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A COMPREHENSIVE STUDY ON THE ROLE OF FORENSIC ACCOUNTING IN DETECTING FINANCIAL FRAUDS WITH REFERENCE TO KARNATAKAKarthika Ravi ^{*1}, Dr. Abhinandan N ²¹ Research Student, Maharani Lakshmi Ammanni College for Women (Autonomous), Bengaluru, Karnataka, India² Assistant professor, Maharani Lakshmi Ammanni College for Women (Autonomous), Bengaluru, Karnataka, India

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DOI: <https://doi.org/10.59415/mjacs.v2i2.233>**Abstract**

This study investigates the role of forensic accounting in spotting financial frauds and the efficiency of forensic accounting in dealing with problems involving financial statement manipulation in Karnataka and also understand the standards issued by ICAI. This study seeks to analyze the services provided by forensic accountants in Karnataka as well as the future of forensic accounting in the state in light of increasing numbers of fraud. The questionnaire approach is one of the quantitative research techniques used in this study. Investigating, spotting, and proving the legal case against such crimes through the use of accounting knowledge is known as forensic accounting. The major goals of forensic accounting include presenting the results of an inquiry in a style that allows for interrogation in court and to give proof that financial fraud has occurred.

Keywords: Forensic Accounting, Frauds, Investigation, Financial Statements**1. Introduction**

Forensic Accounting is the use of traditional auditing practices and techniques with a view to collect evidence as part of the forensic inquiry and examination. Forensic accounting uses accounting, audit and investigation skills to scrutinize an individual's finances. Forensic accounting provides an acceptable accounting analysis to be used in judicial proceedings. Since they have received specialized training, forensic accountants are able to see past the numbers and deal with the business's reality. Forensic accounting and financial investigations are typically used in fraud and money-laundering cases to describe the specifics of the financial crime committed. If a company doesn't act quickly to stop fraud and recover assets, financial fraud can be disastrous for the company. Forensic accounting is the use of extremely sophisticated accounting methods to uncover instances of fraudulent behavior and financial irregularities buried in intricate transactions. The main goals of forensic accounting are to show that financial fraud has occurred and to present an investigation's findings in a way that can withstand cross-examination in court. Forensic Accounting is the functional area of accountancy that analyzes litigations. Support for litigation and Support for investigations are the two primary spheres of forensic accounting. It includes investigation and analysis of financial statements, evidences, malpractices, internal check and control of activities and operations. Forensic Accountants have to study Internal Auditing and control system, identify any questionable activities, collect evidence and find the extent of fraud and report the findings. Financial crime and frauds can be found, the veracity of financial statements can be confirmed, and various stakeholders can be informed of the financial information that can be used to make decisions by using forensic accounting techniques and tools related to financial crime and frauds. Over the years, forensic accounting has steadily grown in significance and acceptance in India. This specialized field of accounting involves the investigation of financial irregularities, fraud, and disputes, often in a legal context. The prospects for forensic accounting in India remain positive, driven by the increasing demand for financial transparency, compliance, and the need to combat financial fraud and misconduct in both the public and private sectors.

2. Forensic accounting standards

20 Standards for Forensic Accounting and Investigation (FAIS) have been published by the Digital Accounting and Assurance Board (DAAB) of the ICAI. These recommendations provide ICAI members with a comprehensive grasp of forensic accounting and investigations, teach them on how to organize and carry out their work on engagements and assignments in these disciplines, and assist them in presenting their results in a clear and concise manner. These Standards have shown to be very helpful for law enforcement organizations, the members, businesses, banks, and

other stakeholders in understanding the fundamental concepts and finer points of forensic accounting. These Standards have a binding authority. All members are given a framework and guiding principles by the DAAB in one place. A Compendium of Forensic Accounting and Investigation Standards was released by ICAI in August 2021. The ICAI Council became aware that these Standards are now being held to higher standards after noticing a great deal of interest in the various assignments that ICAI members have taken on. As an outcome, starting on July 1st, 2023, the ICAI Council has enforced the aforementioned standards.

