

# Problems of Implementing Forensic Accounting - Indian Context

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**Abstract:-** Frauds and losses appearing in the financial performance have a negative impact on the financial reporting. The accounting users and the makers of economic decision lose their assurance in the accounting and auditing profession itself when these phony reporting takes place, which lead to the need of investigation in these fields and this leads to the beginning of Forensic accounting. The necessity for forensic accounting in Indian context emerged because of the increase in white collar crimes such as Satyam, common wealth games, etc. Bringing the fact which is unnoticed that the benefits of forensic accounting are more than its shortcomings that have been mentioned on this article. This study has tried to mention the unseen demand of forensic accountant and their services and have even tried to list down the difficulties and problems that will be confronted by the accounting firms for executing this service and the techniques used by the forensic accountant for the unmasking of frauds in brief.

**Keywords:** Forensic accounting, Forensic accountant, Fraud detection, Accounting firms, Scams, forensic accounting techniques.

## 1. INTRODUCTION

In the present scenario, accounting has been diversified in many domains such as cost accounting, management accounting, human resource accounting, social accounting and even green accounting. With the introduction of this concept, FBI's announcement in the 1990s significantly revised the detection of fraud, particularly white collar scams (Timothy & Tommie, 2008).

Forensic accounting is mainly the composite of three pre-requisite skills namely auditing, accounting and investigative skills. The suitability of these skills, together with expert witnessing and various other litigation services is the primary function of forensic accountability. In short, it is a question of proving or contesting the fraudulent claim. The person who exercises these skills to prove or disprove fraud in court proceedings shall be called a forensic accountant. The services provided by forensic accountants include

- Analyzing, interpreting, summarizing and presenting complex financial and business transactions in an obvious and simple manner.
- They also analyze the evidence before them and use computerized applications to help them present this evidence.
- They even identify the basic documents to protect the case.
- They also evaluate all information from accounts to prepare an effective statement of disposition or testimony.
- They even review and evaluate the disposition testimony or the accounting reports from the other party.

- To know the real loss or commercial damage through their models for insurance companies as well
- They also play a crucial role in determining the real income of both the spouses in divorce cases to the jury.
- They also help to determine the damage caused to the environment using their damage model.

Forensic accountants in the corporate world perceive and expose white collar scams, which are complicated in nature and difficult to present. To further understand forensic accountants, we must detect the importance of detecting white collar scams. Like any other wistfulness, the rate of scams with white collars is increasing worldwide. Since these scams are increased daily, aversion can be detected in recognition of these scams. These scams are really very intricate to detect and measure; which is not covered by the media for many reasons. This usually involves large amount of money and impinge on significant portion of public. There is a highly secretive risk of scams with white collars compared with scams with blue collars. In addition, the cost measurement of white collar scams is not uniform in nature and in different situations is measured differently. In this context, a forensic accountant is extremely important; where the accountant has the task of verifying all accounts and preparing documents without a preconceived idea.

## NEED FOR FORENSIC ACCOUNTING

In the first instance, audited reports were only used in court proceedings for clarification and as evidence. But after a couple of white collar scams,

including Enron and WorldCom, the forensic accounting concept evolved in the USA. India which is not back in white collar scams, where Satyam (14000crores), common wealth games (35000crore) were recorded. From these cases we can note the failure of credibility of audited reports (Bobbie, Yvonne, & D., 2013). The main need for forensic accounting services in India lies here.

On the one hand, where white collar scams involve the management of the upper level also fuel the frauds committed by the employees. Auditors do not audit the accounts with the prejudice of manipulation of the accounts. Auditors appreciate the accounts with inclination to their customers, as the auditors rightly say that they are not blood dogs but watchdogs. In addition, most auditors conduct sample audits of the accounts in their practice and therefore do not carry out a thorough investigation. In this situation, the need for a forensic accountant has become enormous.

Forensic accounting therefore helps to detect the plan, execution and after-effects of fraud without any delay.

