**FORENSIC ACCOUTING: NEED OF HOUR?**

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“Accountants look at the numbers. Forensic Accountants look behind the numbers”. This line simply illustrates the importance of forensic accountants in present scenario.

 **What is forensic accounting ?**

* **Definition**-Forensic Accounting is the integration of accounting, auditing and investigative skills. Forensic accounting is trying to identify fraudulent transactions and typically involves analysis, interpretation, summarization , presentation of complex financial and business related issues. The forensic accountant further makes the field enquiries to check the real facts of transaction.
* **Background-**Worldwide, we consider Sherlock Homes as first forensic accountant. However, in India Kautilya was first person to mention famous 40 famous ways of embezzlement in his book Arthashashtra, being the first economists who recognized the need for forensic accountants.
* **Detection of fraud as integral part**-Forensic Accounting is a useful technique to detect fraud in organizations. Until recently, detecting fraud or white collar crimes were thought to be a part of conventional accounting functions. But as we all know, auditors can only check for compliance of Company books to Generally Accepted Accounting Principles (GAAP), Accounting Standards (AS) and company’s policy. A new category of auditors was needed to detect fraud or the suspected fraudulent transactions, thus making “Forensic Accounting” as an emerging field for professionals worldwide.
* **Information used in court**- ‘Forensic’ means ‘suitable for use in Court’ . Forensic accounting techniques are often time consuming and since the results may be used in government adjudication processes or in court reviews, there is a very high evidence standard that must be maintained when forensic accounting evaluations are made.

 **Need for forensic accountant?**

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INCREASING CASES OF FRAUD

FAILURE OF REGULATORY MEASURES TO TRACK SECURITY SCAMS

SERIES OF CO-OPERATIVE BANK BURST

REQUIREMENT IN AUDITS AND ASSURANCE STANDARDS

GROWING CYBER CRIMES

The need for forensic accounting is increasing day by day. The following are main reasons for increasing demand for forensic accounting throughout the world.

1. **Growing cyber crimes**-Their vibrant effects can be understood by the fact that in year 2012 the number of Cyber Crimes showed an increase of 61 % during the year. With these increase in percentages, we cannot ignore the need for forensic accounting in our country.
2. **Increasing cases of fraud**-The Association of Certified fraud examiner also known as ACFE report indicates that approximately five percent of revenues of organizations are subject to fraud. This means that for every Rs. 500 billion of public spending in India there is potiential fraud in organizations amounting to approximately 25 billion yearly. However, in India the fraud cases are much more as we rank India as 88th most corrupt nation.
3. **Failure of regulatory measures to track security scams-**The current regulatory measures are not up to the mark as per requirement. The infamous scams of Harshad Mehta, Ketan Parekh, Sanjay Seth and recent India Bulls Scam and Kingfisher Airlines credit Card fraud are still fresh in our minds. Whether it is a stock market fraud or bank fraud or a cyber fraud, forensic accounting has become an indispensible tools for investigations. With India being ranked as the 88th most corrupt nation, needs for forensic accountants has become more profound. Moreover, According to a survey by Ernest and Young :
* **In respect to employees**-About 20 % of almost 3500 respondents said that they have seen financial manipulation of some kind occurring in their own companies.
* **In respect to Board of Directors and top managers**-About 42% of Board of Directors and Top Managers said they were aware of some type of irregularity in financial reporting.

With these poor statistics and because of these kinds of shortfall value of corporate disclosure are diminishing thereby increasing value of forensic accounting.

1. **Series of co-operative bank burst-** Their were 19 co-operative banks that went burst and claims on which were settled by Deposit Insurance and Credit Guarantee Corporation claims during 2008-09. Due to these heavy payment by insurance company. Insurance companies engage forensic accountants to have an accurate assessment of claims to be settled. Therefore, the needs of forensic accountant will beome more profound in the years to come.
2. **Requirement in audit and assurance standards-**The need and requirement of forensic Accountant is also illustrated in Companies ( Auditor Report) Order, 2003 which requires auditor to report, amongst others “whether any fraud on or by the Company has been noticed or reported during the year. If yes, the nature and amount are required to be indicated.” Thus, in Indian context, forensic accounting has gained importance in this background.

#  Forensic Accounting Techniques

The forensic accounting has a series of steps to be performed to come to a solution. These steps depend upon case to case we work.

