

An Empirical Study on Forensic Accounting for Corporate Fraud Management

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Abstract:

Corporate Fraud is a big business in its own way and one of the major challenges for all the size of business, its consequence is not only to the corporations but for the society as a whole, addressing the same is so vital and need immediate attention.

This study is an empirical examination to identify the certified accountant's discernment towards Forensic Accounting for corporate fraud management. This study proposes to identify the effectiveness of forensic accounting as a tool to mitigate corporate fraud and to evaluate forensic accounting for an effective internal control system and to suggest forensic accounting for delivering quality financial reports and effective mechanism to reduce the fraud instance.

Keywords: Forensic Accounting, Financial Crimes, Corporate Frauds, Fraud Management

JEL Code: M41, M42

Introduction:

The increase in financial crimes by white collar criminals are in big alarming numbers and these crimes are well planned and executed by big accounting brains leaving no traces of fraud occurrence and advancement in technology has been a boon for these fraudsters where manipulation of financial figures are carried out in just a few clicks. Due to advancement in technology, compared to a decade back, currently, financial frauds are in peak, but very few come to limelight and in many cases identifying the fraud occurrence itself a big question.

According to Ernst & Young's EMEIA (Europe, Middle East, India, and Africa) Fraud Survey 2017, 1 in 3 Board Directors and senior managers and 1 in 5 other employees would feel justified in offering cash payments to win or retain business. And 1 in 5 Board Directors and senior managers and 1 in 10 other employees would be willing to book revenues earlier than they should to meet targets. And 12% of Board Directors and senior managers and 24% other employees would be prepared to provide false information to management to their own careers or pay. And from the Ernst & Young's Global Fraud Survey 2016 identified that many of their respondents who are CFOs and finance team members, individuals with key roles in protecting companies from risks, appear ready to justify unethical behavior.

With the above mind-boggling numbers and survey outcomes, we could see, committing fraud is widespread and it is acceptable for their own reasons. And also the outcome of Ernst & Young's survey says that there is a relaxed approach towards unethical behavior and high levels of suspicious eye among colleagues and its common in today's workforce.

In order to combat structured corporate frauds, normal auditing practice is less effective with its limited scope in identifying fraud, which has created the need for forensic accounting skills to prevent and detect the corporate frauds.

Forensic Accounting as a wider application in Bankruptcy, Insolvency, Economic damage calculation, Financial statement misrepresentations, Fraud Management etc..

Review of Literature:

A.O.Enofe, Michael Sunday Olorunnuho, Kingsley Omozokpia Eboigbe (2015): In their paper, they have discussed certified Accountants have in-depth knowledge and possess relevant forensic accounting skills, but to what extent they apply those skills in detecting and preventing frauds are not clear. And also they stress upon, certified accountants should work towards forensic accounting specialization which will give a right platform to apply their forensic accounting skills.

Ifath Shaheen, Pranathi, Asra Sultana, Amathun Noor(2014): In their paper, they have discussed many certified accountants are equipped with good analytical skills, but they are not acknowledging the Forensic Accounting requirement for combating fraud, in order to bridge this gap specialized training should be given by respective bodies and sharing of corporate experience should be undertaken and encouraged to ensure common understanding. And also they added forensic accounting is being used as Investigation mechanism rather than preventive mechanism, due to which full potential of forensic accounting is still unwrapped. They believe by making forensic auditing mandatory can result in better fraud management.

Dr. Anita Sharma (2014) In her paper, it is discussed that forensic accounting is still at an early stage in India and its practice is very minimal, where has in developed countries like USA and UK, Forensic Accounting is not new and they very advanced in this field. And also they have stated, in Indian Forensic Accounting is not treated as a separate specialized tool for combating frauds, but it is considered as an extension of investigation auditing, which adds to the misery of less awareness in India.

Dr. Mahua Biswas, Kiran G Hiremath, Shalini R(2013). In their paper. they have discussed that rapid increase in white-collar crimes in recent days have created the need for a forensic accounting to identify these fraudsters since the law enforcement agencies with their limited expertise have failed in bringing these fraudsters to the limelight. And also, technology has taken a big jump, where fraudsters have become much stronger with the technology, but parallel to it, our accountants are not much technologically skilled, irrespective of strong knowledge in fraud detection most of the accountants fail in decoding the technologically backed up frauds.

