

## A critical evaluation of forensic accounting studies with a view to discerning how practice can be improved to prevent cases of fraud

Abdulrahman Atllah Alharbi

Collage of Business Administration || Taif University || KSA

**Abstract:** This article provides a critical evaluation of the existing literature that has been developed to date regarding forensic accounting to then discern how the practice could be potentially improved to prevent instances of fraud from arising. To achieve this, this article first provides an understanding of what forensic accounting is and why it is important for preventing instances of fraud. Then, more specifically, this article considers the literature that has been produced in this area about whether and, if so, why there is a need for the practice of forensic accounting to be improved upon to prevent instances of fraud. On this basis, the literature is also evaluated to discern whether any recommendations may be made to prevent instances of fraud from arising in the future and on what basis these recommendations could be made. This is because it is hypothesised that whilst the practice of forensic accounting already achieves a considerable amount regarding the prevention of fraud because of the diverse nature of this kind of work, there is still considerable scope for improvement due to a variety of issues that are considered during this article's literature review. Finally, this article concludes with a summary of the key points that have been derived from the analysis undertaken regarding the practice of forensic accounting and its potential for improvement to prevent instances of fraud from arising.

**Keywords:** forensic accounting, fraud, financial reporting misconduct.

## تقييم نقدي للدراسات المتعلقة بالمحاسبة الجنائية بهدف تمييز كيف يمكن تحسين الممارسة لمنع حالات الاحتيال

عبد الرحمن عطالله الحربي

كلية إدارة الأعمال || جامعة الطائف || المملكة العربية السعودية

**المستخلص:** تقدم هذه المقالة تقييمًا نقديًا للدراسات الحالية التي تم تطويرها حتى الآن فيما يتعلق بالمحاسبة الجنائية حتى يتسنى بعد ذلك التعرف على كيفية تحسين هذه الممارسة لمنع حدوث حالات الاحتيال ولتحقيق ذلك، تقدم هذه المقالة أولاً فهماً لمهية المحاسبة الجنائية ولماذا هي مهمة لمنع حالات الاحتيال، ثم وبشكل أكثر تحديداً تتناول هذه المقالة الدراسات التي تم دراستها في هذا المجال حول ما إذا كانت هناك حاجة إلى تحسين ممارسة المحاسبة الجنائية لمنع حالات الاحتيال، وإذا كان الأمر كذلك، فلماذا على هذا الأساس يتم تقييم الدراسات وأيضاً لتحديد ما إذا كان يمكن تقديم أي توصيات لمنع حدوث حالات الاحتيال في المستقبل وعلى أي أساس يمكن تقديم هذه التوصيات، لأنه يُفترض في ممارسة المحاسبة الجنائية أن تحقق بالفعل قدرًا كبيرًا فيما يتعلق بمنع الاحتيال بسبب الطبيعة المتنوعة لهذا النوع من العمل، ولا يزال هناك مجال كبير لتحسين بسبب مجموعة متنوعة من القضايا التي يتم أخذها في الاعتبار خلال مراجعة الدراسات لهذه المقالة. وأخيرًا، تختتم هذه المقالة بملخص للنقاط الرئيسية المستمدة من التحليل الذي تم إجراؤه فيما يتعلق بممارسة المحاسبة الجنائية وإمكانية تحسينها لمنع حدوث حالات الاحتيال.

**الكلمات المفتاحية:** المحاسبة الجنائية، الاحتيال، سوء السلوك في التقارير المالية.

## INTRODUCTION.

What is forensic accounting and why is it so important for preventing instances of fraud?

The practice of forensic accounting refers to a specialist kind of accounting that provides for the investigation of whether particular organisations involve themselves with financial reporting misconduct (Honigsberg, 2020). Therefore, forensic accounting is considered an important practice as a means of identifying and ultimately preventing instances of fraud from arising with individual organisations (Honigsberg, 2020). Forensic accountants are able to achieve this by, at a minimum, looking to combine their legal knowledge of relevant legislation, like the Proceeds of Crime Act 2002 (as amended by the Serious Crimes Act 2007) in the United Kingdom, and accounting skills together to aid them in the completion of their role (Shapiro, 2015). Moreover, forensic accountants also look to apply an understanding of a combination of economic theories, business information, financial reporting, accounting and auditing standards and procedures, data management and electronic discovery, data analysis techniques for fraud detection, evidence gathering and investigation, and litigation processes to be able to investigate a given organisation (Shapiro, 2015).

