



Forensic Accounting: Public Acceptance towards Occurrence of Fraud Detection

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Abstract

In recent years, accounting fraud has occurred widely throughout the globalised business sector. This does not exclude Malaysia as it is emerging as one of the many countries with high expanding rates of business deals. Due to the fact that Malaysian companies are still new and inexperienced in managing business and its accounts, this has created undetected loopholes for accounting fraud committers. This has also created bad perceptions by the public regarding the various fraudulent activities that emerge in the country. Therefore this article examines the public acceptance towards occurrence of fraud detection which plays a vital role in business growth. The uniqueness of this paper focuses on the literature review on the public acceptance on fraud detection. This article maps out the importance of fraud detection to strengthen and be competitive in the business.

Keywords: Forensic accounting, Public acceptance, Fraud and fraud detection

1. Introduction

The increasing demand of forensic accounting is a recognized feature of most companies. Forensic accounting arises from the cause and effect of fraud and technical error made by human. It is fairly new in Malaysia as companies have realized that this service is needed in recent times as fraud cases have substantially increased in number. Forensic and investigative accounting is the application of financial skills and investigative mentality to unresolved issues, conducted within the context of the rules of evidence. As a discipline, it encompasses fraud knowledge, financial expertise, and a sound knowledge and understanding of business reality and the working of the legal system (Bologna & Lindquist, 1987).

As at this time, the issue of forensic accounting and fraud a continually being debated for the past few years as companies in developed countries such as Enron Corp, WorldCom Inc, and Kmart Corp have been detected and proved of fraudulent conduct (Shaikh & Talha, 2003). These still an issue to be addressed in the business sector as fraud cases have only been detected after massive funds have disappeared from the coffer. Forensic accounting may be one of the most effective and efficient way to reduce and prevent accounting fraud.

As forensic accounting is getting popular in these recent years, it has been provided as a course by many educational institutions in their respective countries. Forensic accounting is defined as a science dealing with the application of accounting facts gathered through auditing methods and procedures to resolve legal problems. It also requires the integration of investigative, accounting, and auditing skills. These forensic accountants draw conclusions and calculate values and identify irregular patterns or suspicious transactions by critically analyzing the financial data. 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. Malaysia is in no particular exclusion to introduce and popularize this forensic accounting service.

This literature-based paper begins by defining the research problem, defining the accounting fraud, reviewing the current literatures and acceptance level of forensic accounting. In the final section we develop the model and conclude the significance of accounting fraud in businesses.

2. Research Problems

Problems arise from the fact that forensic accounting service is still new to most of the businesses and even to the public in Malaysia. This leads to confusion among public and some may even be unaware of the existence of the system. Therefore, the importance of the service is ignored. Therefore this study focus on forensic accounting is conducted to improve the understanding in detecting and reducing accounting fraud cases in Malaysian companies. For example there are several empirical studies such as Cain (1999) and the KPMG, Australia fraud survey (KPMG), (2002) each indicate that over 50 per cent of all respondents surveyed believed that fraud is a major business problem. Moreover, similar reviews of fraud cases by Rezaee (2004) revealed that financial statement fraud has cost market participation more than USD\$500 billion during recent years, with serious litigation consequences.

Similarly fraud has increasingly become a major problem in Malaysia. The evidence from the "New Straits Times" (Management Time, 2001) reported that

"more than 60 per cent of the Malaysian listed companies surveyed had experienced some form of fraud of the companies surveyed, almost a quarter were fraud more than RMI million each to fraud".

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 Malaysia. This research will lead to the awareness and acceptance level of forensic accounting. Furthermore, the result of this research would give understanding and awareness of the role of forensic accounting. Ultimately this study hopes to protect the interest of shareholder.

3. Definition of Accounting Fraud

Fraud is a legal term that refers to the intentional misrepresentation of the truth in order to manipulate or deceive a company or individual. When companies undergo severe financial problems and end up in bankruptcy, fraud by senior management may be involved. 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. Company officials may resort to accounting fraud to reverse loss or to ensure that they meet earning expectations from shareholders or the public.

David (2005) states that fraud is not a possibility but a probability. It 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. The authors also state that the paper-based system is the reason why fraud is being committed in a certain company. The authors deduce that a computerized system for all the transactional activities would reduce fraud. However, in the practical world, even a large company such as Enron 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 high level management. The only way to solve this issue is that the public should be educated and 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.

Albrecht, (2005) argued that fraud is rarely seen. However, 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. And this mistakes and errors can be justified by the defaulter as the reason for such fraudulent symptom. It is agreeable with this statement, but till how far could one justify it? 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. The author 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.

