

# Emphasis on teaching about fraud in forensic accounting that matters: A paradigm shift

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## ABSTRACT

Criminological accounting mastery is rapidly - intensifying, necessitating more accounting graduates to expand the skills required to succeed. Many students comprehend the need for strong technical development to become forensic specialists. The paper intends to (1) establish how engaging games and competition in classrooms would assist students in finding the appropriate fit for themselves; (2) to ascertain whether this increases the necessary pre-requisites for career success. It's a descriptive study that explores the various topics and methods published in forensic accounting journals. Accounting teachers toil persistently to push students' keys to success and mentor in career selection, but many students opt out of a career in forensic accounting despite being well-suited for. This paper provides measures of addressing this information deficiency for students and the need in bringing the awareness of both the profession and the requisite skills to accounting students in a variety of courses. While separate forensic accounting programs and courses may be best at preparing new graduates for the field, identifying those that would be well-suited for such programs can occur in any accounting course using interactive games. The criminological accounting career is much in demand as highly reported deceptions have increased the consciousness of the need for its services. Many professionals do not begin their careers with a focus on forensic accounting but gravitate towards it over time. While games may not be suitable for all topics or settings, they can help increase student interest and engagement.

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## 1. Introduction

Over the past two decades, there has been dramatic growth in the field of forensic accounting, leading to an increased need for recent accounting graduates to develop the skills required to succeed. As an academic, who, probably like many others, am attempting to make sense of our teaching roles as contemporary university academics. A broader approach is needed, however, with less emphasis on fraud and more on valuation, damages, and litigation services (**Crumbley et al., 2015; Seda and Kramer 2015**). Yet there is still a divide between academia and the accounting profession in how to meet this need. Executives and employees of most organizations conduct business with integrity. Their financial statements are transparent and represent the financial state of the organization. However, some succumb to pressures and opportunities to make their companies look better than they really are. These individuals often seek to unduly enrich themselves in their stewardship roles, increase their financial status, or gain the respect of others through a dishonest image. While it may seem that fraud is centered in certain industries, this small minority of dishonest people exists in every profession and industry.

### 1.1 Why Fraud Occurs

Fraud researchers have found three elements common to all frauds. These three elements of *fraud* are (1) perceived pressure, (2) perceived opportunity, and (3) some way to rationalize the fraud as acceptable and consistent with one's personal code of ethics (**Albrecht et al., 2006**). Whether the dishonest act involves *fraud against a company*, such as employee embezzlement, or *fraud on behalf of a company*,

such as management fraud, these three elements are always present. Figure 1 illustrates the fraud triangle. Every fraud perpetrator faces perceived *pressure*. Most pressures involve a financial need, although nonfinancial pressures such as the need to report results better than actual performance, frustration with work, or even a challenge to beat the system, can also motivate fraud. Perceived pressure, not necessarily real pressure as perceived by one individual, such as in a gambling addiction, may not be pressures to another individual. Examples of perceived financial pressures that can motivate fraud on behalf of a company (i.e., financial statement fraud) are financial losses, falling sales, failure to meet Wall Street's earnings expectations, or the inability to compete with other companies. Fraud perpetrators must also have a *perceived opportunity* that allows the fraud act. Even with intense perceived pressures, executives who believe they will be caught and punished rarely commit fraud (**Albrecht et al., 2006**).

Executives who believe they have an opportunity to commit and/or conceal fraud often give in to their perceived pressures. Perceived opportunities to commit management fraud include factors such as a weak board of directors or inadequate internal controls. Finally, fraud perpetrators must have some way to *rationalize* their actions as acceptable. For corporate executives, rationalizations to commit fraud might include thoughts such as "we need to keep the stock price high," "all companies use aggressive accounting practices," or "it is for the good of the company." These three elements of the fraud are interactive. With fraud, the greater the perceived opportunity or the more intense the pressure, the less rationalization it takes for someone to commit fraud. Likewise,

the more dishonest a perpetrator is and the easier it is for him or her to rationalize deviant behavior, the less opportunity and/or pressure it takes to motivate fraud.