FAIS No.	Forensic Accounting and Investigation Standards
FAIS 110	Understanding the nature of Engagement
FAIS 120	Understanding the Fraud Risk
FAIS 130	Laws and Regulations
FAIS 140	Applying Hypotheses
FAIS 210	Engagement Objectives
FAIS 220	Engagement Acceptance and Appointment
FAIS 230	Using the work of an Expert
FAIS 240	Engaging with Agencies
FAIS 250	Communication with Stakeholders
FAIS 310	Planning the Assignment
FAIS 320	Evidence and Documentation
FAIS 330	Conducting Work Procedures
FAIS 340	Conducting Interviews
FAIS 350	Review and Supervision
FAIS 360	Testifying Before a Competent Authority
FAIS 410	Applying Data Analysis
FAIS 420	Evidence Gathering in Digital Domain
FAIS 430	Loans and Borrowings
FAIS 510	Reporting Results
FAIS 610	Quality Control

Source: ICAI

3. Statement of the problem

This study focuses on the role of forensic accounting in detecting fiscal frauds. The review of literature highlights the history, conception, and various issues like augmenting financial crimes, cybercrimes, the regulators' inability to detect security, growing complexities of fraud, and judicial controversies. There's a growing demand for professed and qualified forensic accountants to dissect financial data to look for substantiation of crimes. These professionals may testify in court cases as expert substantiations. This study intends to concentrate on assaying whether forensic accounting can give quality fiscal reporting and help in having better internal control system and understand the position of mindfulness of the role and applicability of forensic accounting. The previous researches revealed that there were no prescribed norms or guidelines by any nonsupervisory body or authority to regulate the conditioning of forensic accountants in India. This study discourses the Forensic Accounting norms issued by the Institute of Chartered

Accountants of India in July, 2023.

4. Objectives of the study

- To analyze the role and effectiveness of forensic accounting in fraud detection and investigation
- To understand the various standards issued by ICAI in light of rising issues in relation to financial crimes
- To know the prospects of forensic accounting in Karnataka in context of growing multiple frauds
- To understand the various services offered by Forensic Accountants in Karnataka

5. Hypothesis of the study

- H0: There is no significant relationship between the tools used by Forensic Accountants and the extent to which Forensic Accounting plays a role in prevention of frauds.
- H1: There is a significant relationship between the tools used by Forensic Accountants and the extent to which Forensic Accounting plays a role in prevention of frauds.
- H0: There is no significant relationship between the services provided by Forensic Accountants and skills possessed by Forensic Accountants.
- H1: There is a significant relationship between the services provided by Forensic Accountants and skills possessed by Forensic Accountants.
- H0: There is no significant relationship between the experience of Forensic Accountants and the level of skills possessed by them.
- H1: There is a significant relationship between the experience of Forensic Accountants and the level of skills possessed by them.

6. Research methodology

Primary data are those that are collected for the first time and are unique in nature. Secondary data are those that have formerly been collected and reused through the statistical process by a third party. The quantitative method was used to collect primary data whereby data was collected with the help of a structured questionnaire on “A Comprehensive Study on the Role of Forensic Accounting in Detecting Financial Frauds with reference to Karnataka.” The secondary data were collected from the published sources like journals, case studies and websites through the internet. A well-structured questionnaire was distributed among 150 respondents who were substantially practicing Chartered Accountants or Forensic Accountants within various parts of Karnataka through circulation of Google forms. Simple Random Sampling technique was adopted to collect data from the Chartered Accountants. Simple random sampling is a sampling system in which each item of the population has an equal probability of being selected for the sample The investigator doesn't make a preference in the selection of items, therefore barring any personal bias. The tool used for the analysis of the study is Chi-Square Test and

Hypothesis 1

H0: There is no significant relationship between the tools used by forensic accountants and the extent to which forensic accounting plays a role in prevention of frauds

H1: There is a significant relationship between the tools used by forensic accountants and the extent to which forensic accounting plays a role in prevention of frauds

