



### FORENSIC ACCOUNTING- AN EXCELLENT DETERRENT TOWARDS FINANCIAL FRAUD

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#### **Abstract**

This report presents a forensic accounting theory. Forensic accounting theory is an explanation of why and how the choice of methods and techniques used to detect creative accounting or fraudulent manipulations in financial reporting and the outcome of using such methods or techniques depends on the accounting and non-accounting decisions taken into consideration by the forensic accountant or invigilator. The forensic accounting theory developed in this paper is useful to both practitioners and academics, and the resulting contribution to accounting theory and forensic science are useful to the problem-solving process in the global fight against financial crime.

**Keywords:** Financial fraud, Audits, Forensic Accounting, Forensic Accountant, Fraud, Accounting, Corruption

#### **INTRODUCTION**

A forensic accounting theory is an explanation for observed forensic accounting practices. Past and recent accounting scandals in financial and non-financial firms have shown that expertise in forensic accounting is crucial to detect financial fraud that originates from a firm's financial accounting process. Moreover, it utilizes accounting, auditing, and investigative skills to conduct an examination into the finances of an individual or business. Forensic accounting provides an accounting analysis suitable to be used in legal proceedings. Forensic accountants are trained to look beyond the numbers and deal with the business reality of a situation. Forensic accounting is frequently used in fraud or embezzlement cases to explain the nature of a financial crime in court[2]. A rise in the innovation of forensic fraud schemes and companies ceaselessly changing their accounting processes has not only increased frauds but has also increased corruption, one of the major causes behind financial crimes. Corruption is a form of dishonesty by a person or organisation who is trusted. Anti-Corruption Unit of various countries hire quick-witted forensic accountants to detect corruption in profuse companies so that financial frauds can be reduced.

#### **Theory**

Forensic accounting theory looks at how the accounting and non-accounting decisions made at the start, during or at the end of the investigation process affects the choice of forensic detection methods and techniques used, and the interpretation of the findings of forensic investigation. Frauds categorized as corruption are perpetrated by employees, against the organization, for the



benefit of the employee. For corruption to occur, someone on the inside has to work with someone on the outside in such a way that the relationship is a detriment to the organization [1]. Relationship between the employee and the organisation also plays an important role in deciding which employee is likely to get corrupted. An employee who is discriminated on the grounds of age, sex, religion etc is likely to get corrupted because he/she will have a feeling of hatred towards the organisation. Corruption will lead to poor growth of the company/ organisation because by taking money from someone the employee would be manipulating not only the company's accounts but other things like production as well. This gives rise to frauds in the long run. Not only companies, profuse insurance agencies are also facing corruption issue. Employees are often bribed by the customers who then manipulate their personal records and exploit the insurance agency on the basis of information failure and moral hazard. In HAITI, a country which is in the Caribbean, the Anti-Corruption Unit has targeted 36 public enterprises for compliance investigations. It also uncovered a widespread HTG 100 million corruption scheme in the National Office for Old Age Insurance and, as a result, the agency's executive director has been jailed [4]. The number of banking fraud cases involving 1 lakh and more is on the rise which has increased to 5076 in the fiscal year ending March 2017, from 4235 in 2012-13. As many as 22,949 cases of fraud in both public and private banks came into light. This shows that the demand of forensic accountants is increasing day by day in India [3].

### DISCUSSION

In the chart below there is an illustration of the amount of pending fraud cases from each of the fiscal years from 2007 until 2011. These are corporate fraud cases taken on by the FBI. This is by no means an exclusive number as there are many other types of fraud as well as other agencies and Forensic Accounting teams taking on cases. The chart does show that the amount of fraud cases per year is rising ("Fraud report to the public," n.d.). Therefore the demand for Forensic Accountants is also rising [5].





An increase in technology has given birth to profuse ways of corruption and fraud but at the same time forensic accountants also find it easier to detect the frauds. Moreover, advancement in technology gives them access to innovative tools which they can equip to find frauds much easily.

### CONCLUSION

In this paper, I discussed forensic accounting theory and why few gluttonous people get bribed. Moreover, corruption is one of the major reasons for financial frauds around the globe because without the help of any company's employee it is practically impossible to commit a fraud because the internal information of any company/organisation is with the internal staff only. Forensic accountants carry out a treacherous task to find the reason behind which fraud has occurred by rigorously going through the audits, accounts and other information like relationship with stakeholders to find the major roots of the fraud. Every year financial crimes are reaching new heights, thus making the work of the forensic accountant much more difficult but they are doing a tremendous task to detect frauds. Until corruption does not reduce, financial frauds will not reduce. Forensic Accounting is truly an apt way to reduce and control financial fraud.

### References

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