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An Overview of Forensic Accounting

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Abstract: Frauds, Malpractices, unethical standards etc. cause the damage to the businesses at a large. There is a need to prevent damages in accounting through emphasizing effort on the development of a fraud detection & litigation support service. The Forensic Accounting is one of the accounting areas which provide such service. The purpose of this study was to know the detailed conceptual clarity regarding the term Forensic Accounting. The study covered the necessary information regarding knowing the term Forensic Accounting, its definition, characteristics, and objectives. It also covered differentiating points among the accounting, audit & forensic accounting. More over the well known case of Satyam Computers' fraud has also been taken in the study.

Keywords: Forensic Accounting, characteristics, audit, financial accounting, Satyam Computers

I. INTRODUCTION

"Forensic", according to the Wigitation support service development of a fraud detection & lits on tebster's Dictionary means, "Belonging to, used in or suitable to courts of judicature or to public discussion and debate." Fraud has become an industry, not just for the fraudster. Academics study it, investigators investigate it, lawyers litigate on it, and conference-goers debate it. Fraud and its roots - greed and arrogance - are human nature. Forensic science is a vital instrument for the detection or investigation of crime and the administration of justice, providing crucial information about the evidence found at crime scene, it is especially important that the training and education of forensic scientists provide a solid scientific background and a broad base in criminalities. The validity of those results depends on the knowledge, skills, and experience of the forensic scientists working to obtain them. A forensic scientist must be capable of integrating knowledge and skills in the examination, analysis, interpretation, reporting, and testimonial support of evidence. Fraud examiners represent a variety of careers and professional backgrounds. Forensic accounting is hardly a new field, but in recent years, banks, insurance companies and even police agencies have increased the use of these experts.

II. FORENSIC ACCOUNT

"Auditor should be watchdog and not be the bloodhound". It's a good quote that every auditor should know. This quote makes the definition of Forensic accountants even simpler. The forensic Accountant is a bloodhound of Bookkeeping. These bloodhounds sniff out fraud and criminal transactions in bank, corporate entity or from any other organization's financial records. They hound for the conclusive evidences. External Auditors find out the deliberate misstatements only but the Forensic Accountants find out the misstatements deliberately. External auditors look at the numbers but the forensic auditors look beyond the numbers.

Forensic accountant takes a more proactive, skeptical approach in examining the books of Accounting. They make no assumption of management integrity (if they can assume so then there is no need for their appointment) show less concerns for the arithmetical accuracy have nothing to do with the Accounting or Assurance standards but are keen in exposing any possibility of fraud.

Forensic accounting, sometimes called investigative accounting, involves the application of accounting concepts and techniques to legal problems. Forensic accountants investigate and document financial Fraud and WHITE-COLLAR CRIMES such as Embezzlement. They also provide litigation support to attorneys and law enforcement agencies investigating financial wrongdoing.

Many different organizations consult forensic accountants. Corporations hire forensic accountants to investigate allegations of fraud on the part of their employees, suppliers, or customers. Attorneys consult forensic accountants to obtain estimates of losses, damages, and assets related to specific legal cases in many areas of the law, including Product Liability, shareholder disputes, and breaches of contract. In criminal investigations, forensic accountants analyze complex financial transactions such as those in Stock Market manipulations and price fixing schemes. They also help governments achieve compliance with various forms of regulation.

Forensic accountants typically become involved in financial investigations after fraud auditors have discovered evidence of deceptive financial transactions. After conducting an investigation, they write and submit a report of their findings. When a case goes to trial, they are likely to testify as expert witnesses.

III. DEFINITIONS

- ✚ The use of accounting skills to investigate fraud or embezzlement and to analyze financial information for use in legal proceedings.
- ✚ The integration of accounting, auditing and investigative skills yields the specialty known as Forensic Accounting. (Alan Zysman).
- ✚ "Forensic Accounting", provides an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution.
- ✚ "Forensic Accounting is the application of accounting principles, theories and discipline to fact or hypotheses at issues in a legal dispute and encompasses every branch of accounting knowledge" (AICPA).
- ✚ KPMG (1999) defines, Forensic Accounting as assistance in disputes which are likely to involve litigation, arbitration, expert determination, mediation or an enquiry by an appropriate regulatory authority, and investigation of suspected frauds, irregularity or impropriety which could potentially lead to civil, criminal or disciplinary proceedings; while focusing primarily on accounting issues.

