

Forensic Accounting - A Game Changing Approach for Holistic Corporate Sector Development in India

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ABSTRACT

Forensic accounting is the prominent instrument in the field of accounting area to tackle the rampant situation of financial fraud. Forensic accounting is a specific branch of accounting. It involves the application of special skills such as accounting, auditing procedures, finance, quantitative methods, research, and investigations in accounting activities. With the rapid growth of technology in India after globalization, the trend of accounting is also changing as per the demand of stakeholders due to facing these complex natures of fraud. Forensic accounting is one of the transcendent examples in the area of accounting. It is capable to find out all kinds of fraud; if we use it attentively. The techniques of forensic accounting are also developing with the need of time. Modern technologies are more powerful in comparison to conventional technologies. In the dynamic cyber world, the complex natures of frauds are creating a need for research in the forensic accounting area. Since independence, the Incremental growth of voluminous financial scams is a black spot in the Indian economy. Moreover, the list of challenges to better practices of forensic accounting in India is too extensive. There are few agencies in India, which are dedicated to the mission of combating fraud for example- SFIO, FEMA, RBI, CBI (Economic Office Wing) deals with big financial scams, Central Vigilance Commission deals with corruption. In view of India, the better practices of forensic accounting should be observed by stakeholders carefully to boost economic growth.

The present study discusses the conceptual framework of forensic accounting, the implementation & progress of forensic accounting, the authorities involved, and suggestions for better implementation of forensic accounting from the Indian perspective.

Keyword: forensic accounting, dynamic cyber world, financial fraud, indian economy

I. INTRODUCTION

How to mitigate financial fraud in the present fraud risk scenario? It is the brunt question in the dynamic cyber world. Forensic accounting is the prominent instrument in the field of accounting area to tackle the rampant situation of financial fraud. It is a specific branch of accounting. It includes the application of special skills such as accounting, auditing procedures, finance, quantitative methods, research, and investigations in accounting activities. In earlier times, the natures of financial fraud were not more complex in comparison to the present scenario. With the rapid growth of technology in India after globalization, the trend of accounting is also changing as per the demand of stakeholders due to facing these complex natures of fraud. The increasing number of financial frauds in India has become a serious issue in the economy. Among different kinds of financial fraud, accounting fraud, corporate fraud & cyber security fraud are very much common in the business world. In these kinds of fraud, the auditors, executives, or directors of companies modify and manipulate the financial statement of the company intentionally to deceive some party as stock market analysts, or to earn credit. In India, the scope of forensic accounting is mostly limited to in the hand of chartered accountants. Now, time demands to increase in the scope of forensic accounting. ICAI also clarified in this regard, "though forensic accounting is at a nascent stage in India, it is currently in great demand because of the emerging demand for transparency & accountability." India has witnessed many scams since independence. Some of the main contemporary scams are as under-

1. The Satyam Computers Scam (2009)
2. Ketan Parekh and the Stock Market Scam of (2001)
3. Harshad Mehta and the Stock Market Scam (1992)
4. Nirav Modi, the Punjab National Bank Scam (2018)
5. Saradha scam (2008)
6. 2G Spectrum Scam (2007)
7. Common Wealth Game Scam (2010)
8. Telgi Scam (2003)
9. IPL Scam
10. Vijay Mallya Scam (2015)

11. ABG Shipyard Scam (2022)
12. Coal Scam (2012)
13. NSE Co-Location Scam (2018)
14. Rotomac & PNB Scam (2018)
15. PMC Bank & DHFL Scam (2019)

Therefore, it is compulsory to tackle, detect & prevent all types of financial fraud at the initial level to save the hard-hand money of residents of a country. Any kind of financial fraud is a black spot in the Indian economy. Forensic accounting is capable to detect & prevent all types of fraud; if we use it attentively. We have to need to look for insight & provide more emphasis on this specific branch of accounting.

II. LITERATURE REVIEW

Traditional accounting could not bring into light many financial irregularities, appropriations, and expropriation detrimental to stakeholders. With help of Forensic accounting, we can easily find out these types of solutions in an effective & efficient way. Forensic accounting also helps to protect national wealth with aim of punishing the guilty and protecting the innocent. The following studies are significant in the field of forensic accounting.

