

**THE RELEVANCE OF FORENSIC ACCOUNTING IN PUBLIC SECTOR  
(A STUDY OF SELECTED GOVERNMENT AGENCIES IN KLANG VALLEY)**

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**ABSTRACT**

Corruptions and other financial economic crimes are the bane of Malaysian development efforts. Most of this crime and wrong doing harms Malaysian economy in no small measure. The integrity of government agencies are being questioning. Transparency measures became doubtful and meaningless. Need of professional expertise to undertake proper procedures are supposed to minimise the percentage of corruption and fraud. There are two main objectives of this paper, i.e to investigate the awareness of the government agencies administrator on their understanding the role of forensic accountants, and secondly, to determine the relevance of the implementation of forensic accounting in public sector. Structured interviews and 50 questionnaire were distributed and collected from three selected government agencies in the Klang Valley, i.e. Inland Revenue Board of Malaysia, Ministry of Education and Shah Alam Court Council. The results shows that majority of the government administrator understands the role of forensic accountants and believe that the existence of forensic accounting is a financial strategy to curb and resolve the financial fraud and crime in Malaysian economy.

## **Introduction**

Financial irregularities, frauds and corruptions are a severe problem of concern globally. It is the major concern to developing nations and as well as Malaysia. It is so endemic that fraud and corruption is gradually becoming a normal way of life. Corruptions and financial crimes have been committed in most cases by those who are in the higher authority, entrusted with responsibility of taking care of funds. Those who should have first-hand information in these matters are those who are usually investigated (Adegbe and Frakile 2012). Ribadu (2004) stated that all these crimes continued in the system in spite of government's landscapes steps to address them, because many people in power want the old dispassion to continue. According to Owolabi, (2007), Peter Eigen, Chairman of Transparency International Board of Directors observed in 2004 that oil producing countries, public contracting in the oil sector is plagued by revenue vanishing into pockets of western oil executives, middlemen and local officials. He suggested that oil companies should fight corruption by making public details of payments made to government and state-controlled oil firms. The access to vital information will minimised the opportunity for the payment kickbacks to secure oil tenders, a practice that has blighted the oil industry in transition and post war economies.

In the 1990s a number of catastrophes of fraud and corruption happens that shook the world; the accounting debacle scandals involving Enron, WorldCom, Global Crossing and other companies have put accountants in the public spotlight as it never before in history. The impacts of these accounting scandals are huge, causing tonnes of lateral damages. The public confidence in the accounting profession has been severely undermined. In the event, the scandals have created new business for forensic accountant and developed opportunities for forensic and investigative accounting field. The functions of Forensic Accountants, are not new. It has been used in conducting specialised accounting activities where a form of higher trusted professional results are needed. In the advent also; new laws and regulations resulting from these scandals will take the role of forensic accountants more important than ever before the business world (Sutong 2005). Resulting from the new global requirements, it gave a direct impact to Malaysia as a whole, i.e. both the public and private sectors.

## **Literature Review**

The awareness of having forensic accounting functions in both public and private sectors in order to wall-off fraud becomes an importance element to being a transparent organization. The contribution and importance of Forensic Accountant emphasized credibility to both sectors. It has been observed at the public sectors that, “Government spending has always been big business, but it has become so massive today that the public through its legislators is demanding to know whether the huge outlays of money are being spent wisely or whether they should not be spent at all.” (Okoye and Gbegi,2013). An understanding of effective forensic accounting techniques can assist Professional Forensic Accountants in identifying illegal activity and discovering the preserving

evidence (Hoouck et al 2006).

