



Forensic Accounting: A Strategic Tool for Investigation of Financial Crimes

Dr. Hariom Duggal, Assistant Professor
Department of Commerce, Indira Gandhi University, Meerpur
Rewari (Haryana) India
E-mail: horduggal@gmail.com

Abstract

The present paper explore the tools and techniques of forensic accounting, application of forensic accounting in financial crime investigation and challenges and future trends of forensic accounting. The present study entirely based on the secondary sources and review of forensic accounting material which already published in various research paper and article published both as national and international level, newspapers, working paper, e-paper proceedings of various conferences and seminars. Basically the present study is conceptual in nature and therefore it is a review research. The study concludes that the tools and techniques make the forensic accountant able to detect frauds, gather evidences and provide expert opinion regarding financial matters. The expertise of forensic accountant in application of tools and techniques make strong financial integrity and protect the interest of individuals, business and economies. The challenges faced by forensic accountant need proactive measures and ongoing adaptation and advance method of data analysis, cyber security; block chain and adopting of ethical standard will shape the future of forensic accounting.

Keywords: Forensic Accounting, Financial Crime, Forensic Accountant, Financial Frauds

Introduction:

The area of accounting and finance is not resistant to the fraud and irregularities due to the growth of complication and technology advancement which leads of financial crime in an organization. To counter these issues a specialized area of accounting emerged as forensic accounting to the find out, investigate and prevention of financial fraud. The forensic accounting comprises two words as forensic and accounting. The forensic word comes from Latin word Forensis which meaning “in Open Court” or “Public.” So forensic refers to find out evidences to solve any crime which is accepted by court in legal proceedings as well as public disclosure. According to American Institute of Certified Public Accountants (AICPA)



“Accounting is an art of recording, classifying and summarizing in a significant manner and in terms of money, transactions an event which are, in part at least of financial nature and interpreting the result there of. AICPA (American Institute of Certified Public Accountants) defined forensic accounting as the application of accounting principles, theories and discipline to facts or hypothesis at issues in the legal disputes and incorporate the knowledge of every accounting branch.

In nut shell forensic accounting is the combination of accounting, auditing and investigative skills. Forensic accounting includes various activities as fraud investigations, litigation supports, dispute resolution, prevention advises regulatory compliance and asset recovery. As per the PwC’s Global Fraud Survey conducted in 2022, cybercrime, customer fraud and asset misappropriation are the most prevalent types of fraud. According to the Transparency International Corruption Perception index, India is ranked as 94th position out of 176 countries.

Objectives of the Study:

Forensic accounting now a day’s become an essential part of accounting due to the combination of investigative techniques and financial expertise to detect, prevent and resolve financial irregularities and fraudulent activities. The present study conducted for:

1. To explore the tools and techniques of forensic accounting.
2. To study the application of forensic accounting in financial crime investigations.
3. To study the challenges and future trends of forensic accounting.

Research Methodology of the Study:

The present study entirely based on the secondary sources and review of forensic accounting material which already published in various research paper and article published both as national and international level, newspapers, working paper, e-paper proceedings of various conferences and seminars. Basically the present study is conceptual in nature and therefore it is a review research. The tools and techniques, application and challenges of forensic accounting analyzed in this study.



Tools and Techniques of Forensic Accounting:

Forensic accounting used a wide range of tools and techniques for detecting, investigating and legal proceedings and for the better use of these tools and techniques require knowledge of accounting, investigative skills and technological advancement to analyze the financial data and find out financial crime and solve it. The followings are the key tools and techniques commonly used by the forensic accountant:

1. Financial Statement Analysis:

The forensic accountant analyze the financial statement for assessing the completeness, reliability and accuracy of financial information through ratios, trends and consistencies for identify expected wrong activities which leads fraudulent action.

2. Data Analysis and Forensic Technologies:

The forensic accountant use different specialized software and data pooling techniques for the large volume data, recognizing trends and patterns and find out inconsistencies that may cause of financial crime.

3. Tracing and Recovery of Assets:

The forensic accountant utilize tracing technique to follow the flow of funds and detect the location and movement of assets when financial crime include the concealment or misappropriation of assets through transactions records by reviewing banking statements and conducting assets search which was misappropriated and concealed.

4. Interviewing and Interrogation:

The forensic accountants conduct interviews of relevant individuals as like employees, suspects and witnesses for gathering inside information and to find out hidden information in details related to the fraud activities.

5. Digital Forensic and Electronic Evidences:

The forensic accountants use digital tools like email, databases and digital documents etc. for collection, protection and analyze digital records which helps forensic accountant for reconstructing financial information and untouched digital footprint of fraudulent things.

6. Expert Witness Testimony:

The forensic accountants also provide expert witness demonstration for legal proceedings and matters. They analyze and interpret financial information, prepare expert notes and reports and present their report in concise way to assist the court for understanding complex financial data.



Application of Forensic Accounting in Financial Crime Investigation:

Forensic accounting is branch of accounting which includes accounting, auditing and investigative activities for identifying, analyzing, interpreting and documenting of evidences of financial criminal activities. The following is the application of forensic accounting for financial fraud or crime investigation.

1. Fraud Detection:

The forensic accountants provide their excellences for detect and investigate of many type of financial fraud such as financial statement fraud, corruption, assets misappropriations etc. They use various tools and techniques for the analysis and interpretation of evidence documents for detecting abnormalities, patterns which is lead of fraud activities.

2. Quantification of Losses:

The forensic accountants estimate the quantum of losses suffered by victims after occurrence of financial crime through conducting assets valuations, determining the magnitude of financial wrong statement and by examining of financial records for compensate to individual, organization or government.