### 1.2 The Current Status of Fraud Education in Indian Universities

Given the magnitude of the fraud problem and the frequency with which auditors are associated with fraud cases, one might expect that most accounting curricula would include fraud training. However, this is not the case. **Ghambir and Alluwalla (2014)** discovered that 6 of 19 internal auditing courses surveyed included coverage on employee and management fraud. Furthermore, the coverage was limited, averaging 8.2% of the total class time. **Peterson and Reider (1999)** reported that most accounting programs (83.7% of 215 respondents) covered fraud topics in a first auditing course (78.3%), an advanced auditing course (15%), or accounting information systems (7.2%). On average, 6.7 hours of class time per term was devoted to discussing fraud. **Peterson and Reider** identified only 13 institutions offering a separate fraud course. **Buckhoff and Schrader (2000)** also identified 13 universities with a specific course devoted to fraud and found 76 institutions that taught fraud topics as part of another course. However, the fraud segment comprised only approximately 1 % of those courses. Combining the findings of these two studies, **Peterson and Reider (2001)** identified only 19 universities currently offering a specific course on fraud. Interestingly, the few instructors who taught a specific fraud course frequently noted that the class was the most popular elective in their accounting curriculum (**Peterson & Reider, 2001**).

### 1.3 Statement of Problem

Most accounting educators agree that their students need to learn about fraud. Accounting students presently are receiving very little, if any, education around fraud (**Peterson & Reider, 2001**). In this paper, the author describes the status of fraud education today, explores possible reasons for its scarcity, and provides suggestions for content and materials that instructors can use to re-invent a fraud course.

### 1.4 Purpose of Research

- 1) To demonstrate how employing games and competition in classrooms may assist students in finding the appropriate fit for themselves;
- 2) To ascertain whether this increases the necessary pre-requisites for career success...

## 2. Methods

Present study is exclusively based on secondary sources only. The data for study collected from various sources such as journals, reports, government reports and websites

## 3. Review of the literature

- 1) **Levine (2014)** stated that nearly 60% of the world's top 100 accounting firms are expanding their forensics and fraud services. Another survey found that forensics/fraud second as growth areas among services provided by accounting firms (**Klein, 2012**).

- 2) **Melancon (2002)** believed that providing students with fraud education benefits both students and employers. After studying topics such as document examination, interviewing techniques, and public records searches, students become better consultants, auditors, tax professionals, and managers. Further, fraud specialists are highly employable, with some surveys showing this career to be among the most marketable and exciting ones for today's accounting students.
- 3) **Daniels et al., (2013)** noted that in India less than half of NAAC-accredited schools have courses in fraud or forensic accounting. **Meier et al., (2010)** found that less than 3% of Indian Business Schools have a separate program for fraud or forensic accounting and less than 20% have separate courses in either fraud or forensic accounting. For many schools, financial constraints limited the ability to add forensic programs or courses; whilst for others, it may be due to a lack of expertise among the faculty.
- 4) **Corkern et al., (2013)** stated that students could be exposed to forensic accounting concepts and topics with minor changes to existing course curricula. Providing information about the field of forensic accounting in general accounting courses, especially in multiple courses, can encourage students to learn more about both the skills and personal traits needed to be successful. Along with the discovery of the existence of a career in forensic accounting, this approach can aid students in identifying whether they possess the requisite personality traits.
- 5) **Fogarty (2008)** believed that auditors have been more proactive in brainstorming possible frauds, working with audit committees and management to assess fraud risks, and have developed additional tests to search for fraud indicators. However, regardless of how vigilant their audits are, it will never be possible to prevent or detect all frauds because of the massive nature of accounting records and the need to perform limited sampling and substantive testing, the nature of fraud, reluctance of people to come forward with fraud information and the nature of fraud detection.
- 6) **Balachandran (2012)** evaluated that accounting curricula have changed over time to include more soft skills along with the standard technical requirements of accounting. In addition, campuses are facing a more diverse student population that enters with different skills and expectations than prior generations of students did. The levels of technology, familiarity with group activities, and comfort with a structured environment also have altered the expectations and opportunities for teaching.
- 7) **Azriel et al., (2005)** noted that interactive teaching methods have been shown to work better than standard lecture-based teaching. These changes

