

In forensic  
accountants generally  
have to work,  
crumbley,

[Business](#), [Accounting](#)



In this chapter the researcher to focused on literature and views of other Authors bringing out a broader understanding of the subject matter. This is done in order to prepare for data collection and analysis after which we should be able to come out with a well thought and informed conclusion and recommendations.

## 2. 1 WHAT IS FORENSIC ACCOUNTING

Maurice E.

Peloubet is ascribed with developing the term forensic accounting in his 1946 essay "Forensic Accounting: Its Place in Today's Economy." By the late 1940s, forensic accounting had demonstrated its worth during World War II; however, formalized procedures were not put in place until the 1980s when major academic studies in the field were published, Rasey, (2009). Since the 1980s in some Western countries, particularly in the USA, a new profession in the field of accounting and auditing has emerged. This profession identifies a field composed of accounting, auditing, and investigative skills, Ozkul and Pamukc, (2012). Forensic accounting is the specialty area of the accountancy profession which describes engagements that result from actual or anticipated disputes or litigation.

"Forensic" means "suitable for use in a court of law," and it is to that standard and potential outcome that forensic accountants generally have to work, Crumbley, Heitger and Smith, (2005). Forensic accounting is recognized as a particular form of professional expertise and endowed with specific attributes; the recognition comes from possessing a formal certification in forensic accounting which provides symbolic value, Williams, (2002). Forensic accounting is a science dealing with the application of accounting facts and concepts gathered through auditing methods,

techniques and procedures to resolve legal problems which requires the integration of investigative, accounting, and auditing skills, Arokiasamy and Cristal, (2009; Dhar and Sarkar (2010). Stanbury and Paley-Menzies (2010) state that forensic accounting is the science of gathering and presenting information in a form that will be accepted by a court of jurisprudence against perpetrators of economic crime. Hopwood, Leiner, and Young (2008) argued that forensic accounting is the application of investigative and analytical skills for the purpose of resolving financial issues in a manner that meets standards required by courts of law. Howard and Sheetz (2006), views that forensic accounting is the process of interpreting, summarizing and presenting complex financial issues clearly, succinctly and factually often in a court of law as an expert.

It is concerned with the use of accounting discipline to help determine issues of facts in business litigation, Okunbor and Obaretin, (2010). Degboro and Olofinsola (2007) noted that forensic investigation is about the determination and establishment of fact in support of legal case. That is, to use forensic techniques to detect and investigate a crime is to expose all its attending features and identify the culprits. Forensic accounting is a discipline that has its own models and methodologies of investigative procedures that search for assurance, attestation and advisory perspective to produce legal evidence. It is concerned with the evidentiary nature of accounting data, and as a practical field concerned with accounting fraud and forensic auditing; compliance, due diligence and risk assessment; detection of financial misrepresentation and financial statement fraud, Skousen and Wright,

(2008); tax evasion; bankruptcy and valuation studies; violation of accounting regulation, Dhar and Sarkar, (2010).

Singleton and Singleton (2010), said forensic accounting is the comprehensive view of fraud investigation. It includes preventing frauds and analyzing antifraud control which includes the gathering of nonfinancial information. Bhasin (2007) noted that the objectives of forensic accounting include: assessment of damages caused by an auditor's negligence, fact finding to see whether an embezzlement has taken place, in what amount, and whether criminal proceedings are to be initiated; collection of evidence in a criminal proceedings; and computation of asset values in a divorce proceedings. He argues that the primary orientation of forensic accounting is explanatory analysis (cause and effect) of phenomenon including discovery of deception (if any), and its effects introduced into the accounting domain. According to Bhasin (2007), forensic accountants are trained to look beyond the numbers and deal with the business realities of situations.

Analysis, interpretation, summarization and the presentation of complex financial business related issues are prominent features of the profession. He further reported that the activities of forensic accountants involve: investigating and analyzing financial evidence; developing computerized applications to assist in the analysis and presentation of financial evidence; communicating their findings in the form of reports, exhibits and collection of documents; and assisting in legal proceedings, including testifying in courts, as an expert witness and preparing visual aids to support trial evidence. In the same vein Degboro and Olofinola (2007)

stated that forensic accountants provide assistance of accounting nature in a financial criminal and related economic matters involving existing or pending cases as specified by the Alliance for Excellence in Investigation and Forensic Accounting (Alliance) of Canada: assisting in obtaining documentation necessary to support or refute a claim; review of the relevant documentation to form an initial assessment of the cases and identify areas of loss; assistance with the examination for discovery and the formulation of questions to be asked regarding the financial evidence; attendance at the examination from discovery to review the testimony; assist with understanding the financial issues and to formulate additional questions; reviewing of the opposing expert's damaging report, and reporting on both the strengths and weaknesses of the position taken; and attendance at trial, to hear the testimony of the opposing expert and provide assistance with cross-examination.

