

Several instances of corporate scandals and failures in recent past have put the professional accounting bodies into a new perception that goes beyond statutory audit and in some ways even the tenets of corporate governance. This article discusses the concept, need and role of forensic accounting in solving the vexed problems of corporate world.

How Forensic Accounting can check corporate ills

The Companies Act 1956 lays down the mechanism of preparation of accounts leading to the annual report embracing the profit and loss account, the balance sheet and the report of the directors, for presentation to shareholders and approval by them at the annual general meeting. This whole process involves cleverness and professionalism calling for extreme good faith, integrity and transparency. Any shortfall on any of these counts is likely to be taken seriously. The recent instances of slips on all these aspects have pulled the authorities and the professional accounting bodies into a new perception that goes beyond statutory audit and in some ways even the tenets of corporate governance which, according to critics, are no better than lime-wash of the affairs of a company. Not only that even the occu-



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pational fraud committed by employees usually involves the theft of assets and embezzlement that has been the most often committed fraud for the last 30 years and the ever changing economic, sociological and technological environment as well as the increasing social and financial terrorism has led the business to turn *Forensic Accounting* for proactive fraud checkups.

According to the Webster's Dictionary Forensic Accounting means, "Belonging to, used in or suitable to courts of judicature or to public discussion, debate and ultimately dispute resolution., It is also defined as an accounting analysis that is suitable to the court, which will form the basis for discussion, debate and ulti-



mately dispute resolution.

Forensic Accounting is the practice of utilizing accounting, auditing, and investigative skills to assist in legal matters and the application of specialized body of knowledge to the evidence of economic transactions and reporting, suitable to the purpose of establishing accountability or valuation of the administrative proceedings. In wide sense it can be said as the integration of accounting, auditing and investigative skills to obtain a particular result.

In general, forensic accounting is the application of a specialized body of knowledge to the evidence of economic transactions and reporting, suitable to the

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purpose(s) of establishing accountability and/or valuation, often in a court of law or administrative proceeding.

However, Forensic Accounting is different from the old debit or credit accounting as it provides an accounting analysis that is suitable to the organization, which will help in resolving the disputes that arise in the organization. Forensic Accountants, utilize accounting, auditing and investigation skills while conducting an investigation. These accountants are trained to look into the dispute in a number of ways. They often retain to analyze, interpret, summarize and present a complex manner, which is understandable and probably supported. Also they are often involved in various activities such as investing and analyzing financial evidences; developing computerized applications; communication, exhibiting documents and presenting the evidences obtained.

This new and ground-breaking accounting has two main areas (1) Litigation. Support and Investigation, and, (2) Dispute Resolution. The former represents the factual presentation of economic issues related to existing litigation. In this capacity, the forensic accounting professional quantifies damages sustained by parties involved in legal disputes and can assist in resolving disputes, even before they reach the courtroom. If a dispute reaches the courtroom, the forensic accountant may testify as an expert witness. On the other hand the latter is the act of determining whether criminal matters such as securities fraud which includes financial settlement, identity theft and insurance fraud etc. in such complex



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cases forensic accountant's make some recommendations / actions that can be taken to minimize future risk or loss.

Need For Forensic Accounting

The need for forensic accounting aroused because of the failure of audit systems in the organizations as the organizational *internal audit* and other audits failed to figure certain errors in the managerial systems. A nationwide study conducted by Kessler International showed that 39 percent of organizations have considered the need for a forensic accountant within the past. Twenty-eight percent said they already sought help from a forensic accountant, 18 percent said they required no assistance,

and 15 percent were unsure of whom or where they should turn to for help. According to other studies, the results are indicative of the stock market woes and the sluggish economy, which have forced organizations to take a harder look at their numbers and seek help in determining why they suffered a financial loss. The experts elaborated and said, forensic accountants are being employed heavily because of company downsizing, noting that some management and control layers within firms have been eliminated causing fraudulent activities to go unnoticed.

Experts in the field pointed out that the intense economic pressure, with more companies facing bankruptcy jobs and careers are at risk and employees feel pressured to maintain and support performance levels, forcing many to commit corrupt acts. Whatever the reasoning may be, more and more forensic accountants are being called upon to meticulously search through documents, discover new information, and help in putting together the irregular pieces of a company's financial puzzle to solve the vexing problems.

US News and World Report listed "forensic accountant" as one of the "20 hot job tracks" of the future and has made this branch of accounting trendy. But Kessler International experts said that the fields' popularity has attracted many in-experienced accountants who lack the skills to carefully and cost-effectively conduct inquiries. The most important thing is to conduct every investigation in a manner that meets the standards of our legal system. However the following are some of the important reasons for the growth of forensic

accounting:

- ✦ Internal audit and audit committees as a part of the management function could not throw light on different facts and other hidden aspects.
- ✦ Rotation of the statutory auditors touches a part of the problem while it requires emphasis but it adversely needs longer duration. The method of appointing the statutory auditors itself not foolproof as its brooks collusion and lobbying.
- ✦ The certificates of the auditors are hardly scrutinized carefully, especially when the reports are unclean and qualified.
- ✦ The internal auditors can surely detect what was happening but they are hardly in a position to initiate proper action in proper time.

