

Forensic Accounting: An Emerging and Promising Career Option

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Abstract: The liberalisation, globalisation and advancement of IT have brought a paradigm shift in the global business environment. The fast paradigm shift due to technology development in every business operation has increased huge number enterprises operating locally and globally. The resultant phase have been characterised with lot of competition which has enormously changed its various operational functions with diversified and specialised manpower. Moreover, the changing trend of business operations infringes the ethical and lawful business practices specifically in the functional areas of accounting and finance too. The sentient phenomenon has upset the fair execution of regulatory environment in recording, maintaining and reporting financial and accounting records thereby draw the attention of regulators and policy makers towards offensive and unlawful financial activities which has created number of financial frauds and crimes day by day. Such occurrences have emerged as the specialised area of forensic accounting to protect huge losses in business organisations and safeguard the interest of all the parties associated with the business.

As a sub- speciality of accounting, a forensic accounting is described as the application of general accounting and auditing mixed with investigative skills by the specialised professionals. The major objective of forensic accounting is to provide material fact of financial crimes and frauds through various financial documents prepared by traditional accounting system. The forensic accountants need to carry out inquiry of various financial frauds in such a manner that the outcome of such can have application in the court of law. The modest attempt in the present research study has been made to describe the emerging and promising role of forensic accountant as a service provider. The first part of the study focuses on various forensic practice areas of forensic accountant so that the aspirants of making career in the accounting and finance discipline can understand the business move in the virtual and global space for navigating complex compliances and improper execution of regulatory framework. The second part unfolds the crucial roles of forensic accountant in the corporate world and the last part covers the emerging and promising career options for forensic accountant.

Key words: Forensic accounting, financial crimes, emerging career JEL Classification: M42, M48

The Background

The liberalization of economy in 1991 has opened up ample of glowing career prospects for candidates with good caliber to practice in the industrial sector. Incessant innovations and invariable technology advancement embedded in every phase of industrial movement and have demanded an array of expertise, skills and potentials from a candidate operating at various domains with a wide range of business functions. In the wake of the rapid industrial development stage, the need for various fields of accounting and finance cannot be discriminated. The predominant and adjacent role of accounting and finance has also initiated relevant innovations in its practicing area, at every sphere of industry demand.

The fast development stage of industry, supported by technological advancement in each process, has actually originated many innovative practice areas of accounting, but the money-spinning mindsets and approaches of industry owners have added the dreadful and awesome dimensions to it. The magnitude and the size of resulted awful facets are heightening day by day. Such issues in the said direction, alarms the nations to investigate the real dent to the corporate and economy at large. The prevailed notion of such detriment in the field of accounting also brings lot of alluring and promising career opportunity for the aspirants jumped in the profession of accounting with a view to generate higher earnings and better prospects.

As an integral part of the business functions, accounting provides ample of scope for professional practice in industry. IT processed gradual augmentation in the field of the accounting practices and diverse operational complexity of various businesses have also emerged a gray area of accounting practice which emphasizes on the legitimate dimension known as forensic accounting.

Forensic accounting and its role as a professional practice

Forensic accounting is the culmination of methodical and sound knowledge of general accounting and investigative techniques in the aspirant of accounting professionals. Fundamentally it facilitates in preventing various financial crimes and frauds taking place through the financial transactions in various business houses. Forensic accountant plays a significant role in protecting the wealth of nation. With the help of their investigative and analytical skills the financial issues of various organizations can be resolved in the court of law. They are being employed by public and private accounting firms, law enforcement agencies, private companies, financial institutions, and government organizations. Forensic, having through its diversified functions, transpires such fraudulent activities for legitimate proceedings in the court of law for justice.

Forensic accountant having developed with various skills of tracing frauds, conducting forensic analysis, preparing report and findings from financial data and presenting the same for litigation as well as testifying person becomes able to cater the need of corporate to develop vigorous and fraud free environment. Forensic accountant work alongside the lawyer in white collar crime cases as the lawyers may not have fundamental and technical knowledge of financial aspects of the business organisations. They also work closely with law enforcement personnel during investigation and appear as experts witnesses during trials in the court of law. Being the watch dog through investigative skills, they have to precisely check, identify and disclose fraudulence and illegal financial transactions so that the relevant process for audit, verification, collecting evidence of malpractice and misconduct can be carried out for preparing and presenting the litigation reports.

