

## CHAPTER 6

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### *Developing Expertise in Forensic Accounting*

#### Forensic Accounting Courses in Malaysia

# Forensic Accounting Courses in Malaysia

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The scandals that recently rocked the corporate world, namely the often cited Enron and WorldCom cases, have brought the field of forensic accounting to the forefront not only in the newspapers but also in the regulatory and investigative agencies. Although such investigations (for example involving the field of audit investigations) are not new, the “new” field of forensic accounting is seen encapsulating all the other areas in the use of accounting for investigative purposes.

The increasing sophistication of certain crimes requires that forensic accounting be added to the tools necessary to bring about the successful investigation and prosecution of those individuals involved in criminal activities such as bribery, money laundering, non-compliance with existing laws and regulations and other crimes that “leave a paper trail.” Knowledge of forensic accounting by investigators will be a powerful addition to the arsenal of investigating officers and will enhance their ability to combat those crimes.

## What is “forensic accounting”?

According to the Webster’s Dictionary, the word “forensic” is defined as “pertaining to, connected with, or used in the courts of law or public discussion and debate.” Thus, it is emphasized that forensic accounting is closely connected to the legal process and has the potential to be involved in proceedings in the civil and criminal courts. In the case of the criminal courts, forensic accounting

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is valuable in the fight against white-collar crimes such as fraud, corruption and other illegal activities.

According to W. T. Thornhill, a prominent writer on forensic accounting, “(T)he discipline is so relatively new that, up to now, there has been no formal definition accepted as the standard.”<sup>37</sup> The best definition is probably 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, and 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.*<sup>38</sup>

Although the main thrust of forensic accounting is involved with the financial aspects of an investigation, it encompasses all the necessary investigative expertise and experience such as interrogative skills, knowledge of law and rules of evidence, investigative proficiency, and interpersonal skills. Thus, for the purpose of this paper, forensic accounting can be deemed as a discipline that combines expertise in accounting with other investigative skills that are used to examine instances of criminal wrongdoing; the findings from the investigation will form the basis for the prosecution of the suspects in a court of law.

## Developing forensic accounting expertise

It is not an overstatement that forensic accounting is one of the most, if not the most, important tools in the fight against corruption and other criminal wrongdoing, both in the private and public sectors. It must be borne in mind that criminals are increasingly taking advantage of new technologies such as computers, e-banking, etc., to hide their crimes. Forensic accounting, together with expertise in other investigative tools and certain other areas, will then be an important tool to detect these activities.

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<sup>37</sup> Thornhill, W. T. (1995) *Forensic Accounting: How to Investigate Financial Fraud*. New York: Irwin Professional Publishing.

<sup>38</sup> Bologna, G. Jack; Lindquist, Robert J. (1987) *Fraud Auditing and Forensic Accounting: New Tools and Techniques*. Hoboken, New Jersey: Wiley Publishers.

As stated at the outset, forensic accounting should be seen as a multi-skill or multi-disciplinary area. Expertise in accounting alone will not suffice without the complementary expertise in other investigative skills. Similarly, expertise in other investigative skills without knowledge of accounting will not assist the investigating officers in uncovering the illegal activities. Thus developing expertise in forensic accounting and training investigating and enforcement officers in the relevant agencies and departments calls for an integrated approach. Forensic accounting, although new, should not be considered an option but an important and integral part of the training of both future and experienced officers.

According to Thornhill<sup>39</sup>, the forensic accountant should be equipped with the following skills and knowledge:

- Knowledge of the relevant laws,
- Rules of evidence,
- Investigative competency,
- Knowledge of fraud,
- Interviewing and interrogation skills,
- An understanding of the psychological theories relating to criminal behavior,
- Literacy in the use of computers and information technology, and
- Communication and interpersonal skills.

Although the skills and knowledge cover a wide range, cases involving the use of forensic accounting would be best served if the investigations were to be handled by a team of officers. Individually, of course, knowledge of forensic accounting would definitely be essential in the initial phases of such investigations.

