



NEAR EAST UNIVERSITY  
INSTITUTE OF GRADUATE STUDIES  
BUSINESS ADMINISTRATION PROGRAM

**REASONS FOR ACCOUNTING FRAUD AND A DIFFERENT  
APPROACH TO PREVENTION OF FRAUD AND CORRUPTION IN  
BANKS: FORENSIC ACCOUNTING**

PHD THESIS

EMEL ÇAPKINER TOSUN

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PhD THESIS

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## ACCEPTANCE AND APPROVAL

This study titled “**Reasons for accounting fraud and a different approach to preventing fraud and corruption in banks: forensic accounting** ” prepared by Emel **Çapkıner Tosun** was found successful as a result of the defense exam held on.../.../2021 and accepted as DOCTORAL thesis by our jury.

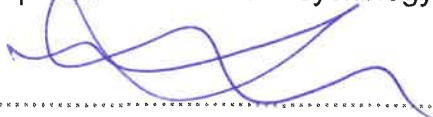
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## **ABSTRACT**

### **REASONS FOR ACCOUNTING FRAUD AND A DIFFERENT APPROACH TO PREVENTION OF FRAUD AND CORRUPTION IN BANKS: FORENSIC ACCOUNTING**

This study aims to investigate the causes of accounting frauds and the concept of Forensic Accounting, which is considered a different approach in preventing fraud and corruption in banks. The sample of the study consisted of 400 Turkish-speaking people between the ages of 18-65 who worked in the entrepreneurial marketing and SME departments of the trade and participation banks in the Republic of Northern Cyprus, selected by the purpose-oriented sampling method, which is a non-probability sampling type.

The data used in the study was obtained through the socio-demographic data form and the scale of financial manipulation. It was evaluated the attitudes of the credit authorities in the commercial credit service of banks in Ankara and Istanbul against financial manipulation and examined whether these attitudes were changed according to different demographic groups in the scope of the research, descriptive statistics, nonparametric tests, correlation analysis and multiple regression analysis were utilized.

**Key Words:** Financial statement, Cheating, Accounting fraud cases, Forensic accounting, Bank corruption

## ÖZ

### **MUHASEBE HİLELERİNİN NEDENLERİ VE BANKALARDA HİLE VE YOLSUZLUKLARIN ÖNLENMESİNDE FARKLI BİR YAKLAŞIM: ADLİ MUHASEBE**

Bu çalışma, muhasebe hilelerinin nedenlerini ve bankalarda hile ve yolsuzlukların önlenmesinde farklı bir yaklaşım olarak kabul gören adli muhasebe kavramını araştırmayı amaçlamaktadır. Çalışmanın örneklemini, olasılığa dayanmayan örnekleme çeşidi olan amaca dönük örnekleme yöntemi ile seçilen Kuzey Kıbrıs Türk Cumhuriyeti'nde kayıtlı bulunan bankalarda görev yapan 18-65 yaş arasında halen çalışan ve Türkçe konuşan 400 kişi oluşturmaktadır.

Araştırmada kullanılan veriler; Sosyo-Demografik Bilgi Formu ve Finansal Manipülasyon Ölçeği aracılığıyla elde edilmiştir. Ankara ve İstanbul illerindeki bankaların ticari kredi servisinde görev yapan kredi yetkililerinin finansal manipülasyona karşı tutumlarını değerlendirilip, bu tutumların farklı demografik gruplara göre değişip değişmediğini incelenmiştir. Araştırma kapsamında tanımlayıcı istatistiklerden, parametrik olmayan testler, korelasyon analizi ve çoklu regresyon analizinden yararlanılmıştır.

**Anahtar Kelimeler:** Finansal tablo, Hile, Muhasebe hileleri vakaları, Adli muhasebe, Banka yolsuzlukları

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## ABBREVIATIONS

<b>N:</b>	Number of Participants
<b>P:</b>	Expressiveness
<b>hh:</b>	Standard deviation
<b>sd</b>	: Standard error
<b>t:</b>	T value
<b>ANNEX</b>	: Additional scales

## **CHAPTER 1**

### **INTRODUCTION**

With the growth and development of companies and businesses, the internal and external organizational structure of institutions becoming increasingly complex, constantly developing technology and increasing competitive environment between businesses, many fraud situations occur. The use of technology in all areas also led to the intensity of transactions in enterprises.

Considering the businesses, many of them resort to corruption and irregularities in order to make unfair profits. All these irregularities made by business owners increase every day. Employees in enterprises can easily fraud and hide in the process they are. the most common type of these frauds is cash fraud (Bushman and Piotroski, 2006).

With the emergence of the concept of money, human communities have learned to cooperate in a way that enables them to access a wider range of resources with each other. Although trade is no longer limited to those who have valuable goods for each other, it has been ensured that people benefit from many other types of labor.

The main reason for the emergence of money is that people need a concept that provides a common measure of value that symbolizes the change of resources. Early coins came in various forms, from feathers and vodka to cow manure and grains, as they are today, money did not appear between 500 and 700 BC (Martin and Powel, 1994).

Around 3,000 BC, when objects, words and symbols were used to represent abstract numbers in Mesopotamia, more complex forms of accounting were

also developed. This allowed arithmetic to be born. With concrete counting, representations cannot exceed a certain number and different amounts cannot be added together, while abstract counting has revealed the types of mathematical flexibility required for systems such as double-entry bookkeeping. The use of accounting started before the use of abstract counting.

