

The Role of the Forensic Accounting Expert in the Prevention of Combating Corruption and Economic Crime

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Abstract

Crime and the institutional management of crime has become a leading topic in research, practice and education. According to various studies, detection of crimes happens by accident almost every year. Systematic detection is obviously still lacking considerably.

The effectiveness of the fight against money laundering depends to a large extent on the organization of the problem of the system of collection, processing and use of information in the sphere of monitoring activities, which are necessary for detection, prevention of financial crime.

The purpose of this article is to highlight the need to expand the accountant's area of competence by combining accounting and forensic investigation techniques, which will be a prerequisite in discovering and combating tax fraud.

The essence of financial investigations as a practical activity consists in the application of a complex of knowledge of applied economics for the identification and elimination of different types of crimes.

Key words: the accounting expert, investigation, economic crime, tax fraud

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1. Introduction

“Considering how fast our world is passing through a period of great transit from the traditional accounting to a creative accounting with developed ramifications into computerized and cloud accounting lots of countries should consider make immediate steps to catch up.” (Radu, 2018, p.258).

Forensic accounting is the specialty that investigates whether companies commit accounting irregularities. Forensic accountants use a number of skills and methods to determine whether a financial reporting misstatement has occurred.

Financial forensic engagements can fall into several categories, for example: the calculation of economic losses, regardless of whether it is a tort or a breach of contract; post-purchase disputes, such as revenue or breach of warranty; bankruptcy, insolvency and reorganization; real estate fraud; fiscal fraud; money laundering; business evaluation, etc.

Forensic accountants can be involved in both litigation support and investigative accounting, such as investigating illegal activities. Large accounting firms often have a forensic accounting department. Within these departments there may be additional sub-specializations: some forensic accountants, for example, may specialize only in insurance claims, personal injury claims, fraud, money laundering, financial auditing and others. Forensic accounting used in large corporations is sometimes referred to as financial forensics.

“Accounting, in weak regulatory economies, has been the main source of corporate failure and financial statement fraud is the most commonly expressed type of fraud risk that many researchers have said companies are prone to and are most concerned about.” (Anomah, 2014, p.1).

Forensic accountants combine legal knowledge with their accounting skills. This can help companies prevent corruption, fraud, embezzlement, etc. An accountant performing an audit should remain neutral. They often assist in malpractice claims when they rate and comment on the work of other professionals.

In addition to their quality as experts, their duties also include the translation of complex financial transactions and numerical data into terms that everyone can understand. This is necessary for the moment when misunderstandings regarding fraud reach the courts, and the judges need clear explanations in solving the cases.

Experts use an understanding of economic theories, financial reporting systems, accounting standards and procedures, data management and e-discovery, data analysis techniques for fraud detection, evidence collection and investigative techniques, lawsuits and litigation procedures in conducting their work.

This process may use one or more of the following techniques: examination of public sector records, background investigations, interviews with informed parties, analysis of authentic evidence to identify possible forgeries or alterations of documents, monitoring and inspection of commercial premises, financial analysis, transactions or bank statements and verification of business records, identification of fictitious suppliers, employees or business activities.

Forensic accountants are increasingly playing a proactive role in mitigating risk by designing and conducting advanced investigative procedures, acting as advisors to audit committees, using fraud deterrents, and providing support to investment analysts.

2. Literature review

"Being under permanent changes to keep pace with modifications that occur all the time in any plan of economic and social activities, informational systems, in the context of globalization, are perhaps more concerned in terms of adaptability to new requirements of this process." (Radu, 2012, p.495).

The term financial investigations is described as the process of identifying financial transactions related to violations of the law or crimes, understood as illegal acts aimed at obtaining or using the financial resources of some entities or the state.

The essence of financial investigations as a practical activity consists in the application of a complex of knowledge of applied economics for the identification and elimination of various types of crimes related to financial transactions and other types of illegal transactions.

Economic crimes are one of the main concerns of today's organizations, they reflect some individuals in a society who aim to obtain an economic status in an easy way, regardless of the ethical and moral values they have to resort to. In recent times, countless acts of corruption have been triggered that caused the embezzlement of funds both within private organizations and within public entities.

One of the advantages of accounting analysts is that any information obtained can be used to combat economic crime. This information must be relevant for the entire process of combating crime or for one of its components, be specific, sufficiently complete and above all reliable.

The process of combating money laundering includes the selection of the most important data, interconnected, whose volume and content allow the characterization of the perpetrators of the crimes, as well as the identification of the facts of money laundering.

The discovery of the information necessary to carry out a financial investigation is based on the application of the laws of logical reasoning, such as its techniques and procedures, analysis and synthesis, deduction and induction, abstraction, generalization, analogy and syllogism.

Of great importance in financial investigations are the data sets that characterize the criminals, the legalization facts themselves and the related objects, events, phenomena and processes. The generalization and systematization of available data makes it possible to establish relationships between them and draw conclusions or hypotheses.

