

Forensic Accounting and Financial Fraud: Evidence from Saudi Arabia

المحاسبة القضائية والتلاعب المالي: أدلة من السعودية

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Abstract: The objective of the study is to examine forensic accounting and manipulation of financial reports in Saudi Arabia. In pursuing this line of research, the widely recognised Modugu and Anyaduba (2013) study and Ehioghiren, efe efosa (2016) study have been chosen and applied to determine whether the results generated can reliably identify the presence of such behaviour in Saudi Arabia. A survey design was used in the study with a sample size of 120 consisting of accountants, management staffs, practicing auditors in telecommunications, electricity and cement companies and academics in the Accounting and Law Department of the Faculty of Administrative and Financial Sciences at King Khalid University. The findings of the study indicate that Forensic Accounting is an effective tool in uncovering diverted fraudulent practices, which can identify misappropriated assets and reversible insider transactions. The result also shows that there is a significant difference in forensic duties and those of auditors.

Keywords: Forensic Accounting, Corporate Fraud, Financial Reporting, Financial Statement, Management.

Jel Classification Codes : M4, M41.

ملخص : هدفت الدراسة الى اختبار دور وأهمية المحاسبة القضائية للحد من التلاعب في التقارير المالية ولمتابعة الدراسات التي اهتمت بالمحاسبة القضائية وأهميتها للحد من التلاعب في التقارير المالية، تابع الباحث دراسة Modugu and Anyaduba (2013) study and Ehioghiren, efe efosa (2016) وقد اشتملت الدراسة على عينة عددها 120 شملت محاسبين وموظفي إدارة ومراجعين في شركات الاتصالات والكهرباء والاسمنت وأكاديميين من قسم المحاسبة والقانون في كلية العلوم الإدارية والمالية في جامعة الملك خالد. وتشير نتائج الدراسة إلى ان المحاسبة القضائية تعتبر اداة فعالة في الكشف عن الممارسات الاحتيالية المحولة التي يمكن أن تحدد الأصول المختلصة والمعاملات الداخلية في المنشأة. كما أظهرت نتائج الدراسة وجود فروقات بين المحاسب القانوني والمراجع.

الكلمات المفتاح : محاسبة قضائية، احتيال شركات، تقارير مالية، بيانات مالية، ادارة.

تصنيف JEL: M4, M41.

I- Introduction :

Previous studies highlighted the importance of forensic accounting and its role in detecting cases of manipulation in financial reports. The incidence of fraud continues to increase across private and public sector organisations and across nations (Onuorah and Appah, 2012).

Mounce and Frazer (2002) have noted that forensic accounting is a mechanism available to accounting professionals for effective prevention and detection of fraud and manipulation of financial reports. It is generally agreed that forensic accounting, also known as forensic investigation, looks beyond the figures in financial records and deals directly with the business reality of the situation at hand (Dhar and Sarkar, 2010).

Generally, forensic accounting is an integration of accounting, auditing and investigative skills. It provides an accounting analysis that is suitable to the court, which will form the basis for discussion and debate and ultimately assist in dispute resolution. It is further argued that this branch of accounting includes both litigation support and investigative accounting (Owojori and Asaolu, 2009).

In Saudi Arabia, Al-Saad (2013), in his study ‘Forensic Accounting in the Kingdom of Saudi Arabia: Current Practice and Future Perspective: An Empirical Study (Exploratory)’, concludes with some general results, including the aim of forensic accounting to provide professional opinions to judges, when needed, in financial cases.

In Saudi Arabia, Alhassan and Saad (2016), in their study about the concept of forensic accounting and its role in the reduction of administrative and financial corruption in the region of Asir, indicated that 96% of the study sample confirmed a link between forensic accounting and the rest of the branches of accounting. Eighty-two percent of the sample contended that there is a difference between the skills of a forensic accountant and a chartered accountant. Ninety-six percent noted of the role of forensic accounting in reducing financial and administrative corruption and that it requires a division of forensic accounting in the specialised administrative courts to control public money and anticorruption bodies and investigate money crimes. Eighty-four percent emphasised that there are obstacles facing the application of forensic accounting in the Kingdom of Saudi Arabia. In light of the above, this study therefore looks into the relevance of forensic accounting and fraud management in the effective reduction of fraudulent practices in Saudi Arabia.

