

A Study on Practices of Forensic Auditing In Software Companys

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Abstract: The effect of forensic auditing on financial fraud itself comprises a large variety of activities and includes political corruption, bribery, employee fraud and business, consumer theft, network hacking, banking statements and divorce issues, and corporate identity theft. This paper discusses to establish the impact of forensic accounting services on fraud prevention and detection among banks, to develop process and procedures utilized to detect fraud, and to give appropriate suggestions for best practices of forensic auditing system.

Keywords: Forensic Audit, Financial Fraud, Misstatements, fraud prevention & detection.

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I. Introduction

The term fraud means as it is a crime in which someone tricks somebody else to get unfair or unlawful gain. There is a number of ways to commit fraud, as criminals use their imagination in finding new ways to gain. Association of certified fraud examiners "Report to the Nation on Occupational Fraud and Abuse," The Association of Certified Fraud Examiners, 2010¹. Mainly the frauds are almost about money, either directly or indirectly. In England parliament act the fraud should be defined three kinds.

- Fraud by misrepresentation,
- Disclosure of information is failed,
- Fraud by abuse of position.

TYPES OF FRAUDS

1. Financial statement fraud: Ratio analysis and other methods of finding financial statement manipulation. Financial Statement Audit (AICPA 2002), requires auditors to assess the risk that fraud may materially financial statements. Despite SAS 99 being an important requirement towards increased fraud detection, a survey by Marczewski and Akers (2005) revealed that CPAs don't anticipate that SAS 99 will substantially increase audit effectiveness. Another study found that while SAS 99 increased auditor responsibility, most auditors had difficulty identifying fraud and its risks (Beasley and Jenkins 2003).

2. Check fraud: It means the fraud occurs when a person pays a something with a check knowing that there is not enough money in the account to cover the cost. It is the use of a cheque to get financial advantage by:

- Altering the cheque (payee/amount) without authority
- Theft of legitimate cheques and then altering them
- Duplication or counterfeiting of cheques
- Using false invoices to get legitimate cheques
- Depositing a cheque into a third party account without authority
- Depositing a cheque for payment knowing that insufficient funds are in the account to cover the deposited cheque.

II. Review Of Literature

CONAN.C.ALBRECHT (2008) highlighted in his article, "fraud and forensic auditing in a digital environment". The main objective of this is digital environment is placing a major role in marketing. The criminal which is directly or indirectly related to the cyber world. Presenting evidences in a manner that leads to legal action of the criminal. In this article, I found that investigators mainly focus on searching for an internet history files and entering into a new software and hardware, to find out the digital evidences. Programming or computer related experiences. Mainly focus on computer fundamentals. Finally, it is concluded, Computer aided fraud detection is a new, exciting field for accounting researchers. Topics like data mining techniques, ratio analysis for the detection of financial statement fraud, issues surrounding external information sources, information systems, legal, computer science, mathematics, and other researchers.

Cletus O. Akenbor (2008) entitled his article "Forensic auditing techniques and fraudulent practices of public institutions in Nigeria". The main objective of this article is to investigate and report on: (1) the nature and extent of the specific instance of economic and financial crimes; (2) the suspects involved; (3) deficiencies in the measures that should have prevented or detected the crimes; (4) recommending punitive steps and further actions in respect of: (a) criminal prosecution; (b) criminal recovery; and/or (c) disciplinary action; and (5) progress made by other institutions in investigating

¹ (Association of certified fraud examiners) "Report to the Nation on Occupational Fraud and Abuse," The Association of Certified Fraud Examiners, 2010

relevant cases. In this article, I founded in then the reported on through the normal audit processor, when applicable, are handed over to institutions with investigating and prosecuting powers, such as the Economic and Financial Crime Commission (EFCC) and Independent Corrupt Practices Commission (ICPC). In this study, the survey method of research design was adopted in generating the necessary data. In order to gather the data for the study, a structured questionnaire was administered on the internal auditors and chief accountants of the selected public institutions. Finally, it may be concluded this has led to the emergence of forensic auditing as an instrument to manage fraudulent practices. However, the restriction of this study to the Rivers State only, out of the 36 states of the Federation of Nigeria, may question the generalizability of our research findings. This has led to the emergence of forensic auditing as an instrument to manage fraudulent practices.