O. Ronald Gray (2006) mentioned that the re-emergence of forensic accounting is a reunion of long-separated strands of auditing, a return to common roots. Forensic accounting and auditing are only just re-discovering each other's competencies, and both need to improve their handling of financial statement fraud."

Ifath Shaheen (2014) described that Forensic accounting in India is relatively a new area of study, a series of working definitions and sharing of corporate experiences should be undertaken and encouraged to ensure a common understanding. Indeed, there is a great future in forensic accounting as a separate "niche" consulting. It is being used as an investigative tool, rather than a preventive tool."

Mahua Biswas (2013) described that forensic accounting includes the use of accounting, auditing, and investigative skills to assist in legal matters. Forensic accounting consists of two major components. First, in case of litigation, the investigative skills of a forensic accountant are used in two ways, he can be called upon to give his expert opinion based on his investigation and may require possible courtroom testimony. Second, a Forensic accountant's investigative skills are required for collecting, analyzing, and evaluating financial evidence, as well as the ability to interpret and communicate findings."

Supriya. H (2019) finds that Forensic accounting is a special instrument in the emerging economic scenario to discover or investigate financial crime and the path of justice, providing strategic information on the evidence found related to financial crime. Forensic accounting is a new area in the field of accounting. Now, many people have started the use of forensic accounting for their own benefit.

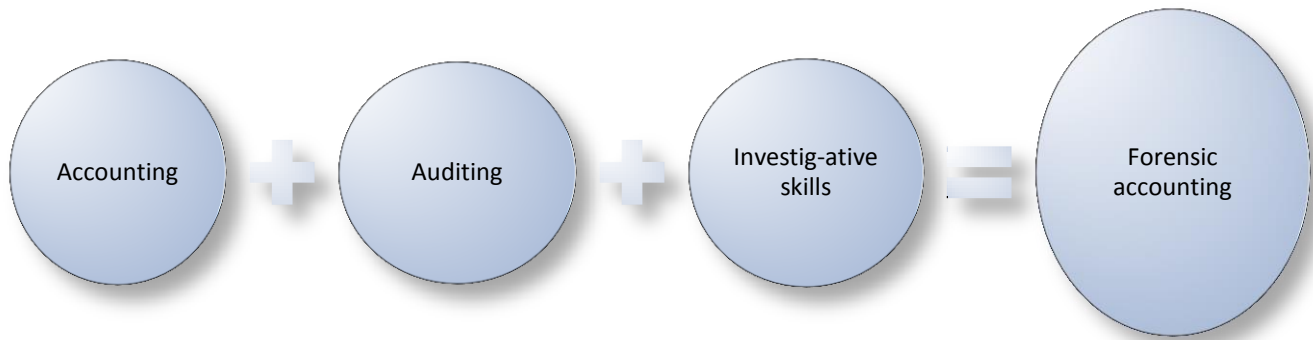
Aruna P (2017) explained that the person who carries out these skills for court proceedings to prove or disprove fraud is called a forensic accountant. The services that forensic accountant provide includes analyzing, interpreting, summarising, and the present complex financial transaction, analyzing the evidence, evaluating the disposition testimony, determining the real income of both spouses in divorce cases & ascertaining the damage.

Pema Lama (2018) described that Forensic accounting is the best ever-growing area of accounting that enables enhancing the chances of success in day to day life of a corporate firm by improving the role of corporate governance as well as helping in formulating and establishing efficient control systems. Hence, proper attention is required by the regulators, Government, and the educational institutes to support forensic accounting in India.

Nisha Chaturvedi (2015) highlighted that due to a lack of strict surveillance authorities, it has been observed that financial frauds are out of control in India. India has already suffered significant losses as a result of the rapid rise in white-collar crimes and the perception that our law enforcement agencies lack the knowledge or the time necessary to unearth the frauds. In India, forensic accounting is also a relatively new field.