have led to an interest in evaluating different learning techniques for the classroom. Warren and Young note the value of active learning in encouraging students to build personal knowledge, developing lifelong learning habits and discouraging memorization (**Warren and Young, 2012**). Within this environment, the use of games 1 has emerged as a technique that can both engage students more with the topics presented and allow those same students to explore the complexity of fields such as forensic accounting in depth. As the use of interactive learning becomes even more common and the availability of ready-to-use games increase, many educators are exploring ways to incorporate such methods into their curricula. However, they have concerns about the risks involved.

- 8) These concepts and suggestions are explored in five best practices: begin early, make the rules clear and friendly, explain the purpose, provide rewards, and work up to large projects. Other instructors have included similar suggestions for success with games and interactive learning (**Loeb, 2015; Jajairam, 2012; Vinciguerra and Lafond, 2011; Kerby and Romine, 2003; Cook and Hazelwood, 2002; Doyle, 2001**).
- 9) There is a broad consensus that technical or traditional accounting knowledge is not enough. A variety of studies and surveys of practitioners, users of accounting professionals and academics have highlighted an assortment of skills necessary for success regardless of the accounting career path chosen. Those include problem-solving and analytic skills (**Davis et al., 2010; DiGabriele, 2008; Tan et al., 2004**), critical thinking (**DiGabriele, 2008; Tan et al., 2004**), teamwork maintaining ethical awareness (**Davis et al., 2010; Uyar and Gungormus, 2011**), continuous learning (**Vasarhelyi et al., 2010**; and investigative flexibility (**DiGabriele, 2008**). Strong communication skills, both written and oral, were among the almost universally cited skills Both **Coburn (2006) and Vasarhelyi et al., (2010)** consider the ability to think creatively and consider multiple options invaluable
- 10) Forensic accounting is more subjective and calls for stronger investigative qualities. **Coburn (2006)** notes the value of developing an instinct for complex investigations. This requires practitioners to be comfortable working with fewer guides or rules compared to standard auditors and to be more flexible and resourceful, thriving within the uncertainty of the engagement (**Medland, 2012**). A natural inquisitiveness or curiosity (**Messmer, 2004; Davis et al., 2010**) and healthy level of skepticism (**Crumbley, et al.; Messmer, 2004; Davis et al., 2010; Medland, 2012**) are vital for a successful forensic accounting career.

### 3.1 Major Issues

Most of the problems described in this paper are common to most departments at my university, but I draw heavily on my experience in accounting education having taught in overseas and local institutions. Much of what is reported comes from my personal experiences; it is not substantiated by academic surveys. Nevertheless, I am sanguine that many readers would recognize, and share, the concerns which have been described. There is a certain amount of keenness to establish points as 'needing to be addressed' on the agendas of institutions currently providing accounting education. Regardless of the career path graduates take, accountants are much more involved with decision-making, strategic planning, problem-solving, and communication than in the past. Few would deny that the role of the traditional accountant as a mere score keeper is no longer a viable contributor to business. The changing role of the accountant has seen many commentators over the last 20 years from around the world criticise the skills set developed by students as graduates of undergraduate business courses.

### 4. Results and Implications

Major findings suggest that, while both groups acknowledged the importance of technical accounting skills, employers require a broad range of generic skills that graduates indicated were not being adequately taught in their accounting degree programme. The forensic accounting profession is in a period of increasing demand as high profile frauds have increased the awareness of the need for its services. Many professionals do not begin their careers with a focus on forensic accounting but gravitate toward it over time. Given the growing demand, finding potential talent to become the next generation of forensic accounting specialists is vital. Yet, many accounting students are not aware of the possibility of such a career path. Still others may have some knowledge of the field but have little understanding of the unique skills and traits that separate successful forensic specialists from other accounting professionals.

