



Importance of System Audit (IT) in Forensic Audit and Fraud Detection

Prof. Jyoti Singhal

Assistant Professor in Department of commerce Inmantec college Ghaziabad

ABSTRACT-

In this digital age technology is making a flutter in all field and has contributed to globalization. Due to use of this IT has resulted in the spurt in technological crime and also contributed in detecting these crime and taking necessary steps to remove them. Nowadays everything has shifted to a digital system. The development of technology is getting faster and more sophisticated. By using information even fraud occurs by using technology. Fraud is something that is planned and carried out by an individual or a group that will benefit from other parties who may be harmed. Forensic accounting and investigative auditing have a very important role in assisting the disclosure of fraud cases that occur. The purpose of this study is to understand how the role of information systems in the practice of forensic investigations can be applied to detect fraud.

KEYWORDS: information technology, forensic audit, fraud detection.

INTRODUCTION:

There has been a rapid increase in the number of fraud and crime case. Despite statutory audit being conducted, many world wide organized corporate scams such as Enron and world com are some classic example which have brought requirement of forensic audit upfront. Some of the Indian example for the same will include the corporate fraud such as PNB scam, spectrum scam, common wealth games, Satyam scam etc, which were so sophisticated and well resource by manager, entrepreneur, politician and big parties standing behind it. So it has become very important to introduce a system of forensic audit into the

Indian scenario so that the interest of the shareholder and society can be protected. Business, financial and investment decision must be based on true and accurate financial reporting information in order to be correct and successful. Forensic audit report can have a strong impact on the business or any organization. Forensic audit plays a very important role in the investigation of the financial crimes that take place. In the recent decades, the world's biggest financial crimes and global financial damages have led to the emergence of forensic audit. So now a days there is a need forensic auditor at large. The primary focus of forensic audit is to look after the specialized approach and methodology to recognize fraud and to investigate into it. Overall, the fact that number of frauds has increased in the recent years, has motivated the organizations to seek new directions and ways to combat with the

Activities with the different types of scams that are taking place. Forensic auditing is now becoming a developing stage in India, it is currently in great demand because of its emergence in investigating and preventing fraud, financial crime etc.

Well known forensic auditing firms in India include:

1. Earny stand young
2. PWC
3. KPMG
4. Delloite

In the current era scams are nothing novel. Some scams which create da stir in India over the period include:

1. Rotomac bankscam
2. Punjab national bank scam
3. Ketan Parekh scam
4. Harshad Mehtascam
5. Fodderscam2012

6. 2Gspectrum
7. Satyam scam

WHAT IS FORENSIC AUDIT:

Forensic audit is a system that investigate the financial evidence along with technology and legal proceedings. Although this concept originated in the U.S.A and is being now adopted by many countries and is also at the initial stage in India.

Forensic audit refers financial fraud investigation which include depth analysis and serving an evidence in court to prove or disprove the same.

So forensic audit is there view, examination, analysis and evaluation of companies financial statement to find out the evidence which will be presented in the court as an evidence or in any other legal procedure.

Companies choose forensic audit instead of a regular internal audit as there will be a chance that evidence will be used in legal proceedings. Now a days forensic auditor are hired by any institution and organizations to find out any criminal conduct or prevention of any fraudulent activity to take place.

TYPES OF FORENSIC AUDIT

Following are the Types of Forensic Audit:

(1) Vendor Frauds:

Vendor frauds are also known as payment frauds which refers to act of falsely creating or diverting the payments. A vendor fraud can be committed by an individual within the organization such as employees

Or individuals outside the organization such as suppliers with help of Internal employees.

Vendorfraudschemesmainlycanbedividedinto2groups:

- Frauds committed by Internal organization' s Employees.
- Fraud that involves collection between the vendors and defrauded organizations employees.

In simple terms an employee invents fictitious vendors and at the same time submit bills from the "vendor" to their employer for doing the payment.

(2) Bankruptcy:

Bankruptcy is a legal process through which people or other entities who cannot repay debts to creditors may seek relief from some or all of their debts. Main points in this process are"

- Bankruptcy Fraud is a white-collar crime.
- Bankruptcy statutes involve concealment of asset
- Concealment or destruction of document conflicts of interest.
- False statement, fraudulent claims,

(3) Securities Fraud:

Main types of securities frauds involves:

- Stocks market fraud, investment fraud, fraud in commodities markets that induces investors to make purchase or sale decision on the basis of false information, violation of the securities laws.
- Securities fraud include embezzlement, stock manipulation, misstatement on public company's financial reports

(4) Financial Identity Theft:

Financial Identity Theft when some one uses another person's personally identifiable information (PII) for the financial gains. Financial identity theft is a crime where there is more at risk than your money, such as your creditworthiness and your reputation with future lenders and employers.

(5) Insurance Fraud:

Insurance fraud is a fraud which is an illegal act on the part of either the buyer and seller of an insurance contract. Insurance fraud from the issuer include:

- Selling policies from the non-existent organization,
- Fail to submit the premium, to churn up the policies to create more commissions.

- Giving False assurance in Policies.

(6) Debt Default:

A debt default takes place when the borrower fails to pay his or her loan at the time it is due. The time a default happens varies, depending on the terms agreed upon by the creditor and the borrower. Some loans default after missing one or more monthly payments. In such an event, serious repercussions can happen, such as getting a poor credit rating.

