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**Subject – Corporate Accounting**

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***Topic 4 – Forensic Accounting***

- **Meaning of Forensic Accounting:**

Forensic accounting is a specific area of accounting which investigates fraud and analyze financial information which can be utilized in legal trials. Forensic accounting is judicious mix of accounting, auditing and investigative skills to perform investigations of financial frauds. It is helpful for legal action and analytical Accounting.

Forensic accounting is performed for an assortment of customers however in all cases it is to find the concealed story behind a presentation of an arrangement of records. Forensic accountants can wind up finding extortion or, regardless of the fact that not illicit, a deception of a budgetary circumstance. Forensic accounting aptitudes are utilized to settle shareholder and association question, marital debate, protection claims. Forensic accountants are likewise utilized as a part of misrepresentation examinations. (Financial Times Laxicon)

The integration of accounting, auditing and investigative skills yields a specialty known as Forensic Accounting”. With respect to the scope of forensic accounting “Forensic Accounting provides an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution” Zysman A.(2009).

- **Definition of Forensic Accounting:**

1. According to the Journal of Forensic Accounting, “Forensic accounting is sufficiently thorough and complete so that an accountant, in his/ her considered independent professional judgment, can deliver a finding as to accounts, inventories, or the presentation thereof that is of such quality that it would be sustainable in some adversarial legal proceeding, or within some judicial or administrative review.” ( Fraud,the unmanaged Risk, 2003)
2. Bologna and Lindquist (1985) had defined forensic accounting as “the application of financial skills, and an investigative mentality to unresolved issues, conducted within the context of rules of evidence. As an emerging discipline, it encompasses financial expertise, fraud knowledge, and a sound knowledge and understanding of business reality and the working of the legal system.”
3. According to AICPA (1993): “Forensic accounting is the application of accounting principles, theories, and discipline to facts or hypotheses at issues in a legal dispute and encompasses every branch of accounting knowledge.”
4. The integration of accounting, auditing and investigative skills results in the special field known as forensic accounting. Crumbley (2005).

- **Forensic Accountant:**

The authenticity of the results found by Forensic Accountant depends on the knowledge, skills, and experience of the forensic accountant. A forensic accountant must be capable of integrating knowledge and skills in the examination, analysis, interpretation, reporting, and testimonial support of evidence. In court, the forensic accountant can be an expert witness, a consultant, or play other roles such as trier of fact, special master, court-appointed expert, referee, arbitrator, or mediator.

- **Qualification of Forensic Accountant:**

Forensic accounting can be a very lucrative and enjoyable career with a wide variety of potential employers. Forensic accountants -- like all accountants -- must have a thorough knowledge of Generally Accepted Accounting Principles (GAAP), business practices and applicable laws. In the United States, most forensic accountants have at least a bachelor's degree in accounting, with a few years of experience within that field.

The next step in becoming a forensic accountant is passing the Uniform Certified Public Accountant Examination to become a Certified Public Accountant (CPA). This exam was created by the American Institute of Certified Public Accountants, which is a condition of employment by many firms, in addition to meeting other state and federal eligibility requirements. Continuing education is a requirement of maintaining the status of CPA, and many aspiring forensic accountants attend graduate school to fulfill this requirement, as well as gain more knowledge in the field and become more marketable. Many universities offer master's degrees in forensic accounting or in business administration with a concentration in forensic accounting.

- **Types of Forensic Accounting:**

There are various types of forensic audit that can take place, and they are typically organized by the types of legal proceedings that they fall under

- Financial Theft (customers, employee, or outsiders)
- Securities fraud
- Bankruptcy
- Defaulting on debts

- Economic Damages
- M & A related lawsuits
- Tax evasion or fraud
- Corporate valuation dispute
- Professional negligence claims
- Money Laundering
- Privacy Information

- **Forensic Accounting Skills:**

1. Deductive analysis - The ability to take aim at financial contradictions that do not fit the standard pattern of an assignment.
2. Composure - The ability to uphold a calm approach in pressured time.
3. Specific legal knowledge - To understand basic legal issues and legal processes including the rules of evidence.
4. Written communication - The ability to communicate effectively in writing via reports, charts, graphs, and schedules the basis of opinion.
5. Oral communication - The ability to effectively communicate in a speech via expert testimony and general explanation as the basis of opinion.
6. Analytical proficiency - The ability to examine what should be given rather than what is provided.
7. Investigative flexibility - The ability to move away from standardized audit procedures and thoroughly examine circumstances for typical warning signs.
8. Critical thinking - The ability to decipher between opinion and fact.
9. Unstructured problem solving - The ability to approach each situation (inherently unique) prepared to solve problems with an unstructured approach.