A good description and definition given by Bologna and Lindquist (1995), “Forensic and investigative accounting is the application of financial skills and an investigative mentality to unresolved issues, conducted within the context of the rules of evidence. As a discipline, it encompasses financial expertise, fraud knowledge, a sound knowledge and understanding of business reality and the working of the legal system. Its development has been primarily achieved through on-the-job training as well as experience with investigating officers and legal counsel”. Roche, as cited by Crumbley and Apostolou (2005), describe a forensic accountant as someone who can look behind the faced-out, accept the records at their face value, someone who has a suspicious mind that (considers that) the documents he or she is looking at may not be what they purport to be and someone who has the expertise to go out and conduct very detailed interviews of individuals to develop the truth, especially if some are presumed to be lying. The above view implies that the role of Professional Forensic Accountant is different from that of other accountants. They should possess good education training and in depth experiences. In addition, forensic accountant, are closer to being investigators, economists who do economic and market estimation and appraisers, who are typically trained in finance or valuation theory in business (Okoye and Gbegi,2013). According to Moncliff (2005), forensic accountants have two primary areas namely investigative accounting and litigation support. Under investigative its covers reviews factual situation and provide suggestions regarding possible courses of action, assist with the protection and recovery of assets and co-ordinate other experts. While under litigation support, forensic accountants assist in obtaining document necessary to support or refute a claim, reviewing of the relevant documentation to form an initial assessment of the case in an identified areas of loss, examination for discovering, including the formulation of the act regarding the financial residence and attendance at the examination for discovery to review the testimony, assist with understanding the financial issues and to formulate additional questions to be asked (Zysman 2001). This will require the forensic accountant to prepare evidence and information as to support for criminal or civil court case.

Krell (2002) forwards that, forensic accounting often involves an exhaustive, detailed effort to penetrate concealment tactics. Stephen Seliskar (2003) says, “in terms of the Sheer labor, the magnitude of effort, time and expenses required to do a single, very focused (forensic) investigation, as contrasted to auditing a set of the financial statement which difference is incredible. Further explained by Zahibollah et al., forensic accounting is a fast developing field in the accounting profession and has added new dimensions to accounting education and practices. There are several factors contributing to the demand for forensic accounting practices which are the litigious business environment and the growing incidence of fraudulent activities.

Hence, understanding the role of forensic accountant in undertaking forensic accounting activities will give awareness to the whole organizations on the importance of early detection of

fraudulent activities. Tan Sri Ambrin Buang (2010) raises his concern with regard to inefficiency of public spending in his article entitled “Value for money in public spending”. He states that the annual Auditor-General’s Report invariably highlights expenditure incurred not based on the 3Es but 3Ps instated – “Pemborosan” (extravagance), “Pembaziran” (wastefulness) and “Penyelewengan” (fraud). In line with this statement, few fraud incidences in Malaysia involving public personnel in public organizations are listed below:

- (1) 25 May 2004 – a former Employee Provident Fund officer was charged with criminal breach of trust involving funds totalling RM60,000. He was alleged to have committed the offence with two cheques worth RM30,000 each in January and May 2001.
- (2) 19 October 2004 – a principal assistant director of the Trust and Securities Division of the Accountant General’s office was charged with criminal breach of trust amounting to more than RM922,000. The offence was allegedly committed by the accountant while attached to the Sewerage Service Department of the Housing and Local Government Ministry.
- (3) 3 September 2004 – Tenaga Nasional Berhad’s technician was charged with criminal breach of trust involving RM2.0 million worth of equipment. He was alleged to have committed the offence at a warehouse in Port Klang on 27 October 2001.
- (4) In 23 December 2011 – a former Menteri Besar Selangor was sentenced to 12 months jail for abusing his power in obtaining valuable properties at a consideration he knew was insufficient. The market price of such properties were valued at RM6.5 million but he managed to acquire at RM3.5 million.

Based on the above views, forensic accounting is a field of specialization being an instrument of provision of information that is meant to be used as evidence especially for legal purposes. The field practice (i.e. forensic accountants) is to investigate and document financial fraud of white-collar crimes, such as embezzlement and investigate allegations of fraud, estimates losses, damages and assets recoveries and analyses complex financial transaction. They provide those services for corporation, attorneys, criminal investigators and the Government (Coenens 2005). Their engagements are usually geared towards finding where money went, how it got there, and who was responsible. They are trained to look beyond the numbers and deal with business reality of the situation (Zysman 2001). As supported by the previous statement, forensic accountants play a significant role in preventing and detecting possibilities of fraudulent financial reporting in early stage. It can be seen as an attainable effort to improve quality alternative in accounting field.

