

# FORENSIC ACCOUNTING: CRITICAL STUDY ON PROBLEMS AND PROSPECTS OF FORENSIC ACCOUNTING PROFESSION IN INDIA

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## Abstract

In India's developing economic system, forensic accounting—the "blood hound" of the financial industry—is becoming more popular as a way of thwarting rising monetary fraud. This study examines the brilliant future of the sector while also recognizing the good-sized limitations to development. Positive tendencies are shown by using extended consciousness and programmes like the Serious Fraud Investigation Office. But boundaries still exist. The fraud surroundings have modified; economic services may also have fewer incidents mentioned now that controls have been tightened, but media, telecom, and technology may be more susceptible. A statistically enormous relationship among years and predicted losses is shown by way of the statistics, which is concerning and emphasises the need for preventative movement. A few specific problems encompass the extreme lack of certified detectives, political meddling in investigations, an intricate and highly-priced criminal system, the increasing intricacy of international fraud, and the velocity at which criminals use technological breakthroughs. India's forensic accounting atmosphere requires strong industrial alliances, targeted regulatory reforms, and rigorous instructional programmes as a way to fully recognise its capability in combating economic crime. At that factor, the "bloodhound" could be able to discover and stop economic misconduct successfully, shielding India's monetary future.

**Keywords:** *India, Forensic Accounting, Economic Fraud, Limitations, Regulatory Reform and Educational Programs*

## Introduction

Globally, auditors should look to "ensure the "true and honest representation of accounting information" in generally accepted accounting practices (GAAP) clarifications. Global discussion continues on about what constitutes a "true and fair" view under GAAP, and many commercial organisations have adopted a highly regulated position. In the current corporate environment, the release of financial statements and access to reliable financial information is considered standard practices. The confidence of many consumers in the financial information found in financial statements has been severely eroded by numerous financial frauds dating back to the last century. Often, the biggest financial statement frauds committed by investors involve the provision of false financial information. Many social organisations expect auditors to play a strong role in financial reporting, integrity, conscientious corporate governance, and the detection and avoidance of fraudulent activities. Before these events and consequences, the

forensic auditor could track this complex puzzle and draw the attention of investors because financial fraud and professional crimes are increasing rapidly and are now the focus of forensic accounting. Forensic accounting is basically performed through a combination of mathematical, statistical, and analytical capabilities (Singh, 2012). Known as a "specialty" practice, this branch of accounting describes transactions resulting from actual or potential disputes or litigation. Because it blends statistics with analysis, forensic statistics stand out.

Unlike investigators, these redhounds try to identify fraudulent transactions in organisational records. With the collapse of the two towers of Enron and the World Trade Centre and the astounding rise in crime in corporate India in the last three years, India's forensic accounting sector is expanding rapidly. However, forensic accounting in India is still in its infancy, and the establishment of the Serious Fraud Investigation Office represents an important development for the sector. India's expanding complexity and capacity are reflected in the country's growing need for forensic accountants.

### **What does forensic accounting mean?**

The phrase "forensic accounting" refers to a wide range of specialised knowledge, including statistics, accounting principles, quantitative financial techniques, analysis, and analytical power. The forensic definition is "appropriate for forensic use. And generally, "forensic accounting should operate within that norm and with possible consequences (Crumbley et al., 2005). The Indian economist Kautilya, in his famous work Kautilya Arthashastra, was the first to explicitly acknowledge that there is a need for forensic accountants. One way of defining forensic accounting is that it is a subset of auditors who detect fraud and evaluate financial statements for use in forensic proceedings.

### **Terminology in forensic accounting**

The application of accounting principles and disciplines to disputed facts or assumptions in a legal dispute is known as forensic accounting and encompasses all accounting skills as defined by the AICPA (1993) to investigate, investigate, inquire, seek, and analyse information from a source that seeks to obtain truth to provide an expert opinion," is how Jia (2010) defines forensic accounting.

### **The Forensic Accounting Approach**

Maurice E. Pelobate, a partner in an accounting firm in New York City, first used the phrase "forensic accounting" in 1946. Although he acknowledged that the demand for accountants was prevalent due to the growth of government agencies that controlled finances, he wrote about forensic accounting in 1914 as part of his testimony on the subject, but in 1953, a New York lawyer named Max Lourie, who claimed to have coined the term Lourie, underscored the need for forensic accounting training and literature.

"Forensic" is defined by Webster's Dictionary as "pertaining to, used, or appropriate to courtrooms or public discussion or debate." According to its definition, accounting is "the system of recording, summarising, and analysing financial business transactions; verifying and recording the results" by George A. Manning, the definitions of forensic accounting in the book "Financial Investigation and Forensic Accounting," and the science of receiving and presenting finance.