GILLIANLEES (2011) represents his article “fraud risk management”. The main objectives of this article are the COSO (committee of sponsoring organization) framework defines internal control as a ‘process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives’ in three categories: 1.Effectiveness and efficiency of operations. 2. Reliability of financial reporting.3.Compliance with applicable laws and regulations. In this article the main findings are Organizations may be losing as much of 5% of their annual revenues as a result of fraud. Small organizations are disproportionately affected by fraud, Anti-fraud controls help to reduce the cost and duration of frauds, and a high percentage of frauds are committed by senior management and executives. Fraudsters often work in the finance function; Fraud losses are not restricted to a particular sector. The prevalence of fraud is increasing in emerging markets. The threat of fraud is evolving and organizations which actively manage fraud risk stand to benefit. More competition & business environment (e.g. technology).Finally, it is concluded the information and any opinions expressed in this material do not represent official pronouncements of or on behalf of AICPA, CIMA, the CGMA designation or the Association of International Certified Professional Accountants. This material is offered with the understanding that it does not constitute legal, accounting, or other professional services or advice.

Madan Lal Bhasin (2013) entitled his article “corporate accounting fraud of Satyam computers limited”. The main objective is based on two main categories. 1) Highlight the Satyam Computers Limited’s accounting scandal and 2) what lesions can be learned from Satyam scam? It is founded in this article; financial reporting practices can be developed by reference to a particular setting in which it is embedded. Pressure to meet expectation (growing competition), over confidence, Cash & bank balances were not verified, Stock prices are fall down in stock market, Auditors use satyam’s investigative tools, serious findings of the auditing team were ignored by the audit team leader. Finally, it is concluded that forensic accounting covers a wide range of operations which fraud examination is a small part where it is more prevalent.

Adeniyi A. Alao (2016) represents his article, “forensic auditing & financial fraud in Nigerian deposit money banks”. The main objective of this article is Nigerian bank focuses on deposits. To ascertain the effect of forensic audit on financial fraud in Nigerian DNB’S. To find out whether forensic audit report can enhance court adjudication on financial fraud in Nigeria. In this article I found that supervisory & regulatory framework of banks is effective in the Nigerian banking system. Disclosure of banks annual financial statements to depositors & general public will help in enhancing public confidence. Finally, it may be concluded that independent variables have significant effect on the dependent variables depending on the kind and nature of relationship between them.

Research Problem:

The research has been done on computer science and mathematical fields are using individually. So using these two techniques combine in forensic accounting field.

Research Gap:

Till date the researcher can’t find out research on auditing along with the usage of technology. In this study with the help of technology with the auditing as a auditor to control accounting frauds.

III. Methodology

In this study, the survey method of research design was adopted in generating the necessary data. Population of the study consisted of 5 public institutions in the areas of Vijayawada, Mangalagiri, and Hyderabad. In order to gather the data for the study, a structured questionnaire was administered on the internal auditors and chief accountants of the selected public institutions. The data generated for the study were analyzed with frequencies and percentages, while the stated hypotheses were statistically tested with the Pearson Product Moment Correlation Coefficient, Bar graphs and Non parametric tests of chi square which was computed with the aid of the Statistical Packages for Social Sciences (SPSS) Version 21.

Objectives Of The Study:

- To establish the impact of forensic accounting services on fraud prevention and detection among banks.
- To develop process and procedures utilized to detect fraud.
- To give appropriate suggestions for best practices of forensic auditing system.

Hypothesis of the study:

H1: Hypothesis: There is a relationship between the factors of corporate theft and scandals in the bank.

H0: Hypothesis: There is no relationship between the factors of corporate theft and scandals in the bank.

Statistical Tools:

- Frequency tables
- Bar graphs
- Cross tabs

- Correlations

FREQUENCY TABLES:

Please complete the following confidential questions. Choose Yes or No answers.

