internal control systems, law, investigating skills.

RESEARCH OBJECTIVE

This research is conducted to study the impact of forensic accounting on fraud detection. The specific objectives are to:

- 1) Find out the manner in which forensic accounting affect fraud detection.
- 2) Find out its impact on the performance of the company

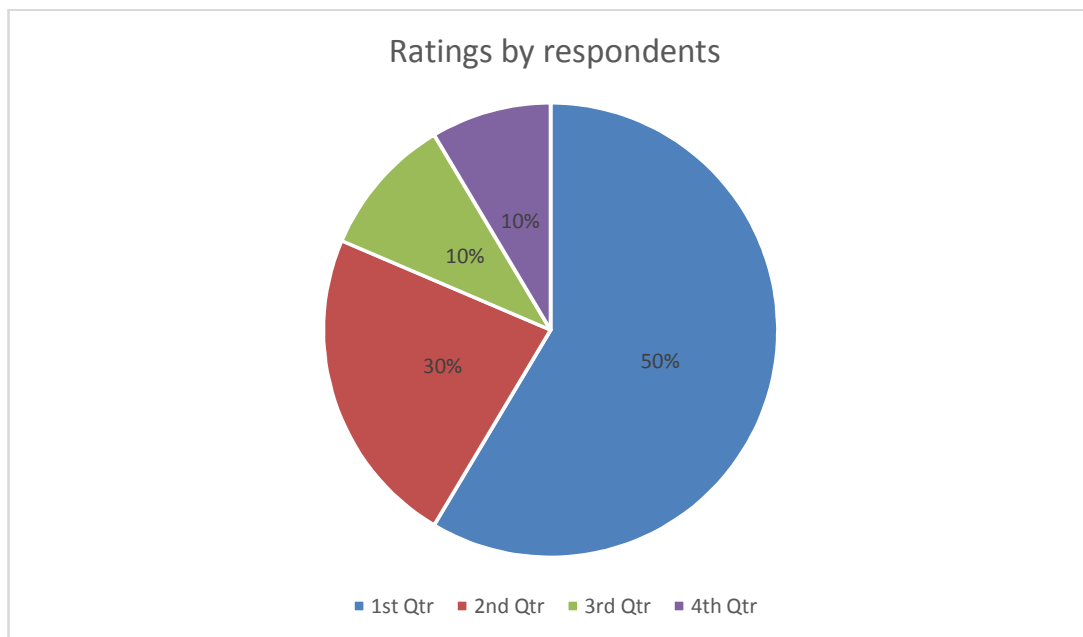
SOURCES OF INFORMATION:-

Secondary data has been mainly used for this research. The stock prices and financials of the companies have been obtained from a variety of web sources.

III. DATA ANALYSIS AND INTERPRETATION

Table 1 : Detection and preventing fraud

Survey no.	Particulars	No of responses	Percentages
1	1	10	10%
2	2	30	30%
3	3	50	50%
4	4	10	10%
Total		100	100%

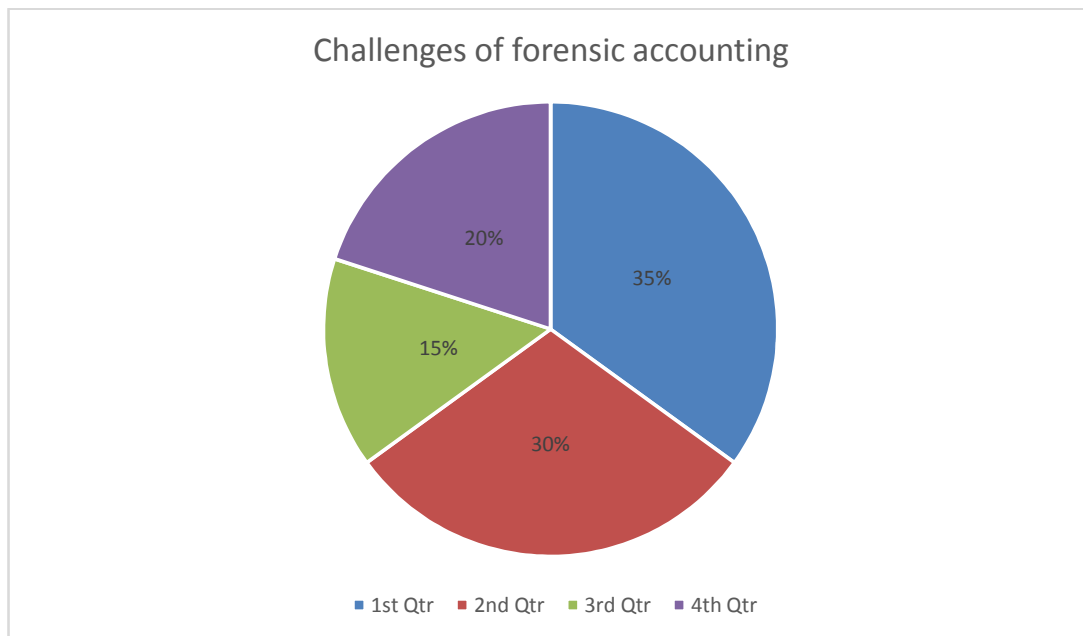


Interpretation:-

From the above table, it is inferred that 10%of the people belong to rating 1, and 30% belong to rating 2 and 50% for rating 3 and 10% for rating 4.

