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Forensic and Investigative Accounting

contents

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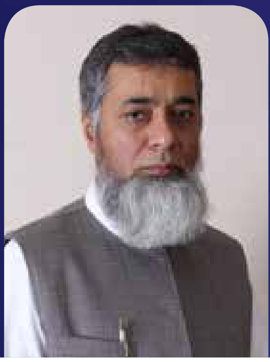
Forensic and Investigative Accounting


Time to change
Shift



Editor's Letter

Forensic accounting is one of the oldest professions on earths. In ancient Egypt the auditor was called the 'eye and ears' of the king. Today, it is the art and science of applying financial investigative techniques to matters of law.

Financial irregularity is a severe problem of concern globally. It is the major concern to developing nations. It is so endemic that fraud and corruption is gradually becoming a normal way of life. It affects private and public sector, the magnitude of public office fraud, together with the extent to which citizens are affected, calls for alarm.

No money is entirely free, every Rupiah has its legal use, and consequently misuse of any amount will impact negatively, on where it should legally be used. The effect of these can be on an organization or a whole nation. Individual or establishment affected negatively by the fraudulent or corrupt practices will want to seek redress. The problems of developing third world nations are that financial misappropriation is common in public sector in a sophisticated form, which affect a lot of citizen and in most cases perpetrators get away with the act. This is to say that, only on few instances are the nefarious act uncovered on-time, investigated, prosecuted and adequate punishment awarded for them. Consequently, many involved are left free and hence there is no deterrent from future acts.

Forensic accounting is a field of specialization that has to do with provision of information that is meant to be used as evidence especially for legal purposes. The forensic accountants investigate and document financial fraud and white-collar crimes such as embezzlement and investigate allegations of fraud, estimates losses damages and assets and analyses complex financial transaction. They are trained to look beyond the numbers and deal with business reality of the situation.

The role of a forensic accountant under contemporary conditions is very important. This is because forensic accountants, by applying accounting principles, auditing skills and investigative procedures in solving certain legal problems, help lawyers, courts, regulatory bodies and other institutions in investigating financial frauds. Therefore, in order to perform tasks efficiently and compose reports on undertaken investigation, forensic accountants must possess solid knowledge and skills in the area of accounting and auditing. Also, they must have a developed capability of verbal and written communication, capability of perceiving details and of the efficient application of investigative activities as well as a considerable degree of knowledge about information technologies in accounting and auditing procedures.

ICAP believes in promoting education as the force of the future – which cannot be other than a sustainable future – and is committed to maximizing its efforts and multiplying its partnerships for the development and deployment of this force in the cause of peace and human betterment. ICAP emphasizes the importance of the concept of lifelong learning in a rapidly changing world and looks forward to working with the international institutes offering strategic partnership degrees to provide unique options to students in pursuit of a premier professional accountancy qualification. We have to device policies that go well beyond the borders of the region. That address the creation of business models and forms of international competitiveness strategies, fulfill both growth and social and environmental challenges. It is crucial for us to ensure that these issues will remain part of our economic, social and developmental strategies. To achieve this, research, debate and policy dialogue must help us improve our understanding, and the basis for action must continuously be improved and supported.

M. Sharif Tabani, FCA

President's Page

The accounting profession has undergone radical changes due to high profile corporate debacles during 2001. The events act as catalyst in overhauling the profession resulting in enhanced corporate reporting requirements from the fold of IFAC. The period also witnessed evolution of the concept of corporate governance and its codifications in almost every country. The accounting profession remained in spotlight and a new market with a new breed of accountants — forensic accountants — has emerged.

The increasing demands in the current regulatory, legal, and business environments should stimulate accounting programs to emphasize and embrace forensic accounting. The literature review on the subject confirms that preventing fraud and uncovering deceptive accounting practices are in strong demand as companies respond to closer scrutiny of their financial activities by shareholders and government agencies. The Federal Bureau of Investigation recently estimated that white collar crime costs the United States more than $300 billion annually. Many of these crimes are difficult to identify because the perpetrators have concealed their activities through a series of complex transactions. A higher level of expertise is necessary to analyze current complicated financial transactions and events. As a result, forensic accounting has been thrown into the forefront of the crusade against financial deception as it is an application of financial skills and an investigative mentality to unresolved issues, conducted within the context of the rules of evidence.

A research conducted by Montclair State University surveyed the three major stakeholders of forensic accounting services - forensic accounting practitioners, accounting academics, and users of forensic accounting services - throughout the United States to determine whether there are differences in views of the relevant skills suggested in the practitioner literature. The results indicate that practitioners and academics agree that critical thinking, unstructured problem solving, investigative flexibility, analytical proficiency, and legal knowledge are important skills of forensic accountants and educators can use these skills as a guide to direct academic curriculum with the proper outcome objective.

The incidence of fraud is entrenched in our society. It has worsened public confidence, affected foreign investment process and dwindled public and private institutions. Generally it is believed that fraud cannot be eliminated entirely from the society. But it can be kept into manageable limits by adopting diverse strategies. Even the developed countries are doing the same to keep ever growing threat at a distance.

The anti-fraud profession is becoming a distinct discipline. The threat could effectively be tackled with more awareness, knowledge and training of the emerging field. The fraud examination course is now offered to over 400 universities in US alone and is been taught as a major course in many educational institutions in various countries. Pakistan has two anti-corruption agencies at the federal and four at the provincial level, three laws and three sets of courts. The Federal Investigation Agency (FIA) and National Accountability Bureau (NAB) both are at the Federal level and Anti-Corruption Establishments (ACEs) at the provincial level. To secure public support, the anti-corruption agencies must be seen as a constructive catalyst for change, acting in the interests of all law-abiding citizens.

Fraud, corruption and economic crimes are bleeding our coffers dry, killing local business, causing inflation, unemployment, lack of social empowerment and opportunities for self-improvement and inequitable distribution of wealth. If we are really determined to eliminate these ills, we will have to come forward to empower our people with anti-fraud education, enrich their knowledge, improve their anti-fraud skills and enlighten them all along the way to development.

Yacoob Suttar, FCA

Join the Discourse

This issue's topic is:

By Breaking the rules of the game and thinking of new ways to compete, a company Y can strategically redefine its business and catch its bigger competitors off guard. The trick is not to play the game better than the competition but to develop and play an altogether different game…
Constintinos Markides

Is it necessary to innovate the way to compete to get a competitive advantage?

Tahir Lateef, ACA (R-7385)
Karachi

Innovation is the blood of any competitive marketing. No organization can achieve sustainable growth without gaining any competitive advantage over its competitors. Marketing is the tool through the organization strive to achieve growth, increase market share and out do the competitors. In today's world when the organizations have market intelligence systems through which knowledge of customers and competitors is available to them, and with ever evolving technology, demographics and increasing number of competitors, it is imperative for the management to think of new and competitive methods to market their products. It is therefore, through competitive marketing organizations are able to gain competitive advantage, which is not possible without new, fresh, creative and out of the box ideas. Therefore without innovation an organization will not able achieve competitive advantage.

Junaid Khalid, ACA (R-7183)

Islamabad

Corporations must be opportunity (idea) grabbers and opportunity creators. An agile but calculated response to the changing environment is the key to surpass competitors. Kodak for example mis-believed that their past strategies which have earned them billions over 135 years, would still earn them hefty amounts without recognizing the fact of market-change from analog to digital media & digital cameras (innovation). Hence they failed because of wrong-direction of their strategy irrespective of their hard work. Because a strategy is the direction of flow of resources of organization to achieve an objective and if this direction is wrong even by a minor angle it can keep you thousand miles away from the target destination. Google and Amazon are trying using the UAVs (Unmanned Aerial Vehicles like drones) to deliver their customers' orders placed online, is basically an innovation. Innovation is possible only with the help of R&D and in the world of today almost 30% of the revenue must go for R&D to ensure the basic survival / competition. This R&D basically is to focus on People-Process-Technology PPT for new ideas, opportunities and hence innovation. Providing congenial environment so that NEW IDEAS (innovation) are crafted by "People" for both "Process and Technology" using a 360 degree feedback phenomenon so that new ideas are obtained, encouraged and valued. This 360 degree could be feedback ideas from customers, employees, suppliers, and other stakeholders to innovate in the Processes i.e. Input process, Output process and finally the Technology and Product itself. Both satisfied as well as disgruntled "people" can give you new ideas and hence fruits for innovation, if properly maneuvered.

Mudassar Ghulam Nabi, ACA (R-6036)

Islamabad

Playing altogether different game is possible with altogether different idea and for this one should think out of the box. One important aspect of this game is cloaking extraordinary operations & important internal information and fooling competitors so that they feel all players are being bitten with the same bug. Using fast changing technological environment, understanding of newly invented weapons for media warfare, accessibility of information about existing ideas from every nook and corner of the world, Hiring more qualified and professional workforce, having a satisfied and loyal selling team, creating a strong bond with major customers and suppliers, establishing a reliable & sophisticated management information system with innovative business intelligent tools are the main game changers, I thought.

Salman Hasan Siddiqui, FCA (R-4921)

Milan

In order to break the rules you need to master them first. The above statement is a double edged sword in the context of the current discussion. It implies that in order to compete effectively one first needs to be an expert of the current set of rules in which he is required to operate and once he achieves that level he can then move on redefining the rules of the game (by replacing the current rules with a new set of rules) that will not only give him a competitive edge but also make him a market leader.

Muhammad Kamran, FCA (R-3161)

Australia

Every business strives for competitive advantage, but only few understand what it really is and how to achieve and maintain it. A competitive advantage can be achieved by offering consumers greater value than the competitors. However, the strongest competitive advantage that cannot be imitated by others is a strong and dynamic strategy. It has been seen that normally pioneers are leaders enjoying unrivaled competitive position and there are examples of several failure attempts of trying to compete out established and renowned brands and companies. The successes are only where the new entrant has used a smart and innovative way and strategy to outweigh the competition and break the competitive advantage of market leaders. In recent times, we have witnessed the emergence of Korean company Samsung's mobile division as top of the mobile and tablets device manufacturers leaving renowned and established brands, like Nokia, Motorola, HTC and even Apple - the most innovative company in the industry, behind. The Samsung used both innovative products and innovative strategy to compete in the market and emerged as challenger brand. As a result it has captured a position where it is getting difficult for even Apple to compete with it. Therefore, though price, quality or innovation of the products are the main factors that give competitive advantage to the companies but the innovative and dynamic strategy to achieve and maintain the competitive advantage is in fact the strongest competitive advantage.

Zain Raheel, ACA (R-6920)

Daska

In today's world, where markets are truly dynamic except for a few, innovation plays a dual role. First for those enterprises which are already established, they can change the ways they are doing businesses by cost saving, reaching new localities and going international or branding. On other hand with innovation there are several ways with which even a single person can start a business which can reach global customers. Simple innovation is the most beautiful way to keep your business going or launch one and the beauty is the way it is reached. Which involves team work, appreciation and freedom of sharing ideas. So innovation not only opens new doors but also rectifies any existing flaw in the system.

Fraud Examination and Investigation:
A Practical Perspective

Zeeshan Shahid, ACA

As per the statistics presented in the Report to the Nations on Occupational Fraud and Abuse (2014 Global Fraud Study) issued by the Association of Certified Fraud Examiners (ACFE), by the time you finish reading this sentence, the world would have lost $1.8 million to fraud, and Pakistan is no exception.

Fraud ranges from an employee reporting inaccurate hours in his daily manual timesheet to a Head of State influencing the procurement process in favour of one particular manufacturer in an aircraft deal worth billions. It varies from an explicit act like forging a cheque to an act disguised as a perfectly legal manoeuvre of appointing someone the head of the premiere public accountability agency with the intent of diverting the agency focus from your activities.

The true nature and extent of fraud is vast and takes many forms; however, the most pertinent to the audience of this magazine is Occupational Fraud which involves corruption, asset misappropriation, and financial statement frauds. Much has been written about the further detailed types of frauds so these are not elaborated in this article. To share examples of how frauds and corrupt practices are conducted in Pakistan by corporations ranging from sole proprietorship firms to large multinationals to public sector enterprises would require a dedicated book. Interviews and interrogations, though part of fraud examination process are also a separate science. Instead, the concepts and practices of fraud examination and investigation in a practical context are explained which can help the reader in developing a frame of reference when approaching a fraud investigation engagement whether as part of a professional services firm, or as an employee in an organization carrying out internal investigation or special assignment.

Some Important Terms

It is important to understand that "fraud examination" is not the same thing as "forensic accounting". The 2014 International Fraud Examiners Manual issued by ACFE notes that:

> *Forensic accounting is the use of professional accounting skills in matters involving potential or actual civil or criminal litigation. The word "forensic" is defined by Black's Law Dictionary as "used in or suitable to courts of law or public debate." Therefore, forensic accounting is actually litigation support involving accounting.*

Most fraud examinations involve forensic accounting activities such as calculations of economic loss etc.

The word forensic is used casually in most instances in Pakistan although the reports may or may not be submitted as evidence in a court of law. However, the intended principle is the same that the outcome of the investigation should be fit for consideration as admissible evidence.

Fraud Examination Process

Fraud examination is a non-linear process and is based strongly on the investigator's sense of professional scepticism applied in the light of sound knowledge of related internal controls. Any of these two elements missing would result in a more efficient yet completely ineffective investigation.

A fraud examiner mostly follow the "fraud theory approach" which starts from the investigator creating a hypothesis of what might have occurred based on known facts and testing the said hypothesis through acquisition of (or connecting or integrating) new information. The examination is approached from both the perspectives of whether the fraud could have happened and whether it could not have.

The methodology is pretty straight forward:

- Analysing available data
- Creating a hypothesis
- Testing the hypothesis
- Refining and amending the hypothesis

Analysing Available Data

This is the most crucial step as it feeds into the entire investigation and governs whether the investigator would be able to form a hypothesis close to the actual incident. In small investigations involving one or two examiners working on two or three key documents such as agreements, invoices etc, the step cannot be challenging. However, when the investigation involves documentation review of hundreds and thousands of pages of information, hundreds of gigabytes of email backups, files upon files of elaborate non-financial manufacturing data, the documentation analysis process needs to be a lot more sophisticated.

The most time-trusted tool in any investigator's belt is spreadsheet-based Chronology of events and documents gathered from various sources recording each attribute of every single event, document, or transaction. Once developed, analysis of the comprehensive repository provides greater insights on the trends and clarity of how things progressed in the fraud scheme.

Different such chronologies developed in different workstream also overlap to show unique insights that is otherwise not clear from focused analysis of any single workstream. For example, we might note from work performed in HR area that an adhoc promotion/ additional charge of a certain official entitled him to become a member of the procurement committee and vote in favour of a particular vendor being investigated separately.

Once the investigator has complete view of the events and correspondence that were created during the relevant time period, only then is the investigator able to form a hypothesis of how the fraud may have been perpetrated, if at all.

The repository, in addition to creating a chronology by adding dates, need to also be enhanced to include the gist or a short summary of the event or document to provide a birds' eye view to the lead investigator. In our practical experience, these strategies have combined documentation and correspondence spanning over a decade in a manageable and usable format resulting in a much more convenient review and establishment of case patterns.

This approach helps in establishing layers in field team which would otherwise be a haphazard mess with the review being performed at the documentation analysis of the junior-most members of the team by the senior-most members of the team with the middle-tier in confusion for how to add value. The task of populating the gist based on the review of the documentation is appropriate for the middle tier to perform. In large engagements, it may not be unusual to have qualified managers or assistant managers in the middle-level tiers or even on a specific workstreams.

Another useful tool in the document analysis is the use of Computer Forensics software to perform complex document review procedures including advance keyword searches using GREP search terms. Although expensive but couple with a high-speed double-sided OCR scanner, the technological assistance can prove to be a game-changer in large scale investigations. Big data forming part of the information gathered, for example, master sales database, production electronic records, etc should also be subjected to data analysis procedures using SQL or R, if not possible through simple Excel.

However, none of the techniques will prove to be effective unless interim interventions by the lead investigation team or investigator are made periodically to review the overarching picture emerging from the analysis.

Creating a Hypothesis

This requires creative thinking. At the risk of raising a few eyebrows, the key to success is to put yourself in the fraudster's shoes. If the CEO of a multinational earns Rs. 2.5 million per month and he runs the leading corporation in its sector earning Rs. 10 billion net profit a year, his annual income is still Rs. 30 million. That can barely buy a single house in the posh localities these days. Consider on the other hand his main distributor, who is also the owner of his company; his net profit may be only Rs. 200 million, but they're all for his taking. The CEO – an employee – has to have the thought of comparison cross his mind at some point or the other. And some CEOs then may resort to self-dealing through the distributors. This may be indicated through shady distributor selection mechanisms, long-running distributor relationships, special arrangements with the distributor to transfer funds to him for services with less verifiability etc.

On a smaller scale, an allegation of undocumented production to compensate a government official may be substantiated by developing the hypothesis that perhaps the material used was shown as destroyed and written off. This could be done by forging the quality control documentation that supports the destroyed inventory.

There may be infinite number of hypotheses and it is necessary to harness one's imagination and entertain only those fitting the merits of the information initially available and as learned through documentation analysis. This is a key moment in the timeline for an investigator because moving hereon requires a decision on where to focus a team's time and energies to and eventually control the economics of the engagement so as not to imbalance the cost vs. benefit equation of the investigative process.

Testing the Hypothesis

This is the stage where the investigators perform targeted testing of the documentation and records or physical observation of processes to substantiate or refute the hypothesis. While sounding very clever, the instances quoted above in the hypothesis are all that have been successfully caught and proven fraudulent or at least executed with fraudulent intent. For example, some signatures and time recordings in the lab testing documentations were after the signing person had already left for home as per the biometric attendance system records; some documents were dated when Karachi was shut down due to an ad hoc holiday announced by the government; in a procurement transaction, the redesigned procurement committee in a high profile procurement transaction had a member who was earlier a member of technical committee that made suggestions in favour of the vendor that the said procurement committee approved. Cross-linking with HR records showed the said member served in the position which allowed him to be a part of procurement committee for only 7 days. Cross-linking the repositories of two different procurement transactions of same product showed strike contrast in the technical eligibility criteria. This was done to avoid rejection of bid of the same vendor on performance grounds.

All of this is attained after approaching the documentation review in a targeted manner with a hypothesis in mind. Practically, the above two are not isolated separate processes and a line dividing the two is rarely clear.

Refining and Amending the Hypothesis

Targeted testing may reveal circumstances which may completely change the direction of the examination. This is normal and should not cause panic for the fraud examiner. In one of our recent examination involving computer fraud, the primary suspect had virtually everything pointing towards "probable cause". However, when the hypothesis was tested, the person was revealed to be the most secured person in the entire investigation, and computer forensic software results coupled with the interviews highlighted grave irregularities at the side of the organization which was not identified by prior three non-professional inquiries conducted internally.

The process can be inefficient and it is imperative to keep all stakeholders informed of the progress and continue to gauge their appetite for further analysis. This requires skills of the investigator to communicate with the aid of dashboard reporting preferably, how the investigation is progressing in a sure-footed manner.

Communicating Results

The principles of AIDA and the seven C's as learned in Business Management and Communication obviously apply here. However, a fraud examiners' report is distinguished from any other report with one key highlighting feature: No fact unsubstantiated. All evidences in the report should be clearly organized, catalogued and presented as a support to the report. The report itself should contain minimal mental impression and conjectures which may indicate bias unless the conjecture can be reasonably be expected to be made by any other independent person.

The litmus test of an effective fraud examiners report is the fact that an independent person with no prior knowledge of the case or the subject matters discussed arrives at the same conclusion as the fraud examiner. An effective quality control process is important in large investigation to ensure this result.

There are many sub-components of the overarching summary presented in this articles such as data analysis using MS Excel, ACL, interviewing skills, dashboard reporting skills, file management, documentation flow control, evidence cataloguing etc. which are vital for an investigation to succeed. However, the broader frame of reference, if set properly, can naturally progress to include these and many additional features in a good investigator's work approach.

Understanding Financial Statement Fraud

Mudassar Ghulam Nabi
ACA, APFA, CIA, CISA, OCE

Message from Al Quran

That Allah may reward the truthful for their truth and punish the hypocrites if He wills or accept their repentance. Indeed, Allah is ever Forgiving and Merciful. (Al-Quran Sura Ahzab, 24)

Over the past few decades, multiple headline-grabbing cases of financial statement fraud at public companies have rocked the capital markets. These frauds have a negative impact on the capital markets that not only erode the trust of investors but also have a devastating impact on a company's reputation, to the point of jeopardizing its existence.

For instance, on 7 January, 2009 the Chairman of Satyam Computer Services Limited (Satyam) made some extraordinary revelations. He stated that accounts of Satyam were overstated to the tune of US$1billion related to cash & bank balances. The revelations were taken seriously not only because of the large amount involved but also because of the fact that SATYAM in Hindi language means TRUTH.

Financial statement fraud is the deliberate misrepresentation of the financial condition of an organization by intentionally misstating or omitting amounts or disclosures in the financial statement in order to deceive the users of the financial statements. These frauds are commonly referred to as "cooking the books" because the financial statements show the financial picture the fraudster wants you to see, not the actual financial position of the company. Well-known financial statement fraud cases include Bernie Madoff, Enron, Satyam and WorldCom.

A significant level of authority, as well as technical financial and accounting knowledge is required to perpetrate successful financial statement fraud schemes, thus these are typically committed by high-level management. This also makes these frauds more difficult to detect. Some indications that an organization may be susceptible to financial statement fraud include:

- An individual or small group of individuals possessing a disproportionate level of authority.
- Unusually rapid growth or profitability, as compared to other organizations within the same industry.
- Significant unusual or complex transactions.

Pressure to meet budget projections and inadequate accounting controls are the primary causes of financial statement fraud. Most financial statement frauds are committed to show a better financial picture of the Company. Often there are significant pressures from shareholders to meet earnings targets. Many companies are under tight financial covenants associated with bank debt and could be in risk of default. Most key financial executives have significant bonuses that are tied to the performance of the company, which can result in added pressure to adjust results. In addition, in industries with significant commission based payments, there is incentive for the sales staff to inflate sales to increase their personal commissions.

Frauds in financial statements are typically in following two forms:

- Overstated of Assets or Revenue
- Understated Liabilities and Expenses

Overstatement of assets or revenue falsely reflects a financially stronger company by inclusion of fictitious asset costs or artificial revenue. Understating liabilities and expenses are shown through exclusion of costs or financial obligation. Both methods result in increased equity and net worth for the company. This manipulation results in increased earnings per share or profit sharing interests, or a more stable picture of the company's financial affairs and position.

However, in ***Government contracts*** or *where the objective is **tax evasion***, just the opposite may be true:

- Assets and revenues are understated.
- Liabilities and expenses are overstated.

As government organizations are not normally meant for profit making and dependent on government budget allocations so they try to get more money for its operations, projects or contracts by relaying overstated expenses and understated revenues.

In family owned businesses, tax evasion may be a motive to commit accounting irregularities – whether it is skimming of sales revenue or whether it is matter of fiddling with expenses for personal use.