Around 7,500 BC, Mesopotamians used small clay objects to keep track of goods. Each item represented a certain amount of goods, such as food, clothing, and even labor. Over the centuries, they began to become complicated, bearing complex signs, and eventually the printing of these signs on the parchment replaced the counters. According to many scholars, accounting and writing developed side by side in this way (Moore, 1991).

The need to keep track of both goods and money has been accelerated by a number of factors. One of these factors is the ability to accumulate personal wealth. Rich members of society wanted to record what they owned, owed, and owed to themselves. More than 5,000 years ago, Egyptian accountants kept detailed records of the royal inventory using bone tags glued to objects such as oil and linen to track things like owners, suppliers, and quantities. Another factor that led to the need to record goods and money was the rise of executive institutions such as royal families and governments.

One of the primary objectives of these segments of society has been to find more consistent ways to record and claim taxes. The growth of global trade meant that trade took place on a much larger scale. Trading with very different societies for different sources has enabled traders to easily lose their activities without detailed records. Early periods of double-entry accounting emerged in various places in Korea in the 11th century, such as the 'four-element bookkeeping system'. However, the double-entry bookkeeping system we know today was first described by the father of accounting, Luca Pacioli in 1494, as a very modern journal about today's debts, loans, magazines and books.

Various forms of accounting range from audit to tax returns preparation. Accountants decide to have experience in one of these areas, leading to the following different career paths:

1. **Financial Accounting:** This area relates to the collection of financial information as the external reports. In financial accounting, there should be detailed information about the accounting framework which is used by a company's reader of a financial report, such as International Financial Reporting Standards (IFRS), or generally accepted accounting principles (GAAP). If a company is available to the public, there should be information about the standards which are issued by the government agency responsible for the public company reporting in a particular country (e.g., the Securities and Exchange Commission). Many career paths are involved in financial accounting. External reporting usually has expertise that includes detailed information about accounting standards. There is also a control unit that needs combined management and financial accounting information.
2. **Public Accounting:** This area examines customer companies' supporting accounting systems and financial statements to ensure that the financial statements collected by the customer give the financial position and results fairly. This area requires the related accounting framework, and excellent information to enable access to and inquiry into customer systems when necessary. Here, the career path is to advance in different audit staff positions to work as an audit partner.
3. **Governmental Accounting:** This area applies a specific accounting framework to manage and set up funds to be converted into cash to pay some expenditure for provision of services by a government agency. A different set of skills is required for the government accounting so that accountants can specialize in this field throughout their careers.
4. **Forensic Accounting:** in this field, the financial information is restructured when there is no complete set of financial records. One



can use this skill set to recreate a destroyed business records, convert cash-based accounting records into accruals, restructure fraudulent records, etc. This career attracts auditors and is usually an advisory position because a full-time forensic accountant should provide services in some businesses. Those involved in this area tend to work in legal support, the insurance sector, or a firm's practice of expertise.

5. **Management Accounting:** This area relates to collecting accounting information for the internal operational reporting and includes areas such as target cost, and cost accounting. This area has a career track resulting in a supervisory position or be allocated to a number of specialized positions, such as cost accounting, billing officer, debt officer, and payroll clerk.
6. **Tax Accounting:** This area is about compliance with tax regulation, tax planning, and tax files to decrease a company's tax burden in the future. There are a large number of tax professional positions that have risen to the position of tax manager.
7. **Internal Audit:** This area is about reviewing a company's systems and operations to oversee the company's weaknesses, counterfeiting, waste and mismanagement and report these findings to the management. Career tracking ranges from different internal auditor positions to the internal audit manager. There are areas of expertise including information systems auditor and environmental auditor.

### **1.1 Problem Status**

Financial manipulations and irregularities are among the most common problems in the banking sector. These manipulations and irregularities largely vary according to the human factor, namely the initiative and personality characteristics of the people working in the units responsible for these transactions in banks. However, the current literature has not yet included a study that determines whether the attitudes of the credit authorities working in the commercial credit service of the banks to financial manipulation change based on different demographic groups and more suitable accounts for

manipulation in the financial statements. This situation appears to be an important deficiency in the literature.

## **1.2 Research Objective**

The main purpose of this research is to assess how the civil servants working in the banks registered in the Turkish Republic of Northern Cyprus think about the financial manipulation, to specify whether these attitudes change based on the various demographic groups, to show more suitable accounts for manipulation in the accounts and financial statements with positive effect on the enterprises' credit value.

## **1.3 Importance of Research**

The current study is of great importance because it is the first study that examines whether the attitudes of the officers and credit authorities working in the commercial credit service of the banks towards financial manipulation change based on various demographic groups and more suitable accounts for manipulation in the financial statements and tries to explain the change of financial manipulation in this context.

1. This research is limited to individuals working in the entrepreneurial marketing and SME departments of the banks registered in the Turkish Republic of Northern Cyprus.
2. This research is limited to the number of participants.
3. This research is limited to the surveys used.
4. This research is limited to the existing questions in the surveys.
5. This research is limited to the answers given by the individuals who answered the survey questions created for the research.

## **1.4 Definitions**

**Financial Statement:** The tables, which divide the recorded information about financial transactions into certain groups and are arranged according to accounting principles, are called financial statements (Atan, 2015: 8).

**Fraud:** It is in the form of errors found in the financial reporting and errors caused by the assets misuse (Köksal, 2015: 25).

