



Research Paper

The role of forensic accounting in fighting financial crimes and other fraudulent acts

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Abstract: – Shortcomings in audit and financial accounting have resulted in the establishment of forensic accounting to detect and prevent financial crimes and other fraudulent acts.

Forensic accounting has gone beyond the audit concept to solve fraud and other financial issues that occurred because of a lack of other principles not followed in any institution.

Financial crimes involve several offenses without violence, with some people obtaining financial benefit and causing financial loss to others. The globalization of financial systems, the growing volume of trading transactions, and the acceleration of information technologies have brought many conveniences to the financial world, but unfortunately, financial crime has spread and diversified (Yüksel Ünvan, 2020).

This article demonstrates the use of forensic accounting and its application to mitigate the risk of financial loss.

Index Terms— Use of forensic accounting, detect, prevent, financial crimes and fraudulent acts.

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I. Introduction

Forensic accounting is not new however it was in great use until recent years when largest corporations have felt the need to have expert who can provide services which are not fully covered by both financial accounting and auditing.

In countries like India it has been there for sometimes as Ravi Kumar quoted (Ravi Kumar, 2011) that Kautilya talked about about forty ways of embezzlement in the famous Kautilya Arthashastra during the Mauryan times which concludes that the major failures were an extended version of what Kautilya said. Likewise, Birbal was a scholar in the time of King Akbar. He used various tricks to investigate various crimes. Some of his stories give the fraud examiner a brief idea about the Litmus test of investigation. The third scholar was Tenaliram who again emphasized on the investigative techniques used to find the perpetrators (Forensic, 2007).

Some many definitions were given by the scholars so everyone is able to understand what is forensic accounting and why is it needed.

1.2. Definition of forensic accounting

Adam Hayes (Investopedia.com) defined forensic accounting as a combination of accounting and investigative techniques used to discover financial crimes. And he also says that it is frequently used in fraud and embezzlement cases to explain the nature of a financial crime in court.

According to Corporate Finance Institute (CFI) it has been defined as an investigation of fraud or financial manipulation by performing extremely detailed research and analysis of financial information. Forensic accountants are often hired to prepare for litigation related to insurance claims, insolvency, divorces, embezzlement, fraud, skimming, and any type of financial theft.

According to CFI, there are many types of forensic accounting which includes:

Financial theft (customers, employees, or outsiders), Securities fraud, Bankruptcy, Defaulting on debt, Economic damages (various types of lawsuits to recover damages), M&A related lawsuits, Tax evasion or fraud, Corporate valuation disputes, Professional negligence claims, Money laundering, Privacy information and Divorce proceedings.

Market Business News (MBN) provides the below definitions

Forensic accounting is the application of accounting skills to determine whether there has been fraud or embezzlement. We also call it forensic audit, forensic auditing, financial forensics, or forensic accountancy. It is

the use of accounting skills to analyze financial data for use in legal proceedings. Forensic accounting includes, for example, examining a company's financial statements.

ForensicAccounting.com has the following definition of the term:

"The integration of accounting, auditing and investigative skills yields the speciality known as Forensic Accounting."

"Forensic Accounting' provides an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution."

As you viewed so definitions it really addressed why financial accounting and auditing can't reach due to the ways the two fields are designed to deal with financial issues.

Forensic accounting report which has both investigation and accounting aspects address all kinds of crimes which involves financial incentives as everyone is aware that everything has financial cost.

Some company shareholders are victimized due to lack of forensic accountants by the managers to present their companies beyond what they are or what they planned to be so that they get financial gains from outsiders or insiders to get low dividends which can't be justified by the generated income.

As the field of accountancy advancement it has been discovered to have a great need of forensic accountants being used to help in solving all disputes with financial incentive in front of courts to assist the victims get their benefits which got hidden or stolen due to lack great knowledge.

Financial forensic involves analyzing, interpreting and summarizing the complex business and financial matters. This profession is highly required in all institutions to safeguard any kind of interest whether private or public.

Sometimes experts in forensic accounting are required to testify in court to provide some tangible evidence to help in financial dispute resolution caused intentionally or unintentionally.

The forensic accountants convey their evidence using language that non-experts are able to understand so there is no complication which is normally brought by the lack of minimum knowledge in a particular field.

II. A Literature Review

Most of the scholars have common views in their understanding of forensic accounting and how it can be used to help people and institutions to deal with financial matters which are beyond audit and any other accounting field.

Ravi Kumar (Ravi Kumar, 2011) suggested that when thinking of forensic accounting; you should know that the engagements fall into one three categories which he mentioned to be: economic damages, fraud and other forms of economic crime, and business valuation.

