



### A DESCRIPTIVE STUDY OF FORENSIC ACCOUNTING IN BUSINESS AREA

**Rajesh S. Pawara**

*Associate Professor,*

*S.P.D.M. Arts, Commerce and Science College, Shirpur*

#### **Abstract:**

*Forensic Accounting is the specialty area of the accountancy profession which describes engagements that results from actual or anticipated disputes or litigation. “forensic” means “suitable for use in a court of law” and it is to that standards & potential outcome that forensic accountants generally should work. Forensic accounting is the of gathering & presenting financial information in a form that will be accepted by a court of jurisprudence against perpetrators of economic crimes. It is the comprehensive view of fraud investigation. It includes preventing frauds & analyzing antifraud control which includes gathering of nonfinancial information. Forensic accounting as assistance in disputes which are likely to involve litigation, arbitration, expert determination, meditation or an enquiry by an appropriate regulatory authority and investigation of suspected frauds, irregularity or impropriety which could potentially lead to civil, criminal or disciplinary proceedings while focusing primarily on accounting issues.*

**Keywords:** *Forensic, frauds, Crime , Justice, Money laundering.*

**Copyright © 2023 The Author(s):** This is an open-access article distributed under the terms of the Creative Commons Attribution 4.0 International License (CC BY-NC 4.0) which permits unrestricted use, distribution, and reproduction in any medium for non-commercial use provided the original author and source are credited.

#### **Introduction:**

The term “Forensic Accounting” was first used in 1946 by Maurice E. Peloubet a partner in a new York based Accounting firm, The Word Forensic is derived from the Latin word “ Forensic”. It refers as assistance in disputes regarding allegations or suspicion of fraud. Which are likely to involve litigation, expert determination & enquiry by an appropriate authority & investigations of suspected frauds and irregularity, which could potentially lead to civil, criminal or disciplinary proceedings. Forensic Accounting (FA) is the Combination of the Accounting, Auditing and Investigation skills.

Cracking down on fraud is critical for a country that

needs investment. Forensic accounting is the area which is called upon to address the issue of prevention & investigation of white collar crimes. In the emerging economic scenario, forensic accounting also known as forensic auditing is a vital tool for finding of financial crime & the direction of justice, providing decisive information about facts found related to financial crime. Forensic accounting is hardly a new field, but in recent years, banks, insurance companies & even police agencies have increased the use of these experts. The increase in white collar crime & the hitches faced but the law enforcement agencies in finding fraud have also contributed to the growth of the profession. A Key piece of proof is the report of the forensic accountant. INDIA is hitherto to meet the growing demand for fraud



examiners because of a shortage of training institutions; demand for fraud examiner is growing fast because of the use of information technology to commit crimes, growing business competitions. Opportunities for forensic accountants are increasing rapidly in recent years due to a rise in white collar crime.

Forensic accounting has risen to prominence because of increased financial frauds are popularly known as white collar crimes. Forensic accounting can be described as a specialized field of accountancy which investigates frauds & analyze financial information to be used in legal proceeding. It encompasses both Litigation Support & investigative Accounting. “Forensic means suitable for used in a court of law”. & it is to that standard & potential outcome that forensic accountants generally have to work.

### Research Methodology:

This paper is based on secondary data. The secondary data has been collected from books.

### Objectives of Forensic Accounting:

Forensic accounting is a vital & important part of the justice system. By providing accurate & reliable information to ensure that justice is served. Forensic accounting can be used in civil & criminal cases & can provide critical information in a wide variety of legal proceedings.

- 1) **Enhanced Efficiency:-** forensic accounting plays a crucial role in examining & investigating current financial processes & standards, which can help identify more effective solutions. The whole process is one of detecting problems & areas of improvement for the benefit of the business.
- 2) **Aids businesses in managing finances:-** businesses can use forensic accounting to detect anomalies among their staff & the third parties they have working with. For instance, a company can ask for a forensic accountant to check an employee’s purchasing records to see if all of his purchase were

for business use or if he diverted some of his personal use.

- 3) **Detection of frauds by Employees within an organization:-** On speculations of misconduct of an employee, an organization may engage a forensic accountant to fish out the truth. They trace any frauds by going through the books & papers of the company as well as the activities of the employee. They also tactfully interview the accused & review evidence of assets created out of such fund embezzlement.
- 4) **Criminal Investigation:-** where fraud is already established & criminal proceedings are in line, a detailed report containing financial implications made by a forensic accountant is of unparalleled assistance to the police & law society.
- 5) **Arbitration & other forms of Dispute Settlement:-** Forensic Accountant are specially trained in alternative dispute resolution, they helps the business community mend differences using tools of arbitration & mediation. Apart from that, they also help settle contract disputes, liability claims, intellectual property infringements, construction breaches etc.
- 6) **Settlements of Insurance Claims:-** Claims relating to consequential loss, property loss, due to various risks, fidelity insurance are handled by a forensic accountant. They are also sought when policyholders wish to challenge settlements claims by insurance companies & accurately assess them as well.
- 7) **Cases relating to professional Negligence:-** Whenever due to the negligence of an employee, generally accepted standards of accounting & auditors are not complied with or an ethical code is breached, forensic accountant are called upon to quantify the extent of loss arising from such deficiency in service.