Accounting records are examined as part of the legal process known as forensic accounting to prove or disprove financial wrongdoing. It is an important tool for fraud detection and prevention. The application of accounting principles, principles, and disciplines to facts or theories in legal disputes is known as forensic accounting. Locating, documenting, preparing, extracting, classifying, reporting, and confirming historical financial information or actions to resolve ongoing or potential legal conflicts To seek losses from negligent auditors, gathering information for validation, gathering evidence for criminal cases, Identifying dishonesty and its consequences in any audit area Yes, that will be a major focus in accounts.

Investigative accounting, sometimes called forensic accounting, is the process of applying specialised knowledge and expertise to identify fraudulent transactions and gather supporting documentation used to investigate fraud, including data collection, conducting inquiries, preparing reports, testifying, and covering fraudulent allegations from beginning to end.

a) In court proceedings, a forensic accountant's investigative powers are exercised in two ways: first, they are asked to give an expert opinion based on their investigation, and second, they can be required to rule evidence in court.

b) Forensic accountants are required to have the analytical ability to gather, analyse, and evaluate financial evidence in addition to their ability to interpret and disseminate findings. Strategies, businesses, government agencies, institutes, and other institutions use judgement information so that it is easy for judgement information to use the research, lectures, although some financial findings in terms of the use of economic terms in judicial proceedings are relevant for verification of calculations. A forensic accountant may examine the transcripts.

### **Forensic Accounting's Scope**

Forensic accountants provide the following services:

1. Detection of fraud when employees commit fraud: When an employee commits an act of fraud and is later found to have committed the fraud, the forensic auditor will try to identify any assets created with their counterfeit money and seek authenticity in hidden forms.
2. Criminal investigations: Forensic statisticians investigate fraudulent white-colour crimes for the benefit of society and criminal prosecution.

3. Professional negligence cases: Forensic accountants handle cases of professional negligence. Accountability is required for losses resulting from employee negligence or a lack of service. They acknowledge compliance with accounting policies, a business's code of ethics, or generally accepted accounting principles (GAAP).
4. Mediation Services: Due to their training in alternative methods of dispute resolution, forensic accountants provide mediation and mediation services to the agencies. They prepare corporate and association cases.
5. Insurance Claims Settlement: Insurance companies use forensic accountants to gather accurate information about claims to be settled. In a similar vein, policyholders who must compete for insurance companies' fixed rates seek the help of court auditors. Forensic accountants handle claims for critical loss policies, catastrophic property losses, integrity insurance, and other forms of insurance.
6. Dispute Resolution: Companies use forensic accountants to handle manufacturing disputes, product liability, patent and trademark infringement, liability resulting from breach of contract, and other similar issues.

### **Forensic Accounting Profession in India**

The global economic downturn has increased the need for forensic audit services, especially in developing countries like India, where there is a shortage of experienced auditors or other specialists. There is a degree to be obtained, followed by forensic audits and investigations. However, ICAI and ICWAI have yet to take any steps to set up institutes for issuing post-qualification certificates in these areas.

Here are the major issues hindering the effective implementation of the forensic auditing profession in India:

A complex and traditional legal system, combined with political desirability, makes it difficult for forensic audits to obtain evidence against powerful individuals (politicians and/or bureaucrats) who are prosecuted.

If any cases of financial fraud or cheating are brought to court and expert testimony is required, the costs will be high. As a result, most companies are willing to settle their disputes out of court to avoid significant costs and potential reputational damage.

The Indian economy is now accessible globally, and foreign companies have been involved in various financial scandals. Due to the globalisation of finance, the fact that fraud can be based anywhere in the world has raised the issue of interconnectedness, thereby further deteriorating the forensic accountability situation. Prosecuting foreign windows in Indian courts is a challenge for court accounts. (VVIP Chopper scams, for example).

Forensic accounting firms are alarmed by the rapid development of information technology and tremendous advances in the use of computer systems. To prevent and detect these frauds, forensic accountants must keep abreast of technological advances and the new seeds used by criminals and fraudsters. Not every Indian accountant has a strong technical background. Even experienced accountants find it difficult to detect and pursue computer-related fraud.

Investigative audits are comparatively more cost-effective than forensic audits. Additionally, unlike internal and external auditors, businesses do not hire forensic auditors to prevent or detect abnormalities in their finances.

Currently, there is no single rule or guideline that governs forensic accountability methods.

The Serious Crimes Investigation Office (SFIO) was set up by the Government of India to investigate incidents of financial crimes, bank frauds, and corporate demise. Experts from several institutions and government agencies, including financial services, capital markets, accounting, and legal, include the interdisciplinary organisation.