No	Questions	Frequency	Percentage
1.	Can forensic auditing give sufficient evidence during litigation?		
	Yes	140	100
	No		
	Total	140	100
2.	Can forensic audit aid auditors in qualifying losses from theft of cash or goods?		
	Yes	139	99.3
	No	1	0.7
	Total	140	100
3.	Can application of forensic audit detect frauds perpetrated through thumb prints and signatures?		
	Yes	4	2.9
	No	136	97.1
	Total	140	100
4.	If any bank actively apply forensic accounting services?		
	Yes	139	99.3
	No	1	0.7
	Total	140	100
5.	Do you any documentation that supports the fraud allegations?		
	Yes		
	No	140	100
	Total	140	100
6.	Did you report the fraud to the company?		
	Yes	139	99.3
	No	1	0.7
	Total	140	100
7.	How you discussed this with a fellow employee or an attorney?		
	Yes	1	0.7
	No	139	99.3
	Total	140	100
8.	Have the allegations of fraud been made public? For instance in a news article, court cases, or government hearing audit?		
	Yes		
	No	140	100
	Total	140	100
9.	Did you once work for the company committing the fraud?		
	Yes		
	No	140	100
	Total	140	100
10.	Investigators using different types of fraud investigations?		
	Yes	140	100
	No		
	Total	140	100
11.	Risk based processes [3rd party determines the outcome of a dispute based on laws]		
	1-Very low extent		
	2-Low extents	23	16.4
	3-Moderate extents	103	73.6
	4- High extents	14	10.0
	5-Very high extents		
	Total	140	100
12.	Financial accounting misstatements		
	1-Very low extent		
	2-Low extents	13	9.3
	3-Moderate extents	108	77.1
	4- High extents	19	13.6
	5-Very high extents.		
	Total	140	100
13.	Theft of cash, physical assets or confidential information		
	1-Very low extent	11	7.9
	2-Low extents	2	1.4
	3-Moderate extents	94	67.1
	4- High extents	33	23.6
	5-Very high extents.		
	Total	140	100
14.	Corporate identity theft		
	1-Very low extent	1	0.7
	2-Low extents	2	1.4
	3-Moderate extents	11	7.9
	4- High extents	95	67.9
	5-Very high extents.	31	22.1
	Total	140	100
15.	Controlling financial statement frauds?		
	1. strongly agree	21	15
	2. Agree	112	80
	3. Average	4	2.9

	4. Disagree	3	2.1
	5. Strongly disagree.		
	Total	140	100
16.	Prevention of scandals in the bank?		
	1. strongly agree	6	4.3
	2. Agree	5	3.6
	3. Average	119	85
	4. Disagree	8	5.7
	5. Strongly disagree.	2	1.4
	Total	140	100
17.	Investigation of employee theft?		
	1. strongly agree	25	17.9
	2. Agree	111	79.3
	3. Average	4	2.9
	4. Disagree		
	5. Strongly disagree.		
	Total	140	100
18.	Monitoring and evaluation of internal control system?		
	1. strongly agree	121	86.4
	2. Agree	15	10.7
	3. Average	2	1.4
	4. Disagree	2	1.4
	5. Strongly disagree.		
	Total	140	100
19.	Fraud risk assessment?		
	1. strongly agree	127	90.7
	2. Agree	13	9.3
	3. Disagree		
	4. Strongly disagree		
	5. can't tell		
	Total	140	100
20.	Examination of financial and source documents?		
	1. strongly agree	90	64.3
	2. Agree	48	34.3
	3. Disagree	1	0.7
	4. Strongly disagree		
	5. can't tell	1	0.7
	Total	140	100
21.	Looking into alleged fraud or illegal activity?		
	1. strongly agree	63	45
	2. Agree	75	53.6
	3. Disagree	2	1.4
	4. Strongly disagree		
	5. can't tell		
	Total	140	100
22.	Accounting and financial analysis for damages?		
	1. strongly agree	52	37.1
	2. Agree	82	58.6
	3. Disagree	2	1.4
	4. Strongly disagree	1	0.7
	5. can't tell	3	2.7
	Total	140	100
23.	Performing electronic evidence discovery?		
	1. strongly agree	1	0.7
	2. Agree		
	3. Disagree		
	4. Strongly disagree		
	5. can't tell	139	99.3
	Total	140	100
24.	Ownership		
	Private company	50	35.7
	Public company	14	10.0
	Jointly private and government		
	Others specify	76	54.3
	Total	140	100
25.	How are such services communicated across different departments in your organization?		
	Circulars	2	1.4
	word of mouth	1	0.7
	other's specify	137	97.9
	Total	140	100
26.	Select your relationship to the company at which the fraud occurred?		
	Current employee	44	31.4
	past employee	1	0.7
	consultant or other third party		
	other's	95	67.9
	Total	140	100