Loebbecke & Willingham (1998) conclude that the probability of material financial statement misstatement due to fraud as a function of three factors. There are the degree to which those in authority in an entity have reason to commit management fraud, the degree to which conditions allow management fraud to be committed, and the extent to which those in authority have an attitude or set of ethical values that would facilitate their commission of fraud. These three factors show that the management could simply commit fraudulent activities since the knowledge of the public which includes shareholders are limited regarding the option they could take to ensure that financial crime could be prevented. There should be a set of guidelines created for the public and also the management to ensure that actions could be taken in the financial fraudulent activities.

4. Literature review

4.1 Forensic Accounting's Function

According to Moncliff (2005) in the article 'Forensic Accounting', it states that Forensic accountants work in two primary areas, investigative accounting and litigation support. Investigative accounting encompasses not just the numbers and documents of a company, but the business environment as well. Forensic accountants investigate the financial operations of an enterprise and prepare information that may be used in a criminal or civil court case. Forensic accountants provide investigative services or provide support for litigation. This shows the role of a forensic accountant. It clearly elaborates on the many purposes of forensic accounting. It should be accepted that forensic accounting process is a form of auditing with investigative skills with an in-depth knowledge and experience. Forensic accounting should be introduced into a company as a service which can be acquired when fraud investigation is needed to be carried out. It should also be used as the ultimate source of fraud investigation. As it is an independent service which is not in conflict of interest, it can be used to act towards the entire company. It should be used as a system to monitor the daily activities of the company to ensure that fraud can be reduced. Fraud is an ever growing problem in Malaysia as this country is still in the developing stage in the business sector. This has increased the necessity of adopting forensic accounting practices, may it be medium or large companies alike. Forensic accounting should be taken in as the ultimate precaution towards financial fraud. The public should be given the opportunity to be educated by organizations or even government agencies on what forensic accounting functions mainly are.

Moreover, the European Federation of Accountants (FEE) (2002), illustrated the role of accounting and auditing in Europe. As a representative organization of the accountancy profession in Europe, they understand that the unexpected collapse of an important company listed on a stock exchange will undermine the credibility and reliability of the information and the regulatory system, which is put in place to protect investors. This shows that even a well established company such as Enron would also collapse because the company was involved in corporate scandals which cost billions. They also believe that there is a need to strengthen the corporate governance arrangements to provide the highest quality of financial information to the capital markets. The financial information is then required to be prepared by well established accounting and auditing company. But even so, with strong corporate governance, and financial information prepared by well established accounting and auditing companies, these corporate scandals still persists. The understanding of the issue that these scandals would not be able to be totally eliminated causes the public to continue to doubt the management and even the company itself. That is why forensic accounting should be introduced as a main tool to investigate companies of fraud occurrence. With this, the interest of the public can be taken care of without them fearing of losing everything.

4.2 Expectation Gap

The audit expectation gap debate consistently centres on a number of perennial issues, which are: (1) the role and responsibilities of the auditors, (2) the nature and meaning of audit report messages, (3) the quality of the audit function, and (4) the structure and regulation of the profession (Humphrey, Mozier & Turley, 1993). The main problem or issue is the constant misunderstanding on the role and responsibility of the auditor as the public expects auditors to detect financial asset misstatement or even fraudulent activities from the financial statements. This has been the long perception of what an auditor's responsibilities are. Therefore, this perception should be regenerated and corrected. Auditors with forensic accounting background would be assigned as a forensic accountant specifically to investigate the

company's financial statement. These people are the ones whose roles are to detect financial misstatements. With the right education given to the public, this perception on auditors could be regenerated or even eliminated.

4.3 Forensic Accounting Education

Forensic accounting education has been limited primarily to continuing professional education sessions for practicing accountants and currently only a few universities teach forensic accounting (Rezaee & Burton, 1997). Given the demand for forensic accounting practice at this certain time and the need for more education in this area, it is just acceptable that college or university accounting departments provide and include forensic accounting as one of the options in the course. This is to ensure that not only auditors who has the in-depth experience knows of the process the fresh graduates will be able to perform as efficient and as effective, or at least meet the criteria of a practicing forensic accountant. Other wise the persons who do not attend any professional accounting courses should also be given the opportunity to learn and understand forensic accounting better. This will create awareness among the students and public on the importance of forensic accounting as one of the main tool in the investigation of company financial statements of fraudulent activities.