Significance	Chi-square	Degrees of freedom	Critical value	P Value
0.05	62.61	16	26.3	0.012

0.05	66.35	16	26.3	0.004
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Interpretation

The above table shows the hypothesis testing to find out the relationship between the tools used by forensic accountants and the extent to which forensic accounting plays a role in prevention of frauds. It can be observed that chi-square value is 66.35 and chi-square critical value is 26.30. The chi-square value is greater than chi-square critical value and the P value (0.004) is lesser than 0.05. Hence, the null hypothesis is rejected. Therefore, there is a significant relationship between tools used by forensic accountants and the role of forensic accounting in detecting frauds. Forensic Accountants are financial experts who are responsible for investigating financial irregularities and potential fraud within an organization. They are essential in identifying fraudulent activities, gathering evidence for legal action, and assisting organizations in preventing fraud in the future. The tools employed by forensic accountants are essential for fulfilling these duties efficiently.

Hypothesis 2

H0: There is no significant relationship between the services provided by Forensic Accountants and the skills possessed by Forensic Accountants

H1: There is a significant relationship between the services provided by Forensic Accountants and the skills possessed by Forensic Accountants

Interpretation

The above table shows the hypothesis testing to find out the relationship between the tools used by forensic accountants and the extent to which forensic accounting plays a role in prevention of frauds. It can be observed that chi-square value is 62.61 and chi-square critical value is 26.30. The chi-square value is greater than chi-square critical value and the P value (0.012) is lesser than 0.05. Hence, the null hypothesis is rejected. Therefore, there is a significant relationship between the services provided by Forensic Accountants and the skills possessed by Forensic Accountants. Forensic accountants are highly trained professionals who specialize in the investigation of financial irregularities, frauds, and other forms of financial misconduct. Their services are directly linked to their specialized skillset, which includes the development of problem-solving abilities to navigate the complexities of financial misconduct and the development of effective investigative strategies. Additionally, forensic accountants must possess communication skills to effectively communicate complex financial findings. As a result, the services provided by forensic accountants are directly affected by the specific skills and expertise they possess.

Hypothesis 3

H0: There is no significant relationship between the experience of forensic accountants and the level of skills possessed by them

H1: There is a significant relationship between the experience of forensic accountants and the level of skills possessed by them

Correlation

	Skill	Experience
Skill	1	
Experience	0.143367	1

Regression statistics

<i>Regression Statistics</i>	
Multiple R	0.143367
R Square	0.020554

Adjusted R Square	0.013936
Standard Error	1.522563
Observations	150

ANOVA

	<i>Df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	7.2	7.2	3.1059	0.0800754
Residual	148	343.09	2.3182		
Total	149	350.29			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	3.49	0.258	13.498	0.00001	2.9819	4.0047	2.9819	4.00472
Experience	0.20	0.113	1.76235	0.08008	-0.02426	0.42426	0.02426	0.42426

Interpretation

The above table represents the hypothesis testing to find out the relationship between the years of experience of forensic accountants and the level of skills possessed by them. It is observed that the P Value (0.08008) is greater than 0.05. Hence, the null hypothesis is accepted. Therefore, there is no significant relationship between the experience of forensic accountants and the level of skills possessed by them. Even those without extensive experience in a field such as forensic accounting can build a strong skillset if they are provided with the necessary opportunities and resources. The development of a strong skillset is dependent on a variety of factors, such as education, training, commitment, and ongoing learning. Experience can be a valuable asset, however, it is not the only way to acquire valuable skills. By actively seeking out opportunities for education and development, individuals can develop a strong skill set in any field.