### **Research Methodology**

Structured interviews and distribution of questionnaires were carried out to a total of fifty 50 public administrators from three (3) government bodies namely; The Inland Revenue Board of

Malaysia, Ministry of Education and Shah Alam Court Council on the relevance of forensic accounting in their organization. The questionnaires covered three (3) main aspects of the relevance of forensic accounting in Public Sector. The scopes covered are:

- (a) Understanding the meaning of fraud, forensic accounting and forensic accountants role;
- (b) Understanding the relationship between fraud and forensic accounting; and
- (c) The relevance of information technology (IT) application and forensic accounting.

The questionnaire has been divided into five (5) sections. Section A covers the background of the information which focus on each informer who participated in the questionnaire, Section B covers on their understanding of fraud and roles of the forensic accountants, Section C focuses on the understanding of the relationship between fraud and forensic accounting, Section D covers on the understanding the relationship between information technology (IT) and forensic accounting and finally Section E focuses on the opinion express by the informer on the relevancy of forensic accountant in public sector.

## **Findings**

From the survey, the findings on the three (3) scopes were gathered and analyse as follows:

### ***4.1 Understanding the meaning of fraud, forensic accounting and forensic accountant's role:***

Based on the 50 questionnaire distributed, 100% of the respondents having awareness on the meaning of fraud, forensic accounting and its roles in public sector. However, only 60% have deep understanding on their specific roles in public sector. The reason for the finding was due to most of the respondents are having less than five (5) years working experience in public sector, therefore they are not able to fully understand on fraud assessment procedures in public sector and finally there is lack of conducive control, policies and training which lead to most of the staff in the organisation hanging in grey mode on this area. In year 2001, the Malaysian Institute of Accountants (MIA) issued the Malaysian Approved Standard on Auditing related to fraud and error, it works as a general guideline for auditors and society to determine the red flags and other underlined detection rules. This standard provides examples or events which indicates increased risk of fraud 'red flags'. As such, the guide serves not only for auditors but also other organisation and association to share common important knowledge and act as a predictive useful tool to halt the wrongdoing. It is also becomes an important elements that would assist to being better in work and help assessing fraud risk in difficult circumstances. This in line with Smith (2005) which states that in public sector fraud is the most serious business problems which involve serious litigation consequences. This was mainly due to lack of awareness with any standards or guidelines prepared within the association itself. The act of fraud is known for being slick and invisible. In order to ensure that the officers in public sector understand

the relevancy of the role of the forensic accountants, they need to be fully aware of the risks and its danger. In view of this, training and knowledge transfer need to be established in order to educate the employees regarding the seriousness of fraud and their implication on their existence in the organisation. Hence, this will lead to the awareness and acceptance level of forensic accounting in the public sector increasing (Adrian, Lawrance & Cristal, 2009).

#### **4.2 Understanding the relationship between fraud and forensic accounting:**

Out of 50 respondents, 80% understand and are aware that fraud has a direct relationship with forensic accounting. The respondents believed that it is essential to have the forensic accountant role in managing, preventing and curbing fraud in the public sector. The rationale behind this is that there has been an alarming condition about the occurrence of fraud in Malaysia, especially in the public sector, which creates major concern by the government and citizens as a whole. In realizing the need to curtail corruption practices, the government has introduced several measures such as the introduction of the Whistle Blower Protection Act 2010, e-Government Flagship Application and others. In tandem with the increase in the cry for transparency and credibility, the members of the Asian-Pacific Region government have also introduced the Anti-Corruption Initiative in 1999. It is an initiative to promote integrity among its members. The Malaysian Anti-Corruption Commission has initiated setting up a complete database mainly focusing on corruption offenders under the name of “Name and Shame”. The function of this database is to send a message to the potential offenders on the seriousness of corruption in the eye of law.

