

Investigating Accounting and Deception: A Reassessment of Literature and Policy Repercussions

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ABSTRACT

This paper bestows some evidence on fraud, forensic accounting, the skills and education of the forensic investigator. Also, some explanation for the diverging views among academics and regulators in relation to detecting fraud are provided. To regulators, I address the question on why academic research in forensic accounting may have little significance to inform policy. This paper promises to encourage future research on the issues identified.

1. Introduction

This paper primarily looks at the literature on fraud and forensic accounting. It can be said that forensic accounting is one of the fastest-growing fields in law enforcement today. Accounting and auditing standards which are prescribed rules and regulations to be adopted by financial officers whilst conducting their financial reporting functions. Business people who earn millions even billions are reluctant to pay large amount of taxes, so they force their accountants to 'cook the books' so that their business pays less taxes. One way of doing illegal things the legal way is for firms to practice consolidation accounting. Set up a parent firm for which there would be several subsidiaries. In this way the parent firm would be largely dealing with its subsidiaries in terms of buying raw materials, contracting for marketing and supplying merchandising products and some of these subsidiaries would be making huge profits before taxes whilst a few would have been created to incur huge losses. Eventually in consolidation accounting, the groups' financial result is combined to give the net result which may mean lower taxes

However, it is believed that top and at their discretion make those officers and employees in the finance section to manipulate management often coerce the financial records and ensure that all fraudulent activities including any misappropriation of funds are concealed so that the tax department officers are not able to consult any raids and even if they do, on the basis of lack of sufficient evidence, are unable to prosecute the culprits or guilty parties.. On identification of fraudulent activities, its only the very shrewd forensic investor and his team who are eagle eyed can detect whatever has been concealed and any irregularities are easily surfaced. In universities, students do study auditing but very little if any on forensic accounting. Students largely study theory on auditing and caselets' on how auditing is done. Nevertheless, students studying forensic accounting would largely benefit if there were more forensic studies academics who were experts and willing to share their trade secrets.

2. Fraud

When you have fraud in relation to financial statements, its main prerogative is to deceive the user of such report in to falsely believing that the contents of the financial statements read as true and fair and no misappropriation or omissions have been unaccounted for (Rezaee, 2005: 279).

Additionally, it may also include merchandise or stock overvaluation and improper capitalization of capital expense (e.g. Harris & Brown, 2000; Messmer, 2004), earnings management (e.g. Healy and Wahlen, 1999), income smoothing (Ahmed et al, 1999; Curcio and Hasan, 2015; Ozili, 2015, etc.). (Pande and Pande, 2009) in their paper identified that many SMEs type firms hired those external auditors who had very good contact with certain key officers in the tax department and when they received the files of such firms and if the respective tax officers had received their 'payment' from those auditors responsible of preparing the fraudulent financial statements, they passed the files as okay and no taxes were billed to the firms concerned. For those firms who had been victims of a tax raid or ready to become one, they warned the firms to be cautious and if they received a tax bill, these very tax officers often took a percentage of payment of the tax bill to be paid thus, enabling those firms to get away by paying minimum payment minus the penalty.

Its important to note that fraud depends on the type of industry and the nature of activities that tantamount to misappropriation of funds or pilfering of inventory. For industries dealing in liquids (oil, petrol, beverages) there is a tendency of stock pilferage. Industries which deal with cash, investments wholly involving cash such as (banks, real estate and investment companies) the tendency is to misappropriate funds as its easily accessible and stringent internal controls can be undermined based on the collusion of employees.

3. What motivates firms to commit fraud?

Innate desire to evade taxes

Countless individuals irrespective of small, medium and those of very high net worth and medium sized to large

organisations all are serious about evading taxes and have gone to great lengths to just avoid paying taxes and fudging their financial accounts to hoodwink the tax authorities as if the financial statements presented a 'true and fair view' status of their financial affairs. Pande, 2015 had identified numerous small firms in Lucknow who had five different sets of accounts books. The first one explicitly demonstrated the true affairs of the firms operation and it was only for the eyes of the owner, the second set of accounts duly manipulated with various figures inflated or deflated even omitted were available only for the tax department, whilst the third account was for the banks and creditors, the fourth one was laced with cosmetic figure to hoodwink potential investors and the fifth was for trade unions who had a blind assumption as to the so-called deterioration of the firms performance. Employees in the tax department resort to fraud since they are not wholly satisfied with the salary and perks given. Kedia (2009) stated that many tax officers indulged in fraudulent activities to satisfy the needs of their families and to settle high gambling and loan debts to drug mafia groups.

For example, Denis et al. (2005) and Johnson et al. (2003) found that compensation pressures and incentives were significantly correlated with the level of manipulation of balance sheet figures and the higher the compensation allotted to audit firms, the lower the taxes the firms paid. Senior management also went out of the way in satisfying the illicit dealings of external auditors and then claiming as entertainment expenses thus cooking the books, and at the end the external auditors and the firms both benefits.

