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Forensic accounting training: A proposal for Turkey

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Abstract

In time of globalization and developments in many fields and increased diversity in business administration, reliability of financial activities has become significantly important. These developments have pushed up the white-collar crimes such as fraud with the implicit approval of both employees and senior management. Therefore, especially in the USA, Canada and England, a new area of expertise has emerged: "Forensic Accounting". The forensic accounting activities, which have not sufficiently been discussed in Turkey, aim at giving expert witness litigation support in the field of accounting. In this study, forensic accounting will be analyzed and a training model will be proposed.

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1. Introduction

As a result of developments and diversity in business administration activities, accounting data have an important place in institutional management. Thus, the information has to be reliable in order to enable the financial activity results to help in the administrative decision making process and related parties. In parallel to aforementioned developments, the number of fraudulent conducts attempted by the accountants - with the implicit approval of both employees and senior management - has dramatically increased. This increase has affected not only the financial statements of the companies and their activity results but also the economies of the countries. Therefore, it has been inevitable to make new regulations, to set new standards and applications and to create new accounting fields as a result of the pressure from outside of

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the company and the international organizations. Accordingly, accounting control and several occupational groups such as internal auditing, independent auditing and certified councillorship have gained importance within the field of accounting in Turkey just as in many other countries.

Nowadays fraudulent conducts are gradually increasing, however detection and prevention such conducts have become more difficult than it was before. Likewise, the commercial transactions have become more complex and thus the disagreements between the individuals and institutions have increased. In this respect, both sides have started litigate more often. Consequently, experts on accounting have become more important for lawyers and courts need the support of experts on accounting more than it was before. When we examine the applications outside of Turkey, “forensic accounting” draws our attention. When we take “forensic accounting” into consideration –as a requirement of globalization and standardization- it is commonly supposed that it can be applied in Turkey.

2. Forensic Accounting

The fraudulent conducts in accounting records affect not only company owners and investors but they also affect employees, credit institutions, government and audition companies. Accounting records, notebooks, invoices and balance sheets etc. can be manipulated by malicious experts. Numbers and sales can be decreased or increased according to the demand of managers. Only an accountant auditor can say which points should be taken into consideration on the subject. The support of accounting specialist is needed in controversial forensic issues. AICPA (American Institute of Certified Public Accountants) describes this support as “the professional support which no lawyer can give to another” (Pazarceviren, 2005: 2).

The need for reliable information has made accurate financial statements and accounting knowledge important as well as fraud examination. In the USA, a new occupation which involves finding out accounting frauds has emerged: “forensic accounting”. However it has not been legally described in our country yet. In dictionaries the word of “forensic” means “judicial” or “to be accepted as a standard at a judicial cases” (Bozkurt, 2000: 56). Thus the term “forensic accounting” refers to accountants working in the field of law. Forensic accountants help decision making process combining their accounting, auditing and investigating skills at forensic issues.

The increase of international companies as results of globalization and technological advancements requires a more comprehensive fraud examination and specialist on accounting fraud. Forensic accountants have the necessary legal permission and education to realize this. The most important feature of forensic accounting is that forensic accountants are more knowledgeable with accounting fraud than any other occupation (Caliyurt, 2007: 185).

The term “forensic accounting” usually refers to CPA, Certified Public Accountants who carry out “analysis, inspection, investigation, audition and questioning” process in order to reach to truth and to obtain an expert witness opinion. Fraud examination and litigation support consulting include the services of certified public accountants (Crumbley, 1995: 25). Forensic accountant is the person who assists lawyers informed about accounting and law courts for applying accounting to law and debatable issues (Telpner and Mostek, 2003:1).

Forensic Accountants focus on the prevention and detection of fraud, the investigation of occupational and financial statement fraud and related law courts Forensic accounting can be described as “carrying

out applications and relationships in the viewpoint of low while applying financial issues to the business problems (Peterson and Reider, 2001: 25).

3. Accounting As An Occupation And Forensic Accounting

If we try to make a very brief and definite comment on the difference between an accountant and a forensic accountant, we can say “accountants look over numbers, whereas forensic accountants look beyond numbers” (www.investigation.com) or “other accountants look over financial statements while forensic accountants penetrate into events” (www.bus.lsu.edu).