**Forensic Accounting:** In 1946, it was included in the literature by Maurice E. Peloubet. Although Peloubet first used forensic accounting only for transactions related to legal cases, it has also started to be used for transactions such as preparation and audit of financial statements for transactions other than this (Karacan, 2012).

## **CHAPTER 2**

### **THEORETICAL FRAMEWORK AND RELATED RESEARCHES**

#### **2.1. Financial Statement and Financial Statement**

They are arranged to perform the reporting function from the main duties of the accounting field. The tables, which divide the recorded information about financial transactions into certain groups and are arranged according to accounting principles, are called financial statements.

Financial statements are created and presented by many companies in the world for users outside the company. These financial statements show great similarities from state to state. On the other hand, it also shows some changes due to a group of social, financial and legal reasons and taking into account the needs of individuals using different financial statements by different states at the time of making national regulations.

The company's boss, shareholders, loan providers, state and other stakeholders, who are closely related to the financial structure of the company, want to know what the assets held by the company are and from which sources these assets come, where and how the profits of the company come from and how they are distributed. The information function of the accounting field is performed by financial statements.

The tables prepared in order to observe the financial position of commercial firms more clearly are called financial statements. The main financial statements are determined according to the main standards of accounting are examined in three groups (MoNE, 2011: 30).

**Balance Sheet** The balance sheet, which is the first main financial statement, is a list showing the financial status of the company. The form of the balance sheet can be both in the form of a table and in the form of a report. What is important is that the list to be prepared is a list that complies with the rules. According to the rules, the balance sheet can be defined as a financial statement showing the company's assets and resources at a certain time. The balance sheet has an important function in providing information to the society. An individual who examines the balance sheet pays attention to the fact that there are three items in the list. These three elements are;

- Balance sheet word
- Balance sheet history
- The name of the company or its title in trade (MoNE, 2011: 30).

There is no unknown balance sheet regarding which company it is related and which past time it has been arranged. With these formal conditions, there are certain principles that need to be followed when preparing the balance sheet (MoNE, 2011: 30). These principles are summarized below.

#### *Income Statement:*

The income statement is a table showing all the gains and all the costs and expenses incurred by the company at a certain time and the net loss or profit of the company during a specified time as a result of these. The income statement shows the result of the activity at the end of a certain activity time (MoNE, 2011: 49).

#### *Trial balance:*

Balance is a summary table indicating the grand ledger totals. Since the totals and remaining amounts of all accounts are shown in a table, it becomes simpler to evaluate the status of the accounts. In order to have information about the remainder of an account, that information is obtained by examining the balance rather than examining the ledger pages. It is possible to see the debt status or receivables of the company from the balance sheet. Balance

can be compared by examining the balance with customers or those who provide resources. If the balances do not provide, the details of the records can be seen from the general ledger (MEB2, 2011: 21).

### **2.1.1 Purpose of Financial Tables**

The main purpose of presenting the financial statements is to reflect the most accurate picture of the company that individuals using different financial statements are interested in at the time of decision (Atan, 2015: 8).

The financial statements take into account the results of the management or the utilization of the resources given to the management. Users who want to understand whether the management acting on behalf of the company owners is sufficient and to look at their accounts can make financial decisions within the scope of these evaluations (Atan, 2015: 9).

Examples of these decisions can include decisions such as maintaining or selling existing investments in the company or reassigning and changing the management. The usual performance of a firm, especially information about its profitability, is needed to predict how it will use financial resources that are likely to be audited in the future and what differentiations may occur in these resources. Information about the differences in the company's financial position enables to evaluate the investment, financing and company movements at the reporting time of the company. This information also explains the possibilities of the company to create cash and cash partners to the users and how they benefit from these cash resources (Atan, 2015: 9).

### **2.1.2 The concept of financial statement fraud**

There is no specific definition of the concept of financial statement fraud. The reason for this is that fraud is a very broad concept and therefore it is difficult to determine its limits (Ulusoy, 2007: 11).

Although financial statement fraud is defined as an act done consciously, it is different from the type of error behaviors that are not done intentionally in this respect. The frequent use of the concept of fraud in accounting literature is a

recent situation. Defining the actions previously defined as irregularities and causing errors in the financial statements on the basis of malicious intent was included in the control standard shared by the AICPA in 1997 for the first time. This pattern, which is a guide for external controllers to observe the fraud hazard in the financial statements, was removed with SAS No.99 in 2002, but there was no difference in the approach of the newly issued pattern to fraud identification (Küçük and Uzay, 2009: 240).

### **2.1.3 Error and fraud concepts**

#### **2.1.3.1 Fraud**

The literal meaning of the TDK related to corruption is being corrupt and the metaphorical meaning is using the authority in a bad way. In other words, fraud is defined as deception, misleading and conscious behavior. Fraud is in the form of errors found in the financial reporting and errors due to the assets misuse (Köksal, 2015: 25).

When fraud in accounting is examined in terms of general accounting theory, it is possible to define company records, documents and accounts as arrangement and concealment in a way that does not reflect the real situation in order to observe a certain interest and to deceive other individuals (Köksal, 2015: 25).

It is very difficult for frauds to occur spontaneously within the scope of the accounting system due to the fact that they are performed on documents and intentionally. The reason is that the frauds are intentionally carried out in order to hide the transactions carried out and can only be revealed by controls (Köksal, 2015: 25).