III. FORENSIC ACCOUNTING- AN INTRODUCTION

Forensic accounting is a specific branch of accounting and relative to the in-depth intellectual part of an accountant. Forensic accounting includes the use of accounting, auditing & investigative skills to assist in legal matters. It is a rapidly growing area of accounting for the detection, prevention & investigation of fraud-full activities in corporate sector. The application of accounting, auditing & investigative skills in forensic accounting provides a sound platform to tackle illegal activities in business. Forensic accounting works as proof in all legal matters.



According to Alan Zysman, “The integration of accounting, auditing and investigative skills yields a specialty known as Forensic Accounting”

According to AICPA, “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.”

According to Webster’s Dictionary, “Belonging to, used in or suitable to courts of judicature or to public discussion and debate.”

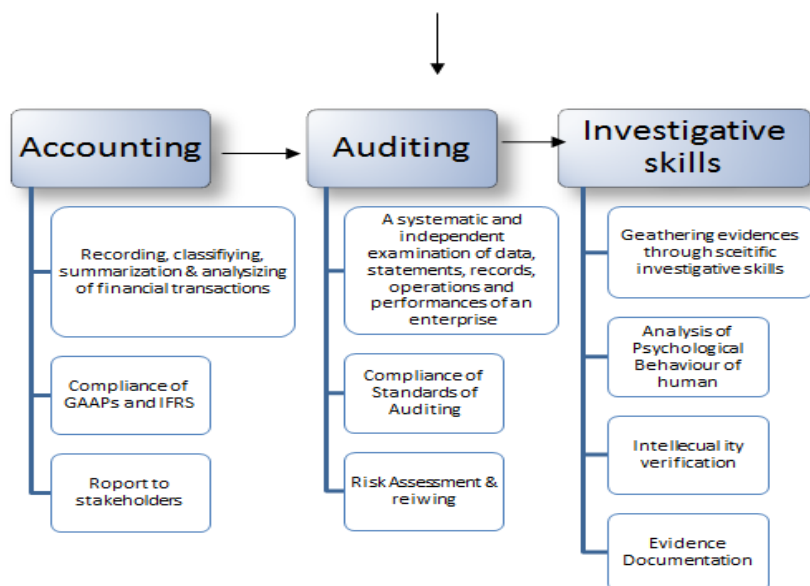
IV. OBJECTIVES OF STUDY

1. To understand the conceptual framework of forensic accounting.
2. To study implementation & progress of forensic accounting in India.
3. To provide suggestions for better implementation of forensic accounting in India.
4. To understand the role of forensic accounting in resolving issues with finance, financial fraud and corporate misconduct.

Table 1: Techniques of Forensic Accounting

Conventional Techniques	Modern Techniques
1- Benford’s Law	1- Spot the Unusual
2- Theory of Relative Size Factor (RSF)	2- Fraud Risk Management
3- Computer Assisted Auditing Tools (CAATs)	3- Forensic Technology Lab
4- Data Mining Techniques	4- Corporate Intelligence
5- Ratio Analysis	5- Verification (<i>Know Your Employee</i>)
	6- Documentation Management
	7- Artificial intelligence
	8- Robotics Process Automation (RPA)

V. CONCEPTUAL FRAMEWORK OF FORENSIC ACCOUNTING



VI. IMPLEMENTATION & PROGRESS OF FORENSIC ACCOUNTING IN INDIA

Maurice E. Peloubet (US citizen) introduced the word '*forensic accounting*' to the world in his 1946 essay "Forensic Accounting: Its Place in Today's Economy." Forensic accounting is a fast-emerging field in the world of accounting. Mostly Western countries use forensic accounting to tackle financial fraud cases in business. US & Canada, both are the top countries; who develop & implement much in the field of forensic accounting. But, forensic accounting is not received correct recognition in India even after the increasingly complex nature of fraud, lack of adequately trained accountants, increasing financial cybercrime, etc. in India. Only chartered accountants are handling the work of forensic accounting. Moreover, very few chartered accountant firms provide fraud examination services apart from regular practice. In a dynamic cyber world, the nature of financial fraud is much more sophisticated; well organized and so carefully mingled with the facts that it's a very tough job to inspect it at a routine glance. Price water House Coopers, KPMG, and Ernst and Young dominate are involved in the study in the field of forensic accounting.