While **Atsev Jude Afa has talked of primary benefits which includes:**

- **Less Losses:** One of the major impact of having strong forensic accounting system is that it helps in minimizing as well as safeguard unnecessary losses. Fraudulent act along with general discrepancies leading to extraordinary sums of money. The forensic accountant ensures this is not allowed to happen.
- **Reduces Risk of Exploitation:** The forensic accountant can ensure that risk of the exploitation in the near future is significantly minimized. It's a case of protecting the interests of the business before the fraudulent activities can take place.
- **Increase Efficiency:** Forensic accounting plays an important role in examining as well as scrutinizing the financial processes and standards, this can help in the identification of more effective and efficient solutions.
- **It helps solve financial crimes:** As mentioned above, forensic accounting can greatly help in solving financial crimes. Such crimes can be bribery within government offices as well as fraud and money laundering within business organizations. Forensic accounting not only helps with gathering evidence for crimes but can also be used in detecting and identifying crimes.
- **It helps monitor professionals:** Forensic accounting can be used to assess the work of professionals, including accountants themselves. The findings from this assessment, in turn, can be used to file professional negligence claims against those who have been proven to have made critical errors (whether intentionally or not).

As going further in to forensic issues, Inquesta website (<https://inquesta.co.uk/blog/importance-of-forensic-accounting/>) stressed the need of any forensic expert to have knowledge in three areas to be able to carry out the duty. The website talked of accounting, auditing and investigating skills.

It mentioned that these It's these three skills that make forensic accounting such a difficult undertaking. Traditional accountants only deal with the numbers, but a specialist in this line of work has to look beyond the transactions that have taken place to get the full picture.

Missing funds could be the result of a crime or an accident. A forensic accountant's findings may form the basis of criminal proceedings, or help to resolve an ongoing dispute. Following the path can also help locate where the money has gone, so it can be retrieved.

Institute of Singapore Chartered Accountants (ISCA), talked of qualification of forensic accounting professionals to focus on four main areas of:

1. Accounting methodology and investigation approaches
2. Digital forensics
3. Financial crime compliance and investigation
4. Practical workshops

In Singapore is a different story which is so unique in comparison to other countries.

Response to white-collar crimes as well as data analytic and cyber response will also be part of the certification. Banking and financial center investigation will be a part of the certification, too.

Singapore has a statutory requirement that extends to all professional accountants. Accountants are required to report any suspicious transactions to the Suspicious Transaction Reporting Office (STRO).

The STRO is part of the Commercial Affairs Department of the Singapore Police Force.

Accountants in Singapore face the serious threat of criminal liability for not complying with reporting requirements. The STRO is crucial of accountants that know or suspect money laundering or potential terrorist financing and do not report the incident.

Fines and jail sentences are possible when non-compliance is proven.

Accountants may also be removed from the professional registrar if it's found that they failed to report to the STRO.

Forensic accountants are, now more than even before, an important part of keeping Singapore safe from terrorism. The country is facing an extreme threat of terrorism, which remains at its highest level in recent years. Due to well established law and procedures of reporting the white-collar-crimes (<https://www.e-sandhurst.com/forensic-accounting/>); The International Federation of Accountants (IFAC) also released a report in February 2017 that linked professional accountant roles to combating corruption. The report found that accountants, working alongside stakeholders and other professionals, helped produce favorable scores for the global measure of corruption.

Singapore remains one of the world's lowest countries for corruption. The Transparency International report, released in 2016, ranked Singapore as the 7th-lowest country in terms of corruption.

Professional accountants are cited as a main reason for the country's low corruption figures, with ISCA members rising by 7,000 since 2012 from 25,000 to 30,000+.

Raj Maurya in fundamental of accounting (<https://fundamentalsofaccounting.org/importance-of-forensic-accounting/>) has concluded that, a forensic accountant The role of a forensic accountant is to examine a company's past, current, and future financial condition by going into detail about the company's finances. The accountants are usually charged with determining if an audit is misleading or fraudulent, and are expected to investigate suspicious activities that are not explained in the financial statements.

Lawan Yahaya, Magaji Abba and Naziru Suleiman in their article entitled "Influence of Forensic Accounting Practices on Fraud Prevention among Listed Companies in Nigeria" published by Journal of Accounting, Auditing and Taxation (JAAT), Vol. 2(1), pp. 018-024, June, 2018. © www.premierpublishers.org, ISSN: 2401-1720. Stated that Fraud experts noted that it is essential to obtain clear knowledge on the trends of fraudulent activities in all business circle through the measurement and observing the compliance level of organizations. This has made it possible through the utilization of specialized investigative skills which gives an inquiry by assisting in the protection and recovery of embezzled assets through civil action.

As all those authors discussed their views and practical experiences it is clear that forensic accountants should be placed in every institution as well ensuring that the public is entirely educated how to know the financial crimes, channels for reporting and result after accountability is reached.

III. Recommendations and conclusion

The states all over the world should have laws in place to ensure that forensic accounting professional are properly identified, train with right skills to help in fighting the corruption in all forms.

The accountants who are not reporting are held responsible and accountable failure to report the financial fraudulent and economic crimes seen to relevant authority for investigation to be authorized immediately. This

should be of Singaporean type which the International Federation of Accountants (IFAC) has qualified the Singapore to be the low corrupt country in the world.

Fraud investigation should be considered a duty and not a voluntarily kind of work which should be carried as per person desire.

The forensic accounting should serve its purpose by ensuring that everyone is held responsible regardless of status and immunity given so that all people are accounted for their actions which are not complying with the established financial and non-financial rules and regulations.

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