Consequently, it is on this basis that forensic accountants can evaluate the performance of individual organisations to help them to resolve issues like those that may serve to emanate from instances of fraud (Shapiro, 2015). This is important because “[f]inancial statement fraud is a deliberate attempt by corporations to deceive or mislead users of published financial statements, especially investors and creditors, by preparing and disseminating materially misstated financial statements” (Rezaee, 2005: 279). By way of illustration, instances of fraud that involve the exploitation of accounting practices typically arise by providing the direct manipulation of accounting numbers that are utilised to produce financial reports, like the improper capitalisation of capital expense, earnings management, and even income smoothing (Ozili, 2015)

On this basis, although forensic accountants will likely arrive on the scene of a particular instance of fraud, their role is still considered significant for translating complex financial transactions and numerical data for the clear understanding of laypeople in practice (Singleton and Singleton, 2011). This is clearly of fundamental importance if a specific instance of fraud is to come before the courts in criminal proceedings because there may be a jury completely made up of laypeople that must decide this kind of case (Singleton and Singleton, 2011). Therefore, as has already been alluded to in the preceding paragraph of this article, to fulfil their roles, forensic accountants provide for the application of a broad variety of skills and methods to ascertain if there have been any instances of the aforementioned financial reporting misconduct (Alhusban et al., 2020). To illustrate, when it comes to identifying and ultimately preventing fraud, examples of those cases when forensic accounting may need to be completed include, but are not limited to, economics damages calculations resulting from breach of contract or tort, post-acquisition

disputes for breaches of warranties, bankruptcy, insolvency, and reorganisation, securities fraud, tax fraud, money laundering, and computer forensics/e-discovery (Alhusban et al., 2020).

## LITERATURE REVIEW.

### **How could the practice of forensic accounting be potentially improved to prevent instances of fraud from arising?**

One of the main reasons why there is a need for the practice of forensic accounting to be improved upon is because it is still a somewhat new and multidisciplinary field of knowledge that, along with the law and accounting, also combines knowledge in criminology, information technology, psychology, and sociology (Alshurafat et al., 2020). This point is supported by the fact that, as was recognised in the introduction to this article, there is actually a lack of agreement regarding what forensic accounting consists of to the detriment of those that carry out this practice and those that are impacted upon by its completion (Sahdan et al., 2020). To illustrate, Botes and Saadeh (2018) identified three main approaches: (a) the narrow approach that focuses upon the practice's litigious and adversarial role was prominent until the mid-1990s; (b) the broad approach that is utilised by international professional accounting associations that involves the application of specialist knowledge and investigative skills to collect, analyse, and evaluate an issue, and to interpret and communicate; and (c) the comprehensive definition that combines the investigative role with the adversarial role of forensic accounting. Therefore, it would seem that forensic accounting would benefit from a clear definition that is universally applicable so that all those involved with this practice and that are impacted upon by it then know what is involved for then more effectively preventing instances of fraud from arising in the future.

That the practice of forensic accounting would benefit from one clear definition is then only further supported by the fact that whilst forensic accountants are usually able to provide a variety of services to prevent instances of fraud, litigation support is considered their key role (Alshurafat et al., 2020). This is because it has been recognised that the practice of forensic accounting is to be utilised in the courts to enhance legal procedures by encouraging significantly greater accountability on the part of the protagonists involved in a given case (Abdul-Baki, 2019). At the same time, however, there is also a need to appreciate that there has been an extension of the practice of forensic accounting's adversarial role with the provision of business valuation services for the purpose of then enhancing accountability (Jalilvand and Kostolansky, 2016). Consequently, it could be argued that there is a need to improve the practice of forensic accounting by continuing to emphasise the need for litigation support whilst also recognising the business side of this practice for preventing instances of fraud as part of a universal understanding.