#### **2.1.3.2 Error**

Accounting errors include one of the lack of financial statement order similar to accounting frauds. The main feature that distinguishes error from fraud is that the element of consciousness in fraud is not in error. Accounting errors are errors in accounting transactions, records and accounts due to

forgetfulness, lack of attention, negligence and lack of sufficient information (Ulusoy, 2007: 10).

In this context, mistakes in various forms can be divided into classes as mathematical errors, transfer errors, principal errors, forgetfulness, revaluation errors (Ulusoy; 2007: 10).

#### **2.1.4 Reasons for resorting to financial statement fraud**

The main reason for resorting to fraud and error in the financial statements can be expressed as to make the financial statements, which are in bad or good condition, look even better or worse than the current situation. The aim here is to provide benefits by showing a lower level of tax if the earnings are high in the financial statement, a lower profit share as it is intended to be paid, or to provide profits in line with the benefit by presenting a positive financial statement to the financial resources by showing the earnings more if the enterprise is a low and cash required enterprise. Financial frauds are carried out for company managers based on reward, seizure of companies, sanctions arising from legal contracts, firms in financial difficulties and political reasons (Köksal, 2015: 29).

Reasons for resorting to fraud in the financial statement can be examined under three headings. These are weak operating structure, strong internal and external pressure and weak internal audit structure. Some characteristics of the weak business structure are;

- Lack of ethical rules,
- Lack of leadership and guidance spirit in the company,
- Failure to determine in-house rules, policies and procedures,
- The unnecessary attachment of importance to some of the purposes and interests of the company.

In the organization, the shareholder transfers the defense of his/her interests to the collaborator he/she trusts. Although he/she knows that there is an asymmetry in the information between them (they do not fully know each other and may have different incentives), the shareholder only has to trust. This



reality generally also occurs when the organization involves a collaborator in its staff: information asymmetry is always available between the organization and its collaborators. A concept associated with information asymmetry is the moral hazard that the collaborator is likely to betray the trust and interests of the organization in general. The realization of moral hazard becomes fraud. In a more advanced risk management environment, the database will allow quantitative analysis to allocate capital for unexpected fraud losses. Like all risks, fraud must be dealt with. Eliminating fraud is a utopia because it is part of the operational risks in the business world: in this sense, information asymmetry has always existed and will always exist. Likewise, employee incentives may intensify by losing the long-term vision to achieve the highest possible result in the current year (Küçük and Uzay, 2009: 4).

Capacity relates to the possibility of more or less fraud depending on the collaborator's organizational position, work experience, egocentricity, ability to persuade others, resistance to stress. It is very important to place ourselves in the context of global fraud before thinking about any type of strategy. Among the very relevant information provided, the report shares that the illegal confiscation of assets is the most common type of fraud and has been by far the most widespread in recent years. However, the same report says financial statement fraud is the type of fraud with the greatest impact in terms of average loss per occurrence. The same report also states that the perpetrator has the owner or manager who can do the most damage to the organization, given the average loss per incident. Financial statement fraud is the deliberate misrepresentation or omission of figures or notes in the financial statements. The purpose of this deliberate error or negligence is to mislead the user of the financial statements (Ari, 2007).

The effects on business continuity are unpredictable as several companies do not go bankrupt following the occurrence of the abuse in the financial statements. The careers of senior fraudulent managers and the sustainability of the organizations they manage are affected. The quality of technical practices and procedures of audit firms and business ethics are seriously questioned. The ability of the accounting profession to keep a record that

allows investment decisions to be made is seriously questioned. An adequate fraud risk management model can structure ways to cope with risk, especially at the strategic and tactical level. Next, we will share strategic recommendations inspired by the models mentioned above and widely distributed. These models, even with their limitations - like all models - provide us with a starting point for structuring high-level strategies and thus try to reduce the risk of fraud in financial statements (Şengür, 2010: 6).

For this purpose, designing challenging but not impossible goals for Senior Management is of utmost importance to reduce pressure. In parallel, and in order to reduce the opportunity to fraud on financial statements, it is essential to maintain excellence in the accounting department. The ability should also be accompanied by appropriate technology translated into a comprehensive, articulated machining system that allows remote control. An accounting department should be able to provide open accounting policies to the organization based on international financial reporting standards or other international accounting language, depending on the jurisdiction to which the organization belongs. In the same direction and in order to evaluate the opportunity, the organization must strengthen the internal control structure for financial reporting; among other measures, it is very important to maintain independence between the bodies that make up this structure. The separation of functions between accounting, auditor, budget review and internal audit function is fundamental (Şengür, 2010: 7).

Corruption is a self-reinforcing trap: the more common it becomes, the greater the incentives to carry it out. There are several reasons that feed this vicious cycle: one of them is the rational calculation of people. When committing a crime, people consider the possibility of being discovered and the seriousness of the punishment they can receive. The more crimes are discussed, the less likely it is. Therefore, the greater the corruption, the less likely it is to be discovered and the less costly it is to commit these crimes. Another reason is the illegal sources produced by corruption. Such action generates economic resources that can be used to buy impunity, which increases corruption and generates more economic resources that can be used to buy more impunity.

Moreover, a society where impunity is widespread creates the perception that engaging in an illegal act has no consequence, which can encourage more people to engage in corruption.