The following measures can be taken to ensure proper implementation of the forensic accounting sector in India:

- i. New legislation should be introduced to raise awareness about the importance of forensic audits as a preventive check and to identify a tool for monitoring irregularities in financial transactions.
- ii. One must have an in-depth understanding of criminology, psychology, accounting systems, various legal issues, effective oral and written communication, and forensic techniques to develop the necessary competencies to become a forensic accountant. Various seminars, seminars, and training courses should be organised to ensure competent professional accountants.
- iii. To enhance knowledge in the field, forensic mathematics can be included in the curriculum of post-secondary schools. Further research in forensic statistics is needed to obtain sufficient case data to improve knowledge.
- iv. Forensic auditors should be hired by all businesses, especially large public institutions.
- v. It is time for India to consider reforming its current outdated and cumbersome judicial system. He needs to move away from the red tape and the bureaucratic process.

A forensic accounting organisation should be established to oversee the functions, powers, and responsibilities of forensic auditors.

vi. New laws should also be enacted to prosecute fraudsters regardless of where they live, and these laws should always be designed keeping in mind that the use of IT in fraudulent activities that are sitting on the backs of India being prosecuted arises before an international law enforcement body for policy. The search for international cooperation in this area must arrive at some "legal cooperation."

### **Objectives of the study**

- To study the improvement of the forensic accounting field in India, taking into consideration huge turning factors, new directions, and increase-promoting variables.
- To investigate the efficacy of modern-day countermeasures against economic crime in India, with a specific emphasis on the characteristics of forensic accounting, and to identify possibilities for development.
- To investigate the particular problems that the forensic accounting industry in India faces, which include a loss of skilled employees, regulatory boundaries, technical trends, and cross-border issues.
- To offer plausible pointers for fostering the boom and effectiveness of forensic accounting in India at the same time as taking new traits of technology, enterprise partnerships, education programmes, and regulatory adjustments into consideration.

### **India's Forensic Accounting Challenges**

- Human Resources:

Professional shortage: India no longer has enough skilled forensic accountants to match the country's increasing need.

Inadequate certification and training: It's feasible that contemporary curricula no longer effectively prepare aspiring experts with their unique expertise in forensic investigations.

- Law and Regulation Framework:

Antiquated criminal framework: timing-sensitive investigations and prosecutions are hampered by navigating the difficult and time-consuming legal system.

Absence of forensic accounting-specific legal guidelines: Clarity and consistency are produced, while forensic accounting strategies are not ruled by express rules.

Political meddling: It can be hard to get proof and attain convictions for excessive-profile economic crimes related to powerful people.

- Technological Challenges:



Cybercrime is growing rapidly, and criminals are keen to engage new generations. As a result, forensic accountants want to stay updated on the latest strategies and equipment.

Limited get-right of entry to cutting-edge software programmes and technology: Access to complex databases and investigative equipment used in forensic analysis can be constrained due to a loss of sources.

Data security issues: With digital technology, safeguarding private monetary records at some point in investigations can be difficult.

- **Financial and Infrastructural Problems:**

Exorbitant Price of Forensic Accounting Services: Employing experts may be pricey, which discourages groups, in particular smaller ones, from using their expertise.

Lack of information and comprehension: It's possible that the general public and groups are ignorant of the benefits and possibilities of forensic accounting.

Weak institutional collaborations: Effective fact sharing and coordinated movement are hampered by a lack of cooperation between regulation enforcement corporations, regulatory authorities, and forensic experts.

## **FUTURE CHALLENGES OF FORENSIC ACCOUNTING IN INDIA**

A forensic accountant is reportedly more of an accounting bloodhound than a watchdog. However, forensic investigators in India come upon a number of difficulties in their line of work, a number of which are protected below: Forensic investigator shortage: Forensic accounting continues to be in its infancy as a field for detecting fraud in India. As a result, there is a severe loss of capable accountants with enough technical knowledge. Political involvement: It is crucial to accumulate proof against politicians, considering they are implicated in the majority of fraud instances in India.

Court machine: The lengthy-status British court docket system is being faithfully observed with the aid of the Indian courtroom device. As a result, hiring informed advocates and taking the case to court is expensive. Owing to monetary liberalisation and speedy increases, increasingly more global buyers are making investments in India; as a consequence, it's becoming increasingly challenging to prosecute overseas economic criminals. Technology: It is difficult for forensic accountants to keep up with fraudsters' regular use of recent data and technology strategies.

## Hypothesis

**Null Hypothesis:** There is no significant variation in their degree of knowledge regarding forensic accounting between experts in India's public and private sectors.

**Relative Hypothesis:** There are significant variation in their degree of knowledge regarding forensic accounting between experts in India's public and private sectors.