The forensic accountant is a witness, an expert in the field who is trained in investigating financial crimes, collects the evidence leading to the determination of the causes of the facts of the people who participated in an act of corruption, so that a judge investigating the case can use the opinion the accountant to make a correct judicial decision.

As a forensic accountant, through his expert opinion, he facilitates the judge to make the best decisions in court rulings, on the facts of the investigation, as he offers evidence to the court to be evaluated, and through his opinion he assigns responsibility for the trial in question.

The sophistication and intelligence of economic crime, for the most part, is a characteristic of professional employees, who carefully analyze the weak points of the system and the legislation in force and apply well-studied methods to try to hide the funds acquired with the commission of his crime.

The forensic accountant must be trained in his documentary investigation, that is, in the compilation of documentary evidence, manifests, accounting, financial reports, electronic documents, electronic transactions, the interpretation of balances, passing information with stocks, suppliers, customers and employees, and must to be thoroughly prepared in the presentation of his investigation before the court. It is not just about giving a testimony and answering the questions asked by the court, it is necessary to make an analysis and argue the answers to the requested questions, to valorize or delegitimize the evidence and evidence that are presented.

There are a multitude of characteristics or skills that a forensic accountant must cultivate when conducting a financial crime investigation. These refer to acts of corruption, internal fraud, business fraud, illicit or unjust enrichment, money laundering, as well as any other form that the non-violent crime status leads to the illegal transfer of assets from one person to another.

Professional judgment is reflected by the application of relevant training, knowledge and experience in the context of accounting standards and decision-making. It must be exercised with a prudential criterion or approach, which consists in selecting the more conservative option, trying at all times for the decision to be made fairly to the users of the financial information.

In order to preserve the usefulness of the financial information, it must contain explanations on how the prudential criterion was applied, in order to allow the user to form an adequate judgment regarding the facts and circumstances that analyze the analyzed operation.

Professional judgment is commonly used to develop reliable accounting estimates and provisions, determine degrees of uncertainty regarding the possible occurrence of future events, select accounting treatments, choose additional accounting standards to IFRS, when appropriate, implement treatments private accounting and finding the balance between the qualitative characteristics of financial information.

The forensic accountant must apply professional judgment to accomplish the objective of the investigation by planning investigative procedures to collect valuable evidence.

The experience acquired during professional training covers the different activities in which the forensic accountant will develop his work, based on the acquired knowledge. Experience refers to the different types of knowledge gained by the forensic accountant about different academic pursuits that he/she has obtained. Among the types of knowledge, we have the conceptual one, which is the field of the analyzed matter, the procedural one, which is the field of research procedures, and the attitudinal one, which adapts to the management of the people who are part of the investigation.

In order to develop work as a forensic accountant, the investigative professional must have acquired experience in the area where the probable financial crime was generated, it will facilitate the planning of the work, taking into account the techniques, procedures, structuring research programs, drawing up working documents, collecting evidence with probative value and the way to present your report in writing and verbally.

Any professional forensic accountant who intends to carry out investigative activities to combat financial corruption must have those qualities so that his opinion is truthful and trustworthy.

Since the investigation of possible financial crimes can differ from a methodological point of view, the forensic accountant must have native skills, or develop his own personality in approaching them. The skills that a forensic accountant needs to develop in order to carry out an investigation are:

- intellectual skills - usually identified as critical thinking, which is the ability to analyze and interpret information to assess its context and validity;
- technical and functional skills - are the skills and knowledge needed to perform specific tasks. These are practical and often relate to computer skills, mathematics, statistics or scientific work. Technical skills refer to the ability to use technical tools or procedures in a specialized field;

- personal and interpersonal skills - these include the skills or behaviors needed to perform interpersonal tasks competently, such as the ability to communicate, reject, and negotiate.

In conclusion, professional judgment must be used to find a balance between the qualitative characteristics of financial information to provide useful information in decision-making.

Professional skepticism is a behavior that includes the ability to critically evaluate the adequacy and sufficiency of evidence, which includes both information that supports and corroborates claims made and information that contradicts them.

It also adds the ability to identify and respond to indications of material impropriety, draw appropriate conclusions from collected data, and exercise professional responsibility at all times.

On the other hand, professional skepticism is an essential feature that contributes to the independence of the accountant and includes the critical approach and evaluation of the information obtained.

One of the greatest challenges of the forensic accountant is that in addition to identifying and investigating fraud, he can prove whether the act is illegal. If this goal is not achieved, we may face an unsuccessful investigation and the results obtained will not be as expected.

In the mentality of the accountant in general and especially of the forensic accountant, there must be the information that he wants to examine, by all means, and not to show the information that can lead to the detection of fraud.

Professional skepticism also includes a critical evaluation of evidence that contains information that demonstrates financial fraud. This means questioning and considering investigative evidence obtained in relation to the circumstances.

Maintaining professional skepticism requires continually asking whether the information and evidence obtained indicates that a material misstatement due to fraud may exist. Due to the nature of fraud, the accountant's professional skepticism is particularly important when considering risks of material misstatement.

