

# [In forensic accountants generally have to work, crumbley,](https://assignbuster.com/in-forensic-accountants-generally-have-to-work-crumbley/)

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In this chapter the researcher to focused on literatureand views of other Authors bringing out a broader understanding of the subjectmatter. This is done in order to prepare for data collection and analysis afterwhich we should be able to come out with a well thought and informed conclusionand recommendations. 2. 1 WHAT IS FORENSICACCOUNTINGMauriceE.

Peloubet is ascribed with developing the term forensic accounting in his1946 essay “ Forensic Accounting: Its Place in Today’s Economy.” By the late1940s, forensic accounting had demonstrated its worth during World War II; however, formalized procedures were not put in place until the 1980s when majoracademic studies in the field were published, Rasey, (2009). Since the 1980s insome Western countries, particularly in the USA, a new profession in the fieldof accounting and auditing has emerged. This profession identifies a fieldcomposed of accounting, auditing, and investigative skills, Ozkul and Pamukc, (2012). Forensic accounting is the specialty area of the accountancy profession whichdescribes engagements that result from actual or anticipated disputes orlitigation.

“ Forensic” means “ suitable for use in a court of law,” and it is tothat standard and potential outcome that forensic accountants generally have towork, Crumbley, Heitger and Smith, (2005). Forensic accounting is recognized asa particular form of professional expertise and endowed with specificattributes; the recognition comes from possessing a formal certification inforensic accounting which provides symbolic value, Williams, (2002).  Forensic accounting is a science dealing withthe application of accounting facts and concepts gathered through auditingmethods, techniques and procedures to resolve legal problems which requires theintegration of investigative, accounting, and auditing skills, Arokiasamy andCristal, (2009; Dhar and Sarkar (2010). Stanbury and Paley-Menzies (2010) statethat forensic accounting is the science of gathering and presenting informationin a form that will be accepted by a court of jurisprudence againstperpetrators of economic crime. Hopwood, Leiner, and Young (2008) argued thatforensic accounting is the application of investigative and analytical skillsfor the purpose of resolving financial issues in a manner that meets standardsrequired by courts of law. Howard and Sheetz (2006), views that forensicaccounting is the process of interpreting, summarizing and presenting complexfinancial issues clearly, succinctly and factually often in a court of law asan expert.

It is concerned with the use of accounting discipline to helpdetermine issues of facts in business litigation, Okunbor and Obaretin, (2010). Degboro and Olofinsola (2007) noted thatforensic investigation is about the determination and establishment of fact insupport of legal case. That is, to use forensic techniques to detect andinvestigate a crime is to expose all its attending features and identify theculprits. Forensic accounting is a discipline that has its own models andmethodologies of investigative procedures that search for assurance, attestation and advisory perspective to produce legal evidence. It is concernedwith the evidentiary nature of accounting data, and as a practical fieldconcerned with accounting fraud and forensic auditing; compliance, duediligence and risk assessment; detection of financial misrepresentation andfinancial statement fraud, Skousen and Wright, (2008); tax evasion; bankruptcyand valuation studies; violation of accounting regulation, Dhar and Sarkar, (2010).

Singleton and Singleton (2010), said forensicaccounting is the comprehensive view of fraud investigation. It includespreventing frauds and analyzing antifraud control which includes the gatheringof nonfinancial information. Bhasin (2007) noted that the objectives offorensic accounting include: assessment of damages caused by an auditors’negligence, fact finding to see whether an embezzlement has taken place, inwhat amount, and whether criminal proceedings are to be initiated; collectionof evidence in a criminal proceedings; and computation of asset values in adivorce proceedings. He argues that the primary orientation of forensicaccounting is explanatory analysis (cause and effect) of phenomenon includingdiscovery of deception (if any), and its effects introduced into the accountingdomain. According to Bhasin (2007), forensic accountants are trained to lookbeyond the numbers and deal with the business realities of situations.

Analysis, interpretation, summarization and the presentation of complexfinancial business related issues are prominent features of the profession. Hefurther reported that the activities of forensic accountants involve: investigating and analyzing financial evidence; developing computerizedapplications to assists in the analysis and presentation of financial evidence; communicating their findings in the form of reports, exhibits and collectionsof documents; and assisting in legal proceedings, including testifying incourts, as an expert witness and preparing visual aids to support trialevidence. In the same vein Degboro and Olofinsola (2007) stated that forensicaccountants  provide assistance ofaccounting nature in a financial criminal and related economic mattersinvolving existing or pending cases as specified by the Alliance for Excellencein Investigation and Forensic Accounting (Alliance) of Canada: assisting inobtaining documentation necessary to support or refute a claim; review of therelevant documentation to form an initial assessment of the cases and identifyareas of loss; assistance with the examination for discovery and theformulation of questions to be asked regarding the financial evidence; attendance at the examination from discovery to review the testimony; assistwith understanding the financial issues and to formulate additional questions; reviewing of the opposing expert’s damaging report, and reporting on both thestrengths and weaknesses of the position taken; and attendance at trial, tohear the testimony of the opposing expert and provide assistance withcross-examination.