I.1.Statement of the Problem:

In recent times, series of fraud have been committed in both the public and private sectors of the economy. Fraud is the number one enemy of the business world (Hamilton and Gabriel, 2012). Fraud has resulted in huge financial scandals and bankruptcies that even large international corporations like Enron and WorldCom have not been spared its effect. Okoye and Akamobi (2009), Owojori and Asaolu (2009), Izedomin and Mgbame (2011) have all acknowledged in the increasing incidence of fraud and fraudulent activities in Nigeria, and these studies have argued that in Nigeria, financial fraud is gradually becoming a normal way of life. Modugu and Anyaduba (2013) submitted that financial irregularities have become the specialty of both the private and public sector in Nigeria as individuals perpetrate fraud and corrupt practice according to the capacity of their office.

Mackevičius and Kazlauskienė (2009) concluded in their study that fraudulent accounting brought about absolute detrimental losses to such global operators as Xerox, Kmart, Global Crossing, Adelphia Communications and a number of others.

Many experts agree that there is an opposite relationship between economic development and fraud or manipulation of financial reports (Domzalki and McGladrey, 2009).

Consequently, there is a general expectation that forensic accounting may be able to reduce manipulation of reports and financial statements. However, there has not been adequate emphasis, especially survey evidence, on how forensic accounting can help restrict financial and economic crimes beyond several unreliable views that abound. Consequently, the study fills this gap of forensic accounting and manipulation of reports and financial statements evident in Saudi Arabia, especially since there are studies in Saudi Arabia dealing with forensic accounting. (Al-Saad, 2013, Alhassan and Saad, 2016). In addition, there is a great interest in teaching forensic accounting in Saudi universities.

I.2. Objective of the Study:

The general objective of this study is to assess whether forensic accounting and fraud management help in the effective reduction and control of fraudulent practices in Saudi Arabia.

The specific objectives of this study include the following:

- i. To examine whether effective forensic accounting significantly influences fraud reduction control in Saudi Arabia.
- ii. To examine if there is a significant difference between professional forensic accountants and traditional external auditors in Saudi Arabia.

I.3. Research Questions

This research has the following main questions:

1. What is the extent of influence that effectiveness of forensic accounting has on fraud control and management in Saudi Arabia?
2. How significantly different are the duties of professional forensic accountants and traditional external auditors in Saudi Arabia?

I.4. Hypothesis Statements

H₀₁: Forensic accounting does not significantly influence fraud control and management in Saudi Arabia.

H₀₂: There is no significant difference between the duties of professional accountants and that of traditional external auditors in Saudi Arabia

The remainder of this paper is organized as follows : section II briefly reviews the relevant theoretical and empirical literature on contagion. Section III discusses the data and methodology we pursue to to assess whether forensic accounting and fraud management help in the effective reduction and control of fraudulent practices in Saudi Arabia. Section IV presents the . Results and Discussion, and Section V concludes.

II- Literature review :

Many literary studies have examined forensic accounting as a tool for fraud detection and prevention in public sector organisations.

In Malaysia, Ibrahim and Abdullah (2010) discovered that forensic accounting was still in its infancy, and most Malaysians seemed to assume that there is no difference between forensic accounting and auditing. From the study, it was concluded that the slow progress of forensic accounting in Malaysia may be due to two main reasons. First, forensic accounting is seen as an expensive service, and second, there was no mandatory requirement for companies to conduct forensic accounting.

Davis et al. (2010) undertook a survey involving 779 forensic professionals and fraud examiners to identify the core skills of a forensic accountant or investigator. Their result was divided into three categories: core skills for forensic academics, practitioners (CPAs) and attorneys; enhanced skills and professional skills. According to Davis et al. (2010), the top five core skills for the academics include critical and strategic thinking, auditing skills, investigative ability, synthesis of results and thinking like the wrongdoer, and others, while the top five skills for the practitioner (e.g., a CPA) include critical and strategic thinking, effective written communication, effective oral communication and investigative intuitiveness.

Onuorah and Appah (2012) also examined the effect of forensic accounting services on fraud detection in Nigerian banks. Data was collected from primary and secondary sources. The result revealed that the application of forensic accounting services affects the level of fraudulent activities of banks.

