

The Place of Forensic Accounting in External Audit Practice

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Abstract

This study focused on the place of forensic accounting in external audit practice. The need for auditing was necessitated following separation of ownership from control. Auditing requires the external auditor to carry out an unbiased examination and investigation of the financial statement of any firm with a view to express an opinion on its truth and fairness in accordance. On the other hand, forensic accounting or auditing is a special audit for the purpose of litigation in the court of law. This implied that it required special methodological approach which is completely different from traditional or ordinary audit practice. Hence, this study specifically examined the need, skills, practice of forensic accounting and the relationship between forensic and traditional accountants or auditors. It is a library type of research. It solely employed secondary source of information. Information were obtained from textbooks, Journal articles, seminar papers, thesis etc. Having examined various related literature, it was revealed that the need for forensic accounting was to track crimes in various ways for the purpose of litigation in the court room and it is absolutely different from traditional audit because of exceptional skills required which can enhance external audit practice. It recommended that all professional accountants or practicing accountants should acquire knowledge in forensic accounting skills and all universities should run degree course in forensic accounting in order to aid knowledge of forensic skills in Nigeria.

Keywords: Forensic Accounting, External Audit Practice, Skill

Introduction

Issue of auditing becomes vital predominantly when the matter of who manages a firm is actually different and completely separated from ownership whether in public or private enterprises (Izedonmi, 2009). Audit practice involves evaluating the reliability and credibility of financial information, as well as the systems and processes responsible for recording and summarizing that information prepared by management (Messier, Glover & Prawitt, 2006). International standards on auditing (FRC, 2012) No. 700 provides the objective of the audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. Audit practice requires that the external auditor carries out an unbiased examination and evaluation of the financial statement of any organisation with a view to express an opinion on its truth and fairness in accordance with International financial reporting standards, International public sector accounting standards, International auditing standards and Nigerian standards on Auditing (Adebisi, 2011).

As today, audit practice has gone beyond giving expression of the truthfulness and fairness of financial information, but need for forensic accounting or auditing. The increasing sophistication of financial fraud requires that forensic accounting be added to the tools necessary to bring about the successful investigation and persecution of those individuals involved in criminal activities (Enofe, Ekpulu & Ajala, 2015). This can be attributed to the fact that proactive forensic accounting practice seeks out errors, operational vagaries transactions before they crystallize into fraud (Modugu & Anyaduba, 2013).

Bhasin (2007) noted that the objectives of forensic accounting include: assessment of damages caused by an auditors' negligence, fact finding to see whether an embezzlement has taken place, in what amount, and whether criminal proceedings are to be initiated; collection of evidence in a criminal

proceedings; and computation of asset values in a divorce proceedings in the court of law. According to Enyi (2012), in forensic accounting, a man is expected to know the trick of the monkey in order to catch it, but he should ensure that he did not become the monkey in the process. Impeccable character must be weaved around ethical considerations in forensic accounting for it to succeed. This signifies that for effective investigation to be carried out the investigator must understand the tricks and skills being employed by the perpetrator. Hence this study specifically investigates the need, skills, practice of forensic accounting and the relationship between forensic and traditional accountants or auditors.

