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ENSURING QUALITY CONTROL OF FORENSIC ACCOUNTING FOR EFFICIENT AND EFFECTIVE CORPORATE MANAGEMENT

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ABSTRACT

This study focuses on ensuring quality control of forensic accounting for efficient and effective corporate management. Over the years, fraud has taken the center stage in every discussion whether in business or social. “3m” have been identified to be the tool used to effect this crime namely; misappropriation, misapplication and misrepresentation of financial information. To ensure a valid conclusion of the study the ex-post facto research design was applied. Data were collected through questionnaire and analyzed using the ordinary least square technique. The study revealed that the levels of qualification, experience, independence of forensic experts as well as the level of internal control instituted by management do significantly affect corporate management. Based on the findings of the study, it has been concluded that the variables of qualification, experiences, independent of forensic accountants corroborated by the management control strategy of installing effective accounting control, personnel control and segregation of duties control can sustain efficient performance in any organization. Experts should be assured that client operatives are of high quality in other to perform optimally such that stakeholders reap the reward of their investment. Staff should be exposed to regular workshop and seminar to update their knowledge on current standards provided by the international financial reporting standard (IFRS). This way quality performance will be all round.

KEYWORDS: Forensic accounting, Quality standards, Financial misappropriation, Financial misrepresentation, Corporate management.

INTRODUCTION

The spate of occupational fraud and financial abuse have mounted increasing pressure on the accounting profession to find better ways of exposing and certifying financial crimes in the global commercial and industrial settings Hilzenrath (2002). This, the authors believe has led to the emergence of forensic and investigative accounting with personnel’s having specialized skills capable of unraveling the various techniques employed by perpetrators of this heinous crimes.

According to Scotts (2003), a financial audit is generally a sampling activity that does not look at every stage of transaction thereby creating loopholes that can be exploited by someone such as the chief executive who knows how to “cook the book”. It is against this backdrop that Schlachter (1990), states that a forensic investigation requires meticulousness because it’s looks at the specific aspect of transactions/records, trying to determine why everything should not or does not add up. Thus, a forensic activity is much more time consuming and can be significantly more expensive than a regular financial audit (Paul, 2003).

As observed and reported by Francis (2003), Dough Carmichael, former Chief Auditor for Public Company Accounting Oversight Board

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(PCACOB) faults auditors for not adopting forensic techniques. According to him, preference should be more on tests of details than relying on tests of controls.

Effective forensic investigation calls for quality control.. Hauser (2006) Quality control is a means by which a firm obtains a reasonable assurance that the expression of expert opinion always reflects the observance of approved quality standards, relevant Act/Decree and code of professional ethics. Quality standard provides evidence to third parties that proper steps have been taken to achieve a high level investigation (Magrath & Weld, 2002).

According to Thomas (2002), and corroborated by Association of Certified Forensic Examiners (ACFE 2006), the procedure for quality assurance as enshrined in the International Audit Guidelines (IAG7), requires that each firm should establish a suitable set of procedures and communicate these to all partners and staff. Bigger firms use printed manuals while smaller ones may rely on oral instruction in line with professional ethics which according to Elias (2002), demands that there should be procedures to ensure strict adherent to the principles that will engender quality assurance.

Statement of the problem

Colossal losses of money and materials are regular occurrences in business organizations. These losses occur as a result of manipulative efforts of staff of the organization. Their criminal intentions manifest as a result of ineffective management control occasioned by the inclusion of personnel's whose qualification and experiences are suspect. To alleviate the situation, forensic experts are usually employed to reconstruct the entire organization. This effort would help to upgrade the levels of internal check, accounting control, segregation of duties control as well as management control. It is the absence of this quality standards in most organizations that necessitates this study. According to Thomas (2002), forensic investigation requires staff with special skills in accounting, auditing, finance, quantitative methods and evidential matters who are able to interpret and communicate findings which may involve either an attest or consulting engagements. This aspect of investigation calls for this caliber of personnel who, more often than not are rare talents in accounting and law professions Rebecca (2004).

Objective of the study

The main objective of this study is to ascertain the extent to which quality control of forensic and accounting affects the efficiency and effectiveness of corporate management.

The specific objective includes;

1) To ascertain the extent to which forensic accountant qualification affects the efficiency and effectiveness of corporate management.
2) To examine the extent to which forensic accountant independence affects the efficiency and effectiveness of corporate management.
3) To find out the extent to which forensic accountant experience affects the efficiency and effectiveness of corporate management.
4) To ascertain the extent to which the level of internal control system affects the efficiency and effectiveness of corporate management.

Research Questions

The research questions for the study are as follows:

1) To what extent does forensic accountant qualification affects the efficiency and effectiveness of corporate management?
2) To what extent does forensic accountant independence affects the efficiency and effectiveness of corporate management?
3) To what extent does forensic accountant experience affects the efficiency and effectiveness of corporate management?
4) To what extent does the level of internal control system affects the efficiency and effectiveness of corporate management?

