

Traits and Relevant Skills of the Forensic Accountant: Empirical Survey of Public Sector Organisations ¹

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Abstract

Forensic accountants play an important role in government where they need to look for signs of suspicious financial activity and fraudulent activities. According to Digabriele (2008), forensic accountants should possess various combinations of skill and knowledge including accounting, auditing, law, investigation techniques along with strong ethical values and soft skills. There is no research carried out in Malaysia which investigates on the essential traits and relevant skills of forensic accountants in the public sector organisations. Therefore, the main objective of this empirical survey is to investigate the perceptions of public sector accountants and other professionals such as accounting academicians and users of forensic accounting services on the essential traits and relevant skills of forensic accountants in the public sector organisations. The scope of essential traits will also focus on the Islamic values and work ethics to enhance the forensic accountant's skills in the public sector. This conceptual paper presents the literature review, research method and the research model of a forensic accountant in the public sector for further empirical investigation.

Keywords: Traits and Skills of Forensic Accountant, Public Sector Organisation, Malaysia

Introduction

Public sector governance requires controlling and accounting officers to discharge their responsibilities of stewardship of public resources by being open, accountable, prudent in decision making, managing and delivering results (Buang, 2008). The provision of the Financial Procedure **Act 1957** also places a high premium for controlling officers to be personally responsible and accountable for propriety and accountability. Therefore, the need to be aware of fraud in all its manifestations is an essential component of good governance in public sector.

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Some of the most typical frauds are bribery, false statements and false claims, embezzlement, conflict of interest, phantom contractor, collusive bidding, progress payment fraud, over or under invoicing, extortion, nepotism and favouritism, loss of revenues on account of tax or duty evasion, unfair recruitment, computer frauds and others. With the increase use of information technology systems in the function of government entities, the preparation of fraud, corruption and consequently the detection of such activities become more complicated (Buang, 2008).

According to Buang (2008), some of the commonly perceived high risk areas of fraud in public sectors are:

- Contracts of service
- Procurement of goods & services
- Inventory management
- Sanction/clearances
- Programme management
- Revenue receipt
- Cash management
- General expenditure
- Other areas with public interface

Thus, management of government entities should have the primary responsibility for the prevention, detection and investigation of fraud. All public officers have to be alert to the possibility of fraud and misconduct. To meet this responsibility, public officers must possess some knowledge of fraud indicators or symptoms that will enable them to evaluate accounting frauds/ errors and materially misstated financial statements (Buang, 2008).

Research continuously confirms that preventing fraud and uncovering deceptive accounting practices are in strong demand as private and public sector organisations have to respond to closer scrutiny of their financial activities by stakeholders, regulatory bodies and courts (Kahan, 2006). Therefore, the use of forensic accounting procedures to detect financial reporting fraud shall be increased with forensic accountants currently require to apply their unique expertise to determine whether there has been any intentional misrepresentations associated with an organisation's financial records (American Institute of Certified Public Accountants, 2008).

Forensic accountants see where and what others don't see. Forensic accountants see beyond financial records. Numbers alone are meaningless. Financial records analyzed by a forensic accountant are meaningful. The true challenge for forensic accountants is seeing beyond financial records.

Forensic accountants utilize an understanding of business information and financial reporting systems, accounting and auditing standards and procedures, evidence gathering and investigative techniques, and litigation processes and procedures to perform their

work. Forensic accountants are also increasingly playing more proactive risk reduction roles by designing and performing extended procedures as part of the statutory audit, acting as advisers to audit committees, fraud deterrence engagements, and assisting in investment analyst research (Crumbley, Lester & Stevenson, 2005)

The skills and preparation for precision, attention to detail, objectivity, problem-solving ability, and strong oral and written communication skills are important for forensic specialists (Torpe, 2009). Some forensic specialists, such as computer forensic investigators, have a background in law enforcement and an understanding of or experience with the law and legal procedures can be helpful for many forensics careers. Similarly, forensic accountants are also required to examine financial transactions related to a legal case or issue to help identify fraudulent or illegal activity (Torpe, 2009).

