The Development and Importance of Forensic Accountancy Profession

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Abstract—Businesses went beyond their boundaries with a great effort along with globalization to be able to obtain a place in the world trade. During this process, international commercial integration went into a rapid change. Concentration of the processes in commercial activities increased the constituting of crimes knowingly or unknowingly. Law failed in the solution of criminal activities. This resulted in the emergence of the concept of forensic accounting in the western countries, particularly in the USA. Forensic accounting came into prominence and forensic accountancy appeared as a new profession. The profession defined as forensic accountancy, serves to forensic authorities for the detection of financial crimes, and therefore contributes to the operation of law in a fast and proper way. The present study examines the development and importance of forensic accountancy within the global economy.

Index Terms—forensic accounting, forensic accountancy, fraud

I. INTRODUCTION

Forensic accountancy based on the use of accountancy in law process, is one of forensic science branch gaining importance today [1]. Generally, forensic accountancy is a profession field containing legal system, criminal science, sociology, psychology, computerized investigation techniques and sub field of legal system and requiring a good professional expertise and audit information. Thus, forensic accountancy are brought application process reporting and evaluating economic processes in the management process of entities legally as well as make thinking in a way of investigator on accountancy and audit practices in preparation of financial tables increasing accountability [2]. Especially, major corporate scandals that have occurred recently (Cendant, Enron, Worldcom, Adelphia, Sunbeam, Xerox, Parmalat vb) has been increased the importance of auditing and auditor liability [3]. A new profession has been started to develop in Western countries particularly in USA. This profession has been expressed as forensic accountancy in literature [4].

The forensic accountancy is a profession mainly including legal support, administrative support and expert witnessy concept in financial events. Hence, it does not required terms of specialization and being professional member Apart from the accountancy profession [2]. The financial scandals in entities are emerged due to not to be aware of deception and other illegal activities while accountants performing their duties [2]. In this concept, forensic accountants is provided an account analysis to be determined the necessary principles able to solve the problems before submitting to the court or lawsuit process in legal cases [3].

II. LITERATURE SURVEY

In the recent period, the scientists have made various studies related to accountancy profession in both developed countries and our country with the increasing value of the profession. Also, they have made studies related to professional development of profession members.

In 2009, “Reference [2]” has compared the legal regulations of forensic accountancy profession and the process to be forensic accountants in America and Turkey and have offered solutions to increase the importance of this profession in our country. In 2005, “Reference [3]” has been investigated the reasons requiring forensic accountancy profession, its concept, interests and who will be able to perform this profession.

“Reference [5]” has been made a study related to the applicability of forensic accountancy profession in Turkey. According to the research results, has been emerged that many of profession members has no information regarding forensic accountancy. In fact, also has been emerged that half of participants does not think to get training about this concept. “Reference [6]” has been defined forensic accountancy profession and has drawn the boundaries by specifying activity area of profession.

In 2012, “Reference [5]” has made investigation for the potential development of forensic accountancy profession in Turkey. According to the research results, it is seen that most of profession members has been thought...
that the forensic accountancy should be regulated with professional law and they also has been desired to get training programs by TESMER. Also, they have requested to give these courses at university level. In 2013, “Reference [7]” has defined forensic accountancy profession and has been mentioned the fight against money laundering by making an examination on the use of the accounting system as a tool in preventing money laundering.

“Reference [4]”, have made investigation for evaluating forensic accountancy applications in terms of accountancy profession members and according to the research results, has been emerged that the accountancy profession members have an opinion that forensic accountancy contributes to create an organizational structure in entities, to ensure the effectiveness of financial reporting being a critical importance for the survival of the entities, to develop accountancy profession and its training positively.

III. THE REASONS REQUIRED FORENSIC ACCOUNTANCY PROFESSION AND THE DEVELOPMENT OF PROFESSION

The people who perform forensic accountancy science professionally in order to implement income and have the necessary and sufficient experiences are called “Forensic Accountant”. The close examination can be made especially in determination and investigation of swindling crimes through forensic accountants and the findings obtained from these analyses has been presented to the courts [4].

Robert R. Roche who has worked in US Revenue as forensic accountants has defined forensic accountants as a person who are not accepted bookkeeping entries and searching the background, doubting about documents, investigating the real intent, preparing expert reports, particularly likely in cases where someone can say lie, making very detailed interviews with individuals and presenting the real with its details [8].

The requirement for the forensic accountancy profession especially has been increased after financial scandals that lived. The chronological orders of the forensic accountancy application have been shown in Table I [2].