It has also been found that techniques of forensic accounting have been effectively utilised to safeguard the economy of a given county against instances of fraud by identifying those that may look to cause this kind of harm to a particular organisation (Yang and Lee, 2020). To illustrate, Honigsberg (2020) provided an explanation of numerous different methods of forensic accounting that are utilised to detect fraud, including, but not limited to, financial statement analysis, identifying abnormalities in financial records, and the recognition of criminals behavioural and personal characteristics. As a result, contemporary forensic accounting methods incorporation in the context of accounting is considered absolutely fundamental to then identify instances of fraud for its prevention and punishment (Honigsberg, 2020). Therefore, in keeping with the points to have been identified earlier in the course of this literature review regarding the need to improve practices of forensic accounting for preventing instances of fraud, there is a need to emphasise the value of the different methods to have been recognised by Honigsberg (2000) in this regard.

Allied to the fact that one of the main reasons why there is a need for the practice of forensic accounting to be improved upon is because it is still a somewhat new and multidisciplinary field of knowledge, and it has also become an even newer practice in the context of cybercrime investigation and detection (Tutino and Merlo, 2019). Therefore, even though forensic accountants look to utilise different computer software and tools to identify instances of fraud in public and private organisations, there is still some significant scope for improvement in this regard (Kılıç, 2020). This is considered particularly true given the relative newness of the use of forensic accounting practices in this regard due to forensic accounting being new in itself more generally (Kılıç, 2020).

However, even though forensic accounting's use in the context of cybercrime continues to develop, it has been argued that forensic accountants still have a significant role to play when it comes to both the detection and the prevention of instances of cybercrimes (Van Akkeren et al., 2016). This is because it has been found to be the case that practices of forensic accounting may serve to aid the mitigation of both risks of fraud and financial crime that are considered linked with the remit of what is coming to be looked upon as being an increasingly digital environment (Rezaee and Wang, 2019). It is also to be noted that both information technology and technological knowledge serves to provide forensic accountants with further competencies when it comes to the preservation of data gathering, analysis, and data visualisation in practice (Rezaee and Wang, 2019). Therefore, it would seem that there is a need to embrace the positives that are associated with the use of methods of forensic accountancy to prevent instances of fraud whilst also looking to adapt to technology's continuing development and the resultant variation of stakeholders needs.

It is also to be noted that, to discern how the practice of forensic accounting could be potentially improved to prevent instances of fraud, there is a degree of disparity between the position that has served to develop in developed countries and developing countries (Van Akkeren et al., 2016). This is because

whilst there has been a tendency to provide for the creation of regulations for the undertaking of forensic accounting internationally, this has usually proved to be the case in developed countries (Van Akkeren et al., 2016). The reason for this is that it is understood that, in developed countries, the practice of forensic accounting is understood to be a profession that individuals can partake in, whilst this is not the case in developing countries (Van Akkeren et al., 2016). To illustrate, examples of developed countries where forensic accounting is regulated as a specialisation includes Canada under the terms of the professional accounting bodies' supervision at the federal level (Gosselin, 2014)

Nevertheless, despite all of the positives that have been identified as being associated with the use of forensic accounting to prevent instances of fraud in a given jurisdiction, there are also several negatives that are associated with the practice that must also still be resolved. Principally, it has been found during this article's analysis that the future of the use of forensic accounting practices to prevent instances of fraud is largely considered dependent upon it being able to inform policy in this regard.

At the same time, however, it is arguable that methods of forensic accounting have done little to serve to inform the development of policy in this regard. For one thing, it has been found that forensic accountants all too often focus upon investigating organisations that already have a previous history of carrying out fraudulent activities (Ozili, 2015). This understanding is supported by the fact that the knowledge that particular organisations previously committed instances of fraud all too often serve to encourage the forensic accountants that are involved in a given case to utilise statistical testing however necessary to support their preconception that instances of fraud have been committed (Ozili, 2015). The problem is that the adoption of such an approach is not particularly useful to regulators because it ignores the possibility of other organisations committing fraudulent activities for the first time in the future (Ozili, 2015). That regulators do not find this kind of approach adopted by forensic accountants especially useful for dealing with instances of fraud is then only further marked by the fact that regulators want to identify all fraudulent activities, regardless of whether the perpetrators are previous offenders or not (Ozili, 2015).