Fraudulent accounting entries always affect at least two accounts and, therefore, at least two categories on the financial statements. It is common for fraud schemes to involve a combination of several methods. The five classification of financial statement schemes are:

1. **Fictitious Revenues**
2. **Timing Differences**
3. **Improper Asset Valuations**
4. **Concealed Liabilities and Expenses**
5. **Improper Disclosures**

1. Fictitious Revenues

Fictitious or fabricated revenues involve the recording of sales of goods or services that did not occur. While doing this fraudster try to make it skipped from auditor's substantive procedures. Fictitious sales most often involve fake or ghost customers, but can also involve legitimate customers. For example, a fictitious invoice can be prepared for a legitimate customer even though the goods are not delivered or the services are not rendered. The sale might be reversed in subsequent period to conceal the fraud. Another method is to artificially inflate or alter the original invoices in accounting system to reflect higher amounts or quantities than are actually sold. To conceal these forged events one should has to conceal the second effect of the entry. One example is given here under where cash & bank are balanced & reconciled and debtors are confirmed but where the second effect gone, see;

Date	Account	Debit	Credit
01/01/01	Fixed Assets	200,000	
	Cash		200,000
01/01/01	Accounts Receivables	200,000	
	Sales		200,000
15/01/01	Cash	200,000	
	Accounts Receivables		200,000

The result of this completely fabricated sequence of event is net increase in both fixed assets and revenue. The debit could alternatively have been directed to other accounts, such as inventory or accounts payable, or simply left in accounts receivable if fraud were committed close to the year end and the receivable could be left outstanding without attracting undue attention. Another practical example of revenue fabrication is *India's largest corporate scandal*, (Satyam) where over 6000 false invoices for services never provided and also for non-existent customers have been booked in several consecutive years and remained undetected.

2. Timing Differences

Financial Statement fraud might also involve timing differences, that is, the recording of revenues or expenses in improper periods. This can be done to shift revenues or expenses between one period and the next, increasing or decreasing earning as desired. This can be achieved by dodging auditor's cutoff procedures and compromising accrual and matching principles of accounting.

a. Premature Revenue Recognition

Generally, revenue should be recognized in the accounting records when a sale is complete that is, when title is passed from seller to the buyer and criteria of revenue recognition given in IAS -18 met. Revenue is recognized prematurely where one or more conditions of the given criteria are typically not met.

b. Fabricating Project Accounting

According of IAS-11, percentage of completion method is used to recognize project revenue and expenditures, but this method is particularly vulnerable to manipulation. Managers can easily manipulate the percentage of completion and the estimated costs to complete a construction project in order to recognize revenues prematurely and conceal contract overruns.

c. **Channel Stuffing or Trade Loading**
This refers to the sale of an unusually large quantity of a product to distributors, who are encouraged to overbuy through the use of deep discounts or extended payment terms. This practice is especially attractive to industries of high gross margins, such as tobacco, pharmaceuticals, perfume, soda concentrate, and branded consumer goods, because it increase short term earning. Although orders are received, the terms of the order might raise questions about the collectability or receivables and effectively this turns the sales into consignment sales.

d. **Expense Recording in Wrong Period**
Certain expenses may be pushed into periods other than the period of their occurrence and the period in which its corresponding income was earned and recorded. This compromised matching principal of accounting and its likely reasons include meeting budget projections and goals or lack of proper accounting controls.

3. Improper Asset Valuations

Fraudulent fair value accounting, misrepresenting the facts, complexity in estimate calculations, falsifying auditors' observance of physical inventory count, forging external party confirmations, dodging substantive analytical procedures and undermining auditor's skepticism and judgment are generally required to make such type of frauds.

a. **Unrealistic Estimates**
It is often necessary to use estimates in accounting e.g. in determining residual values, useful life of depreciable assets, provision for doubtful debts, certain inventory calculations etc. Whenever estimates are used, there is an additional opportunity for fraud by manipulating those estimates.

b. **Window Dressing**
Misclassification of fixed assets to current assets or expensing out of capital expenditure is a normal practice to falsify the important ratios e.g. current ratio etc. This can be a critical concern to lending institutions that often requires maintenance of certain financial ratios.

c. **Inventory Valuation**
Inventory should be recorded at the lower of cost or market value. Failing to write down inventory valuation when market value lowers to cost results in overstatement of assets and mismatching of cost of goods sold with revenues. Other fraud methods include manipulation of physical inventory count, inflation of the unit costs used in inventory valuation and failure to issue inventory for the cost of goods sold. Computer assisted audit techniques can significantly help auditors to detect many if these inventory fraud schemes.

d. **Fictitious/Irrecoverable Accounts Receivables**
Fictitious receivables commonly arise from fictitious revenues, which were discussed earlier. Generally, accounts receivables should be reported on net realizable value – that is, the amount of the receivable less the provision of doubtful debt/ bad debts. That provision or written down value of doubtful receivables can be wrongly estimated or misrepresented.

Fraudsters commonly conceal fictitious receivables by providing false confirmation to auditors and normally have business address either a mailbox under their control or home/business address of co-conspirator. Such frauds can be detected by using satellite imaging software, business contact directory, public records, Netsurfing, physical verification etc.

e. **Fictitious/ Nonexistent Fixed Assets**
Geographically dispersed location of fixed assets, lack of internal controls, creation of fictitious documents, claiming ownership of leasehold assets (where lease is not disclosed) are the factors depicting availability of fictitious fixed assets. Bogus fixed assets can sometimes be detected because the fixed asset addition makes no business sense.

f. **Assets Valuation**
Many financial statement frauds have involved the reporting of fixed assets at market values instead of the lower acquisition costs, or at even higher inflated values with unreasonable valuations to support them. Capitalizing revenue expenditure, research costs and borrowing cost of non-qualifying assets artificially inflate fixed assets and corresponding earning per share.

g. **Assets Misclassification**
In order to meet budget requirements and loan

covenant financial ratio maintenance requirement assets may be fraudulently misclassified e.g. fixed assets reclassified as current assets etc.

h. Understatement of Assets

In some cases, as with some **government** related or regulated companies, it is advantageous to understate assets. Additional funding is often based on asset amounts. This understatement can be done directly or through improper depreciation.

4. Concealed Liabilities and Expenses

a. Liability/expense omission

Understating liabilities and expenses is one of the ways financial statements can be manipulated to make a company appear more profitable than actually is. Because income before tax will increase by the full amount of the expense or liability not recorded. It is much easier to commit than falsifying sales transactions. Missing transactions can also be harder for auditors to detect than improperly recorded ones since the missing transactions leave no audit trail.

A thorough review of all post financial statement date transactions, such as accounts payable increases and decreases, can aid in the discovery of omitted liabilities in financial statements, as can a computerized analysis of expense records. Probing interviews of accounts payable and other personnel can reveal unrecorded or delayed items too.

b. Capitalized Expenses

Capitalizing expenses is another way to increase income and assets since capitalized items are depreciated or amortised over a period of years rather than expensed immediately. As the assets are depreciated, income in subsequent periods will be understated. Famous reported financial scam in year 2002 was *WorldCom, Inc. where income was materially overstated by US$ 9 billion and operating expenses were improperly characterized as capital assets over the periods*.

5. Improper Disclosures

International Financial Reporting Standards (IFRS) and Company Laws requires that financial statements should disclose all the information necessary to prevent a reasonably discerning user of the financial statements from being misled. The notes should include narrative disclosures, supporting schedules, and any other information required to avoid misleading potential investors, creditors, or any other users of the financial statements.

Improper disclosures relating to financial statement fraud may involve the following:

a. Liability Omission

Failure to disclose loan covenants, contingent liabilities and material information affecting company's going concern.

b. Related Party Transaction

Related-party transactions are sometimes referred to as "self-dealing". There is nothing wrong with it as long as they are fully disclosed. If transactions are not conducted at arm's length basis, the Company may suffer economic harm, affecting stockholders.

c. Subsequent Events

Fraudsters typically avoid disclosing events occurred or becoming known after period end that have a significant effect on the financial statements and should be disclosed. E.g. court judgment or regulatory decisions that undermine the reported values of assets that indicate unrecorded liabilities or that adversely reflect upon management integrity. Public record searches can often reveal this misinformation.

d. Accounting Changes

Generally three types of accounting changes must be disclosed to avoid misleading the user of financial statements: accounting principles, estimates and reporting entities. Fraudster may fail to properly retroactively restate financial statements for a change in accounting principle if the change causes the company's financial statements to appear weaker. Likewise, they may fail to disclose significant changes in estimates such as the useful lives and estimated salvage values of depreciable assets, or the estimates underlying the determination of warranty or other liabilities. They may even secretly change the reporting entity, by adding entities owned privately by management or excluding certain company owned units, in order to improve reported results.

Anyone who doesn't take truth seriously in small matters cannot be trusted in large ones either. (Albert Einstein)

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The Downside

Forensic and Investigative Accounting

- Muhammad Asad Ali, ACA

Forensic and investigative accounting was designed to provide the basis that will be admissible as evidence in any adjudicating authority. The mere purpose of introducing it was to establish a method that can ensure transparency, avoid fraudulent activities and identifies the lawbreakers to be punished in a court of law.

The Report produced at the end of the investigating activity will not only quantify the damages and errors, identifies its causes as well as fixes the responsibilities. The evidence presented will be undeniable and will help the court of law to fix the responsibility or resolve the dispute amicably between the parties.

Forensic accounting broadly categorized into Litigation support, Investigation and Dispute resolution activities. Employed by Government Investigative agencies, forensic accountants, lawyers, banks, insurance and other companies to probe out precise and specific evidence under some legal framework/regulation and may fall under any of the following areas:

- Employee fraud and Professional negligence
- Criminal Investigations
- Financial statement fraud
- Background investigations/due diligence
- Personal injury claims
- Business interruption/insurance claims
- Securities and shareholder litigation
- Data mining and computer forensics
- Divorce/bankruptcy Claims etc.

Forensic Investigators apply their experience, skills and knowledge of the financial reporting systems, accounting and auditing standards, legal and corporate procedures to help the public and private organizations in getting information about various irregularities in the financial operations of the company. The evidence gathered may be in form of documents, interviews or expert analysis.

Being so diversified and precise it would be rather more attractive and result oriented to conduct forensic investigation at each year end to satisfy the shareholders prime need that affairs of the organization are governed accurately in a transparent manner and in case anything goes wrong would immediately be detected, identified and punished.

It is easy to say but hard to accomplish, in real world it is immoral to doubt some one's integrity and at some times forensic accounting is considered as derogatory especially in some advanced societies. Where you can't

directly put an allegation on a person's honesty or assassinate person's Character by starting fraudulent investigation to find the evidence about it, unfortunately if you failed to find the indisputable evidence admissible in a court of law rest assure that person will come after you and make you pay heavily by filling the defamation suit in a court of law. Defamation under Pakistan penal code is defined as:

> *"Whoever by words either spoken or intended to be read, or by signs or by visible representations, makes or publishes any imputation concerning any person intending to harm, or knowing or having reason to believe that such imputation will harm, the reputation of such person, is said except in the cases hereinafter excepted, to defame that person"*

Now let us build a case from the perspective of an organization. A listed company, investing heavily on different audits may find themselves with different audit reports/management letters highlighting the possible/ probable threats may decide to conduct internal probe to find evidence against any ongoing fraudulent and corrupt practices. Now after the probe you may end with the following two results:

1. find the evidence
2. may not find the evidence

In case you find the Evidence as a result of forensic investigation. Since the forensic accountant does not express its opinion on the report, you still have to prove the accuracy of the evidence in a court of law for which organization has to bear hefty forensic accounting cost and Legal attorney's fees. This whole process may create trust deficit among the Organization's management and its stakeholders including the employees that sequentially would harm the overall performance of the organization but unless make the overall system transparent and trustworthy.

However, if you failed to grab the desired evidence you will have to suffer the following outlays:

- Forensic accounting cost
- Legal attorney's fee
- Defamation suit cost
- Defamation claims
- Loss of goodwill
- Loss of Revenues/Profits

Statutory or other audit activities are based on sampling therefore the opinion formed by them on the financial statements are not absolute assurance and may always be subject to audit risk. Therefore, before making the decision on the basis of audit reports the findings should be verified from other sources as well.

Conclusion

In order to conduct the forensic investigation the suspicion should be reasonable and must be gathered from more than one sources, the source should be authentic and reliable. The matter should be thoroughly discussed with the legal counsel, identification of evidence that may be required in a court and availability of that evidence should be confirmed before the start of investigation. After initiation, the proceedings must be handled professionally and should be culminated efficiently by protecting the name and goodwill of the organization. In any case it will cost heavily to the organization that at some time available benefits would not be able to cover.

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Forensic Investigative Accounting

A Business Approach

Muhammad Hamid, ACA

The first thing that comes to one's mind when talking about forensic and investigative accounting is occurrence of fraud and the related investigation. Indeed it's true that one of the main objectives of forensic accounting is going into the comfort zone that no fraud is occurring by in depth scrutiny of financial records and transactions. But in today's scenario there is one other very relevant aspect of forensic accounting, which is monitoring and audit of wasteful spending that needs to be dig out further in order to make it a part of the business same as of internal auditing. Few decades back nobody even thought of internal auditing as one of the functions of the business, but now it has been mandated by legislatives of many countries.

Cost minimization and effectiveness being one of the critical success factors for every business today, due to the cut throat competition in the environment, necessitates the need of cutting wasteful spending from all the functions of the business. Here comes the need of forensic and investigative accounting to identify wasteful spending. Wasteful spending means all expenditure which, whether incurred or not, it does not bring incremental benefits to the Company and as a result, it is an extra cost eating out the hard earned profits. Western world has already started engaging professional firms to conduct such investigative assignments for identification of possible avenues of savings and eliminate extra cost by strengthening the internal controls over business processes.

As far as occurrence and the related investigation of fraud is concerned almost all the large and medium sized companies have implemented sound systems of internal control which greatly diminishes the risk of inappropriate actions and financial embezzlements resultantly the risk of material misstatements is reduced to acceptable low level. Small sized companies also do have their own checks and balances like in most cases entrepreneurs are involved directly in the business and they have put direct controls over all the processes. Therefore, the need of forensic and investigative accounting arises once in a blue moon since it is restricted to fraud related investigation only; accordingly, the fee of this service becomes high due to absorption of total cost of the function over very few assignments.

Forensic accounting is generally viewed to investigate the losses and reasons which a Company has suffered in past due to fraud but it can also be used a tool to avoid wasteful spending and resulting losses, to contribute in overall growth of the business. Forensic and investigative accounting can be used in following areas as a business function to identify P&L savings:

Finance and Treasury

a. Financial analysis – identify savings in projects.

b. Budgeting and forecasting – analytically linking budget numbers of different functions and identify unnecessary / wasteful costs.

c. Cost and management accounting – identify hidden costs to re-set prices to increase profit.

d. Treasury and cash management – including investment risk and return analysis, tax risk management analysis, etc.

Supply Chain Department (careful analysis of spending data)

a. Procurement cost – savings in procurement costs by review of suppliers' contracts, analysis of prices in markets, identifying room for renegotiating suppliers' contracts etc.

b. Operational cost–minimizing supply chain operational cost such as ordering transportation, distribution and warehousing cost.

c. Liquidity management – saving funds blockage cost by efficient planning of procurement and maintaining safety stocks.

d. Cutting duties / taxes on imports – minimizing cost of import related taxes and duties by in depth knowledge of related laws and regulations.

Marketing and Sales (market and data analysis)

a. Survey of market for product availability and shelf share of company's products.

b. Competitors' analysis in terms of Pricing, Product, Availability, Schemes etc.

c. Trend analysis of advertisement spends.

d. Distributors' analysis – secondary sales vs recovery audit, analysis of stocks lying with distributors for identifying stock up for achieving incentives by sales team, etc.

e. Sales team audit – audit of field visits of sales staff, reviewing sales staff routes, shops visited / shops covered analysis, comparison of each staff earnings vs contribution to sales, etc.

Conclusion

In addition to its ability to un-cover fraudulent activities and theft, forensic and investigative accounting can also scrutinize revenue streams, incomes and business expenditures to identify the areas of wasteful spending.

Every Company needs a good forensic and investigative accounting expert to identify the gaps and the wasteful spending in all the processes of business. For this, services can be outsourced to accountancy firms or a separate department can be established depending on the needs of the business. Thus, Forensic and investigative accounting will contribute towards the overall objective of the business by careful / close scrutiny of all spending.

The Attributes of Forensic Accountant

M. Asad Mirza, ACA

The term 'Forensic' is defined as *"The use of science and technology to investigate and establish facts in criminal and civil court of law i.e. to prove something legally".* In recent times where the complexities in doing businesses are increasing due to adverse economic conditions and other operating difficulties, entrepreneurs are finding new ways to maintain their market position and earnings in order to remain competitive. This can sometimes lead to the emergence of methods that are not complied with applicable rules and regulations. On the other hand, as the technology is advancing, new methods of white collar crimes (including cyber crimes) and frauds are emerging day by day. This has lead to the increased importance of new group of accountants i.e. **'Forensic Accountant'.**

Forensic accountant is not a typical accountant, but must possess distinctive traits and qualities as they have to deal with cases of diverse nature. They must take a more proactive and cynical approach for reviewing accounting records. They are more than concerned with the arithmetical accuracy and flow of numbers i.e. they look ***beyond the numbers***. Every assignment is a new assignment and requires a different set of skills for finding what has actually happened. They are most commonly involved in cases involving financial statements misrepresentations, economic damages and frauds involving fraudulent financial reporting & misappropriation of assets.

The most important attribute that a forensic accountant should possess is *'Individuality'* i.e. (the ability to think different and in a creative manner). As they are involved in complex scenarios and unstructured situations involving different and new kinds of frauds and misrepresentations, they must have the ability to think uniquely. Sometimes they have found all documents and evidences in order, but they should use their distinctive thinking for finding the wrong doing in all those seemingly appropriate trail of documents.

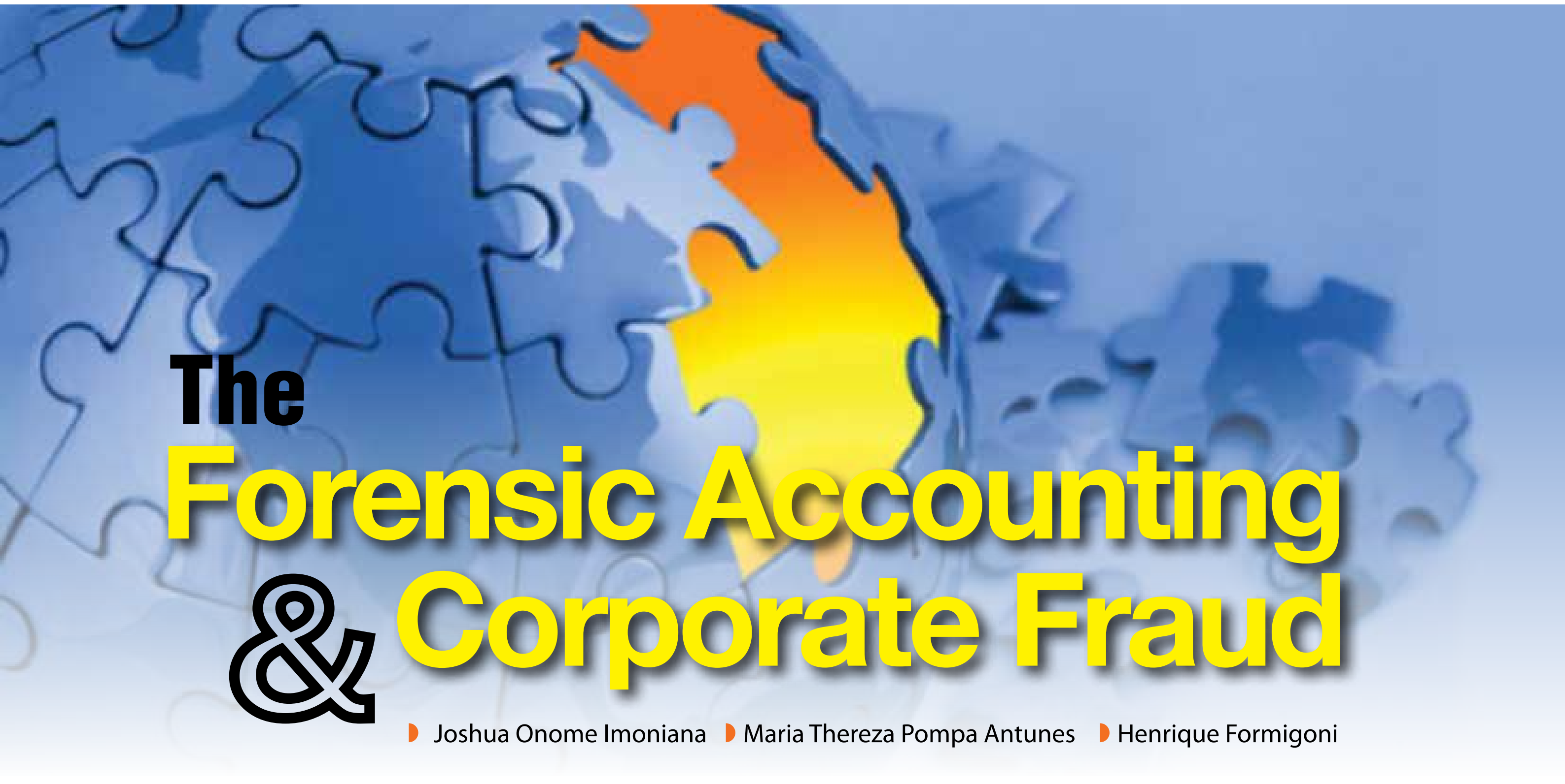
'Investigative Intuitiveness' is another essential attribute of forensic accountant. Audit of financial statements are done by applying the principle of professional skepticism i.e misstatements may or may not be there in the financial statements. But forensic accountant should perform his work with investigative and inquisitive mindset like a ***detective*** who is looking for misstatements deliberately for enabling him to uncover the correct happening. Further, his intuition for investigation must be quiet strong so that he goes to the root of the scam from the very beginning. ***Strong observation*** and ability to ***read between the lines*** while communicating with people are pre requisite for this intuitive capability.

Forensic accountants are normally involved in the fraud detection and similar type of assignments; therefore they can face different types of threats and pressures. They should have the expertise to ***'Cope the pressure'*** well and perform their assigned duties without compromising their acumen and professional standards. They need to be mentally tough in order to cater those adverse situations and happenings.

They need to have a good set of ***'Auditing Skills'*** in order to put together and integrate all the evidences that have been gathered so that they reach the origin of the problem. They must apply the skeptic approach for finding the frauds and accounting misrepresentations. They need to question apparently benign evidence and look for discrepancies and misappropriations in it. They are more than ***number crunchers*** and are less concerned with arithmetical accurateness of the accounting records. They look ***further than*** numbers and grab the essence of the situation.

Besides the above worth mentioning attributes, forensic accountants must also have traits like ***effective in oral and written communication*** in order to clearly express findings and synthesize the results of discovery, ***good team player*** and ensure goal congruence for objective attainment, ***effective research and information gathering skills*** for accumulating evidences from different sources, ***well versed with latest technological advancements*** in order to cater ever increasing cyber crimes and last but not the least should have ***adequate knowledge of relevant standards, regulations and statues***.