7. Findings and suggestions

Majority of the respondents provide all financial fraud control services such as identification of hidden assets, litigation support and dispute management, compliance with laws and Regulations, and improvement of credibility of Financial Statements. It was observed that there is no significant relationship between the experience of forensic accountants and the level of skills possessed by them. From the analysis, it is shown that there is a significant relationship between the services provided by Forensic Accountants and the skills possessed by Forensic Accountants. 69.33% of the respondents agree to a very great extent that forensic accounting plays a significant role in detection of financial crimes and frauds. Finance department is most likely to be prone to frauds. This may be due to several reasons such as, access to financial resources making it easier to manipulate, weak internal control systems and lack of supervision. Majority of the respondents agree that forensic accounting helps in identifying weaknesses in internal control system. Forensic accountants are skilled at evaluating and testing these controls to identify vulnerabilities and areas where improvements are needed. It is important to have the knowledge and incorporate all possible techniques in order to make forensic accounting more effective. Inability to simplify complex information is the main factor making forensic accounting ineffective. To overcome the

challenges of complex information, effective forensic accountants possess not only strong analytical skills but also the ability to filter complex financial information into clear, concise, and understandable reports, visual representations, and oral presentations. Simplifying complex information is a vital aspect of their role, ensuring that their findings have the intended impact on legal proceedings, investigations, and organizational decision-making.

Based on the above findings, following suggestions were given: Ensure the security of any organization's financial departments in order to protect against a variety of risks and fraudulent activities, such as fraud and embezzlement is essential. This can be achieved by restricting access to confidential financial information based on job roles, providing acceptable training to employees on the detection of scams and fraudulent activities, regularly reconciling financial records, developing a robust internal control system, enforcing data encryption strategies, and conducting thorough background checks or verifications of invoices, payments, and other financial documents. Furthermore, it is recommended that existing accountants receive fresh training on forensic accounting techniques. Forensic accountants should invest in advanced data analysis tools and software to identify patterns of financial fraud or irregularities. To stay abreast of the latest trends and ways, forensic accountants must engage in ceaseless training and professional development, analyze, and publish successful forensic accounting investigations, and disseminate information and best practices to the public.

8. Conclusion

“It is by doubting that we come to investigate, and by investigating that we recognize the truth.” – Peter Abelord

In this study, we recognized the role of forensic accounting in detecting frauds in Karnataka. The study outlines the different kinds of fraudulent activities and how forensic accounting plays a significant part in reducing the occurrences of these frauds. This study concludes that most of the of the Chartered Accountants providing financial fraud control services provide all the mentioned services like identification of hidden assets, action support and dispute management, compliance with laws and Regulations, and enhancement of credibility of fiscal Statements. There are multiple motives of companies that commit financial statement frauds such as to beat the expectations of the stock market, to avoid government taxes and dividend payouts, and to attract foreign investments. Hence, forensic accounting becomes more important as time and technology advances in order to stop companies from finding new ways to commit frauds. To improve forensic accounting in Karnataka and across India, it's recommended that existing accountants and audit professionals are further trained in forensic accounting techniques, as well as investing in advanced data analysis tools and software to identify patterns of financial fraud. In order to make Forensic Accounting effective, they've incorporated tools such as data mining, general audit techniques (including analysis of fiscal Statements), and statistical, mathematical, digital and electronic techniques. There's considerable room for advancement in forensic accounting. There are a number of areas that can contribute to the advancement of forensic accounting, including, technological integration to enhance efficiency and precision, continued education and training, and visionary risk evaluation and prevention measures to reduce fraud.

The study was conducted to understand the knowledge level of farmers on financial institutional funding schemes for implementing mechanization in paddy cultivation in the Kuttanad Taluk. As part of the study, we collected samples across the taluk, from which we found that awareness of the farmers on the institutional funding schemes for the mechanization was comparatively less. The familiar financial schemes which they were aware of farmers were not supported for the mechanization. On the government side, they are trying to implement mechanization schemes by forming schemes which not only provide financial opportunities but also share information and training to the farmers which are often missed by the general public for various reasons. The direction of awareness about the financial schemes for improving mechanization and increasing their technological capability is not reaching the farmers who are fully invested in making their primary earning from this sector. From our findings, we see that the accessibility to the source of and knowledge on the financial schemes should be improved by using which are mostly reaching out to the people and in an easy format for making them understand the benefits of the new developments in the farming sector. The study also considers the study of financial schemes which can be used to implement mechanization practices at the ground level.

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