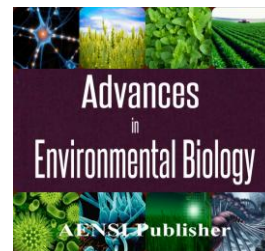




AENSI Journals

Advances in Environmental Biology

ISSN-1995-0756 EISSN-1998-1066

Journal home page: <http://www.aensiweb.com/AEB/>

Analysis of the Necessity to Develop the Forensic Accounting in Iran

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ARTICLE INFO

Article history:

Received 10 September 2014

Received in revised form

23 October 2014

Accepted 27 November 2014

Keywords:

forensic accounting , law, accounting ,
fraud , audit

ABSTRACT

Fraud and economic crimes are a bitter and irrefutable reality in every society. In most cases, due to the auditors and experts proficiency and also the complexity of models used by fraudsters, this will remain undiscovered. Forensic accounting is a trend of accounting that aims to investigate and expose fraudulent activities inside and outside of the organization. It usually emphasizes on public relations between accounting, auditing and rules. The main focus of forensic accounting is on analysis of casual factors including the discovery of tricks and ploys and its impacts on the field of accounting. Forensic accounting combines several disciplines including accounting, auditing, taxation, finance, law, valuation of business operations, quantitative techniques, research, psychology and fields which are related to the investigation and inspections. The aim of this study is to describe the concept of forensic accounting and the necessity of its development. Although the role of official experts of justice and judiciary cannot be denied in handling claims and financial disputes, training and employment of forensic accountants in Iran legal system in the shape of a distinct field, may help in further observation of justice in considering the economic offences, financial claims and finally to protect the rights of the people.

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To Cite This Article: Adeleh Azadzadeh., Analysis of the Necessity to Develop the Forensic Accounting in Iran. *Adv. Environ. Biol.*, 8(19), 170-173, 2014

INTRODUCTION

Accounting information is more and more important in the whole social and economic, and the amount of the civil action induced by the accounting information is increasing by the geometric series, which will all quicken the further integration of the legal domain and the accounting domain, and generate a new accounting domain, i.e. the forensic accounting.

The forensic accounting is the new accounting domain which was born in the west country of 1980s to adapt the development of the market economy and the perfection of the legal system. It is entrusted by the independent third party, and adapts certain procedure and methods to survey, compute, and analyze the management and financial items, and the part of economic loss, or the legal issues in the management in the conflict of economic benefit by the professional knowledge, and forms the forensic accounting report, and provides references for the court or the arbitration agency or the administration authority, and reduce or confirm legal responsibilities, or offers management advices. The forensic accounting is pushed by the development of the economic environment, and generated when the occupation change and the specialty development encounter bottleneck.

1- Forensic Accounting Concept & Nature:

Since forensic accounting arose in America, it has become a very important issue by the researchers and scholars in several countries [10] Forensic accounting concept is characterized by modernity to a large extent, specially in the emerging economies. It was introduced by Western countries for the first time in the 1980s, in line with the developments in the market economy and to support the judicial system. Is a science that differs from traditional accounting in which leads getting accounting facts throughout using procedures and audit method that dealt with legal problems and financial attributes. According to Keskin and Ozturk [7], forensic accounting is defined as a science that differs from traditional accounting in which leads getting accounting facts throughout using procedures and audit method that dealt with legal problems and financial attributes. Hao [6] believes that the forensic accounting is the result of the integration between the legal framework and the accounting framework.

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The teaching approaches of this field are still limited to the universities of developed countries, as is the case with their experimental research, in spite of the growing demand for their tools and curricula [6]. Forensic accounting is a legal instrument that use accounting, law and audit to assess and solve illegal problems, value maintaining, and damages [10].

Zysman [11] defined forensic accounting as the process to integrate accounting, auditing and investigative skills, while Dhar and Sarker [5] define forensic accounting as the application of accounting concepts and techniques to legal problems. It demands reporting, where accountability of the fraud is established and the report is considered as evidence in the court of law or in administrative proceedings [2]. On the other hand Pedneault, Sheetz, & Rudewicz and Crumbley [3] believe that these claims are not concerned with administrative proceedings only, rather there are (3) groups of fraudsters who can be held against : they are *1-Internal Fraudsters* represented by the owners of the organization and its directors, and *2-External Fraudsters* who are not members at the organization, and *3-Mixed Fraudsters* being a combination of the two previous fraudsters.

Degboro and Ologfinsola [4] described forensic accounting as the application of criminalistic methods, and integration of accounting investigative activities and law procedures to detect and investigate financial crimes and related accounting misdeeds.