Forensic accounting now a day's is one of the most exhilarating niches of accountancy and the demand for these accountants is growing day by day. This is due to the increased number of fraudulent incidents that are occurring in the business world that constantly challenges the governance standards that are currently in operation. Major accounting firms in Pakistan have increased their focus on this area and still much needed to be done in the coming years to further explore this ***Breed of Accountants i.e. "Forensic Accountants"***.



The Forensic Accounting & Corporate Fraud

Joshua Onome Imoniana Maria Thereza Pompa Antunes Henrique Formigoni

Abstract

This study is aimed at analyzing the characteristics of forensic accounting services performed by accounting firms in Brazil, using an exploratory approach. At the end of the study, there is a discourse analysis of a speech made by the CEO of one of the key players in forensic accounting services (Kroll) in Brazil. In order to guide this reflection, we pose the following question: what is the characteristic of forensic accounting that substantiates professional accountants' innovation to curb corporate accounting malpractices? In this intent, we accept the premise that the bone of contention in some unhealthy business environments is the inability of an auditor to track frauds. We used the icons (categories and/or nodes) that dynamically represent formalism in the theory of self re-production to explain the patterns found in the speech. Our findings make us conclude that the idea that frauds have been least detected by auditors begins to gain shape as auditors are more adequately trained to detect frauds instead of emphasizing the traditional segregation of duties and safeguard of assets.

Keywords: *Forensic, Accounting, Fraud, Audit*

1. Introduction

The perspective of accounting influence on today's society will continue to be bright as users foresee in information providers the need of upholding the pillars of corporate governance; that is, accountability, fairness, responsibility and transparency. The last few years have witnessed a great expansion in both interest and research in the behavioural and social aspects of accounting, and there is little doubt that this area will be one of the increasing and important activities in the years ahead (Hopwood, 2009). Under the new ideological principles of economic development primacy, marketization, and mixed ownership paved the way for a different view of accounting to emerge (Ezzamel, Xiao and Pan, 2007).

Aware of this trend of accounting, and particularly as it has been construed in all parts of the world as eliminating boundaries, a fight against corruption and international fraud that corrodes the pause of most of the developing countries, accounting must be seen as going through a new era, with its end products assisting in the investigation and processing of the perpetrators of fraud.

Assuming that one considers fraud as the main source of human greed and absolute arrogance of the human nature, and that it is also innate in those who perpetuate it, never contented with what they have or always taking advantage of a perceived lack of control, forensic accounting is regarded as one area of these fields of accounting that is going to receive greater attention in future research, be it sociological or humanistic approach.

If we did not close our eyes to what has beheld our society for various decades, we would not be deceived by the fact that fraud has always existed. To make matters worse, new technologies are being developed to bridge the gaps between employees and employers, businessmen and agents, considering punitive measures to make fraud less interesting, but this has not been enough. According to Imoniana (2003), stealing, fraud under extortion and threat to businesses are normally perpetrated by employees or executives who possess the following profiles of:

- Being ambitious, excessively calculating and good planners;
- Living above their earnings;
- Having social and psychological problems;
- Having economic and financial problems;
- Always believing in the laws of advantage;
- Trusting their ability to perfectly manipulate others to conceal the trace of frauds;
- Being a collaborative employee;
- Gaining confidence of superiors and plotting their plans out of working hours;
- Performing overtime, but reluctantly requesting to be compensated;
- Taking short or no vacations; and
- Knowing the business better than anyone.

As implied, there is no gain saying that fraudulent acts and corruption have become a cankerworm that has eaten deeply into the fabric of our society. This seems to be in an escalating rate as we witness it day-in day-out through newspapers that public officers, managers entrusted with the life of businesses, manage business to their own advantage. Fraud has become an industry, not just for the fraudster; academics study it, investigators investigate it, lawyers litigate on it, and conference goers debate it; but the industry is built on managing the consequences of fraud rather than on preventing fraud (KPMG, 2009).

Ironically, this seems to be a lost game when we align what the accounting profession has always done to tackle issues at stake with the deliverables to the stakeholders, saying that it has taken its own part of the uncultured and deregulated society, whereby all the accounting information technologies are not enough to curb fraud.

Therefore, when we assume that the accounting profession is doing its own share of the task it seems to be comfortable, but one is yet to believe in this, since the normative positivist approach in accounting has not been totally ineffective, and also the purely positivist approach which takes with it an inductive approach is yet to be defeated. Thus, this is likely going to be the best bet of accounting for the near future.

In the recent years we have fraud auditing taking place as a result of a suspect of fraud in financial statements or accounting documents. In addition to this, we have expert witnesses; in this case, the accountant using his technical procedures and scientific know-how to give a proof, necessary to substantiate a decision, normally a litigious one, by providing accounting reports in accordance with the rules of law and professional ethics.

Today, the said fraud auditing has grown to include forensic accounting that entails a lot of more jobs. Invariably, the result may determine the future of the experts, should the evidence gathered be ruled as inadmissible in the court of Law.

According to KPMG (2009) providing expert accounting assistance is not simply a matter of adding up the numbers. First, the numbers may not be easy to find or are not in perfect order. Some information will be available internally, some only externally. So, considering the likeliness of information where something may be dubious, some information will require reworking to be useful and other information may not be available at all. Some parties may relate information about what happened, which may not bear any resemblance to reality. Then comes the need for someone to keep an eye on all these, hence, the requirement for an investigative bookkeeper otherwise known as forensic accountant.

Therefore, this study is aimed at analyzing the characteristics of forensic accounting services performed by accounting firms in Brazil, using an exploratory approach. At the end of the study, there is a discourse analysis of a speech made by the CEO of one of the key players in forensic accounting service (Kroll) in Brazil.

Thus, as the current article comprised a study to source unavailability of literature through research, be it normative or supportive in nature, one sees relevance in it. This is what Littleton and Zimmerman (1962) described as perceptive; a search for a rational justification of the already accepted practice rather than a free inquiry into one or another of the many aspects of accounting knowledge. We do not expect practicing accountants to be social scientists any more than we expect practicing physicians to be physical or natural scientists. Their opportunity for services is by far another kind; it lies in helping their clients or patients to the utmost of their professional abilities within the scope of ethical practices (Mautz, 1963, pp. 317).

Based on the aforementioned, we pose the following research question: what is the characteristic of forensic accounting that substantiates professional accountants' innovation to curb corporate accounting malpractices?

2. Literature Review

Antecedents of forensic accounting

In the antecedents of forensic accounting, for clarification purposes, we take investigative auditing or forensic auditing as the basis of all these changes.

Accordingly, Joshi (2003) sees the origin of forensic accounting traceable to Kutilya, the first economist to openly recognize the need for the forensic accountant, who, he said, mentioned 40 ways of embezzlement, centuries ago. He, however, stated that the term "forensic accounting" was coined by Peloubet in 1946. In the same antecedents, Crumbley (2001) stated that a form of forensic accounting can be traced back to an 1817 court decision.

The United States culture has been described as a lawsuit society. The growth in litigation has produced accompanying opportunities in a field called forensic accounting. The field is highlighted by accountants who serve as expert witnesses on both sides of a dispute (Dykeman, 1982). The Brazilian society is a learning type, where lawsuits are very sluggish, and it favours those who use them as a management strategy to drag and retard their effects on businesses. Organizations lose 5 – 6% of revenue annually due to internal frauds with the equivalent of $ 652 Billion in US as of 2006 (Coenen, T.L, 2008).

Forensic accounting is primarily aimed at accounting practitioners who want to expand their services to attorneys. However, […] some expert witnesses have sparked negative relations such as the Judge in the Eastern Kodak-Berkey Photo anti-trust case: "[…] too many of the people come in and think that they can sell whatever counsel is willing to buy and profit from it […] you just can't and shouldn't be doing that kind of thing" (Dykeman, 1982).

Even though, as already introduced, forensic accounting takes care of fraud audits, Sarbanes Oxley is not leaving any stone unturned to provide for the coverage of any management negligence in the process of business controls. In this question, the SOX sections including Public Company Accounting Oversight Board (PCAOB) helps to clarify the auditor's fraud responsibility.

Concepts of forensic accounting

It is difficult to conceptualize forensic accounting without comparing it with auditing, mainly because auditing has been used to assess business positions, accounting malpractices and even today auditors do perform investigative jobs. We have seen auditors perform fraud investigation, expert witnessing,, due diligence; etc. Probably as a new era, and professional advancement unfolding various strengths and opportunities and also embracing various perspectives, there is none gainsaying that accounting is also in this same trend.

KPMG (1999) defines forensic accounting as assistance in disputes which are likely to involve litigation, arbitration, expert determination, mediation or an enquiry by an appropriate regulatory authority, and investigation of suspected frauds, irregularity or impropriety which could potentially lead to civil, criminal or disciplinary proceedings; while focusing primarily on accounting issues.

Forensic accounting is intimately related to auditing, particularly when we mention forensic auditing. Thus, observing the comparative table 1, services provided by accountants include, amongst others: expert witnesses, being forensic services to give proof in accounting issues in litigations and auditing and to certify the veracity of accounting statements diligence. The forensic job is totally analytical in as much as in the end it tries to calculate the rate at which losses have been inflicted on the business. Generally, reporting in forensic accounting is programmed for a certain period. Yet, different from auditing, there are no regulatory organizations which control efforts to be put into forensic accounting.

Table 1 - Comparison of Forensic Accounting and Financial Auditing

Items for analysis	Forensic Accounting	Auditing
Why, When and Where the services take place	Serve as a backing to prove a fraud in the business in an apparent risk prone environment.	Continuous to certify the state of the art of a business and comply with an efficient market theory
Scope of the job	Present analytical accounting and financial information to support legal and administrative decisions	Opine on the accounting statements of business entities considering all criteria used in its preparation
Details of tasks performed	Detailed planning of tasks aimed at documenting deterministic and calculative analysis.	Sampled and/ or probabilistic procedures to serve as a base of concluding the financial statement.
Periodicity	When necessary and particularly according to the periods stipulated by the Judge or client.	Covering the fiscal year to substantiate the activities of the accounting period.
Reporting	Investigative or expert reports	Financial statements, management letters or auditors' report.

Ideology of forensic accounting

The ideas of separating financial auditing from forensic accounting supports the premise that, unless it is investigative, financial auditing is not meant to investigate frauds, even though we have the provisions from the PCAOB for auditor's fraud responsibility. Therefore, in the various researches about the participation of auditors in detection of frauds, one would observe that their statistics show low participation during the course of an audit. This attempt boldly explains the cornerstone of corporate auditing by distinguishing the levels of accountability, integrity, transparency, ethics, competence and independence, apart from emphasizing the scope of work, data gathering, review procedures and reporting.

Forensic accounting, therefore, emanates from social discourses, as the accounting profession tries to give an answer to a typical problem brought by the growth and diversity of opinions in the social science structure. At the highest level, the social norms which guide the selection process are ideological (Mason, 1980, p. 30). Such discourses are replete in the works of Foucault, 1972; Larrain, 1979; Eagleton, 1991 and the host of others.

Characteristics of Forensic accounting

In order to expatiate on the peculiarities of forensic accounting, it is worthwhile giving it a broader view under the taxonomies of a sub-activity of accounting. Such a breakdown for forensic accounting involves the following:

a) Financial accounting, economics analysis, fiscal and criminal law, psychological, administrative and investigative dispensation;

b) Application of forensic standards – possibility to use the reports in a proof of Law in courts or tribunals,

c) Can be used in the following situations:
   - Investigation of frauds - thorough investigation and calculation of the impact on the business and therefore suggesting the arrest of the culprit for a criminal suit. Today, in the IT environment, where users' profiles are very similar and access controls are somehow lacking, this becomes critical. A general problem in forensic identification arises when a suspect is observed to have a particular rare trait, or combination of traits, also known to be possessed by the criminal (Balding and Donnelly, 1995).
   - Legal disputes and/or arbitration
   - Preparation and submission of expert reports
   - Supporting of Judges in subjects relating to accounting
   - Verification of accounting records
   - Supporting in due diligence.

Yet, according to Zysman (2009) a capable Forensic Accountant should have the following characteristics:

- curiosity;
- persistence;
- creativity;
- discretion;
- organization;
- confidence; and
- sound professional judgment.

Still, according to the same author, a Forensic Accountant must be open to consider all alternatives, scrutinize the fine details and at the same time see the big picture. In addition, a Forensic Accountant must be able to listen effectively and communicate clearly and concisely.

According to Zysman (2001) forensic accounting activities include:

- Criminal investigation, which are usually on behalf of the police with the aim of presenting evidence in a professional and concise manner.
- Shareholders and partnership dispute that involve analysis of numerous year financial records for valuation and qualification of the issue in dispute;
- Personal injury claim, where, for example, economic losses from a motor accident or wrongful dismissal may need to be quantified.
- Business interruption and other types of insurance claim. These assignments involve a detailed review of the policy to investigate coverage issues and the appropriate methods of calculating the loss.
- Business/employee fraud investigations which can involve fraud tracing, asset identification and recovery, forensic intelligence gathering and due diligence review.
- Matrimonial dispute involving the tracing, locating and evaluation of assets.
- Business economic losses, where a disputed contract, construction claims, expropriation, product liability claims and trademarks are the issues.
- Professional negligence ascertains the breach and quantifies the loss involved, and mediation and arbitration, as a form of alternative dispute resolution.

Frameworks and Laws enhancing the control of fraud

Lately, several frameworks otherwise known as best practices and Laws have been implemented to enhance the control of fraud in various countries that undoubtedly affect all corporations which have international exposure. They range from *COSO (COMMITTEE OF SPONSORING ORGANIZATIONS OF THE TRADEWAY COMMISSION, COBIT (Controls Objectives for Information and Related Technologies), Sarbanes Oxley Law involving specially Sections* 101, 202, 302, 404, 409, 802 and 906 which introduces the *PCAOB (Public Company Accounting Oversight Board)* Auditor independence, Corporate management responsibility; importance of Internal Control systems and the monitoring of the managerial responsibilities in general; corporate fraud, criminal concerns and penalization, to mention just a few. According to Tarantino (2006), in order to comply with SOX controls, one has to be in accordance with the recommendations of COSO, COBIT international standards of corporate governance.

Therefore, it is quintessential that the said frameworks and laws agree with what every SEC and Central Banks worldwide as regulating bodies offer in congruence with the objective of protecting the interest of stakeholders. This would assist the effectiveness of curbing money laundering and drug trafficking, is notoriously alleged as having a link with terrorism. Following Albrecht, Howe and Romney, (1984) an individual is influenced by a moral perception, situational pressure in which one is encountered and opportunity is taken to commit fraud.

3. Methodology

The study adopts an exploratory approach, distributed into theoretical and empirical to tackle the ideology of forensic accounting and its perspectives, and also, in the end, it performs a discourse analysis to solidify our research objectives.

In the theoretical approach, we summarized all the available literatures relating to the topic. This entailed a search in the host of libraries of the main schools of accountancy in the globe and the main databases: EBSCO, Business Sources Complete, Proquest, JSTOR and also Brazilian Institutional Database - CAPES that serves researchers nationwide and worldwide; and Journals such as AOS, JFA, AJM, BJSP, AR, JA, to mention just a few.

As we try to verify the characteristics of forensic accounting through empirical analysis, Bunge (1980, pp. 13-14) signals possible epistemological problems that should be checked. This enlists categories of problems such as: logical, semantic, gnosiological, methodological, ontological, axiological, ethical and esthetical. Thus, within these problems, we relate forensic accounting more closely to gnosiological, which, according to the author aspire empirical concept.

In addition to this, we performed the discourse analysis based on a lecture given by GOMIDE, Eduardo de Freitas – CEO of Kroll, Brazil on March 5th , 2008 at The Municipal Government Centre of the City of Rio de Janeiro about Forensic Accounting and prevention of frauds. It is one of the steps in making every effort to continually improve the programs and activities developed by the institution towards goal congruence (MUNICIPAL GOVERNMENT OF THE STATE OF RIO DE JANEIRO, 2008). The discourse has been extracted from the *CONTROLLER'S Bulletin* - bimonthly Journal published in the format of dossiers concerning frauds and corruption.

While there is no fixed method prescribed for discourse analysis, there are common phases and some validation tests (Wetherell, Stiven & Plotter, 1987; Hollway, 1989).

In order to enhance our discourse analysis, we separate some terms, words, sentences, phrases and paragraphs used to guide emphasis given to the main portion of the speech by attributing coding categories with the aim to validate this discourse, we ran the NVivo Software for Qualitative Analysis version 9.

Thus, to establish the coding categories (otherwise referred to as nodes) that were used to analyze the discourse, we borrow a leaf from the coding families as proposed by Bogdan and Biklen (1992). The cited coding categories are: Context code; Situation code; perspective code; process code; activity code; event code; strategy code; and relationship and social structure code.

In our study, we associate them with the normal taxonomy for observable coding family (parent, child) for forensic accounting, among which we enumerated in the following discourse analysis.

4. Discourse Analysis

As a reminder, the discourse analysis is on a lecture given by Eduardo de Freitas Gomide – CEO of Kroll, hereinafter referred to as EFG, in Brazil on March 5th, 2008 at The Municipal Government Office of the City of Rio de Janeiro about Forensic Accounting and prevention of frauds.

The entire discourse was analyzed and the frequency of the most frequent 32 words can be seen as in Table 2. In essence, these words or terms vary in their intent, peculiarity in the characterization of forensic accounting in which out of the mentioned words the most relevant ones were described by counts and weighted percentages respectively as follows: accounting 53 and 0.78%; analysis 25 and 0.37%; company 76 and 1.12%; financial 35 and 0.52%; forensic 39 and 0.58% and finally fraud 58 and 0.86%.

Table 2 – Word frequency Analysis

Word	Length	Count	Weighted Percentage (%)
Accounting	10	53	0.78
Analysis	8	25	0.37
Assets	6	18	0.27
Audit	5	19	0.28
Auditing	8	15	0.22
Billion	7	15	0.22
Brazil	6	16	0.24
Business	8	20	0.3
Case	4	21	0.31
Client	6	14	0.21
Companies	9	31	0.46
Company	7	76	1.12
Data	4	18	0.27
Financial	9	35	0.52
Forensic	8	39	0.58
Fraud	5	58	0.86
Identify	8	15	0.22
Information	11	22	0.33
Internal	8	27	0.4
Kroll	5	20	0.3
Million	7	15	0.22
More	4	16	0.24
People	6	18	0.27
Problem	7	22	0.33
Risk	4	23	0.34
Those	5	15	0.22
Time	4	19	0.28
What	4	39	0.58
When	4	25	0.37
Where	5	22	0.33
Which	5	46	0.68
Working	7	16	0.24

Thus, after a summary run by NVivo Software for Qualitative Analysis, one was able to assemble the following 23 categories describing forensic accounting and corporate fraud as in Table 3.

According to Laclau and Mouffe (2001) there are four key concepts that are interwoven, they are elements, moments, articulation and discourse. In the authors view, an element is a difference that has not been developed via discursive articulation. Once an element is identified linguistically, it is transformed into a moment.

Articulation is the practice of establishing a relation among elements that modify their identity.

In this respect, in order to expatiate on the said discourse, we bring all the logical representations shown in the literatures and otherwise, and project them towards the nodes; see Figure 1. This in turn represented in a number of icons that dynamically symbolize something to us in a self-reproduction and have been presented as follows.

a) **History of forensic accounting (Perspective code)**
As a recapitulation, Economics as a field of study was the first to mention forensic accounting some centuries ago. This was said to have been emphasized by Kutilya who cited 40 ways of embezzlement.

In this discourse, EFG cited that the activity of forensic accounting as a financial service at Kroll seemed to have started a fight against fraud first in United States of America around 1938.

b) **Concepts of forensic accounting (Context code)**
The main aim of forensic accounting is not only to understand how a fraud was committed, but to document it with the highest possible accuracy. According to Gomide (2008, p. 167) a good forensic accounting combines accounting analysis and also requires good accounting and investigative skills). In the discourse, EFG cited that "it falls under general information or certain topics, or subjects as it can be sorted. […] general statements that people make to describe the subject, as investigative accounting, or even forensic auditing".

In order to have a broader view of forensic accounting, see the text search run report figure 2 below.