Gray (2008) reportedthat the forensic accountants investigation include identification fraud. Gottschalk (2010) stated that the focus of forensic accounting is on evidencerevealed by the examination of financial documents. The evidence collected orprepared by a forensic accountant may be applied in different contexts. According to Curtis (2008), forensic accountants are essential to the legalsystem, providing expert services such as fake invoicing valuations, suspiciousbankruptcy valuations, and analysis of financial documents in fraud schemes. These forensic accountants calculate values, draw conclusions and identifyirregular patterns or suspicious transactions by critically analyzing thefinancial data, Arokiasamy and Cristal, (2009). It provides an accounting analysisto the court for dispute resolution in certain cases and it also provides thecourt with explanation to the fraud that has been committed. That is whyforensic accounting may play a vital role in detecting and reducing accountingfrauds in the business sector.  In thisconcept, forensic accountants provide an account analysis to determine thefacts necessary to resolve a dispute before it is brought before the court orthe lawsuit process takes its course, Ozkul and Pamukc, (2012).

The job offorensic accountants is to catch the perpetrator and fraud occurring in thecompanies per year. This includes tracing money laundering and identity theftactivities as well as tax evasion. Insurance companies hire forensicaccountants to detect insurance frauds such as arson, and law offices employforensic accountants to identify marital assets in divorce cases, Weygandt, Kieso, and Kimmel, (2008).

2. 2 Definitions of FraudFraudis very difficult to define. It means different things to different personswith no definite  and worldly accepteddefinition. Okafor (2004) , Singleton et al(2006) and Albrecht et al(2012, p.

6)stated that fraud is a generic term and embraces all the multifarious meanswhich human ingenuity can devise, which are resorted to by one individual toget advantage over another in false representation. According to Anyanwu(1993), fraud is an act or course of deception, deliberately practiced to gainunlawful or unfair advantage; such deception directed to the detriment ofanother.  Accounting fraud is an act ofknowingly falsifying accounting records, such as sales or cost records, inorder to boost the net income or sales figures; accounting fraud is illegal andsubjects the company and the executives involved to civil lawsuits, Arokiasamyand Cristal, (2009).

Company officials may resort to accounting fraud toreverse loss or to ensure that they meet earning expectations from shareholdersor the public. Fraud is to create a misjudgment or maintain an existingmisjudgment to induce somebody to make a contract Arzova (2003). Fraudstersde? nitely leave traces, and experienced auditors could ? nd the fraud and thefraudster by tracking traces Arzova (2003).

2. 3 TYPES OF FRAUDTwotypes of fraud are committed in business Bozkurt (2003) which are personal useof business resources that is, against the entity and drawing up ? nancialstatements of the business falsely( for the business). Examples of frauds thatemployees commit to bene? t themselves are given by Bozkurt (2003) as follows, embezzlement money, stealing the cheques of business, tampering the bankrecords, creating ? ctitious debts and making payments done, creating ghostsuppliers and having payments made in their favor, inventory theft, creatingghost employees and embezzling their salaries, manipulating the overtime periodsand obtaining extra payment. ACFE calls it occupational fraud  whereby an individual misuses or misapplies anorganization s resource for personal gains. In this type of fraud, the businessis the victim.  2. 4 THE FRAUD TRIANGLE ANDREASONS WHY EMPLOYEES COMMIT FRAUD Increasein the events of fraudulent acts has led to great importance attached to theinitial detection of fraud, Enofe, Okpako and Atube, (2013).

There are two mainways to detect frauds: (a) detection by chance and (b) conducting a proactiveresearch and encouraging initial identification of symptoms, Enofe, Okpako, andAtube, (2013). Identifying the occurrence of the cases of fraud is verydifficult, Karwai, (2002). According to, Karwai, (2002), frauds perpetrated byorganizations in modern day usually involve complex web of conspiracy anddeception that often mask the actual cause. Whenbusiness frauds are analyzed, it is established that three components cometogether when committing white collar crime. These are pressure, opportunity, and justi? cation that forms the fraud triangle.  2.

4. 1Pressure FactorsBozkurt(2003) states that pressure factors could be grouped into three: Pressureswith ? nancial content, pressures stemming from bad habits, pressures relatedwith job pressures with ? nancial contents generally show up when people are inneed of cash and these are: Itching palm and greediness Desire to live well High amounts of personal debts High amounts of health expenditures Unexpected ? nancial needs 2. 4. 2 Opportunity FactorsBozkurt(2003) states the opportunity factors are the third component of the fraudtriangle. They directly involve top management and owners of the business inparticular. An effective way of decreasing employee frauds is to create anInternal Control System. Pertinent issues when instituting the system are as below: A healthy internal control environment A proper accounting system Weak moral policies Undisclosed contracts made with third parties and partners Incapability to assess the quality of the job employees performed Absence of a well-disciplined environment in which fraudsters will be punished Weakness of the information ? ow among employees within the business Ignorance, indifference, and inabilities of top management 2. 4.

