Fraud Detection Skills of Forensic Accounting : An Empirical Study

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ABSTRACT

Globally there is an increase in the financial crimes of various companies. These are due to the external and internal auditors of the company who would have not filtered the mistakes in the financial statements. In this modern world there is a need for a concept to review and identify the financial crimes happening in a company as it leads to fall of a country's economy. This paper aims to define the competencies required by forensic accountants to perform their duties in the subject of forensic accounting. Analytical skills, Communication skills, Accounting and Auditing skills and Psychological skills were the factors employed in this study. This was a primary study where a structured questionnaire was constructed. The targeted samples were the students pursuing professional course such as Chartered Accountancy, Cost Management Accounting while doing their articleship. In return, we received a response of 252. The outcome provides further information about the competencies needed for the Forensic Accountants which would be helpful for the companies and other forensic accounting users.

Keywords: Forensic Accounting, Analytical skills, Communication skills, Accounting & Auditing skills, Psychological skills.

Introduction

India, which has the world's fifth-largest economy, was placed 85th out of 180 countries in Transparency International's Corruption Perception Index in 2022. The Association of Certified Fraud Examiners stated that India leads South Asian nations in the quantity of fraud cases reported in 2022. The application of forensic accounting can help battle financial accounting and reporting-related crimes. The terms "forensic accounting" refers to a blend of accounting and detective methods used to identify financial offences. One area of accounting that focuses on identifying and stopping financial crimes is forensicaccounting. An individual who investigates financial fraud is called a forensic accountant. To become a forensic accountant, one needs to possess the following abilities: financial analysis, analytical abilities, communication, interviewing skills, auditing skills, and investigative skills.

Role of A Forensic Accountant

To adequately support and make sense of complicated financial and corporate data, forensic accountants are frequently hired to analyse, interpret, summarise, and present the data. In addition to collecting documents, forensic accountants should help with the analysis and presentation of financial evidence, conveying their conclusions through report exhibits and expert witness testimony in court, as well as creating visual aids to support trial testimony.

- Giving initial advice at the beginning of the legal procedure, such as evaluating the pleading and evidence that is already available.
- Identifying the crucial papers that must be provided as evidence. This is of utmost importance when attorneys are assembling compilations of papers to be presented in court, and the forensic accountant is acting as the defence's representative.
- Producing an extensive, impartial report on the volume of evidence, including all pertinent subjects regardless of whether they benefit the client and putting it in a language that is simple enough for a non-accountant to comprehend.
- Analysing and offering legal counsel regarding the other party's expert accounting reports, since these reports could affect the volume of evidence.
- Providing pre-trial legal counsel with a briefing on the case's accounting and financial issues.
- In addition, the forensic accountant will participate in criminal investigations on behalf of the police force, and he will create reports with the goal of succinctly and professionally presenting the evidence.
- Because of their training and level of involvement, forensic accountants are qualified to suggest internal controls that business owners should implement to reduce the likelihood of fraud.
- To qualify the disputed problems, these assumptions frequently entail a thorough examination of accounting records spanning many years. He does require knowledge of the legal ramifications of conducting business.

Skills Required For A Forensic Accountant

- **Analytical Skill:** Analytical abilities are necessary for forensic accounting practitioners considering the desired attributes and qualities of legal and scientific accountants. Analysis skills are crucial as forensic accountants deal with odd relationships that need to be understood and decoded.
- **Communication Skill:** A well-written finding can be a crucial tool for the prosecution and could even influence the jury or judge. Additionally, the scientific bookkeeper must be able to orally explain his findings. Additionally, it might become necessary for him to enter the field and speak with employees of the organisation who might have been involved in the alleged deception.
- **Accounting & Auditing Skill:** The fact that bookkeeping is typically seen as the "language of companies" means that forensic accountants must possess excellent foundational knowledge of accounting and auditing in all its forms.
- **Psychological Skill:** Personality traits, interviewing techniques, psychology, social interaction, etc. are examples of psychological talents. With the use of these abilities, the forensic accountant may examine and comprehend the fraudster's activities as well as his thoughts. The psycho-social talents of the forensic accountant allow him to comprehend the surrounding environmental aspects.