IV. CHARACTERISTICS OF FORENSIC ACCOUNT

In order to expatiate on the peculiarities of forensic accounting, it is worthwhile giving it a broader view under the taxonomies of a sub-activity of accounting. Such a breakdown for forensic accounting involves the following:

- ✚ Financial accounting, economics analysis, fiscal and criminal law, psychological, administrative and investigative dispensation;
- ✚ Application of forensic standards – possibility to use the reports in a proof of Law in courts or tribunals,
- ✚ Can be used in the following situations:
 - ✓ Investigation of frauds - thorough investigation and calculation of the impact on the business and therefore suggesting the arrest of the culprit for a criminal suit.
 - ✓ Legal disputes and/or arbitration.
 - ✓ Preparation and submission of expert reports.

- ✓ Supporting of Judges in subjects relating to accounting.
- ✓ Verification of accounting records.
- ✓ Supporting in due diligence.

According to Zysman (2001) forensic accounting activities include:

- ✚ Criminal investigation, which are usually on behalf of the police with the aim of presenting evidence in a professional and concise manner.
- ✚ Shareholders and partnership dispute that involve analysis of numerous year financial records for valuation and qualification of the issue in dispute;
- ✚ Personal injury claim, where, for example, economic losses from a motor accident or wrongful dismissal may need to be quantified.
- ✚ Business interruption and other types of insurance claim. These assignments involve a detailed review of the policy to investigate coverage issues and the appropriate methods of calculating the loss.
- ✚ Business/employee fraud investigations which can involve fraud tracing, asset identification and recovery, forensic intelligence gathering and due diligence review.
- ✚ Matrimonial dispute involving the tracing, locating and evaluation of assets.
- ✚ Business economic losses, where a disputed contract, construction claims, expropriation, product liability claims and trademarks are the issues.
- ✚ Professional negligence ascertains the breach and quantifies the loss involved, and mediation and arbitration, as a form of alternative dispute resolution.

V. DIFFERENTIATING POINTS AMONG FINANCIAL ACCOUNTING, AUDITING AND FORENSIC ACCOUNTING

Following are some of the differentiating points which shows the scope of Forensic Accounting in a more detailed manner.

Sr. No.	Accounting	Auditing	Forensic Accounting(FA)
1.	Financial Accounting is the preparation of financial statements based on Generally Accepted Accounting Principles(GAAP)	Auditing is specifically checking to see if the accounts and/or systems conform to a pre-defined set of specifications (GAAP in this example, but there are all sorts of audits).	FA is investigative . Instead of seeking conformance, you are looking for outliers or specific patterns. Generally in support of some sort of legal process. The outcome is less general (an audit report), and is generally useful as evidence in court with regard to certain occurrences (where did my cash go; why did this customer get 10% discounts; why am I paying 3x the going rate for sand; etc).
2.	Financial Accounting is communicated to the internal management without any further interpretations.	Auditing is designed to provide an overall opinion on financial reporting in some form, but limited review for particular issues, particularly "negative" issues, and do not involve detailed specific analyses.	FA is much more detailed and focused, particularly to fully understand a specific issue or family of issues, and often used in resolving disputes, including litigation support .
3.	Financial Accounting shows that the Statements prepared are as per the True & Fair View of the business.	Auditing simply means the opinion of Independent auditors on preparation of financial statements by the management of the company in	FA simply means effective evidences gathered by auditors which " suitable for use in a court of law " and mostly used by government agencies.

		context of statutory audit and mandatory for public and private companies.	
4.	It follows a set of rules & guidelines prescribed & regulated by Financial Accounting Standard Board (FASB).	Auditing is simply examining prepared financial statements as per the need of the management.	It follows basic rules prescribed under GAAP, but there are no set guidelines .
5.	Each year Financial Statements are prepared in a same manner .	Even in auditing of books of accounts each case is handled unanimously .	Each case is handled differently , using procedures that are appropriate to fit the requirements of the case.
6.	Mandatory	Mandatory & optional as per the nature & type of audit	In response to an event

Forensic Accountants are part investigator, part auditor, part solicitor and part accountant. Forensic Accountants utilize an understanding of business information, financial reporting systems, accounting and auditing standards, evidence gathering, investigation techniques and litigation procedures to perform their specialized role.

Thus, forensic accounting engagement and investigation is typically substantially longer than any other investigation. The scope of Forensic Accounting is much more widened, specific and elaborated as compare to Financial Accounting & Auditing.

VI. FORENSIC ACCOUNTANT

A forensic accountant's services may be needed by different types of individuals, institutions, industries, or organizations for the purpose of collecting financial evidence. Forensic accountants work for commercial clients, legal professionals, insurers and regulatory authorities. They undertake fraud and other financial investigations from an accounting angle. The work of a forensic accountant is to enable lawyers, insurance companies and other clients to resolve disputes and assist in fraud investigations. Equally important is the ability to communicate financial information clearly and concisely in the courtroom. This evidence can be used in court to settle a dispute or to support or negate claims for indemnification regarding losses sustained and to seek justice or redress against fraud perpetrator(s) for betraying trust and confidence.

