

# Manual on forensic accounting



FORENSIC ACCOUNTING Introduction Necessity is the mother of all inventions. Yes, it is the growing arena of business and surging number of white-collar crimes that have paved the way for the development of Forensic Accounting. According to AICPA, “ Forensic Accounting is the application of accounting principles, theories and discipline to facts or hypothesis at issues in a legal dispute and encompasses every branch of accounting knowledge. According to The Accountant’s Handbook on Fraud and Commercial Crime, Forensic Accounting is the application of financial skills and an investigative mentality to unresolved issues, conducted within the context of the rules of evidence. Forensic Accounting borrows knowledge from Accounting, Finance, Law, Computerisation, Ethics, Criminology, etc. Investigation plays a pivotal role in Forensic Accounting. It is the flavour of investigation that demarcates it from the conventional accounting practices. In wide sense, it can be identified as integrity of accounting, auditing and investigative skills to secure a particular result.

Forensic accounting in Indian context Maurice E. Peloubet coined the term Forensic Accounting in 1940. In India Forensic Accounting is still in nascent stage and it becomes very difficult to find and retain the forensic accounting resources in India. Worldwide we consider Sherlock Holmes to be the first Forensic Accountant; however the contribution of some of the historic characters in India cannot be ignored. In India, Kautilya was the first person to mention the famous forty ways of embezzlement in his famous Kautilya Arthashastra during the ancient Mauryan Times.

If we use his theories even today we can find that almost all the major failures in the corporate world of USA are the extended versions of what

Kautilya had stated a few thousand years ago. Birbal a Scholar in the time of King Akbar used various tricks to investigate various crimes. The third scholar was Tenaliram who emphasized on the investigative techniques used to find the perpetrators. After the Satyam Fiasco investors will be worried while investing in every company listed on the stock markets and there will be huge demand for the forensic accounting professionals.

Forensic accounting has come to light in view of increased in financial frauds popularly known as white collar crimes. This profile is currently unknown in India; however the future of forensic accounting in India is poised to grow.

Forensic Accounting and Auditors Forensic accounting simply means accounting that could be used in a court of law and not accounting just for the purpose of auditing; this is because you can be the best auditor and yet be the worst forensic accountant. E. g. hen you go for an audit and you ask for an invoice and the auditee give it to you, as an auditor you will not ask further questions, but a forensic accounting expert would, like; did the invoice sent by mail or delivered by hand? Now, if you were the one conducting the investigation as a forensic accounting expert, you can tell the source of the invoice the moment you were handed the invoice, so if you ask if the invoice was posted by mail and the auditee gave you a crisp unfolded invoice, you already know it is not posted.

Invoices are mostly folded, must show creases, or have stapler's sign on them. Now if that invoice became evidence in a matter in the court you can controvert its origin if the other party in the matter claims that it was sent by mail you can affirm that the invoice was not delivered by mail. It is all about forensic style of gathering evidence; on the other hand, auditors are not

required by law to go beyond what is asked. The Satyam scam is prompting auditors to take up courses in ' fraud detection' instead of remaining confined to ' fault finding from books of companies.

Does that mean that an audited report cannot be used in a court of law? It can be used in a court of law, but it will not carry the weight of a forensic report, it cannot stand. Auditors are by law not empowered to uncover fraud because in auditing they are guided by the concept of materiality, while forensic experts don't have the limitation of materiality. It is a relative thing, that is where fraud and forensic crossed each other's path. Fraud doesn't necessarily end up in court, but forensic accountant has to make evidence suitable for admission in court.

It is a stereotype thing, as long as auditors are concerned, audit report is supposed to be a mere true and fair view of an account, but when if you are to prove or disprove an allegation of fraud, there must be a forensic accounting investigation and report. It might have been tampered with, ours is not to determine whether the suspect is guilty or not, but to give a better interpretation to the evidences. It impacts on the financial sector of the economy.

There are lots of procedures in forensic that you cannot violate like that chain of command, you have to know how the evidences were taken and preserved to avoid cases of tampering with evidence in our court. One major weapon accountants have is the use of questions or the interview technique in conducting auditing jobs; there is no way you can start working without questioning, that is the most critical thing, but not many accountants know

its utmost usage, in forensic, we call this embedded incompetence. What actually determines the success of the forensic report is the interview technique.

Forensic Accounting ensures: (a)Assessment of the damages caused by auditor's negligence. (b)Fact finding to see whether embezzlement has taken place. (c)Collection of evidences in a criminal processing. (d)Investigating and analyzing financial evidence. (e)Using CAAT, Data Mining and other computer tools for forensic accounting. (f)Developing computerized applications to assist in the analysis and presentation of financial evidence, signature evaluation and field inquiry. (g)Communicating the findings in the form of reports, exhibits and collections of documents. h)Assisting in legal proceedings, including testifying in courts, as an expert witness and preparing visual aids to support trial evidence. Examples of forensic accounting crimes are embezzlement, waste, theft and misrepresenting a company's financial statements. Forensic accountants are specialized witnesses in court cases. Forensic accounting vs. Chartered Accountants Former ICAI President Message!! : CA. Ved Jain “ Forensic Accounting encompasses the use of accounting/auditing, investigative skills, data mining and the use of the computer as an audit tool.