Review of literature on Facts of frauds

As per the report published by the Association of Certified Fraud Examiners, in 2012, approximately 5% of annual revenue around the world is missing due to various white collar crimes and frauds. Globally, this translates to \$3.5 trillion in potential losses. It is due to increasing fraudulent activities in corporate environment. Frauds and fraud related crimes are mostly associated either with the personal profiteering mindsets of the business owners or internal manpower intended to cheat the organisation.

Another report published by the Association of Certified Fraud Examiners, in 2016, reveals 2410 occupational fraud cases that occurred in 114 countries which have caused a total loss of more than \$ 6.3 billion. The report has also exposed that 30% fraud cases occurred in small business having less than 100 employees. The small business organisations are less predisposed to develop fraud control system compared to large organisations. The report analysed that the top fraud risks evolved in small business are 19% due to non-cash misappropriation, 20% due to skimming, 20% due to cheque tampering, 27 % due to billing schemes and 30% due to corruption.

The report has related fraud control system with various areas like external audit of financial statements, code of conduct, internal audit department, management certification of financial statements, external audit of internal controls over financial reporting, independent audit committee, management review, hotline, fraud training for employees, fraud training for managers/executives, anti-fraud policy, employee support programs, dedicated fraud department, functions of team, formal fraud risk assessments, surprise audits, proactive data monitoring/analysis, job rotation/mandatory vacation and rewards for whistleblowers. As per the research findings presented in the report of Crow Clark Whitehill, a member of Crowe Harwath International titled, The Financial Cost of Fraud 2017, the latest data from around the world revealed 558 loss measurement exercises which were undertaken over the period from 1997 to 2016. The exercises took place across 40 different types of expenditures, in 48 organisations from 10 countries considering fraud losses in expenditure with a total value of £13.27 trillion.

The losses referred to are a percentage loss of expenditure. The global average loss rate for the entire period of the research (5.85%), when taken as a proportion of the global Gross Domestic Product (GDP) for 2016 (\$75.212 trillion or £60.76 trillion), equates to £3.55 trillion (\$4.39 trillion). This is a sum more than two-thirds greater than the UK's entire GDP and more than twice as much as the sum which Europe spent on healthcare in 2014. Even reducing such losses by 40%, which individual organisations have achieved, would free up more than £1.4 trillion – a sum greater than the GDP of 181 countries.

The PwC report published by The Associated Chambers of Commerce and Industry of India (ASSOCHAM) reveals that according to the RBI, the number of financial fraud cases in India has declined from 24,791 cases in 2009–10 to 13,293 cases in 2012–13. i.e. 46% drop—the amount involved has increased substantially from 2037.81 crore INR to 8646.00 crore INR i.e. an increase of 324%. The study also reveals that nearly 80% of all fraud cases involved amounts less than 1 lakh INR, while on an aggregated basis, the amount involved in such cases was only around 2% of the total amount involved. Study has identified corruption and cash in hand are the most fraud vulnerable areas in the financial services sector. Study further mentioned the latest reported facts and figures of frauds in India, i.e. frauds worth 11,022 crore INR were unearthed in public sector banks between April–December 2014; 2,100 cases of fraud were reported to the RBI.

The Problem Statement

The paradigm shift in the modern business environment has aroused new operational dimensions for business to be operated globally. In the contest of more profit making approaches of various business organisations, the financial regulatory framework has been tarnished with various financial fraudulent activities. The detrimental phenomena of such business practices proved problematic for every economy to sail towards harmonised growth. It by and large focuses the attention of regulators and policy makers to investigate the real dent of financial frauds for a promising growth of any nation. The increasing size of various financial fraud activities disrupts the trust and faith of investors, employees, customers and other stakeholders who are associated with the business organisations. Financial frauds are crimes and prove to be a severe disease in the financial world.

Corporate sectors like Banking, Insurance and financial sectors are seriously suffering from it thereby infusing real dent to the growth of corporate sector and the nation. In this context, it is a high need to correct such detrimental through preparing a squad of professionals who have expertise in the field of accounting, auditing, internal control, risk management and fraud detection. But the question is that are the graduate and post graduate youth of eminent institutes who acquire basic knowledge of accounting and auditing aware of such emerging openings of promising career as fraud detectives and investigators in the extended field of accounting as a forensic accountant? Hence, the present study is an attempt to develop the actual understanding of application of forensic accounting for the aspirants for making a promising career as a forensic accountant who create indistinguishable position in the corporate to eliminate the deceptive and fraudulence activities for the purpose of protecting the society and the nation.

