

FORENSIC ACCOUNTING: AN INSTRUMENTAL TOOL FOR FRAUD DETECTION AND PREVENTION

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“Fraud can be best prevented by good people asking the right questions at the right time”

- Michael J Comer

Since centuries, fraud has been prevailing as a continuous enigma in every human society and thus poses a huge threat to the well-functioning of every civilised society. It entered the corporate business field as an inevitable but unwanted consequence of the fast-paced economic and technological growth. Fraud can be defined as a conduct involving use of dishonest and deceitful means to obtain unjust advantage or gain. Corporate fraud is one that occurs within the organisation and involves deliberate dishonesty that could deceive the public, investors or lending companies. The consequences of corporate fraud are not limited to financial loss but also include reputation losses, cultural losses, loss of customer relationship, loss of trust in the reliability of financial information and low team morale.

The failure of the statutory audits to detect, prevent and reduce corporate frauds and other irregularities necessitated proper investigation as well as a strong preventive environment. The Companies Act, 2013 introduced stringent provisions ranging from increasing the role and duties of independent directors and that of the auditors to statutorily address the growing problem of corporate frauds.

In this scenario, the concept of forensic accounting also started assuming great significance. Forensic accounting is a specific area of accounting which investigates fraud and analyse financial information which can be utilized in civil and criminal litigation. It requires forensic accountants to adopt a questioning mind-set and critical assessment of audit evidence in assessing audit risk of fraud. The role of forensic accountants is not

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limited to fraud detection but also assisting in litigations in courts, hence a forensic accountant assignment must be of such quality that it can withstand scrutiny by attorneys, judges and juries. Fraud examination in forensic accounting is different from 'traditional accounting' because the forensic accountant detects the fraud and prevents it with his intuitive abilities.

This research paper aims to make a judicious study on the relevance of forensic accounting in curbing frauds in the corporate sector and the application of forensic accounting in the Indian legal framework. The research work also seeks to explore the role of forensic accountants in preventing the menace of frauds, their duties and responsibilities, the skills they must possess and the challenges they face while assuming this position. Before delving into the vast topic of forensic accounting, one must understand the concept of corporate fraud and the far-reaching effects of this menace in the corporate world.

WHAT IS CORPORATE FRAUD?

Fraud is defined as any act or omission which is intended to cause wrongful or dishonest gain to one person and wrongful loss to another either by way of concealment of facts or otherwise. Organization of all types and size are subject to fraud regardless of their for-profit or non-profit status. Corporate fraud consists of activities undertaken by an

individual or company that are done in an illegal manner. It is designed in such a manner as to give an advantage to the perpetrating individual or company. Corporate fraud includes financial fraud or accounting fraud, self-dealing by corporate insiders and obstructive conduct.

Financial fraud or accounting fraud includes falsifying financial information by fudging the books and thereby misleading the investors. The most popular accounting schemes are capitalizing expenses, side deals, swap transactions, channel stuffing and deferred expenses. Generally, management perpetuates this.

Self-dealing by corporate insiders is related to misappropriation of corporate assets by senior executives such as loans granted to senior management that are never intended to be repaid, failure to disclose forgive loans, reimbursed personal and extra ordinary personal expenses charged to the company. Obstructive conduct is another kind of corporate fraud, which includes falsifying testimony to regulators, erasing computer files and altering computer files to support illegal conduct.

The Associated Chambers of Commerce and Industry of India (ASSOCHAM) conducted a survey in 2015 and it revealed that cases of financial fraud have risen in India over the last few years and has become the main reason deterring foreign companies from

investing in India. Following are the key challenges prevalent in the current economic environment:

- Identifying corporate fraud by normal auditing is difficult. There is lack of knowledge concerning the characteristics of corporate fraud. The financial managers and accountants in the organization are aware of the limitation of auditing and they are deliberately trying to deceive the external auditor by altering the books.
- Today, in an increasingly interconnected world, technology enables business to be conducted in the wink of an eye. Fraudsters are using technologies to in a variety of ways to commit frauds. The unauthorized access to the accounting software is a potential threat to the organization.
- Most of the organizations do not communicate their expectations of integrity and ethical values to third parties. This result in fraud by third parties.
- Failure to segregate duties appropriately can inadvertently allow employees to commit fraudulent activities.