3. Recovery of Assets:

The forensic accountants play a crucial role for recovery of assets misappropriation by collaboration with other law enforcement agencies by use of their expertise to detect hidden assets and identify the movement of funds and by exposing complex hiding schemes.

4. Prevention and Risk Management:

The forensic accountants assess internal control system, develop fraud preventions measures and employ robust system for protection against financial crime and give recommendations for risk management and for improving governance to reduce the happening of financial crime in future.

Challenges in Forensic Accounting:

Forensic accounting plays a very important role in solving financial crime through their investigative tools and techniques. The following challenges are faced by the forensic accountant while investing fraud in practice:

1. Technological Advancement and Cyber Security Risk:

The technological environment is dynamic in nature and rapidly change from time to time, forensic accountant need to up to date with these changed tools encrypted techniques and digital



sources used in fraudulent activities. In this modern era the use of online transaction and digital platforms increased tremendously which increase cyber security risk leads for development of advanced forensic techniques for investigate cyber related financial frauds.

2. International Perspective and Cross Border Investigations:

In this modern time, due to the globalization business expands their operations in the whole world and transactions are done at international level which leads the financial crime at cross border. For the investigation of crime committed at international level the forensic accountant faced challenges related to different legal framework, jurisdiction, different culture, communication barriers and proper coordination between multiple investigating agencies or jurisdictions.

3. Collaboration with Law Enforcement Agencies:

Proper and effective collaboration between forensic accountant and different law enforcement agencies is necessary for the successful investigation of financial crime. However, challenges may faced by forensic accountant due to differences in information sharing protocol, resources, priorities and legal mandates etc. Filling all these gaps and creating strong relationship for increasing cooperation and successful investigation of financial crime.

4. Continuous Professional Development and Proper Training:

Continuously and specialized training are essential for forensic accountant to keep up to date their knowledge and skills to the changed pattern of making financial fraud and expertise for tackle these financial crime schemes.

Future Trends in Forensic Accounting:

1. Artificial Intelligence and Advance Data Analysis Techniques:

The extension of available data analysis techniques and artificial intelligence technologies will make a drastic change in forensic accounting. These advanced tools make the forensic accountant able to analyze and interpret of large amount of financial data, find out abnormalities, identify ways of frauds and other specified angles of investigation process.

2. Digital Forensic and Cyber Security:

Due to the increasing in the digital transactions and cyber crimes the demand of forensic accountant and experts in cyber crime and digital payment increased. The forensic accountant now need more précised skills to analyzing digital evidences and to follow-up of funds flows in this rigid cyber crime scenario.



3. Block Chain Technology:

The characteristics of decentralization and transparent of block chain make it the possible to modernize the forensic accounting. It provide non changeable ledger of transactions, the block chain technology can improve the reliability and accuracy of financial records, minimize the happening of fraud and make simplify forensic investigation procedure by facilitating the verification and tracking of transactions occurred.

4. Professional Standards and Ethical Considerations:

The forensic accountant must follow the high level ethics, independence and integrity to ensure creditability of their expert narrations and findings because forensic accounting consider as major pillar of accounting and internal control.

Conclusion:

The forensic accounting is the combination of accounting, auditing and investigative skills and the tools and techniques make the forensic accountant able to detect frauds, gather evidences and provide expert opinion regarding financial matters. It is too much important for a forensic accountant that remains up to date with the updated technologies for the better use of these tools and techniques in investigation of financial crimes. The expertise of forensic accountant in detection of frauds, analysis of financial statement, investigation of money laundering, quantification of losses and expert witness narrations make strong financial integrity and protect the interest of individuals, business and economies. The forensic accountant faced challenges as complications at international level, collaboration with different law enforcement agencies; technological advancement and continuous professional development need proactive measures and ongoing adaptation. However, the advance method of data analysis, cyber security, block chain and adopting of ethical standard will shape the future of forensic accounting against the financial crimes.



References:

- Bhasin, M. (2007), Forensic Accounting: A New Paradigm for Niche Consulting. The Chartered Account, ICAI, New Delhi
- Chakrabarti, M. et al. (2014). "Problems and Prospects of Forensic Accounting Profession in India." International Journal of Informative & Futuristic Research, Issue 1, Vol. 2, pp 01-09.
- Kaur, G. et al. (2023). "An Inside into Forensic Accounting." Indian Journal of Forensic Medicine and Toxicology, Volume 17, No. 1, pp 25-30.
- Popoola OM et al. (2014). "Forensic accounting and fraud: Capability and competence requirements in Malaysia." Journal of Modern Accounting & Auditing, Vol. 10, Issue 8, pp825-34.
- Huber WD.(2013) "Should the forensic accounting profession be regulated?" Research in Accounting regulation. Apr 1;25(1):123-32
- Ghosh I. et. Al. (2011). "Forensic Accounting - Another feather in the Hat of Accounting." The Chartered Accountant, ICAI, New Delhi.
- Singh P. (2012). "Forensic Accounting Concept in India." International Journal of Trade and Commerce, IIARTC January - June, Vol. 1, No. 1, pp 113-120.
- Begum A. (2023). "Forensic Accounting- A Fraud Investigation Approach." Dogo Ransang Research Journal, Vol. 13, Issue 2, No. 1, pp 473-479.
- Shah B. (2021). "Forensic Accounting- A New Investigative Approach in Accounting." International Journal of Social Science and Reseach, Vol. 10, Issue 3, pp14-16.

WEBSITES

www.assocam.org/newsdetail.php?id=4837
www.wikipedia.com www.scamsinindia.com.
www.cyberfrauds.com
www.hindustantimes.com
www.indiaforensic.com
www.kpmg.com.