Thus, developing expertise in forensic accounting for investigating officers presupposes that the officers are trained in other investigative procedures; the training in forensic accounting involves developing a strong basic knowledge in the fundamentals of accounting and specialized training in the use of accounting knowledge and tools in the investigations.

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<sup>39</sup> Thornhill, *op.cit.*

## **The Anti-Corruption Agency of Malaysia and the MARA University of Technology model for developing expertise in forensic accounting**

The Anti-Corruption Agency of Malaysia (ACA) in its continuing efforts to upgrade and enhance the capabilities of its investigating officers, embarked on a pioneering effort in developing expertise in forensic accounting. In collaboration with MARA University of Technology, it planned, developed and implemented a three-month course in forensic accounting. This joint project constitutes an excellent example of the efforts to promote expertise in forensic accounting:

Two teams, comprising experienced investigating officers from the ACA and senior academics from the University, were formed in early 2002 to develop a training program. After preparation of a detailed schedule and background learning material, the 12-week training program was launched on 1 July 2002. The training was conducted as a full-time residential course, a fact that clearly testifies to the ACA's strong commitment to developing expertise in forensic accounting. Both institutions also invested important resources and senior and highly experienced staff to the development of this program.

### **An overview of the forensic accounting course**

A fundamental in the planning stages of this course was that, given the varying backgrounds of the participants, the purpose of the course was not to train the participants to be accountants but to develop their knowledge of accounting and accounting techniques without having to go through a formal accounting course. The main focus of the course is to enable the participants to read and understand financial statements and use the tools and techniques of forensic accounting. In order to develop this capability, the participants are exposed to the procedures and methods of preparing the financial statements and the accounting concepts and principles used in this process. The course also looks at accounting and financial information as a tool in the decision-making, planning and control process.

The understanding, analysis, interpretation and evaluation of financial statements are key features in preparing the participants for the more advanced topics of forensic accounting. The participants become familiar with corporate annual reports and similar documents, such as the accounts prepared for management. The course focuses on both the contents of company annual reports, as represented by the balance sheet, profit and loss account, cash flow statement; and on changes in equity statements.

In addition, other sections of the annual statements are discussed, such as directors' reports, corporate governance statements and notes to the accounts. This discussion exposes the participants to important accounting terms and concepts: asset, liability, equity, accounting equation, revenues and expenditures. Accounting principles such as entity, cost, materiality, periodicity, prudence and others are introduced.

Although the annual reports published by the companies are the main source of information, the participants explore other information sources, such as the Internet, company websites and specialized handbooks.

To ensure proper corporate governance and reporting, participants are also introduced to International Accounting Standards (Malaysian Accounting Standards Board), the Companies Act, and rules governing companies listed on the Kuala Lumpur Stock Exchange and the Securities Commission.

In addition to developing a strong foundation in the accounting fundamentals and understanding financial statements, the participants will become involved in specialized areas of forensic accounting such as fraud and fraud investigations. Included in the areas are tools and techniques for detecting fraudulent practices, methods of proving illicit or illegal income, money laundering methods, using financial statement analysis as a tool for uncovering fraudulent financial statements, examination of financial records to uncover "on-book" and "off-book" fraud, indicators of situations that indicate fraud (red flag situations) and other specialized areas of forensic investigative accounting.

## **Components of the forensic accounting course**

The course is divided into three components, each targeting a particular objective:

### **Part 1: Financial Statement Preparation and Analysis**

- Facilitate participants' understanding of accounting numbers in the financial statements;
- Provide an understanding of current accounting and finance concepts and fundamentals;
- Improve participants' skills in using accounting and financial data for routine organizational control activities; and
- Increase participants' ability to use accounting and financial information for planning, control and decision-making purposes.

## Part 2: Accounting Standards, Companies Act and Other Guidelines

- Increase participants' awareness and understanding of Accounting Standards;
- Increase participants' awareness and understanding of the legal requirements of the Companies Act; and
- Increase participants' awareness and understanding of other available rulings/guidelines and their Compliance.

## Part 3: Forensic Accounting & Financial Fraud

- Understand forensic accounting and how it can be used to identify potential financial fraud;
- Identify phases in forensic accounting investigation;
- Identify "on-book" accounting and financial fraud; and
- Identify "off-book" accounting and financial fraud.