According to Digabriele (2008), forensic accountants currently apply their unique expertise to an array of diverse assignments and are often hired to determine whether there has been any intentional misrepresentation associated with an organisation's financial records. Fraudulent misrepresentation can range from overvaluation of inventory and improper capitalization of expenses to misstatement of earnings and embezzlement (Messmer, 2004). According to Digabriele (2008), forensic accountants currently apply their unique expertise to an array of diverse assignments and are often hired to determine whether there has been any intentional misrepresentation associated with an organisation's financial records. Fraudulent misrepresentation can range from overvaluation of inventory and improper capitalization of expenses to misstatement of earnings and embezzlement (Messmer, 2004)

The AICPA (2009) has recognized forensic accounting services to generally involved:

- The application of specialized knowledge and investigative skills
- Collecting, analyzing and evaluating evidential matters
- Interpreting and communicating findings in the courtroom, boardroom or other legal/administrative venue (Durkin and Ueltzen, 2009)

Based on the AICPA's understanding, a forensic accountants should possess certain skills and characteristics that include analytical characteristics and investigative and communication skills in addition to the core skills (traditional accounting fields), fundamental forensic knowledge and specialized forensic knowledge.

In the case of Muslim accountants, the Quran highlights an important aspect of Islam's concept of leadership in forensic skills. In Islam, leadership is an amanah (a trust) and the job of the leader is to discharge this responsibility to the best of his abilities through personal sacrifice, courage and the ability to keep the group focused on the goal.

Therefore, the objectives of this paper are as follows;

1. To identify essential traits for a forensic accountant in public sector.

2. To identify the core skills and knowledge a forensic accountant in public sector needs to possess.
3. To determine whether Islamic knowledge and values can enhance the relevant skills of forensic accountants in public sector.
4. To investigate the perceptions among professionals in public sector and those associated with forensic accountants from the various types of government agencies on the traits and relevant skills for forensic accountants.

Significance of Research

There is no research carried out in a public sector accounting organization in Malaysia which investigates on the relevant skills of forensic accountants as well as the focus on the work ethics and detection strategies to combat financial fraud in the public sector.

The results of this study are intended to provide an insight on the level of awareness and commitment in public sector organisation in managing knowledge workers such as public sector accountants to be forensic accountants and in promoting ethical practices in forensic accounting services. Since public sector accountants are the controlling officers, they are therefore required to provide forensic services for the prevention, detection and investigation of fraudulent activities and corruption practices.

Literature Review and Hypotheses Testing

Forensic accounting is more than counting numbers; it involves solving complex financial puzzles, particularly in fraud, insurance, disputes, and providing legal evidence for presentation in a legal forum (Grippio, 2003). Activities include investigations of business information and data. These investigations can be to establish employee fraud, provide litigation support such as substantiation of insurance claims, analysis of facts, formulation of questions and examination of accounting systems and also business valuations. The accountant is already trained in many of the skills required for such tasks but needs some additional specialised skills to the skills of a traditionally trained accountant.

Analytical and critical skills are required for litigation support and fraud investigation. "An auditor may be a watchdog, but a forensic accountant is a bloodhound." (de Lorenzo, 1993, p.24). A forensic accountant is like a detective and must thoroughly examine cases for indicators of fraud.

Technology can provide hard evidence to track and support claims of fraud, but suspicion and intuition of misappropriation of funds is needed in the first instance. Forensic accountants therefore must integrate IT, audit, fraud and legal knowledge with advanced detective skills (Harris & Brown, 2000).

Once the detective work is done, good interpersonal and communication skills are necessary. There must be an ability to communicate findings to many audiences, many with

no knowledge of accounting. Forensic accountants must deal with a range of people from board of directors to government authorities and judge, jury, defendants and lawyers and good, clear, precise explanations are required for all of these (Harris & Brown, 2000).

Digabriele (2008) had identified and suggested the relevant skills for forensic accountants from a nationwide survey on a random sample of 1,500 accounting academics, forensic accounting practitioners and users of forensic accounting services,. The relevant skills of forensic accountants are 1) deductive analysis, 2) critical thinking, 3) unstructured problem solving, 4) investigative flexibility, 5) analytical proficiency 6) oral communication 7) written communication, 8) specific legal knowledge and 9) composure.

Digabriele (2008) had surveyed practitioners, academics and users of forensic accounting services throughout the United States to determine whether there were differences in views of the relevant skills suggested in the practitioner literature. Digabriele had identified nine competencies of forensic accountants. Digabriele was able to group the competencies into those related to knowledge, ability and those related to performance. The knowledge and abilities component relates to whether an individual has the background knowledge and thinking skills to be effective whereas the performance component relates to the individual's ability to turn this knowledge and ability into an effective presentation. Results from Digabriele's study suggested that the three major stakeholder groups differ on all of the knowledge and ability items but agree on all of the performance items. His results also suggested that academics and practitioners have more agreement over the important forensic accountant skills than the users of forensic accounting services. His research revealed that practitioners and academics agreed that critical thinking, unstructured problem solving, investigative flexibility, analytical proficiency and legal knowledge are important skills of forensic accountants. The respondent groups did not differ on oral communication, written communication or composure rankings.