Interpretation: From the above table represents the information on the forensic auditing give sufficient evidence during the litigation. Out of 140 respondents (100%) are accepted for the above statement. From the survey 139 (99.3%) respondents

are said positively and one respondent expressed i.e., 0.7% negatively for forensic audit aid auditors in qualifying losses from theft of cash or goods. Regarding forensic audit detect frauds perpetrated through thumb prints and signatures for that 4 (2.9%) respondents are expressed their acceptance and 136 respondents (97.1%) are said negatively. Out of the survey 139 (99.3%) respondents are said any bank actively applying forensic auditing services whereas 1 respondent expressed as no bank actively applying forensic accounting services. Total respondents i.e.,100% expressed as any document that support the fraud allegations. During the survey 139 respondents are expressed as the company did not submit the fraud reports and discussed with fellow employees or attorney. Regarding to analyse the information on the instance in a news article, court cases, or government hearing audit and they never work for the company committing the fraud 100% respondents are expressed negatively.

In Survey out of 140 respondents 23 respondents are highlights as (16.4 %) low extent, 73.6 moderate extent 103 respondents; in high extents 14 respondents are said (10%) for fraud is a risk based process. Regarding financial accounting misstatements are moderately arising 13 respondents are said that (9.3%) low extent, 108 respondents are saying (77.1%) moderate extent, and 19 respondents are expressed in high extents. Theft of cash, physical assets or confidential information are happened in some extents 11 respondents are said (7.9%) very low extent, 2 respondents are expressed as (1.4%) low extent, 94 respondents are told (67.1%) moderate extent, 33 respondents are expressed (23.6%) high extent. Corporate identity theft is arising very high extents, only 1 respondent given (0.7%) very low extent, 2 respondents are said that (1.4%) low extent, 11 respondents are expressed (7.9%) moderate extent, 95 respondents are giving (67.9%) high extent, 31 respondents are saying (22.1%) very high extent.

From the above analysis regarding the auditors will control the financial statement frauds 21 respondents are said that (15%) strongly agree, 112 respondents are expressed (80%) agree, 4 respondents are indicated as (2.9%) average, 3 respondents are (2.1%) disagree. The scandals are arising moderate extents 6 respondents are (4.3%) strongly agree, 5 respondents are (3.6%) agree, 119 respondents are (85%) average, 8 respondents are (5.7%) disagree, 2 respondents are (1.4%) strongly disagree. In investigation process the employee theft is very high; the responses are 25 respondents are (17.9%) strongly agree, 111 respondents are (79.3%) agree, 4 respondents are (2.9%) average. Out of 140 respondents 121 respondents are (86.4%) strongly agree, 15 respondents are (10.7%) agree, 2 respondents are (1.4%) average, 2 respondents (1.4%) disagree for the auditors will evaluate and monitor the internal control operations.