SCOPE OF AN AUDIT VS FORENSIC AUDIT:

Auditing is conducted by a firm with the objective of checking the fairness of the accounts that are been drawn up by the business for the particular financial year. Auditing is the independent examination of financial information of any entity whether profit oriented or not. When such examination is conducted with a view to expressing an opinion.

This shows that auditor only gives an opinion regarding the same and does not conduct an depth analysis and it may not necessarily be true at all times. In such case forensic audit become very important for any organization. Forensic audit is also known as frauds audit as the detective accounting is a combination of both forensic science and accounting. American institute of certified public accountant define forensic audit is the ability to identify, collect and analyses and interpret financial and accounting information and apply the same and information to a legal dispute and render an opinion.

DIFFERENCE BETWEEN FORENSIC AUDITOR AND AN AUDITOR

1. An auditor is required to have a degree of chartered accountant but a forensic auditor must possess the professional and specialized skills to detect , understand and analyses any issue in the action of the firm. An chartered accountant would need to acquire additional qualification and expertise in forensic accounting and education such as: CFAP, CBFA in forensic accounting.

2. An auditor aims to ensure no substantial misstatement in financial statement but a forensic auditor is to identify and investigate financial fraud, embezzlement and other financial irregularities.

RESEARCH METHODOLOGY

The Methodology of data collection involved different sources like books, journals, websites as well newspaper and research articles. The study is descriptive as, secondary information was collected. Thus this research focused on the functionality of technology in forensic accounting. Researches in this field have not emphasized the inter dependence of LT with forensic accounting which this research highlights the same.

RESEARCH OBJECTIVE

1. To find out the role of information technology in forensic audit and fraud detection especially in corporate sector.

LITERATURE REVIEW

Gojko Grubor (2013) Financial frauds have existed in a much digitalized world. This research emphasized on the training give to fraud examiners in electronic environment and conducted fraud examination in an excel file with the aid of forensic tools. It noticed the various difficulties faced while tracing fr-aud. Dr.ChakrabartiM.(2014) the complication and drawbacks of forensic accounting. It was based on the secondary information and it was found that there was a shmiage of forensic accountants in India. Thus making forensic accounting compulsory can prevent frauds and scams. Also the SEBI has taken measures to implement this method so as to improve the disclosure of financial information. Keams(2015) Draws attention to the importance of forensic accounting and the technological software's to obtain and examine the data. This is a profession which will continue to grow but there is lack of awareness in this field of accounting because of the paucity courses offered in colleges Dhami,S.(2015).Analyzed the significance of this system in India for an investigator and the society. It also analyzed the effectiveness of forensic accounting in the area. Besides this it analyzed the perspective of forensic accounting in India, and felt that adopting technology could increase the chances of frauds. Peterson, O. (2015).Conducted a study where the researcher reviewed the studies conducted on forensic accounting and the frauds.

The awareness about this concept is growing. The research in this field will depend on traces of fraud by perpetrators who usually leave no traces of frauds if they have thorough knowledge of auditing and accounting techniques. Yahaya, L., Abba, M. and Suleiman, N. (2018). Analyzed forensic accounting procedures and whether they help prevent fraud among companies listed in the Nigeria. Knowledge of forensic accounting help to prevent frauds among companies. The study also highlighted that this procedure can be advantageous to all the stake holders of the organization. Akin bowale (2018) In this research examined the influence of I.Ton forensic accounting byway of a survey. This use of I.T speeds up the process of detecting financial frauds and crimes. This quick analysis leads to reduction in the time taken which otherwise would be more if analyzed manually. Besides this method of detection contributes to accuracy. Thus it was suggested that more firms should create a digital environment when considering implementing forensic

accounting. Ejike,(2018)In this research focused on the need of forensic accounting and the obstacles that are encountered by the forensic accountants in the study area including digital crimes.

It was suggested that in order to create interest in the field of forensic accounting government and professional bodies should take active part. Rechtman (2020) Focuses on the reliance LT and argues that this is vital in this field of accounting especially since this system aids the forensic accountants to evaluate the various data sources and manage them through critical analysis.

FINDINGS AND SUGGESTIONS

- Computer forensics like digital surveillance, legal hacking, encryption cracking are some techniques used by forensic experts for detecting financial crimes.
- Fraud detection procedures become more lucid with LT.
- India has been lacking behind in this field and to overcome this institutes like the ICAI have been introducing courses in this area so as to enlighten the youth on this subject.

This field had resulted in developing more demand for forensic accountants.

CONCLUSION

Forensic audit clubbed with technology is becoming important and can prevent frauds. The strain to keep up performance levels as jobs could be at stake are forcing many to commit these crimes. Also bankruptcy has become rampant leading to slow down the economy and major tour operators like Thomas Cook UK, Cox And Kings, clothing brands like forever 21 have filed for bankruptcy. Although it is inevitable to eradicate frauds completely but computer forensics aid in not only identifying them but also gathering evidence for the same as a wide amount of electronic data is stored.

Thorough examination of financial statements and adoption of forensic procedures can prevent frauds and alter evidence. Technology in this field aces and speeds up the procedure of detection.

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