**Problems :** India is facing some of corruptions, bribes, manipulations in many ways, so difficulties for the national economy increases.



Some of the scam worth mentioning here are as follows :-

Name	Year	Name	Year
Haridas Mundhra	1957	Nagarwala	1971
Antulay	1971	Bofors	1989
Fodder scam	1990	Hawala Scandal	1991
Harshad Mehta	1992	Telgi	1995
Sukhram & telecom	1996	Fodder in Bihar	1996
Jain hawala	1997	Ketan Parekh	2001
Kargil coffins	2002	Taj corridor	2003
Oil for foods	2005	102 Stamp Papers	2006
Cash for votes	2008	Satyam	2009
2-G Spectrum	2010	Common wealth Games	2010
Chopper Scam	2013	Railgate Scam	2013
Wakf Board Land Scam	2012	PNB Scam or Nirav Modi	2018
Laxmi Vilas Bank	2019	PMC Bank Scam	2019

Forensic accountants may often helps concerned parties discover potential financial crimes, report them to relevant authorities, prevent them if possible & retrieve lost funds.

- 1) Embezzlement:-** Embezzlement happens when you entrust a person to manage secure or use property or finances & they steal or misuse it. The person who embezzle may have permission to use the resources, through not to misspend them.
- 2) Employee theft:-** Employee theft is the unauthorized use, theft or misuse of an employers resources. This could include theft of funds, trade secrets or merchandise.
- 3) Insider trading:-** Insider trading is when someone with private or insider information about a publicly listed company buys or sells its stock.
- 4) Market Manipulation:-** Market Manipulation is the act of intentionally raising or lowering the value of a stock or otherwise influencing the performance of the market for personal gain.
- 5) Money laundering:-** Money laundering is the way of hiding criminal activity & converting the income from unlawful activities into legitimate money.
- 6) Tax Evasion:-** Tax Evasion or tax fraud is a criminal offence in which a person or company

knowingly either avoids paying or underpays their fair share of taxes by concealing actual income or showing false expenses.

### Analysis:

The western countries particularly USA & Canada are utilizing forensic accounting expertise to deal with financial fraud cases. In USA, the association of Certified fraud examiner (ACPE), Grants certification for forensic accounting to persons interested in this accounting field. The Canadian institute of Chartered Accountants (CICA) has even recognized investigative & forensic accounting as an accounting especially. The institute has started granting its members to use the designation initials, CAIFA to their Members who have besides completing the chartered accountancy course also have a diploma in investigative & forensic accounting from an institution recognized by the institute.

In INDIA, this branch of accounting has not so far got its formal recognition. No specified education is provided by any of the university in country in this area.

The 2 leading Indian institutes of accountants viz, The institutes of chartered accountants of INDIA (ICAI) & Indian institutes of Cost & Work accountants of India (ICWAI) have still come up with a post qualifications course such as diploma in investigative & forensic



accounting for its members. At present, the work of forensic accountants is done in some or the other form in INDIA by chartered / cost accountants, tax consultants & lawyers.

Some of the Indian legislations where forensic accounting is referred or required are the Companies Act 1956, The securities Exchange board of INDIA Act 1992, The Insurance Act 1938, The prevention of money Laundering Act 2002, The Foreign Exchange Management Act, 1999. The Reserve Bank of INDIA Act 1935 & the income tax act 1999. Indeed there is a future in forensic accounting as a separate niche consulting area in INDIA.

### Conclusions:

Recently, Forensic accounting has become an indispensable tool for investigation in INDIA due to rapid increase in corruption and our law enforcement agencies do not have the expertise or time to uncover such stock market fraud or bank fraud or cyber fraud. It is being used in banks, insurance companies & even police agencies. But INDIA has witnessed hundreds of scams since independence. According to the Corruption

Perception Index 2016 report released by transparency international, INDIA's rank 79<sup>th</sup> among 176 countries affected with corruption. However, in 2019 their Corruption Perception Index, ranked the country 80<sup>th</sup> place out of 180. Reflecting steady decline. Forensic Accounting is still work in progress stage in INDIA like a developing Countries. And hence the principles, practice & tools of forensic accounting are needs to be gradually formed, transformed, improved & updated. A wide range of companies are adopting forensic accounting methods, techniques, standards to meet the Companies settlements in, corruptions, frauds, bribes etc. It is expected from forensic accounting to settle disputes, & any other difficulties in the corporate life for the smooth running of the business & corporate life.

### References:

- CA Abdul Kadir N.Arsiwala, Dr.Ameya C.Lohar- Advanced Accountancy- Prashant Publication.  
Dr. S.N.Maheshwari, Dr. S.K.Maheshwari – Corporate Accounting – Vikas Publishing House Pvt.Ltd.

### *Cite This Article:*

Pawara R.S. (2023). A DESCRIPTIVE STUDY OF FORENSIC ACCOUNTING IN BUSINESS AREA. In Electronic International Interdisciplinary Research Journal: Vol. XII (Number VI, pp. 24–27). Zenodo. <https://doi.org/10.5281/zenodo.10460697>