FORENSIC ACCOUNTING - AT NASCENT STAGE IN INDIA

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Abstract

Forensic accounting as new area of accounting in India, has come to limelight recently due to rapid increase in white-collar crimes, financial crimes, cyber crimes and growing complexities of the corporate environment. Forensic accounting is the tripartite practice that integrates accounting, auditing, and investigative skills to conduct an examination into a company's financial statements. Though forensic accounting is untordden area in India, prospects is growing fast in public as well private organisations. This research article seeks to examine the meaning , nature, validation and prospects in India.

Keywords: *Forensic accounting, white-collar crimes, financial crimes, cyber crimes*

According to AICPA (American Institute of Certified Public Accountants): "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 a combination of two key words-forensic and accounting. While the term forensic means belonging to, used in, or suitable to court of law. Accounting is the system of recording, summarizing, analyzing, verifying business and financial transactions and reporting the results thereof. Forensic accounting as a specialised branch in the accountancy profession. Therefore, forensic accounting is an aspect of accounting that deals with the relation and application of the system used to record and summarize business and financial transactions to a legal problem. Forensic accounting is not limited to the correctness of accounts; it encompasses accounting, investigative accounting, investigative audit, and litigation support. Forensic accounting is the new branch in accounting which has the sole aim of unearthing fraudulent activities within and outside an organization so far as the third party's action is in any way reflective on the activities of that organization. Forensic accounting is the science that deals with the relation and application of financial accounting, tax and auditing knowledge to analyze, investigate, inquire, test and examine matters in civic law and criminal law.

Forensic accounting of utilizing accounting, auditing and investigative skills to assist in legal matters. It is the special practice area of accounting that describes engagements that result from actual or anticipated disputes or litigation.

Rationale of forensic accounting

Examination of books of accounts with supporting vouchers, invoices and documents, in order to detect, to check and prevent errors and frauds, is the main function of auditing. But a statutory auditor does this work within the shortest possible period. As an auditor depends significantly upon internal check system and department of the company, there is enough scope to exist undetected errors and omissions. Generally, salaried accounting personnel do act in favor of companies because they are directed by the top level management. Suppression of facts, window-dressing, evasion of taxes, malpractices of accounting concepts etc. are very common in corporate world. Extent and intensity of these manipulations are also varying from country to country.

All accounting scandals are not caused by top executives. Often managers and employees are pressured or willingly alter financial statements for the personal benefit of the individuals over the company as discussed above.

Accounting scandals are political and business scandals which arise with the disclosure of misdeeds by trusted executives of large public corporations. Such misdeeds typically involve complex methods for misusing funds, overstating revenues, understating expenses, overstating the value of corporate assets or underreporting the existence of liabilities.

Satyam Scam in India

In a country's biggest corporate fraud involving about Rs. 8,000 crore, iconic IT major Satyam was another disaster following the shocking disclosure of accounts fudging by its founder, who then quit as chairman—leaving an uncertain future for the company and its 53,000 employees. It was the failure of audit committee chairman to raise the issue of frauds to the tune of Rs.2,000 crore lying in Satyam's current account, otherwise the scam could have surfaced much earlier, referring to striking points in the Rs.8000 crore scam. Satyam fraud may be first of its kind in India, but not the first such fraud of the world, where fraud was given effect by fudging the books of accounts.

1992 security scam : Harshad Mehta

By year 1990, Mehta became a prominent name in the Indian stock market. He started buying shares heavily. The shares of India's foremost cement manufacturer Associated Cement Company attracted him the most and the scamster is known to have taken the price of the cement company from 200 to 9000 approx., in the stock market – implying a 4400% rise in its price. It was later revealed that Mehta used the replacement cost theory to explain the reason for the high-level bidding. The replacement cost theory basically states that older companies should be valued on the basis of the amount of money that would be needed to create another similar company.

Mehta, along with his associates, was accused of manipulating the rise in the Bombay Stock Exchange (BSE) in 1992. They took advantage of the many loopholes in the banking system and drained off funds from inter-bank transactions. Subsequently, they bought huge amounts of shares at a premium across many industry causing the Sensex to rise dramatically. However, upon the exposure of the scam, Mehta was imprisoned.

Ketan Parekh's Scam

Ketan Parekh is a former stockbroker based in Mumbai who was convicted in 2008 for being involved in engineering the technology stocks scam in India's stock market in 1999-2001. He is currently disqualified from trading in the Indian market till 2017. Parekh and his associates also secured Rs 1,000-crore as loan from the Madhavpura Mercantile Co-operative Bank despite RBI regulations that the maximum amount a broker could get as a loan was Rs15-crores.

