

FORENSIC ACCOUNTING AND FRAUD EXAMINER – AN INQUIRY

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Abstract

Forensic accounting is also known as forensic accountancy or financial forensic which is defined as that part of accounting that recount every engagement that results from an anticipated or actual litigation. Financial accounting fraud has come into limelight due to the increase in White Collar Crimes witnessed in the competitive economic scenario. This study will present an outline of the concept of Forensic accounting, its evolution, the top service agencies in Forensic accounting, the professional bodies which certify FAs and the top companies which have a separate Forensic Department and the various emanation of risks.

Key Words:

Forensic accounting, FAs, Emanate, Services, Professional Bodies

1. INTRODUCTION

Forensic accounting is also known as forensic accountancy or financial forensic which is defined as that part of accounting that recount every engagement that results from an anticipated or actual litigation. However, the word forensic means “suitable for use in the court of law”. And as such it’s in this aspect or potentials that forensic accountants operate. Forensic accountants always have

to give their expert evidence at any eventual financial fraud or related cases trial. As per Association of International Certified Professional Accountants (CPA), Forensic accounting services generally involve the application of specialized knowledge and investigative skills possessed by CPAs to collect, analyze, and evaluate evidential matter and to interpret and communicate findings in the courtroom, boardroom or other legal or administrative venue.¹ In other words Forensic accounting can , therefore, be defined as accounting that is used in a court of law, including, but not limited to, the application of accounting theory, principles, and calculations to actual or to hypothetical issues in legal proceedings. Forensic accountant (FA), Investigative accountant, Fraud examiner and Fraud auditor are interchangeable. FAs are expertise in the areas of accounting, auditing, cost accounting, taxation and information technology. It is multifaceted activity that requires the use of knowledge from number of disciplines.² Financial frauds are long lasting and infinite in nature starting from household crimes to white-collar crimes. It prevails globally in all eras. For accounting scandals and fraud there is no differentiation among developed countries, developing countries or underdeveloped countries since it prevails everywhere. (Ph, 2018) There is no company or nation that is immune to fraud and it is found in all human endeavors. During the last few years, there are numerous financial frauds and scandals. But only few come to limelight whereas others proceed with a good flow as it is not detected. (Funshio & Ibrahim, 2019) It has been argued that fraud is the number one enemy of the business world. This study will highlight the basics of Forensic accounting, emergence and evolution, Professional bodies who certify FAs, where and when FAs are required, the various forensic agencies and the most vital elements and incident of financial frauds.

¹ <https://www.aicpa.org/interestareas/forensicandvaluation/resources/forensic-accounting.html>

² <https://www.encyclopedia.com/social-sciences-and-law/economics-business-and-labor/money-banking-and-investment/forensic>

2. OBJECTIVES

1. To study the emergence and concept of Forensic accounting
2. To study the skills, competencies and qualities required by FAs
3. To study where and when Forensic accounting is required.
4. To study the professional bodies which certifies FAs
5. To study the top forensic accounting services
6. To study the emanation of risks

3. MATERIALS AND METHODS

Fraud has become part of lifestyle in all activities. It prevails everywhere starting from domestic household to business. Household fraud is not considered as it has no standards and no public is involved into this. Whereas any frauds in businesses should be watched carefully since it deals with the money of public and hence Forensic accounting comes into picture. Keeping this in picture this study was carried to outline the concept of Forensic accounting. This study is fully based on secondary data collected from authenticated sources and the study is Descriptive in nature.

4. DISCUSSION AND RESULTS

4.1. Concept of Forensic accounting and Forensic Science

The word Forensic means “Belonging to, used in or suitable to the courts of judicature or public discussion. Accounting is a system of recording and summarizing business and financial transactions which can be quantified in terms of money in the form of record. Thus the term Forensic accounting is called financial fraud investigation which includes the analysis of accounting records to prove or disprove financial fraud and to serve as an expert witness in Court

to prove or disprove the same. It is a specially designed concept which includes the skills of Accounting, Auditing, Analyzing and Investigating all financial activities. In most of the case the FA act as a “Detective”. FAs are considered to be the best-equipped professionals who possess an integration of AAI. Professional bodies and regulatory bodies have given much importance to FAs so as to reduce financial frauds. Hopwood, Smith and Crumbley (2003) defined forensic science as the application of laws of nature to the laws of man. He described forensic scientists as examiners and interpreters of evidence and facts in legal cases that also offers expert opinions regarding their findings in court of law. Dhar and Sarkar (2010) define forensic accounting as the application of accounting concepts and techniques to legal problems. Leiner, and Young (2012) define forensic accounting as 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. Considering all the definitions in this study FA is an Accountant, Auditor, Analyzer, Investigator and a Detective. (**AAAIID**) since he performs all these roles. Following pictorial representation will be easily understandable.

