

## **Forensic Accounting and Fraud**

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**Abstract:** *In recent times, there has been a rise in white collar crimes the world over, especially in India and this is where forensic accounting steps in. A blend of accounting, auditing and investigative skills gives rise to 'Forensic Accounting'. The objective of this study is to link forensic accounting with fraud and to bust the myth that forensic accounting comes into place only when blue collar crimes are committed with financial motives. But in reality, white collar crimes are equally consequential. The approach that has been adopted in carrying out the research is both quantitative and qualitative in nature. The only limitation faced is, minor difficulty encountered while collecting the primary data, as people hardly know about this field. This research has been inspired by various news articles, journals and the urge to explore the field. The aim is to create awareness about the necessity and role of forensic accounting in development and betterment of the economy.*

**Keywords:** *Approach, blue collar crimes, forensic accounting, fraud, white collar crimes.*

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### **I. Introduction**

Financial crimes and frauds are old concepts in the world, but their solution- forensic accounting- is a relatively new one. With the help of a study facilitated by collection of primary data, we found that most of the people do not know what forensic accounting is and why it is important, though most have a rough idea of what fraud is which is basically the reason why forensic accounting came into existence.

Fraud, as all of us know, is the wrongful act of deception done willingly for a personal, or to be more specific, financial gain; and the answer to this deep-rooted problem is forensic accounting- which is the use of accounting skills to investigate fraud and financial crimes.

Forensic accounting has been taken seriously around the world, almost since its inception. The scenario in India, though, is different. Not every company fully relies on forensic auditing and there is a certain lack of awareness among the common masses as well, as mentioned before, and this paper aims to highlight just that. The forensic accounting scene around the world and major scams have been explored as well. The paper also clears the misconception regarding what kind of motives form a base for fraud and gives an insight to the profession and life of a forensic accountant.

### **II. Forensic Accounting Around The World**

Presently, committing fraud has become a part of carrying out business. Irrespective of the magnitude of the fraud committed, it is safe to say that majority of the business organisations commit fraud in some way. The Association of Fraud Examiners, mentioned in their Report to the Nations on Occupational Fraud & Abuse in 2012, that the world loses 5% of its annual revenue to fraud i.e. about \$3.5 trillion dollars.

Since fraud has such a huge impact over the world, there came a need to introduce something to curb fraud and that is when forensic accounting came into existence, in the early 1900s. Forensic accounting has been evolving ever since, by altering the way fraud is discovered and dealt with.

It has been observed that the introduction of forensic accounting has initially managed to at least curb the increase of fraud, if not reduce it altogether. People then began to locate loopholes due to which an increase in the number of frauds committed has been observed. Forensic accounting has then been seen to have evolved in the way fraud is discovered and dealt with, which again managed to reduce the number of frauds committed. People then began to locate loopholes, which again increased the number of frauds. This became a sort of an endless cycle until now. At present, it is difficult to commit fraud and get away with it because the profession of forensic accounting has evolved to level by which fraud is detected as and when it is committed and the ones guilty of committing fraud, face serious consequences.

## **2.1 Scams Around The World**

Some of the biggest and the most famous scams which shook the world as follows:

- **Enron and WorldCom:**

-Wall Street favourite Enron- an energy company and US telecom giant WorldCom collapsed because of bankruptcy after being sued against and cited as the biggest audit failures.

-Enron hid billions of dollars in debt from failed deals and projects and WorldCom had huge accounting discrepancies and errors as well.

-Incidentally, the audit firm employed by both the corporations was Arthur Andersen which was one of the largest accountancy partnerships in the world before facing a de facto dissolution as a result of these scandals

-Another major after-effect of these scams was the passage of the Sarbanes-Oxley Act on July 30th 2002.

- **Madoff Scandal:**

- The Madoff Scandal was a major case of fraud related to stocks and securities. It is a good example of the infamous Ponzi schemes, named after the Italian conman- Charles Ponzi who was notorious for using the technique to commit fraud.

- A Ponzi scheme is one where returns for older investors are generated through revenue paid by new investors and not from legitimate business operations.

-The Madoff scandal was headed by Bernard Madoff who was the founder and chairman of Bernard L. Madoff Investment Securities LLC and incidentally, also the chairman of NASDAQ.

- The wealth management operations of his company were an elaborated Ponzi scheme, which he admitted to when he pled guilty for committing eleven federal crimes, on March 12<sup>th</sup>, 2009 followed by a sentence of 150 years in prison on June 29<sup>th</sup>, 2009.

- **Panama Papers:**

-The Panama Papers are leaked documents, around 11.5 million in number, from the database of Mossack Fonseca- the world's 4th biggest offshore law firm. These papers contain financial and client-attorney information for more than 200,000 entities set up offshore.

-Some of these shell companies were being used for financial fraudulent activities like evasion of tax and international sanctions.