#### **THE STRATUM OF FORENSIC ACCOUNTING IN INDIA**

Forensic accounting in India has not gained due appreciation in various frauds. Given that no legal emphasis is placed on this area, India lacks specialized and trained practitioners to investigate multifaceted fraud in companies. Currently CA (Chartered Accountants) and CWA (Cost and Work Accountant) carry out the role of forensic accountant by extending their scope (James 2008). In accordance with the laws of companies and the income tax law in India, they are one step ahead of the qualification of forensic accountants, which they have achieved in their course through fine distinction. To do this, they must obtain a post-graduate degree in research and forensic accounts (Lester & Dan, 2008). They are eligible to work as forensic accountants with expert witnessing in conjunction with this degree and their professional degree. While the Government of India has made the Serious Fraud Investigation Office (SFIO) under the Ministry of Corporate Affairs the culmination of fraud in India, the number of frauds in India is not obviously reduced.

In India, sections 235 and 237 of the Companies Act 1956 provide a basis for checking the accounts and other company documents; for checking unfair public practices. The forensic accountant can also investigate the references to the authenticity of their accounts and statements made to NCLT (National Company Law Tribunal) by sick companies. The 1992 SEBI Act sets out the inevitable role of forensic accounting services in highlighting the complex frauds committed by the

company and brokers. Section 33 of the 1938 insurance act gives the Insurance Regulatory and Development Authority in India the right to appoint an external invigilator for the insurer's transactions and associations. To this end, the institution typically appoints an actuary or an auditor to assist him with a chartered accountant. It would be helpful for the institution by appointing a single knowledgeable person who can judge and calculate all things with his extensive knowledge and expertise in the field. Forensic accounting also has a model for calculating the right loss amount for the right plaintiff and this model is also used in cases of divorce. Banks also call for a forensic accountant's services. In view of these facts, we realize that the demand or requirement of forensic accountants is very high compared to their source.

#### **2. OBJECTIVE**

- To know the awareness about forensic accounting among small accounting firms.
- To understand the problems faced for implementing forensic accounting.
- To identify the techniques in Forensic Accounting.

#### **3. METHODOLOGY**

This paper is exploratory. The information was collected from various articles relating to forensic accounting and we also collected data for further clarification using an unstructured interview method.

#### **PROBLEMS FACED BY SMALL ACCOUNTING FIRMS IN IMPLEMENTING FORENSIC ACCOUNTING**

We already know that forensic accounting is advantageous for a contentious environment, particularly in a country like India. However, there are still no special provisions or statutes in India that support forensic accountants. Although few institutions such as ICAI (Institute of Chartered Accountants of India) offer certificate courses on forensic accounting, in India there is little awareness or knowledge about forensic accounting. Since there are no provisions for forensic accounting or accountants in India, universities do not consider it necessary to include forensic accounting as one of the areas of accounting, such as cost and management accounting, during the course of their programmes. This spreads more darkness to forensic accounting awareness. Apart from this, the list continues:

##### ➤ Acceptability

With the very strict background in India, where law and the public are rigid towards new concepts, forensic accountability has a long way to go. After interviewing the

employees of different accounting firms, we agreed that the auditors, the Chartered Accountants etc., have a rigid belief that the practices in India have no defect in the detection of fraud. So, they don't find the need to accept any new concept for reducing the fraudulent activities.

- **Adaptability**  
In India, the legal system is not adapted to the changing contentious environment. And the problem mentioned above is also a reason for India's failure to comply with forensic accounting. It is a tedious process to amend the existing legislation by including a new concept such as forensic accounting.
- **Technological advancements**  
A company must adopt CAAT (computer assisted auditing tools) for accountants' forensic accounting services. The company finds the processes of upgrading existing technological expertise and equipment tedious. For this purpose, there must also be physical space. In addition the technological cost is much higher than the cost of human capital. Companies are reluctant to resign themselves to software that costs more than they have a lot of idea of. Another obstacle is that the companies do not feel that the advantages of using this technology would exceed the costs involved; in the longer term. Finally, the biggest dilemma with technological advances is the increasing number of computer frauds that accountants find difficult to detect.
- **Expensive**  
The course of action and management of forensic accounts are very expensive. In addition, the fee for the incorporation of a forensic accountant is very high in India than for an auditor. Since it is not obligatory for companies to appoint forensic accountants, they do not take advantage of their services. Every stage of the forensic accounting modus operandi is high in price terms. During the long process the companies find it irksome.
- **Time consuming**  
In the role of companies, the credibility of each transaction and account must be captured in detail; the companies must take care of many complicated information. This forensic accountants' route is prolonged. In addition to the costs, the company cannot withstand the time-consuming limit for the participation of forensic accountants.