Table 3 - Structure of Categories – Forensic Accounting and Corporate Fraud

Node	Colour
Historical of Forensic Accounting	Blue
Concepts of Forensic Accounting	Red
Comparing Auditing and Forensic Accounting	Blue
Classification of Forensic Accounting	Blue
Peculiarities of Fraudsters	Blue
Extension of Forensic Accounting activities	Blue
Audit guide on fraud audit	Blue
Focus of Forensic Accounting	Blue
Auditors fraud responsibility	Blue
What is the relationship of auditing and Forensic Accounting	Blue
Internal management of Kroll	Red
Who hires Forensic Accounting services	Red
Monitoring frauds and enhancing financial performance	Red
Identifying Red Flags - Investigative Mentality	Red
Traces of Red Flags	None
Case Study of Enron	Red
Assessment and mitigation of risk	Red
Performance enhancement and mitigation of risk	Red
Preparedness of internal audit	None
Forensic Accounting methodology	Red
Average working hours for Forensic Accounting job	Purple
Bone of content of fraud audit	Blue

Figure 1 – Logical representation of nodes in relation to their source

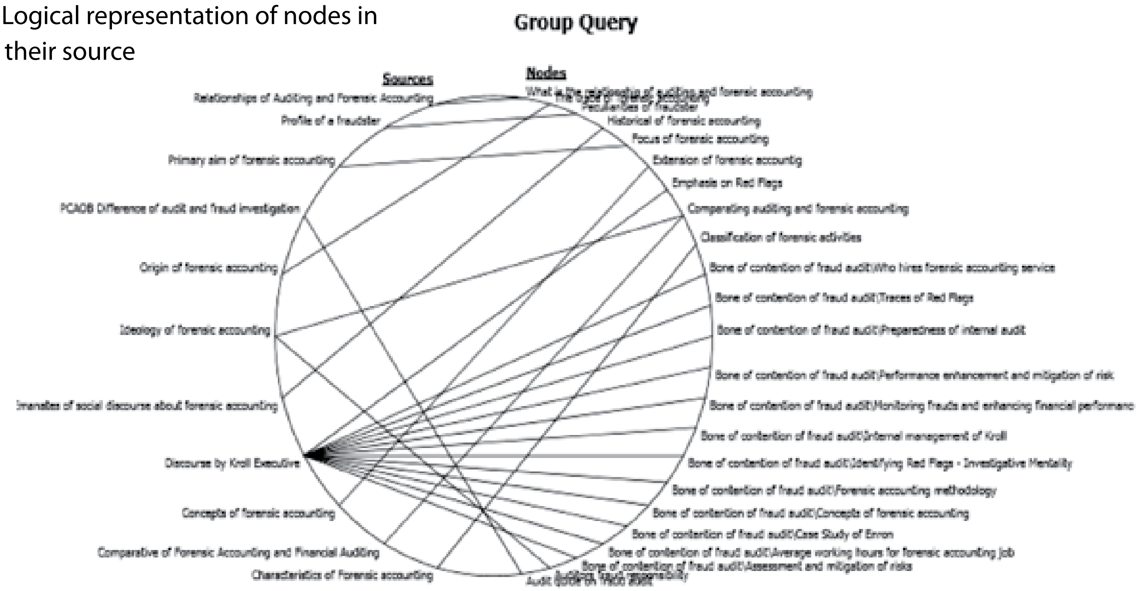
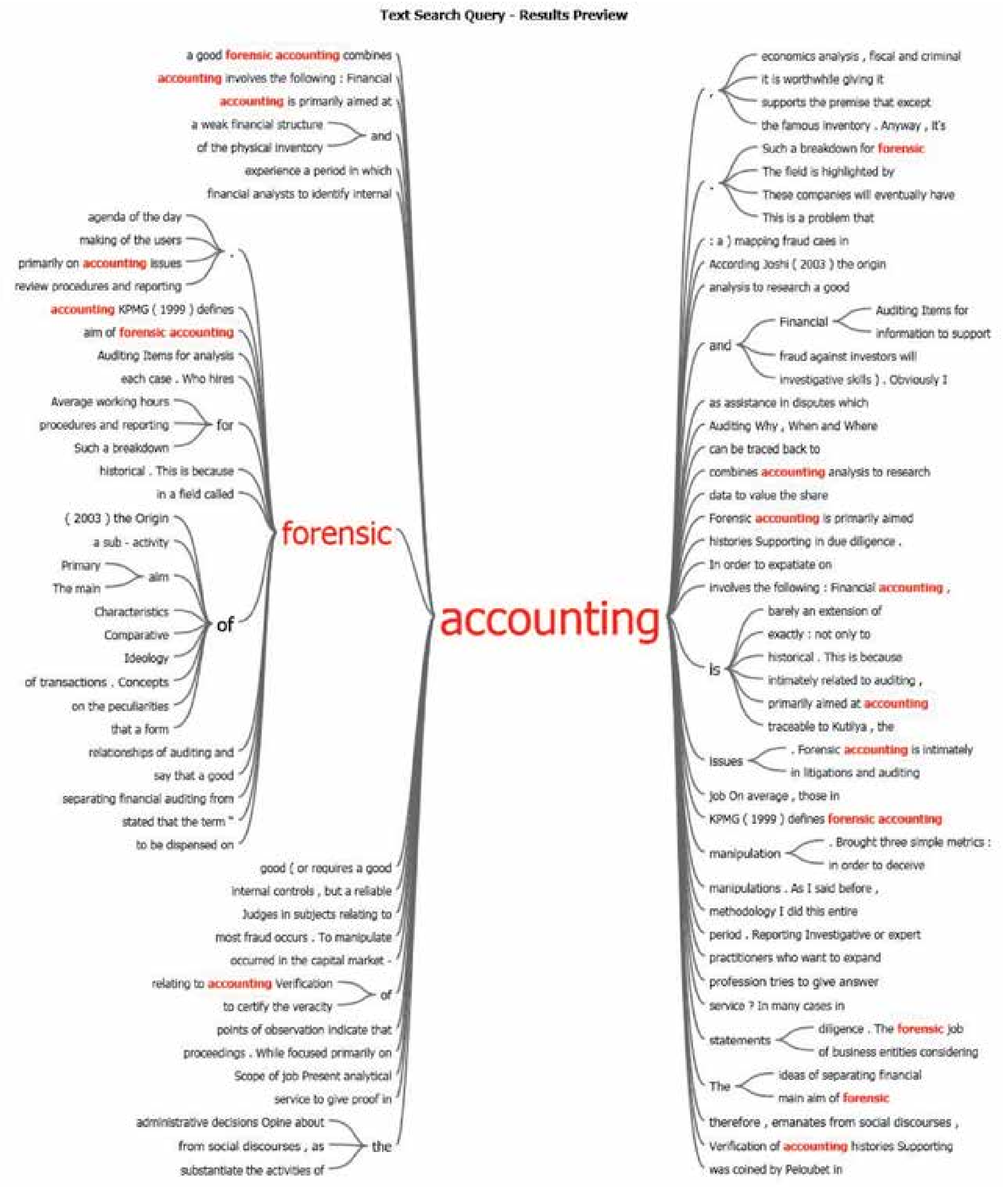


Figure 2 Broader concepts of forensic accounting



It shows right from the first text that " good forensic accounting combines [….] economic analysis and criminal….say profile of the subject being investigated. This goes as far as to showing that forensic accounting was initially coined by Peloubet in 1946.

c) Focus of Forensic Accounting (Context code)

Forensic accounting falls within the context of our environmental needs. That is, to give forensic assistance in accounting issues. This is very vital in the environment that is flooded with fast moving businesses and polluted with politicians who have powers to corrupt well-meaning businessmen. This normally happens in detriment of well-planned public projects that are roughly implemented.

In terms of qualities of a forensic accountant, Fitzhugh (2010) mentioned that by the nature of the job, forensic accounting favors individuals who have prior work experience in fields like law enforcement and auditing. Maturity and prior professional knowledge give forensic accountants a frame of reference to utilize their professional judgment and frequently a "gut" instinct developed from years of experience. Entry-level staffers right out of college generally do not have that life experience to have developed these talents.

d) Comparing auditing and forensic accounting (Situation code)

The main difference between auditing and forensic accounting is that one performs audit to assist management in adequately implementing their strategies towards goal congruence, and also reports the true and fair state of affairs of a business to stakeholders to enable them make decisions while we perform forensic accounting to investigate conduct deviation and measurement of its impacts. Each forensic accounting job differs, and there are no generally accepted accounting principles for this practice area to provide guidance to practitioners on how to perform an engagement. It is an unstructured environment requiring self-motivation (FITZHUGH, p. 28, 2010). On the contrary, audit is structured and is guided through generally accepted auditing standards and procedures. As we are aware, one of the main procedures reviewed by auditors is the segregation of duties. By segregation of duties, we mean definition of responsibility by exposing a clear line of authority when defining processes; they are all obvious steps of accounting for fraud. But in the vast majority of companies in which forensic accounting is requested and performed, this is lacking, thereby showing a point of vulnerability to be observed.

e) Peculiarities of a fraudster

EFG mentioned that when you see an employee who is excessively proactive, something could be wrong. "…. working weekends and never took a vacation. This is true in the football history, and took place in Victoria". Another case, the client in São Paulo involved a Santa Claus: the guy never took a vacation in life, worked at home for 20 years or so, was the favourite character in the company, fancied himself at the end of the year, distributed presents, and had earnings of $ 1,500.00. Over seven years, defrauded the company of $ 6 million".

According to EFG "In many cases in which we work, we see what is funny; it is the embezzler who hires us because we can expect to give him a certificate of good conduct. He thinks, "I will bring Kroll, who is reputed to be the best. It will audit, you will find nothing, so I'm fine."

f) Extension of the forensic accounting investigation (Situation code)

The general framework of forensic investigation limits its coverage to areas naturally prone to malpractices, they are areas such as: contracts and negotiations; billings; procurements and accounts payable. Others are payroll, information systems manipulation or maladjustments, to mention just a few.

"I often tell my clients that Kroll would not exist if they made a good contract analysis every year. If they made a simple analysis of adhesion of these contracts, I'd say 70% of fraud would cease to exist".

According to Gomide (2008), "We base our strategy in such areas that have greater exposure to risk of fraud". According to the business context such areas are: inventories, purchasing and generally they are exposed to theft of financial assets. "These have an obvious reflex in the activities of the organization, in the profitability because it opens a wound in the business whereby the organizational climate becomes highly polluted".

"We would say that a concurrent review of contracts would ultimately remove 70% of frauds. So, Kroll would not have as many clients as we have today if the simple verification of prices, volumes, due dates as stipulated in the contract are monitored." He mentioned further, "I have a client who paid unusual professional fees to a tax specialist to the tune of USD$ 20 million before the consultant was changed, such expense could also raise an eyebrow". Marketing and publicity are very intangible, this is an escape to fraud; in general, outsourcing, which could be questionable, ought to receive management attention.

Concerning Turning Around Accounting Information Systems (TAAIS), through this tactics, the fraudsters are able to dribble the accounting information systems and module up the information provided by them to the decision makers. The structure and the integrity of the AIS are reviewed.

Normally, when companies acquire systems, they lose sight of adequate parameterization of such system when they try to borrow a leaf from the default parameter to reduce costs. This ends up in having a fragile ERP being implemented with wrong control procedures in place and even open to outsiders.

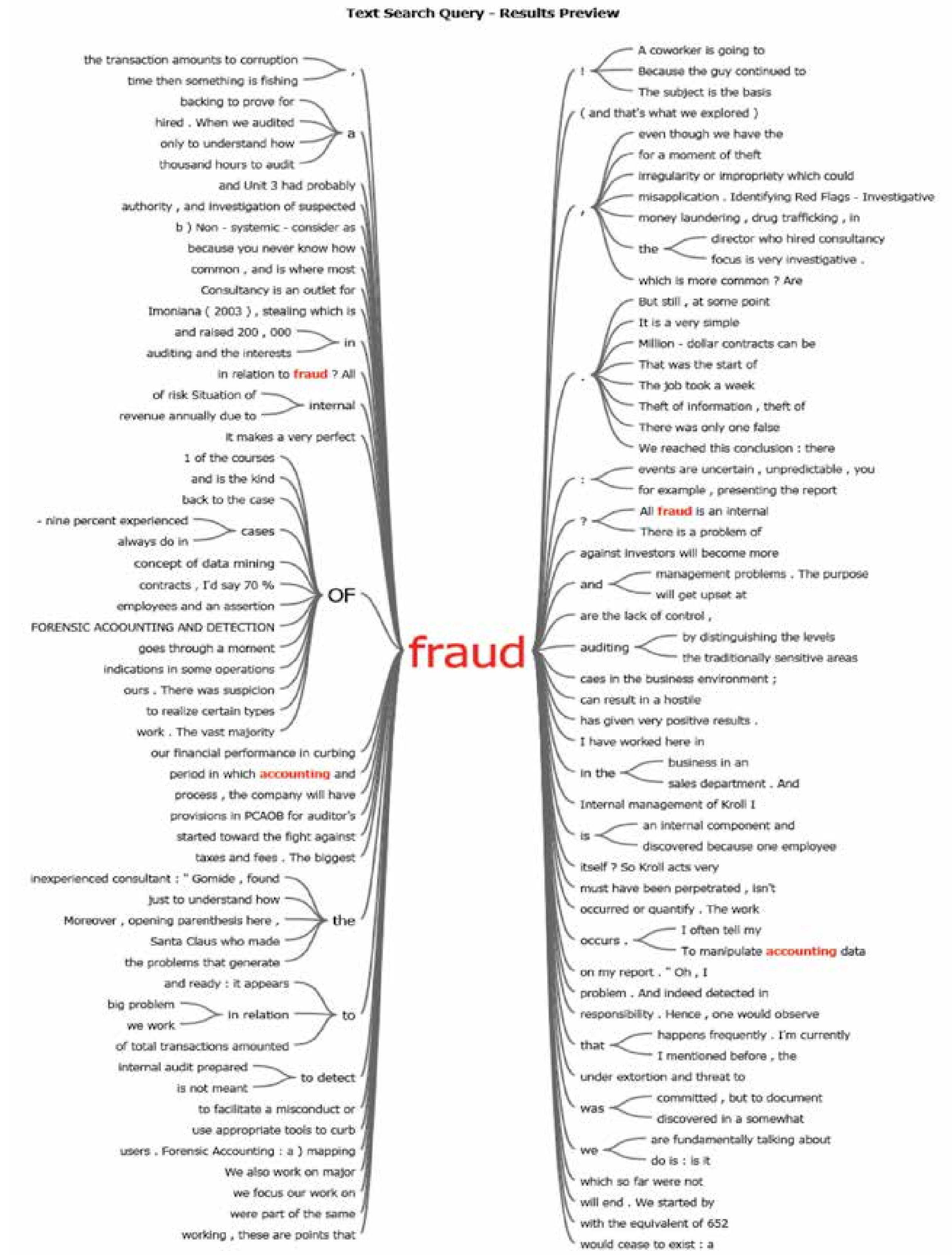
For Gomide (2008), it is very difficult to measure and monitor IT contracts. This is for us a black box which needs some clarification and some care. "When a client says he can only use certain technology (ABC or XYZ), we begin to raise some suspects."

g) Auditors fraud responsibility

An auditor's role in fraud detection takes a new turn as we adapt SAS No. 99 Implementation Guide. As it may not be different from other corporations all over the globe, Brazilian corporate management is very cunning. For them all controls are effective except if you are able to prove otherwise, meaning to say that it is virtually impossible for you to hold them responsible for fraud due to lack of direct evidence as they are able to camouflage traces of malfunction. So forensic accounting plays an important role in this moment since we perform information systems audits.

In the discourse, EFG represented fraud detection in forensic accounting with various symbols. Figure 3 – Forensic Accounting and Fraud - demonstrates the various interpretations one was able to have from this discussion.

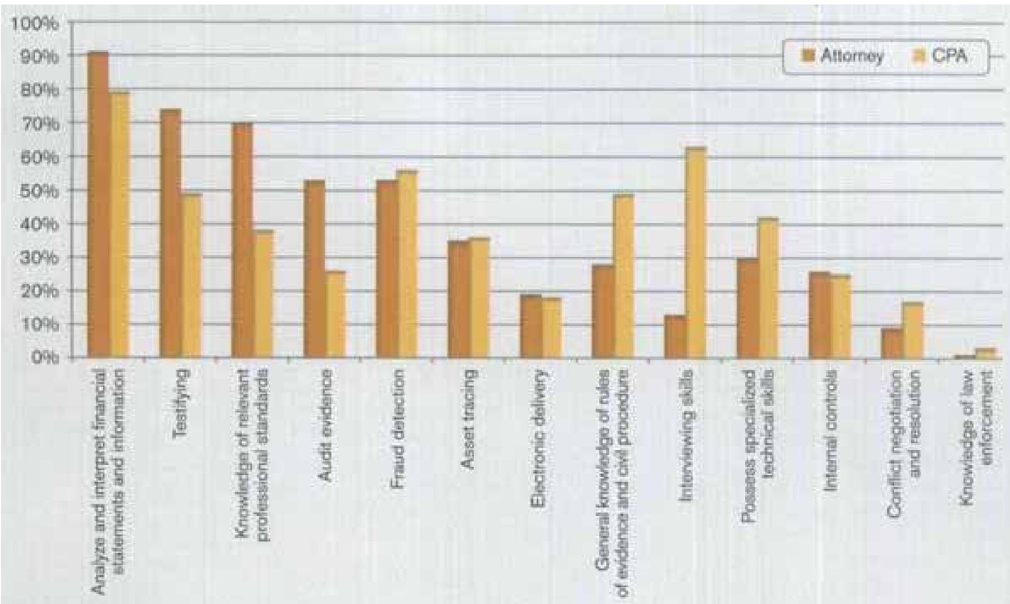
Figure 3 – Forensic Accounting and Fraud



h) Monitoring frauds and enhancing financial performance

According to EFG, what we do is use that information derived from historical performance doing the trimming of time - as companies change over time. Thus, we use the past two or three years of information, understanding the normal pattern of this company and detect exceptions. At the moment, one detects an exception and proceeds to a closer investigation, which is barely an audit. It is therefore important to map frequency, values, and probabilities and understand the internal controls that are in practice within the company. Wise characteristics, the skills needed are such as those shown in the Graph 1, ranging from analytic to fraud detection and asset tracing skills.

Graph 1- Enhanced Skills for Forensic Accounting



Adapted from Davis; Ogilby, and Farrell (2010)

i) Identifying Red Flags - investigative mentality (event code)

The use of interpretation of red flags arising from accounting information is hammered in the discourse. "Something smells like fish" […] these are some adaptations of some controls developed in banks, particularly to track some problems related to money laundering (Gomide, 2008, pp. 8). What can one consider as an example of red flags - unusual revenues, earnings or earnings management for instance? This applies to companies negotiated in stock markets whose book values are manipulated so that investors are unable to follow the twists and turns of events. According to EFG, "I have an example of a client in Rio, who nearly zeros his inventory as he pushes sales to the wholesaler at the close of quarterly reporting. A month later, he receives a bunch of returns, but the headquarters had recognized all the revenues. Three years late, this *modus operandi* was changed after hiding bad results for so long a time".

Controlling problem manifests itself through a variety of easily identified symptoms – red flags that usually reflect poorly designed processes or questionable ethics (Bickley, 2004). These symptoms could be as in Table 4.

Table 4 – Red Flags

1	Organization has multiple charts of accounts
2	Accounts procedures not documented
3	Large adjustments are made after preliminary results are known
4	Organizations reports on other business segments with a net loss
5	Accountability for each general ledger account is unclear
6	Reconciliations are not automated
7	Large transactions are given special terms
8	Commissionable sales and bonus pools exclude significant items
9	No adequate systems for major AIS (Accounting Information Systems)
10	Standards are not documented
11	Spreadsheets are a key part of important processes
12	Processing staff work takes a lot of overtime (especially when reporting dates)
13	Restructuring Expenses excluded as a percentage of the revenue drop in the quarter
14	Dormant ledger accounts exist
15	Customer are assigned multiple numbers
16	Internal accounts do not reconcile
17	Management reporting adjustments do not net to zero
18	Each small subsidiary has its own separate accounting processing group
19	The organization has a large number of special purpose entities
20	Evaluation of control effectiveness is left to internal audit
21	Performance metrics do not exist for transactional processes
22	Exceptions to policies are routines
23	The books are closed prior to quarter end
24	Ad hoc test and implementation plans are used for system upgrades
25	Below-satisfactory audit ratings are always reflected in performance appraisals

According to EFG, the signs of red flags are innumerable.

They range from the following:

a) Revenue and profitability unreal;

b) High volume of financial transactions with very low assets;

c) Hiring Consultants, Lawyers, Marketing Experts, Advertising Agency; Outsourcing; NGOs services;

d) Excessive volume of receivables;

e) Lack of inventory count;

f) Limitation in usage of IT software or resources.

He added "The biggest fraud I have worked on here in Brazil was relatively simple: the director hired some legal advisors, they gave an opinion to the company about the collection of certain taxes.

Revenue came in the course of justice and would win in the second or third instances and, later, the company marked up all their calculations. Only in that case until rulings, the company had paid $ 20 millions in consultancy fees to tax consultants". He added, "Be at alert when you hear "I can only use this technology……" or "I can only hire one company for maintenance because they are the ones who know that database."

j) Traces of Red Flags (Event code)

What is the sign shown to the management that it has ignored all along? In all circumstances, all the business trends are shown by the financial statements. They accept that the management receives overlapped information that the control environment permits, there is always the likelihood of having the hunches about the happenings.

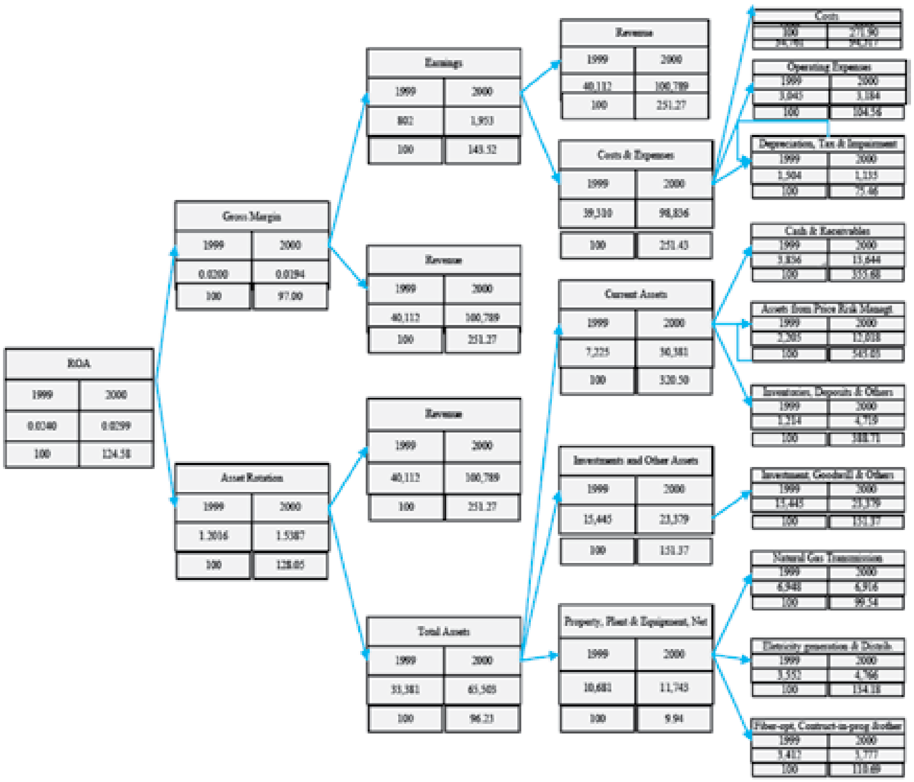
This event code has the preoccupation with the frequencies of the cases that generate forensic accounting services and what the alerts presented to the management are. Are the management, regulatory organization and the research institutions prepared to give the support needed to track a more disastrous impact on business? Suppose we associate the impact of norms that are readily prepared by the government to safeguard the interest of the investors, what technologies are used to dribble the said regulators.

k) Case study of Enron (Event code)

To describe how the financial analysis is used to track anomaly in business transactions, the discourse used as an analogy, in the case of Enron, is demonstrated in figure 4. This notorious case showed the results of 1999 as compared with those of 2000. In 1999 the revenues were US$ 40 billion whereas in 2000 they were US$ 100 billion. According to Gomide (2008) just in a quick look, a question surfaces: how does a company grow 100% between an exercise and the other? What is the rationale? Has the price of energy sky rocketed, made a significant investment? Is it a point of interrogation of which we must be interested in? Cost of sales grew in the same proportion, from USD$ 39 billion to USD$ 98 billion?

At this juncture, one would like to analyze further; eyebrows are raised when one sees that cash and receivables have grown from 3 billion to 13 billion within the period. In a breakdown we observed that it is as a result of price risk management activities related to the operation of derivatives. We therefore perceived that from one year to the other, Enron decided to change operations (from energy Generation and Distribution Company, to trade and negotiate receivables through derivates). Forensic accounting sees this as unusual to the business and questions whether the perspective of the business is bright and, for that, it may be uncertain.

Figure 4 – Du Pont Analysis of the financial situation of Enron for the period ended in 2000



EFG added, "Let's see profitability by comparing the net income to the cost of goods sold, also from one period to another. There was a variation of 117%. It means I became much more efficient from 1999 to

2000, I was much more efficient in managing my net income minus my cost of goods sold".

l) Assessment and mitigation of risks

The discussant mentioned that they based their control monitoring assessment in such areas that have greater propensity to presenting a lack of internal control procedural risks. Internal control risks are the risks whose material errors not effectively prevented or detected by internal controls are in a timely manner (Imoniana, 2001, p.83). However, it is worthwhile mentioning the inherent risks and their detection at this point in time. According to AUS-402 (2002), "inherent risk means the susceptibility of an account balance or class of transactions to misstatement that could be material, individually or when aggregated with misstatements in other balances or classes, assuming there were no related internal controls". Detection Risk (Imminent Proofs of Misstatement) - What is the risk that the auditor would not be able to detect adequate proofs about misstatements and be lured to giving opinion about financial statement that is materially incorrect? (AUS-402, 2002).

m) Performance enhancement and mitigation of risk (Process code)

In this code category, we intended to know how the subject sees the environment in which forensic accounting activity is being performed. According to Gomide (2008), it tells you how the subject defines their setting. […] How do they define what they do?