Ifeanyi and Joseph (2013) investigated the effect of forensic accounting on corporate fraud and performance outcome in the Nigerian manufacturing sector using a match sample of 306 manufacturing firms registered with the Manufacturing Association of Nigeria (MAN). Results revealed that the use of forensic accounting has significant effect on corporate fraud reduction.

Dada, Owolabi and Okwu (2013) also investigated the relevance of forensic accounting in the effective reduction in fraudulent practices in Nigeria. The study employed a multiple regression technique to analyse the empirical data collected through questionnaires and oral interviews, and the hypothesis formulated was also tested. The results of the hypotheses test revealed that fraud reduction is significantly and positively related to fraud investigation and detection through forensic accounting.

Okoye and Gbegi (2013) examined forensic accounting as a tool for fraud detection and prevention in public sector organisations with particular reference to Kogi State. Both

primary and secondary sources of data were appropriately used. The results showed that the use of forensic accounting does significantly reduce the occurrence of fraud cases in the public sector and that there is a significant difference between professional forensic accountants and traditional external auditors; forensic accountants can help better detect and prevent fraud cases in public sector organisations. The results of the current study in Saudi Arabia are consistent with those of Okoye and Gbegi (2013).

Tarig, Moayad, Sofri and Ala (2013) determined the impact of using forensic accounting on financial corruption. The study revealed that there is a significant relationship between forensic accounting methods and effectiveness of control and auditing bodies to detect financial corruption cases.

Al-Saad (2013), in his study 'Forensic Accounting in the Kingdom of Saudi Arabia: Current Practice and Future Perspective: An Empirical Study (Exploratory)', concluded with some general results, such as forensic accounting's aim being to provide professional opinions to judges, when needed, in financial cases. The importance of forensic accounting resides in providing courts with qualified accountants who can provide specialised views on financial cases based on their accounting knowledge. The study also suggested that there is a major difference between forensic accounting and auditing and that the main function of forensic accountants in Saudi Arabia is to represent various clients in courts and specialised judicial committees, such as those related to zakat, taxation, customs, insurance and commercial transactions, as well as clients in some financial cases in courts.

Modugu and Anyaduba (2013) in his study *Forensic Accounting and Financial Fraud in Nigeria: An Empirical Approach*, revealed that the findings of the study indicate that there is significant agreement amongst stakeholders on the effectiveness of forensic accounting in fraud control, financial reporting and internal control quality.

Ehioghien (2016) in his study about forensic accounting and fraud management evidence in Nigeria, revealed that forensic accounting significantly influences fraud detection and control and that there is a significant difference between the duties of professional forensic accountants and that of traditional external auditors.

Alhassan and Saad (2016), in their study about the concept of forensic accounting and its role in the reduction of administrative and financial corruption in the region of Asir, found several results. There was a confirmation by 96% of the study sample of a link between forensic accounting and the rest of the branches of accounting. Eighty-two percent contended that there is a difference between forensic accountant skills and chartered accountant skills. Ninety-six percent confirmed the role of forensic accounting in the reduction of financial and administrative corruption and that it requires a division of forensic accounting in specialised administrative courts to control public money and anticorruption bodies and investigate money crimes. Eighty-four percent emphasised that there are obstacles facing the application of forensic accounting in the Kingdom of Saudi Arabia.

III. Data and methodology :

The choice of design in any research depends on the purpose of the problem and variable alternatives for the problem of that nature. The survey research design is used in this study. The population of the study is comprised of four diverse groups: auditors (internal and external), those involved in financial statement compilation, users and academics. The survey design was used in the study with a sample size of 120 consisting of accountants, management staff, practicing auditors in telecommunications, electricity and cement companies and academics in the Accounting and Law Department of the Faculty of Administrative and Financial Sciences at King Khalid University. Simple random sampling was done. Primary data was used in the study. The data were generated using a well-structured likert questionnaire. A five-point scale – Strongly Agree - 5, Agree - 4, Undecided - 3, Disagree - 2 and Strongly Disagree – 1 – is logically employed to quantitatively reflect this order of ranking and to ensure validity of the questionnaire.

IV. Results and Discussion :

Presentation of Results and Discussion of Findings:

H₀₁: Forensic accounting does not significantly influence fraud control and Management.