So that the participants benefit fully from this course, it combines formal instruction, presentations and case studies. Prominent speakers from the professional accounting bodies, regulatory agencies and the public sector are invited to speak on several important current issues. Participants are required to work in teams to prepare and present a comprehensive case at the end of each of the training program components.

The course further includes visits to relevant agencies such as the Kuala Lumpur Stock Exchange and the Securities Commission. A one-day session is conducted in an Internet-linked computer lab to enable the participants to use Internet search tools and also to illustrate the use of a spreadsheet program used to carry out a company analysis. Throughout the training program, the participants' performance is assessed and feedback obtained in order to improve the program and maximize the benefits to the participants.

## **Implementation of the training program in forensic accounting: lessons learned from two cohorts**

Participants chosen for this program are not expected to have any formal accounting knowledge or experience, as it will be provided as part of the initial phase of the program. Many of the participants who did not have any background in accounting were initially worried (understandably) about their ability to follow this program; however, their "fear" diminished in the course

of the program. As this program was designed for adult learners and the approach was different from that of formal accounting studies, the participants were able to commit fully to the program.

The first cohort was chosen from very experienced investigating officers based in different states in Malaysia (including Sabah and Sarawak). These experienced officers provided new insights, and their discussions and opinions during the course contributed a lot to the effectiveness of the learning process. Many of the participants shared their particular experiences in the field with their colleagues.

The majority of participants, even those without a background in accounting, kept up with this intensive program in spite of initial skepticism and fear. Their commitment and hard work was proven by the fact that the participants completed all the assignments on time, were prepared for the case study sessions and managed to do well in the written assessments. The facilitators from the University were impressed by the dedication and effort put in by the officers from the first cohort.

After the first program had been accomplished successfully, a review of the program was conducted with the teams from ACA and the MARA University of Technology. Results from this assessment led to strengthening the curriculum in accounting by including a separate one-week program devoted to accounting fundamentals such as principles of accounting, the accounting process and preparation of financial statements. With this phase removed from the “proper” forensic accounting course, more time could be devoted to dealing with specific topics in forensic accounting. The modified program was first used for the training of the second cohort, which began in February 2003.

Thus, within a period of one-and-a-half years, the ACA had managed to provide about sixty officers (the number will increase in the future) serving in all the states of Malaysia with expertise in forensic accounting. In the closing address to the participants of the first cohort, the Director-General of the ACA of Malaysia, the Honorable Dato’ Zulkipli bin Mat Noor, stated that these officers will form the core of expertise in forensic accounting techniques to investigate wrongdoing in both the public and private sectors. A special unit with expertise in forensic accounting will be established at the ACA’s offices in the various states. As more officers are trained, the multiplier effects cannot be understated in the continuous fight against corruption in Malaysia.

The author is confident that the efforts made by the ACA to develop expertise in forensic accounting by conducting these training programs will result in enhancing and adding to the investigating officers’ skills in investigating and prosecuting not only the crime of bribery but also other corrupt practices



and related crimes. The ultimate aim is, of course, to eliminate corruption, which in turn will have a direct impact on the citizens of Malaysia and the country as a whole.

## **Summary and conclusions**

Recent scandals in the corporate world have brought forensic accounting to prominence. The use of forensic accounting techniques, together with knowledge and skills in other investigative methods, will enhance the investigation and enforcement officers' ability to investigate and prosecute those involved in fraud, bribery and other corrupt practices and criminal acts. Thus, the development of this expertise is an urgent initiative for those departments involved in detecting, investigating and prosecuting such crimes. Given the increasing sophistication of such illegal activities, failure to develop respective expertise would endanger such agencies' effectiveness. Developing such expertise requires the commitment of resources from these agencies.

The efforts of the Anti-Corruption Agency of Malaysia in developing expertise through a well-planned course in forensic accounting are an admirable effort that has resulted in the establishment of a core of expert officers. This expertise in forensic accounting will doubtless help empower these officers to successfully investigate and prosecute those involved in corrupt activities.