INTRODUCTION TO FORENSIC ACCOUNTING

The most recent years have seen an incredible extension in both intrigue and research in the behavioural and social impact of forensic accounting. There is little uncertainty that the territory of accounting will be one of the expanding and imperative exercises in the years ahead². Until recently, detection of fraud and corporate crimes was thought to be part of the accounting function. Fraud was something that the internal or external auditors were supposed to keep a check through their periodic audits. However, the emergence of instances of poor corporate governance, mismanagement of funds, frauds and such wrong doings led to poor functioning and failure of many high-profile corporates.

The failure of statutory audit to detect, prevent and reduce corporate frauds necessitated the introduction of a new category of accounting known as “forensic accounting”. Also, forensic accountants started to equip themselves with great skills and techniques for identifying, discovering as well as preserving the evidence of all forms of financial abuses. Though accounting practices has been improving tremendously, recent electronic frauds have become highly

² Nick Hopwood published March 1st 2009

complex and sophisticated to a magnitude that many of them go undetected.

EVOLUTION OF FORENSIC ACCOUNTING

Maurice E. Peloubet first coined the term forensic accountant in the year of 1946 in his essay “Forensic Accounting: Its place in India’s economy”. Forensic accounting can be traced as far as back to 1817 in a Canadian court litigation of *Meyer v. Sefto*, in which an enquiry was made to determine the value of bankrupt’s estate.³ A witness who had examined the bankrupt’s accounts was permitted to testify, since the nature of the case was such that, it could not be made in court. Hence the association of certified forensic investigators of Canada claims that the area of forensic accounting and its investigation began in Canada. The concept of forensic accounting has been around in the past 200 years. The soonest reference was found in 1824 in a book keeper’s publicizing round in Glasgow, Scotland. These accountants gave evidences in courts and declarations in assertion procedures.

The major stages in the development of forensic amounting can be traced as follows:

- 1942: coining of the term forensic accounting in “forensic accounting: its place in today’s economy”

- 1982: Francis C Dykman distributed the compilation “forensic accounting the accountant as an Expert witness”
- 1986: The AICPA issued practice aid #7, enumerating six zones of case administrations. Its implications, anti-trust examinations, accounting, investigations, valuation and general counselling.
- 1988: the association of fraud examiners was established. In addition, another class of criminologist’s books were published wherein the bookkeeper was the star.
- 1992: Establishment of the American college of forensic examiners.
- 1997: the year of establishment of the American board of forensic accountants.
- 2000: The journal of forensic accounting, auditing and taxation was published.

Sherlock Holmes character sir Arthur Conan Doyle was known as the most popular practitioner as a forensic chemist. Kautilya was the first Indian economist who recognized the significance of Forensic accounting. He emphasised 40 different ways of embezzlement, centuries ago. Similarly, some of the stories of the fraud examiner Birbal gives a brief idea about the litmus test of investigation⁴. In 1824, a Scottish

³ Ibid, page 59

⁴ Bhasin M L, 2007 page 41

accountant published a circular advertising his expertise in the areas of arbitration support, expert witnessing, and damage awards in the late 100s and 1900s.

CONCEPT AND DEFINITION

Webster's dictionary defined the word forensic as "belonging to, used in, or suitable to courts of judicature or to public discussions and debate."⁵ Forensic accounting is a comprehensive view of fraud investigation which includes the interview process of all related parties to a fraud and the appearing as an expert witness, when required.

Bologna and Lindquist defined forensic accounting as "the application of financial skills, and an investigative mentality to unresolved issues, conducted within the context of rules and evidence. As a discipline it encompasses financial expertise, fraud knowledge and a sound knowledge and understanding of business reality and the working of legal system."⁶

According to Zysman A, the integration of auditing, accounting and investigative skills yields a specialty known as forensic accounting. Forensic accounting provides an accounting analysis that is suitable to the court which will form the basis of discussion and debate.

Financial Times lexicon on the scope of forensic accounting says that forensic accounting is performed for an assortment of customers however in almost all the cases it finds the concealed story behind the presentation of an arrangement of documents. Forensic accountants can wind up finding extortion (although not illicit) or a deception of budgetary circumstance.

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

Therefore, forensic accounting is the accounting practice of applying accounting auditing and investigative skills to assist in legal issues to obtain a result. This groundbreaking accounting mainly two areas to cover:

- Litigation support and investigation: In this capacity, a forensic accountant has to quantify the damages involved in the existing litigation and assist in resolving the disputes without reaching courtroom. If legal proceedings are initiated, then he can give testimony as an expert witness.
- Dispute resolution

⁵ Albrecht C.C, 2003: Page 15

⁶ Bhasin, M.L, 2007; page 42

- It is a matter of determining the criminal acts and recommends precautionary steps to be taken in the future to reduce the risk of loss.