- **Responsibilities of Forensic Accountant:**

- ☐ Review financial documents to identify inaccuracies
- ☐ Analyze financial data and trace discrepancies
- ☐ Forecast and prevent financial frauds
- ☐ Report on revenue losses and damages from contract breaches
- ☐ Investigate complex business cases to minimize risk

- ☐ Provide litigation support and present findings to be used as trial evidence
- ☐ Perform regular financial record audits to ensure compliance with the law
- ☐ Ensure all accounting procedures follow legislation
- ☐ Keep organized files of all legal cases
- ☐ Attend court, when needed

- **Meaning of Forensic Audit:**

Investopedia defines - A forensic audit is an examination and evaluation of a firm's or individual's financial information for use as evidence in court. A forensic audit can be conducted in order to prosecute a party for fraud, embezzlement or other financial claims.

Different tool and techniques used for Forensic Audit are:

1. Benchmarking – comparison of financial result of one period with another or the performance of one cost centre, or business unit, with another and overall business performance with its pre decided standards.
2. Ratio analysis – to identify any abnormal trends and changes.
3. System analysis – to examine the systems in place and identifying any weaknesses which could be opportunities for the fraudsters.
4. Specialist software- like audit tools for data matching analysis.
5. Exception reporting –Generating automatic unchangeable reports that to find out deviation from the norms.

- **Objectives of Forensic Auditing:**

Following are objectives of Forensic Auditing

- To use the forensic accountant's conclusions to facilitate a settlement, claim, or jury award by reducing the financial component as an area of continuing debate
- To avoid fraud and theft
- To restore the downgraded public confidence
- To formulate and establish a comprehensive corporate governance policy
- To create a positive work environment
- To help improve and ensure the integrity of the financial reporting system.

- **The scope of forensic accounting:**

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.

- **Code of Ethics for Forensic Accounting:**

- A Forensic Certified Public Accountant (FCPA™) should conduct their investigations with the utmost integrity, which is a key element of character fundamental to the accounting profession.
- An FCPA shall demonstrate a commitment to the professionalism of the accounting profession in accordance with AICPA codes of conduct.
- An FCPA shall not engage in any illegal or unethical conduct, or any activity which would constitute a conflict of interest.
- An FCPA shall obey and comply with all the rules of the court and testify to all findings in a truthful and non bias manner and without prejudice.
- An FCPA shall hold client information to the highest standard of confidentiality. An FCPA shall divulge all matters discovered during his or her investigation to the client. He or she should not share this information with others without proper authorization and permission from the client.
- Those who rely on FCPA's, expect them to discharge their responsibilities with integrity, objectivity, due professional care, and a genuine interest in serving the public. They are expected to provide quality services, enter into fee arrangements, and offer a range of services. These services include forensic accounting and fraud investigations, business evaluations, divorce work and any other situations that fall under the umbrella of "forensic accounting."
- FCPA's should continually strive to promote the profession of forensic accounting and to represent the Forensic CPA Society in a positive and competent manner.

- **Future Challenges of Forensic Accounting in India:**

- Shortage of forensic investigators: In India, forensic accounting is yet a developing field in fraud detection. Therefore, there is an acute shortage of qualified accountants with adequate technical knowledge.
- Political involvement: In India, most of the fraud cases involve politicians, so it is crucial to find evidences against them.
- Judicial system: The Indian judicial system still follows the age-old British judicial system. Consequently, it is expensive to bring the matter to court and hire expert advocates.
- Due to liberalization and a rapidly growing economy, more and more investors from foreign countries are investing in India, as a result it is difficult to sue financial fraudsters from other countries.
- Technology: Because of continuous adoption of new techniques of Information and Technology by fraudster, it is difficult to Forensic Accountant to cope up with them