

Available online @ www.iaraindia.com

RESEARCH EXPLORER-A Blind Review & Refereed Quarterly International Journal

ISSN: 2250-1940 (P) 2349-1647 (O)

Impact Factor: 3.655(CIF), 2.78(IRJIF), 2.77(NAAS)

Volume XIII, Issue 43

July- 2024

Formally UGC Approved Journal (63185), © Author

IMPLICATIONS OF AUDITING AND INVESTIGATIVE FORENSIC ACCOUNTING

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Abstract

Forensic accounting has become a crucial tool in situations of fraud. To undertake an assessment of a company's financial accounts, forensic accounting combines accounting, auditing, and investigative abilities. The use of forensic accounting will be able to reduce corporate governance fraud, enhancing both the corporate and non-corporate sectors' productivity. The emphasis on the accounting and financial reporting system will be helped by this. Analyzing the idea of forensic accounting, its necessity, and its contribution to the problem of fraud in corporate settings financial fraud detection is a growing field that includes forensic accounting. In India, there is a severe lack of qualified accountants who are also proficient in forensic issues. While forensic accounting focuses on fraud, traditional auditing emphasises errors. Forensic practice was not recognized as a separate accounting practice area from auditing at one time. Over the decades, auditing separated itself from fraud detection.

Keywords: *Forensic Accounting, Auditing, Corporate, Financial Frauds, Investigation.*

Introduction

In the current economic climate, forensic accounting is a crucial instrument for identifying financial crime, conducting investigations into it, and guiding the

administration of justice by offering authoritative details on the evidence discovered that is related to financial crime. Although it is a new field, banks, insurance companies, and even the police

have increased their use of forensic accountants in recent years. In the branch of accounting known as forensic accounting, fraud is investigated and financial data that can be used in court cases is analysed. To conduct investigations into financial frauds, forensic accounting is a skillful combination of accounting, auditing, and investigative skills. Legal action and analytical accounting both benefit from it.

Forensic Accounting by Hopwood, Leiner, and Young: Forensic accounting is the application of investigative and analytical skills for the purpose of resolving financial issues in a manner that meets standards required by courts of law." Forensic accountants apply special skills in accounting, auditing, finance, quantitative methods, certain areas of the law, research and investigative skills to collect, analyse and evaluate evidential matter and to interpret and communicate findings."

The discipline of accountancy that specialises in explaining engagements that arise from actual or anticipated conflicts or litigation is called forensic accounting (Zim-bel & Albretch, 2012). According to Onodi, Okafor, and Onyali (2015),

"Forensic" refers to information that is "fit for use in a court of law." According to the same theory, forensic accountants are also forensic auditors, also known as investigative auditors, who are required to provide expert testimony both before and during a trial. According to Dhar and Sarkar (2010), forensic accounting is the use of accounting principles and procedures to solve legal issues.

In a similar vein, Smith and Crumbley (2009) distinguish forensic accounting from fraud auditing to describe it. They claim that a forensic accountant may do fraud auditing services and may actually be a forensic auditor, as opposed to a fraud auditor, who is an accountant with particular skills in auditing. Singleton & Singleton (2010) assert that forensic accounting entails non-financial information collecting, fraud investigation, fraud detection, and prevention, as well as analysis of antifraud procedures.

Forensic Auditing

They assert that, in contrast to a fraud auditor, who is an accountant with specialised auditing skills, a forensic accountant may do fraud auditing services and may truly be a forensic auditor. According to Singleton & Singleton (2010), forensic accounting includes gathering non-financial information, investigating fraud, detecting and preventing fraud, as well as analysing antifraud methods. According to Hopwood, Leiner, and Young (2013), the practise of employing analytical and investigative skills to settle financial disputes in line with the standards required by courts is known as "forensic accounting." You could respond by saying that although forensic accounting does not specifically address fraud, fraud assessments are a crucial part of the discipline.

Objectives of Forensic Audit

The objectives of forensic audit will help us to under-stand the role of forensic auditor and its impact on corporate governance. These objectives are;

- To increase managerial responsibility.
- To enhance statutory auditing and corporate governance.
- To enhance the mechanism for financial reporting.
- Assist with spotting financial fraud.
- Promote greater auditor independence
- Giving audit committees greater assurance.

Due to the fact that a different group of auditors (forensic auditors) will be closely scrutinising their performance, financial statement auditors bear a greater duty for the detection of fraud and criminal activity when reviewing financial statements. It is conceivable that forensic audits could provide the audit committees with a tool to help them assess the calibre of the financial statements that the external auditor has audited. Since the forensic auditor is expected to go above and beyond the normal audit to look for fraud and investigate further using more advanced scientific analytical tools and software packages to detect fraudulent activities committed by the management and their employees or fraud that the external auditor may have possibly conspired with the management to cover up, it can be said that the aforementioned objectives have a stronger impact on corporate governance.

Audit and Investigations

The forensic auditor and team will prepare their investigation during the planning stage to accomplish goals including figuring out what fraud, if any, is being carried out and when it occurred.

Finding out how the fraud was covered up

- ❖ Identifying the crime's perpetrators

- ❖ Calculating the loss caused by the fraud
- ❖ Gathering pertinent evidence that can be used in court and suggesting steps to stop similar frauds from happening in the future.