The forensic accountants who were educated so as to find out the reality reading beyond numbers have begun the use their accounting skills and knowledge while trying to identify and solve legal issues ([www.forensicaccounting.com\(a\)](http://www.forensicaccounting.com(a))). They should have the ability to apply their accounting knowledge to legal interrogation. A certified public accountants is a civil person who will question the written report, help at dismissals, approve an expert witness, start fraud investigation and help with crime research ([www.forensicaccounting.com\(b\)](http://www.forensicaccounting.com(b)))

Both forensic accounting and financial accounting are significant disciplines. They are very helpful in the viewpoint of institutional partners, investors, capital markets within the management and integrity of the company. Both occupational groups will have reached their goals if they are supported by informational cooperation putting their fields' complexity into consideration (Ronallo, 2005:116)

4. The Need For A Forensic Accountant

In the emergence of forensic accounting -as a combination of auditing and investigation skills and as an expertising field of accounting- the reasons below have been influential (Bozkurt, 2000: 56-57):

1. Individual or institutional litigations have gradually increased as a result of more complex commercial transactions.
2. In the society, the relationship between the individuals, the institutions and the state have started to cause problems.
3. Accounting fraud has been increasing day by day and fraud detection and prevention have become harder.
4. Management failures has been gradually increasing,
5. Lawyers and courts need expert reviews more than ever.

The ones who may require a forensic accountant can be grouped as lawyer, the police, insurance companies, state representatives, juristic institutions connected with the state, banks, courts and business world (Pazarceviren, 2005: 2-3).

The increase of hackers and cyber crimes in parallel with technological advancement, has attached more importance on forensic accountants due to the need for security and for the skills required to conduct forensic investigation.

5. Required Skills For A Forensic Accountant

Forensic accountants must behave as detectives. In a recent survey, forensic accounting was correlated with Sherlock Holmes and it was emphasized that there is much for forensic accountants to learn from him while collecting data and analysing them (Crumbley and et al, 2004:1). So, a good forensic

accountant must be a good detective as well. Forensic accountants are people who look beyond numbers and do not accept the visible amounts in financial statements. He must examine and investigate cases very meticulously and be able to apply their accounting knowledge to legal investigation.

Forensic accounting has been changing the public opinion on accounting. In general accountants are supposed to be deprived of original ideas. Moreover the people think that they wear glasses and spend their times in tiny rooms among dusty accounting notebooks. The distinctive feature of forensic accountants from the accountants is their experience on accounting and they are becoming more important in western countries (Ozkol, 2005: 73).

Crumbley and Apostolou listed the skills a forensic accountant must have as follows:

1. A strong accounting background
2. A thorough knowledge of auditing procedures
3. An understanding of risk assessment
4. An understanding of the legal environment
5. An understanding of internal controls
6. Knowledge of fraud detection techniques
7. Good communication skills (Crumbley and Apostolou; 2002).

Bozkurt and Hunter listed the personal skills of a forensic accountant as follows (Bozkurt, 2000: 60; Hunter, 1995: 14):

To be curious: A forensic accountant must be curious about and interested in the developments in his occupation. He must exert effort to bring out the truth.

To be tough: A forensic accountant should not give up when he face with difficulties, he must be insistent on what he defends.

Creativity: A forensic accountant must be as creative as possible besides obeying the general principles and standards.

Perception: A forensic accountant must investigate each event in detail. He must have a good perception of business administration and a strong reasoning ability. He must be clear, analytic and logical in his decisions.

Reliability: A forensic accountant must know how to listen to people carefully and also must be good at written and oral communication; he must set up healthy social relationships.

Depending on nature of forensic examination, some forensic accountants work in the public sector such as police departments (FBI or IRS) while the others work in the private sector such as banks, insurance companies (www.forensic-accounting-information.com).

Success of forensic accounting investigation depends on determining which evidence will be considered as valid or invalid.

6. Working Areas Of Forensic Accountants

Forensic accounting is rapidly developing in the USA and other countries. Although problems are getting bigger and more complex, available opportunities are also getting more. Forensic accounting is the activity field of skillful and successful auditors who face with theoretical and practical problems (Golden and Pilkington, 2006: 546). They serve in very different sector and in a vast area. The basic target of the research carried out by The USA Department of Justice and SEC (Standards Executive Committee) is the leaders of companies.