On this basis, there is a need to understand that academic research that has been undertaken in this area would seem to inform the development of policy in this regard as forensic accounting looks to focus its attention upon organisations with no previous history of fraudulent activities (Ozili, 2015). Reflecting upon the approach that is typically taken by forensic accountants to identify and prevent instances of fraud that may be perpetrated by individual organisations and the problems that have been recognised in the preceding paragraph, there is still room for advancement in this regard in other respects (Ozili, 2015). To illustrate, given the recent advances about the knowledge of both financial engineering and human behaviour amongst those involved with the development of policy, regulators now understand that the kinds of methods utilised by forensic accountants to identify fraudulent events that have previously taken place do not always aid the detection of new cases (Ozili, 2015). This position is

especially true if it is found that the investigation of cases of fraud is identified as needing the use of different methods by forensic accountants in practice (Ozili, 2015).

Allied to this, there is also an additional disparity between the position of forensic accountants and regulators because the existence of symptoms of fraud, like internal control weaknesses, analytical anomalies, extravagant lifestyles, and unusual behaviours (Albrecht and Albrecht, 2003), does not automatically serve to mean that fraud has actually arisen. Therefore, it would seem that there is a need for a change in approach in this regard to avoid mistakes in the investigations that are undertaken by those looking to identify instances of financial fraud. This understanding is supported by the fact that whilst many academics that are working in this area believe that the use of statistical models may serve to notably improve the process of fraud detection so that a view has developed that the symptoms that are identified as a result automatically culminate in real fraud cases, the reality has proved to be somewhat different.

In support of the example that has been put forward in the preceding paragraph, it is arguable that an analogy can be drawn with individual people that look to live an ostentatious lifestyle due to the continued success. This is because it has been found that those individuals that have a personal history of looking to live extravagantly typically seek to sustain such a lifestyle if they end up high in the managerial hierarchy of a given organisation. However, just because someone is successful on a continuing basis does not mean they had perpetrated acts of fraud to do so at any point. Therefore, this is clearly something that also needs to be accounted for when looking to undertake investigations of individual organisations activities. This trouble is that too few academic studies that have been completed in this area to date have actually recognised that the presence of fraudulent symptoms does not automatically mean that an actual fraud has taken place in practice (see, by way of illustration, Albrecht and Romney, 1986 and Hogan et al., 2008).

## CONCLUSION.

It is clear from the analysis that has been completed in this article that the practice of forensic accounting could be potentially improved to then prevent instances of fraud from arising. The reason for this potential improvement is even though the practice of forensic accounting is considered absolutely vital for identifying individual organisations' financial misconduct reporting given its diverse nature. This is because forensic accountants are able to fulfil their role by, at a minimum, looking to combine their legal knowledge of relevant legislation and accounting skills together to aid them in the completion of their role. It has also been found that techniques of forensic accounting have been effectively utilised to safeguard the economy of a given country against instances of fraud by identifying those that may look to cause this kind of harm to a particular organisation. Moreover, even though forensic accounting's use in

the context of cybercrime continues to develop, it has been argued that forensic accountants still have a significant role to play when it comes to both the detection and the prevention of instances of cybercrimes

That it is possible for practices of forensic accounting to be improved upon is because forensic accounting would benefit from a clear definition that is universally applicable so that all those involved with this practice and that are impacted upon by them then know what is involved with effectively preventing instances of fraud from arising in the future. Furthermore, there is a degree of disparity between the positions that have served to develop in developed countries where it is a profession and in developing countries where it is not to date. In addition, it has been found that the future of the use of forensic accounting practices to prevent instances of fraud is largely considered dependent upon it being able to inform policy in this regard. This is supported by the fact that a view has developed that methods of forensic accounting have done little to serve to inform the development of policy regarding the prevention of fraud. There is also an additional disparity between the position of forensic accountants and regulators because the existence of symptoms of fraud does not automatically serve to mean that fraud has actually arisen.

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