NEED OF FORENSIC ACCOUNTING

The need for forensic accounting aroused because of the failure of the audit system in the organisation in identifying errors or fraud occurred in the organisation. US News and World Report listed forensic accountant as one of the 20 hot job tracks of the future. However, Kessler International experts said that the field's popularity has attracted many in-experienced accountants who lack the skill to carefully and cost effectively conduct inquiries.⁷ However the following are some of the important reasons for the growth of forensic accounting in India

- Internal audit cannot throw light on different facts and other hidden aspects. Statutory audit touches only a part of the problem while it requires emphasis but it adversely need longer duration. The internal auditors can surely detect what was happening but they are hardly in a position to initiate proper action in proper time Forensic accounting will help in that context
- On identification of misconduct of an employee, an organization may engage a Forensic Accountant to fish

out the truth. Forensic accountant trace any fraud by going through the books and papers of the organisation as well as the activities of the employee. They also tactfully interview the accused and review evidence of assets created out of such fraud.

- Where fraud is already detected and criminal proceedings are on the way, a detailed report containing financial implications prepared by a Forensic Accountant is of great assistance to the Police and Law society.
- If a retiring or outgoing partner of a firm complaint of an unjust settlement, with the help of a Forensic Accountant, he can get assets and liabilities gauged properly and if needed institute proceedings for resettlement.
- Whenever due to the negligence of an employee, generally accepted standards of accounting and auditing standards are not complied with, forensic Accountants are called upon to quantify the extent of loss arising from such negligence or breach in service.
- Forensic Accountants are individuals who are specially trained in alternative dispute resolution. They help the

⁷ http://shodhganga.inflibnet.ac.in/bitstream/10603/172649/9/09_chapter%203.pdf

business community to fix differences using tools of arbitration and mediation. Apart from that, they also help settle contract disputes, liability claims, intellectual property infringements, construction breaches etc. in an organisation.

AREAS OF PRACTICE OF FORENSIC ACCOUNTING

Forensic accountants are individuals who are well versed in accountancy and criminology investigation. He goes to investigate the backroom look at the arrangement of documents to find the reality. They not only stick on to the standard methods but also dig out the hidden facts and missing details. This includes recreation of altered or falsified or manipulated records. Increased complexities and fast paced development of technology has given prominence to this discipline. The areas of application can be summarized as follows:

Investigation in corporate sector

The internal and external environment prone to wrong doings are major concerns of companies. Forensic accountants delve into the internal issues like the allegations made by employees regarding kickbacks or wrongful dismissals or any other wrongdoings of the management or employees. At times, he meets the persons affected by allegations, rumours or inquiries. Where the employees are doubted to have misrepresented any

documents or defalcated any assets; they make attempts to question and discover the truth concealed.

Litigation support

Litigation support includes wide range of aspects such as construction claims, loss of profits, breach of contract, product liability, bankruptcy and shareholder disputes.

Insurance claims: the assessment of insurance claims on behalf of insured as well as insurers require assistance of forensic accountants to assess the quantum of claim. Losses from fidelity bond, personal injury matters are the significant areas that require assistance.

Shareholders and partnership disputes: a forensic accountant can amicably settle the disputes regarding the compensation and financial benefits by analysing the financial statements

Corporate governance: Organizations can make use of the skills of a forensic accountant for developing a consistent system of corporate governance, disseminating information within and outside the company, ensuring that governance policies and objectives are embedded into the internal

control system, and setting up fraud prevention systems to investigate frauds.⁸

Capital market efficiency: A forensic accountant can also play a vital role in assisting the shareholders in identify fluctuations in share price and price movements. This can be immensely helpful as the stock market in the current growing scenario undergoes frequent changes making it complex.

Assistance to government agencies: forensic accountants assist government agencies by ensuring whether the companies are run by adhering to the statutory compliances. This includes grant and subsidy investigations and public enquiries.

Family disputes: In the matters of family disputes like matrimonial settlement and others a forensic accountant assists in tracing and locating the family assets which would facilitate amicable settlement and proper disbursement. The assets can be business properties or others.

Fraud investigation for employee fraud: The nature, mode and extent of the fraud committed is investigated and detected. These investigations involve detailed personal interviews of the the personnel

accused and assessment of the documentary evidence involved.