In the survey out of 140 respondents 127 respondents are (90.7%) strongly agree, 13 respondents are (9.3%) agree for the fraud risk assessment was highly happened and the employees also strongly believe. For the auditors will show the financial and source of documents 90 respondents are (64.3%) strongly agree, 48 respondents are (34.3%) agree, 1 respondent is (0.7%) disagree, 1 respondent (0.7%) can't tell. For looking into alleged fraud or illegal activity 63 respondents are (45%) strongly agree, 75 respondents (53.6%) agree, 2 respondents are (1.4%) disagree. For accounting and financial analysis for damages 52 respondents are (37.1%) strongly agree, 82 respondents are (58.6%) agree, 2 respondents are (1.4%) disagree, 1 respondent (0.7%) strongly disagree, 3 respondents are (2.7%) can't tell. Based on the survey only 1 respondent are expressed (0.7%) strongly disagree, 139 respondents are (99.3%) can't tell for performing electronic evidence discovery. Analysis for the ownership comes from public, private & the government 50 respondents are expressed as (35.7%) private company, and 14 respondents are (10%) public company, 76 respondents are (54.3%) others. For services communicated across different departments in your organization 2 respondents are expressed as (1.4%) circulars, and 1 respondent are (0.7%) word of mouth, and 137 respondents are saying (97.9%) others. For select your relationship to the company at which the fraud occurred out of the survey 140 respondents 44 respondents are said that (31.4%) current employee and 1 respondent are (0.7%) past employee, 95 respondents are expressed as (67.9%) others.

Cross tabs:

Corporate identity theft * Prevention of scandals in the bank? Cross tabulation								
Particulars		Prevention of scandals in the bank?					Total	
		strongly agree	Agree	Average	disagree	strongly disagree		
Corporate theft	identity	very low extents	0	1	0	0	0	1
		low extents	2	0	0	0	0	2
		moderate extents	0	0	5	4	2	11
		high extents	3	3	85	4	0	95
		very high extents	1	1	29	0	0	31
Total			6	5	119	8	2	140

From the analysis out of 140 respondents 5 respondents are saying moderate extents, 85 respondents are giving high extents and 29 respondents are expressed very high extents in the performance of in the theft of corporate identity and scandals and frauds in the prevention of banks.

Correlation:

Correlations			
		Corporate identity theft	Controlling financial statement frauds?
Corporate identity theft	Pearson Correlation	1	-.306**
	Sig. (2-tailed)		.000
	N	140	140
Controlling financial statement frauds?	Pearson Correlation	-.306**	1
	Sig. (2-tailed)	.000	
	N	140	140

Correlation is significant at the 0.01 level (2-tailed).

The above table highlights the correlation between corporate theft and controlling financial statement fraud shows a negative correlation (-0.306) between the variables i.e., when controlling financial statement frauds reducing corporate identity theft.

IV. Recommendations

- While significant research has been done on individual forensic techniques in the computer science and mathematics fields, additional research is needed to apply these techniques to the forensic accounting field.
- Most auditors do not have the background needed to understand how to apply rigorous forensic algorithms.
- The increasing rate of fraudulent practices and other irregularities in government accounts and financial statements portends significant harm to the organizations involved and the general public at large. This has led to the emergence of forensic auditing as an instrument to manage fraudulent practices.
- If a witness is prepared to give a written statement, the Head of HR or chief internal auditor will take a chronological record, using the witness's own words. The witness will be asked to sign the document as a true record.
- In correlation to co- relate the variables. In this question explains the corporate theft is very high in organizations and banks, so the auditors can control the prevention of frauds. The correlation between corporate theft and controlling financial statement fraud shows a negative correlation (-0.306) between the variables.

V. Conclusion

Fraud and forensic auditing will continue to impact businesses in the future. Companies will need to ensure that their fraud practices are keeping up with emerging technologies. Just as technology has advanced in the past thirty years, so have incidences of fraud. Thus, as we have seen the complexity of fraud and forensic audit techniques have greatly improved. Computer forensics has expanded the capabilities of these techniques and will continue to grow in importance because of the continuing growth in technology. Fraud and forensic auditors are becoming more educated and trained in fraud and forensic auditing which will increase the amount of fraud uncovered. Overall, fraud and forensic auditing is vital to properly utilizing evidence in a court of law. It is also concluded based on the study's analysis that forensic auditing has significant effect on financial fraud control. The increasing rate of fraudulent practices and other irregularities in government accounts and financial statements portends significant harm to the organizations involved and the general public at large. This has led to the emergence of forensic auditing as an instrument to manage fraudulent practices. Hence, the forensic auditing practices in Public institutions increase, fraudulent practices will reduce.