Gray (2008) reported that the forensic accountants investigation include identification fraud. Gottschalk (2010) stated that the focus of forensic accounting is on evidence revealed by the examination of financial documents. The evidence collected or prepared by a forensic accountant may be applied in different contexts. According to Curtis (2008), forensic accountants are essential to the legal system, providing expert services such as fake invoicing valuations, suspicious bankruptcy valuations, and analysis of financial documents in fraud schemes. These forensic accountants calculate values, draw conclusions and identify irregular patterns or suspicious transactions by critically analyzing the financial data, Arokiasamy

and Cristal, (2009). It provides an accounting analysis to the court for dispute resolution in certain cases and it also provides the court with explanation to the fraud that has been committed. That is why forensic accounting may play a vital role in detecting and reducing accounting frauds in the business sector. In this concept, forensic accountants provide an account analysis to determine the facts necessary to resolve a dispute before it is brought before the court or the lawsuit process takes its course, Ozkul and Pamukc, (2012).

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

2. 2 Definitions of Fraud Fraud is very difficult to define. It means different things to different persons with no definite and worldly accepted definition. 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 means which human ingenuity can devise, which are resorted to by one individual to get advantage over another in false representation. According to Anyanwu(1993), fraud is an act or course of deception, deliberately practiced to gain unlawful or unfair advantage; such deception directed to the detriment of another. Accounting fraud is an act of knowingly falsifying accounting records, such as sales or cost records, in order to boost the net

income or sales figures; accounting fraud is illegal and subjects the company and the executives involved to civil lawsuits, Arokiasamy and Cristal, (2009).

Company officials may resort to accounting fraud to reverse loss or to ensure that they meet earning expectations from shareholders or the public. Fraud is to create a misjudgment or maintain an existing misjudgment to induce somebody to make a contract Arzova (2003). Fraudsters do not usually leave traces, and experienced auditors could find the fraud and the fraudster by tracking traces Arzova (2003).

2.3 TYPES OF FRAUD Two types of fraud are committed in business Bozkurt (2003) which are personal use of business resources that is, against the entity and drawing up financial statements of the business falsely (for the business). Examples of frauds that employees commit to benefit themselves are given by Bozkurt (2003) as follows, embezzlement money, stealing the cheques of business, tampering the bank records, creating fictitious debts and making payments done, creating ghost suppliers and having payments made in their favor, inventory theft, creating ghost employees and embezzling their salaries, manipulating the overtime periods and obtaining extra payment. ACFE calls it occupational fraud whereby an individual misuses or misapplies an organization's resource for personal gains. In this type of fraud, the business is the victim.

2.4 THE FRAUD TRIANGLE AND REASONS WHY EMPLOYEES COMMIT FRAUD Increase in the events of fraudulent acts has led to great importance attached to the initial 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 justifi? 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 a forensic 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 a forensic 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 versus Traditional Accountant The forensic accountant applies reliable principles and methods to sufficient facts or data and typically needs expertise and skills in private investigation and accounting; while on the other hand, there is no such necessity in the traditional accounting space, Hopwood, Leiner and Young, (2012). Forensic accountants share some goals similar to traditional accountants though they have different roles, knowledge and skills. Moreover, traditional auditing has a focus on error identification and prevention while forensic accounting involves fraud identification Gray, (2008). Traditional auditing makes use of techniques of sampling to discover unintentional errors usually caused by weaknesses in internal controls which occur at regular intervals. On the other hand, intentional errors (fraud) by humans can only occur in few transactions, hence forensic accounting methods use full populations where possible Albrecht and Albrecht, (2002).

As a result of large volume of data that are required for forensic analysis, it is usually done with computer with the WorldCom fraud discovery being a typical example of detection using computer technology, Lamoreaux, (2007). A forensic accountant carries out investigation on specific allegations. Hence, he has much time to investigate and analyze thoroughly specific fraudulent financial issues with emphasis of using such as evidence in a law court in case of dispute, Albrecht and Albrecht, (2009), while the audit carried out by a traditional auditor is general in nature. According to Milucky and Mac (2013), a traditional audit is carried out on general financial matters (that means the auditor considers all issues relating to accounting). A forensic

accountant is employed or appointed by organizations to resolve allegations and detect or prevent fraudulent activities suspected or envisaged in the organization. Thus, it is not a normal audit but audit which may or may not follow auditing procedures. Millichamp (1990), state that the statutory audit is a compulsory audit which ensures that financial statements are in line with GAAP.

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

## 2. 7 Why need Forensic Accountant