

Conceptual Framework on Forensic Auditing

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Abstract

Forensic accounting aims at legal determination of whether fraud has actually occurred. In the process, it also aims at naming the person(s) involved (with a view to take legal action against them).

Adrian,et al. (2009)assert that, forensic accounting process is a form of auditing with investigative skills based on in -depth knowledge and experience. Forensic accounting should be introduced into a when there is need to undertake a fraud investigation. It should also be used as the ultimate tool for fraud investigation.

Keywords: accounting, audit, fraud, organization

Introduction

Forensic accounting is also defined as a science dealing with the application of accounting facts gathered through auditing methods and procedures to resolve legal problems. Fraudulent activities in India have been responsible for widespread collapse and poor performance of firms, hence the potential use of forensic audit to detect frauds and narrow the audit expectations gap.

According to Minnitti, (2010)the forensic accounting process involves verifying, sorting, extracting, reproducing, identifying, recording and reporting past financial data or other accounting information for the purpose of settling civil or criminal legal proceedings.

Review of literature

Baron,et al.(1977) found that auditors and users of accounting reports have significantly different beliefs and preferences on the extent of auditors“ responsibilities for detecting and disclosing irregularities and illegal acts.

Tricker,(1982) argues that corporate crises lead to new expectations and requirements of accountability which in turn lead to new demands on the audit function and eventually to changes in auditing standards and practice.

Porter, (1993) specified that the structure of the audit expectation-performance gap has two major components, namely:

- 1) Reasonable gap -the difference between “what the public expects auditors to achieve and what they can reasonably be expected to accomplish”.
- 2) Performance gap -the difference between “what the public can reasonably expect auditors to accomplish and what auditors are perceived to achieve”

Porter (1993) argues that the recent increase in criticism of and litigation against auditors is due to the failure of auditors to meet society’s expectations. This failure in turn undermines confidence in the audit function.

Limperc, (1932) cited in Porter,et al.(2005) points out that the “audit function is rooted in the confidence that society places in the effectiveness of the audit and in the opinion of the accountant...if the confidence is betrayed, the function, too, is destroyed, since it becomes useless.

Adrian and Johan,(2006) assert that forensic auditing is different from normal auditing: the forensic auditor is required to identify offenders, the means and the time span of fraud, determine the monetary impact on the organization, and collect evidence that will allow the organization to take disciplinary action. In this study the term forensic accounting and forensic audit will be used interchangeably so as to avoid being bogged down by terminological refinements.

Lee and Ali, (2008) argues that for decades, the auditing profession has been troubled with high levels of litigation and accusations. Such a problem has reached an unprecedented level as a result of the spectacular fall of well publicized corporations like Enron and WorldCom which led to the consequent litigation and collapse of the auditing firm Arthur Anderson.

Lee and Azham, (2008) According to them the complexity of auditing could be due to the fact that the objective of auditing and the role of auditors have always been a dynamic rather than a static one. This is because they are highly influenced by contextual factors such as the socio-economic environment of a particular period, the critical historical events that have taken place (e.g. the collapse of big corporations), the verdict of the courts, and technological developments (e.g. Advancement of computing systems and CAATs). Therefore, any major changes in these contextual factors are likely to cause a change in the auditing function as well as the role of auditors.

Owojori and Asaolu, (2009) undertook a literature based study on the role of forensic audit in solving the vexed problem of the corporate world. The authors argue that the failure of statutory audit to prevent and reduce misappropriation of corporate fraud and an increase

in corporate crime has put pressure on the professional accountant and legal practitioner to find a better way of exposing crime in the business world. The study by Owojori and Asaolu, (2009) intended to find out how the knowledge of forensic accounting can reduce corporate fraud and mismanagement. In conclusion, the authors argue that the services of a forensic accountant are critical and important in exposing and preventing fraud, corruption and mismanagement in both the private and public sector. Forensic accounting can therefore be looked at as a solution to the problem of fraud bedeviling corporations

Conclusions

1. Forensic accounting can be used as a mechanism to reduce the expectations gap especially in the area of detecting and reporting on frauds.
2. More knowledgeable students assume a much lower level of responsibility of the auditor, less confidence on the reliability of financial statements and assurance over the future prospects of the company.

3. Better accounting and auditing standards needs to be introduced: It is concluded that that better accounting and auditing standards should be promulgated by the International Accounting Standards Board and International Standards on Auditing Board respectively. The standards should have limited room for subjective judgment on the part of those preparing the financial statements as well as those verifying the accuracy of the statements

4. User education: The study recommends that the organizational members should be educated about the duties and the responsibilities of the auditors. Such education should be carried out during the AGM. In addition, this will reduce the number of unsuccessful litigations against auditors as these litigations are not only costly to cooperative members, but also damage the goodwill of the auditor

5. Unclear wordings within auditing principles should be avoided and clearer definitions be provided to give the auditor a better understanding about his/her duties.

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