Objectives:

- To find out the emerging role of forensic accounting in the field of financial fraudulent activities of corporate.
- To identify the roles and responsibilities of forensic accountant as financial fraud investigator, detector, preventer and preparer of litigation report.
- To identify the promising career option for forensic accounting experts in the corporate world.

METHODOLOGY

The entire study is conceptually analytical in nature, exploring the basic understating of core concepts and fundamentals of forensic accounting. The various objectives of study are to find out the emerging role of forensic accounting and forensic accountant to investigate financial fraudulent activities and discover the promising career for forensic accounting experts in the corporate world.

In order to justify the stated objectives the study has included the secondary data published in various government and corporate reports, research articles and news published through authentic government and corporate bodies related to securities scams and financial frauds of huge corporate. The modest attempt in the said study is made to show the clear cut role of forensic accountant in order to draw the attention of police makers and regulators to create awareness of forensic accounting among graduates and post graduates students of eminent educational institutes through providing explanation of emerging and promising career as forensic accountant.

The emerging role of forensic accountants in the corporate world

Forensic accountant plays a significant role in nourishing the fraud free corporate environment. The white collar financial crimes are rapidly growing in the corporate world due to reckless approach of business drivers including owners to workers. Such crimes and frauds are like cancer in the corporate world and are horribly spreading in to the entire economy as well as society at large by diluting the interest of those who proclaims their association. In order to safeguard the interest of all and set off the fraud free corporate environment, forensic accountants have to play following prominent roles.

Role as a fraud investigator

Accounting is the process of recording, classifying and summarising the financial transactions. Investigation of financial frauds in such process is an act of determining and considering the frightening situation of corporate sector where the prime role of forensic accountant is to investigate various financial crimes and frauds which are mounting the losses day by day thereby degrading the overall financial performance of the corporate at large. There are various types of financial frauds such as financial statements, assets misappropriation and corruption. The crucial task of forensic accountant is to find out the nature and intensity of various financial frauds which differ from case to case. With the investigative skills and knowledge, the forensic accountant has to identify, document and prepare litigation for all sorts of frauds placed in such day to day transactions of the corporate operations.

The numerous events and transactions lead the forensic accountant, manager or auditor to suspect the fraud. The frauds can be investigated at various phases of recording, preparing and reporting financial information. Moreover, certain situations, unrecorded events, incorrect application of accounting principles and policies, inaccurate method of accounting procedure may also cause the occurrence of frauds. Such mistakes results in raising unknown allegation or charge through electronic device to outsiders, illicit process of employee recruitment by various authorities, false declaration of promotion scheme, false promises for after sales services etc. in all such frequent episodes forensic accountants need to find out caused damages to the interested parties.

Role as a fraud detector

Forensic accountant has to use different methods of analysing accounting information in context to misappropriation, under or overvaluation of assets and liabilities generally leading to the creation of frauds. The careful investigation in reporting system may also expose the forensic accountant to detect frauds. Detecting of an appropriate fraud is being considered as the critical facet of forensic knowledge for forensic accountant. The accurate detection of frauds only enables forensic accountant to develop legitimate phase in it and assist him/her to prepare litigation report which can be presented in the court of law.

Role as a reporter in preparing legislative report

Any suspected deceptive element of financial transaction or event gets prepared for legislative actions. Forensic accountant congregate all such unreliable aspects and rightfully put in the form of appropriate report so that it can be presented in the court of law. Analytical skills of forensic accountant assist him /her to investigate and detect fraud but if the report of the same is not prepared in lawful direction, it cannot be presented in the court of law for further prosecution and justice. The falsification, manipulation, or the alteration of financial statement is generally used for documentation. The tribunal and prosecution process for justice are based only on physical documents.

A forensic accountant prepares certain documents containing situations of fraud occurred at the time of reporting various financial statements, shareholder/partner disputes, intellectual property infringement, asset impairment, business valuation, dissolution of marriage and white-collar criminal investigations etc. In order to prepare the documents for litigation, forensic accountant need to be careful and accurate at every process of investigation and the review of documents need to be started from the stage of fraud discovery, collecting relevant data, interviewing concerned individuals, analysing and preparing the appropriate report for the same. They need to also get prepared to testify as a witness in the court of law when required.

