

Corporate Scandals and Forensic Accounting



Commerce

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ABSTRACT

Recently, the corporate world has witnessed many ups and downs. The stock markets have crashed, and the corporate sector has been plagued by huge business scandals. Today forensic accounting is a highly talked about topic all over the world and is the fastest growing area of accounting. In most of these corporate scandals and failures, accounting fraud has been the main problem. Accounting fraud can come in a variety of ways. The way accounting is practiced or the interpretations that may give different prescriptions in similar situations are some dark areas that may open some scope for the corrupted accountants. The paper discusses various aspects of forensic accounting, the need and the role it can play in solving the annoyed problems of the corporate world. An important accounting technique that is being strongly advocated and much talked about Forensic Accounting.

INTRODUCTION

Recently, forensic accounting has come into limelight due to rapid increase in financial frauds and white-collar crimes. The integration of accounting, auditing and investigative skills creates the specialty, known as FA. In fact, FA is the 'specialty' practice area of accounting that describes engagements, which result from actual or anticipated disputes or litigation.

Over the past few years, the corporate world has witnessed many ups and downs. The stock markets have crashed, and the corporate sector has been plagued by huge business scandals. In most of these corporate Scandals and failures, accounting fraud has been the main culprit. Accounting fraud can come in a variety of ways. Accountants may simply record fake income the company never received, or backdate revenues so that they appear in an earlier financial period. Shifting current and future expenses and income is another way to make the books look more favorable than the company's actual situation. Thus, the way accounting is practiced or the interpretations that may give different prescriptions in similar situations are some dark areas that may open some scope for the corrupted accountants. There is widespread concern that corporate governance mechanisms have failed to prevent these corporate scandals and business failures.

As a consequence, improvements in corporate governance are being sought. There has been a growing recognition that corporate and business scandals threatening the global economy cannot be overcome and accomplished by regulatory measures alone but need to be complimented by advocacy, awareness and refined accounting techniques and initiatives.

In last two-three decades as well as other accounting scandals and corporate crimes as also the latest economic downturn strengthens the demand further. An important accounting technique that is being strongly advocated and much talked about Forensic Accounting.

OBJECTIVES OF STUDY:-

The main objectives of this paper are as below.

- 1) To Know and discuss the concept of Forensic Accounting.
- 2) To explore the need of forensic accounting in solving financial problems like scandal and frauds in corporate world.
- 3) To describe the role of forensic accountant.

RESEARCH METHODOLOGY

Data Collection

This is a descriptive research paper based on secondary data. Data have been collected through the websites, research paper, Journals, magazines and Books.

CONCEPT OF FORENSIC ACCOUNTING

Forensic accounting is the application of a specialized knowledge and specific skills to stumble upon the evidence of economic transactions. The job demands reporting, where the accountability of the fraud is established and the report is considered as evidence in the court of law or in the administrative proceeding.

According to the Webster's Dictionary "forensic" means "belonging to, used in or suitable to courts of Judicature or to public discussion and debate."

Forensic accounting is to application of a specialized knowledge and specific skills to act upon the evidence of fraudulent economic transactions.

Forensic Accounting utilizes accounting, auditing and investigative skills to conduct an examination into a company's financial statements. Thus it provides an accounting analysis that is suitable for court.

NEED FOR FORENSIC ACCOUNTING

1. Recent major corporate scandals have prompted business owner to turn to forensic accountants for proactive fraud checkups.
2. CEO'S must now certify that their financial statements are faithful representations of the financial position and results of operations of their companies and rely more heavily on internal controls to detect any misstatement that would otherwise be contained in these financials. Thus, publicly held companies are likely to see the necessity for forensic accounting as apart of a strong internal control effort to comply with governmental and market demands for accurate reporting.
3. Forensic Accountants who work for private companies help prevent and detect misuse of company resource.
4. Forensic Accountants work in most major accounting firms and are needed for investigating mergers and acquisitions, and in tax investigations, economic investigations, all kinds of civil litigation support, specialized audits, and even in terrorist investigations.

Forensic Accountants work throughout the business world, in public accounting, corporations, and in all branches of government (from the FBI and CIA to the offices of local authorities.) Forensic Accounting firms are everywhere.

ROLE OF FORENSIC ACCOUNTING AND FORENSIC ACCOUNTANTS

A Forensic Accountant is often retained to analyze interpret summarize and present complex financial and business trans-

actions in a manner, that is both understandable and properly supported. Forensic Accountants can be engaged in public practice or employed by insurance companies, banks, police forces, government agencies and other organizations with advantage. Forensic Accountants are increasingly playing more 'proactive' risk reduction roles by designing and performing extended procedures as part of the statutory audit, acting as advisors to audit committees, and assisting in investment analyst research:

1. Forensic accounting involves a financial detective (F.A.) with a suspicious mind, who acts as a financial bloodhound, someone with "sixth sense" that enables reconstruction of past accounting transactions and an individual who looks beyond the numbers;
2. Investigation and analysis of financial evidence;
3. Developing computerized applications to assists in the analysis and presentation of financial evidence;
4. Assisting in legal proceedings, and acts as an experts in evidence findings;
5. Forensic accountant now a days are needed to attack on:
 - Growing cybercrimes, security scams
 - Cooperative banks bursting
 - Embezzlement, negligence and Frauds.
 - Malpractices and employees theft etc.