When we talk about improving financial performance in curbing frauds, we are fundamentally talking about internal controls and compliance. Inherently, businesses are exposed to some risks (systematic) known to the management and it should use their skills to amour the business flow against risks of cash flow or market fluctuation, normally through hedging and other market tools to dilute such risks. On the other hand, the unsystematic risks are uncertain and are not easily forecasted. Exactly for this reason that some people use it as means for perpetrating frauds. "When I mention that Brazil is yet to see an escalation of accounting frauds against investors, and that this will become more rampant in the period to come, it is not a gain saying. I know a couple of companies which performed IPOs and went to the Stock Market, but do not have an adequate control structure. Neither do they have a corporate governance practice but still with a deplorable financial structure" (Gomide, 2008).

n) Preparedness of internal audit (Perspective code)

There is a very great concern towards prevention and/or detection of frauds by internal auditors. By expatiating on this code, the study tries to give some prognostics about what is likely going to happen to the profession and the business in a short period to come, concerning the services of forensic accounting.

Through a substantive analysis normally used by the auditors, this code approaches the discourse by emphasizing our standard operations that need retouches so that internal audits could be performed with the aim of tracking accounting malpractices. In these said operations, even though some people might question them, the concerns of corporate governance are a stimulating upbringing of internal auditors to match the trends of business frauds.

o) Forensic Accounting Methodology (Strategy code)

In order to perform a forensic accounting job, there are various approaches which could be adapted. This ranges from adaptation of auditing approaches to even criminal investigative approaches. For instance, one can follow the procedures laid out in the methodology summarized in table 5.

Table 5 - Methodology for executing forensic accounting engagement

Steps	Detailed Procedures
1	Meet with client and clarify scope
2	Perform a conflict check and identify main actors
3	Perform an initial investigation to classify the apparent risk level of the environment
4	Develop an action plan, choose the approach and team
5	Gather the relevant evidence by locating documents, information and/or assets
6	Perform end of finding analysis and measure damages inflicted on the business

In this methodology, the auditor is expected to have the first contact with the auditee, identifying who and who in the case, making his initial conclusion about the environment, and selecting the existing strategies to investigate the case. Additionally, he should gather the relevant data to substantiate his hypothesis and perform end of findings analysis by quantifying the damage made on the business.

Zysman (2009) outlined the following steps in executing Forensic Accounting engagement:

- Meet with the client to obtain an understanding of the important facts, players and issues at hand.
- Perform a conflict check as soon as the relevant parties are established.
- Perform an initial investigation to allow subsequent planning to be based upon a more complete understanding of the issues.
- Develop an action plan that takes into account the knowledge gained by meeting with the client and carrying out the initial investigation and which will set out the objectives to be achieved and the methodology to be utilized to accomplish them.

- Obtain the relevant evidence: This may involve locating documents, economic information, assets, a person or company, another expert or proof of the occurrence of an event.
- Perform the analysis: this may involve: (a) calculating economic damages; summarizing a large number of transactions; (b) performing a tracing of assets; (c) performing present value calculations utilizing appropriate discount rates; (d) performing a regression or sensitivity analysis; (e) Relevance of Forensic Accounting utilizing a computerized application such as spread sheet, data base or computer model; (f) and utilizing charts and graphics to explain the analysis.
- Prepare the report. Often a report will be prepared which may include sections on the nature of the assignment, scope of the investigation, approach utilized, limitation of scope and findings and/or opinions.
- The discourse makes it clear that the Kroll type of methodology is tailor-made. It is the one that operates from the floor of the factory where all the information about the company permeates. According to the discussant, even though they use all the techniques (in our view - questionnaires, corroboratory inquiry, observation, documentary evidences, re-execution) used by the auditors in a graduated format, their methodology allows them to interview, the Cleaners, Gardeners, Maintenance Technicians, etc: posing questions such as – is the company ethical? However, since the employee might not know what ethic is, he tries to explain what everyone does in details. There lies the analysis which could be done through our software based on qualitative data analysis. Kroll uses a variety of tools. These are such tools as SAS apart from the application of the Excel resources, which are very useful for data analysis.
- In summary, according to EFG it is the same principle, only instead of using the financial analysis used to identify correlations and regressions red flags, we use statistical modelling.

p) Average working hours for forensic accounting job (Strategy code)

This strategy code opens our eyes toward the recommended approaches to handling different forensic accounting tasks, weighing the cost/benefit analysis of running certain procedures. With the vast IT resources available nowadays, the forensic accountant has from manual to computerized approaches to execute its tasks. It does rest on him to be prepared to give the best professional judgment when it is necessary; this, however, is based on his experience.

Generally, the working hours depend on the team and their experience and, most importantly, the review procedures are chosen by the auditor. There is no rule of thumb as to determining hours to be spent since it involves more detailed diligence.

On average, those in a forensic job, take between one month, one month and a half, with three professionals working full time. EFG said, "we budget for hours, but we try to define it in advance because no one wants to receive a bill for 500 hours when he was expecting 100 hours. We seek to define the scope and project for hours, but it is always an estimate, because you never know how a fraud will end".

q) Bone of contention of fraud audit (Relationship and social structure code)

The societal relationship is always something of great preoccupation. What is the impact of a business that has its continuity interrupted or near collapsed, that generates resources to say, sustain a municipal government? Should the budget of the municipal administration depend highly on these resources, the exercise of forensic accountings turns to be a social responsibility to bring about transparency and restore ethics.

Does one say that auditors do not normally discover frauds in their cause of their evaluation because their structured approach does not permit such a deviation? Auditing is, traditionally, business inclined and risk based. Or, are auditors afraid of performing additional jobs which would not be readily accounted for? Normally, the independent auditor comes and stays for a very short period. It does not seem to be a ripe time for someone to gain his confidence and reveal to him some dangerous plans for frauds in the organization.

What about the internal auditor? Why is it that their control recommendations are not rightly implemented? There is a great concern about the effectiveness of the works of the internal auditing, the neighbours of the fraudsters. Questions about whether management has lost faith in the internal auditors are factors which trigger additional reflection.. Or that a fraud is revealed by discontentment of employees who have ideas of the case, in some cases employees who are afraid of the faith of the organization, who bear the grudge of such malpractices, with the element of suspicion and revealing it or anonymously giving a sign to the auditor by reporting the fraud. Something that has helped the auditors recently has been suggestion boxes installed all over the organisation where information about frauds could be lodged. "Kroll utilizes the statistical software by performing the regression and correlation analysis to pinpoint unusual transactions". By mapping and tracing financial errors that are socially unacceptable. Those which fall out of the realms of the normal authorization, particularly in the cluster analysis, are clearly shown as abnormal. "In such a situation, we observe excess confidence on employees, lack of adequate procedures and segregation of duties, where the same employee purchases and effects payments" (Gomide, 2008).

According to research carried out by Ernst & Young covering corruption or compliance - weighing the costs in 10th global fraud survey, the result is alarming. As it can be observed in table 6, the percentage of the success of an internal audit job shows "teeth for tat". In analysis of one of the questions posed to the respondents, being executives from all works of life: "How successful are internal auditors in detecting bribery and corrupt practices":

Table 6 – Percentage saying internal audits are not very or not at all successful

Central and Eastern Europe	44
Australia/New Zealand	32
Western Europe	25
North America	19
Far East	11
Middle East, India and Africa	11
Japan	8
Latin America	7

Adapted from Ernst & Young (2008)

According to Gomide (2008) "by experience, a vast number of frauds in which I have worked were not detected by auditors and by an internal control review, because the internal control structure was not effective". He added that a fraud suspect is revealed because that employee who takes short or no vacations, plays soccer with the majority of the big lords of the organization, breaks his leg and someone takes up his tasks in order to keep the operations moving, then the problem is discovered.

5. Conclusion

As far as the our findings go, firstly, we characterize forensic accounting activities in eight perspectives, namely: (i) investigating all works of life say: psychology, philosophy, economics, finance, law and finally concentrating on accounting issues (conceptual aspects); investigation of frauds (mitigating internal control procedural risks), (iii) judicial disputes on organizational structures and succession (arbitrations with true and fair accounting figures on inherent risks), (iv) elaboration and submission of expert reports (giving expert opinion), (v) due diligence (giving bases for value definition).

Thus, in as much as forensic accounting emanates from investigative auditing, it is difficult to detach it from pure auditing. As we can observe in table 2, words or phrases building which show the most common words, which one is able to construct with the sources available in this study.

There is the fact that the forensic accounting practice is observed as a detachment of auditing. This enables it to be categorized as one of the professions that will gain space in time in terms of importance, because corruption is gaining ground in most of the developing countries, be it in the public sector or private businesses.

The main elements of the characteristics of the forensic accounting practice in Brazil match with the global practices as one reflects upon the discourse made to the municipal government of Rio de Janeiro expatiated upon in this study. It tends to give support to management and stakeholders at large to decide on doubtful fraudulent transactions.

Fragile internal controls in some organizations seem to carry the vote in terms of avenue that gives room to be perpetrated by fraudsters. Unless this is addressed, enterprises will continue to spend their scarce resources to maintain fragile strategies which could be foiled towards goal congruence.

Results show that, in practice, Kroll, and other accounting profession organizations are assisting in consolidating the new function of accounting to support the new era of accounts in the territories where they operate, such as Brazil. Even though enterprises like Kroll utilize the standard audit approach to gather evidence, the closeness to the lower echelon of the staff seems to be the most productive approach to fishing information relating to frauds in the organization.

Noteworthy that some frauds have a link with control culture developed by the management of some organizations, sometimes associable to probable fiscal malpractices by some management who are afraid of retaliation from close allies. Normally, these weaknesses are known to some fraudsters; therefore, they create reluctance in the process of infringement of punitive measures on some employees caught in certain fraud acts.

Lastly, the fight for maintaining the internal audit activity has just begun. In the recent decades, during the boom of reengineering, it was classified as one of the departments (cost centres) that were wiped out in some organizations but it managed to survive. Nowadays, we have the issue of frauds that is becoming very rampant and the necessity to have an effective internal control to back corporate governance rules is gaining ground. The idea that frauds have been least detected by auditors is changing shape as auditors are rightly trained to detect frauds apart from emphasizing traditional safeguard of assets.

As a hint for further researches, one would suggest the comparative study of discourses presented by key actors of the forensic accounting profession in other countries for analysis. This will enable other researchers to sense the state of art in other countries where the practice is highly disseminated since nobody reveals how he or she performs the forensic investigation.

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The Impact of Forensic Accounting on Fraud Detection

A. O. Enofe P. O. Okpako E.N. Atube

Abstract

The study examines the effect of forensic accounting on fraud detection in Nigerian firms. the aim of this study is to determine the relationship between fraud detection and forensic accounting. To achieve this objective, data was collected from primary sources. The primary data were collected with the help of a well-structured questionnaire of three sections administered to fifteen firms in Benin City Edo State. The collected data were analyzed with descriptive statistics using ordinary least square (OLS) regression and Chi-square. The study reveals that the application of forensic accounting services on firms affects the level of fraudulent activities.

Key Words: *Forensic accountant, financial frauds, theft of cash/suppression of lodgment, Miscellaneous fraud, falsification of accounts, cashiering fraud, forged chequess with forged signature, computer operator fraud.*

1. Introduction

The growing demand for forensic accounting is a known characteristic of most companies in the world. Forensic accounting arises from the effect and cause of fraud and technical error made by human. Forensic accounting is quite new in Nigeria as companies have realized that the service of a forensic accountant is needed as fraud cases have substantially increased in number. Forensic accounting is the application of financial skills and investigative mentality to unsettled issues, conducted within the context of the rules of evidence (Arokiasamy and Cristal, 2009).

Bologna and Lindquistn (1987) assert that forensic accounting as a discipline encompasses fraud knowledge, financial expertise, and a sound knowledge and understanding of business reality and the working of the legal system. Forensic accounting may be one of the most effective and efficient way to decrease and check accounting fraud. Presently, forensic accounting is gaining popularity worldwide. It is been taught as a major course in many educational institutions in various countries.

1.1 Research Problem

Williams (2002) states that forensic accounting is recognized as having a particular form of professional expertise and endowed with identifiable attributes among which are rationality, neutrality, and independence. Forensic accountants possess a particular social recognition, observation that is critical to the translation of economic issues into symbolic displays of trust. The critical social value that forensic accountants possess is the symbolic capacity by which the translation is realized. Forensic accounting provides cultural mediation for economic and political logics (Williams, 2002). It is the venue within which the cultural mediation of legal and economic claims is accomplished. The first decade of the twenty-first century experienced a tsunami || or blizzard || in the number of corporate scandals, frauds, and failures (Ball, 2009). These events precipitated and contributed to the Great Recession and significantly impacted the efficient functioning of free market capitalism. Some of which were actually facilitated by public accountants (cf. Enron and Arthur Andersen). The scandals, frauds, and failures have contributed to the loss of confidence by the financial statements users in the ability of public accounting to contribute viable solutions to the financial problems, and have fuelled the growth in demand for forensic accountants (Huber, 2012). However, large company such as Cadbury Nig Plc, Oceanic Bank Plc and Afri Bank had been found involved in fraud. This is because it is always possible for high level management to access data and change the information, paper-based system or a computerized system alike. It all relates back to human nature and high level management. The possible way to solve this issue is that the public should be educated and be informed of the use and function of forensic accounting to prevent fraud occurrences. When the public is made known of the concept, then they could actually demand for the service in the company which they invest in. Forensic accountants have played an increasing gly important role in the litigation and other legal disputes fomented by these recent frauds and failures. The fact is that very little has been written in this area. Based on the problem stated above, this study focus on the impact of forensic accounting on fraud detection.

1.2 Research Questions

The study is expected to answer the following questions:

1) To what extent does forensic accounting effect fraud detection?

2) To what extent does forensic accounting curb fraudulent activities in a firm?

1.3 Research Objectives

The main objective of the study is to examine the impact of forensic accounting on fraud detection. The specific objectives are to:

1) Find out the manner in which forensic accounting affect fraud detection.

2) Ascertain if forensic accounting will curb fraudulent activities.

1.4 Hypothesis

The following hypothesis will be tested:

H01: Forensic accounting does not affect fraud detection.

H02: Forensic accounting cannot curb fraudulent activities.

2. Literature Review

2.1 Forensic Accounting

Maurice E. Peloubet is credited 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 proven 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. 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.

In the view of Howard and Sheetz (2006), 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). 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).

The America Institute of Certified Public Accountants (AICPA) defines forensic accounting as services that involve the application of specialized knowledge and investigative skills possessed by Certified Public Accountants…Forensic accounting services utilize the practitioner's specialized accounting, auditing, economic, tax, and other skills (AICPA 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 auditors' 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 assists in the analysis and presentation of financial evidence; communicating their findings in the form of reports, exhibits and collections 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 Olofinsola (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 fro 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).

Forensic accounting has been pivotal in the corporate agenda after the financial reporting problems which took place in some companies around the world. For instance, Enron, Tyco, and WorldCom. These scandals resulted in the loss of public trust and huge amounts of money. In order to avoid fraud and theft, and to restore the badly needed public confidence, several companies took the step to improve the infrastructure of their internal control and accounting systems drastically. It was this development which increased the importance of accountants who have chosen to specialize in forensic accounting and who are consequently referred as forensic accountants. Baird and Zelin (2009) say that forensic accounting is important investigative tool for detection of fraud.

2.2 Fraud Detection

Defining fraud is as difficult as identifying it. No definite and invariable rule can be laid down as a general proposition in defining fraud as it includes surprise, trick, cunning and unfair ways by which another is cheated. Fraud is a legal term that refers to the intentional misrepresentation of the truth in order to manipulate or deceive a company or individual. Fraud is to create a misjudgement or maintain an existing misjudgement to induce somebody to make a contract". It involves enriching oneself intentionally by reducing the value/worth of an asset in secret."When companies undergo severe financial problems and end up in bankruptcy, fraud by senior management may be involved. David (2005), states that fraud is not a possibility but a probability. He also explains that fraud can be better prevented if decisions are made by a group and not an individual. However, this is not the case if the group has the same interest in mind. Then fraud may not be prevented. Conversely, the group is influence by the dominant decision maker who ends up deciding everything. Russel (1978 cited in Bello, 2001) remarks that the term fraud is generic and is used in various ways. Fraud assumes so many different degrees and forms that courts are compelled to context themselves with only few general rules for its discovery and defeat. It is better not to define the term lest men should find ways of committing frauds which might evade such definitions.

Okafor (2004) also reported 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.

According to Karwai, (2002); Ajie and Ezi, (2000); Anyanwu, (1993); Okafor, (2004) and Adeniji, (2004) summarize the types of fraud on the basis of methods of perpetration include the following but not exhaustive as the methods are devised day in-day out to include: defalcation, suppression, outright theft and embezzlement, tampering with reserves, insider abuses and forgeries, fraudulent substitutions, unauthorized, unauthorized lending, lending to ghost borrowers, kite flying and cross firing, unofficial borrowing, impersonation, teeming and lading, fake payment, fraudulent use of the firms documents, fictitious accounts, false proceeds of collection, manipulation of vouchers, dry posting, over invoicing, inflation of statistical data, ledger accounts manipulation, fictitious contracts, duplication cheque books, computer fraud, misuse of suspense accounts, false declaration of cash shortages etc.

Bozkurt (2003) opined that there are two types of fraud committed in business: Personal use of business resources and Drawing up financial statements of the business falsely. Examples are: Embezzlement of the money during its collection but before it is recorded in accounts, tampering the bank records and taking monetary advantage, gaining advantage through forgery of documents, making payments which should not be made or previously made, creating fictitious debts and having payments done in favor of oneself, inventory and scrap theft, office supplies and fixed asset theft, creating fictitious expenses and obtaining disbursements, creating ghost employees and embezzling their wages/salaries, benefiting from overstated personal expenditures and selling business assets under the market value. According to (Ozkul and Pamukc, 2012), the following are the objective of financial statement fraud: Increasing the market value of the business, making financial statements consistent with budgets and obtaining unfair earnings by presenting falsely the value of the business.

When business frauds are analyzed, it is ascertained that three components come together when committing the crime. These are pressure, opportunity, and justification that constitute the fraud triangle. Components of the fraud triangle are similar to the fuel, spark, and oxygen which together cause fire. When the three come together, inevitably fire breaks out. Pressure factors could be gathered into three groups: pressures with financial content, pressures stemming from bad habits and pressures related with job. Opportunity factors are the second component of the fraud triangle. They directly involve top management and owners of the business in particular. Providing the opportunity to commit fraud is one of the most important factors arising from frauds. Since the business could greatly influence opportunity factor, this point should receive particular attention for fraud prevention. The third component of the fraud triangle is fraudster's developing defence mechanisms in order to justify his/her action. Some efforts of the fraudsters to justify themselves and the excuse they made up are: (a) I had borrowed the money, I would pay back, (b) This is in return for my efforts for the business (c) Nobody has suffered as a result of this and (d) I have taken the money for a good purpose. In order to overcome these justifying excuses, business should explain ethic rules to employees, inform them that fraudsters would definitely be penalized, establish moral code in the organization, and provide training on them.

Over time, the importance of initial detection of fraud has increased because the number of fraudulent events has increased. Detection of fraud begins with the notification of red flags which indicates that something is wrong (Ozkul and Pamukc, 2012). This might come to light as a result of trends in the number of employees, managers, and victims concerned about the loss in business assets. There are two main ways to detect frauds: (a) Detection by chance and (b) Conducting a proactive research and encouraging initial identification of symptoms.

Many fraudulent acts have been detected in the past by chance. Unfortunately, the incidence of fraud proceeds during detection and losses consequently increase. In many cases, people who are exposed to fraud in the organization do know that fraud was being committed, but could not bring it to light either because they are not sure and unwilling to blame someone directly or are unsure of how to go about reporting it and might also be afraid of being labelled as whistleblower (Ozkul and Pamukc, 2012).

Fraud is costly. According to the Association of Certified Fraud Examinations (ACFE), an estimated $3.5 trillion worldwide were lost due to fraudulent financial statements, asset misappropriation, and corruption in 2011 (ACFE, 2012). In an effort to restore public trust in the audit profession, accounting standard setters have increased the steps auditors are expected to take in order to detect fraud. As a result of the Enron and WorldCom debacles, auditors are currently required to adhere to the requirements of Statement on Auditing Standards (SAS) No. 99. (cited in Chui and Pike, 2013). Rezaee (2004) revealed that financial statement fraud has cost market participation more than USD$500 billion during recent years, with serious litigation consequences. It will also give a view towards companies who wish to educate and increase awareness among of the public regarding the seriousness of the fraud in Nigeria. This research will lead to the awareness and acceptance level of forensic accounting.

Karwai (2002) reported that the identification of the causes of fraud is very difficult. He stated that modern day organizations frauds usually involve a complex web of conspiracy and deception that often mask the actual cause. Ajie and Ezi (2000) are of the view that studies have shown that on the average out of every ten (10) staff would look for ways to steal if given the opportunity and thus only could four (4)be normally honest. The widespread frauds in modern organizations have made traditional auditing and investigation inefficient and ineffective in the detection and prevention of the various types of frauds confronting businesses world-wide.

Oyejide (2008) opine that fraud is a subject that has received a lot of attention both globally and in Nigeria. This interest has been heightened by several high profile cases involving several organizations. Issues relating to fraud have also been the subject of rigorous theoretical and empirical analysis in the academic literature (Appah ans Appiah, 2010). In the words of Adesola (2008), the threat of fraud to the global economy is better illustrated by the statistics released by Criminologists at a consultancy: over two hundred thousand cases of online frauds were committed in the United Kingdom in 2006, doubled the amount of real world robberies. The study revealed that 75% of card not present fraud was committed on-line in 2006. The global market is concerned about fraud in high and low places. We are very familiar with Enron, WorldCom etc. We are also experiencing more and more frauds committed in the society. The primary responsibility of an auditor is to verify whether the financial statements exhibit a true and fair view of state of affair of the business and their secondary responsibility is the prevention and detection of errors and frauds. The primary responsibility for the prevention and detection of fraud and error rests with both those charged with governance and the management of an entity in spite of the fact that financial statements are the representations of the management. Some authors have acknowledged that there are limitations in the way individual auditors make fraud judgments (Wilks and Zimbelman, 2004).

Furthermore, fraud, in whatever nature and guise, has to be detected first, since detected is an important prerequisite of rooting out any sort of. On their own, auditors are not necessarily the most suitable group to perform the task of fraud detection. The company, by instituting appropriate fraud prevention measures within its organisation, can detect and prevention non-management fraud (Hemraj, 2004). It is the duty of the forensic accountant to detect fraud. An increasing number of studies examine the factors that tempt firms to commit fraud, such as high-powered executive incentives (Johnson, Ryan, and Tian, 2005; Bergstresser and Philippon, 2006; Efendi, Srivastava, and Swanson, 2006; Peng and Röell, 2006), and weak board structure (Beasley, 1996; Agrawal and Chadha, 2005). However, firms with the largest defence contracts have less negative abnormal returns than those with smaller contracts. Dyck, Morse, and Zingales (2006a, 2006b) examine the role of different monitoring devices in fraud detection and find that market-based institutions play a more significant role than regulatory-based institutions.