A third reason is that widespread corruption reduces the processing costs of finding someone to commit a crime. It takes at least two to perform an act of corruption, and in a society with high rates of corruption, it is more likely to find the other person. The reduction in transaction costs also increases the supply and demand for corrupt practices, because the more corrupt people there are, the more opportunities there will be for corruption. (Şengür, 2010).

Another contributor to the corruption trap is the moral chaos that corruption can sink a society. Corruption is deterred not only by legal norms but also by moral norms. However, a high rate of corruption can also affect the effectiveness of the functioning of a society's moral standards. In a highly corrupt society, it is easy to legitimize an act of corruption by claiming that "everyone does it". Therefore, the more corruption is pervasive, the less social stigma or guilt the act of corruption creates.

There are other factors that strengthen this trap at the macro level. First, if public institutions are perceived as corrupt, they will attract dishonest officials. Secondly, countries with high corruption rates have lower economic growth. Lower economic growth reduces opportunities to produce resources honestly and makes it more attractive to resort to corruption for profit. Third, corruption increases tax evasion and thus reduces public resources allocated to the fight against corruption. Fourthly, a country with high corruption rates has less resources to educate its citizens. Low levels of education produce ignorant citizens (Şengür, 2010).

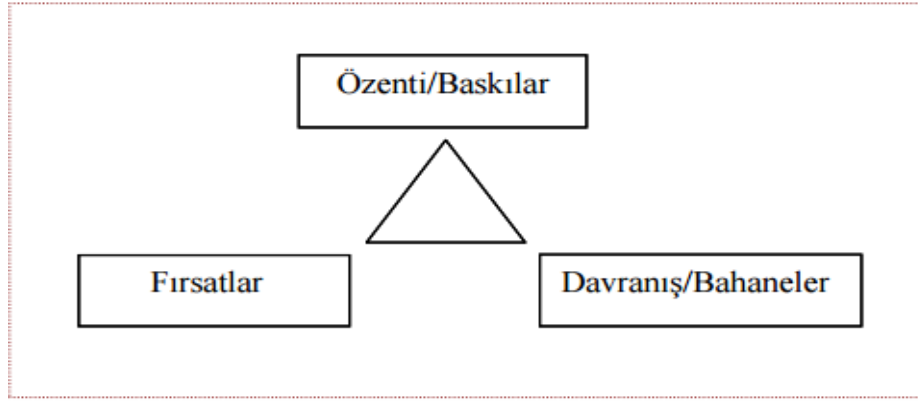


Figure 1: Triangle of Fraud and Corruption (Şengür, 2010).

There is an academic consensus that the only effective solution to the corruption trap is radical changes: these are broad and fast enough to encourage people to change their behavior in a relatively short time (Çıtak, 2009: 87).

There are many arguments in favor of this theory. Gradual changes give corruption enough time to adapt and change the form or structure of their illegal business. Second, corruption is based on social practices and expectations that are difficult to gradually change. Discussions about what is better to end corruption, whether it is a big boom to end it as soon as possible, or whether small-scale reforms will be carried out to achieve the goal seems far from what has happened in Mexico in recent years (Genç, 2009: 76).

First, the above omissions reflect a lack of social and political consensus on the ways and purposes of combating corruption. What was done in a six-year period was tried to be postponed or taken back in another. This sends a very dangerous signal: The fight against corruption is a political agenda that depends on each government, and therefore, what is illegal in one administration can be forgotten in the other. Secondly, the above behaviors also reflect a lack of commitment to the rule of law. It is useless to have good legal norms that will not apply. Thirdly, the slowness in the implementation of the various points of reform has created unnecessary opportunities for stakeholders to choose areas that should, in principle, be targeted at civil society, to those who are most interested in corruption.

All these vices can produce the most harmful social evil: The desperation of citizens who think that reform is useless and all their efforts are in vain. A society that thinks that corruption is not the solution has fallen into a real trap that has no way out, at least until this belief changes (Usta and Uçma, 2011: 32).

## **2.2 General Concepts of Fraud and Fraud**

### **2.2.1 Definition and elements of fraud**

Corporate governance is a group of regulations, rules, and policies followed by companies to prevent abuse and fraud. States try to apply a regulatory system to have some controls. These measures aiming to adopt concern are mostly taken in the board of directors and the organization. Thus, the results are in line with the idea that equity incentives help make managers' interests consistent with shareholders' interests. At the same time, CEOs' wages have an impact on the emergence of corporate governance problems such as accounting fraud (Selimoğlu, Özbirecikli,

Financial statement fraud means that a company's financial position is deliberately misrepresented through deliberate falsification or negligence in the financial statements to deceive its users (Uzay, November, 2015).

Changing a company's financial statements to falsify its reality has been a growing trend in recent years. Although this behavior provides some kind of benefit in the very short term, its long-term effects jeopardize the company's existence. Creative accounting is the use of fraud in order not to accurately record the accounting and underlying activities of a company or organization in order to satisfy certain interests of the perpetrators. Therefore, this type of accounting, which can even be compliant with the rules, creates a fraud whose purpose is to artificially adjust transaction records in order to circumvent the material truth. Possible 'benefits' of the financial structure include, for example, obtaining credit limits, achieving goals, concealing liquidity problems, tax evasion or making the company more attractive than increasing its value.