There are a few agencies in India, which are dedicated to the mission of combating fraud for example- SFIO, FEMA, RBI, CBI (Economic Office Wing) deal with big financial frauds, Central Vigilance Commission deals with corruption.

In India establishment of the Serious Fraud Investigation Organisation (SFIO) is a remarkable contribution to the field of forensic accounting. It was initially set up by the Government of India by way of a resolution dated 2nd July 2003. SFIO is a multi-disciplinary specific organization in India having experts from various field example- the financial sector, money/capital market, accountancy, forensic audit, taxation, law, information technology, company law, customs, and investigation, etc. These experts have been taken from various organizations like banks, the securities & exchange board of India, the comptroller and auditor general and concerned organizations and departments of the government. Company act, 2013 (section-211), has accorded statutory status to the Serious Fraud Investigation Office (SFIO). The central bank of India (RBI) has mandatory forensic accounting audits for all banks within the country.

In India, The forensic accounting course is available mainly only for CA, CMA & CS students only. The chapter on forensic accounting is not still included in the syllabus at in UG & PG level after the recommendation of various scholars & committees. India is facing new-new kinds of challenges in financial fraud cases each year, but no more attention at this side. It is a very serious matter to tackle financial fraud. The government should take up the initiative to provide specialized education in this field of forensic accounting and a well-designed course curriculum should be offered by all central and state universities in India to train and develop the required skills in students so that they may help in preventing financial frauds and scams as in future.

VII. REGULATORY PROVISIONS AND AUTHORITIES IN INDIA

The main regulatory provisions and legislation governing corporate fraud in India are as under.

[1] Companies Act, 2013

For the purpose of identifying, deterring, and punishing corporate fraud, the company law incorporates number of provisions and protections. The company law 2013 not only gives a comprehensive definition of the term "fraud," but it also outlines the duties that different people, authorities, and officials have when it comes to preventing and reporting fraud.

[2] Indian Penal Code, 1860

It lays out the legal requirements for punishment for the vast majority of crimes committed in India. In terms of fraud, the IPC punishes dishonest property misappropriation, criminal breach of trust, fraud and dishonestly inducing the delivery of property, as well as forgeries.

Depending on the circumstances and details of the case, the additional laws may also apply that deal with corporate fraud. These following laws are specifically relevant.

1. Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (PFUTP Regulations).
2. Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.
3. Reserve Bank of India (Frauds classification and reporting by commercial banks and select FIs) directions, 2016.
4. Income Tax Act, 1961.
5. Central Goods and Services Tax Act, 2017.
6. Insolvency and Bankruptcy Code, 2016.
7. Indian Contract Act, 1872 (Contract Act)
8. Foreign Exchange Management Act 1999, etc.

VIII. FUTURE OF FORENSIC ACCOUNTING IN INDIA

This is a little-known area in India in accounting field. Integrating accounting, auditing and investigative skills, both create a specialty known as forensic accounting. Opportunities for forensic accountants are growing rapidly due to increasing complexity in corporate sector. Forensic accountants may be engaged in regular accounting practice, insurance companies, banks, government agencies, etc. as better career opportunities. There is only a handful of forensics accounting experts in India; but they are the most in-demand due to the increasing fraud. A forensic accountant is responsible for using technology and implementing investigative techniques to detect fraud and illegal activities in accounting, banking, money laundering, and so on. They conduct elaborate background checks, review records, gather evidence of financial negligence, and interrogate people associated with misconduct. In this field, there is much requirement from corporate sector.

Forensic accounting investigations and audits, both are necessary to prevent theft, security fraud, insurance fraud, banking sector fraud, online fund theft, fund embezzlement, fund misappropriation, etc. Forensic accounting provides an accounting analysis that is acceptable even in court. Correct application, systematic use & adequate skills can prevent future fraud and potential risks in corporate sector. For the forensic accountant of the future, an MBA ensures you are up-to-date on the business law, problem-solving and financial aspects that are critical to fraud investigations.