Research Gap / Statement of Problem:

During the course of my review of literature, there is a clear understanding that frauds have penetrated widely among the large crowd, concluding between the good and bad itself have become difficult. Around the globe, we have witnessed many frauds which have created greater damages to the economy and left a strong question against corporate governance. But those fraud cases are just a tip of the iceberg; there are still many frauds which are safe under the dark.

Unfortunately, Forensic accounting is still at an early stage in developing countries compared to developed countries. Law enforcement agencies and accounting professionals have underrated its efficiency in fighting fraud and to add to the misery even accounting professionals are seeing forensic accounting as just as investigation tool and not as a preventive mechanism as a result not using its techniques in full efficiency.

With the above discussion leads to the following research question.

1. Is there is a positive approach towards forensic accounting as a tool for fraud management among the certified accountants?
2. Can forensic accounting influence on better internal control system?
3. Can forensic accounting help in delivering Quality Financial Reporting?
4. Can forensic auditing reduce the fraud instance?

Scope of the Study:

This empirical study will be basically a step towards Forensic Accounting for fraud management. Since these influences, the corporate and economy in an integral part, an attempt will be made to study the effectiveness of forensic accounting as a tool to mitigate corporate fraud and to evaluate forensic accounting for a better internal control system and contribute to presenting quality financial reports

Objectives of the Study:

1. To study the forensic accounting as a tool for mitigating corporate fraud.
2. To examine the effectiveness of forensic accounting for a better internal control system.
3. To examine the effectiveness of forensic accounting in delivering Quality Financial Report.
4. To examine the effectiveness of forensic auditing in reducing the fraud instance.

Statement of Hypothesis:

H01: There is no positive view, towards forensic accounting as a tool for fraud management among the certified accountants.

H02: There is no effect of forensic accounting for a better internal control system.

H03: There is no effect of forensic accounting in delivering Quality Financial Reporting.

H04: There is no effect of forensic auditing in reducing the fraud instance.

Research Methodology:

This study is to report the significance of forensic accounting for fraud management from certified accountants. A certified accountant is one who holds any professional qualification in accounting. For achieving the objective of the study, primary data is used, Primary data is collected through a structured modified questionnaire adopted from Kennedy Prince Modugu, Dr. J. O. Anyaduba (2013), "Forensic Accounting and Financial Fraud in Nigeria: An Empirical Approach". International Journal of Business and Social Science. Vol. 4, No.7. The questionnaire was designed in the five-response option of Likert-scale and administered from 51 certified accountants, and data are analyzed through descriptive statistics and One-Sample T-Test using IBM's SPSS (Version 20).

Reliability Test

Cronbach's Alpha is used for measuring the internal consistency of the questionnaire. A total number of questions in the questionnaire is 18 including 12 testing variable and 6 related to demographic information. Hence a number of questions in the below Cronbach's Alpha test are 12.

Table 1: Cronbach's Alpha Reliability Test

Cronbach's Alpha	Number of Questions
.793	12

Source: SPSS Computation

The above Cronbach's Alpha reliability test resulted in an overall score of 0.793 indicating that the scales and the questions show a good measure of internal consistency.

Data Analysis and Interpretation

Descriptive Statistics

Table 3: Descriptive Statistics on Effectiveness of forensic accounting in corporate fraud management.

Items	N	Mean	Std. Deviation
Forensic accounting can be used to uncover diverted fraudulent practices.	51	3.88	.931
Forensic accounting can Identify misappropriated assets and identify reversible insider transactions	51	3.94	.904
Forensic accounting is effective as a fraud detection tool	51	3.88	.973
Forensic Accounting is solely enough as a tool to prevent suspicious or fraudulent transactions	51	2.88	1.160
Forensic accountants do not bear any risk under forensic accounting practice; it specifically covers the risk of fraud.	51	3.12	.931

Source: SPSS Computation

Inference:

Table 3, gives us the descriptive statistics to prove forensic accounting will help in better management of corporate fraud. The cumulative responses from the certified accountants have a positive opinion on forensic accounting in mitigating corporate fraud. However, there is mixed opinions on “Forensic Accounting is solely enough as a tool to prevent suspicious or fraudulent transactions” which draws attention to forensic accounting a better tool in mitigating fraud when it goes hands in hand with regular accounting process.