In order to evaluate, interpret, summarise, and explain complicated financial and business-related concerns in a way that is both understandable and appropriately supported, it is common practise to hire a forensic auditor. Insurance firms, banks, police departments, public entities, and other businesses may hire forensic auditors or engage them in private practise. As a forensic auditor, a company secretary plays the following role:

Investigations into crimes

A company secretary would review the documentation and any available information using their investigative accounting abilities to provide their expert opinion on the situation. Additionally, for investigation purposes, government agencies such as the Revenue Commissioners and others can need their assistance. The police may request the assistance of practising forensic accountants in their criminal investigations, which relate to individuals or corporate bodies.

Personal Injury Claims

When losses come from personal injury, insurance firms occasionally consult forensic auditors for an expert opinion before determining if the claim is valid and how much to pay.

Fraud Investigations

The assistance of a company secretary may be required in business

investigations that involve due diligence checks, asset identification and recovery, forensic intelligence gathering, and funds tracing. The forensic auditors will be required to provide their professional judgement regarding the type, scope, and person or people most likely to have committed the fraud in situations involving employee fraud. The forensic expert carefully examines the documented evidence that is available before forming a judgement based on the data gleaned during the course of that review.

Investigation and Inspection

The company secretary could assist the police, the ACB, and other investigating authorities in gathering information for their investigations. Section 157 of the Criminal Procedure Code from 1973, Sections 17 and 18 of the Prevention of Corruption Act from 1988, Section 6 of the Bankers Books Evidence Act from 1891, Section 78 of the Information Technology Act from 2000, and Section 447 of the Companies Act from 2013 all state that the Court or Police may need the expertise of forensic auditors when inspecting any books that are connected to the accounts of an accused.

Expert Opinion

Firm Secretaries look over the finances and balance sheets thoroughly and use their expertise to determine whether fraud has been perpetrated or whether there is any abnormality connected to it. For eg., this finds place in section 45, section 118 of Indian Evidence Act, 1872; section 293 of Cr. P.C, 1973.

Professional Negligence

In a case involving professional negligence, the forensic auditor may be

contacted to determine whether professional negligence occurred and to estimate the loss brought on by the negligence. Any professional and their client could have a conflict of this nature. The expert could be a lawyer, accountant, corporate secretary, etc. The forensic expert performs the services necessary for this task using his or her investigative abilities.

Expert Witness Cases

Forensic auditors and company secretaries frequently appear in court to provide expert testimony in civil and criminal court hearings. In these situations, they appear to provide investigation evidence to the court to aid the presiding judge in making a decision about the case's result.

Meditation and Arbitration

Some forensic auditors have expanded their forensic auditing practises to include providing Alternative Dispute Resolution (ADR) services because of the specialised training they would have received in legal mediation and arbitration. Without these services, a matter could be expensive and time-consuming for people or businesses involved in commercial disputes with a third party.

Litigation Consultancy

Company secretaries are qualified to participate in litigation and provide support with assembling the necessary facts, arguments, and defences

Computer Forensics

A company secretary has received training in helping with electronic data recovery, IP rights enforcement, etc.

Competences Required of A Forensic Accountant

Curiosity, persistence, originality, discretion, organisation, self-assurance, and excellent professional judgement are necessary for an expert in forensics to be deemed competent and effective. A forensic accountant needs to be open to all possibilities, examine the small print, and simultaneously understand the big picture. A forensic accountant also needs to be able to speak and listen clearly and succinctly. Additionally, in addition to the qualifications above, forensic accountants, auditors, and investigators must possess some complimentary talents. Deductive analysis, creative thinking, unstructured problem solving, investigative flexibility, analytical proficiency, oral and written communication, written and oral communication, specific legal knowledge, and composure are all necessary.

The Role of the Forensic Accountant

As an expert witness, a forensic accountant's main responsibility is to evaluate, interpret, synthesise, and explain intricate business and financial transactions in a clear, fact-based manner. An expert witness is a witness who is thought to have expertise in a particular topic beyond that of the typical individual, sufficient for others to formally depend upon, due to education, training, skill, or experience. As a tool to aid the fact-finder, the witness's specialised (scientific, technical, or other) opinion about a piece of evidence or a fact that falls within the purview of their knowledge is referred to as an expert opinion (Hopwood, Leiner & Young, 2013). Additionally, expert witnesses may present expert testimony regarding facts related to their area of

competence. Sometimes, to the harm of their reputations, their evidence may be refuted with a learned treatise. In order to investigate and evaluate financial data, a forensic accountant must (a) do so; (b) if necessary, they must also design computerised applications to aid in the study and presentation of the data.

- Communicate findings in the form of a report with supporting documents.
- Assist in any legal proceedings.
- Review of the relevant documents in order to form an initial assessment of the case and identify areas of loss.
- Assist with examination for discovery which is including the formulation of questions to be asked regarding the financial evidence.
- Attend the examination for discovery in order to review the testimony, and assist with understanding the financial issues to formulate additional questions to be asked.
- Review of the opposing expert's damages report and reporting on both the strengths and weaknesses of the positions taken.

Conclusion

To sum up the field of forensic accounting is an intriguing one, and both society and the investigator can benefit greatly from it. However, it is important to emphasise that only individuals with these abilities, courage, and knowledge of concealment can succeed in the process of forensic inquiry. There are more opportunities for fraud to occur as computer use in accounting and auditing increases. Furthermore, a forensic accountant who is just knowledgeable about conventional accounting methods is

not appropriate. A forensic accountant needs to be knowledgeable in many different fields. Auditing, accounting, statistics, information technology, legal regulations, and human skills are some of these cross-disciplinary fields. The forensic accounting curriculum should also contain sections on big data education as good forensic accountant essentially needs the knowledge on big data.

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