From the findings, 80% of the respondents agreed that it is the role of forensic accountants in helping the organization to detect and prevent fraud during the early stage. Supported by this finding, forensic accountants should possess various combinations of skill and knowledge including accounting, auditing, law, investigating techniques as well as strong ethical values and soft skills in order to carry out viable forensic accounting (Digabriele, 2008). J. Krst(2009) has stated that, the role of forensic accountants is to assist the lawyer, courts, regulatory bodies and other institutions in investigating financial statements by using their auditing skills and investigative procedures possessed by them. Additional to the above, the services of forensic accountants are more required in the public sector as compared to the private sector (Kasum, 2009). This statement supports this study, that it is crucial to have forensic accountants function in the public sector in order to assist the government to detect, prevent and investigate fraud cases. A study conducted by AICPA, which indicates that forensic accountants have higher skill of analysing and interpreting financial statements and information and are equipped with knowledge of relevant professional standards. Therefore, these skills can enhance the potential of reduced fraudulent and wrongdoing in public sector organisations.

#### **4.3 The relevance of information technology (IT) application and forensic accounting:**

This section is designed to gather the information on the relevancy of information and Communication technology (ICTs) in assisting the role of forensic accounting procedures. From the findings, 90% of the respondents agreed, opposed by the remaining 10%. As we are aware that, ICTs has been a tool in assisting to improve the transparency of the government service delivery in the recent years. A good example is with the implementation of the e-Government by Malaysian government in 1997. It started with the introduction of Multimedia Super Corridor (MSC), e-Government Flagship Application which includes, MyKad, Smart School, Tele-health and others. The e-Government managed to improve the access and better quality services, including transaction-based services, payment or even non-payment (MDC, 1998).

Furthermore, the ICT has been practically an important instrument for halting corruptions. It enhances true transparent responsibility and accountability of government administration. ICT is a mean to help the forensic accountants in fraud prevention in the public sector. The strength of an internal control such as segregation of duties in approving the budgets to the government agencies can be done in real time. This study supported by David (2005), states that the paper-based system is the reason why fraud is being committed in organisation. Computerised system for all the transactional activities would reduce fraud. Information technology can reduce corruption by promoting good governance, strengthening reform initiative, reducing for corrupt behaviours, enhancing relationship between government administrators and citizen. (Shim & Eom, 2008). Furthermore, according to Shim & Eom, (2008), ICTs hold great deal of potential for and already demonstrating benefits in anti-corruption, particularly by enhancing the effectiveness of internal and managerial control over corruption behaviours and by promoting government accountability and transparency. A good flow of internal control is an effective and efficient mechanism in preventing fraud, hence reduce the cost of curbing it.

#### **Conclusion**

In summary, forensic accounting is a methodology which serves as a function to promote credibility and demote fraud. It is a specialized field in application of gathering accounting evidence thorough investigations akin to a highest level of auditing procedures to resolve mainly pertaining legal issues. The procedures demands high levels of understanding in the provision of auditing, investigations techniques, accounting rules, wide economic references and other legal obligations. Forensic accountant draws conclusions which calculate values and identify irregular patterns or suspicious transactions by critically analysing the financial data. It provides an accounting analysis to the court of law for any dispute resolution and also the economic investigative explanations to the fraud that has been committed. Due to this, it could be said that forensic accounting plays a vital role in detecting and minimising accounting frauds and finally eliminate its existence in the organisation.

From the above findings, it can be concluded that, in the fast pace current economic requirement, forensic accountant function is an important measures in an organisation in order to curtail and eliminate the number of fraud occurrences in public sector. Forensic accountant will avail and investigate beyond the numbers compared to an ordinary auditor or accountant approaches. It is a function which our public department really needs in combating fraud and enhances credibility towards its prime public responsibilities.

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