Problems on Implementing Forensic Accounting - Indian Context

1Ms. Aruna P, 2Steny An Philip & 3Nithasha KuttibiPk

1Assistant Professor, Department of Commerce, Christ University, Bengaluru (India)
2Mcom Student, Department of Commerce, Christ University, Bengaluru (India)
3Mcom Student, Department of Commerce, Christ University, Bengaluru (India)

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; Forensic accounting has gained distinct momentousness. With the instigation of this concept in the early 1900’s and the announcements of FBI in 1990’s forensic accounting has significantly re-tailored the detection of fraud especially white collar scams (Timothy & Tommie, 2008).

Forensic accounting is mainly the conglomeration of 3 pre-requisite skills namely auditing accounting and investigative skills. The applicability of these skills along with expert witnessing and various other litigation services for the legal or court proceedings is the main function of forensic accounting. In short it is concerned with proving or disproving the fraudulent claim. The person who carries out these skills for court proceedings to prove or disprove the fraud is called forensic accountant. The services that forensic accountant provide includes

- 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 in ascertaining the damage done to the environment with their help of their damage model.

In corporate world forensic accountants perceive and expose white collar scams that are complicated in nature and tricky in presenting the statements. To comprehend forensic accountants further, we have to figure out the importance of detecting white collar scams. As any other melancholy the white collar scam rates are ever increasing across the world. In the view of the fact that, these scams are enlarged day by day, aversion in recognition of such can be spotted. 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 clandestine risk involved in white collar scams when compared to blue collar scams. Moreover the measurement for the cost of white collar scams is not uniform in nature and they are measured differently at different situations. A forensic accountant is exceedingly crucial in this context; where the accountant has the job of verifying all the accounts and preparing the documents without any preconceived notion.

NEED FOR FORENSIC ACCOUNTING

At first there were only audited reports that were used for clarifications and as proofs in court proceedings. But then after recording much white collar scams including Enron and WorldCom the concept of forensic accounting evolved in US. 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). Here lies the main need of forensic accounting services in India.

To one side where white collar scams which involves the upper level management, the frauds committed by the employees are also fuelling up. Auditors do not audit the accounts with the prejudice that the accounts are manipulated. Auditors valuate the accounts with inclination to their clients as it is rightly said auditors are not bloodhound but are watchdogs. Moreover most of the auditors in their practice conduct sample auditing of the accounts and therefore, they don’t accomplish the thorough investigation. In this state of affairs; the need of forensic accountant has become of great magnitude.

Therefore, forensic accounting helps in detecting the planning, executing and the after effects of the frauds without any lag in the process.

**THE STRATUM OF FORENSIC ACCOUNTING IN INDIA**

Featuring in India, forensic accounting has not gained any owing appreciation amid various frauds. As there is no legal emphasis on this area, India lacks specialised and trained practitioners in the investigation of multifaceted frauds occurring in the companies. Presently the role of forensic accountant is carried on by CA (Chartered accountants) and CWA (Cost and Work Accountant) by extending their scope (James, 2008). In acquiescence with the companies act and the income tax act existing in India, they are one step ahead for the qualification of forensic accountants which they have achieved through fine distinction in their course. For this they have to get hold of post qualification degree in Investigating and Forensic Accounting (Lester & Dan, 2008). Together with this degree and their professional degree they become eligible to work as forensic accountants with expert witnessing. However there are no institutions that provide education for this course in India. Although the government of India has made Serious Fraud Investigation Office (SFIO) under the Ministry Of Corporate Affairs to culminate the frauds happening in India, there is no evident reduction in the number of frauds in India.

In India section 235 and 237 of Companies Act 1956 provides a base to scrutinize the accounts and other documents of companies; to check the unfair practices which are against the public. The forensic accountant can also investigate the references created by the sick companies to know the authenticity of their accounts and statements given to NCLT (National Company Law Tribunal). The SEBI’s Act of 1992 specifies the inevitable role of forensic accounting services in bringing the complex frauds by the company and the brokers to light. Section 33 of the insurance act of 1938 gives right to the Insurance Regulatory and Development Authority in India to appoint an external invigilator to check the dealings and associations of the insurer. For the said purpose the institution usually appoints an actuary or an auditor with a chartered accountant to assist him. It would be helpful for the institution by appointing a single connoisseur who can judge and calculate all things by his mammoth knowledge and expertise with experience in the field. Forensic accounting also has a model for calculating right amount of loss for the right claimant and this model is also used in divorce cases. Banks also call for the services of a forensic accountant. In the view of these facts, we come to know that the demand or the need of forensic accountant is really high when compared to the source of them.

**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.

**METHODOLOGY**

This paper is exploratory in nature. The information has been collected from various articles related to forensic accounting and for further clarifications we have also collected data through unstructured method of interview.

