

# Challenges and Scope of Forensic Accounting in India

Prof. Megha Naik

Assistant Professor, Viva College (Virar), Mumbai, Maharashtra, India.

meghanaik0909@gmail.com

**Abstract** - The aim behind this paper is to acquire a knowledge about the meaning of forensic accounting. The study examines the scope and role of a forensic accounting investigator in fraud detection. In India, forensic accounting has come into limelight due to increase in scams or white collar crimes. The data was collected to understand the objectives of forensic accounting and challenges faced by forensic investigators while examining various cases.

**Keywords:** Forensic accounting, auditing, forensic accounting investigative, fraud, scams, investigative tools.

## I. INTRODUCTION

In the emerging economic scenario, forensic accounting also known as forensic auditing is an essential tool for uncovering or inquiry of financial crime and the direction of justice, providing decisive information about the facts found related to financial crime. Opportunities for forensic accountants are increasing rapidly in recent years due to a rise in white collar crime. The difficulties faced by law enforcement agencies in uncovering fraud have also contributed to the growth of the profession.

## II. METHODOLOGY

Information gathered for this paper is mostly descriptive in nature. Secondary data has been used from various available resources like journals, books, web material related to the study, and randomly collected printed promotional material. Simple tabular analysis has been performed on the collected information.

### Meaning of Forensic Accounting

Forensic accounting is an umbrella term which involves application of special skills such as accounting, auditing procedure, financing quantitative methods, research and investigative skills. 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 (Crumbley et al., 2005). In India, Kautilya was the first economist who explicitly recognized the need for forensic accountants in his famous book Kautilya Arthashastra. Forensic accounting can be described as a specialized field of accountancy which investigates fraud and analyze financial information to be used in legal proceedings.

### Definitions of Forensic Accounting

According to AICPA (1993): "Forensic accounting is the application of accounting principles, theories, and discipline to facts or hypotheses at issues in a legal dispute and encompasses every branch of accounting knowledge."

Forensic accounting is defined by Zia (2010) as: "The science that deals with the relation and application of

finance, accounting, tax and auditing knowledge to analyse, investigate, inquire, test and examine matters in civil law, criminal law and jurisprudence in an attempt to obtain the truth from which to render an expert opinion."

## III. OBJECTIVES OF FORENSIC ACCOUNTING

- ❖ A forensic accountant can help improve and ensure the integrity of the financial reporting system.
- ❖ Forensic accounting helps in detecting financial frauds and thefts.
- ❖ To use the forensic accountant's conclusions to facilitate a settlement, claim, or jury award by reducing the financial component is an area of continuing debate.
- ❖ To restore the downgraded public confidence.
- ❖ To formulate and establish a comprehensive corporate governance policy and the statutory audit function.
- ❖ To create a positive work environment and help strengthen auditors' independence.

### Scope of Forensic Accounting in India

There is a great scope for forensic accounting in India due to an increase in white collar crimes and frauds, scandals in public as well as private sectors. Forensic accounting covers two broad areas of practice. These are litigation support and investigative accounting.

- Forensic accountant detects fraud by analyzing the financial matters, financial statements, financial reporting systems, management information systems, company's method of operations, business structure, accounting principles and by following internal and external auditing procedures.
- Forensic accounting helps to collect evidences and investigates the strategies, litigation procedures to interpret the results
- Forensic accounting designs and performs statutory audit procedures for risk reduction of the business
- Forensic accountant or auditor acts as an advisor to the audit committee
- Forensic accountant helps in the research activities of the investment analyst, economic Offences Wings also

required during the Due Diligence in case of Mergers and Acquisition.

#### IV. SCAMS IN INDIA

In recent past years due to rapid increase in white collar crimes & due to perception that Indian Judicial law is not stern to unveil the frauds, forensic accounting has come into lime light. Some of the biggest scams and malpractices took places in recent years are as follows:

#### V. FUTURE CHALLENGES OF FORENSIC ACCOUNTING IN INDIA

As it is said that a forensic accountant is a bloodhound of accounting, not a watchdog. However in India, forensic investigators have to face various challenges while working which are discussed below:

- Shortage of forensic investigators: In India, forensic accounting is yet a developing field in fraud detection. Therefore, there is an acute shortage of qualified accountants with adequate technical knowledge.
- Political involvement: In India, most of the fraud cases involve politicians, so it is crucial to find evidences against them.
- Judicial system: The Indian judicial system still follows the age-old British judicial system. Consequently, it is expensive to bring the matter to court and hire expert advocates.
- Due to liberalization and a rapidly growing economy, more and more investors from foreign countries are investing in India, as a result it is difficult to sue financial fraudsters from other countries.
- Technology: Because of continuous adoption of new techniques of Information and Technology by fraudster, it is difficult to Forensic Accountant to cope up with them.

#### VI. AWARENESS OF FORENSIC ACCOUNTING IN INDIA

As compared to other foreign countries India is lacking behind in the area of forensic accounting. Due to rapid increase in scams and white-collar crimes in India, forensic accounting has come into the limelight and there is huge requirement for forensic accountants. These days various organizations like India forensic, Institute of Chartered Accountants of India (ICAI), and Association of Chartered Certified Accountants (ACCA) offer courses on forensic auditing in India.

#### VII. CONCLUSION

The specific objective of this research paper was to create an awareness of forensic accounting in India and to inform about the increasing scope of forensic accounting in investigation during merger, amalgamation, acquisition,

economic crime investigation, and all kinds of civil litigation supports including terrorist investigations. More social consciousness is required to control rampant white collar crimes. Forensic accountants are now in great demand with the public need for honesty, fairness, and transparency in reporting increasing rapidly.

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