

WILL IMPLEMENTATION OF FORENSIC ACCOUNTING IDENTIFY THE SENSE OF FINANCIAL FRAUD?

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Abstract *The threat of fraudulent financial statement has been in existence for several years. In fact it was the threat of this and the need to provide shareholders and other stakeholders with a reasonable assurance and a means of protecting their wealth from different forms of fraud. Moreover, the edge of lack of credibility and confidence in reasonable assurance, and when the issue of fraud detection and prevention was at its pinnacle, it has been forecasted that in the nearest future there will be response of the general roles of the auditors to detect and prevent misappropriation of assets, corruption fraud and fraudulent financial statements. These actions led to the employing of fraud investigators who can be called forensic accountants. The study emphasized on, will stakeholders identify the sense of financial fraud by implementing forensic accounting? The respondents proclaimed that implementation of forensic accounting will stem the financial fraud & bridge the expectation of audit.*

Keywords: *Accounting professionals, Audit Expectation Gap, Financial statement, Forensic Accounting, Fraud, Misappropriations*

INTRODUCTION

In the financial sector, the root causes of all problems is an inefficient and poor corporate governance and a strong corporate governance is essential for the smooth running of an organization. As per Ramaswamy (2005), fraud cases are due to poor corporate governance as it is more likely that a fraud may be committed. The absence of well-established accounting policies within an organization further weakens the corporate reporting system and it is the responsibility of the auditor to discover frauds committed and access the transparency of financial reports provided by the top management. Bhasin (2016) investigated the rise of forensic accounting due to widespread financial frauds and identified the main duties (auditing, accounting, and investigative) of a forensic accountant in dealing with frauds. As such forensic accountants make valuable additions to corporate governance by creating a conducive working environment leading to fraud prevention, investigation of dubious cases and effective communication. (Bhasin, 2013) "Forensic" signifies "appropriate for use in a courtroom", and it is to that standard and potential result that legal accountants for the most part need to work. Forensic accountants, additionally alluded to as Forensic examiners or investigative evaluators, frequently need to give master proof at the inevitable trial. Crumbley, D. Larry; Heitger, Lester E.; Smith, G. Stevenson (2005) All of the bigger accounting firms, and also numerous medium-sized and boutique firms, and different Police and Government organizations have pro Forensic accounting

divisions. Inside these gatherings, there might be further sub-specializations: some Forensic accountants may, for instance, simply represent considerable authority in protection claims, individual harm claims, extortion, development. Cicchella, Denise (2005). Alternately sovereignty reviews. Parr, Russell L.; Smith, Gordon V. (2010).

REVIEW OF LITERATURE

Ozili P. K. (2015) explained Fraud includes accounting numbers frequently show by coordinating controlling accounting numbers used to produce financial reports, for instance, stock overvaluation and shameful capitalization of capital cost, profit administration and salary smoothing.

As indicated by Enofe et al. (2013) the investigation of forensic accounting, as a branch of accounting, requires expansive multi-disciplinary learning, especially, in the information of business exercises, human conduct (brain research), working information of the legitimate framework, and so on. There give off an impression of being some accord on the wide way of measurable forensic accounting.

Ozkul and Pamukcu (2012) Jointly, the writing demonstrate some agreement that fraud may include: (1) the change or control of material financial records, supporting archives, or business exchanges; (2) purposeful misquotes, exclusions, or distortion of occasions, exchanges, accounts or other huge in-arrangement from which financial statements are readied; (3) planned misapplication and confusion of

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accounting gauges, standards, approaches and strategies used to quantify, perceive, and report financial occasions and business exchanges; (4) deliberate oversights and divulgements or presentation (5) the utilization of forceful accounting procedures, for example, ill-conceived income administration methodologies; and (6) the control of accounting practices under guideline based or rule based accounting norms that permit organizations to shroud the financial substance of their execution.

Morteza Ramazani and Hossein Refie Atani (2010) concentrated on the accountants' impression of aversion techniques for fraud. In this exploration they analyzed accountants' impression of forensic accounting which shows the low degree of accountant's view of forensic accounting.