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

We already know that forensic accounting is beneficial for a litigious environment especially for a country like India. But still there aren’t any special provisions or statutes backing forensic accountants in India. Even though few institutions like ICAI (The Institute of chartered accountants of India) provide certificate courses on Forensic accounting there is no much awareness or knowledge about forensic accounting services in India. As there are no provisions for forensic accounting or accountants in India, Universities do not find it necessary to include forensic accounting as one of the areas of accounting like cost, managerial accounting while fixing their curriculum. This spreads more darkness towards the awareness of forensic accounting. Apart from this issue the list goes on:

- **Acceptability**
  
  With the very stringent background in India where the law and public are rigid towards new concepts, forensic accounting has to fight a long way for its subsistence. After interviewing the employees of different accounting firms we came to a consensus that the auditors, Chartered accountants etc., have a rigid belief that the practices that is undertaken in India doesn’t have any flaw in detection of frauds. So, they don’t find the need to accept any new concept for reducing the fraudulent activities.

- **Adaptability**
  
  The legal system in India is not adaptive to the changing litigious environment. And the above mentioned problem also becomes a reason for the lack of compliance of forensic accounting in India. It is a tedious process for amending the existing law by incorporating a new concept like forensic accounting.

- **Technological advancements**
  
  A firm has to adopt CAAT (computer assisted auditing tools) for undergoing forensic accounting services by accountants. The processes of up grading existing technological expertise as well as equipments are found to be tedious by the company. There must also be physical space for this purpose. Moreover the technological cost is far higher than the human capital cost. Companies are found to be
reluctant to resign themselves to software which costs more as well as of which they don’t have much idea. Another hindrance is that the companies are not sentient to the fact that the benefits of adopting this technology would surpass the cost involved in it; in the longer run. Finally the major dilemma with the technological advancement is the escalating number of computer frauds which is hard to be detected by the accountants.

✓ Expensive

The course of action and the administration of forensic accounting are highly priced. Furthermore, the fee of incorporating a forensic accountant is very high than an auditor in India. Seeing that it is not compulsory for the companies to appoint forensic accountant they do not plump for their services. Each stage of the modus operandi of forensic accounting steep in terms of price. While the process is long drawn out the companies find it irksome.

✓ Time consuming

In the function of companies of grasping details of credibility of each transactions and accounts; the companies has to take care of many complicated information. This route taken by forensic accountants is protracted. On top of the expenses the company cannot put up with the time consuming constraint in participation of forensic accountant.

✓ The Indian milieu

The expanded tax structure in India hampers the proper implementation of forensic accounting in India. The judicial system pertinent in India is unbending and rigid which impede the execution and functioning as well as the knowledge of forensic accounting. It is also said that due to the globalisation charlatan cannot be detected easily by the accountant. This proposes a challenge for the forensic accountant in India; without proper implementation or proper jurisdiction.

THE TECHNIQUES USED IN FORENSIC ACCOUNTING

The procedure of forensic accounting is arduous. In India, the accountants and auditors widen their scope if their clients require them to. For the reason of the lack of alertness or discernment of forensic services, the companies’ and the public at large don’t explore the need of commencing forensic accounting services (Manas, 2014). Some of the techniques that are used are:

✓ Theory of relative size factor (RSF)

For any entity or body such as vendors, employees and customers there is a yardstick limit for dealing in funds. And these limits can be examined through the given set of data. Relative size factor can be found out by comparing the highest number and the lowest number in the specified and prearranged array. It helps to perceive the glitch and incongruity in the known set of data. While documentation the data that protrudes the given collection or range is considered as error and they are correlated with the variables affecting them to discover its integrity.

✓ Computer Assisted Auditing Tools (CAAT)

This is the area where the computer technology is utilised in the field of forensic accounting. It is a programme used for auditing purposes. The information related to audit data from the client’s system is extracted for this purpose without any dependability on the client’s part. This program keeps track of various aspects like investigation of the credibility of the transaction and account balances shown in the accounts of the company, it even records the variation in the figures or array of data, and it validates the control systems of the computers and applications used by the clients, they perform auditing through the algorithm or program for sampling, they recreate and do again all the accounts performed by the system.

✓ Data Mining Techniques

Forensic accountant has to deal with large amount of data for calculations and those are to be analysed properly for getting the right results and for knowing the correct amount of loss as the case may be. This technique involves step by step process comprising four main heads. It is the practice that is adopted to extract and examine the large amount of data involved which easily detects the atypical patterns and information; which is the first head named discovery. In its second head called predictive modelling where the asymmetrical distribution is used to forecast the new values and the outcomes. In the third head termed as deviation analysis the deviation of the items from the usual is calculated. Then at the last the link discovery process employs the deterministic graphical techniques where the algorithm is used to determine the jagged cases.

✓ Ratio analysis

The ratios are critical in all the areas of decision making and it also elemental to know the rudiments of frauds occurring. As the ratios are being utilised to know the financial strength of the firm the firms have a tendency to even manipulate their ratios. In forensic accounting the accountant finds out the ratios which give accurate explanation to the production and the sales that the organisation persists. 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.

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 we have stumbled on writing this article.

REFERENCES