Objectives of the Study

- To highlight the skills that is required for a forensic accountant.

- To determine the respondents' demographic characteristics
- To emphasize the need of financial accounting in India.

Review of Literature

- Amos Raphael Medugu et al., (2022) examined Forensic Accounting as a measure to control financial fraud. The purpose was to determine whether stakeholders significantly agreed on the usefulness of forensic accounting by adopting a sample of45 respondents, using Binomial test as a tool. It was concluded that stakeholders largely concur that forensic accounting is beneficial in reducing financial fraud.
- Charles Davis et Al., (2010) executed research on skills and characteristics required for a forensic accountant. The study was performed to know qualities, characteristics and core skills that forensic accountants should have. The survey was prepared, and 779 responses were received. The ranking technique was used in this study. The findings state that analytical skill is the most important quality, and the efficacy depends on clear communication. The author also stated that the accountant could see beyond the analytical details.
- Dr. Subhi Mohamed Saleh et Al., (2020) unveiled that the business firms across the globe have resulted in losses due to corruption. A sample of 63 external auditors filled the questionnaire to identify the techniques and skills required for forensic accountants to combat corruption with the help of Cron Bach's Alpha Coefficient. As a result, it was found that accounting techniques and skills help to monitor improper financial behaviour.
- Kasum et al., (2009) explored the comparison of the public and private industries and evaluated the financial crimes to determine which sector needs more forensic accountants. A primary data of 264 responses were collected and sources were also collected from international agencies. The Z test of mean and proportion were employed to obtain the results. The results of the empirical investigation indicated that both the sectors need the services of forensic accountants.
- Zabihollah Rezaee et al., (2003) conducted a study on Forensic Education based on syllabus from universities and through a survey. The principal goal of the study is to determine the value, applicability, and mode of delivery of forensic accounting education. The survey was completed by 1000 academics and practitioners who were chosen at random. The Chi – square test and Kruskal – Wallis test were used as a statistical tool. The findings stated that the future demand for forensic accountant, interest in litigation support and expert witnessing will increase and the universities are planning to give Forensic Accounting education in the future.

Methodology

This research utilized primary as well as secondary data sources. The primary data were collected by circulating questionnaires to a sample of 252 respondents consisting of Chartered Accountancy and Cost Management Accounting students going for articleship from Chennai by adopting snowball sampling technique. The secondary data were collected through sources such as Journals, websites, reports, etc.

Data Analysis and Interpretation

Table 1: Demographic Profile

Factors	Categories	Percent
Gender	Female	54.4
Age	18 - 25	55.6
Educational Qualification	Chartered Accountancy (Pursuing Intermediate)	34.1
Marital Status	Unmarried	67.9
Stipend (monthly)	Above Rs. 5000	75.8

- **Gender -** The above table shows the gender percentage where 54.4% of people belong to Female and the rest 45.6% are male.
- **Age -** The age category has the following percentages, 18 – 25 has 55.6%; 31.3% of respondents belong to the 26 – 30 age group; 30 – 35 group has a percentage of 9.5% and the rest 3.6% belongs to people, above 35 age.
- **Education Qualification –** 34.1% of the respondents were pursuing Chartered Accountancy intermediate; 27.8% of the respondents were pursuing cost Management Accounting intermediate; 23.8% of the samples were pursuing Chartered Accountancy final and the rest 14.7% of the samples were pursuing Cost Management Accounting final.
- **Marital Status -** The marital status showed that 67.9% were unmarried and 32.1% were married.Stipend – 75.8% respondents earned stipend above Rs. 5000; 15.9% earned around Rs. 2000 – Rs. 5000; 4.0% were less than Rs. 2000 and 4.4% earned no stipend

Table 2: Research Related Responses

Factors	Categories	Percent
No. of years into articleship	1 – 2 years	43.7
Forensic Accounting helps in	Unveiling the financial discrepancies	73.0
Business benefit out of forensic accounting services	Reducing losses & financial crimes	67.9
More no. of forensic accountants are employed by	Government agencies	42.9

- **Years into articles -** 43.7% of the respondents were into articleship for 1 – 2 years; 23.4% were going for practice for less than a year; 17.9% were for more than 3 years and the rest 15.1% for 2 - 3 years.