The employment of accountants and auditors is expected to grow by 6% from 2018 to 2028. Jobs for financial experts are projected to increase by 7% over the same time period. Technological advances are also expected to impact forensic accounting as cybercrime advances and become more common. With a degree in forensic accounting, you will gain a deep understanding of how technology is affecting the role of accounting. For the end user, law enforcement and accounting firms will dominate the forensic accounting market during the forecast period due to the increased use of such software and tools to effectively investigate financial crimes and fraud.

Cyber financial fraud cases are increasing by exponential rate. Financial, economic, taxation, and other fields are deregulated; economic crimes are prone to technological progress. It is necessary for the country to have sufficient professional certified forensic accountants in order to maintain the country's wealth; contribute to the country's economic development. With the advent of advanced techniques, such as advanced forensic analysis and tools, such as several comprehensive forensic software suites, as well as accounting and auditing tools, they have been widely used to simplify investigations. Forensic accountants use their understanding of business information and financial reporting systems, accounting and auditing standards and procedures, evidence collection and investigation methods, and litigation procedures and procedures to carry out their work.

Forensic accountants typically work with business analysts to gain insight into structured and unstructured information from public sources (including social media and signed databases in India and other jurisdictions) to broadly reach media and print. Certified forensic accountant has experience in conducting forensic accounting expertise in criminal and civil cases. Investigations use both free statistical tools and advanced forensic tools, which also contribute to segmental growth. It is very crucial in identifying financial frauds and other white-collar crimes also. Briefly, forensic accounting is regarded as an appropriate instrument to provide the highest level of confidence and to strengthen the validity of the financial statements of corporate sector.

IX. CHALLENGES OF FORENSIC ACCOUNTING TO BETTER IMPLEMENTATION IN INDIA

In the present scenario, the list of challenges to better implementation of forensic accounting is too long. The list of major challenges is given below.

1. Forensic accounting is in the initial stage. In India, few people have standard knowledge in the field of forensic accounting.
2. In a dynamic cyber world, it is very difficult to find out fraudster activities. So, a forensic accountant should be ready to cope with them.
3. Indian judicial system still follows age-old British judicial system. It is expensive to bring the matter to court and hire expert advocates.
4. It is not mandatory for companies to appoint forensic accountants in companies.
5. Forensic accounting requires huge expenses during the investigation.
6. There is no specific guideline or act in the field of forensic accounting in India.

X. SUGGESTIONS

After the study of various researches, articles, books, magazine & newspapers, the following suggestions can be given to better implementation & boost the scope of forensic accounting In India.

1. Provide & implement technological reinforcement.
2. Global corporation in the field of accounting

3. Provide special training in criminology, psychology, accounting practices, auditing practices, various laws, good communication – oral and written, and litigation procedures.
4. Organise seminars, conferences, workshops & various courses for accountants.
5. Encouragement of research activities in the field of forensic accounting.
6. Increase the use of artificial intelligence.
7. Mandatory to appoint forensic accountants in large companies.
8. Modify old laws.
9. It should be added to the university curriculum.
10. Implementation of integrated accounting software under the intervention of a statutory body. It can mitigate the art of spinning financial fraud in the initial stage.
11. Development & implementation of proactive tools for forensic auditing.

XI. CONCLUSION

Forensic accounting is a specific area of accounting that describes engagements that result from actual or anticipated disputes. In a dynamic cyber world, the nature of financial fraud is much more sophisticated, well organized and so carefully mingled with the facts that it's a very tough job to observe & inspect it at a glance. If we get successful to detect, prevent & investigating fraud full activates in business, definitely stakeholders will believe more. Finally, forensic accounting is seen as an adequate tool to offer the highest level of assurance and add credibility to financial statements. FICCI and Pinkerton's IRS 2021 report highlighted potential threats and risks to businesses & roll out the India Risk Survey 2021 report. India Risk Survey 2021 is based on 12 factors of risk. The report remarked that the "Corruption, Bribery & Corporate Fraud" factor is also significant in 2021 as the 10th rank. From this perspective, the significance of forensic accounting we can't ignore. Forensic accounting works as a safeguard of the corporate sector to boost efficiency & effectiveness in the economy. It is a reliable tool for accounting for the assessment of damage, fact findings, evidence collection, investigation & analysis of financial evidence and assures the interest of stakeholders in matters of holistic corporate sector development in India.

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