This is also the option of Dhar and Sarkar [5], in which the indicates that forensic accounting, also called investigative accounting or fraud audit, is a merger of forensic science and accounting. It has considered that using forensic accounting techniques will help in exposing and identifying the culprits, because this accounting presents the process of interpreting, summarizing and providing complicated financial issues clearly i.e. using the accounting literature to help draw facts in the litigation [2]

2- Forensic Accounting Objectives:

Forensic accounting literature includes a range of models and methodologies of investigative procedures that for assurance and attestation in the accounting data to produce legal evidence. Practically, forensic accounting , as mentioned by Skousen and Wright and Skousen and Wright, is concerned with discovering the ways of accounting fraud, forensic auditing, compliance, diligence and risk assessment; detection of financial misrepresentation and financial statement fraud.

Behsin [1] notes that the objectives of forensic accounting must include the assessment of damage caused by an auditor's negligence, fact finding to see whether an embezzlement has taken place, in what amount, and whether criminal proceedings are to be initiated; collection of evidence in a criminal proceedings; and computation of asset values in divorce proceedings. Bhasin argues that the primary orientation of forensic accounting must be explanatory analysis (cause and effect) of fraud phenomenon. Thus forensic accounting is the ability to look beyond the numbers and deal with the business realities of situations, then investigating and analyzing financial evidence; developing computerized applications to assist in the analysis and presentation of financial evidence; communicating the findings in the form of reports and ways that help justice to reach facts [1].The goal of forensic accounting, as demonstrated by Renzhou [10], is to provide advices to experts as instruments to determine whether or not the defendant has to bear legal responsibilities. In that, the target of forensic accounting refers to court or lawsuit accounting.

3- Justification to Use and Develop Forensic Accounting:

3.1. Widespread use of false accounting information:

Because of the false accounting information, the society and the economy suffers large loss, and the survival and development of the accounting industry is largely impacted, and investors' benefits are largely damaged, and the social public would largely doubt the social economic order. When the harm of the false accounting information develops to some extent, the lawsuit aiming at the false accounting information will occur, and it would make the accounting knowledge and the legal knowledge to be collided, and many situations which can not integrate completely would occur, and single accounting knowledge or single legal knowledge could not solve problems effectively. At present, the amount of economic crime case and the sum of corruption increases obviously, and the embezzlement modes are more and more complex. When the court judges these cases, following issues must be confirmed. First, whether is the accounting information false? When judging this problem, professional accounting personnel and non-professional personnel always depend on different standards and obtain different conclusions. The references of professional personnel are the accounting rules and accounting systems, but the references of the non-professional personnel are the facts. The professional personnel pays more attention to whether the procedure of the accounting treatment is legal, and non-professional personnel would emphasize whether the result of accounting treatment is true, and both would obtain different judgment results.

Second, does the false accounting information belong to intent, ordinary negligence, gross negligence, or deception? The intent and the deception need to undertake civil liability and criminal liability, and the negligence only undertakes the civil liability. According to different identification conclusions, the court would

make different legal judgments. It is difficult to make exact judgment for the personnel with single legal knowledge or accounting knowledge. Third, what loss does the false accounting information bring to users? The losses suffered by the accounting information users when they make decisions according to false accounting information include the actual loss, the opportunity loss, and the holding loss, and it is also very difficult to identify these losses. The simple combination of accounting knowledge and legal knowledge could also achieve anticipated effect, therefore, people begin to realize the effective combination of these two kinds of knowledge with more theories and practices could effectively solve problems, and fulfill the demand of the social and economic development.

This phenomenon caused big losses for the emerging economies, and these losses have had an impact on the economic development and state revenues. Perhaps the most prominent example of this situation is the accounting statements prepared by auditors for the companies benefiting from, where the auditor prepares statement of current account and balance sheet in accordance with the company's desire to show losses in which they use for tax evasion purposes or to show a few profits in order to compete for local tenders [6]

3.2. Weakness and lack of legal and accounting legislation in solving problems:

The science of law takes treating law regulations with high normalization as its main task, and mainly discusses the criterion meaning of the actual effect, the content of the criterion effect, and the judgment rule in the court's judgments. Under this thinking, traditional law science embodies the characters taking the legal relations analysis as the important measure, taking the value judgment as the instruct, and emphasizing the qualitative analysis, which also decides that in the judicial procedure, the space of the law is mainly limited in the liabilities such as behavior analysis and application. Many professional personnel including judge and lawyer are just legal experts, not accounting experts, so they can not exactly judge the problems of accounting. Legal personnel's experiences and knowledge have not been the connection point between the proof materials and the fact, so they have to transfer part of right to other professional personnel who would judge the professional technological problems, and forensic accounting just could play this role, and they could treat the proof materials by their own professional knowledge, and convert relative information into the contents which could be easily understood, and establish the bridge for judges' reasoning.