3  Efforts to justify fraud /RationalizationBOZKURT(2003) states that the third component of the fraud triangle is fraudster aredeveloping defense mechanisms in order to justify his/her action. Some effortsof the fraudsters to justify themselves and the excuse they made up are givenbelow: I had borrowed the money, I would pay back This is in return for my efforts for the business, the organization owes it to me. Nobody has suffered as a result of this I have taken the money for a good purpose I did not know that this was a crime Business had deserved this Since business evades tax, I have taken something which was already mine 2. 5 SKILLS SET OF AFORENSIC ACCOUNTANTSeveralopinions on the skills forensic accountants are available. Harris and Brown(2000) while investigating the qualities of a forensic accountant identifiesspecialized skills and abilities they should possess. They found that aforensic accountant should be conversant with civil and criminal law.

Also, they stressed the need forunderstanding of court room procedures and expectations, investigative skills, creative thinking as well as clear and precise communication skills.  According to Grippo and Ibex (2003), the mostimportant skills of a forensic accountant arise from experience in accounting, internal controls, auditing, taxation management, interpersonal relationships, business operations and communication. Competencies and skills required by aforensic accountant have been identified by DiGabriele (2009) and includedeductive analysis ability, creative thinking skill, and unstructured problemsolving competence, investigative flexibility, and analytical proficiencyincluding oral communication ability, written communication ability, specificlegal knowledge and good composure.

In a study conducted by Davis, Farrell andOgilby (2010), on the features and skills of a forensic accountant; the views ofattorneys, academics and CPAs were sought on the basic skills that a forensicaccountant should possess. The results arrived at showed that a forensicaccountant should be analytical, detailed – oriented, ethical, responsive, insightful, persistent and sceptic.  Ghosh and Banerjee (2011) identified three fold- approach of skillsrequired by a forensic accountant to include the base, middle and top layer.

The base layer comprises mainly accounting knowledge. The middle layer has todo with knowledge in the fields of auditing, internal controls, risk assessmentand fraud detection. While at the top layer a strong knowledge of the legalenvironment is required including a strong communication skill. Based on theirresearch, a forensic accountant is expected to have competence in a broadspectrum of disciplines including accounting, law, auditing, criminology, information technology and communication skills. Knowledge and skills requiredin forensic accounting include the following: Investigative skills, research, law, quantitative methods, finance, auditing, accounting, and law enforcementofficer insights, Hopwood, Leiner and Young, (2012).

2. 6 Forensic Accountant versusTraditional AccountantTheforensic accountant applies reliable principles and methods to sufficient factsor data and typically needs expertise and skills in private investigation and accounting; while on the other hand, there is no such necessity in the traditionalaccounting space, Hopwood, Leiner and Young, (2012). Forensic accountants sharesome goals similar to traditional accountants though they have different roles, knowledge and skills. Moreover, traditional auditing has a focus on erroridentification and prevention while forensic accounting involves fraudidentification Gray, (2008). Traditionalauditing makes use of techniques of sampling to discover unintentional errorsusually caused by weaknesses in internal controls which occur at regularintervals. On the other hand, intentional errors (fraud) by humans can onlyoccur in few transactions, hence forensic accounting methods use fullpopulations where possible Albrecht and Albrecht, (2002).

As a result of largevolume of data that are required for forensic analysis, it is usually done withcomputer with the WorldCom fraud discovery being a typical example of detectionusing computer technology, Lamoreaux, (2007). A forensic accountant carries outinvestigation on specific allegations. Hence, he has much time to investigateand analyze thoroughly specific fraudulent financial issues with emphasis ofusing such as evidence in a law court in case of dispute, Albrecht andAlbrecht, (2009), while the audit carried out by a traditional auditor isgeneral in nature. According to Milucky and Mac (2013), a traditional audit iscarried out on general financial matters (that means the auditor considers allissues relating to accounting). A forensic accountant is employed or appointedby organizations to resolve allegations and detect or prevent fraudulentactivities suspected or envisaged in the organization. Thus, it is not a normalaudit but audit which may or may not follow auditing procedures. Millichamp(1990), state that the statutory audit is a compulsory audit which ensures thatfinancial statements are in line with GAAP.

Zimbleman et al. (2012) states that, such audit is a proactive auditwhich goes beyond normal audit procedures. A traditional auditor or statutoryauditor is appointed to carry out statutory audit. The audit is usually carriedout to satisfy statutory requirements and ensure that accounts prepared are inline with GAAP.

2. 7 Why need  Forensic Accountant