Criminal matters: In criminal matters the accountants can testify as expert witness in court cases. This is necessary in variety of situations like arson, scams, kickbacks or embezzlement and other such frauds.

Business economic losses: Examples of business economic losses include contract disputes, construction claims, trademark and patent infringements. The forensic accountant may be called to analyse and investigate such losses.

FORENSIC AUDIT AND FINANCIAL AUDIT

Financial auditing refers to the process of evaluating compliance of financial information with regulatory standards, usually for public companies by an external and an independent entity.⁹ Financial audit is performed in conformity to the GAAS (generally accepted accounting standards) and thus follow strict procedures. The primary focus of financial audit is to prevent occurrence of any material misstatement in financial statements. Though with the help of GAAS financial statement fraud can be identified it is not properly by financial

⁸ http://shodhganga.inflibnet.ac.in/bitstream/10603/172649/9/09_chapter%203.pdf

⁹ https://www.researchgate.net/application/ClientValidation.html?origPath=/publication/324654376_

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auditors, as they are much involved in detecting immaterial fraud.

Forensic audit is a systematic process of obtaining and evaluating the evidences

regarding economic actions and communicating the results to the end users.

Fraud auditing is a sub category of forensic audit for identifying, analysing, preventing and correcting fraudulent activities.

CHARACTERISTICS	FINANCIAL AUDIT	FORENSIC AUDITING
PURPOSE OF AUDIT	Determine transparency and fairness of financial statements	Detect, investigate and prevent fraud
MOTIVATION OF AUDIT	Requirement of regulators for SEC filings or annual reports	Has Specific allegation of fraud
FOCUS	Overall preparation of financial statements	Particular accounts, procedures, and activities
Extent of testing	Sampling and selective testing	Entire population
Timing	Year end (thus predictable and easy to conceal fraud)	Whenever an allegation arises (not predictable)
Procedures	Evidence procuring techniques mentioned in GAAS (generally accepted accounting standards)	Surveillance, interrogation, public record investigation, network analysis and other types of procedures
Training area of officials	Generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS)	Forgery, conspiracy, deceit, fraud schemes, interviewing and laws applicable

ROLE OF FORENSIC ACCOUNTANTS

According to Mayur Joshi, from Indian Forensic Consultancy Services,

“The traits of forensic accountants could be compared to well bake Pizza. The base of forensic accounting is accounting knowledge. Size and extent of baking decide the quality

of the Pizza. A middle layer is a dispersed knowledge of auditing, internal controls, risk assessment and fraud detection. It is like the spread of the cheese in Pizza. The toppings of this Pizza are a basic understanding of the legal environment. The legal environment is essential to support the litigations. The cherry on the toppings of the Pizza is a strong set of communication skills, both written and oral. It is just the beautification part. Perfect combination of Pizza base, cheese spread, and good toppings make the Pizza delicious and the forensic accountant the perfect. It's a combination that will be in demand for as long as human nature exists."¹⁰

In the court the forensic accountant can be an expert witness, a consultant, or play other role such as special master, court appointed expert, referee, arbitrator or mediator. The authenticity of the findings of the forensic accountant depends on the knowledge, skills and experience they possess.

They undertake fraud and other financial investigations from the angle of accounting. The duty of a forensic accountant is to facilitate lawyers, insurance companies and other clients to resolve disputes and assist in fraud investigations. He must also have great skills in communicating the information regarding the disputes while appearing in the court. This evidence can be used in court to settle a dispute, as a supporting or negating

evidence. It can also be used as an evidence for indemnification of losses sustained and to seek justice or redress against fraud for betraying trust and confidence.

- The objectives of a forensic accountant will vary according to the purpose of the individual or entity. The main obligation is to uncover fraud, crimes, and extortions or malpractices committed by way of manipulation of accounting records.
- Quantify the magnitude of economic losses or damages sustained and gather the financial records that can be used a strong evidence to initiate legal claims for recovery
- Know of any other potential losses that may be imminent and seek possible steps to prevent the happening of such losses
- Trace any lost assets for purposes which may be instrumental in tracking the fraudster and help in its timely recovery. Locating the physical existence of the unaccounted assets procured may also be essential for the settlement of a dispute.
- Analyzing, verifying, and calculating the amount being claimed in court against the company, which in this case is the one being brought to court. In this circumstance, it will also be necessary to determine the causes and the people responsible for placing the company into

¹⁰ Bhasin ML, issue 2007: page 45

such a vulnerable position and brought liability through lawsuits

- Detecting the extent of malpractice applied by other accounting professionals who were involved in representing misleading financial reports which were vital to the decision-making process of users of financial statements who are investors, creditors, tax assessors, or grantors of contracts, licenses, and permits and other stakeholders of the organization
- Conducting a follow up on the findings reported by the internal auditor pertaining to losses or potential losses that are to be 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.