Chartered accountants, with their sound grounding in accounting/auditing, are the most appropriate professionals to offer forensic accounting and fraud detection services. It will help members in acquiring investigative skills required to uncover corporate/business frauds, measure result damage and provide support/counsel by applying accounting and auditing principles for the detection of frauds to add to the capacity, capabilities and skills of our <https://assignbuster.com/manual-on-forensic-accounting/>

professionals with the overall objective of making them the best in the world.  
” Maurice E.

Peloubet said that the preparation of financial statements has some but not all of the characteristics of forensic accounting. This statement is enough for the Chartered Accountants in India to foray in this field. It is a new child on the block. Chartered Accountants are going to find themselves more involved in what is essentially a type of forensic practice. The changing nature of the Accounting and Auditing & assurance standards also confirms this. The day is not far away when forensic practice will contribute to the total revenue of the Indian CA firm.

The traditional role of an auditor has now expanded with recent increase of national (Global Trust Bank, Satyam) and international corporate failures (Enron, WorldCom, HIH), hence the traditional role has now extended into reviewing the adequacy of fraud risk management procedures and assessing the potential impact of the fraud and containing such incidences. How do you position forensic accounting in the fight against corruption? Forensic accountants play key roles in the fight against corruption. As a forensic accountant we have what we call ‘ NET WORTH’ analysis.

It is so easy to investigate illegal incomes. Like the story of Al Capon, the Mafia boss in the US, he was so smart and so sure of himself that nothing could be traced to him, but he forgot the issue of net worth; they just asked him that this was how much you were worth at so so time, how then are you this worth at this time? That was how he was nailed and he died in jail. Generally, with forensic accounting, it is easier to fight against corruption.

Now there are certain principles to investigate money laundering all over the world.

There is placement which we refer to in forensic as the placement of stolen loots in financial institutions. The other principles of investigating money laundering through forensic accounting techniques are Layering and integration. The first is Placement which involves the process of lodging the loots in the banks. Let's use the money laundering effort of drug barons. After making dirty monies they'll like to keep it in a bank, when they do this they have done placement. This is the best stage to pin-down money launderers; launderers will be looking for space to place the money in the financial sector of the economy.

Lesser in India, Government monies stolen are already in the banking system, all corrupt officials need to do is to transfer it to their own account. Layering is the systematic transfer of looted funds from one account to the other without economic purpose, but to make it difficult and to disconnect it from being traced to the same account, layer by layer. Integration is when the looters feel the time is safe to bring it back into the system, this is how the term money laundering emerged, literally meaning - dirty money - being laundered and washed clean and brought back to the system. Forensic accountant is an expert witness.

AICPA defines it - as anybody qualified by knowledge, experience, training, education, to provide a technical or scientific, specialized knowledge, opinion about the evidence or a fact, that will assist the trial of fact - the role is that of a practitioner who renders an expert testimony before a court of law,

tribunal, by providing an impartial, objective and rational evidence that will help the case. Forensic accountant is one who is invited to investigate the scene of a fraud, money laundering, embezzlement, bankruptcy, securities scandal, or other conflicted situation and prepare a report identifying what had happened.

In India, there are only handfuls of experts in fraud and forensic audit but they are the most required in the wake of the growing frauds. Qualities of a Forensic Accountant: “ A forensic accountant must have (a) basic accounting degree or economics degree, (b) high level of communication skills, (c) understanding and creative thinking, (d) clarity of expression and must be impartial, (e) patience and common business sense, (f) proficiency in using computer skills, (g) understanding body language, (h) thorough knowledge of government policies, (i) basic understanding of Criminal and Civil Law and the legal system. ”

You should think forward and look into the future. You need to be an enquiring mind and should not be hesitant to ask " Why? How? and Who? " In India there is a separate breed of forensic accountants called Certified Forensic Accounting Professionals. Some forensic accountants are also Certified Fraud Examiners, Certified Public Accountants, or Chartered Accountants. Forensic accountants utilize an understanding of business information and financial reporting systems, accounting and auditing standards and procedures, evidence gathering and investigative techniques, and litigation processes and procedures to perform their work.



Forensic accountants are the crime dogs of the financial industry. It is their job to "take a bite out of crime." The crimes that forensic accountants hunt down are white-collar crimes. The changing nature of Indian accounting standards (moving towards IASs & IFRSs), with top corporate entities who are going global, forensic accountants will be required over a period of time to provide expert consulting services to corporate entities and to provide expert witness services to courts.

Forensic accounting is the specialty practice area of accountancy that describes engagements that result from actual or anticipated disputes or litigation. "Forensic" means "suitable for use in a court of law", and it is to that standard and potential outcome that forensic accountants generally have to work. Sources This material has been prepared from (a) Article published by Anuraag Sharma in CACLUBINDIA and (b) CA Journal October 2011 - page no 60 to 64 – Article on Forensic Accounting - Another feather in the Hat of Accounting, authored by Dr. Indrani Ghosh and Dr. Kamal Kishore Banerjee