In this way, incorrect scenarios are constructed that show a solid external presence while the organization is experiencing problems that may actually jeopardize its existence. If its financial situation is sound and its implementation is positive, it is clear that no company or corporate group uses accounting frauds. The trap that business managers fall into when they choose to use such accounting is unsustainable over time, although this phenomenon means a relative gain in the immediate term (which can be seen as a break or grace period in times of crisis). Experts say that a company that begins to use creative accounting has a life expectancy of no more than two years. Creative accounting has the potential to achieve certain values and principles, such as ethics and transparency, correct decision-making, trust based on common standards of conduct, and corporate reputation, which are necessary for the sustainability and progress of a company.

It is a general rule that business decisions are based on real information about the company's activities and related accounting records. If such data is distorted, the findings reached are most likely incorrect because they are encouraged by those interested in demonstrating a different reality. On the other hand, insecurity and poor reputation after an accounting fraud has been discovered, efficiency and consistency in the market, interaction and network of allies collide with predictability of the future and increase transaction costs (due to the need for more supervision such as transactions obtained) (Bozkurt, 2011)

Determining fraud in the financial statements is a complex task because when the change of figures is prepared by experts and for a specific purpose, there are a few traces and traces that remain and are certain to verify that it is faced with a false report. However, there are some indicators that need to be taken into account and this may trigger falsification of corporate accounting. It is true that each case is individual, as the goals pursued by those responsible for fraud are always different. Therefore, a final proposal that is a little more generous should be proposed, and it is nothing more than paying attention to the rum that may arise about a company's accounting transparency.

Almost always, when it comes to creative accounting, the river carries stones when it makes noise. Because it is difficult to detect, a rigid methodology for detecting and reducing creative accounting from the globe has not been structured, but there are tools that can help prevent or reveal when this phenomenon occurs. The main mechanism for preventing accounting fraud is to have a strong corporate governance with operating system control and balance, medium or high level of independent internal audit and financial review areas and transparency regulatory requirement through an ethical rule (Bozkurt, 2011)

Companies where the corporate governance structure is poorly defined or where there is insufficient counterweight between power and decision-making examples are a breeding ground that allows the temptation to use creative accounting in the first challenge to emerge. Then, in the face of a crisis and in the absence of guidelines, managers should continue to appoint accountants, financial auditors and pocket auditors and request the presentation of financial statements with specific records. On the other hand, if it is believed that creative accounting is already carried out and in progress, it is advisable to hold an independent judicial audit to conduct a thorough review of the business, including transactions involving all its own operations and affiliates. Finally, there is another tool that can well prevent and detect creative accounting, and that is data mining. This is an analytical process of searching and processing large volumes of information to find patterns of behavior between variables or relationships that can be compared and compared to another set of information.

Therefore, data mining does not only allow to generate warning signals when some behaviors go beyond parameters, but also provides strong evidence when certain values appear abnormal when crosses corresponding to other data are made (Tide, 2014:73).

Accounting fraud can often be defined as deliberate manipulation of financial statements to create the image of a financially healthy company and thus concentrate the truth about the financial situation. A company can falsify these statements by exaggerating its income and assets and leaving vital

expenditures. If a company exceeds its income, fraud, which can increase the overall share price of the company and thus create a financial health area - which is actually not healthy at all - can occur. Companies can also turn their long and short term debts into an amount, which can perceive the company's liquidity. They may also choose not to disclose risky investments.

They are not small businesses dealing with accounting fraud. Over the years, there have been quite a number of high-profile cases of accounting fraud. Finally, in the US, Xerox has been falsifying their financial health for more than five years, increasing their income by \$1.5 billion in those years. This is not immorality, it is also illegal, and most of the time, in most cases, if accounting fraud is discovered, it can seriously damage your customer's perception. Unfortunately, accounting fraud is quite common and can cause a lot of destruction for both businesses and customers.

Accounting fraud is the result of three different aspects of owning a business, often known as the fraud triangle. This fraud triangle is a model that explains different factors that can lead an individual to believe that accounting fraud is the only way. The first factor is incentives or pressure-for example, management may have specific incentives to commit fraud, such as business success. Opportunities are another factor - certain conditions in a business can give many different reasons to commit fraud. Accounting fraud can also be caused by attitudes in the workplace (a number of ethical values, attitudes towards work, or employees who tend to commit fraud, etc.).

Most high-profile cases of accounting fraud occur in the United States. In the 1980s, there were several cases by BarlowClowes and PollyPeck, whose goal was to overstate revenues and reduce tax costs. Accounting fraud is a very real problem and can cause a lot of trouble for all parties, and even lead to the complete closure of a company.

### **2.2.2 The concept of fraud audit**

Fraud is committed in audits when an entity has unlawfully changed its financial statements in order to change its financial position or hide losses or profits. Fraud is severely penalized for weakening the trust that underpins the



global financial system. Audit means checking a company's financial statements and financial records to ensure fair representation and accuracy. Transactions which are recorded in financial records and collected in financial statements should fairly represent the real economic situation and activities of a company (Ercinler, 2014: 38).

Financial records are produced internally. For this reason, they may be manipulated or exposed to fraud by insiders. Many personal incentives are used to manipulate these reports, and audit can ensure that these statements and records are not misrepresented. According to the current audit standards, reasonable assurance should be obtained by the auditors that the financial statements received generally do not contain any material misstatement, due to errors or fraud.

Auditors should be given reasonable assurance that important errors are not found in the financial statements and that they will provide a conditional or clear opinion. Deliberate falsification of financial records by an organization such as government or a company leads to accounting fraud. Since several parts of financial information are based on estimates, it is sometimes difficult to define fraudulent behavior in accounting. For example, a company may decide to make an estimate to be examined later. It shall not be considered as the fraud provided that the Company produces the estimate sincerely based on the related information during estimate.