References

- [1]. (Nigrini, 2000). Although Benford's Law is now a century old and was discussed in fraud literature (Hill, 1995; Busta and Weinberg, 1998; Nigrini, 1999) prior to the book, Nigrini's work introduced the technique to the large audience of auditors.
- [2]. [AICPA, "SAP-99: Consideration of Fraud in a Financial Statement Audit. Auditing Standard Board," 2002].
- [3]. ADENIYI A. ALAO represents his article "forensic auditing & financial fraud in Nigerian deposit money banks".
- [4]. [Sharma, S. and Brahma, "A Role of Insider in Banking Fraud," 2000.]
- [5]. [ACFE. (Association of certified fraud examiners) "Report to the Nation on Occupational Fraud and Abuse," The Association of Certified Fraud Examiners, 2010.]
- [6]. Participation in relevant national and international initiatives (Uzoka, 1990).
- [7]. On the part of management, Mohd and Mazni (2008) identified the indicators of fraudulent practices.
- [8]. Benford's Law predicts that amounts will start with the digit 1 more often than the digit 9, and it even provides a mathematical formula describing the law and percentages.
- [9]. A widely used framework is COSO's Internal Control – Integrated Framework which provides principles-based guidance for developing and implementing effective internal controls.
- [10]. The PwC 2011 Global Economic Crime Survey, 5 covering 3,877 respondents from 78 countries established that the most prevalent fraud detection methods.
- [11]. Common external schemes involve revenue and inventory overstatements, liability understatements, inadequate disclosure fraud, and other manipulations to the financial statements and company records (Wells, 2002).
- [12]. In 2002, Gene Morse found around \$500 million debit to a PP&E account at WorldCom.
- [13]. Using a small script and Microsoft Access, Morse followed the account through the financial reporting system and ultimately discovered a \$1.7 billion entry of capitalized line costs in 2001 (Lamoreaux, 2007).
- [14]. Traditional auditing uses techniques like discovery, stratified, or random sampling to determine whether a population contains errors (Albrecht and Albrecht, 2002).
- [15]. To accommodate this limitation, the fraud hypothesis testing approach has been proposed (Albrecht, et. al., 2000).
- [16]. The hypothesis testing approach has been used successfully in several case studies, including liquor sales (Loftus and Vermeer, 2003), university environments (Daily Tar Heel, 2007), and health care in India (Albrecht, 2008).
- [17]. Financial Statement Audit (AICPA 2002) requires auditors to assess the risk that fraud may materially misstate financial statements.
- [18]. A survey by Marczewski and Akers (2005) revealed that CPAs don't anticipate that SAS 99 will substantially increase audit effectiveness.
- [19]. Another study found that while SAS 99 increased auditor responsibility, most auditors had difficulty identifying fraud and its risks (Beasley and Jenkins 2003).
- [20]. Sarbanes Oxley requires that auditors pay close attention to top level management.
- [21]. Almost every financial fraud incorporates the use of a computer, whether the fraud is falsifying invoices or electronic money laundering (Smith, 2005).
- [22]. Computer forensics is the process of imaging data for safekeeping and then searching cloned copies for evidence (Gavish, 2007; Dixon, 2005).
- [23]. David (2005), states that fraud is not a possibility but a probability.
- [24]. Russel (1978 cited in Bello, 2001) remarks that the term fraud is generic and is used in various ways.
- [25]. Okafor (2004) also reported that fraud is a generic term and embraces all the multifarious means which human ingenuity can devise, which are resorted to by one individual to get advantage over another in false representation.
- [26]. Anyanwu (1993), fraud is an act or course of deception, deliberately practiced to gain unlawful or unfair advantage; such deception directed to the detriment of another.
- [27]. Outside the organizations may for various reasons have engaged in fraudulent financial activities (Akenbor and Oghoghomeh, 2013).
- [28]. Accounting policies governing the economic activities and administration of the organization (Yio and Cheng, 2004).
- [29]. Cletus O. Akenbor, Dr., CNA, CPA, ACMA, AMNIM, Department of Accounting and Finance, Federal University. Uwaoma Ironkwe, Dr., FCNA, Department of Accounting, University of Port-Harcourt.
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