2.3 Forensic Accounting and Fraud Detection

Albrecht, (2005) argued that fraud is rarely seen. He said that the symptoms of fraud are usually observed. The symptoms do not necessarily mean fraud is being undergone as it may be caused by mistakes. The writer advices are mainly to be cautious when fraud is reported as it may be false allegations. Fraud is not easily proven since frauds have themselves at a safe line where authority could not convict them. This shows that the author is explaining that the fraud defaulters are getting smarter due to the possible mistakes human can cause. This has made detecting and proving fraud a hard work for a forensic accountant. There is a need for deeper understanding on how these defaulters work their fraudulent act. Without constant involvement of the public and improvement in forensic accounting, fraud cases will be hard to detect and thus lead to greater success in financial fraud, which also translates into the failure to meet the expectations of the public, shareholders or even other stakeholders.

Ramaswamy (2005) states that poor corporate governance and accounting failure is one of the reasons why fraud cases emerge. This is because poor corporate governance will lead to the ability of certain individual or a group of people with the same interest to act upon it to commit fraudulent activities in the company. He also states that the problems within the corporate reporting system as a reason because of lack of well implemented policy of corporate governance. This can be reinforced by the fact that top level management should follow the policies of the firm which will help the company to perform better. The problem comes from the fact that certain corporate leaders do not have positive attitude regarding the policies.

Therefore, lack of honesty and transparency in reporting financial statement is another problem. It is agreeable that an auditor does not have the absolute duty to uncover fraud, but they should practice fair and true reporting to ensure that the interests of the public as well as the employees are protected. With the use of forensic accounting guidelines, auditors can act as forensic accountants in cases of suspicious fraud or criminal activities in a company. Ineffective and inefficient system of internal control which is stated by the author points out that a weak management cannot be changed with internal control system. Even if a company applies good internal control systems, the management will still be the major factor influencing the implementation. Companies should look towards new approaches rather than follow the traditional approach as forensic accounting may be the next best alternative in resolving problems. Ramazani and Refiie (2010) studied the accountants' perception of prevention methods of fraud. In this research they examined accountants' perception of forensic accounting which demonstrates the low extent of accountant's perception of forensic accounting. Forensic accounting is considered as one of the factors in fraud prevention. (Bierstaker, Brody and Pacini, 2006).

Okoye and Gbegi (2013) carried out a study on the evaluation of forensic accountants to planning management fraud risk detection procedures. The study reveals that forensic accountants effectively modify the extent and nature of audit test when the risk of management fraud is high, forensic accountants propose unique procedures that are not proposed by auditors when the risk of management fraud is high, forensic accountants can make to the effectiveness of an audit plan when the risk of management fraud is high, involving forensic accountants in the risk of management fraud assessment process leads to better results than simply consulting them.

KPMG's Fraud Survey (2003) reveals that more companies are: recently experiencing incidents of fraud than in prior years; taking measures to combat fraud; and launching new antifraud initiatives and programs in response to the Sarbanes- Oxley Act of 2002 (KPMG 2003). PricewaterhouseCoopers' (PWC) 2003 Global Crime Survey indicates that 37 percent of respondents in 50 countries reported significant economic crimes with the average loss per company of $2,199, 930 (PWC 2003). These survey results underscore the importance of forensic accounting practice and education.

Prior research (Rezaee 2002; Crumbley 2003 and 2009; Peterson and Reider 1999, 2001; Rezaee, Reinstein, and Landar 1996; Rezaee and Burton 1997) reviews the literature on forensic accounting practices, certifications, and education. These studies also provide evidence indicating that forensic accounting education has evolved from being limited, to continuing professional education sessions for practicing accountants, to a current state of being offered as a credit course by several universities. Buckhoff and Schrader's study (2000) finds, "adding a forensic accounting course to the accounting curriculum can greatly benefit the three major stakeholders in accounting education—academic institutions, students, and employers of accounting graduates."

Empirical evidence from a study by Boritz, Kotchetova and Robinson (2008) confirms that forensic accountants could detect significantly higher number of fraud than auditors. Srivastava, Mock and Turner (2003) in their study found that forensic audit procedures significantly lowered fraud risks. Furthermore, research has also proven that proactive forensic data analysis using computer based sophisticated analytical tests can detect fraud that may remain unnoticed for years (Brown, Aiken, and Visser 2007). A study by Bierstaker, Brody and Pacini (2006) researched accountants' perception regarding fraud detection and prevention methods. The findings revealed that organizational use of forensic accountants was the least often used of any anti-fraud method but had the highest effectiveness rating. This is similar to the findings of Ernst and Young's (2003) worldwide fraud survey, which states that only 20% of organizations employed forensic accountants although the satisfaction level for the service 88% was the highest.

According to the US General Accounting Office (GAO) (1996), there is now a strong emphasis on fraud prevention and detection during statutory audits. In fact the United States and international standards setters have increased the responsibility of auditors to consider the risks of fraud while conducting audits of financial statements. There is even a call for stronger forensic skills in those who perform these audits. This has been collaborated by Enyi (2009) who submits that all normal statutory audits should contain some elements of forensic enquiry as the evidence of fraudulent activities can be easily discovered if a thorough evaluation of the adequacy and compliance of the internal control mechanism is made. All these are aimed at fraud prevention and detection. But, this may not be achieved by an auditor without some understanding of forensic accounting methods (Efiong, 2012).

3. Methodology

The objective of the present research is to answer the research question and identify whether there is a relationship between forensic accounting and fraud detection. The survey method is selected for the purpose of this study in order to collect a sufficient amount of primary data. The use of questionnaires is the most widely used data collection technique in a survey and, in this study. The data collected are analysed using Chi-square statistical software and OLS regression analysis these are employed and the results will be used to validate or invalidate the hypothesis. The findings will be discussed and conclusions will be drawn.

4. Data Analysis and Interpretation

This section of the study has been mapped out to aid the presentation and discussion of empirical results. As it were, the study attempts to examine empirically the impact of forensic accounting on fraud detection such variables as: Theft of cash/suppression of lodgement, miscellaneous fraud, falsification of accounts, cashiering fraud, forged cheques with forged signature computer operator's fraud. A proxy for variable fraud detection as independent variables. The method of Ordinary Least Squares (OLS) estimating regression equations and was employed. The choice of this technique arises as a result of the fact that, it is subject to some crucial assumption of the error-term and this provides the "best" (minimum variance), unbiased linear estimator (BLUE PRINT) of the parameter estimates of a single equation model. This again arises from the fact that the best linear unbiased estimator of the unknown parameters is obtained by minimizing the residual (error) sum of squares.

Table 1: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta	-2.397	.139
(Constant)	-2161.741	901.781		-.172	.879
TCSL	-.001	0.003	-0.005	11.872	.007
FOA	-200.037	16.850	-0.018	662.76	.000
CF	229.711	.347	0.994	4	-
FCFS	0.000	0.000	0.005	1.457	.282
COF	0.000	0.001	-0.023	-.754	.530

a. Dependent Variable: FD

FD_{Prox} = -2161.741 -.001TCSL-200.037FOA + 229.711CF +.000FCFS+.0000COF
901.781 .003 16.850 .347 .0000 .001

tval= -2.397 -.172 11.872 662.764 -1.457 - .754

A close examination of the Cochrane Occult results in equation above shows that the results in general are satisfactory. The diagnostic statistics obtained from the estimation exercise are very much impressive. For example, after adjusting for degrees of freedom, the R bar squared stood at 1.000, accounting which is about 100% of the total variations in the fraud detection carried out satisfies the sample period 2007-2012, justifying apparently that the fit to the data to the model was very good. The f-statistic again reinforced this.

Table 2: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig
Regression	765557077258.792	5	153111415451.758	121182.966	.000b
Residual	2526946.162	2	1263473.081		
Total	765559604204.954	7			

a. Dependent Variable: FD
a. Predictors: (Constant),

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000a	1.000	1.000	1124.043185

b. Predictors: (Constant), TCSL,FOA,CF,FCFS,COFb.

Table 4: Excluded variables

Model	Beta In	T	Sig.	Partial Correlation	Collinearity Statistics
					Tolerance
1 MF	.963b	36.035	.018	1.000	3.553E-006

a. Dependent Variable: FD
c. Predictors in the Model: (Constant), TCSL,FOA,CF,FCFS,COFb.

Thus, with an f-value of 121182.966, the overall model is found to be significant, hence the hypothesis of a significant linear relationship between fraud detection and forensic accounting explanatory variables namely, theft of cash/suppression of lodgement, miscellaneous fraud, falsification of accounts, cashiering fraud, forged cheques with forged signature, computer operators fraud, all taken together is as a matter validated. The implication of this is that the estimated fraud detection equation has an overall goodness-of-fit especially when the computed F-statistic (121182.966) exceeds the critical value, easily passing the significance test. The standard-error of estimation is also high at 1124.043, hence taking the ratio of (see), the standard error of estimation, to the mean of the dependent variable, we have the error estimation is 901.781. This again implies that a very high forecasting performance is associated with the estimated equation.

Hence, both the residual variance and the error of prediction are very high. The serial correlation associated with the preliminary Ordinary Least Square (OLS) regression results have been eliminated as evidenced by a DW-statistic of 1.97. Also, the estimated parameters of the autoregressive error specification reveals that all the autoregressive schemes i.e. first, second and third autoregressive parameters are statistically different from zero even at the conservative 1% level of significance. Considering the individual significance of the variables, all the variable of the firm appears to have passed the significance test even at the conservative 1% level. Thus, with a t-value of 36.035 greater than the table t-value of 0.18 it is obvious that the coefficient of the fraud detection variable is significantly different from zero.

The sign and statistical significance of the variable makes it a policy relevant variable especially when the results are devoid of the problem of autocorrelation. The empirically evidence obtained with respect to this variable shows that a rising effect of forensic accounting of a firm does indeed affect the overhaul of the financial report. It does so in a significantly positive way looking at the anova table.

5. Summary of Findings

The application of forensic accounting services by quoted companies in Nigeria is not effective in curbing fraudulent activities. The ineffectiveness of the employment of forensic accounting services by corporate organization in Nigeria has strong implications for sound corporate governance. The emergence of e-business and its growing sophistications have not done much in the reduction of unwholesome practices in Nigeria as envisaged in the dawn of the millennium by most corruption fighters. Policy makers in the world have instituted policies of which some in the form of legislations just in an effort to stampede the monster but everything seems to be ineffective. Test Statistics. Chi-Square= 180.611 Degree of freedom= 36 Asymp.Sig=.000 Level of Significance=0.05 With the level of significance 0.05, degree of freedom 36, the computed value using Statistical Package for Social Sciences (SPSS) is 180.611, while the tabulated figure is 9.49 meaning that the computed figure is higher than the tabulated. Hence we reject the null hypothesis and accept the alternate which says that Forensic accounting has strong relationship with fraud detection for public confidence and eradication of crime and corruption in Nigerian economy Hypothesis 2 H1 Forensic accounting does not curb fraudulent activities created by traditional auditing style.

6. Conclusion and Recommendation

On the basis of this finding, the paper concludes that forensic accounting services provide firms with the necessary tools to deter fraudulent activities but does not curb fraudulent activities. The gap can be filled by introducing and adapt forensic accounting as financial strategy to curb economic and financial crime:

- Forensic Accounting will provide litigation support service with appropriate provision of professional services in the law courts
- Forensic Accounting will institute good corporate governance in the public sector which will install public confidence in the government and the entire system.
- The traditional auditing has limitation in detecting fraudulent practices which the forensic accountants will effectively fill. They have the professional ability back up by law to break into the organization system and examine the books, make discoveries and present the documentary evidences in the law courts.
- The image of Nigeria in the international community has discouraged foreign direct investment because of economic and financial crime. This has effect on development, employment and the standard of living of the people. Eradication of economic and financial crime through the adoption of forensic accounting in the system will improve the image of firms under review.
- Detection and prevention of corruption have given rise to the profession of forensic accounting. Due to this fact, the most important thing companies have to do with regard to fraud is to prevent the crime from being committed.
- Government and regulatory authorities should ensure the provision of standards and guidelines to regulate forensic activities and above all Nigerians should embrace integrity, objectivity, fairness and accountability in their day-to-day activities.

The Role of Forensic Accountants in Detecting Frauds in Financial Statements

Jovan Krstić

Abstract

Numerous financial frauds from the past and the beginning of the century as well as the appearance of the global financial and later economic crisis have brought to the fore the relevance and reliability of financial information. The system of financial reporting and the accounting and auditing profession are often accused because of the appearance of frauds and the loss of trust in the reliability of financial information on the part of the users and makers of economic decisions. The aim of the paper is to discuss frauds and omissions as the causes of inaccurate financial statements, control mechanisms and institutions responsible for investigating frauds as well as the role and importance of forensic accounting and a forensic accountant in detecting frauds in financial statements.

Key Words: *Forensic accountant, financial frauds, inaccurate financial statements, control mechanisms and institutions, report on undertaken investigation.*

Introduction

Under contemporary conditions of business activity, securing reliable financial information through disclosing financial statements is considered a generally accepted objective. Numerous financial frauds from the past and the beginning of the century have seriously disrupted the trust of numerous users in financial information contained in financial statements. The greatest frauds of the users of financial information and primarily investors have been committed by presenting false i.e. falsified financial statements. The responsibility of preventing, detecting and investigating frauds in financial statements lies in the hands of the management of an enterprise, but also in the hands of other control institutions and mechanisms. The system of internal control, internal auditing and audit committee are the key elements for preventing frauds that are created through property misuse as well as those that use financial statements as instruments of fraud. External auditing and forensic accounting perform retrospective control of financial data with the aim of detecting omissions and frauds and the aim of securing the reliability and credibility of financial statements.

In the last fifteen years, and increasingly today, the accountants that are called forensic investigators or forensic accountants have been engaged in detecting frauds in financial statements. Engaged by the management, owner or other users of financial statements, forensic accountants investigate and document financial frauds or inaccurate materially significant information. In order to perform the given tasks, forensic accountants must have solid knowledge of accounting and auditing, developed capability of good communication verbal, written and investigative, independence and a considerable degree of knowledge about the usage of information technology in accounting and auditing procedures. Accordingly, the paper will discuss frauds and omissions as the causes of inaccurate financial reporting, control mechanism and instructions responsible for investigating frauds and the place and role of forensic accountants in detecting frauds in financial statements.

1. Frauds and Omissions as the Causes of Inaccuracy of Financial Statements

Inaccurate i.e. false financial statements provide incorrect picture of earning capacity and financial position of an enterprise. On the basis of such statements, the users, investors, first of all, make decisions about harmful consequences. Hence, there occurs the need of the broader accounting public and users of financial statements to base their decisions on the information that shows the real picture of financial and revenue position of an enterprise. It goes without saying that the real picture will not be obtained if the omissions and frauds appear in the process of preparing financial statements.

Frauds are acts that are undertaken with the intent of making financial statements incorrect and falsified. They are, as a rule, based on the following four elements: (1, p. 13)

- false presentation of facts that has an important character
- the awareness of a perpetrator about the falsity of presentation and manifestation of the total negligence of the truth
- person that receives information treats it as reliable and relies on it in making decisions
- owing to the above mentioned, the financial damage that the user of the information bears is created

Misrepresentation of facts that are of material nature can be achieved in many ways; first of all, through falsifying and amending either bookkeeping documents that represent a ground for registering business changes and control of the correctness of undertaken booking, or accounting registration on the basis of which financial statements are composed. Also, misrepresentation of facts is achieved through inadequate valuation of balance positions, incorrect disclosure and the like. Therefore, one should have in mind that perpetrators are aware of the intolerability of their acts, where the mentioned acts i.e. actions are marked as intentional. Perpetrators-actors in frauds are at a different level of the management of enterprises, including top management where the third party is also involved.

Besides frauds, the incorrectness of financial statements is also caused by the omissions that appear during the creation of bookkeeping documentation and its processing in preparing and composing financial statements. They usually appear during the collecting of documentation and its processing in preparing financial statements, because of wrong accounting estimates that lead to overestimation or underestimation of certain facts, e.g., balance positions; because of wrong application of accounting principles regarding balancing, presenting and revealing as well (2, p. 35)

Regarding frauds as the cause of incorrectness of financial statements, many questions that merit the attention of the accounting public and the users of financial statements can be made. One of the questions can, surely, involve indicators and features that can indicate to the degree of openness to risk when it comes to frauds in financial statements of the enterprise. It is considered that the sources of risk reside in the areas of corporate i.e. organizational culture, accounting estimates and the use of the option right in accounting policy. In the Handbook of Fraud and Commercial Crime Prevention of the American Institute of the Certified Public Accountants, 28 features that make elements of organizational culture (management style, management orientation, authority distribution, performances, reporting, business ethics, etc) are important for the existence of a high i.e., low potential for fraud (3, p. 5).Circumstances of enterprises making business continually demand the use of accounting estimates in preparing and composing financial statement.

In addition, the use of accounting estimates cannot jeopardize the reliability of financial information. In order that this demand could be fulfilled, estimates must be objective. Therefore, the objectivity of estimates is the objective one strives to. However, it is certain that there is an amount of subjectivism in estimates. Thus, one should have in mind that as long as the creators of financial statements have as their aim, the establishment of objective estimates, the reliability of financial statements is not jeopardized. The problems emerge when fraud becomes the aim of composing financial statements. Then, estimates become means for its realization since they lead to overestimation or underestimation of property and results. The users of financial statements, often, cannot see that the estimates are unreal, which in turn increases the possibilities of fraud. Finally, the possibility of using the right of choice in the accounting policy in the process of financial reporting is considered a source of risk as it has been previously mentioned. It is known that the rights of choice-option in normative basis and practice of financial reporting- have been present for decades. Numerous IAS/IFSR still contain the right of choice. Although their existence makes the comparability of financial statements difficult, it is, however, estimated as a necessity (e.g., the possibility of different levels of valuation on the part of enterprises that do business under different conditions). But, one should have in mind that the use of the right of choice for fraud is not rare. By choosing certain rights of choice, through application of the so-called aggressive accounting policy, it is possible to manage profit that way to achieve the postponing of taxes and to show, in financial statements, the profit that is lower than real (4, p.64).

2. Control Mechanisms and Institutions Responsible for Investigating and Detecting Frauds in Financial Statements

Investigating and detecting frauds in financial statements represent the primary task of an enterprise management and other controlling institutions (internal auditing, external auditing, audit committee, etc) and regulating bodies that should create proper normative framework and secure their application. The importance of reliable financial reporting accounts for the existence of responsibility in broad terms. However, one should have in mind that the execution of a given task presumes the building of an appropriate system where each segment institution as a part of the system of gain will have appropriate place and role.

Corporate management, the systems of internal control, internal auditing and audit committee represent the forefront of defense from financial frauds. Corporate management represents the process where managers manage corporate resources with the aim of achieving certain level of performance (5, p.329). It establishes and also monitors objectives, policy and the openness to risk of enterprises. However, the management of the enterprise, besides numerous objectives of the enterprise defined by business policy, has as a task to see to the quality of financial statements. It is responsible for the application of regulations and appropriate standards, hence, it is clear that eventual fraud would be detected and sanctioned.

Besides corporate management, system and internal controls, internal auditing and audit committee comprise the second element whose primary objective is fraud prevention. The system of internal controls presumes all policies and procedures that the management has adopted in order to help in achieving, as much as possible, the management's objective regarding securing of regular and efficient performing of business, including the management's policy, protection of means, prevention from fraud and omissions, correctness and completeness of accounting records and timely preparation of reliable financial information (6 MSR 400). Comprehensive framework for internal control encompasses the following key elements: environment control, activity control, information and communication and monitoring (7, p.207). Internal auditing is the activity of independent, objective assurance and consulting created with the aim of creating additional values and advancement of the organization's business. It helps the organization in achieving its objectives by introducing systematic, disciplined approach to estimation and by advancing the process efficiency in risk management, control and management (8, p.109). Audit committee is a controlling body that a client forms for auditing (the enterprise in which auditing is performed) with the aim of more efficient execution of auditing procedures. Audit committee, as a rule, performs the following jobs: reviews and analyzes financial statements of clients, recommends the change of accounting policies to the management, ensures the implementation of the observations of the internal auditing, recommends the choice of certified auditor, etc. (9, po.194).

External auditing and investigations by forensic accountants represents the second line of fraud prevention. Mentioned control activities perform retrospective control of financial data with the aim of detecting frauds and omissions. Truly, although the primary task of external auditing is not the detection of fraud and omissions, but the research of opinions on financial statements, it is, however, unavoidable in the control process that should secure the reliability of financial statements (10, p.95). The primary task of external auditing is to detect, with appropriate intellectual effort, whether there are materially important omissions or frauds in financial statements. If the management does not remove materially important omissions or frauds, then the auditor is obliged to issue appropriate, generally, negative opinions or reserved opinions and thus draw the attention of the users of financial statements, mostly investors not to rely on the information contained in negative statements. It is understandable that if the auditing procedure does not detect mistakes and frauds, then it expresses unqualified i.e., positive opinion.

3. Forensic Accounting and the Role of Forensic Accountants in Detecting Frauds in Financial Statements

Great financial frauds at the end of the past and the beginning of this century have imposed the need for deeper investigation of irregularities in the area of financial reporting. In connection to that, control institutions, legislature and profession have as the primary objective the creation of assumptions that frauds through financial reporting should be prevented to a great extent and if they emerge they should be detected before things come out of proportion. As a result of the effort in the area of normative-legislature activities, for example, in the US in 2002 the famous Sarbanes-Oxley Law was passed the purpose of which was to enlarge the reliability and correctness of financial information and in turn reduce the possibility of the creation of financial frauds. The EU, in that sense, has taken similar steps, primarily in the direction of important changes in the Eight Directive and the like. However, within profession, in the time after Enron, as the time after the great financial scandals is called, it has lead to the forming of new regulative bodies and the appearance of a new profession-forensic accounting investigator, forensic accountant. The application of the accounting concepts, principles and procedures in solving legal problems, is often defined as forensic accounting.

In the accounting literature there is no unified definition of forensic accounting. From numerous definitions that can be found in the literature that deals with forensic i.e., investigative accounting, the complete one was that by the Association of Certified Fraud Examiners (ACFE). According to the Association, forensic accounting is the use of skills in potential or real civil or criminal disputes, including generally excepted accounting and auditing principles; establishing losses of profit, income, property or damage, estimations of internal controls, frauds and other that involves inclusion of accounting expertise into the legal system (11, www.forensicaccounting.com). In other words, forensic accounting or otherwise called investigative accounting involves the application of accounting concepts and auditing techniques in solving legal problems. Hence, according to many, the key components of forensic accounting are accounting skills, auditing techniques and investigative procedures.

