

Impact of Forensic Accounting in Jazan Industrial Zone

Ali Almedabesh¹, Ziaul Islam^{2*}, Anis El. Borgi³, Ahsan Khan⁴

^{1,2,3,4}College of Business Administration, Jazan University, Kingdom of Saudia Arabia

Abstract: This paper presents an overview of impact of forensic accounting in Jazan industrial zone.

Keywords: Forensic Accounting, Sarbanes-Oxley, Earning Before Depreciation and Tax.

1. Introduction

The dramatic increase in financial fraud and White-Collar Crime, over the past few decades has led to rise in the usage of forensic accounting. Although, there are many objectives, out of which survival is the most important factor. Since, the consequences of failure are always experienced by the Shareholders, Employees, Suppliers. Financial Institutions, Customers as well as Society as a whole. Business failure is a fact of commercial life in all economies. However, there is evidences that Forensic Accounting, is becoming increasingly "common" in many organizations (Aderibigbe, P., 2000; Satyanarayan, T., 2005; Oduala, J., 2005;). Reviewing the study and effects of forensic Accounting in Jazan Industrial zone - which is anticipated to generate over SAR100 billion in revenue and Create 100,000 new jobs of whom 12000 are for the Industrial zone, is the aim of this paper. And in today's competitive environment, doing well is not guarantee for succeeding all the time and complacency is the greatest enemy of corporate progress. Furthermore, dramatic increase in Fraud/challenges over the last decade has directed the attention of management to see the basic causes of business failures. The fundamental reasons for company failures and the criteria for identifying industrial disease are covered in this study, which is grounded in both theoretical analysis and reference-based, research and will aid in resolving the issue of corporate sectors.

2. Framework

At the current stage of research, the framework was divided into two part, first was empirical research and secondly the need to understand the meaning and concepts of forensic accounting, causes of business failures and parameters for the detection of industrial sickness is discussed. To keep the task meaningful and to ensure the quality of the research work, studies published in refereed national/international journals, books, conference, working papers, annual reports, etc. were considered.

3. Review of Literature

It's a misdeeds of Corporation that leads to implementation of Accounting Scandals, this misdeed generally involve the misuse of funds in a direct or indirect form. WorldCom reduces the amount of money in its reserve (to cover its liabilities) by \$2.8 billion and move this money into revenue, in its financial accounts to generate revenue. In the year 2001 WorldCom's lost \$1.38billions in profit. In 2001, Enron Scandals exposed causing its stock to drop from \$100 share to < \$1 a share (2001-2006 Wikipedia contributors). Michelle in 2008 pays \$200,858 to the Internal Revenue Service and \$825,400 as fine to Brook and Leroy Inc. for federal wire frauds and tax evasion (Consuelo Herrera 2010). ACFE 2008 report to the nation that there were losses of Asset Theft of \$150,000; Corruptions \$375,000; Fraudulent statements \$ 2,000,000; \$ 994 billion lost annually. The federal government implemented accounting and business laws like the Sarbanes-Oxley Act 2002, in response to financial statement fraud and bankruptey. Under this law Chief Financial officer and Executives are held accountable for the accuracy of financial statements, and those who violate it face severe penalties and extensive prison terms. Saudi organization for certified Public Accountant in 2006 expressed concern about the accounting related scandals in the Bishah Agriculture Development Company and Anaam International Holding company. Almoghawli (2001) shows a single accounting policy, namely the Zakat policy, in which relationship between the accounting treatment of Zakat by more than forty Saudi companies and incentives for the earnings management is examined. Alsehali (2006) shows a relationship between incentives for earnings management and aggregate accruals in which it was observed that to achieve the benchmarks, the managers of forty Saudi companies manipulate the accruals (Al-Moghawli, Mohammed 2010). Over 34 percent of 3877 business in 78 countries had been victimize by fraud over the last 12 months in 2011, reported to Prince water house coopers (PwC). Said up to 30 percent of business in 2009 leading to loss over \$5million (3.7 million euros) to fraud in the said period. For the third quarter of 2011, Petro Rabigh, joint venture among Sumitomo Chemical and Saudi Aramco recorded a net loss of SR 280.5millions.

*Corresponding author: islamziaul75@gmail.com

4. Need for the Implementation of Forensic Accounting

Given aforementioned literature, forensic accounting must be used to prevent frauds as well as white Collar crimes: however, before doing so, it is critical to comprehend the principles and definitions of forensic accounting. Term "forensic" is described by Webster's Dictionary as "belonging to, used in, or suitable to courts of judicature or public discussion and debate." Forensic accounting on the other hand, is powerful blend of auditing processes and advanced investigative techniques, confirming the authenticity and correctness of financial reporting according to e-how writer William Pirragila. Forensic Accounting, according to same Association of Certified Fraud Examiners is application of professional accounting skills in civil or criminal litigation. The application of widely accepted accounting and auditing standards, the evaluation of internal controls, fraud, and any other issues requiring accounting knowledge in the legal system are all included in this. According to Black's Law Dictionary forensic accounting as "used in or suitable to courts of law or public debate." Nevertheless. As a result, we might define "forensic accounting" as litigation support that uses accounting concepts as well as methods to identify mistakes or frauds. According to, West's 2008 Encyclopedia of American Law forensic accounting, also called investigative accounting, includes applying accounting principles as well as methods of legal problems. Horthy defines Forensic Accounting as "The science that deals with the relation and application of finance, accounting, tax and auditing knowledge to analyze, investigate, inquire, test and examine matters in civil law, criminal law and jurisprudence in an attempt to obtain the truth from which to render an expert opinion." From this it is clear that forensic accounting is divided into two parts i.e., litigation support; or investigation and dispute. Litigation only estimates the damages for the parties involve in legal disputes and also helps in solving them. On the other hand, investigation and dispute only shows the criminal matters, which are related to employee thefts, frauds including manipulation of financial statements, misappropriation of funds, Embezzlement of Cash, insurance frauds, etc in this matter there is a need how to minimize further damages and losses. Since the audit committee and internal audit were unable to uncover could many facts and other hidden facets of corporate frauds, as well as due to inadequate or non-existent internal control system, forensic accounting is urgently needed.

