

# Enhancing Perception on Accounting Frauds & Forensics

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## ABSTRACT

As many venture business organizations act as if they are impervious to deception of fraud, the bitter authenticity is swindle of fraud is actually supplementary common than an individual might actually think. The deceitful practice acts as cost businesses causing billions of dollars per year in damages. An intentional perversion of misrepresentation of financial statements or of theft or any indecent use of the resources by superior administration, employees, vendors or contractors, fraud can appreciably have an impact on money value, standing reputation & livelihood of source of revenue of business. When deception is being suspected, making a decision of what to do next can actually become a bit difficult. Piecing together what has actually happened, having a decisive mode of the extent of loss & putting together all relevant aspects of evidences to make a shore up of claims can, in a point of fact seem like a daunting task, & a thorough investigation of research on the matter at hand make an establishment of cause & extent of losses, by determining how the deceptive fraudulent act has actually made an occurrence in foremost place.

## 1. Introduction

A quote that an Auditor usually follows is that “they should be a watchdog & not the bloodhound”, which signifies that Forensic accountants are even more simpler to follow, by making Forensic Accountant as a bloodhound of Bookkeeping. These bloodhounds preferably snuffle out fraud & immoral transactions being done in bank, corporate entity or from any other organization’s financial and monetary records.

They pursue & hound for the decisive conclusive evidences, with external Auditors to find out the premeditated misstatements only but Forensic Accountants stumble on out the misstatements deliberately. In a way, External Auditors look at the numbers but the forensic auditors look beyond the numbers.

Forensic accountant takes a more proactive, down to business & skeptical approach in examining the books of accounting records, and make no supposition of management integrity, which signifies less concerns for arithmetical accuracy having nothing to do with Accounting or Assurance standards but are actually eager in divulging any prospect of swindle activity.

Assuming that an individual considers fraud as focal cause of human voracity & supreme superciliousness of the human nature, & that it is also instinctive in folks who perpetuate it, never being contented or satisfied with what they actually have or always taking benefit of a apparent lack of control, forensic accounting is best regarded as one area of those fields of accounting that is actually going to receive huge attention in prospect future research, be it sociological or humanistic approach.

New technologies are actually being urbanized to viaduct the formal gaps flanked by employees & employers, businessmen & agents, making an allowance for disciplinary measures to make this deceptive fraud a bit less interesting. As

per Imoniana (2003), stealing, fraud under extortion & threat to businesses are normally perpetrated by employees or executives who possess the following profiles of:

- Being ambitious, excessively calculating and good planners;
- Living above their earnings;
- Having social and psychological problems;
- Having economic & financial problems;
- Always believing in the laws of advantage;
- Trusting their ability to perfectly manipulate others to conceal the trace of frauds;
- Being a collaborative employee;
- Gaining confidence of superiors and plotting their plans out of working hours;
- Performing overtime, but reluctantly requesting to be compensated;
- Taking short or no vacations; &
- Knowing the business better than anyone.

## 2. Ideology of Forensic Accounting

An imaginative idea of getting a separate financial auditing from forensic accounting make an shore up of assertion that, unless it is analytical to be investigative, financial auditing is actually not meant to investigate frauds, even though the actual provisions are made from the PCAOB for auditor's fraud responsibility. By this, in most research activities about actual participation of auditors in making a detection of frauds, one would actually make an observation that their statistics reveals how low is the participation during the actual course of an audit, & this attempt audaciously makes an explanation about the cornerstone of a corporate auditing by making a slight distinguish between the actual levels of accountability, integrity, transparency, ethics, competence & independence, spaced out from making an emphasize on scope of work, data gathering, review procedures & reporting.

Forensic accounting, as a result, emanates from social dissertation, as profession of accounting tries to bestow with an answer to a typical problem being brought by augmentation of growth & assortment of variety of opinions in social science structure. At highest level, emergences of social norms are there, which directs the flow in selection process making ideological (Mason, 1980, p. 30). Such discourses are actually replete in works of Foucault, 1972; Larrain, 1979; Eagleton, 1991 & the host of others.

### 3. Frameworks & Laws Enhancing the Control of Fraud

Lately, numerous frameworks, or called to be known as preeminent practices & Laws have actually been executed to make an enhance of augment of control of fraud in an assortment of countries that undeniably have an effect on all the corporations which supposed to have an international exposure. It ranges from **COSO (COMMITTEE OF SPONSORING ORGANIZATIONS OF THE TRADEWAY COMMISSION, COBIT (Controls Objectives for Information and Related Technologies), Sarbanes Oxley Law** involving specially Sections 101, 202, 302, 404, 409, 802 & 906 which makes an introduction of the **PCAOB (Public Company Accounting Oversight Board)** Auditor independence, Corporate management responsibility; importance of Internal Control systems & monitoring of the administrative & managerial responsibilities in general; corporate fraud, criminal concerns & penalization, for mentioning just a few. As per Tarantino (2006), in order to abide & comply by with SOX controls, one has to be in accordance with the actual recommendation or proposal of COSO, COBIT international standards of corporate governance.