Table 2:- Challenges of forensic accounting

Survey no.	Particulars	No of responses	Percentages
1	Lack of resources	35	35%
2	Legal constrains	30	30%
3	Complexity of cases	15	15%
4	others	20	20%
Total		100	100%

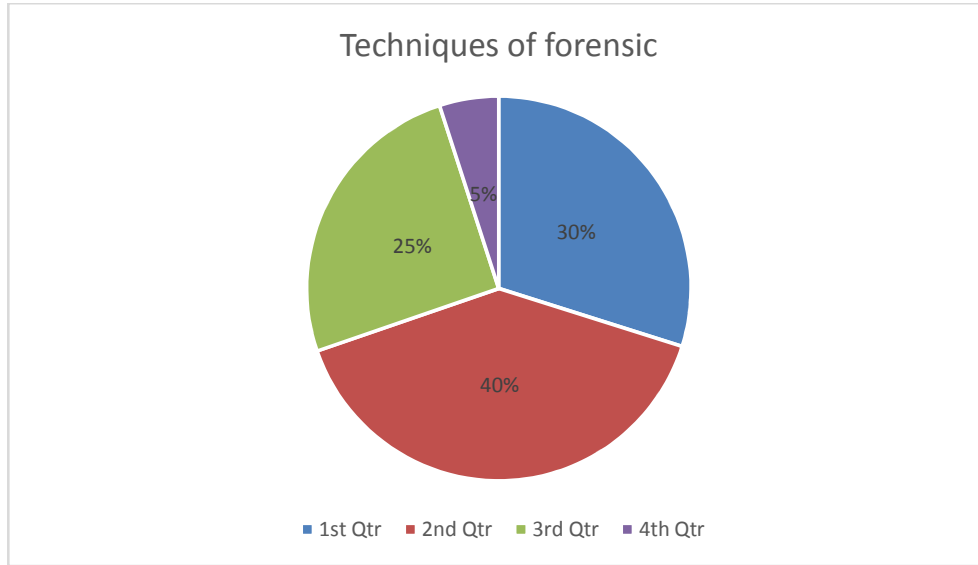


Interpretation:-

From the above table, it is inferred that 35% belongs to lack of resources, 30% belongs to legal constraints, 20% belongs to complexity of cases and 15% to others.

Table 3:- Effective technique of forensic accounting

Survey no.	Particulars	No of responses	Percentages
1	Data analytics	30	30%
2	Digital forensic	40	40%
3	Financial statement analysis	25	25%
4	others	5	5%
Total		100	100%

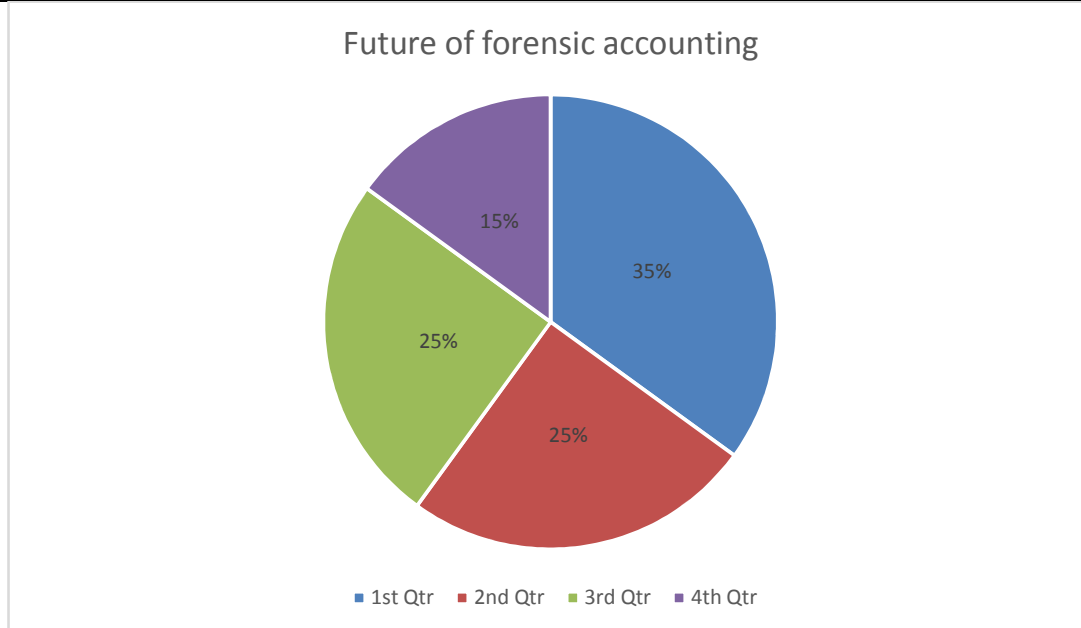


Interpretation:-

From the above table it is inferred that 40% belong to digital forensic, 30% to data analytics, 25% to financial statements analysis and 5% to others.