In the formation of expertise field of forensic accountancy expressing as whole of accountancy, inspection and investigation skills, the following reasons generally have been effective [3].

- The lawyers and courts are required more expertise support for the events that they encountered.

<table>
<thead>
<tr>
<th>Application Date</th>
<th>Application Place</th>
<th>Application Area in Accountancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>B.C. 3500-3300</td>
<td>Egyptians period</td>
<td>During the writing of commercial events to the tablets by recording, it is seen that the investigation has been placed in accounting records.</td>
</tr>
<tr>
<td>B.C. 321-184</td>
<td>India</td>
<td>It is seen that minimum 40 malversation crimes has been reflected to the accounting records.</td>
</tr>
<tr>
<td>B.C. 27 A.C.330</td>
<td>Roman Empire</td>
<td>Especially, have been benefited from the activities related to forensic accountancy in supervision and control of the assets on the financial events, poor management of the treasury or misuse of money in the treasury, inflation and bankruptcies.</td>
</tr>
<tr>
<td>A.C. 2-15</td>
<td>Middle Age</td>
<td>There were high level of stratification in society and the effect of church on management was so higher. Especially, the effect of church on law and policy was observed very easily. Accountants both have been complied to the legal process and provided controls. In cases at courts and accounting processes, had a central control in administration sense. This condition has been caused to investigate accounting records the nature of the investigation.</td>
</tr>
<tr>
<td>1494</td>
<td>Luca Paciola</td>
<td>Most closely meaning of today, forensic accountancy is specified in section of establishing the internal control system for commercial activities in the double recording system of Paciola.</td>
</tr>
<tr>
<td>19. CENTURY</td>
<td>Scotland</td>
<td>A strong relationship has been established between accountancy and law and has been benefited from experts and these were also accountants.</td>
</tr>
<tr>
<td>In 1930</td>
<td>USA</td>
<td>It is seen that Al Capone's arrest process and Internal Revenue Services and Federal bureau of Information undertakes works made by forensic accountants.</td>
</tr>
<tr>
<td>1960</td>
<td>Canada</td>
<td>Atlantic Acceptance Company which was one of Canada's largest financial institutions, make a shipwreck with 150 million dollars dept. It has been accepted as event that the first forensic accountancy has been seen and played role in the emergency of accountants and consulting as case support.</td>
</tr>
<tr>
<td>1980-2003</td>
<td>ABD</td>
<td>Various financial scandals have been emerged. In the emergency process of these scandals and pending process of action, especially determination of sharp practices, forensic accountancy profession had importance place. These scandals: 1986 - ZZZZ Best; 1992 - Phar-Mar; 1998 - Cendant; 1998 - Waste Management; 2001 – Enron; 2002 - Sunbeam, WorldCom, Adelphia; 2003 - Parmalat</td>
</tr>
</tbody>
</table>

With the increment of internet use and internet hackers and cybercrimes have been brought along requirement to the security systems for them. Skill requirements required to carry out these kinds of judicial investigations have increased the importance of forensic accountants.
In regulations made by Sarbanes-Oxley Act came into force on 2002 in USA, a new system has been designed in the independent audit field and the register of organizations to be given independent audit in US to the aforementioned organization has been made obligatory by forming supervision and audit committee named as “Public Company Accounting Oversight Board”. With this law, it brought obligation to inspect and to audit internal control system to the company managers and to approve the financial statements to the CEO and CFO of company. In addition, with this law, hereafter to have audit committee in companies except existing committee is mandatory. The audit committee will be a committee of managing board and will be directly responsible from assignment of auditor, supervision of its work, preparation or presentation of audit report or related study. Audit companies also can be given their reports directly to the audit committee [3].

In this case, they can be benefited from forensic accountancies. So, forensic accountants can be provided special consulting services to the audit committee and CEO, CFO or CAO of companies based on their audit and investigation skills or can be served in audit committee by permit of SEC (American Capital Market Board).

IV. QUALITATIVE CHARACTERISTICS OF FORENSIC ACCOUNTANTS

Forensic Accountants is not one way person. Forensic Accountants should have functional characteristics. Principally, they should be wondered and should be mistrustful towards related activities and continued until finished job, not be give up work, be persistent; be pay attention to details, have access to the new information; be calm to the events, able to compare both in general and in detail, should rely on their intuition; forensic Accountants should be reliable and able to establish healthy human relations [4], [9] has been listed the characteristics that forensic accountants should have as follows.