Table 4: Descriptive Statistics on Effectiveness of forensic accounting for a better internal control system.

Items	N	Mean	Std. Deviation
Forensic accounting is effective in assessing, monitoring and evaluation of internal control systems	51	3.73	.827
Forensic Accountants are not influenced by management	51	3.18	1.161

Source: SPSS Computation

Inference:

Table 4, gives us the descriptive statistics on the Effectiveness of forensic accounting for a better internal control system. With this survey outcome, we can infer that Forensic accounting will contribute in the assessing and monitoring strong internal control system, but the responses for “Forensic Accountants are not influenced by management” have standard deviation of 1.161 which reflects there is some amount of management interference which will affect the forensic accountants in delivering their full potential.

Table 5: Descriptive Statistics on Effectiveness of forensic accounting in delivering Quality Financial Reporting.

Items	N	Mean	Std. Deviation
Forensic accounting enhances the quality of financial reporting	51	3.63	.999
Forensic accounting improves stakeholder trust and confidence in the corporate financial statement	51	3.90	.831
Accountants/auditors with forensic accounting skills will deliver more quality financial reporting.	51	4.20	.825
Forensic investigations deal directly with fraud investigation and this reduces financial reporting “expectations gap”.	51	3.33	.931

Source: SPSS Computation

Inference:

Table 5, gives us the descriptive statistics on Effectiveness of forensic accounting in delivering Quality Financial Reporting, With the survey outcome, there is strong evidence to infer that Forensic accounting will help in delivering quality financial reports and improve confidence among the stakeholders. The survey results also suggest accountants and auditors should be equipped with forensic accounting skills which will enhance the quality of financial reporting.

Table 6: Descriptive Statistics on Effectiveness of forensic auditing in reducing the fraud instance.

Items	N	Mean	Std. Deviation
Making Forensic Auditing mandatory will help to reduce the fraud instance.	51	3.73	.961

Source: SPSS Computation

Inference:

Table 6, gives us the descriptive statistics on Effectiveness of forensic auditing in reducing the fraud instance, With the survey outcome, we can infer that Making Forensic Auditing mandatory for the corporates from the regulatory authority will help to reduce the fraud instance.

Testing of Hypothesis

H01: There is no positive view, towards forensic accounting as a tool for fraud management among the certified accountants.

Table 6: One-Sample T-Test computation on Effectiveness of forensic accounting in corporate fraud management

Sl. No.	Items	t	df	Sig. (2-tailed)	Mean	95% Confidence Interval of the Difference	
						Lower	Upper
1	Forensic accounting can be used to uncover diverted fraudulent practices.	29.795	50	.000	3.882	3.62	4.14
2	Forensic accounting can Identify misappropriated assets and identify reversible insider transactions	31.149	50	.000	3.941	3.69	4.20
3	Forensic accounting is effective as a fraud detection tool	28.508	50	.000	3.882	3.61	4.16
4	Forensic Accounting is solely enough as a tool to prevent suspicious or fraudulent transactions	17.743	50	.000	2.882	2.56	3.21
5	Forensic accountants do not bear any risk under forensic accounting practice; it specifically covers the risk of fraud.	23.927	50	.000	3.118	2.86	3.38

Source: SPSS Computation

Inference:

From the above computation, "Forensic accounting can be used to uncover diverted fraudulent practices" has one-sample t-test value: $t(50)=29.795$, $P=0.000$, "Forensic accounting can Identify misappropriated assets and identify reversible insider transactions" has one- sample t-test value: $t(50)=31.149$, $P=0.000$, "Forensic accounting is effective as a fraud detection tool" has one- sample t-test value: $t(50)=28.508$, $P=0.000$, "Forensic Accounting is solely enough as a

tool to prevent suspicious or fraudulent transactions” has one- sample t-test value: $t(50)=17.743$, $P=0.000$, “Forensic accountants do not bear any risk under forensic accounting practice; it specifically covers the risk of fraud” has one-sample t-test value: $t(50)=23.927$, $P=0.000$ respectively. Since the P values of 1 to 5 Items is less than 0.05, we reject the null hypothesis and accept the alternative hypothesis that there is a positive approach, towards forensic accounting as a tool for fraud management among the certified accountants

H02: There is no effect of forensic accounting for a better internal control system.