The forensic accountant cannot be restricted regarding the documents he analyzes, because the conclusions must be based on judicial processes established by law. In this sense, it requires creativity, curiosity, perseverance, common sense, business sense and confidentiality. He must be a professional who has developed the art of investigating economic crimes, since with the specialized nature of criminals, an expert is needed in the analysis, evaluation, detection of unusual situations that allow the establishment of abnormal behavior patterns.

In carrying out an investigation, in order to collect evidence that allows a judge to formulate a correct decision, the integrity of the information, the relevance of the investigated fact must be processed, given that the judge could not make a decision if the process did not take into account all relevant documents or information.

With an investigative mindset, the forensic accountant will design procedures for the investigation that will allow us to have an overall picture of how the criminal might have committed the crime.

When dealing with the issue of integrity of information, not only must the evidence provided match the subject matter of the investigation, but the forensic accountant must obtain and evaluate all documents relating to the relevant fact. The accountant should not focus only on figures, estimates or projections, as this would contribute to limited evidence, which cannot be considered conclusive by the competent authority.

Those who commit economic crimes are one step ahead of the investigators, they have hired professional experts who have analyzed different typologies and whose aim is to make it difficult to detect the mechanisms of fraud, as they aimed to hide the way in which the crime was generated and to provide security for illegally obtained funds.

It is important for the accountant to think like the criminal in order to develop methods that allow the collection of evidence, of the investigated fact, trying to identify the pattern that the criminal uses, both to commit the crime and to hide the proceeds of his crime.

3. Research methodology

For the writing of this article, several research methods were used, used according to their common characteristics. The theoretical research helped us to gather information about the treated subject, in order to better understand the economic mentality at the global level, the exploratory research was used as a preliminary study for the new attributions of forensic accountants of financial investigation, the quantitative and qualitative research for comparing and analyzing the descriptive data at a global level and finally the inductive research through which we carried out the study at the observational level, designed to obtain generalized results

In the relevant literature, a distinction is made between those who commit tax crimes out of their own greed for profit and those who want to give their organization a decisive advantage. The professional crime and corporate crime approaches best reflect this idea.

4. Findings

"For an effective fight in this direction, experienced professionals are needed to look beyond the numbers, to identify the story that the numbers can tell and to discover what the numbers are trying to hide, is the opinion of the president of the Superior Council of CECCAR, accounting expert, university professor Dr. Robert-Aurelian Şova." (Şova, 2022, p.1).

As economic crime causes enormous damage to the global economy, a whole series of measures have been taken from all parts of the world to combat it effectively.

Good theories are more than an explanation of the phenomena in question, they are also useful for forecasting as they hypothetically anticipate future events and developments and offer suggestions for explaining previously unexplored phenomena.

According to the concept of rational choice, perpetrators prepare in advance a precise cost-benefit analysis, based on which they decide for or against the crime.

According to the studied theory, the probability of committing a crime is determined by three factors:

- the perpetrator must have an opportunity
- must be motivated by an incentive or pressure
- must be able to justify his action to himself to compensate his conscience.

Of course, opportunity makes the thief, and so employee delinquency often begins with the chance discovery of risk-free embezzlement opportunities.

Opportunities can also be minimized in a variety of ways within an organization, which is why most compliance programs rely primarily on monitoring and control measures.

These interesting recommendations emerged from Samuel O. Dada study:

- "Anti corruption agencies are should establish a forensic accounting unit where experts are involved in investigation of cases of bribery and other corrupt practices;
- Staff that is involved in investigation of cases of bribery (and other cases of corruption) should be trained in the employment of forensic accounting to carry out its responsibility;
- Where it is not feasible to train its personnel to handle investigation, in the short run, professional accounting firms should be employed to assist in investigation to ensure that adequate evidence is presented to the courts to ensure successful prosecution of cases of bribery." (Dada, 2013, p. 95).

5. Conclusions

Perhaps the most tangible way to understand how science and big data analysis can be used to prevent corruption and economic crime is through examples from everyday life.

Fraud is an act of corruption that has gained notoriety today, as a result of the multiple crimes that are committed, especially in the management of public resources. It is necessary to strengthen and evaluate the internal control systems of the institutions regarding the reference to the tightening of the control environment that allows the correct assessment of risks, through control and monitoring activities. This involves promoting the approval of laws, regulations, rules and policies,

which constitute the normative frame of reference for effective action.

It is worth noting the importance of the role that the forensic accountant plays in the detection of fraud, with integrity, objective conduct, discipline and professional competence that determines the accountability of the analysis and evaluation of the objectives and the independence of the preparation of financial reports in order to obtain certainty that the information presented is true, reliable and reasonable.

Every day new and more inventive methods are developed to defraud the global economy, which adapt to the changes and habits of modern society. For this reason, governments around the world have created control agencies and designed action plans to reduce cases of corruption that affect not only administrators or managers of an organization or entity, but also partners, employees, shareholders and the global economy.

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