OBJECTIVES OF THE STUDY

- To find out the view point of accounting professionals as to whether on a implementation of forensic accounting system in an audit is capable of stemming financial fraud.
- To study the perception of Accounting professionals as to whether on a implementation of forensic accounting system will help to bridge the audit expectation gap.

RESEARCH METHODOLOGY

Population: Population basically constitutes of Accounting Professionals in India.

Sample Size: 250 respondents

Sampling Unit: In particular, accounting professionals comprises 50 respondents from each of the following category.

- Accounting Academician
- Auditing Firms
- Accounting Firms
- Corporate Accountants
- Members of ICAI at top level

Sampling Technique: Non-Probability sampling technique was used for the study. Tools specifically used for the analysis is chi-square, t-test & one way ANOVA in order to justify the need of information.

Sampling Method: For the purpose of the study, Judgmental sampling method was used. The rationale for adopting this sampling method was:

- The desired elements of the sampled population do not equally and universally exist in all units of the target population

- inclusion of exceptional and special units within the sampled population is essential for the completeness of the research and
- The universe includes a relatively small number of sampling units.

Given such justification, a simple random selection would most likely have missed the more important elements and was therefore rejected.

Research Instrument: The questionnaire was consisting of two sections. Section one contains questions relating to demographic information of respondents. Section two consists of Forensic Accounting. The collected data was edited, coded, tabulated, grouped and organized according to the requirement of the study.

Hypothesis of the Study

1. H_0 : Accounting professionals in India does not agree to the suggestion that, on an implementation of forensic accounting system in an audit is capable of stemming financial fraud.

H_1 : Accounting professionals in India agree to the suggestion that, on an implementation of forensic accounting system in an audit is capable of stemming financial fraud.

2. H_0 : Accounting professionals in India does not agree to the suggestion that, on an implementation of forensic accounting system will help to bridge the audit expectation gap.

H_1 : Accounting professionals in India agree to the suggestion that, on an implementation of forensic accounting system will help to bridge the audit expectation gap.

DATA ANALYSIS (DEMOGRAPHIC VARIABLES)

The descriptive analysis with regards to demographic segmentation which divided into groups on the basis of variables such as age, gender, education, profession, work experience. Demographic variables are important as they help the researcher to distinguish groups. Out of the total 250 respondents, 38% were between the age group from 30 to 40 years. While the lowest proportion is above 60 years, which represents 14 % from total population. The respondents between the age group from 40 to 60 years are 32% from the total population. Out of the total 250 respondents, 42% are CAs. While the respondents who are having ICWA degree is comparatively less i.e. 8%. There is not much difference in the degree like CFA/CFB/CPA & M.com/Finance which

respondents is having 16% & 18 % respectively. Out of the total 250 respondents, 42% respondents is having experience between 5 to 15 years & the proportion of lowest experience is 12% i.e. above 30 years. The respondents having work experience between 15 to 30 years, represents 28%.

RESULTS & DISCUSSION

The analysis focused on implementation of forensic accounting twig the wave of Financial Fraud & bridge

the audit expectation gap. The research asserted that the comparison among accounting professionals' perceptions was able to reveal whether forensic accounting should be implemented or not. The study was analyzed by considering 9 parameters of forensic accounting with respect to different from traditional auditor, 100% verification, certify the statement, fraud detection, primary duty, commitment etc. Various relevant hypothesis has been framed & three statistical tools were applied to implementation of forensic accounting in India.

Table 1.1: Analysis of Parameters Influencing Forensic Accounting

Introduction of Forensic Accounting & bridging Audit Expectation Gap	Statistical Tools								
	Chi-square (age)		Chi-square (Education)		One-sample t-test		One way ANOVA		
	Pearson Chi-square	Sig. Value	Pearson Chi-square	Sig. Value	t-value	Sig. Value	Between the group	Within the group	Sig. Value
Forensic accounting is a relatively new area of enquiry	49.158 ^a	0.002	1.008E2 ^a	0.000	15.989	0.000	99.417	400.583	0.016
The Forensic accountant is different from the traditional auditor	39.582 ^a	0.03	84.482 ^a	0.037	17.514	0.000	111.585	388.415	0.008
While auditors express an opinion on the financial statements based on their audit work, members of the public believe that they certify the statements	75.916 ^a	0.160	86.148 ^a	0.007	16.296	0.000	99.057	400.943	0.038
Members of the public believe that auditors perform a 100% verification of amounts in the financial statements while often auditors obtain evidence for such amounts through taking of samples	91.859 ^a	0.027	76.846 ^a	0.002	17.775	0.000	92.775	407.225	0.023
The average investor expects the auditor as a matter of his duty to discover all material fraud	92.880 ^a	0.016	1.024E2 ^a	0.010	16.296	0.000	105.275	394.725	0.028