Interactive learning can bring more complexity, in-depth analysis, and critical thinking to the classroom. While games are not suitable for all topics or settings, they can help increase student interest and engagement. For forensic accounting, competitive and non-competitive games allow students to explore their interest and comfort in a work environment with less structure, more skepticism, more creativity, and more curiosity than other accounting professions. These benefits, in turn, can lead to a better match of potential career paths for both future forensic specialists and future specialists in other accounting fields.

Students should be encouraged to 'undertake critical reflection on ongoing procedures and practices. To engender constant improvement, rather than maintaining the status quo' (ibid.). However, society tends to reward students for possession of the 'skills-of-the-day' which they have acquired; and reward institutions that successfully provide 'immediately-useful graduates' with continued funding. The *status quo* in the education system is thus maintained.

#### 4.1 Possible Explanations for Limited Fraud Education

Nearly every student finds that large portions of his (*sic*) curriculum are for him, meaningless. Thus, education becomes the futile attempt to learn material that has no personal meaning. Perhaps one reason for the limited amount of fraud education in our country's accounting curricula is that educators are not aware of the sheer magnitude of the fraud problem, even though they may understand that it is present. The student/teacher relationship must be an interactive one, not one which merely fills the student up with ideas, skills and recipes for reacting. Some students appear to believe it is more important to have a certificate that testifies to some knowledge of accounting than it is to be educated. We believe education involves encouraging students to learn how to learn.

Another possible reason for the limited amount of fraud education is that there may be little room for an additional course in the undergraduate accounting curriculum. Most educators would agree that courses in accounting principles, intermediate accounting, advanced accounting, accounting information systems, auditing, tax, cost accounting, and governmental or not-for-profit accounting are needed. Often intermediate accounting comprises two or three courses, and tax and auditing may be two terms each. These required accounting classes, in addition to the other required business and no business courses needed to maintain accreditation, leave little room for a separate course on fraud.

#### 5. Recommendations

Accounting education, if it is to respond to present changes in society, needs to encourage students to develop holistically. Students must become able, and willing, to challenge the *status quo*. Universities must be responsive to the needs of students, and to the needs of wider society; universities are charged with advancing the frontiers of knowledge on routes, which consequently cannot be mapped out in advance, learning must lead where it will. A well-designed fraud course should provide students with an

opportunity to develop skills and knowledge in the following areas: (a) financial expertise; (b) fraud perpetrators and their motivations; (c) evidence collection and evaluation; (d) legal elements of fraud; (e) ethical and legal issues; (f) report writing, testifying, and interviewing of witnesses and/or perpetrators; and (g) critical thinking skills that enable understanding of the "big picture."

Accounting students to obtain the "knowledge and skills to understand the fundamental characteristics of fraud identify factors that may indicate it exists and acquire enhanced interviewing techniques" Guest speakers have been a popular element of the few fraud courses currently in existence. Potential guest lecturers can be found through CAs, certified internal auditors, CBI agents, and law enforcement personnel who have investigated frauds can also make excellent guest speakers.

#### 6. Conclusion

Fraud statistics and several recent national fraud cases leave no doubt that fraud is a serious problem for the accounting profession. It is critical that our accounting students-the CPAs of the future-learn the skills necessary to prevent, detect, and investigate fraud. Armed with fraud knowledge, our accounting students will be able to provide improved service to their future clients... Against this backdrop of skills convergence, the greatest areas of skills divergence from the employers' perspective were those of team skills, leadership potential, verbal communication and the interpersonal skills of graduates. As one graduate student who recently completed a fraud examination class wrote on his course evaluation, "This training will be extremely important to me as an auditor because I am responsible for providing reasonable assurance of finding material fraud. ***If my life depended on swimming to shore, it would be nice to have attended swimming classes.***"

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