(1) The objectives of a forensic accountant will vary according to the purpose of the hiring individual or entity; the main essence is to uncover fraud, crimes, and evasions of financial obligations or malpractices committed through manipulation of accounting records.

(2) In some cases fraud detection is necessary to uncover the identity of the perpetrator. Financial documents will be used as evidence to support the filing of a lawsuit to prohibit the culprit from causing further damage as well as to seek indemnification if the identity of the person(s) responsible is established. Establishing identities include those who connived with the main perpetrator, and the extent of their participation will likely be established.

(3) Establish the methods used to carry out the fraudulent or criminal acts committed by manipulating the concerned entity's accounting records. These are the instances when such methods are carried out with subtlety that they require extensive and intensive investigations to prove that fraud or economic sabotage is indeed being committed.

(4) Determine the extent of economic losses or damages sustained and gather the financial records that will serve as strong evidence to sustain legal claims for recovery.

(5) Know of any other potential losses that may be impending or imminent and seek possible solutions to prevent such losses from actually happening.

(6) Trace and locate any lost assets for purposes of recovery or which may be instrumental in tracking the fraudster. Unaccounted assets and locating their physical existence may also be essential to the settlement of a dispute.

- (7) Analyze, verify, and re-calculate if necessary the amount being claimed in court against the hiring company, which in this case is the one being brought to court. In view of this, it will also become necessary to determine the causes and the individuals responsible for placing the company into vulnerability and liability to lawsuits.
- (8) Determine the extent of malpractice applied by other accounting professionals who became instrumental in presenting misleading financial reports that were vital to the decision-making process of the financial statement users like investors, creditors, tax assessors, or grantors of contracts, licenses, and permits.
- (9) Follow through on the findings reported by the internal auditor pertaining to losses or indications of losses being suffered by the company as revealed during the process of financial audit. In this case, the hiring of a forensic accountant is the company's reactive response to the internal auditor's recommendation.

VII. CASE STUDY OF SATYAM COMPUTER LIMITED

On January 7, 2009, Mr. Ramlinga Raju (founder of Satyam Computers) disclosed in a letter to Satyam Computers Limited Board of Directors that "he had been manipulating the company's accounting numbers for years". Mr. Raju claimed that he overstated assets on Satyam's balance sheet by \$1.47 billion. Nearly \$1.04 billion in bank loans and cash that the company claimed to own was non-existent. Satyam also underreported liabilities on its balance sheet. Satyam overstated income nearly every quarter over the course of several years in order to meet analyst expectations. For example, the results announced on October 17, 2009 overstated quarterly revenues by 75 percent and profits by 97 percent. Mr. Raju and the company's global head of internal audit used a number of different techniques to perpetrate the fraud. "Using his personal computer, Mr. Raju created numerous bank statements to advance the fraud. Mr. Raju falsified the bank accounts to inflate the balance sheet with balances that did not exist. He inflated the income statement by claiming interest income from the fake bank accounts. Mr. Raju also revealed that he created 6000 fake salary accounts over the past few years and appropriated the money after the company deposited it. The company's global head of internal audit created fake customer identities and generated fake invoices against their names to inflate revenue. The global head of internal audit also forged board resolutions and illegally obtained loans for the company". It also appeared that the cash that the company raised through American Depository Receipts in the United States never made it to the balance sheets.

Balance sheet and income statement of Satyam: as of September 30, 2008.

Items	Rs. in crore		
	Actual	Reported	Difference
Cash and Bank Balances	321	5361	5040
Accrued Interest on Bank Fixed Deposits	Nil	376.5	376
Understated Liability	1230	None	1230
Overstated Debtors	2161	2651	490
Total	Nil	Nil	7136
Revenues (Q2 FY 2009)	2112	2700	588
Operating Profits	61	649	588

This was totally against of the ethical standards & code of corporate governance. Such fraud leads to the emergence or need of the forensic accounting. Detailed scrutiny of financial statements is needed at a stretch.

VIII. CONCLUSION

Forensic accounting, sometimes called investigative accounting, involves the application of accounting concepts and techniques to legal problems. Forensic accountants investigate and document financial Fraud and WHITE-COLLAR CRIMES such as Embezzlement. They also provide litigation support to attorneys and law enforcement agencies investigating financial wrongdoing. Forensic accounting is also related to Financial accounting, economics analysis, fiscal and criminal law,

psychological, administrative and investigative dispensation; Application of forensic standards – possibility to use the reports in a proof of Law in courts or tribunals.

There is an increasing demand for showing financial statements more accountable and transparent for gaining the confidence of stakeholders. The frauds done by Enron, WorldCom and Satyam led to the implementation of the strongest tool in the field of accounting also. Forensic Accounting is a fast developing accounting area in this regard. It would provide a base for finding out the fraud, if remained in the financial statements.

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