In accord with the described essence of forensic accounting, forensic accountants, basically, investigate and document financial frauds. Also, they help lawyers, courts, regulative bodies and other institutions in investigations of financial frauds. It goes without saying that in order to perform efficiently tasks and activities that have been assigned to them, forensic accountants must possess solid knowledge and skills in accounting and auditing. Additionally, they should possess developed capabilities of verbal and written communication, capability of perceiving details, capability of efficient application of investigative techniques, experience in investigations as well as independence and high degree of knowledge about the use of information technology in the accounting and auditing procedures. A high degree of independence and objectivity is expected of forensic accountants, in accordance with the ethical codex for professional accountants. Independence has an equal importance for a forensic accountant as well as for an auditor. A forensic accountant will be considered independent if they are intellectually honest, ready to make impartial decisions and have no interests or obligations in relation to the client, management or the owner. Independence is usually considered the prerequisite for objectivity. It is insisted on objectivity when it comes to the proofs that support the claims of the management and belong to the area that make greater subjectivity possible (e.g., with the estimate of future losses). It is estimated that in the following years, in developed market economies, a forensic accounting investigator will be one of the 20 most wanted professions (1, p. 24).

The role of forensic accountants under contemporary conditions is very important. It stems from the need for identifying and analyzing certain causes of fraud appearance as well as the jobs and tasks that forensic accountants perform. When it comes to the need for identifying the causes of fraud appearance, the events and occurrences, whose creation makes existence of

frauds evitable, should be indicated. In that sense, according to the frequency of their creation as well as their importance, the following can be identified: anonymous accusations delivered by mail, e-mail or telephone; the fact that a highly ranked manager has given notice for known or possible illegal jobs; company-an enterprise has been identified as a subject of investigation that a legal body performs; an enterprise has received a summons from a court or regular agency; an auditor believes that he/she has deliberately been deceived by verbal information received from an enterprise or that demanded documents have been amended or their delivery has failed; the revelation that the client is a subject of fraud however small it might be, even in those cases when the accused is no longer an employee; indications that suppliers might be fictive and indications stemming from the misrepresentation of income or expenditures as well as the recognition of sale before it has been finalized, delivery before final sale, recognition of income although there is an obligation of performing important services regarding that commodity in the future, obvious recording of nonexistent income, postponing of expenditures to future periods or recognition of expenditures of future as well as current periods (2, p. 25).

Besides the above mentioned events and indications, whose creation makes the existence of fraud evitable, there are numerous events and transactions that should lead an auditor, manager or any other user of financial information presented by a company to suspect the existence of fraud. These events are often classified into four groups. The first group relates to the inaccuracy that is the consequence of incorrectly applied accounting rules in encompassing business events and disregard of accounting procedures. Namely, this involves the inaccuracy that has been caused by transactions that are not recorded in the whole, not recorded timely, recorded in incorrect amounts, recorded in the wrong period, classified incorrectly or the wrong policy has been applied in their valuation or recording. Events that represent the reflection of the disregard of accounting procedures and that should also be the subject of the attention of auditors, owners or a management are the following: the increased number of the so-called last minute transactions that greatly affect financial results; the appearance of unsigned financial statements; the existence of evidence that the employees have access to the systems, which is inconsistent with their authority; the existence of sharp disagreement between business books and the existence of transactions that are not recorded in accordance with general and specific approval by the enterprise management. The inaccuracy concerning the second group is created because there is no documentation or documentation in electronic form, unavailability of records and their inexistence, etc. The third group comprises the unusual transactions with joint enterprises. Then, the possibilities of fictive realization of business-policy objectives, for example, are created, through increase of income through sale that is not followed by a real product dispatch, magnified factures for performed services and the like. The fourth group comprises unusual actions like: the refusal of the management to enable access to records, employees, business partners or any other person that could offer auditing evidence; the pressure of the management for solving problems in short time, complaints of managers about the work of auditors, especially about auditor's opinion; intimidating the members of an auditing team; setting formal and informal obstacles for auditors to prevent them from efficient communication with the audit committee or board of directors.

When it comes to the business and tasks of forensic accountants, it can be noted that they are related to deterring, detecting and investigating frauds in financial reporting. A forensic accountant can be engaged by a management or owner as well as by other users of financial statements and regulatory bodies with the aim to investigate the doubts concerning the existence of fraud and to collect the evidence. Their attention is not directed towards financial statements as a final product of the accounting procedure, which is the job of an external auditor, but towards the assessment of transactions, people and environment in order to establish the indications about frauds. Furthermore, one should have in mind that not all transactions are the subject of investigation, but only particular transactions between enterprises and certain business partners regarding the sale and purchase of the precise number of buyers i.e., suppliers as well as the transactions, in whose realization certain people and groups of people have participated. However, successful realization of the mentioned tasks presumes a close collaboration between a forensic accountant, an internal auditor, an external auditor and audit committee. In all the cases when they suspect that there is a fraud that they cannot solve, forensic accountants cooperate with an internal auditor. The reason being that an internal auditor knows the enterprise, ongoing transactions, employees better as well as internal control and information systems than a forensic accountant. Information gained from an internal auditor enables a forensic accountant to increase the efficiency of investigation.

Then, for a forensic accountant, of special importance is the insight that an external auditor can give about the types of risk, business transactions, documentation, systems-system of internal control and accounting information and personnel. Working papers of an auditor can also be an important source of data necessary for the understanding of control environment, accounting system and control procedure. The circumstances that the investigation is directed by an audit committee, puts a forensic accountant and other participants in the investigation under obligation to service the audit committee.

Finally, after an investigation has been completed, a forensic accountant makes a report on the undertaken investigation and/or report for the need of court procedure. Regardless of the fact which of the mentioned reports is in question, a forensic accountant must put an effort in making them. This concerns their form as well as their content. Information that the report contains must be accurate, impartial, relevant and timely. In the report, the undertaken stages in investigation, ways of collecting data and their analysis as proofs are given. The quality of reports is conditioned by the quality of undertaken investigation, primarily by a forensic accountant and other control institutions engaged in fraud detection in financial statements, in order that the users, who are presented with statements, could be in the position to make accurate estimates and decisions.

Conclusion

Under contemporary conditions of business activity, frauds and omissions appear as causes of inaccurate financial statements. Although the consequences are the same-the creation of inaccurate financial statements, there are important differences between omissions and frauds. Frequent omission are created because of the wrong application of accounting principles in relation to amounts, types and ways of presenting and publishing certain data with no intention whatsoever to do that .In contrast to omissions, frauds represent acts undertaken with the intention to falsify financial statements. In that connection, the ways of performing estimates and of using the right of choice in the process of financial reporting are considered the sources of fraud in financial statements in the area of corporate i.e. organizational culture.

Investigating and detecting frauds in financial statements represent the basic task of the management of an enterprise and other control institutions or regulative bodies that should form certain normative framework and secure its application. Corporate management, systems of internal control, internal auditing and audit committee represent the forefront of defense against financial frauds. External auditing and investigations by forensic accountants represent the second defense line against frauds. It goes without saying that performing the above defined task presumes the building of a proper system where each segment-institution would have its place and role.

The role of a forensic accountant under contemporary conditions is very important. This is because forensic accountants, in accord with the essence of forensic accounting, investigate and document frauds. By applying accounting principles, auditing skills and investigative procedures in solving certain legal problems, forensic accountants help lawyers, courts, regulatory bodies and other institutions in investigating financial frauds. Therefore, in order to perform tasks efficiently and compose reports on undertaken investigation, forensic accountants must possess solid knowledge and skills in the area of accounting and auditing. Also, they must have a developed capability of verbal and written communication, capability of perceiving details and of the efficient application of investigative activities as well as a considerable degree of knowledge about information technologies in accounting and auditing procedures.

How to break a Fraud Triangle

Faizaan Rauf Patker, ACCA (UK)

'Trust' is a professional hazard….
verify, verify, verify and verify

By Jonathan Marks

Introduction

Today's business and trade world which has already been shaken up for economic downturn and recession, the topic 'Fraud' captures extensive attention to the public masses irrespective whether he is a businessman, a regulator, an investor, a common commodity consumer or even a spouse.

Fraud is 'an intended wrongful deception to fetch a personal or financial gain'. Fraud is primarily based on three corner-stone structures termed as 'Fraud Triangle'. Its occurrence cannot be possible in the absence of either of one. Let's take an outlook of fraud triangle which makes its perception vital to the masses.

The three milestones of fraud triangle are:

a. Motivation or pressure;
b. Rationalization; and
c. Opportunity.

The Fraud occurrence cannot be possible in the absence of either of one from above list.

Breaking the Fraud Triangle

In many organizations fraud is often detected more often by some anonymous tips, accident or internal management threshold alerts. One of the challenges is to apply the anti-fraud chemistry on a "Big Data" of the organization which is hard to examine due to its unstructured nature. Breaking the Fraud Triangle is the key to fraud deterrence, it implies that an organization must remove one of the elements in the fraud triangle in order to reduce the likelihood of fraudulent activities. Many studies have been conducted and are still continued worldwide addressing the core issue of eliminating the factors that affect either of the corner-stone of the Fraud Triangle structure. Have a look at the three corner-stone pillars of 'Fraud Triangle'.

Motivation or Pressure

The motivation or pressure (both) causes an employee to commit fraud.

The motivation is to enjoy remaining part of life by clicking certain activities which are entrusted in him and to be performed without someone else's acknowledgement. However the pressure emerges when a trusted staff will become a trust violator at the time when he perceives that his financial or personal problem threshold is exceeded and cannot be shared.

The reputed global and international organization plan and conducts all effort to control the staff motivation or pressure factors for sustainability of enterprise operations. These include:

- Productive staff communication enables awareness of the root problems.
- Staff motivational perks, benefits, awards, project achievements, etc.
- Social gatherings or dine-out parties (e.g. Monthly or Quarterly Dining outs),

- In-house sporting activities (e.g. Table Tennis competition after office work hours in office premises),
- Credit extension facilities to staff (e.g. house financing, car financing, etc.).

Rationalization

The mind perception used by a fraudster to reconcile his attitude (or behavior) towards a fraud, is Rationalization.

The corporates try to eliminate this rationalization via introducing measures that help staff to enhance and amplify their living style. These include, but not limited to:

- Introduction of benefit-in-kind, award achievements and project completion targets
- Avoid staff sitting for late hours,
- Timely promotions, etc.

Opportunity

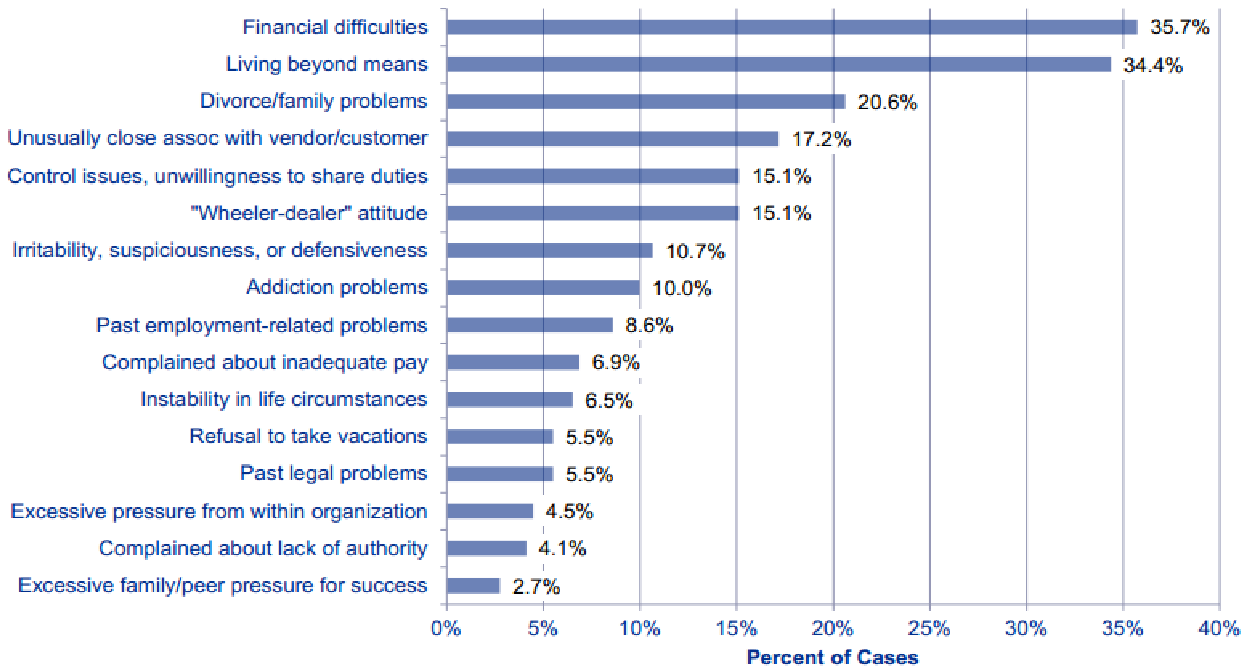
The ability to commit and perform an activity is termed as an 'opportunity'. There are abundant responses and action plans developed by management to eliminate such abilities of either 'Commit' or 'commit to perform' a fraud. The bi-product of this 'Commit' or 'Commit to perform' is not to get disclosed or detected otherwise the opportunity will no longer remain.

The existence of weak controls and failure to implement qualitative and objective-focused procedures are the primary reasons that 80% of the world-wide frauds are committed due to existence of a perceived opportunity being put into the actual practice. The management willingness to combat the existence of a perceived opportunity includes minimum:

- appropriate application of controls,
- suitable segregation of duties implementation,
- the segregation of duties validating respecting user-profile accesses (i.e. need to know or required to do basis), and
- effective monitoring of controls

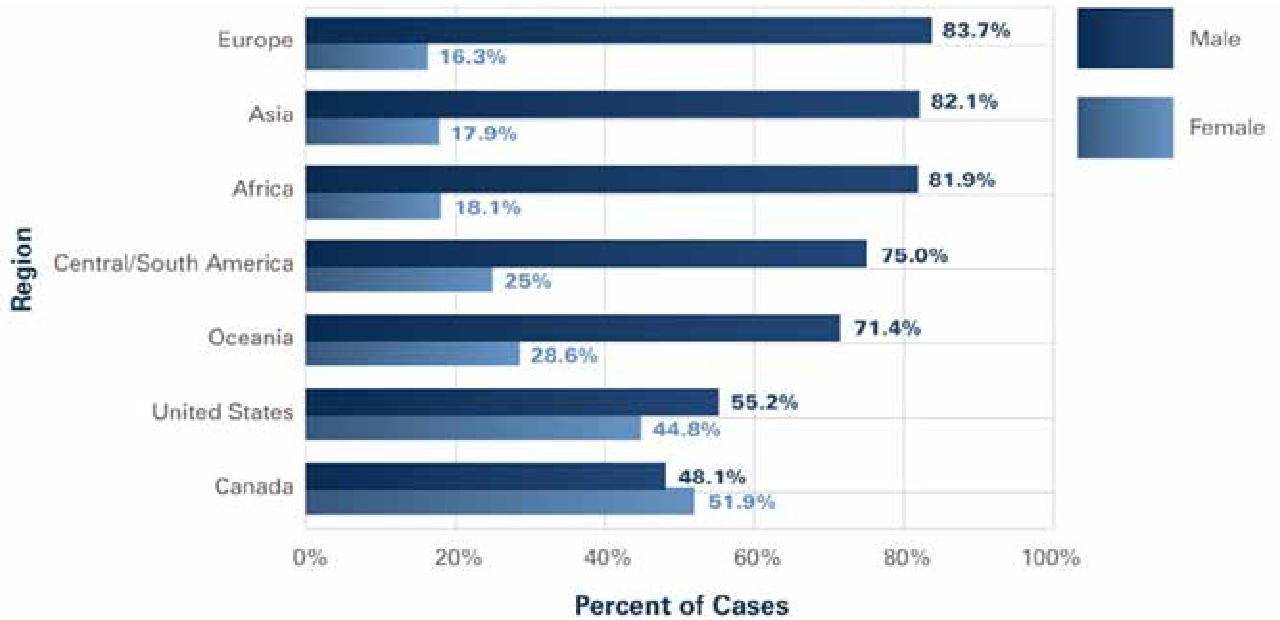
Fraudulent activity analysis

All three corners of 'Fraud Triangle' included, i.e. motivation or pressure, rationalization and opportunity in below factors of committing a fraud.



Source: Data Analysis by Financial Executives International

Gender-based fraudulent activities trend



Common Anti-fraud measures to break the organization's 'Fraud Triangle'

- Surprise audits
- Whistleblowing Policy - effective communication and implementation
- Anti-fraud Policy
- Job rotation and mandatory vacation (specially for staff having approval authorities)
- Employee support programs
- Anti-Fraud trainings for managers and executives
- Internal audit independence and conduct
- External audit
- Code of Conduct
- Regular management review of Internal Controls
- External audit of Financial Statements
- Rewards for whistleblowers

Fraud deterrence and prevention – standard rules to break 'Fraud Triangle'

- Never underestimate the fraud identification triggers.
- Do not replace 'Diligence' with 'Automation'.
- As a preventive tool, local flavor and local news is important for geographical segments.
- Improving the observation and listening art.
- Root-cause analysis for incurred incidents.
- Process lapse studies to be conducted.
- Common sense approaches shall always prevail

"Of the three elements of motivation (or pressure), rationalization and opportunity, the removal of Opportunity is most directly affected by the system of internal controls and generally provides the most actionable route to deterrence of fraud"

" Let the ears do their job, while dining inside organization premises. " Words by the Author

Change Management

Noor-ul-Huda Ashraf
FCA, FPA, FICS

What is Change Management?

Life is dynamic – be it individual, organization or national. As it is rightly said *"only constant in life is change"*. To be successful, competitive and mostly importantly be alive (or exist) we need to constantly change. These changes can be very small such as a new office look or wardrobe and very significant such as change of business line or profession. Every change needs planning. The bigger the change – the more elaborate and in depth planning it will need.

When the winds of change blow hard enough, the most minor of things can turn into deadly projectiles

In simple words:

> *"Change management is a systematic approach to dealing with change".*

In more elaborate words:

> *"Change management is an approach to shifting/ transitioning individuals, teams, and organizations from a current state to a desired future state."*

The change management process is the sequence of steps or activities that a change management team or project leader would follow to apply change management to a project or change.

Change management entails thoughtful planning and sensitive implementation, and above all, consultation with, and involvement of, the people affected by the changes. If you force changes on people normally problems arise.

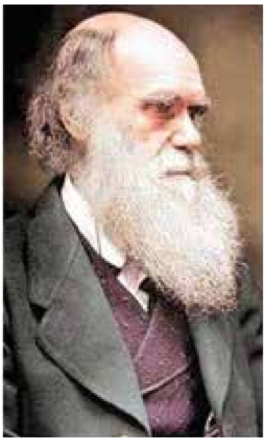
The Evolution of Change Management

Failure of change initiatives in early „80s and „90s, forced business leaders to redefine the problem and its solution. Credit goes to the big 6 accounting firms and management consulting firms with creating the change management industry when they branded their reengineering services groups as *change management services in the late 1980s*.

Change management has constantly been reshaped and evolved over time. Researchers and authors have given their share of knowledge and various approaches to successfully implement change initiatives. With the widespread use of Information Technology (IT), things have both become more comfortable and difficult to manage as change manager. IT on one hand helps the manager to gather information and get early warnings of deviation and time to correct before things go out of hand and on the other hand gives stakeholder more and early data to scrutinize things closely thus making life of the manager a bit more complex.

Why change?

"It is not the strongest of the specics that survive, nor the most intelligent, but the most responsive to CHANGE" ***Charles Darwin***



Change management can be:

- **Personal**
  Transforming yourself and your surroundings, changing your goals and aims, changing your career aspirations etc.

- **Information Technology (IT)**
  Change management is a very critical subject in information technology. As the technology is one of the fastest changing, persons and organizations using information technology need to be always on alert so that what they are using does not become a dead investment and a burden. Change management for IT has two forks one is for organization level which covers infrastructure and software in use. The other one is change management for changes required within software. Generally when we talk to IT professionals they refer to change management as changes, improvements and trouble shooting in the software being used or developed.

- **Business**
  Business is a living and evolving entity. It has to be dynamic, learning and evolving to be competitive, successful and to survive. Changes can be initiated or required for various reasons such as:

  - Global competition
  - Well Informed customers
  - Demand of High Quality
  - Very Competitive Prices

Our focus here is organization change management although a number of lessons can be applied to personal or information technology changes also.

Examples of organizational change:

- Mission changes
- Strategic changes
- Operational changes (including structural changes)
- Technological changes
- Changing the attitudes and behaviors of personnel

Causes of failure

Studies show that in most organizations, two out of three transformation initiatives fail. Following are some of the factors influencing failures in change management:

- **Organization Management**
  - Lack of Commitment from top management
  - Focus – losing focus during change management and diverting critical resources
- **Project Management**
  - Poor planning
  - Non-dedicated Project Management Office
  - No Sustainability and Measurement Planning
- **Human Factor**
  - Lack of proper Communication
  - Ownership and Behavioral Issues

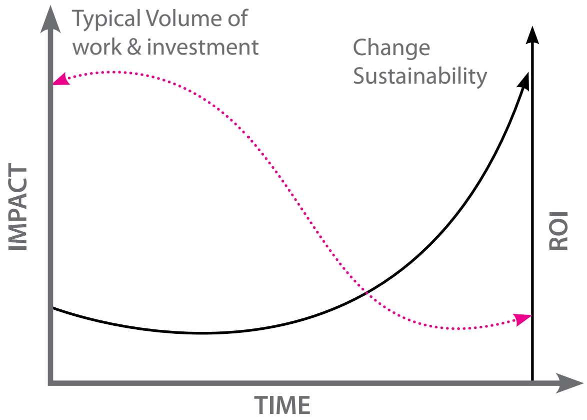
Key success factors or failture triggers:

1. Get the vision right
2. Build the guiding team
3. Account for human and cultural factors
4. Communicate
5. Empower action
6. Create short-term wins
7. Don't let up
8. Make change stick

Urgency

One single most important factor is creating unnecessary urgency. It can be from top management in the shape of pressure to complete the task in very short time to save cost and organizational resources or just to show the Board that we can accomplish the unthinkable or by the employees to get rid of additional work load.

Therefore if you think that you need to make a change quickly, probe the reasons – is the urgency real? Will the effects of agreeing a more sensible time-fame really be more disastrous than presiding over a disastrous change? Quick change prevents proper consultation and involvement, which leads to difficulties that take time to resolve.



The Process

Managing change is very difficult but real challenge is that each situation requires different approach. Every organization has a different culture and every problem has a different focal point. Therefore if we search on the Internet, it would be most talked about subject. On amazon.com alone you will find over 6,000 books on this topic while articles on the net would be innumerable.

No single methodology fits every company but there is a set of practices, tools and techniques that can be adapted to a variety of situations.