5. Parameters Used for the Prediction of Sickness

In spite of loans given by the banks the industries faces the problems of sickness due to frauds; either just because off accrual based accounting i.e. treating Deferred revenue as earned revenue or in case of Accounts Receivables apart from it the analysts should also see whether the 3 parameters i.e Net Working Capital, Cash position and Net Worth of the company shows a favorable sign or not, if it deviates from it then they should monitor the following Cash flow. Here cash flow represents (EBDT) Earnings Before Depreciation and Tax (Ravi Kishore 2001).

6. Reasons for Business Failure

A business stops operating when the bank or creditors do so. Action must be taken in these situations because the company is either unable to pay its debts now or probably going to be unable to do so in the near future. What causes a company to encounter such circumstances? (Ravi Kishore 2001). This indicates the existence of two levels of causes: The root issues and their expression in accounting. Inadequate or excessive working capital, excessive interest rates, excessive, debt, high dividends, trading loss, selling off portion of the company at a loss and marginal profitability are all examples of accounting mistakes. If these sign appears several times it means that there is a danger sign. And root causes of failure mean: - not selling at a right price, buying useless/baseless assets, failure to control cost in direct or indirect form, failure to control working capital, reckless borrowing, etc. Again, if these things frequently appear then there is a need to take corrective actions.

Finally, it was observed from the above literature that Scandal/Frauds/Failure are becoming a common practices either in small scales or the large scale industries and since Jazan two thirds of the city has been allocated for industrial set up which is expected to be start functioning in the 2013, so the analyst should foresee all the factors which is discussed above and also try for the implementation of the Forensic Accounting, which is used as a common practice used in US in early 1995 and also the execution of Sarbanes-Oxley Act of 2002, but now the stem of this specialization has yet to adopted in the Asian countries to protect from fraudulent practices and White Collar Crimes.

7. Conclusion

An overview of the effects of forensic accounting in Jazan industrial zone was provided in this research.

References

- [1] P. Aderibigbe. 'The Role of the Forensic Chartered Accountant in Nigeria Accountant', July 2000.
- [2] Almoghawli, M Accounting for Zakat and Earnings management in Saudi Arabia, *Journal of Accounting, Accountability and Performance.*, no. 1, pp. 1-22. 2001.
- [3] M. Almoghawli, "The management of Reported Earnings to Avoid Political Costs: A Case Study of Saudi Arabian Firms," 2010.
- [4] M. Alsehali, "Earning Management in Saudi Companies, *Journal of Public Management*", pp. 1-25, 2006.
- [5] Al RajhiCapital Analysts Research Report. www.ameinfo.com An Encyclopedia Britannica Company www.merriam-webster.com/dictionary/forensic, 2011.
- [6] Association of Certified Fraud Examiners. www.acfe.com; www.pennockconsulting.com
- [7] Avik Ranjan Roy *Encyclopedia of Business Finance*, 2nd ed.
- [8] Black's Law Dictionary. www.sweetserforensic.com, 2007.
- [9] Campbell, Karam, Maresco, "Forensic Marketing Action Adventure, Baton Rouge": LSU Press. 2011.
- [10] Consuelo Herrera, *Enabling Fraud Environment*, www.bellaonline.com
- [11] Enterprise Risk Management, (2011). Free XBRL Report, www.DiscoverIMA.org. 2010.
- [12] Heitger and Smith 4th edition. *Forensic and Investigative Accounting*, 2009
- [13] Horthy definition: www.ezinearticles.com.
- [14] Oduala, J. *Forensic Accounting*, *Treasure*, vol. 6, pp. 5, 2005.
- [15] M. Ravi Kishore *Financial Management* Taxmann's Publication. 2001.

- [16] T. Satyanarayan, *Forensic Accounting and Corporate I11. The Chartered Accountant*, vol. 53, no.8, 2005.
- [17] Wikipedia contributors, 2001-2006. www.google.co.in
- [18] Zeigenfuss and O'Shaughnessy, *The Big R: A Forensic Accounting Action Adventure*, Carolina Academic Press, Durham. 2008.
- [19] Zab Rezaee and D. Ziegenfuss *U.S. Master Auditing Guide*, Chicago: Commerce Clearing House. 2004.
- [20] Ziegenfuss and O'Shaughnessy, *The Big "R:" An Internal Auditing Action Adventure*, Carolina Academic Press. 2000.