The role of forensic accountant

A Forensic Accountant is often retained to analyze, interpret, summarize and present complex financial and business related issues in a manner, which is both understandable and properly supported. A Forensic Accountant is time and again involved in the Investigating and analyzing financial evidence, Developing computerized applications to assist in the analysis and presentation of financial evidence, Communicating their findings in the form of reports, exhibits and collections of document and Assisting in legal proceedings, including testifying in court as all expert witness and preparing visual aids to support trial evidence. Thus

a Forensic Accountant can be of assistance in various ways that includes 1. Investigative Accounting, 2. Review of the factual situation and provision of suggestions regarding possible courses of action, 3. Assistance with the protection and recovery of assets, and 4. Co-ordination of other experts, viz., Private investigators, Forensic document examiners, Consulting engineers, etc.

He may offer his comments regarding the truthfulness of the replies, statements and other responses of the company. He acts for protection of the interest of the company, bolstering its image and enhancing its reputation as a social institution. He could stall much of the

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damage done to Enron, Tyco and World Corn by its top executives as the practical and in-depth analysis of a Forensic Accountant will fetch to a case helps uncover trends that bring to light the relevant issues.

The other plane of the forensic accountant can initiate measures for introduction of environment accounting to highlight the damage done to the environment by the company and the possible recoupment of



such damages or replenishment of lost properties through environment management continually.

The occupational fraud committed by employees usually involves the theft of assets and embezzlement and the involvement of employees in kickback schemes, or conversion of corporate assets for personal use, the forensic accountant can intervene and observe the suspected employees with physical examination of assets, invigilation, inspection of documents, and interviews of those involved to control such practices. Experience on these types of engagements enables the forensic accountant to offer suggestions as to internal controls that owners could implement to reduce the likelihood of fraud.

Besides, the forensic accountant will also engage himself in criminal investigations on behalf of police force. Where his report is prepared with the objective of presenting evidence in a professional and concise manner. These assignments often involve a detailed analysis of numerous years accounting records to quantify the issues in dispute. For example, a common issue that often arises is the compensation and benefits received by each of the disputing shareholders or partners. In this regard as he may be often asked to quantify the economic losses resulting from different aspects of a particular case the Forensic Accountant needs to be familiar with the legislation in place that

pertains to such activities. However one can understand very well the role of forensic accounting with the following illustrations.

Illustration -I

A large housing development project failed and the property owner sued the construction company for mismanaging allocated funds. The team at Kessler International was called in provide litigation support for the property’s owners counsel. The experts discovered most of the sub-contractors were intimate friends of the general contractor and they were contracted for the wrong reasons. The property owner’s requests for extras were granted but the budget was never adjusted. The general contractor’s impractical assumptions, that the property owner would pay for the difference proved wrong and caused the project to come to a screeching halt. After counsel presented our findings in court the general contractor agreed to a settlement.

Illustration -II

An investment bank was considering providing finance to a plastic manufacturer overseas. The bank heard rumors of faulty operations and overestimated profits and thought accurate business intelligence could help them make a decision. The Kessler International team was called in to conduct a general investigation of the plastic manufacturer and determine if the information they provided to the investment bank was truthful. The researchers and investigators scrutinized the company’s revenues, their books, and projections to assure they were fair and accurate. They also assessed the potential

risks involved in the deal and provided the investment bank with valuable information to help them make the right decision before it was too late.

Illustration -III

A Fortune 500 company suspected a new subsidiary was misappropriating funds because they were not operating profitably. The Kessler International team approached this investigation in stages and began by conducting a surveillance of the plant. The investigators immediately observed employees stealing large amounts of raw materials. The next step was to conduct a forensic audit of the plant’s business records. They discovered that 75 of the plant’s employees were illegal aliens. Other inconsistencies included three employees who appeared on the payroll as “ghosts” but who were currently serving prison sentences. The forensic accountants also noticed thousands of dollars in checks that were cashed by check cashing services. After receiving this information, the Fortune 500 Company took appropriate legal action and requested Kessler to conduct investigations into their other subsidiaries.

Illustration -IV

After years of marital bliss a couple decides to divorce due to several irreconcilable differences. One spouse was uncooperative and made the divorce process extremely difficult. The forensic accountants at Kessler International were called in to deter-



mine the value of the couples business, specifically the wife’s share of the business. It had become extremely difficult to obtain the proper documentation that would determine her share because every possible legal maneuver to stall the procedure was

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used. The Kessler team worked quickly and efficiently and obtained a court order that allowed them to gather evidence through an on-site visit. They obtained all the evidence necessary and produced a report that would serve their client well in court.

Conclusion

Forensic Accounting is the best ever growing area of Accounting that enables in enhancing the chances of success in day to day life of corporate firms by surmounting all the vexing and critical problems of corporate field as a panacea, if not today tomorrow. So it is beyond doubt that the role of Forensic Accountants will become very major in corporate field, public accounting and in all branches of government in the days to come. ■