BEHAVIOURAL PSYCHOLOGY OF COMPANY BOARD AND FORENSIC ACCOUNTANTS: AN OVERSIGHT

Forensic accountants need an insight into the psychology of the fraud perpetrators as well as about their own and weaknesses and blind spots. One of the significant behavioural insight is realising that high-level fraud is usually a "team sport". Internal controls are quite powerless against the overriding power of management.

In fact, the COSO (1999) Fraud Study found that in 83 percent of the frauds examined, the CEO and the CFO had colluded. The well-known groupthink bias ("many heads, one mind") is the major behavioural aspect to be protected against. Groupthink neglects contrary opinions and tends to sway the group into making a "feels good" decision, because maintaining group cohesiveness and solidarity is seen as more important than realistic appraisal of the facts at hand¹¹. When there is an active tendency to neglect bad news or to accept contrary views merely because of laziness or negligence the board members may not see important signs of potential fraud.

The trusted relationships between forensic accountants and their clients sometimes bring about the natural instincts of human being. When encountering complex fraud situations, human tendencies can severely bias his judgments. The confirmation bias (seeking confirmation of one's beliefs) and selective perception (seeing only what one wants to see). Such cognitive biases have extensively limited accountant's ability to exercise skills of professional scepticism.

SKILLS AND QUALITIES OF FORENSIC ACCOUNTANT

A forensic accounting must equip themselves with wide variety of qualitative and

¹¹ [https:// www. researchgate. net/ publication/ 247875236_The_Psychology_and_Sociology_of_Fra](https://www.researchgate.net/publication/247875236_The_Psychology_and_Sociology_of_Fra)

[ud_Integrating_the_Behavioral_Sciences_Componen t_Into_Fraud_and_Forensic_Accounting_Curricula](#)

professional skills. Following are some of the qualities and skills a forensic accountant must possess.

- The most important skill that a forensic accountant should possess is the ability to think. This enables the forensic accountant to exercise skills like innovation and creativity in the performance of their work. A forensic accountant must be versatile in knowledge. He must have an in-depth knowledge in accountancy, auditing and business operation. And should possess a good communication skills and intellectual skills.
- A forensic accountant must possess investigative and financial management skills. He should be able to find unusual financial transaction and should be familiar with business records and book-keeping practices. In the context of legal dispute, the knowledge and skill of the forensic accountant are extremely useful as a consultant to litigation counsel or judges
- A forensic accountant should have the ability to operate in an unstructured situation. He should have good team spirit, interpersonal skills, managerial and commercial skill and public relation capabilities.

- He should be a well educated, trained, experienced professional accountant. He should possess legal knowledge and knowledge on court room procedure
- A forensic accountant should be computer literate. The ability to interpret data is very important in case of litigation. Computer literacy skill are indispensable in today's environment. The computer skill would enable the forensic accountant to audit through the computer if the auditor's report is not satisfied.

In addition to the personal characteristics, they must also meet certain professional requirements like a certification acknowledging his competence. In US one can practice in forensic accounting by obtaining a diploma given by the association of certified fraud examiners (ACFE). The Canadian institute of chartered accountants has issued directions and guidelines and pronouncements regarding investigative accounting. According to Accounting Today, about 40% of top 100 US accounting firms in 2006 is expanding their forensic and fraud services. If this data fits in somewhere in the Indian scenario, then the day is not far away when forensic practice will contribute maximum to the total revenue of Indian CA firms.¹² In short, these services are in great demand and rendered at a premium in the

¹² http://shodhganga.inflibnet.ac.in/bitstream/10603/172649/9/09_chapter%203.pdf

current context of flourishing businesses and rising instances of frauds and litigations.¹³

FUNCTIONS OF FORENSIC ACCOUNTANT

Forensic accountant is a bloodhound, who sniff out fraud and criminal transaction from an organization's financial record and they hound for conclusive evidence. The external auditors examine and look at the numbers, but forensic accountant look beyond the numbers. They take a more proactive approach in examining the books of account. They make no assumption of management integrity, show less concern on arithmetical accuracy which have nothing to do with accounting standards but are keen in observing and exposing any possibility of fraud. A forensic accountant is not normally responsible for the detection of fraud and is evolved only when there is some prediction about fraud. The main function of the forensic accountant is to supervise the fraud examination. Following are the other functions of a forensic accountant.

