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**“A STUDY ON RELEVANCE OF FORENSIC ACCOUNTING IN THE DETECTION  
AND PREVENTION OF FRAUD”**

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**Abstract:**Forensic accounting has gained its significance , in today’s economy. Where the number of frauds are increasing in various sectors such as banking and insurance. It has gained its significance alongside with auditing and external and internal verifications of data. Banking and insurance plays a dominant role in contribution of income to government . we also come across many crimes and frauds in companies and other organizations in regards to appropriation of profits , declaration of dividends, fraud from a supplier or a customer. Forensic accounting plays an important role in today’s competitive economy.



**Key words:** Forensic accounting, fraud, misappropriation, insurance claims

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The scope of forensic accounting is to:

1. Look for evidence of unusual development in the accounting and financial systems.
2. Design accounting processes for verifying important premises and data. A forensic accounting orientation also calls for skills in identifying possible fraud.
3. Perform audit type processes on a routine schedule in order to reduce transaction processing risks.
4. Cover a broad range of businesses and locations that require customary or continuous surveillance of all transaction processing systems.

### **Introduction:**

Forensic accounting is a combination accounting and investigative techniques used to discover financial crimes. One of the key functions of forensic accounting is to explain the nature of a financial crime to the courts. Forensic accounting is used by the insurance industry to establish damages from claims.

### **Relevance of forensic accounting in an organisation**

- ❖ Assessing working transactions for compliance with basic operating processes and agreement.
- ❖ Performing thorough scrutiny and examination of financial payment dealings in the accounting system to decide if they are standard or beyond company policy.
- ❖ Assessing standard ledger and financial reporting system transactions for likely unlawful tampering or falsification of information or accounts and its consequences on the ensuing financial accounts.
- ❖ Analysing warranty requests or returns for practices of fraudulence or misuse.
- ❖ Assisting in estimating the economic damages and the ensuing insurance demands that arise from catastrophes such as fires or other natural setbacks.
- ❖ Assessing or affirming business rating in consolidations and accomplishments.

### **Forensic Accountants: Scope of work**

Although the focus is fundamentally on accounting concerns, the function of a forensic accountant may also cover a more generic investigation including collection of evidence. Almost every accounting firm in the country today has forensic accounting sections. Within these sections, there may be sub-differentiations; for instance, some forensic accounting

experts may specialise in insurance applications, personal injury declarations, fraudulence, construction or royalty audits.

Forensic accountants may also offer their services in retrieving profits from crime and in relation to appropriation proceedings relevant to definite or assumed proceeds of crime or dubious transfer of funds. Unique only to India, there is a specific species of forensic accountants known as Certified Forensic Accounting Professionals.



### *Forensic Accounting in India*

Given the nature and types of fraud in India, the Reserve Bank of India (RBI) has compulsorily made forensic accounting audit mandatory for all banks within the country. The establishment of Serious Fraud Investigation Office (SFIO) in India has become the turning point for forensic accountants in the country. The indications of the growing demand for the field are:

- ❖ The growing list of online criminal offences
- ❖ Breakdown of regulators to trace and detect cyber-security frauds
- ❖ The long chain of co-operative banks going bust

With this upsurge of fraud in the global economy, forensic accounting has become an emerging topic of great importance for academic, research and industries .

Fraudulent acts and corruption have become a cankerworm that has eaten deeply into the fabric of our society. Forensic accounting falls within the context of our environmental needs. This is very vital in the environment that is flooded with fast moving businesses and polluted with politicians who have powers to corrupt well-meaning businessmen.

Undeniably, financial scams and fraud become a global problem. The amplified awareness and importance of catching and preventing fraud has begun a steady increase in the demand for forensic accountants. Growing in demand, forensic accountants seem no longer solely needed in an accounting firm's forensic division, but are finding employment in a number of other settings, including government agencies, law firms, financial institutions and consulting firms.



### Qualities a Forensic Accountant

- ❖ Have a Logical Mind
- ❖ Give attention to detail
- ❖ Give value to Moral Principles
- ❖ Question Everything
- ❖ Be Spontaneous

Having these qualities will provide forensic accountants with an urge to dig deeper and will make them a very successful forensic accountant. With proper investigative techniques added to the mix, the accountants would be capable of digging out even the most-minute discrepancy.



### Forensic Accounting Techniques

#### **1. Reviewing Public Documents and Doing Background Checks**

The documents made available to the public are scrutinised as they are the easiest to obtain. Also, thorough background checks of a particular company are done to see the past dealings of the business. Public Documents would include any information in the public database, the corporate records and any information which is legally available on the internet.

#### **2. Conducting Interviews**

Conducting an interview is an essential technique which can transform an unwilling person into a source of valuable information. It helps in fully understanding all the facts. An interview should be conducted by accurately assessing the gravity of the situation and preparing the questions according to it. Discussions should take every little detail into account and look at the greater picture to figure out the magnitude of the illegal activity and the culprit responsible.