Fraud/material misstatement cases are occasionally very complex so they need to be handled by experts. A forensic accountant's working area includes many specific areas. When we generally handle these issues it will be more understandable why forensic accounting expertise is needed. The issues of forensic accountant deals with are as follows:

- Partnership and shareholder cases,
- Business together with state,
- The construction sector,
- Individual injury cases/ automobile accidents,
- Stopping of work/ other compensation demands from insurance companies,
- Fraud examination corporation/ employees,
- Financial conflicts regarding divorces,
- Work assessment,
- Cases regarding the financial losses of companies,
- Occupational negligence,
- Mediation and fortification,
- Environmental problems,
- Cyber crimes,
- Issues about intellectual capital.

7. Types Of Forensic Accounting

Forensic accounting has three different application fields: litigation support consulting, expert witnessing and fraud examination

7.1. Litigation Support Consulting

It is described as professional support given to lawyers by non-lawyers during a case (www.bus.lsu.edu/accounting/faculty/lcrumbley/forensic.html) or giving an accounting support to a continuing case. The forensic accountant undertakes the functions below (Özkol, 2005: 74; www.forensicaccounting.com/cphome.html):

- To collect the necessary documents to support or refute a claim,
- To revise the related documents to make an early examination of the case and the determine lacking points,
- To help questioning the witnesses and to list the questions regarding financial proves,
- To assist in financial issues revising the statements and joining witness questioning for preparing the supplemental questions,
- To examine the opposite part's expert's report, to report its strong and weak points,
- To assist in meeting held to reach a consensus,
- To listen to the opposing part's testimony and to be present at the trial to be helpful in cross questioning.

7.2. Expert Witnessing

The new tendency in litigation -especially in the USA and Canada- is charging much more experts with regarding the case investigated. Before the trial, to determine their opinions about the case, experts must be more interested in and closes to it. For being accepted as an expert, the courts demand various expertising abilities besides official education and accreditation.

The need for expert witnessing generally emerges in issues requiring accounting expertise. A forensic accountant can be hired to reach economic realities, to prepare tax analysis, to refute the testimony of the opposing part, to determine the issues to be investigated, to help commenting on documents, to give support in obtaining information from other witnesses.

The duties of forensic accountants in their expert witnessing activities can be listed as below (Bozkurt, 2000: 58; Ozkol, 2005: 75):

- Making necessary research regarding the case, collecting various data,
- Reaching an opinion utilizing these data,
- Reaching this opinion in such a way to enlighten and inform the judge and lawyers at courts.

Expert testimonies have become more efficient during litigation period and giving expert testimony is the final step for a forensic accountant at the trial period (Lawrence, 1998: 1115). Forensic accounting is almost independent from the legal system but legal standards are very important at describing it. The duty of a forensic accountant as an expert witness is “to enable both opinions and realities to be revealed” (Lawrence, 1998: 1115). Therefore, during the determination period, some individuals are chosen depending on their “skills at issues which require witness opinion”.

7.3. Fraud Examination (Investigative Accounting)

The advancement of technology, the accounting knowledge of management, the globalization of economy and the creation of large complex business organizations with hundreds of transactions can create a situation in fraud detection where extensive research is necessary. Occupational fraud and abuse lead to losses of billions. Illegal conducts “characterized by deceit, concealment, violation of trust and not dependent upon the application of threat of physical force or violence” are defined as white-collar crime (WCC). Association of Certified Fraud Examiners (ACFE) referred to this type of crime as “occupational fraud and abuse” and defined it as the using of one’s occupation to personally enrich one’s life by the deliberate misuse or misapplication of an employer’s resources or assets. This type of crime has reached epidemic proportions that amount to an estimated \$600 billion per year in the USA alone (Christensen and et al, 2005). In order, fraud auditing is an important tool to eliminate these problems.

Material misstatement by a joint-stock company does have not only financial results but also gives harm to its reputation. Some of the most obvious corporate examples of WCC include Enron, Pharmalat, WorldCom and Tyco International.

Types of fraud in corporations can be listed as follows (Bozkurt, 2000: 59):

- White collar crimes,
- Financial misstatement by top management to mislead the authorities,
- Fraud related to investments,
- Commercial bribe and commissions,
- Fraud in banking transactions,
- Fraud in electronic fund transfers,
- Fraud related to credit cards,
- Fraud related to computers,
- Fraud done via the internet.

Types of fraud listed above are so various that it seems impossible for a non-expert accountant to detect and prevent them (Ozkol, 2005: 75). They can only be solved by people who are experts and have occupational knowledge on the subject.