Hypotheses of the study

The following null research hypotheses, when tested are meant to provide answers to the questions earlier stated:

1) Forensic accountant qualification does not have a significant effect on the efficiency and effectiveness of corporate management.
2) Forensic accountant independence does not have a significant effect on the efficiency and effectiveness of corporate management.
3) Forensic accountant experience does not have a significant effect on the efficiency and effectiveness of corporate management.

4) Level of internal control system does not have a significant effect on the efficiency and effectiveness of corporate management.

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Theoretical framework

The frameworks that follow adequately underpin the concept in focus. Without doubt, the stakeholders in corporate management include the owners (the shareholders, the loan providers and the management). Accordingly, agency and stakeholders theories are very relevant in giving a backing to the concept.

Agency theory

Florackis and Ozkan, (2004) have acknowledged the fact that the principal-agent theory is generally considered the starting point for any debate on the issue of corporate governance emanating from the classical thesis on the modern corporation and private property of Berle and Means (1932). According to this thesis, the fundamental agency problem in modern firms is primarily due to the separation between finance and management. Firth, Fung and Rui, (2002) assert that modern firms are seen to suffer from separation of ownership and control and therefore are run by professional managers (agents) who can be held accountable by dispersed stakeholders. In this regard, the fundamental question is on how to ensure that managers strike a balance between the interests of shareholders and other stakeholders in order to reduce cost associated with principal-agent theory? The principals (shareholders) are confronted with two main problems namely; how to ensure optimal selection of the most capable managers as well as the moral hazard problem of providing the managers the right incentives to make decision to align with stakeholders interest.

Stakeholder theory

According to Donaldson and Preston (1995), the concept of agency theory is narrow. This is because they identify shareholders as the only interest group of a corporate entity necessitating further exploration. By expanding the spectrum of interested parties, Mitchel, Wood and Agle, (1997) argue that, the stakeholder theory stipulates that, a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholder in order to ensure that each interest's constituency receives some degree of satisfaction. In separate contribution, Elkington, (2002) corroborate the fact that stakeholder theory therefore appears better in explaining the role of corporate governance than the agency theory by highlighting the various constituent; employees, banks, governance, relevant stakeholders. Related to the above discussion, Freeman and Evan, (1990) provide a comprehensive review of the stakeholders' theory of corporate governance which points out the presence of many parties with competing interests in the operations of the firm. They also emphasize the role of non-market mechanisms such as the size of the board, committee structure as important to firm performance.

Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders. For instance, Savage, Nix, Whitehead and Blair, (1991) proposed that companies are no longer the instrument of shareholder alone but exist within society and therefore, have responsibilities to that society. One must however point out that large recognition of this fact has rather been a recent phenomenon. Indeed, it has been realized that economic value is created by people who voluntarily come together and corporate to improve everyone's position (Freeman, 2004).

Based on the explanations offered by the frameworks, it became pertinent that management of corporate entity should at all time put in measures to ensure quality standards in all aspects of management process to enable stakeholders to keep the benefit of their investment

Empirical review

Berton and Edwards (2004) harp on consultation. This should include specialists within or outside the practice regarding highly technical matters. Monitoring the firm's quality standard procedure: Suitable internal control system, should be introduced to ensure that all procedures are working perfectly.

To ensure quality assurance on individual's assignment, expert staff should have appropriate training, experience, proficiency and other special skills.

Proper briefing of expert staff in the following areas;

(i) Objective of an investigation
(ii) Timing requirement
(iii) The overall plan of the job
(iv) Significant accounting and investigative procedures

(v) Related party transactions (if any)
(vi) The need to expose problems and direct the attention of supervisors where necessary.

On the use of programme completion checklist with sections for completion by expert staff and reporting partners, Banks (2004) opines that the following steps be taken:

All contentious matters, problems, special difficulties and potential qualifications must be identified and discussed by managers.

All investigative assignments and conclusions reached should be fully recorded on the working papers.

Reviews procedures require that all investigative work must be fully reviewed either hot, external or by peer group.

All investigative assignments and review actions should be acknowledged in writing by the performer. The use of written assignment programmes should provide proper guide

Still corroborating the case of quality control, McMillian (2000) asserts that it covers all aspects of controls, financial and otherwise established by management in order to ensure that the business of the enterprise is carried out in an orderly and efficient manner; safeguard the assets, ensure adhere to management policies and secure as far as possible, the completeness, accuracy and validity of the records. This is the hall mark of forensic investigation. Stimpson (2007) confirms that experience over the year's points to the fact that quality control in forensic investigation can be measured on the following factors;

- Qualification of personnel
- Independence of personnel
- Experience of the personnel and the
- Level of internal control system establish by management.

Remarkable of empirical works of significance on quality control include the work of Suther Land (1949), lifted in Wells (2007). His objective was to establish the impact of white collar crime on firm's performance. He applied observation and interview to generate data and findings from the analyses which highlighted the fact that crime is learnt much like mathematics, English or guitar playing (Wells, 2007).