- To classify large numbers of economic transactions containing accounting records effectively and to dominate the management information system, to have the ability to easily determine fake financial transactions that can be selected as key and to have a comprehension skills and experience comply with different operating methods
- To diffide in order to determine and prevent deception and to work long hours without losing its researcher identity in order to find out or to solve this
- Especially, if works as a part of legal action, to tell the truth without losing its mission and professionalism
- To have required computer knowledge to determine crimes that defined as cybercrimes and which is more difficult to notice in the virtual environment or sharp transactions
- To have ability to observe personality behaviour and interpretation
- To have capability of creation of deception scenarios should be required.

V. SUBJECT OF FORENSIC ACCOUNTANCY PROFESSION

There are certain differences in working methodology or on the issues to be dealt with carefully required by the elements forming the subject of forensic accountancy profession. For example, while good communication and oratory ability in the expert testimony, researcher and investigator analytical mind set are came to the fore in studies related to the misuse, deception and malpractices.

The subject of forensic accountancy profession are changed due to operating in many sectors and in a wide range and increasing communication and transport facilities of economic and financial events in the world and technological developments. In parallel with these changes, working system and technical possibilities of forensic accountancy are changed and new events and problems that encountered are also expanded vocational subjects. Hence, the people who will perform this profession also should get vocational training continuously [6].

Among the reasons of increasing requirement to the forensic accountancy profession, the increment of application to the court, the complexity of commercial transactions, increment of worker’s deception and difficulties to prevent these, company failures, are caused to require more expert support. In fighting with these kinds of problems, forensic accountants are worked in three different fields specifying below and these are constituted the components of forensic accounting services [10].

Legal Support (Lawsuit support consultancy)
Administrative Support (Deception auditors)
Expert Witness (Expert testimony)

The forensic accountants have been provided legal support on the following topics [11]:

- By obtaining evidence, provide support for conflict.
- In order to determine the volume and the possibility of financial loss, examines the relevant documents and information, to make the case of the initial assessment.
- In preparation of the investigation, informs court board for financial and accountancy of case.
- At the investigation stage, lawyers support and cross-examination provides.
- By investigating other party’s report and determining shortcomings and strong parties in this report, provides expert support.
- In investigation, provides verbal evidence related to the case to the Court Board. In other words, testify.

A. Legal Support

The legal support mostly interests the economic dimension of the event. To calculate financial loss arising
as a result of violation of contract made between parties, is constituted an example to case support provided by forensic accountancy [12]. In the most general sense, case support or legal support is expressed support providing to the related parties during whole court process from the occurrence of an event that has taken to court. Thus, the forensic accountants with case support services are becoming a part of the court process. Especially, within the concept case support provided against court board and lawyer not having more information on issues related to accountancy, audit and finance, the forensic accountancies helps during court process [4]. Within the concept of legal support, forensic accountancies are served at following issues that reverted to the court or not reverted yet [6].

In disputes concerning divorce, analyzing effects and results of financial events performed of assets acquired during the marriage, especially in cases where the commercial operation of the assets that should be shared, forensic accountancy service are provided significant benefits and assistance. In the event that one of parties are attempted to hide or smuggle assets, the event get out the working area of jurist.

In cases related to financial losses of entities, during determination and calculation of losses occurring in events that made by business management or business workers, the study of forensic accountancy profession should be worked.

In criminal cases, credit card and document fraud, frauds related to cheques and bonds and even some of murder case, can be benefited from forensic accountancy profession.

In cases related to execution and bankruptcy law, in cases submitting feature such as fraudulent bankruptcy applications, finding fictitious transactions out to miss assets by debtor, is involved in the subject of forensic accountancy profession.

In cases within labour law practice, for calculation of compensation, enlightening malpractices and irregularities occurring in work place, can be referred to forensic accountancy profession.

In the majority of cases entering the application field of tax law, the importance of accounting analysis is great. Finding out tax fraud and irregularities, determining the calculating game made on financial statement and books, the importance of forensic accountancy is great.

In the majority of cases related to commercial law for example, in problems related to profit distribution of shareholders, in disputes relating to the liquidation or merger, the assist of forensic accountants can be required.

Also in adjudication for crimes related to money laundering, can be benefited from forensic accountants.

At institutions under the Capital Market Law and in the judicial process of crimes finding out due to work and actions, are referred to the forensic accountants.

As the forensic accountants can be provided legal support to the lawyers during case process for these matters, also they can be served for events that submitted to the courts. In collection of related evidences by creating defence of lawyer or in defusing by solving claim created by the other party’s lawyer or the prosecutor, can be a great support of forensic accountants.