- **Forensic accounting helped -** According to the respondents, 73.0% said that Forensic Accounting as "Unveiling the financial discrepancies"; 24.6% checked Forensic Accounting as "the application of accounting & legal problems"; 2.4% responded, "Using accounting techniques to prepare final accounts".

- **Businesses' benefits out of forensic accounting –** 67.9% selected reducing losses and financial crimes; 20.2% checked auditing services; 11.9% voted for improving internal affairs & reducing taxes.

- **More no. of forensic accountants employed -** 42.9% of the respondents said government agencies employ more forensic accountants; 31.3% said that companies employ forensic accountants; 25.8% had opted for private individuals.

- **Reliability Test**

Reliability Statistics	
Cronbach's Alpha	N of Items
0.791785763	26

The reliability Cronbach's alpha for 26 variables of questionnaire for the measurement tool has a high degree of consistency and truth because it is greater than 60% that is, 0.791 which again shows the consistency of the variables of this study.

Correlation Matrix

H_0: There is no relationship between Analytical Skills, Communication Skills, Psychological Skills and Accounting & Auditing Skills.

H_1: There is a relationship between Analytical Skills, Communication Skills, Psychological Skills and Accounting & Auditing Skills.

Correlations				
	AS	CS	PS	AAS
AS	1.00			
CS	0.62	1.00		
PS	0.51	0.50	1.00	
AAS	0.48	0.43	0.43	1.00

** Correlation is significant at the 0.01 level (2-tailed).

AS - Analytical Skills; CS - Communication Skills; PS - Psychological Skills and AAS - Accounting & Auditing Skills.

Pearson correlation of Analytical Skills, Communication Skills, Psychological Skills and Accounting & Auditing Skills for forensic accounting was found to be positive correlation and statistically significantly relationship between all the variables. Hence H1 was accepted.

Implications

The demand for forensic accountants will rise in tandem with the global rise in financial crime. The appropriate steps should be made to prevent financial fraud which is increasingly common in developing countries like India. Increasing the number of forensic accountants in a nation is one such measure. To employ more forensic accountants, the professional bodies and industry leads should promote the awareness of forensic accounting and its benefits by conducting workshops and business conferences. To gain a realistic understanding of how things operate in the real world, enterprises and accounting firms ought to step up and offer training programs and internships. There should be an awareness to the students that how the financial frauds affect a country's economic growth. Furthermore,including forensic accounting as a subject in professional or university-level courses will raise awareness of this idea.

Conclusion

This study mainly aimed at identifying the basic skills of forensic accounting. Forensic accounting is one of the branches of accounting that investigates the errors or mistakes in financial statements and records for litigation to reduce financial crimes. In India, there is no set requirement to become a forensic accountant. Chartered accountants who have completed subsequent qualification in forensic audit are qualified to operate as forensic accounting experts in handling financial infraction cases and presenting master statements in court. A total of 26 variables were employed in this study, followed by the circulating of a structured questionnaire to fetch responses. The study employed percentage analysis and a correlation matrix as tools to obtain the results. The study found that there is a relationship between analytical skills, communication skills, psychological skills, and accounting and auditing skills. The conclusion of this study was that the respondents have the fraud detection skills of a forensic accountant by serving as an article under the auditors and by obtaining practice during their internship period. This study helps forensic accounting users identify the potential of forensic accountants to combat financial crimes in the future.

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