Figure 01

Concept of Forensic Accounting



4.2. Evolution of Forensic Accounting

(Dreyer, 2014) Accountants have been used as expert witnesses in court cases since the case of *Meyer Vs Sefton* in 1817. The case is the first known instance in which an accountant was used as an expert witness in a court of law. This instance was how the profession Forensic Accounting began however it did not become well known or in high demand until much later. Of course the same techniques and goals were used before it was not a defined profession until this time.

Originally “Frank Wilson” is credited with the birth of “Forensic Accounting in 1930s. Forensic accounting was not formally defined until 1940s. The name Forensic Accounting wasn’t even

coined until 1946 implying that this specialty career path was not especially common. Even the first Forensic Accounting book did not come out until 1982 (Introduction to Forensic, 2001).

4.3. Forensic Accountants (FAs)– Skills, Competency and Qualities

(Liodorova & Fursova, 2018) Many aspects of the shifting world, including the history, economy, society, and legislation, have moulded the profession of forensic accountant. The development of the profession was facilitated by several reforms in the performance of financial statements, as well as occupational fraud at the international level.

(Bhasin, 2016) Effective Oral, Written communication and auditing skills are rated first and research skills, investigative ability, tell the story are rated second and understanding the goal of a case, solving unstructured problems and synthesize results of discovery and analysis takes the last rating.

(HIGSON, 2002) Professional Forensic Team should have the following essential qualities:

- ❖ Knowledge of the elements of economic crime
- ❖ The ability to collect evidence and to exercise proper control over large volumes of documentary evidence
- ❖ The appropriate skills and level of relevant experience
- ❖ Investigation background
- ❖ The ability to work in a team with instructing attorneys and police and have the ability to co-ordinate, manage and administer the litigation support, assemble the documents and organize meetings

- ❖ Knowledge of legal aspects such as the basic rules of evidence relating to admissibility of evidence and the drawing of inferences
- ❖ An understanding of what needs to be proved so that evidence documented in his or her reports, letters and affidavits are compiled in a concise, logical and persuasive manner
- ❖ The ability to testify and stand up to cross-examination in a court of law

Usually big accounting firms have a separate “Forensic Accounting Department”. Following are the main firms with Prominent Departments.³

- ❖ PwC
- ❖ Ernst & Young
- ❖ Deloitte
- ❖ KPMG
- ❖ Grant Thornton
- ❖ McGladrey
- ❖ BDO
- ❖ Plante Moran
- ❖ BKD
- ❖ Baker Tilly
- ❖ Rothstein Kass
- ❖ CohnReznick
- ❖ Dixon Hughes Goodman
- ❖ UHY Advisors

³ <http://big4accountingfirms.org/forensic-accounting-firms/>

- ❖ Mazars

4.4. When and Where – Forensic Accounting required.

(HIGSON, 2002) Forensic Accounting can be applied in the following

- ❖ Fraud and white-collar crime investigations
- ❖ Criminal and civil investigations
- ❖ Preparation of expert reports, reviews and evidence
- ❖ Giving oral evidence in court
- ❖ Insolvency and liquidation support investigation
- ❖ Fraud prevention and awareness strategies
- ❖ Fraud and fund tracing
- ❖ Civil and criminal actions regarding fraud and financial irregularities
- ❖ Breach of contract
- ❖ Breach of warranty, particularly on company acquisitions
- ❖ Insurance claims
- ❖ Liquidation support
- ❖ Regulatory enquiries
- ❖ Special and confidential investigations
- ❖ Fraud and risk management surveys and report