#### **3. Gathering Information from Trustworthy Sources**

Information provided by a confidential and trustworthy source can be precious to any case. When a piece of information is gained from a confidential source or a confidential informant, all the necessary precautions should be taken to hide the identity of the so-called cause. A forensic accountant should try to have as many confidential sources possible because such sources can virtually guarantee a correct result.



#### **4. Analysing Evidence**

Proper analysis of the obtained evidence can point to the guilty party and can also assist to understand the extent of the fraud committed in the business. This analysis would also help in understanding how secure the company is against financial scams and installing various austerity measures to prevent any such future situation.

#### **5. Surveillance**

This can be done physically or electronically and is one of the conventional measures conducted to uncover any fraud. It can be done by monitoring and tracking all the official emails and messages.

#### **6. Going Undercover**

This is an extreme measure and should be used only as a last resort. It is best left to the professionals as they have the proper knowledge of how and where to conduct the investigations. Even a small mistake while being undercover can signal the offender that something is wrong and the person might vanish.

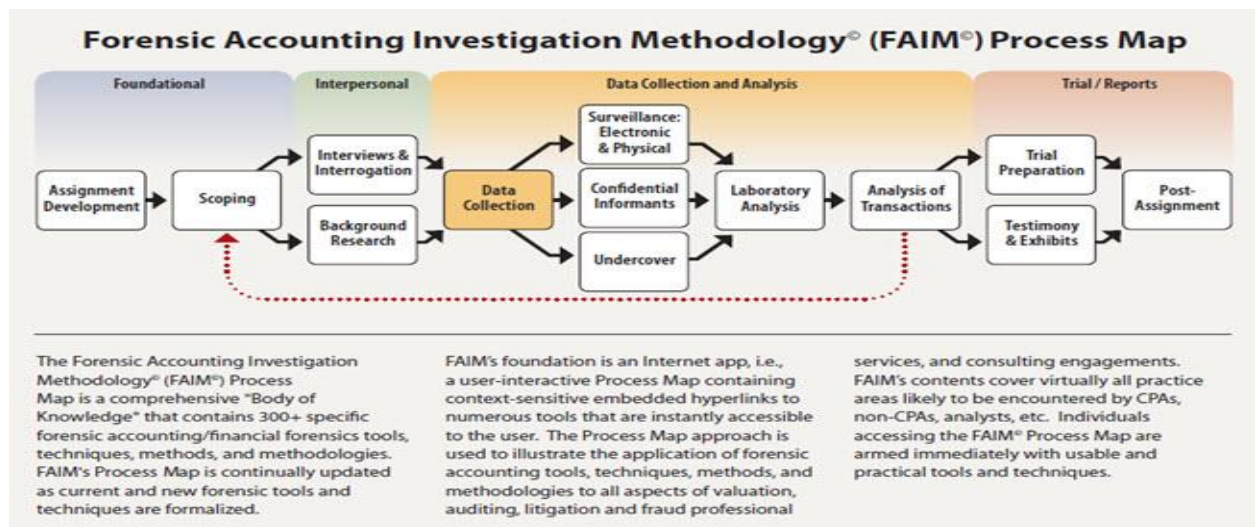
#### **7. Analysing the Financial Statements**

This is a precious tool for finding out the fraud committed. All the necessary details are summarised in the financial statement, and the analysis of these statements can help a forensic accountant to figure out the scam.

Nowadays the economic conditions are getting stricter, and each country's government is now implementing tighter laws in terms of the governance of the businesses. As the companies are increasing the level of sophistication, so is fraud. This has led to a higher



sensitivity to fraud which can be interpreted as a massive demand for the services of forensic accountants by all the businesses.



### Types of Forensic Accounting Services

Forensic Accounting Services might not be so popular in some countries for example in Asian countries. But it is the high pay services in some country like the USA.

❖ **Dispute Resolution Service:** In this case, the engagement with forensic accounting may require to figure out some object involve with the dissolution which majorly requires accounting skill.

❖ **Insurance Claim Review Services:** Forensic accounting does play a very important rule related to the insurance claim. Ranking form the low claim, small accident like motor and personnel injure to large claims like fire and aviation.

Sometimes, insurance claim and settlement involve reviewing and checking the financial and accounting records, business performance review if it is involved with a business interruption.

Yes, most of the companies now buy insurance to over its business interruption and if CEO of those companies plays around with insurance companies, it will be the big loss a result of fraud.

❖ **Fraud investigation Service:**

Fraud investigation is the popular jobs for a Forensic Accountant. This fraud could be started from staff level to management level and from small cash to high-value assets.

**Conclusion:** Forensic accounting plays an significant role in today's competitive environment. As many people gets cheated and this is more in the case of insurance companies , where the insured makes false claims and tries to demand money from insurer. Many companies also cheats customers regarding fair payment of returns to the investors. Forensic accounting therefore protects the interest of investors and plays a dominant role.