

## Research Article

# An analysis of forensic accounting as a tool of investigation

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(Received: August 23, 2021, Revised: March 28, 2022, Accepted: March 30, 2022)

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## ABSTRACT

Forensic accounting is considered as an important tool for investigating frauds in accounts and financial statements. Manipulation of accounts became common in this modern era which ensures that the forensic accounting plays a major role in finding fraudulent activities. The detection techniques used in forensic accounting includes conducting interview, reviewing public document and doing the background check, analysing the financial statement, Benford's law, ratio analysis, data mining, computer assisted auditing works, critical point auditing, proprietary audit.

**Key words:** Frauds, manipulation, techniques, forensic accounting.

## INTRODUCTION

Forensic accounting is the combination of forensic science and accounting. As we all know accounting is the recording of business transactions, and forensic accounting is the method of investigating and finding out the frauds and crimes that are involved in accounts and other financial records (Baird & Zelin, 2009). This study states the importance of forensic accounting and all aspects relating to this particular type of accounting. In short, auditors look at the numbers whereas a forensic accountant looks behind the numbers. The forensic accountants are the person who investigates the accounting crimes. Without much confusion forensic accounting is the pursuit of evidences that will stand in the scrutiny before the court of law. This study provides enough information about the forensic accounting and its applicability (Enofe *et al.*, 2013). Financial audit were also used to detect fraudulent activities. There must be a confusing question in everyone's mind that why forensic accounting came into effect when the financial audit was used widely. Three years ago a fraud survey report stated that only 6% of frauds were detected by the financial audit and the remaining 94% went undetected. The failure of major corporate governance mechanism to detect and prevent fraud and the increasing sophisticated frauds became a major threat to the investors, public and also the government. Financial audit fails to detect frauds or crimes because it focuses on the trueness of accounts and records and gets the facts checked and the ultimate goal is not preventing fraudulent activities. Hence forensic accounting had been introduced to detect and prevent the frauds and crimes that occur in financial activities (Anyanwu, 1993). The main objectives of forensic accounting are as follows: to understand the concept of forensic accounting and its applicability in India, to learn about the frauds and scams in India, Understanding the types of fraud and to provide the necessary assistance to the affected investors/public.

## MATERIAL AND METHODS

This study is purely based on secondary data. For this study purpose many articles in both national and international level, government websites, research papers, working papers, e-papers, and reports on newspapers are reviewed carefully. Primary data collection is not possible in case of forensic accounting as it involves data analysis and comparison over past data records (Bhasin, 2017; Ozili, 2015).

### Identification of Fraud

Fraud can be detected through two models basically and they are:

1. Current fraud model
2. Fraud savvy model

The current fraud model consists of four stages namely;

- Fraud incident stage
- Investigation stage
- Action stage
- Resolution stage

The fraud savvy model consists of six elements;

- Moral rules
- Training
- Risk and controls
- Reporting and Monitoring system
- Proactive detection
- Investigation and prosecution

### Mechanism of Fraud Detection and Prevention

Forensic accounting as an effective tool for investigation provides certain methods or mechanisms which helps in detecting and preventing the fraud and fraudulent activities. Some of the widely used and most popular mechanisms are;

1. Anti-fraud framework
2. Leadership setting the tone
3. Policies for fraud prevention
4. Whistle-blower
5. Ethics code.

### Challenges in Forensic Accounting

The challenges in forensic accounting includes: corporate image, costly service, lack of segregation of duties, complex judicial system and political fancy, compliance with an ethics programme, technology related fraud and inter-jurisdiction Fraudster (Adeniji, 2004; Peshori, 2015).

### Major Financial Scams in India

- Unit Trust of India (2001): Rs. 1300 Crores.
- Stamp Paper Scam (2005): Rs. 600 Billion counterfeiting of stamp papers and selling fake to bulk purchasers like stock broking firm, banks and insurance companies, sentenced to 30 years of rigorous imprisonment. Abdul Karim Telgi & his associates, politician, police officers and government employees.
- 2G Spectrum (2010): Rs. 1.76 lakh crores of irregularities in awarding spectrum licenses Issued on first cum first serve basis instead of auction and advancing of cut-off date which was Illegal. A Raja, Nira Radia, MK Kanimozhi and many Telecom Company.
- Common-wealth Games (2010): Allegations of Rs. 70,000 crores corruptions and Mismanagement by the organizing committee as a delay in the construction, misuse of funds, Heavy payments made in the name of non-existing parties. Suresh Kalmadi & other organizing Committee members, 2 private companies & government officials.

Coal Block Allocation/Coalgate (2012): Coal blocks allotted, not auctioned, leading to Estimated losses as per the Controller and Auditor General of India was Rs. 1.86 Lakh crores. Ex. Coal ministry, many electric boards & private companies.

- Agusta Westland VVIP Chopper (2013): The former IAF chief has accepted bribes to win Contract worth Rs. 36 billion of Rs. 3600 Crores Augusta Westland Company deal. Former IAF Chief SP Tyagi & his cousins, politicians, government officials & several middlemen.
- Saradha Chit Fund (2013): Nalini Chidambaram, 10,000 Crore.
- Kingfisher Airlines (2016): Mised banks and misused money, fraud and money laundering of Rs. 9,000 crores. Vijay Mallya, politicians, government officials & several middlemen.

### Agencies in India

Some of the agencies in India that deals with the fraud are Company Law Board (CLB), Central Bureau of Investigation

(CBI), Reserve Bank of India (RBI), Income Tax Department (IT), Enforcement Directorate (ED), Securities and Exchange Board of India (SEBI), Serious Fraud Investigation Office (SFIO), Interpol, Central Vigilance Commission (CVC) (Ajie & Ezi, 2000).

These are the agencies that help to detect fraud in India and these institutions focuses on financial dealings and hence it is highly helpful in fraud detection (Mahzan & Lymer, 2014).

### CONCLUSION

I hereby conclude that the forensic accounting is the most effective mechanism which is an aid to investigation and prevention of financial crimes and fraudulent activities. It needs a vast support from the public and government side as it prevents us from major threats. Many forensic accountants must be recruited and the career in forensic accounting must be improvised and should be widely spoken among the people so that a general awareness will be created on this type of accounting. Even after fraud detection, necessary steps are not taken as solution. So certain measures must be taken when fraud is detected which restricts them to commit the crime again in future.

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