

The Role of Forensic Accounting in Solving the Vexed Problem of Corporate World

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Abstract

Several instances of corporate scandals and failure in recent past have put the professional accounting bodies into a new perception that goes beyond statutory audit and in some ways even the trend of corporate governance.

This article discusses the concept, need and role of forensic accounting in solving the vexed problem of corporate world.

Introduction

The growth of the public limited liability companies and large increase in the number of investors owning share and the divorced of ownership from control of companies has called for regular auditing of corporate financial reports.

The objectives of the ordinary audit of financial statement by the independence auditor according to AICPA (1992) is the expression of an opinion on the fairness or otherwise in all materials respect financial position, results of operation and its cash flows in controlling with generally accepted accounting principles.

However, modern organized corporate frauds are sophisticated, and well resources by manager, entrepreneur and politicians to mention but few. There is the need to response to this changing criminal threat and the skills of non traditional investigators like accountant and legal experts are needed to combat the corporate ill, this has arouse the call for forensic accountant.

Statement of Problem

The failure of statutory audit to prevent and reduce mis-appropriation of corporate fund and an increase in corporate crime has put pressure on the professional accountant and legal practitioner is find a better way of exposing frame in business world.

A nationwide study conducted by Kessler International showed that 39 percent of organizations have considered the need for a forensic accountant. The study, intend to find out how the knowledge of forensic accounting can reduce corporate fraud and mismanagement.

Methodology

The study being a theoretical analysis of the role of forensic accountant in solving the vexed problem of corporate world, it employed the secondary source of data collection by making use of available literature on forensic accounting and its application in modern corporate world.

Literature Review

Definition

According to the Webster's Dictionary, Forensic Accounting mean, "Belonging to, used in or suitable to court, of judicature or to public discussions, debate and ultimately dispute resolutions, it is also defined as an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution.

Forensic accounting is the practice of utilizing accounting auditing and investigative skill to assist in legal matter and the application of specialized body of knowledge to the evidence of economic transaction and reporting suitable is the purpose of establishing accountability or valuation of administrative proceeding. In wide sense, it can be said as the integrity of accounting auditing and investigative skill to obtain a particular result.

U.S. news and world report listed "Forensic accountant" as one of the 20 not job tracks" of the future and has made this branch of accounting trendy. But Kessler International experts said that the fields popularity has attracted many in experience accountant who lack skills to carefully and cost effectively conduct inquiries.

However, Forensic Accounting is different from the old debit or credit accounting as it provides an accounting analysis an accounting analysis that is suitable to the organization which will help in resolving the disputes that arise in the organization.

Forensic accountants utilize accounting, auditing and investigation skills while conducting an investigation. These accounting are trained to look into the dispute in a number of ways. They often retain to analyze, interpret summarize and present a complex manner which is understandable and probably supported.

Also they are often involved in various activities such as investing and analyzing financial evidence developing computerized, exhibiting documents and presenting the evidence obtained.

This new and ground-breaking accounting has two main areas which are:

- i) Litigation support and investigation and
- ii) Dispute resolution.

The former represents the factual presentation of economic issues related to existing litigation. In this capacity, the forensic accounting sustained by parties involved in the legal disputes and can assist in resolving dispute, even before they reach the courtroom, if dispute researchers the courtroom, the forensic accountant may testify as an expert witness on the other hand the latter is the out of determining, whether criminal matters such as securities fraud which include financial settlement, identify theft and insurance fraud e.t.c. in such complex cases forensic accountants make some recommendations/actions that can be taken to minimize future risk or loss.

Need for Forensic Accounting

The need for forensic accountant aroused because of the failure of audit system in the failure of audit system in the organization as the organizational internal and external audit failed to figure certain errors in the managerial system.

Experts in the field pointed out that the intense economic pressure, with more companies facing bankruptcy jobs and careers are at risk and employee feel pressured to maintain and support performance levels, forcing many to commit corrupt and whatever the reasoning may be, more and more forensic accountants are been called up to meticulously search through documents, discover new

information and help in putting together the irregular pieces of company's financial puzzle to solve the vexing problems.

The following are the important reasons for the growth of forensic accounting.