-Offshore business entities are perfectly legal but some of these corporations were being used for illegal purposes and many of these offenders were public officials and wealthy individuals. These public figures, their family and close associates were revealed to be using secretive, offshore tax havens.

-The data leak is the biggest ever- a staggering 2.6 TB of information and has had major global impact. Pressure for reforms and international cooperation against such frauds has increased as corruption is on a different level altogether. Politicos and business biggies involved have lost their plausibility and trustworthiness after the leak.

## **III. Forensic Accounting In India**

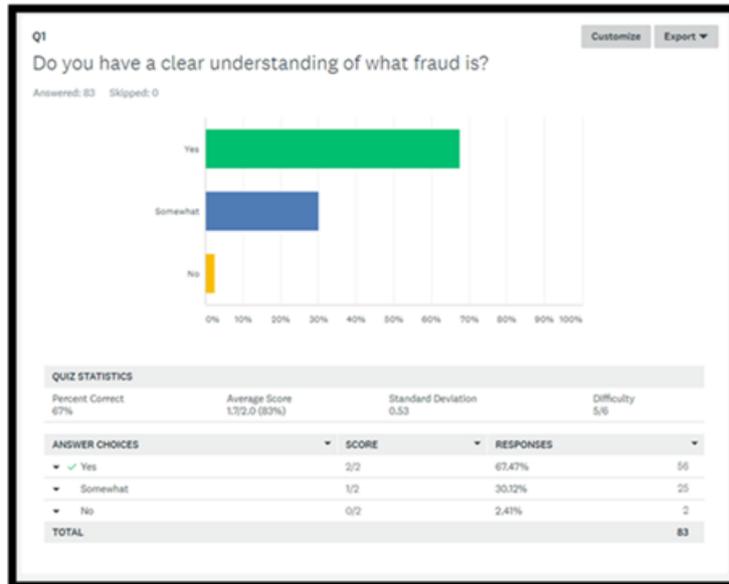
The nature of frauds committed in India has changed over the years. Hence in the current economic scenario, The Institute of Chartered Accountants of India recognizes the need to have fraud detection and forensic accounting. Forensic accounting is still in the beginning stage in our country but organisations should appoint forensic accountants irrespective of whether they understand in detail the positive implications of forensic accounting or not. Currently in our country, forensic accountants are in great demand. In fact, the supply of forensic accountants is far short of their demand. Scandals like the Satyam scam, Fodder scam, CWG scam and a lot more have aggravated the already high demand for forensic accountants in India.

India loses about \$40 billion because of frauds but there are only about 400 forensic accountants in the country. The main reason behind the country not having enough forensic accountants is the lack of awareness and understanding of the profession.

### **3.1 Survey**

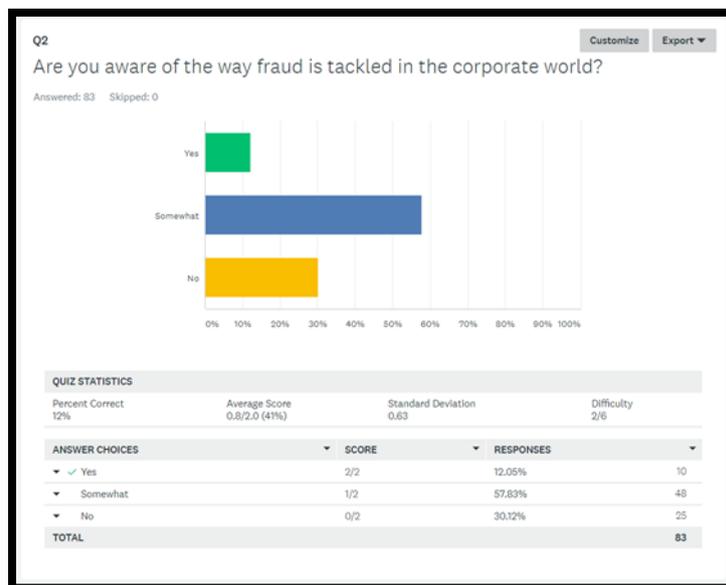
An analysis of a survey conducted showing evidence of the lack of awareness of the profession is as follows:

- The first question targets the basis of forensic accounting, which is fraud. From the graph, it can be deciphered that a huge chunk of people have an understanding of what fraud is. Many others have a vague understanding of what fraud is. There are a very few people who are not aware of what fraud is. Refer to Fig (1).



**Fig (1).** First question of the survey

- The next question aims at finding out if people know how fraud is dealt with in a corporate setting. Majority of the people either do not know how fraud is dealt with or have an unclear understanding of how fraud is dealt with. Only about 12% of the people know how fraud is dealt with in the corporate world. Refer to Fig (2).