Decision rule: If the significance level of the F-value is greater than 5%, accept the null hypothesis; otherwise, reject it and accept the alternative. The R-square of 38.4% shows that the independent variables can explain the dependent variable. The regression result shows forensic accounting is an effective tool in uncovering diverted fraudulent practices and identifying misappropriated assets and reversible insider transactions; this is shown in the F-value of 0.000 for variable (X2), 0.000 for the variable (X4) and 0.039 for the variable (X3). We therefore reject the null hypothesis and accept the alternative, which states that forensic accounting significantly influences fraud control and management. However, the B-value shows that forensic accounting has a positive influence in the identification of reversible insider transactions as evidenced by B-values of 1.908, 0.841 and 0.751. (see Appendices)

H₀₂: There is no significant difference between the duties of professional forensic accountants and those of traditional external auditors.

Decision: Accept the null hypothesis if the significance level of the T-value is greater than 5%. The result shows that there is a significant difference in forensic accountants' duties and those of auditors, as shown by the significance level of T-values, which is 0.000 at <0.05. We therefore reject the null hypothesis and accept the alternative, which states that there is a significant difference between the duties of professional forensic accountants and those of traditional ones. (see Appendices)

V. Conclusion:

The general objective of this study is to assess whether forensic accounting and fraud management help in the effective reduction and control of fraudulent practices in Saudi Arabia. The regression result shows forensic accounting is an effective tool in uncovering diverted fraudulent practices and identifying misappropriated assets and reversible insider transactions; this is shown in the F-value of 0.000 for variable (X2), 0.000 for the variable (X4) and 0.039 for the variable (X3). We therefore reject the null hypothesis and accept the alternative, which states that forensic accounting significantly influences fraud control and management. However, the B-value shows that forensic accounting has a positive influence in the identification of reversible insider transactions as evidenced by B-values of 1.908, 0.841 and 0.751. The result shows that there is a significant difference in forensic accountants' duties and those of auditors, as shown by the significance level of T-values, which is 0.000 at <0.05. We therefore reject the null hypothesis and accept the alternative, which states that there is a significant difference between the duties of professional forensic accountants and those of traditional ones. This study provides some useful insights for the relevant parties – regulators, researchers and academics – regarding the current development of forensic accounting in Saudi Arabia. Given the importance for forensic accounting expertise, the weaknesses and barriers to the development of forensic accounting must be tackled by the Government. Further, there is also a need for the local universities to introduce forensic accounting programmes at the postgraduate level, since, at present, only some studies and some courses in Saudi universities.

-Appendices :**Model Summary: Multiple Regression**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.620 ^a	0.384	0.357	2.700

Outputs of SPSS 23

Model Sig. Test: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	518.507	5	103.701	14.220	0.000
	Residual	831.360	114	7.293		
	Total	1349.867	119			

Coefficients

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
3	(Constant)	14.669	1.816		8.080	0.000
	X2	1.908	0.433	0.373	4.408	0.000
	X4	0.841	0.233	0.274	3.606	0.000
	X3	0.751	0.359	0.175	2.090	0.039

a. Dependent Variable: Forensic accounting is effective as a fraud detection tool

- X2: Forensic accounting can identify misappropriated assets and identify reversible insider transactions.
- X4: Forensic accounting is solely enough as a tool to prevent suspicious or fraudulent transactions.
- X3: Forensic accounting is effective as a fraud detection tool.

One-Sample Test

Test Value = 3

Variable	N	Mean	Std. Deviation	t	Sig. (2-tailed)
X6	120	4.27	0.66	21.10	0.000
X7	120	4.22	0.66	20.09	0.000
X8	120	4.18	0.87	14.91	0.000
X9	120	4.38	0.68	22.42	0.000
X10	120	4.43	0.63	24.86	0.000
X11	120	4.04	0.78	14.59	0.000
X12	120	3.51	1.04	5.37	0.000

- X6: Forensic accounting is effective in designing an internal control system.
- X7: Forensic accounting is effective in assessing, monitoring and evaluating internal control systems.
- X8: Forensic accounting enhances the quality of financial reporting.
- X9: Forensic accounting improves stakeholder trust and confidence in corporate financial statements.
- X10: Accountants/auditors with forensic accounting skills will deliver more quality financial reporting.
- X11: Forensic investigations deal directly with fraud investigation, and this reduces financial reporting 'expectations gap'.
- X12: Traditional external auditors are not influenced by management.

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