Basically, the following steps are performed in forensic accounting :

1. **Interview Techniques**- Forensic accounting evaluations often use interview techniques designed to obtain an admission of guilt by the person(s) involved with fraud scheme. These results form an integral part to be used in court and adjudication process.
2. **Investigating and analysis of financial evidence**-Forensic accounting involves complete analysis of financial evidence i.e Balance Sheet, Profit and Loss Statement , Cash flow statements , Notes to accounts and other related information to quantify the loss and loopholes in accounting such as loss of profit, financial solvency, loss of goodwill etc.
3. **Data mining with computers**- Data mining is a process where auditors looks for trends, patterns and anamolies in data set. If any unusual transaction are noticed then they should be immediately reported to concerned authorities.
4. **Developing computerised application to assist in analysis of financial evidence**-This involves making use of computer applications like excel, tally etc. which can make speedy calculations and within a short time detect any unusual transactions in the financial evidences. An example of computerised application can be:- preparation of ratio analysis with the help of exel tools which can depict the true picture of financial statements.
5. **Communicate findings in form of reports**- The subject of the forensic audit is a serious matter that may go to adjudication or to court, those being audited will have an incentive to develop situations where the audit team obtains documents in an improper manner with the ultimate goal of excluding the evidence contained in the document from the court proceeding. It is imperative, therefore, that the forensic accounting team maintain proper documentation for the audit. This applies to interview material and items from computerized data bases as discussed above.
6. **Assisting in legal proceedings**-The last but not the least objective of forensic accounting is to assist the organization in its legal proceedings by preparing suitable evidences, reports, charts which can be used in legal proceedings.

**Activities carried out by Forensic Accoutants:-**

Forensic accountant carries out investigative accounting and provides litigation support. The services of forensic accountants are in great demand in the following areas:

1. **Detection of fraud committed by employees:** Where the employee indulges in fraud, forensic accountants are engaged. They detect fraud, trace the asset (if any) created out of fund embezzlement, gather and review the evidence, and interview the employee alleged to have embezzled the funds.
2. **Criminal Investigation:** Where the matter under investigation involves

financial implications, the services of a forensic accountant are availed of by the investigation department, law society, etc. The report of an accountant is very much useful in preparing and presenting evidence.

1. **Settlement for outgoing partner:** When the retiring partner feels that he has been unjustly settled with, he can challenge the settlement with the help of a forensic accountant, who can correctly assess the value of assets and liabilities due to his client.
2. **Cases relating to professional negligence:** Forensic accountants also take up cases relating to professional negligence.Whenever there is a breach of generally accepted accounting standards (GAAS) or auditing practices or ethical codes of any profession, forensic accountants are required to quantify the loss resulting from such professional negligence or deficiency in service.
3. **Arbitration service:** Forensic accountants render arbitration and mediation services for the business community, since they undergo special training in the area of alternative dispute resolution.
4. **Facilitating settlement regarding motor vehicle accident:** As the forensic accountant is well acquainted with intricacies of laws relating to motor vehicles, and other relevant laws in force, his services become indispensable in measuring economic loss when a vehicle meets with an accident.
5. **Settlement of insurance claims:** Insurance companies engage forensic accountants to have an accurate assessment of claims to be settled. Similarly, policyholders seek the help of a forensic accountant when they need to challenge the claim settlement as worked out by the insurance companies. A forensic accountant handles the claims relating to consequential loss policy, property loss due to various risks, fidelity insurance and other types of insurance claims.
6. **Dispute settlement:** Business firms engage forensic accountants to handle contract disputes, construction claims, product liability claims, infringement of patent and trade marks cases, liability arising from breach of contracts and so on.

**Case Studies related with Forensic Accounting.**

Further, the following are some of the case studies of Kessler International forensic accountant Team which is a famous forensic Accounting team world wide, which clearly shows the need for forensic accountant in today’s world:-

1. An investment bank was considering providing finance to a plastic manufacturer overseas. The bank heard rumors of faulty operations and overestimated profits and thought accurate business intelligence could help them make a decision.  The Kessler International forensic accounting team was called in to conduct a general investigation of the plastic manufacturer and determine if the information they provided to the investment bank was truthful. Their researchers and investigators scrutinized the company's revenues, their books, and projections to assure they were fair and accurate.  They also assessed the potential risks involved in the deal and provided the investment bank with valuable information to help them make the right decision before it was too late

**2**. A Fortune 500 company suspected a new subsidiary was misappropriating funds.  The Kessler International team approached this investigation in stages and began by conducting a surveillance of the plant.  Investigators immediately observed employees stealing large amounts of raw materials.  The next step was to conduct a forensic audit of the plant's business records.  They discovered that 75 of the plant's employees were illegal aliens.  Other inconsistencies included three employees who appeared on the payroll as "ghosts" but who were currently serving prison sentences.  Their accountants also noticed thousands of dollars in checks that were cashed by check cashing services. After receiving this information, the Fortune 500 company took appropriate legal action.

**Professional & Personal skills required.**

The major requirements for being a forensic accountant is :

1. In-depth knowledge of Accounting, Auditing and law.
2. Thorough understanding of fraud schemes.
3. Proficiency in computers and knowledge of network systems.
4. Command over civil law and criminal laws.
5. Creative thinking and ability to analyse the data.
6. Good Communication skills.

**Conclusion**

Thus, we can say forensic accounting services are at great demand and rendered at premium in current context of business and increasing fraud and litigation. According to Accounting today, 40 of every 100 U.S accounting firms are expanding their forensic and fraud service accounting. If this is the case in U.S, we can very well access its need in India’s future.