1. **Clear vision / scope**
   Get the team to establish a simple vision and strategy, focus on emotional and creative aspects necessary to drive service and efficiency. Changes must be realistic, achievable and measurable.
2. **Make the formal case**
   A formal business case should be prepared with different level of details. This will help those involved in understanding the requirement of change and its importance for the organization. Different layers of management and staff needs different level of details and it should be taken care of while making the business case.
3. **Readiness Assessment**
   As a multidisciplinary practice that has evolved as a result of scholarly research, Organizational Change Management should begin with a systematic diagnosis of the current situation in order to determine both the need for change and the capability to change. The objectives, content, and process of change should all be specified as part of a Change Management Plan.
4. **Plan the process**
   Planning is very critical for the success of any change management initiative. A single sample plan may not work for all initiatives. Every situation is compounded with different challenges therefore require different approach. Plan needs to be tailored for every situation. As guide the more complex the problem, the more detailed planning it will require.

5. **Build the team**
   Building a good team in not the answer, building the right team is. Get the right people in place with the right emotional commitment, and the right mix of skills and levels. Champions of each critical area should be involved and given equal importance.
6. **Coaching and Training**
   Coaching and training should be provided to the Manager(s) to make sure that they understand what is coming and what it will require to get through it with success.
7. **Training and Training Development**
   Training of all employees involved in the process is very important and it should be clearly managed in the planning. This may need to be repeated for various groups and at various intervals during the project execution depending upon size of time and length of time required for the project completion.
8. **Create urgency**
   Creating unnecessary urgency can be fatal for the project but creating right type of urgency would inspire people to move, make objectives real and relevant. It should be guided and controlled. People need to complete task as quickly possible so that they can move back to routine but at the same time should not lose focus to just get back to normal.

The Hard and Soft sides:

Some of the experts argue that soft issues such as leadership, culture and motivation are critical while other experts focus on hard issues such as short term targets / reviews, team capability, commitment of top management and additional efforts of employees required are critical. However loosing focus on either side can be detrimental to the project success. Same would be over emphasis. Finding balance according to specific situation is the challenge.

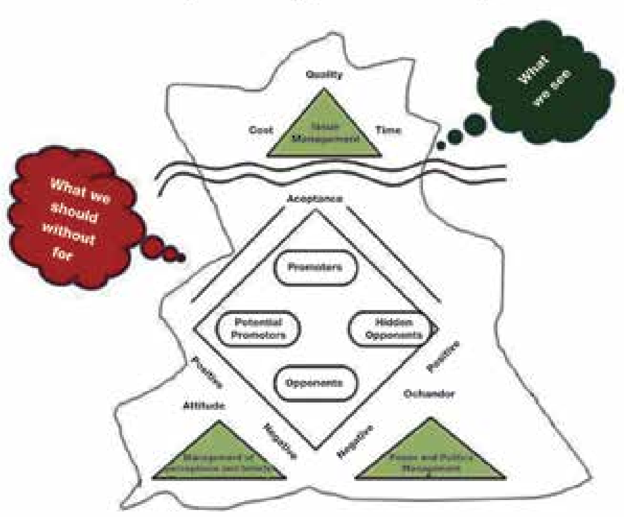
9. Resistance Management

Every project faces resistance. Level could be different depending upon scope of the project. Expected resistance should be evaluated and mitigation should be planned.

10. Prepare for the unexpected

As business is dynamic, so anything can happen whether due to internal factors or external. To have a success, we need to assess to maximum possible level, what can go wrong and then find appropriate mitigation strategy. Risk management is part every successful plan.

Change Management Iceberg



11. Address the "Human Side"

Every organization is run by humans, every process is driven by humans and every change will need human involvement. Human factor is very critical and should be addressed with equal importance. Some of the matters would be addressed in the step wise plan such as information sharing, training and communication while some would be mentioned in write-ups and inculcated in the whole process.

12. Start at the top

Commitment, focus and making one available is required from everyone involved but it has to be demonstrated from the top. The more committed and focused is top layer, the more chances of project success.

Overlapping Responsibilities

Organization should determine and maintain focus	Entire Organization
Organization and teams should have highest level of coordination	Team
Team and individuals should maintain cosistent action	
Individual should retain priorities	Self

13. Involve every layer and create ownership

Although commitment and focus from the top is critical but every layer within the organization needs to be involved. Involvement level can be different but leaving out any one may cause problems. Even those who are not directly involved and affected should be kept informed to create sense of ownership.

14. Empower the responsible

Remove obstacles, enable constructive feedback and lots of support from leaders - reward and recognize progress and achievements.

15. Assess the cultural landscape

Every organization has its own unique culture and values. While planning the process make sure to address the cultural values of the organization and its people. This aspect should be addressed explicitly so that people feel the project blending into the organization rather than being imposed.

The Cultural Landscape:

Company culture is an amalgam of share history, explicit values and beliefs, common attitude and behaviors.

Change programs can involve:

- *creating a culture (in new companies or those built through multiple acquisitions),*
- *combining cultures (in mergers or acquisitions of large companies)*
- *reinforcing cultures (in long-established companies)*

16. Communicate the message

Involve as many people as possible, communicate the essentials, simply, and to appeal and respond to people's needs. De-clutter communications – make technology work for you rather than against. Encourage your managers to communicate face-to-face with their people too if they are helping you manage an organization change. Email and written notices are extremely weak at conveying and developing understanding.

17. Create short term wins (to keep interest level high)

Creating short term wins help keep interest level high. Celebrate these at appropriate forums too so that these are visible. Set aims that are easy to achieve - in bite-size chunks. Manageable numbers of initiatives. Finish current stages before starting new ones.

18. Maintain momentum of progress

Foster and encourage determination and persistence. Encourage ongoing progress reporting - highlight achieved and future milestones.

19. Sustain the change

Planning and completing a project with success is a great achievement but if you have not planned to ensure that results achieved and the changes made are sustained, you will lose whatever gained. Sustaining the change is as critical as success of the project. Planning for future measurement and benchmarking success factors should be included in the plan at the outset.

20. Postmortem – the lessons learned

Once project is complete, a postmortem should be carried out – whether successful or not. This will give us lessons learned during the project execution and will help us plan and execute future projects more successfully.

Electronic Audit Confirmation For Banks

Muhammad Imran, ACA

Each year and during each audit or review engagement, Audit Firms send bank confirmations to gain assurance over the bank balances and financial statements. Moreover, management of entities must actively pursue the financial institution for obtaining bank confirmations, that is, a complete financial information of the Company's all bank accounts/loans/LC/Lease etc.

On the other hand, financial institutions generally take several days to process bank confirmation requests. More often than not, subsequent to the completion of the field work the auditors are still waiting for the banks to confirm the accounts balances. Manual systems, such as the filling out of a bank confirmation by a clerk, is prone to human error. Thereby, increasing the risk that the bank might not report the correct balance. Moreover, there is a risk of collusion between the financial institution and the audit client. Hence, it is safe to conclude that with a manual system the level of service is at the mercy of the individual that fills it out which in turn puts pressure on management to continuously train staff so far in to keep them motivated and to ensure they are following the correct procedures. As a consequence of all of the above it can be all too easy to accidentally switch details electronically and end up with inconsistency in data entry or in hand written letters. This has the effect of not only causing problems with service but also making information unable be used for reporting or finding trends with data discovery. Reporting and checking that data is robust and can be timely and expensive. This is often an area where significant money and time can be saved by automation.

It takes more effort and physical space to keep track of paper documents, to find information and to keep details secure. When mistakes are made or changes or corrections are needed, often a manual transaction need to be completely redone rather than just updated. With manual or partially automated systems information often has to be written down and copied or entered more than once. Automation can reduce the amount of duplication of data entry.

As auditors we know importance of audit confirmation and I refer to following abstract from International Standards on Auditing:

ISA 500 indicates that the reliability of audit evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained. That ISA also includes the following generalizations applicable to audit evidence:

- Audit evidence is more reliable when it is obtained from independent sources outside the entity.

- Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.

- Audit evidence is more reliable when it exists in documentary form, whether paper, electronic or other medium.

Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity. This ISA is intended to assist the auditor in designing and performing external confirmation procedures to obtain relevant and reliable audit evidence.

The above paragraph highlights the importance of external confirmation as audit evidence. These paragraphs also suggests that we can use electronically obtain confirmations/audit evidence. Following are some controls and advantages to support my suggestions:

Controls

Controls for audit confirmation process

Designed to comply with bank's security requirements, banks should undergo SOC 1, SOC 2 and SOC 3 examinations every six months, and should receive an ISO 27001 certification International organization. This ensures integrity of the data and protects clients' account information when responding to confirmation requests.

Controlling the audit confirmation process is more than just protecting client information. It is also about making sure the responses are received from and sent to an authorized requestor (i.e. Chartered Accountants firms etc.) and that only the properly authorized bank personnel respond to confirmation requests. To do this, bank should use a unique Authentication and Authorization Process to verify the authenticity of the users.

Advantages

1. **Improves productivity and reduces costs**
   Sending and receiving audit confirmation requests can put a strain on any department. While audit confirmations are necessary, chasing paper is not. Banks can drive productivity throughout its workforce while reducing costs. This service streamlines confirmation workflow, centralizes responses and archives responses electronically.

2. **Increases client retention**
   Anticipating client needs, giving them tools to improve business processes and consistently providing high service levels are essential for maintaining a long-term relationship with clients. Because electronic medium streamlines the audit confirmation process, clients will spend less time helping their auditor track down lost confirmations. Clients and their audit team will experience quicker responses, improved response rates, and decreased errors.

3. **Supports green initiatives**
   Today, banks are using a variety of green initiatives throughout their organization as a way to reduce their carbon footprint. Electronic medium not only supports green initiatives by reducing paper consumption, but storing documents in an electronic format saves time, money and space.

Charges/Cost

To avoid cost burden, Bank can/may charge a reasonable cost to its clients for this automation process.

Conclusion

The paper-based process auditors use to confirm their client's account balances with a bank is extremely manual, inefficient due to delayed response and is open to confirmation fraud risk. Electronic form/medium simplifies the audit confirmation process allows banks to comply with regulatory standards, increase productivity and reduce costs. Therefore, it is recommend that ICAP should take steps to encourage Banks/State Bank of Pakistan at appropriate forum to develop centralized process for electronic confirmation of accounts balance of clients to confirming parties to save time, efforts and expedition of the audit process.

Web-Based Accounting

Syed Athar Hussain Zaidi, FCA
Ali Raza and Mujahid Abbas

What is Web-Based Accounting?

A web-based accounting is a concept of maintaining a company accounts by having an internet connection and a browser. No matter where you are sitting in any part of world with internet connectivity, you can access to this software. Instead of investing a considerable amount in ERP software, you can have accounting solution with good standard reporting tools under this concept by paying a very small amount. This is a creative concept with a lot of benefits. Some of them are listed below:

Benefits of Web-Based Accounting

You Need A Browser with internet connectivity - To use web-based accounting solutions, you need internet connectivity and a browser and any sort of computer obviously. These three things will constitute a complete accounting package for your company without jeopardizing your time and resource for an implementation. This is very likely that when you are going somewhere out of your business town, and you have some expenses during your travelling, you may even update your accounting record using computer systems of airports or any net café.

Lower Up-Front Costs for Software – This is basically designed for small organizations that cannot afford expensive software. There is no upfront cost, you need just to register on line selecting the type of business you are in and you will be able to use that software in no time.

You even don't need to invest in hardware like servers and back up medium that one has to keep in order to secure data.

Lower Administration Costs – Customers avoid the need to hire an expensive IT professional staff or consultants to maintain the system. Typically systems that run on the higher-end Microsoft SQL server and Oracle databases require an IT professional on staff or on call. With the web-based model, certified and qualified software engineers take care of customers24/7to maintain system, and their cost is included in the monthly fee.

Shorter Implementation Time Frame - there is no implementation time for this software. You need to log in on website and select the type of industry you are in and enjoy the benefits of sophisticated accounting software. Our trainer will be available for training your staff at initial stages without any extra cost.

Lower Costs for Multiple Locations – In the past, companies with multiple locations were forced to purchase expensive solutions such as Citrix or Microsoft Terminal Services Advanced Client to accommodate remote access to the accounting software database. These remote access solutions alone cost to high, which prices these solutions out of reach for many small businesses houses. With the web-based accounting model, the company with any size can start data entry into a single system from multiple locations at affordable prices.

Work From Home - This solution is also ideal for small business owners who occasionally want to work from home. Suppose a child is sick and cannot attend school on a given day. Web-based solutions make it easier for the parent to stay home with the sick child, and still access the web-based accounting system to process payments, print reports, input transactions, etc. As another example, a web-based accounting system might make it easier for a working parent to leave the workplace early, for example at 3:00pm, and continue working from home in order to avoid the rush hour and to be there when the children go home from school.

High - End Databases – These solutions run on the world's most robust and secure databases – such as Microsoft SQL server, yet these solutions cost a little. One of the common shortcomings of low-end accounting systems has been that they incorporate weaker database technology that does not scale nearly as well as higher-end databases. Today, all web-based accounting solutions use the same high-end database that powers the largest companies in the world. In other words, small businesses need not worry about outgrowing the system's capacity.

No More Backup Worries – With web-based accounting solutions, backups are maintained on a frequent basis which further protects small businesses in the unlikely event of data loss. Studies show that only a small percentage of small businesses perform regular back ups properly and store them off-site. With web-based accounting, the company can still maintain their own local back ups if they want, even though the web-based accounting publisher performs rigorous back up procedures religiously.

Proactive Maintenance Services – Under this model, web-based accounting solutions apply enhancements and patches to their product on a continuous basis compared to the older method in which customers receive patches and enhancements once or twice a year. The result is that web-based solutions can be more responsive to the customer's needs and the application itself always reflects the latest version. There is no more need to pay consultants hefty fees to come in and implement system upgrades - this occurs automatically on a timely basis and with no additional cost to you.

Some Examples of Web-based Accounting?

1. Oracle Small Business Suite
2. QuickBooks for the Web
3. ePeachtree
4. Intacct
5. ACCPAC Online
6. mySAP
7. Integral Accounting
8. Peachtree Web Accounting (Combination local & web-based)
9. Microsoft Small Business Manager (Combination local & web-based)

Problems of Web-Based Accounting

1. **Speed** - Dial up access to the internet is not enough. It takes cable, DSL, or business class high-speed internet access to make web-based accounting work at acceptable levels of performance. This can be avoided using the broadband services.

2. **Reliability** - Web-based accounting relies 100% on the internet being used. Any type of internet connection can face some downtime due to their own maintenance requirements. This is a valid concern and there really is no answer other than employing a local/web solution such as Peachtree Web Accounting or Microsoft SBM.

3. **Viruses** - because of rampant viruses and media attention, many people fear that they might be at a higher risk to contract a virus if they run their accounting system on a web-based system. There is little basis for this. Yes, viruses are a serious threat. Paid anti-virus software must be used to avoid this situation.

4. **Security** - This is being deleted as this is my (software providers) problem not customer-related problem.

Future of Web-based Accounting

The web-based accounting model opens the doors to virtually anybody to jump into the accounting software market. Previously, a company needed not only a product, but also an extensive distribution channel to promote, sell, and support the product. With the web-based model, any company can throw a web-based application on a web server and theoretically reach millions of businesses. Accordingly, it can be speculated that some non-traditional companies may jump into the web-based accounting game. In the future, you may see free or nearly free web-based solutions offered by companies such as American Express, Time Warner/AOL, Yahoo!, and maybe even UPS. Why not? This is a clever marketing gimmick that would allow these companies to get their hooks into small businesses.

When Net Ledger first came out, it was theorized that they had started something that could not be stopped. Expectations were pinned up that these new web-based solutions to dramatically change the face of accounting software in the years to come, opening the floodgates to a wide range of changes. For starters, people thought that the new web-based accounting model would ultimately allow higher-end products to effectively target small businesses. For example, ACCPAC on-line is a higher-end product that is readily available to anyone via the Internet. Now that this solution is in place, the incremental cost of allowing additional small businesses web access to these solutions is very small. For example, a single user could subscribe to 8 ACCPAC Online modules for the monthly rate of just Rs 5,000, compared to a purchase price of Rs 240,000.

It is speculated that in the future, fees for renting web-based accounting systems will be based on the size of the data or on transaction volume – a proven pricing model which is currently employed by companies such as Earthlink who offer web site hosting.

Speculations are still there that in the future, industry-specific versions of the various web-based accounting solutions will emerge. For example, Peachtree may create different versions of their products designed to meet the specific needs of the market. By deploying these different versions on separate web sites, users need only access the version that most closely meets their needs. The accounting software industry has long desired to create industry specific versions of their products, however the logistical problems related to packaging and maintaining multiple versions of a given product have prevented companies from moving forward with this idea. Because a web-based solution avoids packaging problems completely and makes centralized management of the software code relatively easy, industry specific flavors of various products may finally become a reality.

Another change that we are likely to see in web-based accounting systems is the introduction of embedded hotlinks and banner advertisements. We are not suggesting that this change will be a good one as we are already inundated with advertising everywhere we look. However these changes could produce powerful benefits if implemented correctly. For example, assume you are using a web-based accounting system and the built-in analysis tool observes that your insurance expense is rather high for a company of your size and industry. A pop-up alert box could warn you of the problem and offer a link to the vendor's web site which instantly quotes you lower insurance rates for the same coverage you are currently receiving. A similar alert may monitor your interest rates and offer refinancing alternatives to you. Other alerts may instantly hotlink you to an employee leasing options, co-marketing opportunities, or sources for discounted supplies. We've seen consumers offered free computers, which constantly run advertising banners across the screen; therefore it is not difficult to foresee that ultimately there will be many web-based accounting systems offered for free in exchange for tolerating built-in advertising banners.

Web-based accounting systems may eventually impact the accounting software consultant and reseller community as well because this model circumvents the traditional reseller channel to offer product directly to the consumer. Many vendors are concerned and are taking steps to preserve reseller profits. For example, when Great Plains first launched its' hosting solution in 1997, resellers were largely left out of the resulting revenue stream and as a result, resellers had no incentive to promote the web-based solution. Great Plains later re-designed the pricing model to allow resellers to share a portion of the monthly rental fee. Still, the implementation and training aspects of an installation engagement has always generated the lion's share of the reseller's fees. Web-based systems do not appear to pose much of a threat to this source of revenue.

Aliens of Public Sector

Fawad Hassan, ACA

Screaming with joy I entered my house, Haiyyyyyah…… …I got a job in BPS blaa blaa blaa……. timings are 8:00 am to 03:00 pm, sounds like heaven…… !!!! But no one knew that this was just the beginning.

Next morning I woke up early, dressed up to match my ultimate standards of decency, tied my shoe laces…… this was the first knot I learned when I was just a kid, tie knot was the second. I rushed to my place of joining. It was around 07:45 am when I entered the premises….the place was deserted and howling with sounds of furniture dragged on floor. The only cadre on duty was sweeper!!! This man, my first teacher at this job, made me realize that coming too early could be injurious to health.

Physical security procedures were self developed as I found asset number printed and employee name written on almost every chair which was further chained to nearest table. Same policy was adopted for ball points and pedestal fans.

Officials used to come at about 08:30 to 08:45 am. Everyone here was having a lunch box along. This really made me feel inferior that I don't have what everyone else has. Just to keep myself normal I decided to buy while going back. Every table was piled up with files. Every file was tied up with a stationery item technically called "flapper". Flapper is used to embrace all the files with a knot on it. This was the third knot I learned since it was not that easy to deal with. It should not be too lose that files fall out and it should not be too tight that it bend the stuff inside. I realized very soon that this knot is more important for job than the earlier two knots since failure to tie it rightly could attract a reprimand.

Filing work was most confusing as every file was divided into two portions. One was "Correspondence" and the other was "Noting". Correspondence comprised of letters and memos where as Noting was the official chat going on before any correspondence is finalized. I very confidently assume that this Noting style inspired android and facebook to transform message format into one we see today in our smart phones. The jargons of Noting were very interesting as it got meanings different from literal ones. For example in downward communications usual term was "Discuss Please". This term is meant to direct the addressee to abstain from attending the subject immediately!!! There were two basic principles of writing Notings (1) how/why I cannot do it (2) how my work is dependent on some other guy. If one has learned to mitigate his responsibility in Notings, he is the champ.

Newspaper happened to be the first document which used to get attention of the majority. The second inferiority complex I got was, I didn't have any opinions on politics and cricket going on…… man its disturbing me every day, as I was so naïve to the relational physics followed here. I felt cocooned in some big boss reality show. Motto here is to grow up to superannuation age in the shortest possible time and win the pension trophy. Hovering in office, wearing a cool suit & shiny shoes was equally disturbing for me as it was for others…… I am an Alien….. O God,,,, just pull me out of here.

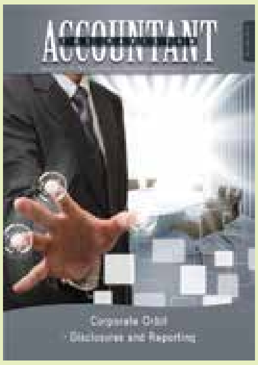
In a few days I managed to learn that I need to un-learn few things such as agility, objectivity etc Every task has got its life cycle which I should not disturb…otherwise I will become a pivot and irrelevant tasks will follow me. Mistakes are committed by those who work, those who don't work don't commit mistakes, so the moral of the story was "if you don't want to commit a mistake then don't work"…. Gash this was a horrible lesson.

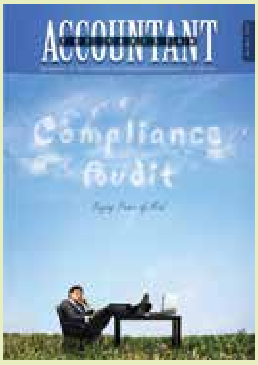
After a week or so, few others from my planet also joined their duties. This was a relief for me as their sentiments matched mine. We used to laugh at our problems and at the same time we were determined that we have been hired for good and if we also start customizing ourself and quit swimming against the flow, we will be responsible for our desperate future.

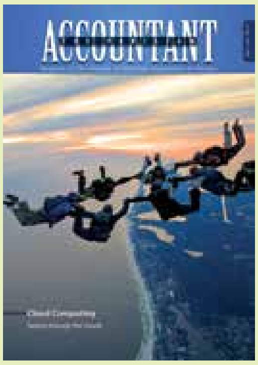
When ever professionals are hired in Public sector some initial teething problems crop up, especially the seniority issue, which I used to narrate as "the conveyor belt syndrome"….the sufferer of this syndrome used to believe that since he has stepped on the conveyor belt first, no one else can bypass him. Professionals will also be blamed for over complexicating simple things which lead to late hour workings and useless detailed analysis etc.

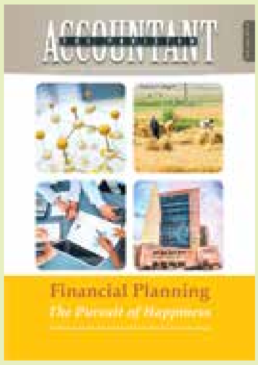
There do exists a competence gap between professionals and public sector employees. This gap can be filled up through capacity building programs. It is unfortunate that some how continuous injection of fresh qualified human resource remained stuck which lead to this competence gap. On the other hand we are fortunate that we have very hardworking resource available in Public Sector which is extremely interested in learning. Leadership in public sector should continuously analyse its human resource needs, so that no professional feel Alien at any public sector office.

THE PAKISTAN ACCOUNTANT NEEDS YOU









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October / December 2014

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