Therefore, it is prototypical that the said frameworks of rules & laws have the same opinion with what every SEC & Central Banks worldwide as adaptable regulating bodies offer in similarity of congruence with the main intention of protecting the significance of stakeholders, which would assist in efficiency of shortening money laundering & drug trafficking, is scandalously alleged as having a purposeful link with terrorism. Following Albrecht, Howe & Romney, (1984) an individual is actually influenced by an ethical & moral perception, situational pressure in which one is encountered & opportunity is taken to entrust fraud.

### 4. Comparing Auditing and Forensic Accounting (Situation Code)

The focal differentiation flanked by auditing & forensic accounting is with the intention of that if one performs an audit to help an hand in assisting management in adequately making an implementation of their strategies towards goal equivalence, & also makes an report for true & fair state of affairs of business to shareholders to facilitate them in formulating the decisions while we execute forensic accounting to scrutinize in conducting deviation & measurement of its impacts. Each forensic accounting job diverges, & there is no by and large accepted accounting principles for this practice area to endow with guidance to practitioners on how to perform an engagement. It is actually an unstructured environment making a requirement of self-motivation (FITZHUGH, p. 28, 2010). On contrary basis, audit is being structured & is guided all the way through generally accepted auditing standards & procedures.

As aware, the main procedures are reviewed by auditors is the actually segregation of duties, & by this segregation of duties, its meant that the definition of responsibility by divulging a clear line of authority when actually defining processes; they are all understandable & obvious steps of accounting for fraud. But in vast majority of companies in which forensic accounting is being requested & being performed, this is lacking, and thereby screening a point of vulnerability need to be observed.

### 5. Forensic Audit & Fraud Detection - Objectives

Fraud detection requires unique skill sets and the development of forensic techniques. For this reason, forensic audit is a better strategy in resolving the suspects of fraudulent activities as signs can be initially detected in a variety of ways – by accident, by auditors of financial statements, by internal audit, or by the organization's management.

Forensic audit involves examination, techniques, regularity, investigation as well as audit of financial statements. The primary objective is to find out whether or not true business value has been reflected in financial statements and by examination to find whether any fraud has taken place. These are the following methods that are usually adopted for examination:

- ❖ Tests of reasonableness including checks of weaknesses in internal controls, identification of questionable transactions indicating wide fluctuations from the normal ones and not relating to main objectives and review of questionable transaction documents,
- ❖ Historical comparison including identification of questionable accounts and relationships between accounts, finding variances from current expectations and past relationships and gatherer evidence corroborating asset losses, fraudulent transactions, financial misstatements, too. Forensic auditors, of course should take in consideration also certain transactions not discussed in the financial statements, usually called off balance sheet items.

The course of the audit of financial statements and its procedures can be divided into five phases which can be possible to assign forensic audit procedures.

### 6. Distinction between Financial Statement Audit & Forensic Audit

Audit of Financial Statement	Forensic Audit
Audit procedures before accepting the engagement	Concluding the contract for forensic audit service
Audit procedures related to obtaining and understanding of the client's business and industry	Preparation procedures: 1. Collection initial information 2. Setting objective 3. Setting scope of investigation 4. Development plan 5. Setting approach 6. Identification requirements

Audit procedures related to planning the audit	
Audit procedures related to performing audit tests	Risk assessment and identification possible activities schemes of non-standard <hr/> Obtaining the relevant evidence and perform the analysis
Audit procedures related to reporting the finding	Preparation of findings and report

## 7. Suggestions

Forensic accounting is a new branch of accounting as far as academic work is concerned and their adoptions particularly in developing economies like India. This does exclude the fact that much literature on the subject is available and mostly USA centric. There is therefore no gain saying the fact that more researches need to be conducted from other parts of the globe. Moreover, the present study is also not without some limitations. Hence, the following suggestions are made to take the present work further. First, further studies could adopt a

cross-countryll or cross-cultural approachll to improve the generalizability of the research findings and possibly compare the results across different countries. Second, samples for further studies could be enlarged to include the views of lawyers who are stakeholders in the practice of forensic accounting. This could provide further insight into the practice of forensic accounting in India. Third, the structural equation model so developed in this study could be further tested and the conceptual model of factors that influence the use of forensic accounting that ensued from this study could be explored further. This could be done using cross cultural data.

## 8. Conclusion

The article follows on the distinction between audit of financial statements and forensic audit. Though the International Standards on Auditing ISAs do not indicate that is possible to detect all financial statements fraud, users of financial statements often expect from auditors to detect financial statement fraud. The article illustrates also the methods of forensic audit for which forensic audit could be considered as more effective way for fraud detection as audit of financial statements. In summary, a forensic audit is a very specific type of engagement, including the approaches necessary for detection, prevention and control in order to incite of fraud.

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