
Forensic Accounting for Financial Malpractices in Developing Countries: An Analytical Review of the State of the Art

4

Abubakar S. Kasum

4.1 Introduction

Financial irregularity is a problem of global concern. It is a major concern to developing nations of the world. It is so endemic that fraud and corruption are gradually becoming normal way of life in third world countries. Financial irregularities are so common that almost no individual can wash his or her hands clean of it. Although it is witnessed in both the public and the private sector organizations, the prevalence is higher in the public sector of developing economies. Public funds are in many instances misused by the political class of these countries. Experience in Nigeria shows that financial malpractice incidents are attributable to office holders from the presidential to the ward level (ward is the smallest unit of government usually having representation at the local government). No money is entirely free; every amount of money has its legal use, and consequently, misuse of any amount would have some negative effects, on some other aspects of life in the economy, in particular the legally intended area. The ultimate effect of these can be felt by the organization or a whole nation. If the effect is not felt directly, it may have some indirect effect on facilities and infrastructure that were intended to be positively affected.

Unless it is impossible, individuals or establishments adversely affected by the fraudulent or corrupt practices might want to seek redress. The individual, corporate body, and interested government organs would consequently like to take actions toward seeking redress using divergent institutions like the police and the law court. Whatever an investigator wants to do will not be complete if the extent to which the affected person is unquantifiable. This and other pecuniary matters are the areas where the service of an expert, the “forensic accountant,” has been engaged for a very long time in some developed countries and probably, recently, extending to developing nations. It is not that financial misappropriation is

A.S. Kasum
Department of Accounting and Finance, University of Ilorin, Nigeria

K. Çalıyurt and S.O. Idowu (eds.), *Emerging Fraud*,
DOI 10.1007/978-3-642-20826-3_4, © Springer-Verlag Berlin Heidelberg 2012

65

completely eradicated in the developed countries of the world. It occurs even in sophisticated forms. So much that Grazoli et al. (2006) confirmed that detection by looking for red flags and various other clues of deceit has become of the question effectiveness for fraud. It is, however, too rampant and not adequately tackled in the developing countries, and perpetrators get away, almost always, with the act. This is to say that the nefarious acts are not uncovered, investigated, prosecuted, and adequately punished. Consequently, many of those involved are left free and hence there is no deterrent for future acts. This study provides an overview of forensic accounting, as a tool in the fight against financial crimes that have impacted seriously and negatively on the economies of the third world nations.

4.2 Forensic Accounting

Joshi (2003) ascribed the origination of forensic accounting to Kutilya, the first economist to openly recognize the need for the forensic accountant. He mentioned 40 ways of embezzlement centuries ago. He, however, stated that the term “forensic accounting” was coined by Peloubet in 1946. Crumbley (2001) wrote on the same issue when he stated that a form of forensic accounting can be traced back to an 1817 court decision, and also that a “young Scottish accountant issued a circular advertising his expertise in arbitration support in 1824” but that Peloubet was probably the first to publish the phrase forensic accounting. Investigation of fraud and corruption is confirmed thus, not to be new, even in Nigeria, the country of this author. It is only gaining prominence because of the growing wave of the crime under the seemingly new nomenclature of the last 5 years (Coenen 2005).

Forensic accounting, which is also called investigative accounting or fraud audit, is a merger of forensic science and accounting. Forensic science according to Crumbley (2003) “may be defined as application of the laws of nature to the laws of man” and refers to forensic scientists as examiners and interpreters of evidence and facts in legal cases and offers experts’ opinions regarding their findings in the court of law. The science in question here is accounting science, meaning that the examination and interpretation will be of economic information.

Joshi (2003) defined forensic accounting as the “application of specialized knowledge and specific skill to stumble up on the evidence of economic transactions.” Zysman (2001) puts forensic accounting as the integration of accounting, auditing, and investigative skills. Simply put, forensic accounting is accounting that is suitable for legal review, offering the highest level of assurance and including the now generally accepted connotation of having been arrived at in a scientific fashion (Crumbley 2006).

Coenen (2005) stated that forensic accounting involves the application of accounting concepts and techniques to legal problems. It demands reporting where the accountability of the fraud is established, and the report is considered as evidence in the court of law or in the administrative proceeding (Joshi). It provides an accounting analysis that is suitable to the court, which will form the basis of discussion, debate, and ultimately dispute resolution (Zysman 2001).

This means that forensic accounting is a field of specialization that has to do with the provision of information that is meant to be used as evidence, especially for legal purposes. The persons practicing in this field (i.e., forensic accountants) investigate and document financial fraud and white-collar crimes such as embezzlement and investigate allegations of fraud; estimate losses, damages, and assets; and analyze complex financial transactions. They provide these services for corporation, attorneys, criminal investigators, and the Government (Coenen 2005). Their engagements are usually geared toward finding where the money went, how it got there, and who was responsible. They are trained to look beyond the numbers and deal with business reality of the situation (Zysman 2001).

Investigative and forensic accounting engagements are those that:- require the application of professional accounting skills, investigative skills, and an investigative mindset; and - involve disputes or anticipated disputes, or where there are risks, concerns or allegations of fraud or other illegal or unethical conduct (Canadian Institute of Chartered Accountant 2006).

4.3 Composition of Forensic Accounting

Forensic accounting encompasses both litigation support and investigative accounting. Litigation support provides assistance of all nature in a matter involving existing or pending litigation. It deals primarily with issues related to the quantification of economic damages, while investigative accounting is associated with the investigation of criminal matters (Zysman 2001).

Under litigation support, forensic accountants assist in the following:

- Obtaining documentary evidence to support or refute a claim.
 - Reviewing of the relevant documentation to form an initial assessment of the case in an identified area of loss.
 - Examining for discovering, including, the formulation of the act regarding the financial residence.
 - Attending the examination for discovery to review the testimony, assist with understanding the financial issues, and formulate additional questions to be asked.
- Investigative accountants, on the other hand, perform the following:
- Review factual situation and provide suggestions regarding possible courses of action
 - Assist with the protection and recovery of assets
 - Coordinate and cooperate with other experts (Zysman 2001)

4.4 Forensic Accounting Engagement

Coenen (2005) identifies the following as areas of specialty in forensic accounting:

- Investigating corporate fraud
- Litigation services
- Business valuation
- Computer forensic