**Fig (2).** Second question of the survey

- The third question aims at finding out if people know what forensic accounting is. Only 15% of the people know what forensic accounting is, with 85% either having no idea of what it is or having a vague idea of what it is. Refer to Fig (3).

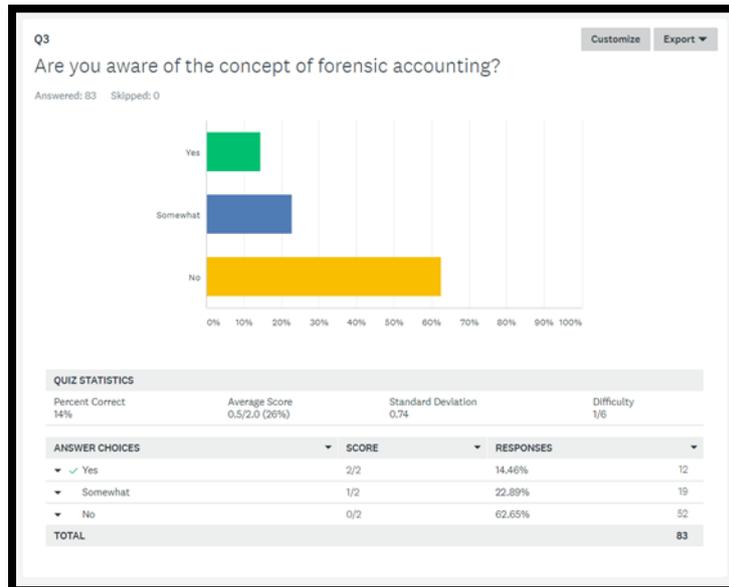


Fig (3). Third question of the survey

- The fourth question aims at finding out what people perceive forensic accounting as. Equal number of people believe that it is either a profession with regulatory bodies or an area of study. A few also believed that it is an upcoming field of work. Refer to Fig (4).

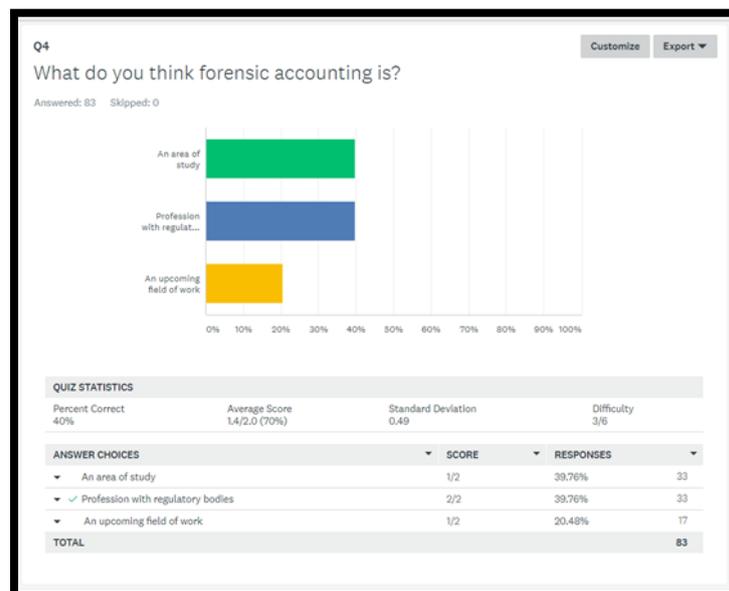


Fig (4). Fourth question of the survey

- The fifth question aims at finding out about the kind of crimes that people think come under forensic accounting. Even though majority of the people do not have a clear understanding of what fraud is and of what forensic accounting is, they know that both white collar crimes as well as blue collar crimes are dealt with in forensic accounting. Refer to Fig (5).

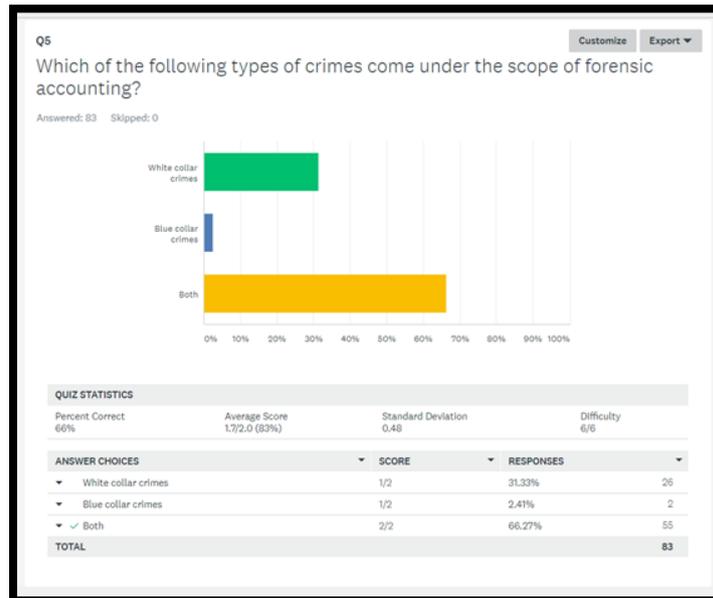


Fig (5). Fifth question of the survey

- The last question aims at finding out whether people perceive forensic accounting as something significant or insignificant. It can be deciphered from the graph that most of the people think that it is significant. Many people are under the misconception that it is extremely significant, which is not true because organisations can still function without it. The absence of it is not detrimental to the organisation's existence. Refer to Fig (6).