Table 7: One-Sample T-Test computation on Effectiveness of forensic accounting for a better internal control system

Sl. No.	Items	t	df	Sig. (2-tailed)	Mean	95% Confidence Interval of the Difference	
						Lower	Upper
6	Forensic Accountants are not influence by management	19.537	50	.000	3.176	2.85	3.50
7	Forensic accounting is effective in assessing, monitoring and evaluation of internal control systems	32.190	50	.000	3.725	3.49	3.96

Source: SPSS Computation

Inference:

From the above computation, “Forensic accounting is effective in assessing, monitoring and evaluation of internal control systems” has one-sample t-test value of $t(50)=32.19$, $P=0.000$ ” “Forensic Accountants are not influenced by management” has one-sample t-test value $t(50)=19.537$, $P=0.000$ respectively. Since the P values of 6 and 7 Items is less than 0.05, we reject the null hypothesis and accept the alternative hypothesis that there is the effect of forensic accounting for a better internal control system

H03: There is no effect of forensic accounting in delivering Quality Financial Reporting.**Table 8: One-Sample T-Test computation on Effectiveness of forensic accounting in delivering Quality Financial Reporting.**

Sl. No.	Items	t	df	Sig. (2-tailed)	Mean	95% Confidence Interval of the Difference	
						Lower	Upper
8	Forensic accounting enhances the quality of financial reporting	25.926	50	.000	3.627	3.35	3.91
9	Forensic accounting improves stakeholder trust and confidence in corporate financial statement	33.541	50	.000	3.902	3.67	4.14
10	Accountants/auditors with forensic accounting skills will deliver more quality financial reporting.	36.318	50	.000	4.196	3.96	4.43
11	Forensic investigations deal directly with fraud investigation and this reduces financial reporting "expectations gap".	25.570	50	.000	3.333	3.07	3.60

Source: SPSS Computation

Inference:

From the above computation, "Forensic accounting enhances the quality of financial reporting" has one-sample t-test value of $t(50)=25.96$, $P=0.000$, "Forensic accounting improves stakeholder trust and confidence in corporate financial statement" has one-sample t-test value of $t(50)=33.541$, $P=0.000$, "Accountants/auditors with forensic accounting skills will deliver more quality financial reporting" has one-sample t-test value of $t(50)=36.318$, $P=0.000$, "Forensic investigations deals directly with fraud investigation and this reduces financial reporting 'expectations gap'" has one-sample t-test value of $t(50)=25.570$, $P=0.000$ respectively. Since the P values of 8 to 11 Items is less than 0.05, we reject the null hypothesis and accept

the alternative hypothesis that there is the effect of forensic accounting in delivering Quality Financial Reporting.

H04: There is no effect of forensic auditing in reducing the fraud instance.

Table 9: One-Sample T-Test computation on Effectiveness of forensic auditing in reducing the fraud instance.

Sl. No.	Item	t	df	Sig. (2-tailed)	Mean	95% Confidence Interval of the Difference	
						Lower	Upper
12	Making Forensic Auditing mandatory will help to reduce the fraud instance.	27.691	50	.000	3.725	3.46	4.00

Source: SPSS Computation

Inference:

From the above computation, “Making Forensic Auditing mandatory will help to reduce the fraud instance.” has one-sample t-test value of $t(50)=27.691$, $P=0.000$. Since the P values of the 12th Item is less than 0.05, we reject the null hypothesis and accept the alternative hypothesis that there is the effect of forensic auditing in reducing the fraud instance.

Conclusions and Recommendations

Corporate fraud is one of economical disease for the corporate and society, treating that is a top priority in every individual's list. Accountants and Auditors play a crucial role in managing it. This particular study was to promote forensic accounting as a tool to mitigate corporate fraud and it will help in framing better internal control system which ultimately serve the purpose of quality financial reporting and decrease in fraud instances. This study reveals that there are strong significance on forensic accounting, incorporating the same will give an edge in fighting the frauds. And also forensic accountants are not free from interference from management, but clearing those barriers will help the forensic accountants and auditors to perform the task with their own fashion and potential. Regulating bodies and accounting professionals should change their perception on forensic accounting as not only as investigation tool but as a preventive mechanism and also regulating bodies should also create awareness and training on forensic accounting, which will lay its path to better corporate governance and healthy society.

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