

An Investigation into Forensic Accounting as a Tool to Manage Fraud in India

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Abstract

Fraudulent practices are one of the main challenges faced by the Indian government. The government of India is making several efforts to address the problem by making anti-corruption institutes to diminish the cases of financial frauds. The aim of this paper is to review the perception of external auditors and accounting professionals in fraud reduction towards the effect of forensic accounting. It was found from the survey conducted that there is a major difference between the perception of external auditor and professional accountants regarding the forensic accounting.

Keywords: *Fraud Management, Fraud, Forensic accounting.*

I. Introduction

The occurrence of fraud in the modern organisations has made the conventional auditing and investigation inefficient and ineffective (Ebimobowei, 2011). Financial crime is no exception to it and they have grown substantially over a period of time and overcoming this has become difficult to overcome and majorly it has become very difficult to overcome it. One of the main challenges encountered by the government of India is fraudulent practices (Wadhwa & Pal, 2012). The government of India is making several efforts to address the problem by making anti-corruption institutes in order to decrease the cases of financial frauds. Though Forensic accounting is hardly a new field but recently it comes inattention only due to the rapid rise in white-collar crimes and frauds (Wadhwa & Pal, 2012). It has been talked about in the investigation that financial fraud is the greatest foe of an economy. Fraud

is existed in each economy and human endeavours. On the off chance that we taking the view on certain features of every day papers, at that point we discovered that fraud has come about the goliath monetary tricks and outrages of indeed, even expansive universal companies. (Mason-Jones D.R., 1999) reported fraudulent behaviours rationalisation by perpetrator; the nature of fraud collusion and regulatory efforts to encourage whistle-blowing were the three areas where substantial research is required across the globe. The aim of the paper is to review the perception of external auditors and accounting professionals towards forensic accounting consequences in fraud reduction.

II. Review of Literature

Forensic accounting is defined as “the act of recording, identifying, extracting, settling, sorting, verifying and reporting the past financial data and the other accounting

activities to settle prospective or current legal disputes or using such past financial data to settle legal disputes in order to predict future financial data” (Cali, 2012). Apart from the generally accepted knowledge about principles of accounting and accounting standards the forensic account need to have the knowledge regarding trials, courtroom, investigation techniques and rule of evidence(Cali, 2012). With a rise in the financial fraud FAFD- financial accounting and fraud detection has become a contemporary topic for research (Sharma & Kumar Panigrahi, 2012).(Sharma & Kumar Panigrahi, 2012) found that the data mining techniques for example Bayesian belief network, logistic models, neural networks, and decision trees are being broadly applied to give initial solution for fraud detection. A comparative study on external auditor and forensic accounting professionals in the study of (Imoniana, 2013) indicated the thought that the auditors detected the least frauds. Fraud and quantitative methods are largely published in forensic accounting journals but the lack of diversity in research topics of forensic accounting and ways has the potential(Di Gabriele & Huber, 2015). So, the paper intends to examine the perception of professional accounting professionals and external auditors towards consequences of forensic accounting in reduction of fraud.

III. Methodology

Choosing design of any research is dependent on the objective and the problem statement created. The survey was conducted with an aim examine the perception of professional accounting professionals and external auditors towards the consequences of the forensic accounting in reduction of fraud. The

survey covered different groups; internal and external auditors, those interested in the preparation of financial statements, users and academics. Considering the sample size (Saunders, Lewis, & Thornhill, 2009) suggests that a minimum no. of thirty for statistical analysis is a useful thumb rule. But still, sample of 372 respondents were selected using simple random sampling, consisting of accountants from public and private corporations, investor, shareholder, top management personnel, internal and external auditors and academicians in India. The data were gathered using a well-drafted questionnaire on a 5-points Likert scale, 5-strongly agreed, 4-Agree, 3-Undecided, 2-disagree and 1-strongly disagree.

IV. Results and Discussions

Using the SPSS 21.0 version, regression analysis was used to fulfil the initial objective and then Independent t test was performed to find the important difference among the groups.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.810 ^a	.656	.641	.36092

The value of R² determined that there was high correlation between the variable and regression will fetch good results. From the coefficient table, “forensic accounting can recognize reversible insider transaction and misappropriate resources” and “forensic accounting can be used to expose abstracted fraudulent practices” were found to be important at confidence level of 95% $p < 0.000$ as a tool for fraud detection.

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	3.271	.176		18.625	.000
Forensic accounting can be used to uncover diverted fraudulent practices.	.516	.085	1.165	6.094	.000
1 Forensic accounting can Identify misappropriated assets and identify reversible insider transactions	-.198	.090	-.421	-2.201	.033

a. Dependent Variable: Forensic accounting is effective as a fraud detection tool

Paired Samples Test									
		Paired Differences				T	Df	Sig. (2-tailed)	
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower				Upper
Pair 1	Forensic accounting is effective in designing internal control system - Auditors are effective in assessing, monitoring and evaluation of internal control systems	-.15686	.50488	.07070	-.29886	-.01486	-2.219	50	.031
	Forensic accounting enhances the quality of financial reporting - Accountants/auditors will deliver more quality financial reporting.	-.19608	.44809	.06275	-.32211	-.07005	-3.125	50	.003
Pair 2	Forensic investigations deals directly with fraud investigation and this reduces financial reporting "expectations gap" - Traditional External Auditors are not influence by management	.13725	.40098	.05615	.02448	.25003	2.445	50	.018
Pair 3									

The result of independent t-Test showed that there is a substantial difference in forensic and auditor's responsibilities as revealed by the F-values of 0.031, 0.003 and 0.018 respectively. So, it was concluded that there is substantial difference between the responsibilities of traditional External Auditors and professional Forensic Accountants.

Conclusions and recommendations

This study examines fraud management and forensic accounting as a way to effectively reduce and regulate the fraudulent practices in India. The practices of fraudulent are real and become common in current business environment (Wadhwa & Pal, 2012). It was found that forensic accounting is an effective tool in "forensic accounting can recognize reversible insider transaction and misappropriate resources" and "forensic

accounting can be used to expose abstracted fraudulent practices”.The study also reveals that there is an important variation between the duties of traditional external auditors and professional forensic accountants. It is therefore recommended that accountants be alerted to potential fraud and other illegal activities while carrying out their duties. Proper forensic accounting training would allow them to assist with the detection, investigation and resolution of such issues.

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