Opportunities to commit fraud indiscriminately

If it's easy to commit fraud, or there are huge rewards for misappropriation, or better still the perpetrators get the blessings of the big fat cats, one feels very highly motivated and daring to think they can easily get away by concealing wrongful doing of others and cheating the tax payers of millions of dollars. Often if firms are lax in their internal control procedures and policies the chances to indulge in criminal, fraudulent activities are much more. (Beasley, 1996; Albrecht and Albrecht, 2003; McMullen and Raghunandan, 1996; Farber, 2005), fewer audit committee meetings occur and fewer financial and forensic experts on the audit committee are engaged in fault finding or conducting objective audit planning. (Abbott et al, 2004; Farber, 2005; etc.). Beasley (1996) finds that the proportion of independent and objective auditors are much lower, thus making it much easier for firms to engage in fraudulent and misappropriation practices. Evidence from these studies suggest that far less monitoring of firms create opportunities for fraud to be committed. What can the government do if the watch dog or 'chowkidars' sleep on the job or largely tend to look the other way.

4. Forensic Accounting Perspectives

Bolgna and Linqvist (1995) saw forensic accounting as an application of financial skills identified by (Arokiasamy and Cristal-Lee, 2009; Ozkul and Pamukc, 2012; Hopwood et al, 2008). and fact-finding approach to unresolved issues, conducted within the context of the rules of substantiation. When financial accounting ends auditing starts and when

auditing fails its up to the forensic accounting specialist to try and decipher all the hidden clues and unravel the mystery as

5. Proficiencies and Edification of the Forensic Investigator

(Durkin and Ueltzen, 2009) stress that the forensic investigator should possess the knowledge of (i) professional accountabilities and practice management; (ii) laws, courts and dispute resolution; (iii) planning and preparation; (iv) information gathering and preservation such as documents, interviews/phone calls, interrogations, electronic data, etc., and (v) discovery (reporting, experts and testimony). Enhanced skills are skills developed by the forensic investigator through years of experience in the profession in industry or academic research.

Grippio and Ibex (2003) argued that the experience in the field of forensic accountants is unmatched to only bookish knowledge many young and novice practitioners only possess. Ramaswamy (2005) believes that having an in-depth knowledge of preparing financial statements, tracking source documents, knowing if figures have been manipulated, interviewing employees guilty of corruption tacitly requires skills.

Curtis (2008) and DiGabriele (2008) observed that academics and practitioners rallied behind the significance of the legal process and criminology as an enhanced skill. It's said that with years of practice one surely attains perfection. Just imagine that governments everywhere stand to lose several trillion dollars in unaccounted for income and tax revenues from several deceit individuals and institutions.

Universities need to hire forensic experts to teach students on the benefits and mechanisms of forensic accounting, especially with due emphasis on comprehension of business consciences, auditing, business undertakings and human behavior. Imparting forensic accounting to students in tertiary institutions has some paybacks to educational stakeholders. Groomer and Heinz (1994) investigated whether forensic accounting related topics were taught in universities.

6. Forensic Accountants need to be pragmatic

There have been various cases of real-life fraudulent case in India, Australia and even in USA. At the start of the 21st century we saw the Enron and WorldCom cases in USA, Pyramid and Compass airlines debacle in Australia in the early 1990s and the various scams in India. Which has often acted as red flags for governments and law and enforcement agencies on how easily firms siphon billions of dollars of money away from the government's eyes in various tax havens.

7. Strategies to adopt by forensic scientists

while regulators oppose fraud, not all fraud cases in practice require regulatory sanction or discipline. Strict guidelines are now in force for the watch dogs. Their leash has been tightened by the Accounting and auditing society wolfhounds who ensure that auditors and forensic accounts never get away (See Satyam case in India where PWC were

involved). Earnings, compensation packages of auditors are now under the watchful eye of regulators who also observe how objective the forensic specialists are in carrying out their functions

8. Conclusion

This paper examined the concept of forensic accounting, the numerous concerns including the panorama of fraud, forensic accounting, and the proficiencies of the forensic investigators and most important of all the need for better forensic accounting education. Criminological or forensic accounting has proved to be of significant research concerns among academicians. Advancement in forensic accounting research will depend on the extent to which deceptive

perpetrators leave remnants of fraud. Still a lot must be done to ensure that forensic specialists are empowered to carry out their tasks in the forthcoming years, watchdogs will have to be more concerned about fraud perpetrators who do not leave any trace of some sort. This will pose a problem to industry regulators if fraud perpetrators have thorough knowledge of accounting standards, auditing techniques and investigative skills, and such knowledge can help fraud perpetrators to eliminate all possible trace of fraud. Forensic investigators must outsmart the fraudsters at their game and come up with fool-proof checklists that prevent anyone from testing the audit systems. Finally, progress in the forensic accounting literature will also depend on the extent to which forensic accounting informs practice and policy.

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