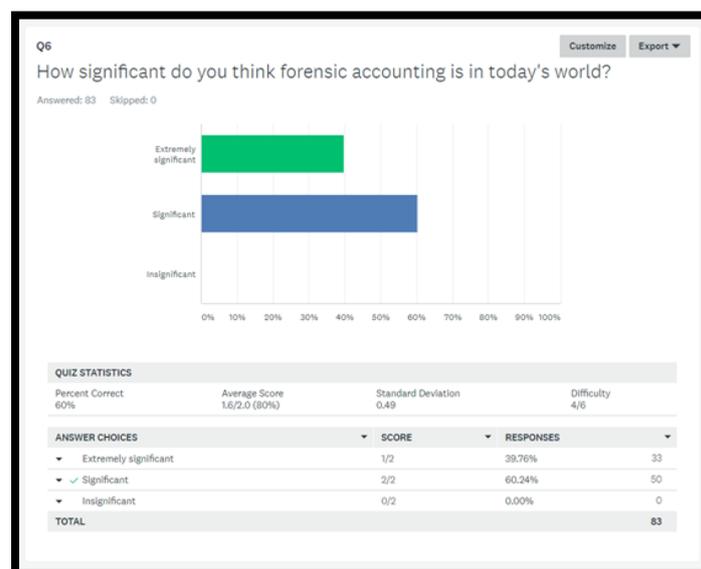


Fig (6). Sixth question of the survey

#### IV. The Profession Of Forensic Accounting

Like any other profession, people who want to become forensic accountants must attain the required qualifications. But before we get into the details of the qualifications that an individual requires to become a forensic accountant, let's have a look at the attributes that one needs to possess to become a good forensic accountant.

- Creativity- Thinking outside the box.
- Attention to details- To be able to see things in a detailed manner.
- Perseverance- Doing something despite difficulties and delay in achieving success.
- Organisation- Being able to systemize things.

#### 4.1 Educational Qualifications

The educational qualifications that a forensic accountant needs to have are as follows:

- A bachelor’s degree in commerce/accounting.
- A chartered accountant membership in a body of certified accountants.
- A specialization in forensic accounting.

Some of the places from where one can study and obtain certifications as a forensic accounting professional are as follows:

- Institute of Chartered Accountants of India, New Delhi.
- Association of certified fraud examiners (ACFE), USA.
- Indiana University, Bloomington, USA.
- British Columbia Institute of Technology, Canada.
- Charles Stuart University, New South Wales, Australia.

Some of the courses available in India are as follows:

- Post Graduate Diploma in Forensic Accounting
- Certificate Course in Forensic Accounting Professional
- Certified Anti-Money laundering Expert
- Certified Bank Forensic Accounting
- Certified Vigilance and Investigation Expert

#### 4.2 Work Experience

- Any prior work experience of a forensic accountant in the field of accounting will be of a great assistance.
- Working with experienced forensic accountants and solving cases with them will ultimately transform an amateur forensic accounting into a capable and an efficient forensic accountant.

#### 4.3 PROS And Cons Of The Profession

PROS	CONS
Forensic accountants are at a high demand at present due to rapidly increasing number of frauds.	Forensic accounting investigations are rather complicated and time consuming.
Forensic accountants are given a very good amount of pay. The pay rates are seen to rise steeply with experience.	The life of forensic accountants may be at risk because they sometimes appear in the court as expert witness.
A forensic accountant will be exposed to the latest technology and equipment.	The whole process of becoming a forensic accountant is quite competitive and academic governed.

**Table (1).** Pros and cons of forensic accounting as a profession

### V. Conclusion

Through this paper, we have humbly attempted to contribute to the ongoing dynamic changes in the commercial field of the country by way of addressing the issue of lack of awareness regarding forensic accounting and why it is so important to tackle fraud. The survey helped us know that people are ready to learn more about this area and its related concepts, albeit with the limitation of having to explain the background to most of them.

Forensic accounting, without any doubt, is a much-required area and a highly esteemed profession in today’s day and age due to the substantial rise in financial crimes and fraudulent activities. Even though the field needs to be explored further in India, the increase in interrelated world scams has set in motion, a paradigm shift in the finance and accounting sector of the country.

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