Accounting fraud is caused by deliberate misrepresentations that is, when a company exaggerates its assets to look financially healthier. Another example is that a company exaggerates its income to yield more profit than it.

Fraud weakens the confidence required for making a market economy well-functioning. Lack of trust in financial statements of a company prevents you from investing and entrusting the money which can be hardly earned to that company. However, the presence of a protective system enable you to rely on their financial reports and will facilitate making decisions to invest and raise capital, even if you do not know anyone personally from that company. Auditors have the same level of confidence. Mistrust of the investors in auditors

needing to give impartial opinion will undermine this financial system. Therefore, there must be three elements to have an efficient and transparent market economy (Ercinler, 2014: 38).:

- Rules (accounting standards)
- Verifiers
- Practitioners (laws and government agencies)

### **2.2.3 Signs of fraud and red flags**

Red flags are indications that something could be wrong without the necessary evidence. The red flags of fraud are anomalies in the business. These abnormalities may take the form of behavioral, statistical or organizational abnormalities. Examples of behavioral abnormalities include living beyond the ordinary or sudden changes in one's lifestyle. Organizational abnormalities involve significant deviations from the usual organizational structure of a business. An example of organizational anomalies is the lack of financial control systems or unrealistic sales and profit targets. Statistical abnormalities consist of unusual value movements from the accounting records of the enterprise. The fact that travel expenditures are higher than normal and unusual deviations in the share value of the enterprise can be shown as examples of statistical abnormalities (Bozkurt, 2000: 130-131).

Signs of fraud, which can be expressed as a red flag, are signs that fraudulent transactions can occur. Analysis of fraud symptoms is basically based on the structure of the business, the way in which activities are carried out at department level and the analysis of the business culture. These are the symptoms of fraud that can be defined as the symptoms of fraud that are related to the general characteristics of the enterprises and that systematically pave the way for fraudulent transactions and reduce the likelihood of fraudulent transactions if they are eliminated (Pehlivanlı, 2011: 36). Red flags provide possible fraud warning signals.

Red flags method is a very effective and efficient method in detecting suspicious situations. Although the auditor does not consider it important

alone, when evaluated collectively, it reaches meaningful results with red flags, which are indicators of error, fraud and corruption. Red flags determined by observation and research by fraud auditors are fraud declarations that should be known by the auditors. While determining the risk factors during the inspection, the auditor shall identify the suspicious and the points that need to be examined. Red flags provide a useful source for the supervisor in the detection of these suspicious points (Abdioğlu, 2007: 164).

#### **2.2.4 The process of fraud**

Cheating can be likened to a process that has certain stages rather than being a momentary phenomenon. In other words, the majority of people who start fraud continue to do so. Over time, fraud first increases in quantity and amount, but with the courage of not being caught, the meticulousness and care shown to hide the frauds decreases. Therefore, there are frauds that continue because there are no small frauds, they are not uncovered, and thus grow over time and reach a significant amount. Within the process understanding, a typical fraud is performed by following the flow described below and if it can be revealed, the judicial stage is started (Kandemir, 2010: 19):

- Pressure/need/motivation,
- Opportunity/control weaknesses,
- Justification of the crime (justification),
- Committing crime (fraud),
- Converting the object of fraud into cash,
- Hiding the fraud,
- Diagnosis of risk factors,
- Start of Audit
- Start of fraud investigation,
- Administrative solution process and administrative penalties (removal of fraudsters),
- Judicial investigation process,
- Process of prosecution and litigation,
- Judicial penalties (fines and imprisonment).

### **2.2.5 Classical fraud theories**

Theories put forward as a result of research on fraud or financial crimes can be listed as follows (Jafoova,S.2009):

1. Sutherland-White-Collar Crimes
2. Cressey - Triangle Theory
3. Albreth - Fraud Investigation and Types
4. HollingerClark's - Fraud Investigation

#### **2.2.5.1 Fraud as a white collar crime**

With the changing business structures and the growth of the securities market, businessmen have also started to commit crimes in businesses. According to this theory, the non-physical, fraudulent purpose of money and property acquisition are crimes such as loss, business or personal advantage.

White collar crime has shown that crime can be committed by all social segments. It covers not only crimes committed by corporate authorities but also crimes committed by lower-ranking employees. The act of fraud takes place using the person's position, professional knowledge and techniques, and special professional skills.

White-collar crimes cover a large number of criminal acts. These can be listed as tax fraud, illegal sales, bond, stock, land fraud, embezzlement, sale of harmful products, fraudulent financial statements, bribery, computer crimes, document fraud, corruption (Jafoova, 2009).

#### **2.2.5.2 Fraud triangle**

There are multiple factors that drive employees to fraud. Cressey explained these elements with the "Triangle of Deception" hypothesis. According to this hypothesis, each fraud has 3 elements.

- Press,
- Opportunity
- Justification.

These 3 elements constitute the corners of the triangle.