- When forensic accountant is generated with a situation generated by a complaint, allegation, inquiry or statement of claim they must identify the financial issue significant to the matter quickly.
- When there is prediction about existence of fraud, the first responsibility of the

forensic accountant is to collect evidence that will confirm the fraud. It requires time and effort to gather and compile, such evidence is very important and is admissible in both civil and criminal proceedings. The knowledge and experience of the forensic accountant will help in this collection of evidence.

- The forensic accountant should collect the statements through direct interviews from witness. They can provide valuable information for the investigation. Admissions and confessions are used as evidence of facts or to discredit a party as a witness.
- After collecting all information forensic accountant should testify it. This may not always be required in every case of fraud. If required, the forensic accountant may have to testify in the court as an expert witness.
- Another function of forensic accountant is report writing. The forensic accountant and other review team member should summarize the evidence to written report form, stating the facts and conclusion. It should be in detail and should include all the findings, information, and statement fact admitted and signed by the perpetrator.
- After completing the investigation, forensic accountant should assist the

¹³ Bhasin ML, 2007, Page 45

organization in designing and implementing fraud detection measures and prevention controls.

IMPLEMENTATION OF FORENSIC ACCOUNTING IN INDIA

The branch of corporate accounting has not got due recognition even after alarming increase in the complex financial crimes (Enron case, Raj Gupta case, Satyam case, Malya case) and lack of adequately trained professionals to investigate on the financial crimes. The assignment of forensic accounting is carried by the chartered accountant who apart from handling traditional practice of auditing under companies act or income tax acts. In India CA and CMA are best suited for this profession due their financial acumen acquired during their training. The CA and CWA who acquire post qualification in investigative and forensic accounting can use the designation CA-IFA or CWA-IFA and legally recognized as the forensic accounting expert to handle the investigation of financial crime and give expert testimony in court of law¹⁴.

SERIOUS FRAUD INVESTIGATION OFFICER (SFIO)

Phenomena of vanishing companies and failure of the regulatory mechanism to curb it

has forced the government of India to form Serious Fraud Investigation Officer(SFIO) under the Ministry of Corporate Affairs which can be regarded the first step of Government of India to recognize the importance and advances the profession of forensic accountants. The SFIO is a multidisciplinary body having experts from financial sector, capital market, accountancy, forensic audit, taxation, law, information technology, company law, customs and investigation. These experts have been taken from various organization like Banks, Securities & Exchange Board of India, Comptroller and Auditor General and concerned organisations of the Government. However, the law enforcement agency involved directly in fighting white-collar crimes is the Police, CBI, DRI, etc. There is a total lack on the part of these law of enforcement agencies to train their investigators in this specialized part of investigation white-collar crimes involving forensic accounting¹⁵. Most of the cases in India criminals roam free as the IO given his lack of specialized knowledge & qualification fails to properly investigate the financial crime to its logical conclusion. On the other hand if we look at the western countries particularly USA, the law enforcement agencies like DEA, FBI, CIA has well

¹⁴ INTERNATIONAL JOURNAL OF ENGINEERING TECHNOLOGY SCIENCE

AND RESEARCH, Volume 5.issue 1, January 2018
page no 445

¹⁵ *Id.*

marshalled its pool of special agents having forensic accounting upbringings that are the support of the bureau's financial crimes and terrorism financing units and investigate with professional acumen the complex financial crime like money laundering, internet crimes, financial units and investigate with professional insight, the complex financial crime like money laundering, internet crimes, financial institution fraud and economic crimes¹⁶.

Thus, it is highly imperious on the part of law enforcement agencies in India that they follow suit and engage specialist forensic accountant on its roll whose engagements relating to criminal matters typically arise in the result of financial fraud.