SKILL NEEDED BY A FORENSIC ACCOUNTANT

Forensic accountants must possess core knowledge and skills in accountings and auditing. Additionally, they should possess developed capabilities of verbal and written communication, capability of perceiving details, capability of efficient application of investigative techniques, experience in investigations as well as independence and high degree of knowledge about the use of information technology in the accounting and auditing procedures. In general, a capable Forensic Accountant should have the following characteristics:

- Curiosity
- Persistence
- Creativity
- Discretion
- Organization
- Confidence and
- Sound professional judgment.

TYPICAL APPROACH TO A FORENSIC ACCOUNTING ASSIGNMENT

The task of each forensic accounting is unique and different from each other according to nature and status. Accordingly, the actual approach adopted and the procedures performed will be specific to it. However, many Forensic Accounting assignments will include the following steps in general:

Table No :- 1 India's Fraud Record

YEAR	2009	2009	2010	2011	2012
Name of Company	Wipro	Satyam	Citibank	Lilliput Kidswear	Adidas
Fraud	Rs. 19 Cr.	Rs.14000Cr.	Rs. 400Cr.	NA	Rs. 870 Cr.
Record	An employee transferred funds from company account to his over a period of 3 years from 2006.	Promoter B. Ramallnga Raju, Senior management & auditors fudged accounts and bank statements.	Shivaji Puri & others of Gurgaon branch accused of siphoning out 400 crore from client accounts	PE investors Bain Capital and TPG Capital have accused Lilliput management of fudging accounts.	Former MD & COO charged with over invoicing and running false franchisee referred Programme.

Source:- www.Calcubindia.in

In India, number of infamous corporate scandals like Harshad Mehata (1992) Kingfisher Airlines credit card fraud (2007), Ketan Parekh (2008) etc. have adversely affected the development of the corporate and non-corporate sectors. Frauds, in the different sectors like bank, insurance, stock market, cyber world etc., need a sharp scientific tool, for investigation and settlement of disputes.

Meet with the client:

The first step in this typical approach to go through an assignment is to meet with the relevant objects. It is helpful to meet with the client to obtain an understanding of the important facts, players and issues at hand.

Perform a conflict check:

Now in this step the concerned forensic accountant critically observe the whole matters. Then a conflict check should be carried out as soon as the relevant parties are established.

Perform an initial investigation:

It is often useful to carry out a preliminary investigation prior to the development of a detailed plan of action. This will allow subsequent planning to be based upon a more complete understanding of the issues.

Develop an action plan:

This plan will take into account the knowledge gained by meeting with the client and carrying out the initial investigation and will set out the objectives to be achieved and the methodology to be utilized to accomplish them.

Obtain the relevant evidence:

Depending on the nature of the case this may involve locating documents, economic information, assets, a person or company, another expert or proof of the occurrence of an event.

Perform the analysis:

1. Calculating economic damages;
2. Summarizing a large number of transactions performing a tracing of assets;
3. Performing present value calculations by utilizing appropriate discount rates;
4. Performing a regression or sensitivity analysis utilizing a computerized application such as a spread sheet, data base etc.

Prepare the report: Often a report will be prepared which may include sections on the nature of the assignment, scope of the investigation, approach utilized, limitations of scope and findings and/or opinions. The report will include schedules and graphics

THE INDIAN SCENARIO

India's image on tackling corruption has not improved as Transparency International's Corruption Perception Index (CPI) placed it at 94th position out of 176 nations this year. In recent times, there have been an increasing number of frauds and white collar crimes in all the sectors of the world economy.

Unfortunately forensic accounting is largely an unexplored area as far as India is concerned. It is reported (www.acfe.com) that nearly 40% of the top 100 American accounting firms are expanding their forensics and fraud services. If this data is of some sense to Indian scenario then the day is not far away when forensic practice will contribute maximum to the total revenue of the Indian CA firms as also the national economy. As such, Fo-

rensic Accounting has a lot of scope in India and the services of forensic accountants could be increasingly and gainfully utilized by the Lawyers, police, insurance companies, government and regulatory bodies, banks, courts and business communities.

CONCLUSION

Scandals, Fraud and corrupt practices are common in modern corporate world and have negative impact on global economy. And hence, the services of forensic accountants are required and badly needed in both public and private sector. Forensic accounting is the combination of the Accounting, Auditing and Investigation skills which is the best ever growing areas of accounting that enables in enhancing the chances of success in day to day life of corporate firm by prevailing all the vexing and financial problems of corporate field as solution. So the researcher can say that Forensic Accounting is essentially solution of corporate scandals in corporate world. Forensic accounting also important in improving the role of corporate governance as well as helps in formulating and establishing an efficient control systems.

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