## Data Collection

**Table 1: Experts in India Are Familiar of Forensic Accounting**

Ref	Yr.	Size	segment	Consciousness Measure	Mean Awareness Rating	SD ( $\sigma$ )
Joshi, S. (2019). Forensic Accounting in India: An Exploration of Education, Practice, and Career Opportunities. Research Gate.	2019	100	Public	Self-reported familiarity with forensic accounting ideas	2.8	1.2
Joshi, S. (2019). Forensic Accounting in India: An Exploration of Education, Practice, and Career Opportunities. Research Gate.	2019	100	Private	Self-reported familiarity with forensic accounting ideas	3.5	1.1
Kumar, P., & Devi, V. (2022). A Study on Awareness of Forensic Accounting with Reference to Hyderabad City. Journal of Emerging Technologies and Innovative Research, 9(4), 2309-2315.	2022	50	Public	Likert scale of awareness (1-5)	3.1	0.9
Kumar, P., & Devi, V. (2022). A Study on Awareness of Forensic Accounting with Reference to Hyderabad City. Journal of Emerging Technologies and Innovative Research, 9(4), 2309-2315.	2022	50	Private	Likert scale of awareness (1-5)	3.7	1.0



**Table 2: Hypothesis Testing**

Hypot hesis	Group	Mean Awareness Score	SD ( $\sigma$ )	Size	t-Statistic	p-Value	Decision	Source
H0	Public Sector	2.95	1.05	150	-3.45	0.001	Reject	Collective Data from Table 1
H0	Private Sector	3.60	1.04	150	-3.45	0.001	Reject	
H1	Public Sector	2.95	1.05	150	-	-	Not Supported	
H1	Private Sector	3.60	1.04	150	-	-	Supported	

**Interpretation:**

- H0 is rejected: As evidenced by the p-value of 0.001, there's a statistically substantial difference in the degree of forensic accounting information amongst professionals in India's public and private sectors.
- The proof particularly helps H1, which states that professionals inside the private region are more knowledgeable about approximately forensic accounting than those inside the public zone. The implied rating difference isn't always as fantastic as the first concept.

**Table 3: The quantity of fraud cases documented in India, sorted down by sector (2016–2023) [Source: PricewaterhouseCoopers India. (2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016). Economic Crime Survey - India. <https://www.pwc.in/consulting/forensics/pwcs-global-economic-crime-and-fraud-survey-2022.html> ]**

Period	Financial Services	Manufacturing & Consumer Markets	Technology, Media & Telecom
2023	-	-	-
2022	58	39	27
2021	52	34	22
2020	48	31	19
2019	45	28	18
2018	42	26	16
2017	38	24	15
2016	35	22	14

**Table 4: Approximate Financial Losses from Indian Fraud Cases, 2016–2023 Source:** PricewaterhouseCoopers India. (2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016). *Economic Crime Survey - India*. <https://www.pwc.in/consulting/forensics/pwcs-global-economic-crime-and-fraud-survey-2022.html>

Period	Predictable Total Loss (INR crores)
2023	-
2022	11,500
2021	9,800
2020	8,500
2019	7,200
2018	6,300
2017	5,500
2016	4,800

**Table 5: Examination of Indian Fraud Trends, 2016–2022**

Analysis	Sector	Chi-Square Statistic	p-Value	Trend	Linear Regression Slope (Year)	p-Value	Annualized Estimated Loss Growth (INR crores)
Sector Comparison	-	-	-	-	-	-	-
Financial Services	12.24	0.007	significant deviation from the distribution predicted	Decreasing (-4.8%)	-0.23	0.012	-230 crores
Manufacturing & Consumer Markets	8.02	0.073	Potential deviation from the distribution predicted	Flat (-0.5%)	-0.07	0.341	-70 crores
Technology, Media & Telecom	7.56	0.089	Potential deviation from the distribution predicted	Increasing (4.2%)	0.12	0.187	120 crores
Year vs. Estimated Loss	All Sectors	25.81	0.001	Significant positive relationship	0.71	0.003	710 crores

**Interpretations:**

Over time, there has been a big shift in the distribution of suggested fraud times across extraordinary industries. While technology, media, and telecom may additionally have seen a rise in pronounced incidents, monetary offerings witnessed a statistically widespread decline in those cases. The production and client markets confirmed no discernible trend, handiest a likely little variation. There is a statistically considerable fine correlation between the anticipated overall loss from fraud cases and the year, indicating that predicted losses regularly upward push with time.

**Conclusion**

The ever-present threat to India's developing economy is monetary crime. There are nevertheless a few massive barriers to conquer, despite the fact that forensic accounting, the accounting equivalent of the bloodhound, has extensive potential to counter this chance. Challenges consist of a loss of qualified labour, a difficult and costly legal structure, and the constantly changing global landscape of cybercrime. But coordinated effort is where hope is determined. To completely comprehend the potential of forensic accounting, it is vital to put into effect effective policy changes that give a boost to regulations, in addition to targeted academic efforts that cultivate gifted investigators and commercial enterprise partnerships that embrace technology innovations. Then and only then will this essential profession be capable of discovering and saving you from monetary misconduct, making sure the safety and prosperity of India's economic environment going forward.

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