Table 1.2: Analysis of Parameters Influencing Forensic Accounting & Audit Expectation Gap

Introduction of Forensic Accounting & bridging Audit Expectation Gap	Statistical Tools								
	Chi-square (age)		Chi-square (Education)		One-sample t-test		One way ANOVA		
	Pearson Chi-square	Sig. Value	Pearson Chi-square	Sig. Value	t-value	Sig. Value	Between the group	Within the group	Sig. Value
The auditor, however, believes that his primary duty is not fraud detection	66.795 ^a	0.038	81.339 ^a	0.024	17.185	0.000	84.000	416.000	0.036
The forensic accountant who is not affected by the limitations of the audit process is in a better position to discover fraud and thus bridge the expectation gap between the auditor and investors	73.296 ^a	0.046	1.456E2 ^a	0.000	18.715	0.000	95.542	404.458	0.045
The use of a forensic Accountant in an audit will increase the cost of the audit	37.556 ^a	0.011	1.678E2 ^a	0.023	15.667	0.000	95.704	404.296	0.050
The benefits of using forensic Accountants, however, outweigh their costs	49.496 ^a	0.082	1.144E2 ^a	0.011	16.184	0.000	93.37	406.63	0.057

Table 1.1 shows the result obtained from applying Pearson Chi-square test (age) & the results shows that different age group of accounting professionals has significant impact on four parameters regarding traditional auditor, 100 % verification, duty to discover all material fraud while, the parameter which has no impact is certify the statements as the significance value is 0.160 which is more than 0.05. The opinion of respondents analyzed by applying Pearson chi-square test (education) & the results shows that different education group of accounting professionals has significant impact on all five parameters regarding different from traditional auditor, certify the statement, 100 % verification, and duty to discover all material fraud. The results from application one way ANOVA test, indicates that there is significant gap in the perceptions of Accounting professionals & all the five parameters are responsible for implementation of forensic accounting.

Table 1.2 The Pearson chi-square test was applied (age) & the results shows that different age group of accounting professionals has significant impact on three parameters regarding primary duty, limitations of audit and increase in the cost of audit while, the parameter which has no impact is the benefits of using forensic Accountants, however, outweigh their costs as the significance value is 0.082 which is more than 0.05. The opinion of respondents analyzed by applying Pearson chi-square test (education) & the results shows that different education group of accounting professionals has significant impact on all four parameters regarding primary duty, limitations of audit, and increase in the cost of audit and the benefits of using forensic Accountants, however, outweigh their costs. The results from application of one way ANOVA test, indicates that there is significant gap in the perceptions of Accounting professionals in two parameters relating to primary duty and limitations of audit are responsible for implementation of forensic accounting.

CONCLUSION

From the study, it can be found that forensic accounting must be introduced as a compulsory tool

in dealing with financial fraud and corruption in to promote corporate governance. The government should encourage the practice of forensic accounting by providing adequate training and resources to forensic accountants such that they become an expert in their particular field of expertise and develop new courses related to forensic accounting. The traditional auditor was following a reactive approach during the audit process. Now it has been found that proactive approaches have begun to replace the reactive

solutions. Once the loss has occurred, neither detection nor investigation could compensate the loss. In fact, these procedures would also cost business a large sum of money. Due to this fact, the most important thing companies have to do with regard to fraud is to prevent the crime from being committed. To prevent the crime, two concepts move to the top of the corporate agenda: deterrence and motivation. Rules, regulations, and legislation play deterrence role, while motivation is provided with education and training.

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