Figure 02

Retainment of Forensic Accountants

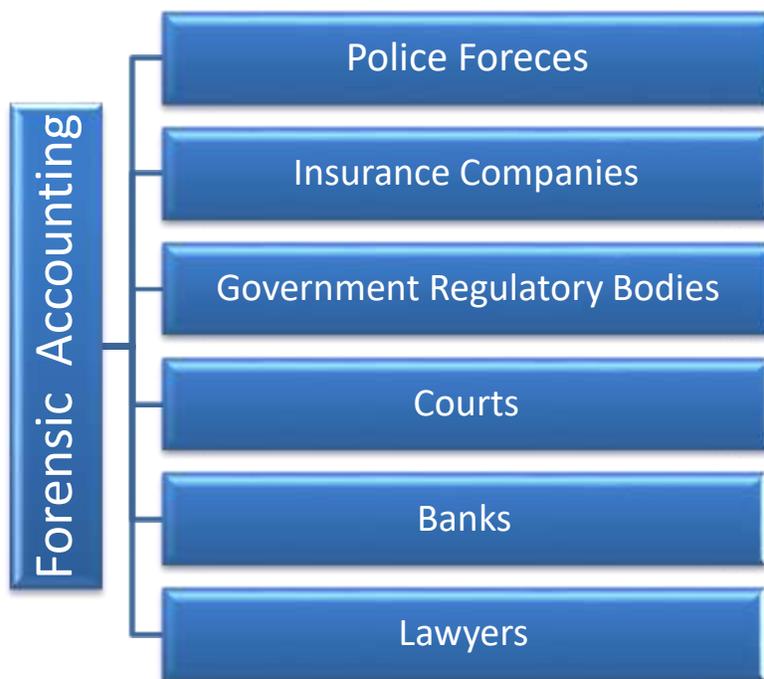


Table 01

Professional Bodies for Certification in Forensic Accounting

S. No.	Qualification	Expansion	Certification / Granted By
1.	CPA ⁴ [US]	Certified Public Accountant	CPA License
2.	CFE ⁵ [From ACFE – Association of Certified Fraud Examiners]	Certified Fraud Examiner	CFE Certification Certificate course on Forensic Accounting and Fraud Detection (FAFD) by

⁴ <https://www.ais-cpa.com/cpa-certificate-vs-cpa-license/>

⁵ <https://www.acfe.com/cfe-membership.aspx>

	[US / International]		Institute of Chartered of India (ICAI)
3.	CRFAC	Certified Forensic Accountant	Only for CPA License Holder to expand their career
4.	CFF	Certified in Financial Forensics	Only for CPA License may apply [Awarded by AICPA]
5.	CFA [England & Wales]	Certified Forensic Auditors / Certified Forensic Accounting Professional	Forensic Auditors Certification Board of England and Wales (FACB)

Source: Secondary Data

The above-mentioned table gives a list of professional bodies through which one can be a qualified FA. Apart from this there are many Certification programmes, graduate, post graduate and doctoral degree programmes on Forensic Accounting through online, on-campus and hybrid conducted through globally.

4.5. Forensic Accounting Services Firms:

As per the recent review following are the top Forensic accounting services which prevails in the globe.

Table 02

List of the Top Forensic Accounting Services – As per 2020 Reviews (Clutch)⁶

S. No.	Name	Role	Establishment Year	Location
1.	The MFA Companies	Accounting Company (First Established CPA Firm)	1981	Tewksbury USA
2.	BBK Partnership	Chartered Accountants	1987	London UK
3.	Stetz, Belgiovine, Manwarren and Wallis, P.C.	Accounting Firm	1993	Verona New Jersey USA
4.	Dansa D'Arata Soucia LLP	CPAs+ Consultants	2003	Buffalo New York USA
5.	Portney & Company	CPA and Business Consultants	1965	River Edge New Jersey USA
6.	Paul & Hassan Chartered Accountants	Chartered Accountants	2004	Dubai UAE
7.	Redteam.PL	Expert Cyber Security Services	2017	Warsaw Poland
8.	Ray CPA, P.C	Accounting Firm	2003	Austin Texas USA
9.	Lombardo Wagner Ayers & Company	Financial Guidance	1990	Annapolis, Maryland USA
10.	RotenbergMeril	Certified Public Accountants	1986	New York USA

Source: Secondary Data

6

[https://clutch.co/accounting/forensic?sort by=8&min project size=&avg hrly rate=&employees=&client focus=&industry focus=&location%5Bcountry%5D=&form_id=spm_exposed_form&form_build_id=form-Vpc3o7Uz21pdMGHrTlqP9FjtuJUQ4zob8U3MGf8Nlo](https://clutch.co/accounting/forensic?sort%20by=8&min%20project%20size=&avg%20hrly%20rate=&employees=&client%20focus=&industry%20focus=&location%5Bcountry%5D=&form_id=spm_exposed_form&form_build_id=form-Vpc3o7Uz21pdMGHrTlqP9FjtuJUQ4zob8U3MGf8Nlo)

4.6. Emanation of Risks

The research summary “Global Fraud and Risk Report 2019/20 (Mapping the New Risk Landscape) has brought out the emanation of risks. The research says internal and external audit play a leading role towards fraud since it accounts between 36 to 58 percent.