Role as a preventative of fraud

Impediment of fraud is the most significant element to protect the interest of an organisation, society and nation. Intelligent mind if blended with investigative skills of forensic accounting can prevent financial frauds through various ways. At the epicentre of a fraud, the perpetrator of fraud often found with various traits and intension to the fraud. In such events, forensic accountant need to find out the nature, intensity and actual cause of frauds taking place in the organisation. The organisation may confront many frauds in its day to day activities. One among many is occupational fraud which takes place because of changing dynamics of organisational behaviour. It is quite important for forensic accountant to involve top management for understanding employees' behaviour at work place. Listening and observing employees help in getting acquainted with actual cause of occupational fraud. Lack of appreciation, rigid and strict leadership dynamics, unorganised and unstructured delegation of targets, heavier workload are some of the contributing factors to upset the employees at work. Consequently, the stressful work environment disappoints the employees to develop ownership approach towards work and end up with lot of damages in production, mislay of the enthusiasm and stressful work environment which leads to fraud. In such cases, employee can be explained fraud risk policy including types of frauds to prevent fraudulent activities. If employees are aware regarding fraud risk policy, it reminds them that management is watching in completing the assigned task or activities thereby frauds can be prevented. Moreover, a positive work environment, the clear organizational structure and fair employment policy also help in fraud prevention. Forensic accountant need to design appropriate internal control system in consultation with top management which can closely monitor, examine, analyse and resolve various issues related to fraud. Internal control systems are the plan and programmes of any organisation which protects company's assets, confirms reliability in executing proper accounting standards in accounting cycle etc. Integration of various responsibility centres, internal check and control system generally helps in preventing fraud from its root. Strict implementation of objectivity evidence concept also helps to reduce the fraud. Forensic accountant need to ensure the organisation to monitor, revise and review its internal control system time to time so that necessary required changes can be incorporated and effectiveness can be enhanced through innovations.

The emerging and promising career options for forensic accountants

SEBI vide its letter bearing no. SEBI /HO/ISD/OW/P/2017/18183 dated August 7, 2017 (Copy enclosed as Annexure) has forwarded a list of 331 shell companies as identified by Ministry of Corporate Affairs and has directed the Exchanges to identify the companies listed on their trading platform and has ordered forensic audit of three firms i.e. Mumbai Based Trinity Tradelink, Chennai based Info-Drive Software which was also known as Info Drive Computers Limited and Delhi based 17 years old Edynamics Solutions. Such growing number of financial crimes and failure of regulators to track the security scams lead to a rise in the need of forensic accounting. The forensic accounting practice covers the scrutiny of accounting records, auditing and investigation in order to assist in legal matters.

With a base knowledge of basic accounting skills, the career of forensic accountant asks to apply the auditing, investigative and proceedings skills for public accounting firms', Government department operating at central, state and regional level, private companies, banking, insurance, financial institutions, financial markets, medium and small scale industries and tiny sectors. The growing intolerable financial fraudulent activities in all such business organisations and government bodies lead to establishment of a separate wing as forensic accounting divisions in their formal structure whose major functions and services confine to perform such activities like a research to trace funds and identify assets for recovery, conduct forensic analysis of financial data, prepare forensic accounting reports from financial findings and prepare analytical data for litigation and testifies as and when needed.

As per the occupational outlook handbook published by Bureau of Labor statistics, United States Department of Labor, The median annual wage for financial specialist and forensic accountants and auditors was \$68,150 in May 2016. The median wage is the wage at which half the workers in an occupation earned more than that amount and half earned less. The lowest 10 percent earned less than \$42,140, and the highest 10 percent earned more than \$120,910.

CONCLUSION

The growing phenomena of financial fraudster activities of corporate sectors ask for investigating core solution to corporate dynamics establishes huge loss due to various frauds. The only way to solve such addressed issue is that the public should be skilled and conversant with the use and function of forensic accounting to prevent fraud occurrences. If the youth of tomorrow is prepared with the basic concepts, fundamentals and knowledge of forensic accounting then only the corporate sectors facing the issues of financial frauds would accommodate the increasing demand of investigative accounting services, and such demand needs to be developed on a professional foundation and made available on a local basis. As a sub specialty of accounting, the forensic accounting is the latest addition to the accountant's business portfolio. There are businesses in banking, insurance and financial institutions which are arousing the need and, thus, are adding the services of forensic. The present study is an attempt to create a realm for forensic accountant to cater the need of corporate sector.

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