Table 4:- Future of forensic accounting

Survey no.	Particulars	No of responses	Percentages
1	Advance technology	35	35%
2	specialization	25	25%
3	Law enforcement	25	25%
4	others	15	15%
Total		100	100%

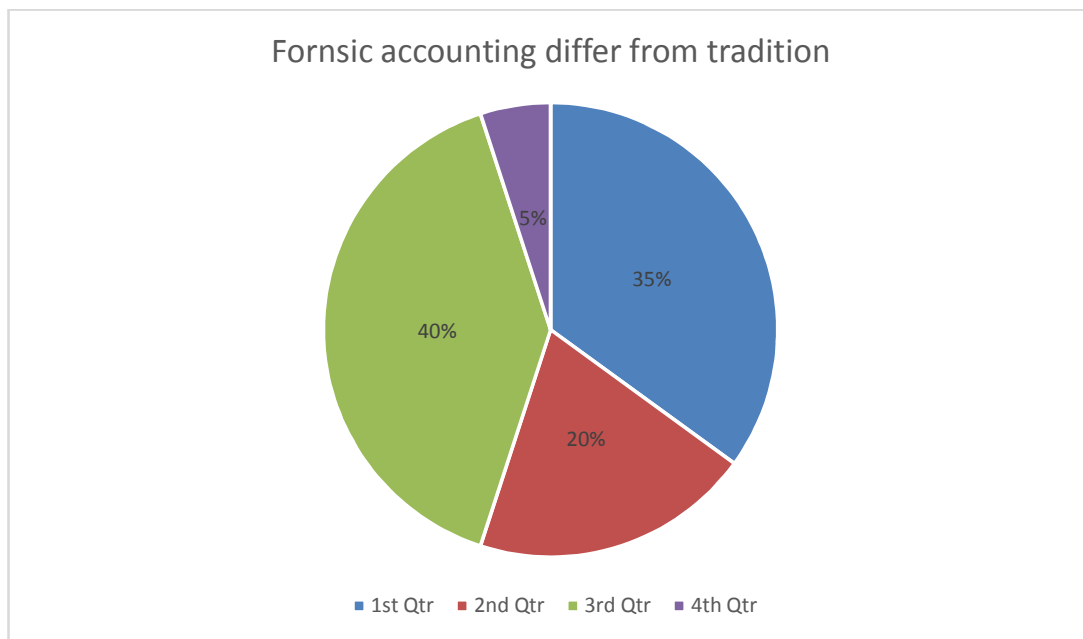


Interpretation:-

From the above table ,it is inferred that 35% think that advance technology is future ,25% think specisliazation ,25% think law enforcement and 15% think others.

Table 5:- Forensic accounting differ from traditional

Survey no.	Particulars	No of responses	Percentages
1	Specialized tools	35	35%
2	psychological	20	20%
3	Fraud detection	40	40%
4	All of this	5	5%
Total		100	100%



Interpretation:-

From the above table, it is inferred that 40% states that fraud,35% state that specilized tools,20% thatpsychological analysis and 5% that all of this.

IV. FINDINGS AND INTERPRETATIONS

Tracing the routes of the funds, applying investigative skills and using audit techniques played a very vital role in detecting the fraudulent activities that the companies have been accused of. The more the financial misrepresentation was being uncovered the more the accountants were pushed to pressure of finding the misrepresentation. If not for the techniques and procedures used in Forensic Accounting, the scandals would not have come to light with normal traditional techniques and example, Enron would still be the darling of Wall Street, fooling so many investors and the government with their fake financials, this would create a black hole in the economy.

Forensic Accounting creates an environment of caution in the organizations; the fear of the company being exposed and its ill effects makes the top officials refraining from carrying out fraudulent accounting activities. In recent times, with the increase in white collar crimes, forensic accounting has been used in a lot of entitie.

V. CONCLUSION

Through the study, we see that forensic accounts on fraud detection has played a great role in our economy as an upsurge in financial accounting fraud is :scenario. Through data mining techniques and computer tools of forensic accounting, failure of internal auditing system of the organization has been dismissed. However, forensic accounting may not be solution for all the problems as dealing with large data volumes and complexities of financial are challenging.

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