Another study by AICPA report (Davies, Farrell & Ogilby,2008) found that communications skills, the ability to simplify the complex and the ability present opinions in a legal setting are critical to the effectiveness of the forensic accountants. In other words, non technical skills such as communication, problem solving and interpersonal skills were important for the accounting professionals besides the accounting and legal knowledge.

Researchers in this research field should also look into the Islamic knowledge and moral values for the more appropriate traits and relevant skills required for forensic accountants in rendering forensic accounting services. Table 1 showed the twelve (12) pillars of ethical values for the civil service in Malaysia based on the concept of Islamic values as established by theNational Institute of Public Administration in Malaysia.

Ethical Values	Islamic Values
Value of time	Trustworthiness
Success of Perseverance	Sincerity
Pleasure of Working	Accountability
Dignity of Simplicity	Dedication
Worth of Character	Gratefulness
Power of kindness	Moderation
Influences of Examples	Consistency
Obligation of Duties	Cleanliness
Wisdom of Economy	Discipline
Virtue of Patience	Cooperation
Improvement of Talent	Justice
Joy of Originating	

The following are the scope of research questions that need to be asked and investigated from the respondents' perspectives:

- Essential traits for a forensic accountant in the public sector
- Relevant skills and knowledge for a forensic accountant in the public sector
- Islamic knowledge and values as well as work ethics to enhance forensic accountant's skills in the public sector.

Based on the research model proposed in Figure 1: this study seeks empirical evidence to support the following research hypotheses:

- Essential traits or personal characteristics will have a positive and significant effect for a forensic accountant in public sector
- Components of relevant skills and knowledge will have a positive and significant effect for a forensic accountant in the public sector
- Islamic values and work ethics will have a positive and significant effect for a forensic accountant in the public sector

The following figure 1 is the research model generated for the empirical investigation of this study

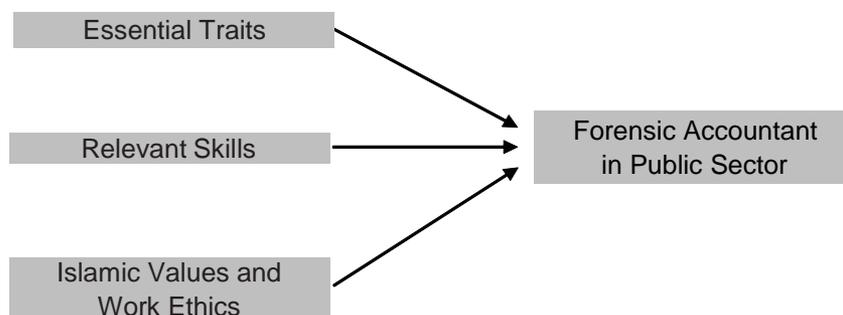


Figure 1: Research Model

Research Methodology

This is a survey research where a structured questionnaire will be distributed to the target population i.e. public sector accountants in Malaysia and other professionals associated with forensic accountants from all types of government agencies in Malaysia. Public sector accountants are primarily responsible for areas needed for forensic services and investigations. Public sector accountants employed by Accountant General's Department and those who worked with State Government and Local Authorities will be selected to represent the population sample. In addition, professionals who employ the services of forensic accountants such as auditors, lawyers, public managers and police officers as well as academicians in the field of accounting and law will also be surveyed to determine their views on the relevant skills of forensic accountants.

Several statistical techniques will be used to explore and test the relationships between study variables of the research model. Data analysis will be analysed using the statistical package for the social science (SPSS) and the structural equation modeling computer package (AMOS).

Contribution of Study and Future Research

The findings from this empirical study would help policy makers and regulators in government sector to recognise:

1. Essential traits and relevant skills for forensic accountants in public sector
2. The important of ethical culture and Islamic values for good public governance, national integrity plan and New Economic Model
3. Professional bodies and academic institutions can expand their forensic accounting education and training programs
4. More efforts from employers should be directed towards providing insights and trainings on the required traits and relevant skills needed to qualify as a forensic accountant

It is hoped that the tested and validated survey instrument from this empirical survey can be used as a research tool to further investigate on the relevant skills of forensic accountants in the public sector.

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