Survey conducted among auditors and undergraduate business students show responses from the students were collected before and after they completed coursework. In auditing, the students' perceptions were closer to auditors after they completed the coursework, particularly about the roles and responsibilities of auditors, but signs of the expectation gap remained in areas pertaining to fraud. However, the extent of the gap was lower than before the students were about to start the audit coursework (Gramlin & Schatzberg, 1996). Hence, audit education could still be considered as an effective way to reduce the expectation gap. This is a concept where one would use the education system to increase understanding and perception of a concept. It is certain that if forensic accounting's perception is to be surveyed before and after the coursework of forensic accounting, then the result will be that education could be considered as one of the effective ways to improve the perception on the use of forensic accounting service.

Education process would be a major part of any campaign aimed at closing the expectation gap (Smithers, 1992). That is why it is important to educate the public to reduce misunderstanding. Auditing students' beliefs about auditors' responsibilities, the reliability of audited financial information and future prospects changed significantly over the semester. Smither's concluded that education is an effective approach addressing the expectation gap (Woodliff & Monroe, 1994). This actually explains why there is a need to indicate the perception and the understanding of the general public on forensic accountings' function in the business sector to actually know how to improve it better.

5. Research Framework

The framework above indicates the two variables that affect the acceptance levels of the public with the practice of forensic accounting as the main tool in investigating a company's account to detect fraud. The variables include the public's understanding level on forensic accounting functions and the perception on the implementation of forensic accounting in the investigation. The understanding level of the public the functioning of forensic accountings will determine whether the public in Malaysia will accept it as the main tool in investigating a company's account as to a means fraud. The perception of the public on the implementation of forensic accounting in the investigation of a company's financial statement also determines the acceptance level of forensic accounting in the country.

Insert Figure 1 here

6. Conclusion

This article has set a context and rationale for further research on the importance of forensic accounting in the country as a tool used by the government agency, the Malaysian Anti-Corruption Commission, to investigate on the possible fraud occurrence and even companies alleged of conducting illegal or criminal activities. It has also been practiced by audit firms as one of the tool to investigate a company's financial statement for fraudulent activities as requested by certain parties. This does not mean that the public should be ignorant towards this service and its function. The perception, understanding, and acceptance of the public also plays very important role in determining the future of forensic accounting in the country.

In a nutshell, this research study has focused on public's perception, understanding and acceptance on the role of forensic accounting in Malaysia. This research discusses the acceptance level by the public with the practice of forensic accounting as the main tool in investigating company's account to detect fraud in Malaysia.

In ensure, the forensic accounting activities are essential for all kinds of businesses long term survival. Forensic accounting activities such as investigative accounting and litigation support will enrich the organizational performance. It is encouraged that all businesses should put in place forensic accounting as a tool to enhance transparency, credibility and accountability. In the term of forensic accounting, these have led to better performance and encouraged individuals to commitment to the organizational performance. Forensic accounting a important for all organization sizes and not limited to for small firms.

This study provides insights into definition, research problem, literature review on the field of forensic accounting such as forensic accounting functions, expectation gap and forensic accounting education, and research framework. In today's society, organizations have begun to consider forensic accounting as a component towards their survival. It is not due to legal requirements but also for the reasons of preparing the organizations in the long run domestically and internationally.

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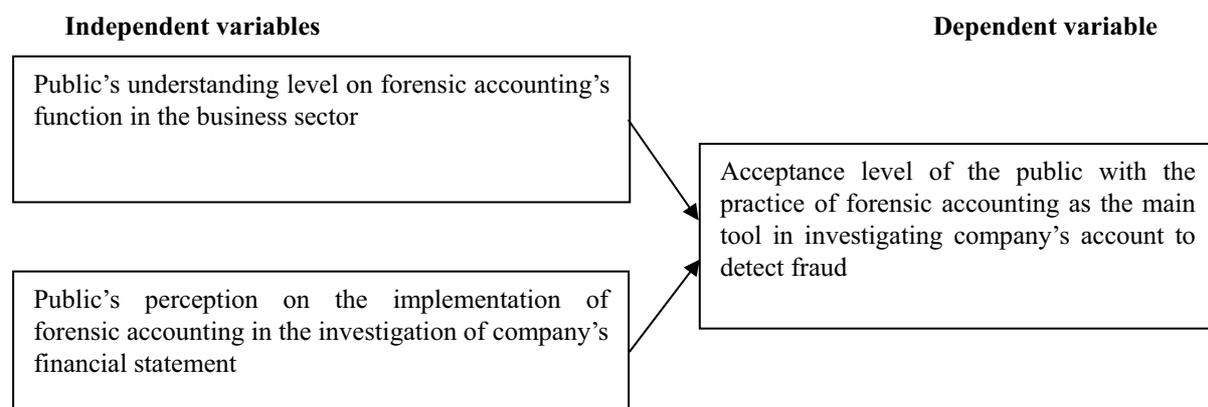


Figure 1. Research framework