Cressey (2006) in his research established how embezzlers whom he called "trust violators" carried out their activities. His research was published in "other people's money" a study in the social psychology of embezzlement. The population of the study was from the people with non shareable problems occasioned by the following factors;

i. Violation of ascribed obligations
ii. Problems resulting from personal failure
iii. Business reversals
iv. Physical isolation
v. Status gaining
vi. Employee-employer relations

His data generation techniques included observation and interview. This was accomplished through the intervention of experts who assisted him to arrive at the conclusion described as the conjecture of events (Wells, 2007).

Abbrecht (1984) also from Wells (2007) who studied the circumstances that could lead to fraudulent behaviours, applied the technique that involved obtaining demographics and background information on frauds through the application of extensive questionnaires. Participant in the survey who were experts in forensic investigation and who have worked with internal auditors in the company that experienced fraud. His findings where that fraud could occur under situational pressures, perceived opportunity and personal integrity. Finally, Hollinger (1983) whose objective was to establish reasons that could lead to fraudulent instincts among employees. Carried out surveys on 10,000 American workers. He found out that employees steal as a result of workplace condition.

Research method

The research design adopted for this study was ex-post facto. The data were collected from both primary and secondary sources. In collecting the data from the primary source, the instrument used was Ensuring Quality Control of Forensic Accounting for Efficient and Effective Corporate Management (EQCFAEECM). This was a 16 item questionnaire constructed by the researcher and aimed at eliciting information from the respondents on the variables of the study. The items were based on existing literatures on forensic accounting and corporate governance. The questionnaire contained items seeking information to measure the major variables of the study as the items were scored based on a four (5) point Likert scale, beginning with all positively worded items as follows: Very Strongly Support (VSS) scored 5 points, Strongly Support (SS) 4 points, Undecided (U) 3 points, Moderately Support (MS) 2 points, and No Support (NS) 1 point. This order was reversed for all negatively worded items.

Model specification

The model employed for the study read as thus:
The model is expressed thus:

$$CM = a_o + a_1 FAQ + a_2 FAI + a_3 FAE + a_4 LICS + e_i$$

Where:

CM	=	Corporate Management
FAQ	=	Forensic Accountant Qualification
FAQ	=	Forensic Accountant Independence
FAQ	=	Forensic Accountant Experience
LICS	=	Level of Internal Control System
a_o	=	Constant term
a_1 - a_4	=	Coefficients to be estimated
e_i	=	Error term

Presentation of results and interpretation

Table 1: Regression results on Quality Control of Forensic Accounting for Efficient and Effective Corporate Management

DEPENDENT VARIABLE: Corporate Management (CM)

VARIABLE	ESTIMATED COEFFICENTS	STANDARD ERROR	T-Statistic	P- Value
Constant	20.086	2.633	7.629	.000
FAQ	.166	.046	3.597	.000
FAE	.369	.068	5.393	.000
FAI	.086	.045	1.940	.050
LICS	.269	.066	4.043	.000

R	=	0.815
R-Square	=	0.706
Adjusted R-Square	=	0.690
SEE	=	5.23385
F – Statistic	=	20.124 (p=000)
Durbin Watson Statistic	=	2.580

Based on the results, the study revealed that all the estimated coefficients of the regression parameters have positive sign. The implication of this sign is that the dependent variable is positively influenced by quality control of forensic accounting. This means that an increase in the independent variable will bring about credibility in the dependent variable mirrored by Corporate Management (CM). Specifically, a 1% enforcement in enhancing quality control of forensic accounting mirrored, by FAQ, FAE, FAI and LICS would led to an increase in corporate productivity with a margin of approximately 0.17, 0.37, 0.09 and 0.27 respectively.

The coefficient of determination R-square of 0.706 implied that 70.6% of the sample variation in the dependent variables corporate productivity is explained or caused by the explanatory variable while 29.4% is unexplained. This remaining 29.4% could be caused by other factors or variables not built into the model. The high value of R-square is an indication of a good relationship between the dependent and independent variables.

The value of the adjusted R^2 is 0.690. This shows that the regression line captures more than 69% of the total variation in corporate productivity caused by variation in the explanatory variables specified in the equation with less than 31% accounting for the error term.

Testing the statistical significant of the overall model, the F-statistic was used. The model is said to be good and statistically significant at 5% level because the F-statistic computed at 20.124 is greater than the F-statistic table value of 2.60 at df1=4 and df2=242.

The test of autocorrelation using D/W test shows that the D/W value of 2.580 falls within the conclusive region of D/W partition curve. Hence, we can clearly say that there exists a degree of autocorrelation.

CONCLUSION

Based on the findings of the study, it has been concluded that the variables of qualification, independent, forensic accountants corroborated by the management control strategy of installing an internal control system can sustain efficient performance in any organization.

RECOMMENDATION

It is therefore recommended that it is therefore recommended that the management of an organization should support the forensic expert in installing a system of control that should check the excesses of the internal staff as well as ensure that there are groomed to perform optimally such that the organization lives to the expectation of the stakeholders.

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