- Internal audit and audit committee as a part of the management function could not throw light on the different fact and other hidden aspects of corporate fraud.
- Rotation of the statutory auditor touches as part of the problem while it refuses emphasis but it adversely needs longer duration. The method of appointing the statutory auditors used not foolproof as its brooks collusion and lobbying.
- The certificates of the auditors are hardly scrutinized carefully especially when the reports are unclean and qualified.
- The internal auditors can surely detect what was happening but they are hardly in a position to initiate proper action in proper time.

The Skill Needed by Forensic Accountant

Arising from the needs for forensic accountant is the quality and skill require for the performance of his duties.

Aderibigbe (2000) suggested that a forensic accountant require high level of competence, integrity and honesty to performed his job. He is of the opinion that a forensic accountant must be thoroughly trained and must prove his competence by pass all relevant examination to become a member of a recognized accountancy body.

He maintained that a forensic accountant should always out with integrity, honesty and probity and must maintain a professional attitude in the performance of his responsibilities.

The skills which are requires are numerous but many he must training developed during the training years.

Wallace (2001) listed the minimum requirement a forensic accountant must process to include:

- An ability to review a large volume of documentation ranging form the more usual accounting records and management information systems to memos, correspondence and other less obviously financial data and to extract the key issues quickly.
- A sound understanding of peculiarity of various business methods.
- A sense of urgency and commitment which will ensure prompt response when required however slow civil litigation may appear to the on looker or even to the participant's in a dispute.
- Adherence of strict timetable even when needs arises to work for more hours to meet targeted time.
- An ability to communicate complex theoretical ideas in a manner which is readily understandable by the layman supporting with facts and figures when necessary without giving an impression of superiority.
- Most essentially, an ability to appear objectives and professional even when taking part in the inherently partisan process of a court case.

The Role of Forensic Accountant

A forensic accountant is often retained to analyze interpret summarize and present complex financial and business in a manner, which is both understandable and properly supported.

A forensic accountant is time and again involved in the investigating and analyzing financial evidence, development computerized application to assist in the analysis and presentation of financial evidence communicating their finding in the firm of reports exhibits and collection of document and assisting in legal proceedings, including testifying in court as all expert witness and preparing visual aids to support trial evidence.

Thus, a forensic accountant can be of assistance in various ways that include:

- Giving preliminary advice as an initial appraisal of the pleading and evidence available at the start of proceedings.
- Identifying the key documents which should be made available as evidence. This is important when the forensic accountant is acting for the defense and lawyers are preparing lists of documents to tender in court.
- Preparing a detailed balanced report on quantum of evidence, written in a language readily understood by a non-accountant and dealing with all issue, irrespective of whether or not they are favourable to the client.
- Reviewing expert accounting reports submitted by the other party which may have impact on the quantum of evidence and advising lawyers on these reports.
- Briefing legal counsels on the financial and accounting aspects of the case during pre-trial preparation.
- The other plane of the forensic accountant can initiate measure for introduction of environment accounting to highlight the damage done to the environment by the possible recoupment of such damages or replenishment of lost properties through environmental management continually.

The occupational fraud committed by employees usually involves the theft of assets and embezzlement and the involvement of employees in kickback schemes or conversion of corporate assets for personnel use, the forensic accountant can intervene and observe the suspected examination of assets, invigilation, inspection of documents and interview of those involved to control such practices

Experience and these types of engagement enables the forensic accountant to offer suggestions as to internal controls that owners could implement to reduce the likelihood of fraud.

Besides, the forensic accountant will also engage himself in criminal investigation on behalf of police force, where his report is prepared with the objectives of presenting evidence in a professional and concise manner.

These assumptions often involve a detailed analysis of numerous years accounting records to quantify the issues in dispute. He does need an understanding of legal issue of business activities.

The forensic accountant can thus be of assistance in various ways that include investigation accounting, review of the factual situation and provision of suggestion, regarding possible courses of actions, assisting with the professional and recovery of assets and co-ordination of other experts, viz private investigators, forensic document examiners, consulting engineers e.t.c.

Summary and conclusion

Forensic accounting is the bests ever growing areas accounting that enables in enhancing the chances of success in day to day life of corporate firm by surmounting all the vexing and critical problems of corporate field as panacea.

Thus various agencies fighting corruption world wide will need to engage the service of forensic accounting to compliment efforts of other professional in reducing fraudulent activities and installing fraud proof internal control system in corporate organization. So it is beyond doubt that the role of forensic accountant will become very major in corporate field; public accounting and in all awareness of government in the days to come.

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