Table 03

Incident Source Information

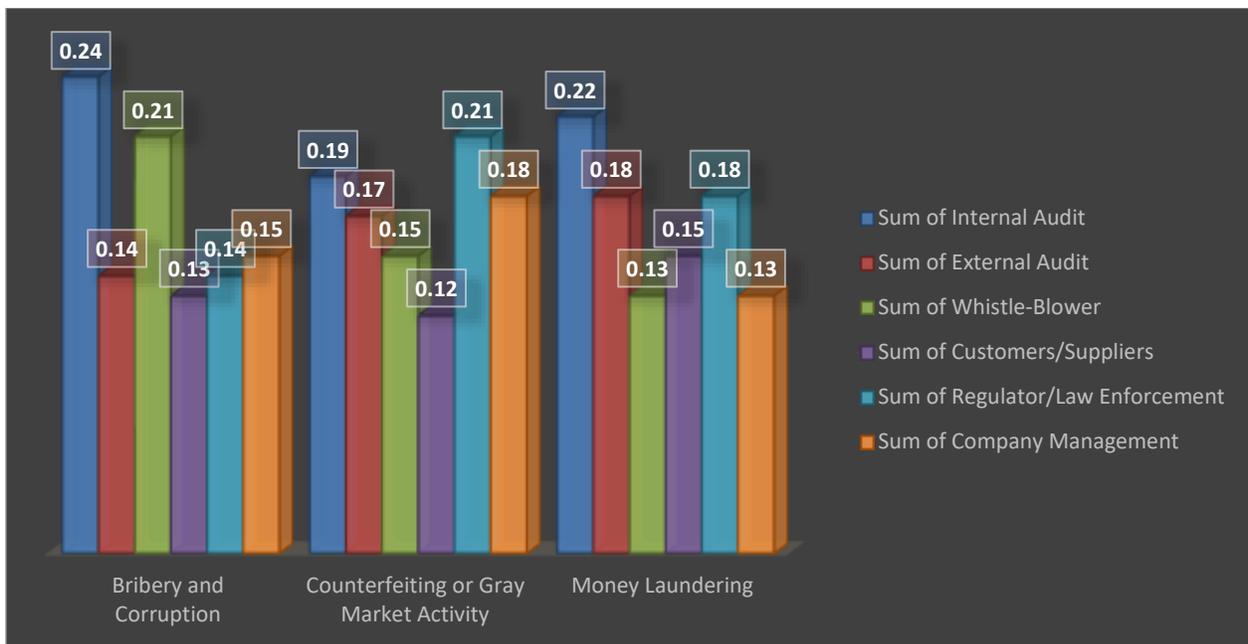
INCIDENT	Internal Audit	External Audit	Whistle-Blower	Customers /Suppliers	Regulat or/Law Enforce ment	Company Management
Reputational damage due to third-party relationships	32%	12%	09%	17%	12%	16%
Leaks of internal information	35%	14%	12%	13%	08%	18%
Adversarial social media activity	19%	22%	12%	15%	12%	19%
Disruption due to sanctions, tariffs, etc.	22%	12%	11%	16%	19%	20%
IP theft (Trade Secrets)	30%	13%	15%	11%	17%	13%
Data Theft (Customer records)	37%	16%	08%	11%	12%	14%
Counterfeiting or gray market activity	19%	17%	15%	12%	21%	18%
Money laundering	22%	18%	13%	15%	18%	13%

Fraud by Internal parties	38%	20%	11%	10%	05%	15%
Fraud by External parties	19%	25%	15%	15%	12%	15%
Bribery and corruption	24%	14%	21%	13%	14%	15%

Source: Global Fraud and Risk Report 2019-20

The following figure is drawn considering only the three main factors which are highlighted in the above table. (Counterfeiting or Gray Market Activity, Money Laundering and Bribery and Corruption)

Figure 03



Source: Table 03

5. CONCLUSION

No money is entirely free. Every amount of money has its legal use, and consequently, misuse of any amount would have some negative effects, that's why it is very vital for forensic in order to help keep checks on financial crimes. This study has given an outline about Forensic accounting, evolution, frauds and its emanation, forensic service providers and the top companies which has separate Forensic Department. This study is presented keeping in mind the layman who are not aware of the concept Forensic Accounting and FAs.

Author Sensation:

Adventures were many and it's still continuing. In the near future after the Global Lockdown ends more and more adventures will be there for FAs. Adventurous Frauds and Adventurous Detection will be the Future.

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