Literature Review

Concept of Forensic Accounting

The concept of forensic accounting otherwise known as accounting autopsy was first emphasized by Peloubet in 1946 (Hopewood, 2009). Forensic comes from the Latin word for public and specifically to forum. The forum was where the ancient Romans were thought to gather to do business and settle disputes among other things. Forensic now relates to courts of law, legal concerns, crime solving is the focus or the application of knowledge to legal problems such as crimes. According to Popoola, Ahmad, Shamsiah and Hartini (2013) forensic accounting is defined as the integration of specialized accounting knowledge and enhanced skills to resolve complex financial issues in any court of law or public domain. Forensic accountants, additionally alluded to as forensic examiners or investigative evaluators, frequently need to give master proof at the inevitable trial (Crumbley, Heitger & Smith, 2005). Forensic accounting is an investigative style of accounting used to determine whether an individual or an organisation has engaged in any illegal financial activities (Okoye & Gbegi, 2013). Modugu and Anyaduba (2013) observed that forensic accounting encapsulates all other investigation-related areas in uncovering financial fraud. It encompasses litigation support, expert witnessing and investigative accounting. Forensic accounting provides an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution. Boleigha (2011) argues that forensic accounting is not accounting for dead people, rather it is the application of a wide range of accounting, auditing, and investigative skills to measure and verify economic damages and resolve financial disputes. Forensic accounting is a discipline that has its own models and methodologies of investigative procedures that search for assurance, attestation and advisory perspective to produce legal evidence. It is concerned with the evidentiary nature of accounting data, and as a practical field concerned with accounting fraud and forensic auditing; compliance, due diligence and risk assessment; detection of financial misrepresentation and financial statement fraud (Skousen & Wright, 2008); tax evasion; bankruptcy and valuation studies; violation of accounting regulation (Dhar & Sarkar, 2010). As noted by Wuerges (2009), forensic accountants will continue to exist mainly for the same reasons why prosecutors and commercial branch investigators are in existence.

Need for Forensic Accounting

Forensic accounting identifies with the use of accounting ideas and systems to lawful issues. Owojori and Asaolu (2009) state that the failure of the statutory audit and the sophisticated financial fraud in recent times had led to the need for forensic accounting. If this is true, the only solution to checkmate these activities of fraudulent acts is forensic accounting practices. Forensic accounting offers imperative help for legitimate cases in numerous regions of the law, for example, securities exchange controls, value altering plans, item risk, shareholder debate, and breaks of agreement. Forensic accounting, forensic auditing or financial forensic is the forte practice range of accounting that depicts engagements that outcome from genuine or expected debate or suit. Measurable accountants for the most part research and archive money related extortion and cushy wrongdoings. The result of the measurable examination, including appraisals of misfortunes, harms, and resources would be utilized as prosecution backing to lawyers and law requirement staff. All of the bigger Accounting firms, and also numerous medium-sized and boutique firms, and different Police and Government organizations have pro Forensic accounting divisions. Inside these gatherings, there might be further sub-specializations: some Forensic accountants may, for instance, simply represent considerable authority in protection claims, individual harm claims, extortion, development and alternately sovereignty reviews (Cicchella, 2005; Parr & Smith, 2010). While Forensic Accountants ("FAs") typically don't give assessments, the work performed and reports issued will frequently give answers to the how, where, what, why and who (Zysman, 2009). The FAs have and are keeping on advancing as far as using innovation to help with engagements to distinguish oddities and irregularities. It is not the Forensic Accountants that decide misrepresentation, but rather the court (Bhasin, 2007).

Forensic accountants have been depicted as experienced evaluators, accountants and specialists of legitimate and money related reports that are employed to investigate conceivable suspicions of false movement inside an organization; or are procured by an organization who may simply need to keep deceitful exercises from happening (Bhasin, 2007).. They likewise give administrations in zones, for example, accounting, antitrust, harms, investigation, valuation, and general counseling. Forensic accountants have likewise been utilized as apart of separations, protection claims, individual damage claims, fake cases, development, sovereignty reviews, and following psychological warfare by exploring monetary records. Numerous Forensic accountants work intimately with law requirement faculty and legal counselors amid examinations and frequently show up as master observers amid trials. Forensic Accounting is an amalgam of forensic science and accounting. The requirement for forensic accountant has been attributed to the way that the review framework in an association had neglected to recognize certain mistakes in the administrative framework. Forensic Accounting is examination accounting which includes breaking down, testing, asking and looking at the common and criminal matters lastly giving an impartial and genuine report. Pretty much as forensic examinations and lab reports are required in the court to understand the homicide and dacoit puzzles, correspondingly forensic accounting assumes a key part in following the financial fraud and clerical wrongdoings. Be that as it may, forensic accounting covers an extensive variety of operations of which misrepresentation examination is a little part where it is generally predominant. Gray (2008) noted that there are two noteworthy angles inside legal accounting hone; prosecution benefits that perceive the part of a Chartered Accountant as a specialist or expert and investigative administrations that make utilization of the Chartered Accountant's abilities, which could possibly prompt court declaration.