For the science of accounting, the current accounting theory and practice have not completely been adapted with the legalization demand of the social and economic development, and many accounting personnel encountered similar mess more or less, i.e. in the accounting practice, some problems need to be judged by professional knowledge, but there are no specific examples in the accounting rule system could be quoted and learned, so they have to use their own experiences and the understanding of the rule idea to grasp the problem, and mistakes will often happen, and just because of this deficiency, someone could act audaciously in the so-called marginal land. Gradually, the modern social and economic phenomena become more and more complex, and the corresponding countermeasures must be proposed to treat them. [6]

Legislations dealing with the financial and administrative corruption are characterized by weaknesses and stereotypes, therefore they can no longer respond to the exacerbation of these dangerous phenomena, in addition to the fact that the traditional accounting procedures do not contribute to detecting and diagnosing financial corruption cases, because they focus on the form rather than content [10]

3.3. Weakness in the traditional auditing:

In the condition of market economy, the social public has higher and higher anticipation for the auditing personnel. And the public requires that the auditing personnel could reflect relative situation of the continually difficult management of the enterprise. But because the accounting information is lagged behind the economic activity, the time limitation exists in the accounting reflecting the economic operations, and because modern faking and embezzlement technology is more and more advanced, registered accountants only could show their opinions about the justice and validity of the former financial report, and the identification function of the auditing has been largely limited. In addition, because of the limitation of the cost benefit principle and the special risk of the sampling technology, the registered accountants would face large uncertainty in the practice.

The large gap exists in the public's higher anticipation for auditing personnel with the auditing result, and the registered accountants always can not depend on the auditing rule to defend themselves effectively.

The fraud auditing in the practice pays attention to the fraud skill, and doesn't want to solve legal problems, so many proofs obtained by the auditing could not connect with the demand of the court, and can not fulfill the demand of the lawsuit. In addition, even the auditing personnel discovers the fraud, what he can do is to further investigate the range of the essential test to confirm whether the above situation really exists, and provide corresponding advices, and inform the senior managers, and if the senior manager rejects to accept the advices, the auditing personnel could only give the auditing report with negative opinion or reserve opinion, or relieve the engagement. Comparing with independent auditing, the range of interior auditing is wider, but the interior auditing is still limited to discover the fraud because it could not ensure its independence completely in the practice and it will be limited by the implementation cost, and the interior character is obvious. The occurrence

of forensic accounting could not only compensate the deficient service function of discovering fraud, but help accountants to enhance the reliability of the accounting information, reduce the uncertainty and illegibility, and become the communication bridge to reduce the gap between the public's anticipation for the accountants and auditing personnel with the actuality. [6]

Renzhou [10] and Hao [6] show that many audit procedures suffer from obvious deficiencies in diagnosing the financial distractions as the evidence provided by the internal auditor is still limited and unable to detect corruption and financial deviations mainly because they do not enjoy administrative autonomy.

3.4. Lack of professional institutions to provide forensic accounting consulting:

Unlike the developed countries, most emerging countries do not have a special organization which could really provide the real forensic accounting service "identify and judge the accounting auditing materials in the cases including the economic crime, economic dissension and part of civil and administrative disputes" to judicial authorities. This shortage could affect the objectivity of judicial rulings and exacerbate the problem of financial corruption [10]. From this view, the occupation of the forensic accounting is still blank in Iran.

Conclusions:

Accounting information is more and more important in the whole social and economic activity, and the amount of the civil action induced by the accounting information is increasing by the geometric series, which will all quicken the further integration of the legal domain and the accounting domain, and generate a new accounting domain, i.e. the forensic accounting.

To sum up, the generation of the forensic accounting is closely related with the economic and legal background and the social demand, and the development and change of the economy and the society will be the core force to push the advance of the forensic accounting, but the limitations of law, accounting and auditing would limit the degree that they fulfill the demand of the public, and the supply of the forensic accounting in the practice is still deficient, which all decide that the forensic accounting should undertake the functions to deeply study the fraud rule, discover and govern the fraud, and establish the communication bridge among different relative subjects.

Although the role of official experts of justice and judiciary cannot be denied in handling claims and financial disputes, training and employment of forensic accountants in Iran legal system in the shape of a distinct field, may help in further observation of justice in considering the economic offences, financial claims and finally to protect the rights of the people.

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