### B. Administrative Support

The forensic accountants can be helped business management in possible criminal investigations. For example, in malpractices such as embezzlement or robbery made by a person from top management of workers can be referred to the forensic accountants and can be get professional service in this regard [12]. Generally, the matters to be helped by forensic accountants related to deceptions and malpractices required criminal action as a result and to be helped to the court via investigators accountancy can be listed as follows [4]:

- To find out suspected sharp practices with their evidences,
- To analysis of the current situation and regulation of recommendations related to be made,
- Withdrawal and protection of assets and providing support for improvement,
- Coordinated work with specialists in other fields related to the these matters,
- To help withdrawal of assets by opening judicial proceeding or litigation.

When examined 2008, 2010 and 2012 reports of ACFE, it is seen that worldwide companies are lost average 5% of their annual income due to deception. According to the same reports, the financial losses exposed by companies due to each of deceptions have been summarized in Table II [4].

<table>
<thead>
<tr>
<th>Deception type</th>
<th>Emergence intervals (frequency)</th>
<th>Average Financial Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>False Allocation of Assets</td>
<td>88.7% 86.3% 86.7%</td>
<td>$150.000 $135.000 $120.000</td>
</tr>
<tr>
<td>Misuse</td>
<td>26.9% 32.8% 33.4%</td>
<td>$375.000 $250.000 $250.000</td>
</tr>
<tr>
<td>Deception of Financial Statement</td>
<td>10.3% 4.8% 7.6%</td>
<td>$2.000 $4.100 $1.000</td>
</tr>
</tbody>
</table>

As seen in Table II, the decections of financial statement are not too much in deception types, but it is a type giving most financial damages to the companies. Especially, it is seen that the arrangements made in recent years related to determination and prevention of sharp practices has important place to decrease financial statement deceptions.

The forensic accountants should be guessed where the deceptions can be and should be able to find weaknesses internal control system of entity. By specifying the deception behaviour types that can be applied in entity, should be able to associate entity sections such as production, accountancy, purchase or marketing [6].

### C. Expert Witness

According to American Institute of Certified Public Accountants (AICPA), the expert witness is a person...
having required knowledge, skills, experience and education who can help or to give scientific, technical or particular idea on a matter or to enlighten matter [13], [14].

As expert witness, the forensic accountants are presented expert ideas related to complex accounting issues in a way that away from sensuality and calmly. The important thing is to present accounting problems with clear and understandable language. The duties of undertaken by forensic accountants in expert witness activities can be listed as follows [3], [15].:

- To collect various data by making necessary investigation related to subject matter,
- To reach an opinion by coming to the conclusion from these data,
- To reflect its view created to the judges and lawyers in court in a way that informative and instructive.

By undertaking this duty having extremely serious sanctions, the forensic accountants are undertaken very great responsibility. Because, as a result of witness to be made on the basis of research and investigation, judicial process is affected and criminal sanctions to be applied to the defendant are in question [5].

VI. RESULTS AND SUGGESTIONS

Nowadays, with the development of technology are be experienced changes in the accounting profession. Older applications are lost up to date rapidly. The profession members should be acted in accordance with the requirements of age to be successful in the field and should be renewed themselves.

The forensic accountancy are made contribution not only enlighten financial deceptions and crimes, also it is made contribution directly in the accounting process, internal control systems, the management information system and prevention of enterprise deception through forensic accounting practices. By using inspection and investigation skills, these profession members are helped execution and the conclusion of investigation on any matter. This help can be on enlighten malpractices in a form as deception auditor before occurring litigation, also can be in a way that makes analyses to be helped to the lawyer or expression an opinion as expert witness at cases submitted to the court.

Since the 1980s, the forensic accounting profession has been developed rapidly especially in USA and Canada and many developed country. With enlighten of great scandals such as Enron scandal, new arrangements have been made in this field. Nowadays, it is seen that the forensic accountancy profession is applied fully in USA.

In developed countries, courses were opened in universities regarding forensic accountancy profession. By giving courses related to the profession, has been provided to direct those who are interested to this field. However, in developing countries such as Turkey, the importance of forensic accountancy profession cannot be understood fully. The necessary legislative arrangements have not been done.

The importance of forensic accountancy profession should be explained by the relevant public institutions and organizations. This matter is required to organize training programs by institutions such as related Chamber of Certified Public Accountants, Chamber of Commerce. The forensic accountancy and forensic accountancy profession should be educated in universities at bachelor’s level and master's degree.

REFERENCES


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