Relationship Between Forensic Accountants and Traditional Accountants(External Auditor)

The Forensic Accountants find out the misstatements deliberately, while the External Auditors find out the deliberate misstatements only. The forensic auditors look beyond the numbers. Forensic accounting involves fraud identification and the standards of forensic accounting evolves from courts of law (Gray, 2008). The forensic accountant applies reliable principles and methods to sufficient facts or data and typically needs expertise and skills in private investigation and accounting (Hopwood, Leiner & Young, 2012). Forensic accountants share some goals similar to traditional accountants though they have different roles, knowledge and skills. The forensic Accountant is a bloodhound of Accounting. These bloodhounds find out fraud and criminal transactions in bank, corporate entity or from any other organization's financial report. They hound for the conclusive evidences. A forensic accountant is employed or appointed by organizations to resolve allegations and detect or prevent fraudulent activities suspected or envisaged in the organization. Zimbleman, Albrecht, Albrecht, and Albrecht (2012) posit that forensic audit is a proactive audit which goes beyond normal audit procedures. Also, intentional errors (fraud) by humans can only occur in few transactions, hence forensic accounting methods use full populations where possible (Albrecht & Albrecht, 2002). As a result of large volume of data that are required for forensic analysis, it is usually done with computer with the WorldCom fraud discovery being a typical example of detection using computer technology (Lamoreaux, 2007). A forensic accountant carries out investigation on specific allegations. Hence, he has much time to investigate and analyse thoroughly specific fraudulent financial issues with emphasis of using such as evidence in a law court in case of dispute (Albrecht & Albrecht, 2009).

Moreover, traditional auditing has a focus on error identification. External auditors look at the numbers. External Auditor is an examination of books of accounts and other records such as documents, vouchers etc. which confirms or support the correctness of the entries in the books of a business or concern to enable an auditor to satisfy himself as to whether the statement of income and statement of financial position exhibit a true and fair view of state of affairs of the concerns. While those of traditional accounting like financial accounting are set by the Securities and Exchange Commission (SEC) for corporations whose securities such as common stock are exchanged (Gray, 2008). Traditional auditing makes use of techniques of sampling to discover unintentional errors usually caused by weaknesses in internal controls which occur at regular intervals. While the audit carried out by a traditional auditor is general in nature. Milucky and Mac (2013) assert that a traditional audit is carried out on general financial matters (that means the auditor considers all issues relating to accounting). A traditional auditor or statutory auditor is appointed to carry out statutory audit. The audit is usually carried out to satisfy statutory requirements and ensure that accounts prepared are in line with GAAP or IFRS.

Forensic Accounting Skills

There are numerous skills a forensic accountant expected to possess or have. Harris and Brown (2000) while investigating the qualities of a forensic accountant to identify specialized skills and abilities that should be possessed by experts of their nature. They discovered that a forensic accountant should be conversant with civil and criminal law. Also, they stressed the need for understanding of court room procedures and expectations, investigative skills, creative thinking as well as clear and precise communication skills. According to Grippo and Ibex (2003), the most important skills of a forensic accountant arise from experience in accounting, internal controls, auditing, taxation management, interpersonal relationships, business operations and communication.

A set of competencies required by a forensic accountant have been identified by DiGabriele (2009). These skills include deductive analysis ability, creative thinking skill, unstructured problem solving competence, investigative flexibility, and analytical proficiency including oral communication ability, written communication ability, specific legal knowledge and good composure. In a study conducted by Davis, Farrell and Ogilby (2010), on the features and skills of a forensic accountant; the views of attorneys, academics and CPAs were sought on the basic skills that a forensic accountant should possess. The results arrived at showed that a forensic accountant should be analytical, detailed oriented, ethical, responsive, insightful, persistent and sceptic.

Ghosh and Banerjee (2011) identified three fold-approach of skills required by a forensic accountant to include the base, middle and top layer. The base layer comprises mainly accounting knowledge. The middle layer has to do with knowledge in the fields of auditing, internal controls, risk assessment and fraud detection. While at the top layer a strong knowledge of the legal environment is required including a strong communication skill. Based on their research, a forensic accountant is expected to have competence in a broad spectrum of disciplines including accounting, law, auditing, criminology, information technology and communication skills. Knowledge and skills required in forensic accounting include the following: Investigative skills, research, law, quantitative methods, finance, auditing, accounting, and law enforcement officer insights (Hopwood, Leiner & Young, 2012).