CHALLENGES IN FORENSIC ACCOUNTING

The development of forensic accounting has significant role in the economy but is faced with so many bottlenecks. Following are some challenges faced by the forensic accountants

- A significant challenge that a forensic accountant faces is the task of gathering information that is admissible in the court of law. The admissibility, of evidence in compliance with the law of evidence is crucial to successful prosecution of civil and criminal claims
- Globalisation in business and economic environment and the fact that the fraudster can be based anywhere in the world has led to the problem of inter-jurisdiction.
- The law is not always updated with the latest advancement of technology. Therefore, forensic accountants have to rely on out-dated acts, laws that are of general nature, or acts that have not yet proven their effectiveness in prosecuting fraudsters
- Forensic accounting is an expensive service that only big companies can afford it to detect any fraud in their companies. In addition, it will be quite costly if the issues were brought to court and where it involves expert witnessing. Thus, most companies prefer to settle the issue outside the court to avoid the expensive cost and the risk of losing goodwill and bad publicity on their organisation.
- There is no mandatory requirement set by any regulatory bodies on the companies to conduct forensic accounting, even the distress companies. And there is no specific guideline or act on forensic accounting practices.
- Lack of whistle blower protection might be a factor that pull back people from coming forward to highlight illegal or unethical acts within their organisation.

¹⁶ *Id. at p. 446*

This hinders the development of forensic accounting.

- The fast-changing world of information technology and the exponential increase in the use of computer systems is a threat to forensic accounting. The technology used by criminal and fraudsters is changing vastly and forensic accounting need to stay on top of their game to prevent and detect these fraudulent activities.
- Forensic accounting is a new trend in developing economies. Hence, accountants with adequate technical knowledge on forensic issues are hardly available. Since a professor cannot teach what he does not know, forensic accounting has not been effectively integrated in our academic syllabus. Therefore, this results in lack of adequate knowledge on the subject matter.
- Forensic accounting is in its developing stage of financial fraud detection. There is acute shortage of qualified accountants with adequate technical knowledge of forensic issue in India.
- In financial fraud cases involved politicians it is crucial to find evidences against them.
- Indian judicial system still follows age old British rules and laws.
- Because of continuous adoption of new techniques of Information and Technology by fraudster, it difficult to Forensic Accountant to catch fraudsters.

- Appointment of forensic accountant in companies is not mandatory. There is no specific act or body to regulate forensic accounting in India

FINDINGS AND SUGGESTIONS

With the current economic downturn, there is an increased demand for forensic accounting in the India. But the dearth of qualified accountants with adequate know-how on forensic issue is one of the major problem of forensic accounting in India. By including forensic accounting as a part of under graduate as well as postgraduate level, can increase the availability of forensic accountant in the country. To develop necessary skill to be a forensic accountant one must have knowledge in criminology, psychology, accounting practices, laws, good communication-oral and written and litigation procedures.

The forensic accounting in India so far is used as an investigative tool, rather than a preventive one. If forensic auditing is made mandatory in every establishments, scams involving thousands of crores can be avoided.

There is an inadequacy of a comprehensive legislation in this regard. It is necessary to establish a proper legislative framework that specifies regulatory bodies of forensic accounting to govern and clearly define the role, duties, responsibilities and power of forensic accountant.

In some cases, the challenge faced is the domicile of the fraudster. Therefore, there is a need to make a new law for the prosecution of the fraudsters, irrespective of the domicile and the issue must be taken up to the international regulatory board.

CONCLUSION

Organisations are facing several challenges in the current economic situation. They regularly deal with pressure of uncertain markets, escalating input cost, high labour turns over and advent of technology. Additionally, the companies must meet rising consumer demand across product categories with pricing innovation. Such challenges place further pressure on the management of the organisation and may provide opportunity and incentives for fraudsters to commit fraud. Fraud occur in every organisations irrespective of the size and worth of the company. Even though such fraud can be identified from the internal audits, it is difficult to initiate proper actions

at proper time and it is highly disadvantaged due to its predictability. In this context the organisation can engage a forensic accountant to fish the frauds existing within the different levels of the organisation. Forensic accounting encompasses financial expertise, fraud knowledge and a strong understanding of business reality and working of legal system. Forensic accountant thrives for detecting fraud and criminal transactions in the business organisation. The growing financial fraud cases, recent stock market scams, phenomena of vanishing companies and plantation companies and failure of regulatory mechanism has forced the government of India to form Serious Fraud Investigation Officer (SFIO). This can be regarded as a positive step from the government of India to recognise the importance of forensic accountants. This area of accounting deserves due recognition as it would help to uncover the concealed issues in a dispute and restrict the growth of a corruptive culture.