8. Characteristic A Forensic Accountant Must Possess

A forensic accountant is the person “who does not appropriate the visible values at once and looks beyond their background, who is sceptical about the documents, who prepares the expert witnessing testimony, who interferes when some people seem to lie and who reveals the truth with all its aspects interviewing with individuals in detail (Crumbley, 1995: 23). As it can clearly be understood from the description that forensic accountants are different than independent accountants and auditors must have extensive knowledge on some issues. Besides possessing these characteristic skills they must have knowledge at the issues below (Bozkurt, 2000: 59).

- An extensive accounting knowledge,
- Investigation and examination techniques,
- Law,
- Auditing,
- Business administration,
- Psychology,
- Criminology,
- Computer studies,
- Statistic.

In addition to different auditing roles of forensic accountants and the independent auditors, the training and certification for these positions vary. The training and certification of forensic accountants gives them much stronger background for fraud detection than that of the traditional auditor.

9. Forensic Accounting Training: A Proposal For Turkey

The second cycle (master's degree) program of Florida Atlantic University comprises nine forensic accounting courses. In order to be a certified forensic accountant in the USA one has to pass through different steps. These steps can be listed as below (Bozkurt, 2000: 60-61):

- To have a bachelor's degree,
- Two years of professional experience,
- To pass the exams applied by “Association of Certified Fraud Examiners” in the USA.

Many professional forensic accountants have an occupational certificate as a CFE (Certified Fraud Examiner) or a CPA (Certified Public Accountant). The CFE examination can be taken any time during the year with four sections being offered as follows (Christensen and at al, 2005):

- I. Section : Fraudulent Financial Transactions
- II. Section : Legal Elements of Fraud
- III. Section : Fraud Investigation
- IV. Section : Criminology and Ethics

ACFE, professional organization with 25.000 members, is accepted as the most important organization in the world. It is dedicated to offer extensive assistance on forensic accounting and fraud auditing, to arrange training courses and seminars and to create publications. Its examination has the four main sections below (Pazarceviren, 2005):

- Financial transaction
- Investigation
- Legal issues
- Criminology

In order to be successful in the examination a bachelor's degree is not sufficient. Therefore, an extra training regarding the four issues above must be included in the education system.

It is possible to include them in the university programs in various ways:

- Including the courses in routine bachelor's degree curriculum
- Forming a different postgraduate program
- Forming a course program

The possible topics of a forensic accounting education -depending on the studies of Rezaee and Burton- can be ordered as follows (Rezaee and Burton, 1997):

1. Investigation and Law

- Statute and regulations for bribery and criminal fraud
- Knowledge of the legal system
- Legal elements of fraud
- Trial and cross-examination
- Litigation and counseling techniques
- Expert testimony and expert witness techniques
- Corporate governance and compliance with applicable laws and regulations
- Bribery and corruption investigation including resolution of allegation of misconduct

2. Fraud and Fraud Auditing

- Theory of fraud examination and prevention
- Fundamentals of fraud
- Rules of evidence and reporting standards for forensic accounting
- Fraud auditing methodology
- Professional standards on forensic accounting
- Document collection and analysis
- Types of fraud (e.g. bankruptcy, computer, management, employees)
- Professional interview skills and legal aspects of interviews

3. Financial Reporting Process

- Financial fraud and accountants' responsibilities
- Internal control evaluation and statistical sampling
- Techniques in locating hidden assets
- Financial reporting process and analysis including analytical review procedures
- Effective report writing

4. Ethics

- Conflicts of interest investigating techniques
- Principles of ethics and corporate code of conduct
- Environmental and personal red flags

10. CONCLUSION

As a result of globalization and developments in many fields, new arrangements in accounting are required for modernization. This paper introduces "Forensic Accounting" which is existed in some states, especially in the USA and Canada and aims to evaluate the subject from the perspective of Turkey.

Nowadays, arguments and claims on disputable issues such as accounting records and financial statements and legal conflicts must be well-founded. In Turkey, the applicability of forensic accounting must be studied examining if current witnessing system can meet the demands or not. Necessary studies must be initiated by the leadership of TURMOB and if it seems feasible, legal arrangements must be done. It will be an asset for Turkey to initiate necessary rehabilitation in education system to meet the requirements of this occupational group.

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