- **The Indian milieu**  
The expanded tax structure in India hinders forensic accounting in India. The relevant judicial system in India is unbending and rigid, which impedes the execution and operation of forensic accounts. It is also said that the accountant cannot easily detect charlatan due to globalization. This presents the forensic accountant in India with a challenge without proper implementation or competence.

### **THE TECHNIQUES USED IN FORENSIC ACCOUNTING**

The forensic accounting procedure is arduous. In India, accountants and auditors are increasing their scope if their customers demand it. Due to a lack of awareness or discernment of forensic services, companies and the general public do not investigate the need to start forensic accounting services

- **THEORY OF RELATIVE SIZE FACTOR (RSF)**

For any entity or entity such as vendors, employees and customers, there is a limit on the size of the money. And the data set can be used to examine these limits. You can determine the relative size factor by comparing the highest number with the lowest number in the specified and prearranged array. It helps to perceive the interference and inconsistency in the known data set. While documenting the data protruding from the given collection or range is considered an error, it is correlated with the variables that affect it to detect its integrity.

- **COMPUTER ASSISTED AUDITING TOOLS (CAAT)**

This is the area in which computer technology is used in the forensic accounting sector. It is a program used for audits. For this purpose, information relating to audit data from the client's system is extracted without any reliability on the part of the client. This program tracks various aspects, such as the credibility of the transaction and the balance of accounts shown in the company's accounts, even records variations in figures or data sets and validates the control systems of the computers and applications used by customers. They perform audits through the sampling algorithm or program, recreate and reproduce all the accounts performed by the system.

- **DATA MINING TECHNIQUES**

Forensic accountant must handle large amounts of data for calculations, and these data must be

properly analyzed to obtain the right results and to know the correct amount of losses as applicable. This technique involves step-by-step four main heads. It is the practice to extract and examine the large quantity of data involved that easily detects atypical patterns and information, which is the first discovery to be called. In its second head called predictive modelling where the asymmetrical distribution is used to forecast the new values and the outcomes. The deviation of the items from the usual is calculated in the third heading called deviation analysis. At the end of the process, the link discovery uses the deterministic graphical techniques in which the algorithm is used to determine the cases.

#### ➤ RATIO ANALYSIS

The ratios are critical in all decision-making areas and it is also essential to know the rudiments of fraud. As the ratios are used to know the financial strength of the company, companies tend to manipulate their ratios. In forensic accounting, the accountant determines the ratios that provide a precise explanation of the production and sales that the organization continues to make. It calculates ratios between the following items:-

1. The ratio of the uppermost to the lowermost value
2. The ratio between the supreme to the second supreme value
3. The present year's ratios to the previous year's ratios

#### ➤ BENFORD'S LAW

This is purely a mathematical tool, where the intention behind the variables is first checked. The variables in the study are tested out; whether they are off the cuff and unpremeditated error or if they are intentional error that is fraud. And if fraud is identified then those data and information are lay open to rigorous enquiry.

#### 4. CONCLUSION

Towards the end we believe that the growth of forensic accounting will only be possible if it comes out from a concept to field of study. For this, more and more awareness should be proliferated among corporate world. Forensic accounting ought to be considered as a preventive tool for uncovering the fraud and recognising its nature with its line of attack. As we have mentioned earlier India has

failed to distinguish forensic accounting as a main domain. As a consequence there is a hidden need for forensic accountant in our country. Giving attention to the fact which is unnoticed that the benefits of forensic accounting outnumbers its shortcomings that have stumbled on writing this article.

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