Practice of Forensic Accounting

Practice of forensic accounting maybe traceable to the presence and manifestation of criminals in the areas of fraud, white collar crimes, corruption, money laundering, computer fraud, and asset misappropriations (Enofe, et al., 2015). Furthermore, forensic auditing comprises the use of accounting, auditing, and investigative skills to assist in legal matters. It consists of two (2) major components – a. litigation support and services, which recognize the role of the accountant as an expert consultant; investigative services, that use a forensic accountant's skills and may require possible court room testimony. Most of the complex frauds cannot be traced by mere control of utility of auditing. A study by Crawford(2010); Kleeyman (2006); Wells(2003); Zia(2010), the expertise sets required for forensic accountant are persistence and firmness, knowledge aptitudes in criminology, computer abilities, confidence curiosity, creativity, discretion, prudence, secrecy, honesty and personal strength. However, Arnoff and Sue (2001) clarified the administrations rendered by the forensic accountants or associated with the practice of forensic accounting to include the following:

(i) Fraud detection where employees commit Fraud

Where the employee enjoys fake exercises: Where the representatives are gotten to have submitted misrepresentation the forensic accountant tries to find any benefits made by them out of the assets defalcated, then take a stab at questioning them and attempting to discover the concealed truth.

(ii) Criminal Investigation

Matters identifying with money related ramifications the administrations of the forensic accountants are benefited of. The report of the accountants is considered in get ready and presentation as proof.

(iii) Outgoing Partner's settlement

In the event that the active accomplice is not upbeat about his settlement he can utilize a forensic accountant who will accurately evaluate his contribution (resources) and also his liabilities effectively.

(iv) Cases relating to professional negligence

Proficient carelessness cases are taken up by the forensic accountants. Non-adaptation to Generally Accepted Accounting Principles (GAAP) or rebelliousness to examining honours or moral codes of any calling they are expected to gauge the misfortune because of such expert carelessness or deficiency in administrations.

(v) Arbitration service

Forensic accountants render assertion and intercession administrations for the business group, since they experience extraordinary preparing in the region of option question determination.

(vi) Facilitating settlement regarding motor vehicle accident

As the forensic accountant is very much familiar with complexities of laws identifying with engine vehicles, and other applicable laws in power, his administrations get to be vital in measuring monetary misfortune when a vehicle meets with a mishap.

(vii) Settlement of insurance claims

Insurance agencies connect with forensic accountants to have a precise evaluation of cases to be settled. Also, policyholders look for the assistance of a legal accountant when they have to challenge the case settlement as worked out by the insurance agencies. A legal accountant handles the cases identifying with significant misfortune arrangement, property misfortune because of different dangers, devotion protection and different sorts of protection cases.

(viii) Dispute settlement

Business firms connect with legal accountants to handle contract debate, development claims, item risk cases, and encroachment of patent and trademarks cases, obligation emerging from break of agreements et cetera.

(ix) Matrimonial dispute cases

Forensic accountants engage cases relating to matrimonial disputes wherein their part is simply restricted to following, finding and assessing any type of advantage included.

Conclusion and Recommendations

The thrust of this paper is to investigate place of forensic accounting in external audit practice. Issue of forensic accounting is concerned with examination and investigation of crimes for the purpose of litigation in the court. It required special skills and techniques which makes it different from normal auditing of books of accounts which is about expression of opinion on the truthfulness and fairness of accounts. Therefore, with application of forensic accounting, it enhances external audit practice.

It is therefore recommended as follows:

- (1) All professional auditors whether internal or external should undergo forensic accounting or auditing training and development in order to have special skills to detect financial frauds.
- (2) Professional accounting bodies in Nigeria (Institute of Chartered Accountants of Nigeria (ICAN) and Association of National accountants of Nigeria (ANAN)) should incorporate forensic auditing into their respective syllabus
- (3) Forensic accounting should be taught or a course of study in all universities in Nigeria in order to be acquainted it operations and the needed skills.

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