TELGI stamp scam

TELGI stamp was one of the biggest scam in India. This type of scam which are caused every now and then. Telgi and his two associates to ten years'each for their role in selling counterfeit stamps of Rs 17lakh face value to a legal firm in 1995. Financial magnitude in the entire fake stamp paper case masterminded by Abdul Karim Telgi amounted to only Rs 172 crore. Telgi clearly had a lot of support from other departments and institutions of government that are responsible for the production and sale of high security stamps.

Enron collapse

The Enron collapse is the biggest scandal in the history of US capitalism. In just 15 years, Enron grew from to be America's seventh largest company, employing 21,000 staff in more than 40 countries. It started out as a pipeline company, and transformed into an energy trader, buying and selling power. Among other businesses, Enron was engaged in the purchase & sale of natural gas, construction & ownership of pipelines and power facilities, provision of telecommunications services, and trading in contracts to buy & sell various commodities. It expanded into many diverse industries. From at least 1998 through late 2001, Enron's executives and senior managers engaged in wide-ranging schemes to deceive the investing public about the true nature and profitability of Enron's businesses by manipulating Enron's publicly reported financial results and making false and misleading public representations.

WorldCom Scam

WorldCom was one of the big success stories of the 1990s. It was a symbol of aggressive capitalism. Company founder Bernard Ebbers received $400 million in off-the-books loans. The company found another $3.3 billion in improperly booked funds, taking the total misstatement to $7.2 billion, and it may have to take a goodwill charge of $50 billion.

An internal audit showed that transfers of about $3.06 billion for 2001 and $797 million for the first quarter of 2002 were not made in accordance with generally accepted accounting principles. In August 2002, an internal audit revealed an additional $3.3bn (£2.2bn) of improper reported earnings—taking the total to more than $7bn, double the level previously reported. Over $3.3bn money was from the company's reserves, which was misrepresented as operating income.

Global Crossing – Bankruptcy at the Heels of Enron's Accounting Fraud Scandals

Global Crossing (GC) was another telecommunications network giant, which was established at the height of high tech communications development. GC's case was similar to WorldCom's failed business projections, overexpansions, and heavy borrowings, which were covered-up in similar ways to WorldCom's manipulated accounting transactions.

Above discussed scandals resulted in the loss of public trust and huge amounts of money. In order to avoid fraud and theft, and to regain the badly needed public confidence, several companies took the step to improve the infrastructure of their internal control and accounting systems drastically. It was this development which increased the importance of accountants who have chosen to specialize in forensic accounting and who are consequently referred as "forensic accountants." The accounting scandals involving Satayam, Telgi, Enron, WorldCom, Global Crossing, and other companies have put accountants in the public spotlight as never before in their history. However, the scandals have created business for forensic accountants and developed opportunities for forensic and investigative accounting. New laws and regulations resulting from these scandals will make the role of forensic accountants more significant than ever before in the business world.

Initially, forensic accountants services were used by the governmental agencies such as the Central Intelligence Agency, Federal Bureau 0f Investigation, Centre Bureau of Investigation, Indian Revenue Service etc. to uncover and investigate leading frauds. They became financial detectives; independent experts employed by management to uncover fraudulent financial reporting and misappropriated

assets. In the current reporting environment, "forensic" accountants are in great demand for their accounting, auditing, legal, and investigative skills. Forensic accountants are being employed in public practice, and are being employed by insurance companies, banks, police forces, governmental agencies, etc. Insurance companies hire forensic accountants to detect insurance frauds and law offices employ forensic accountants to identify marital assets in divorce cases.

Prospects of forensic accounting in India

With the changing legal and economical environment that had led businesses to examine their activities more closely, there are also more mergers and acquisitions taking place. This demands for due-diligence services that include forensic accounting . To fight against corruption in India, forensic accountants have a very special role as they can help unveil and detect various forms of state, corporate, and personal frauds. Commercial disputes are becoming more and more complex. Litigators often need articulate and credible financial consultants and experts to interpret and explain the complicated financial aspects of their cases. Computerized systems are also easier to manipulate in order to hide fraudulent activities. Secondly criminals external to the organization are using programmes and other technologies to trace these systems. This calls for rising demand for forensic accountants with knowledge of information technology. Business transactions have become complex and thus any irregularity or fraud in the transactions is hard to detect by ordinary staff . Ex-employees may possess knowledge of the internal procedures, system checks technology and computer security of the organization and may pose a threat to the company . They may harm the organization and the need for preventive measures becomes clear. Since 2007, Indian investors have lost trust from Indian capital market. One of the reasons is rosy picture shown in accounts by company owners'. In this context also expectations of investors raised to fornesic accountants. In India, to regain trust of investors, forensic accountants started important role-play in corporate field.

Conclusion: In a nutshell, forensic accounting is seen as a suitable tool to offer the highest level of assurance and to add credibility to the financial statements. However, Forensic Accounting has tremendus potential as new area of practice for Indian Chartered Accountants.

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