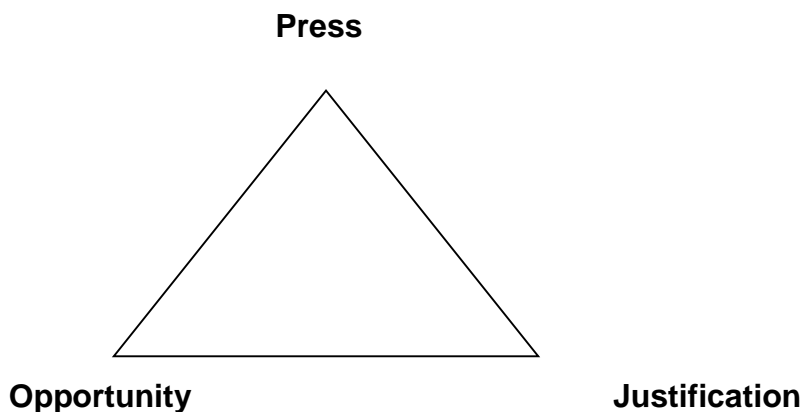


Figure 2: Triangle of Fraud

*Element of Pressure in the Triangle of Fraud:*

Pressure is one of the important elements that pushes the person to fraud. Pressure may be financially sourced or it may consist of objectives and personal interests related to the performance of the business. These pressures include:

- The current responsibilities of employees towards their families and their environment, for example; the desire to provide education to their children under better conditions and to keep their spouses alive under better conditions, one of the family members has health problems that require high expenses.
- Bad habits, for example substance abuse, gambling, spending a lot of money.
- Dissatisfaction with the work of the employee.
- The employee's desire to have more money and thinking that he/she is not in the position he/she deserves. The appreciation he thinks he deserves is that he didn't get the promotion.
- Working for a low wage.
- Having high goals about his/her job that he/she cannot achieve.
- The desire to prove oneself, to show oneself,

*Opportunity Element in the Triangle of Fraud:*

The employee may tend to fraud for various reasons, as above. The employee compares the benefit of the punishment and fraud he/she will receive as a result of the fraud. If there has been fraud in the enterprise before, it means that the opportunity has been given for fraud if it has emerged and has not been punished. The idea that those who cheated before got away with what they did is an important factor that pushes the employee to fraud.

In order to prevent fraud, the recruited personnel are very important in advance of their measures. The recruitment of honest people should be ensured. If honest people are not hired, the employee observes opportunities very well and can fail internal controls no matter how effective they are as part of the job and fraud.

If there are no effective internal audit and control mechanisms to prevent employees, an opportunity is given for fraud. At this stage, effective audits can be made deterrent by conducting authorization controls, adopting the principle of separation of duties, separating the person who does and supervises the work, establishing effective information communication systems among the employees, determining and adopting business ethics policies, punishing the structures instead of hiding the physical controls and cheaters.

In our country, as a result of many fraudulent actions, the person who cheats is avoided to be punished. Businesses do not penalize the company either by thinking that hearing the situation will have a negative impact on the business or by fearing that the person who cheats has a lot of information about the business and uses this information against the business, and even in some cases, the person is paid compensation and dismissed. When this situation is noticed by business employees, the idea of fraud becomes stronger.

#### *The Element of Justification in the Triangle of Fraud:*

The person who performs the fraud finds reasons to justify the fraud and defend himself. The most common example of justification is the fact that the person says that he/she borrowed, will return it, that he/she did not harm

anyone, and that he/she thinks that the business deserves this situation (Mengi, 2012).

### **2.2.6 Albrecht investigations**

(Prof. Dr. W. Steve Albrecht examined the accounting fraud 212 and listed the symptoms of fraud as "Red Flag" and grouped them under two main headings: (Gündüz, A. 2014):

*Personal Characteristics:*

Substance addiction, job dissatisfaction, desire for luxury life, close cooperation with customers and suppliers, bad habits, etc.

*Business environment:*

Lack of clear responsibilities and powers, insufficient staffing, lack of budget implementation, lack of equal pay policies for similar tasks, career plans, etc.

### **2.2.7 Hollinger-Clark research**

Hollinger Clark's fraud investigation involving 10,000 employees was conducted in 1983. The results of the research are as follows (Jafoova, S. 2009):

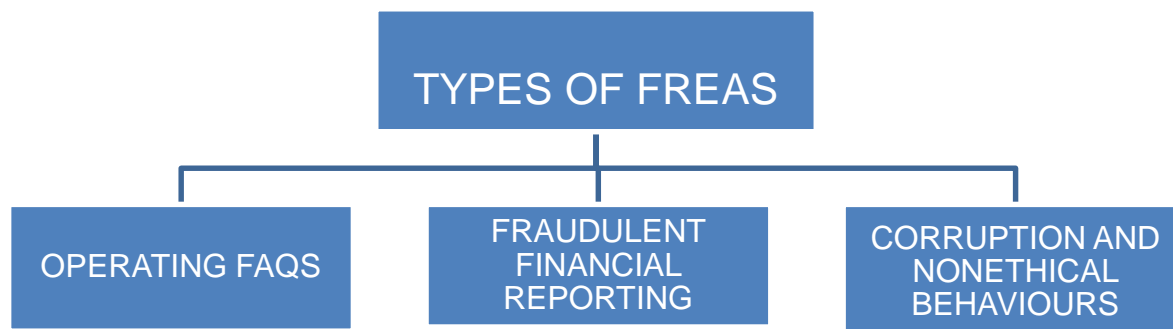
- It is important to keep employees under control.
- Increased security measures can do more harm than good.
- Employee theft may reveal other types of behaviour; for example, unfinished business, unnecessary permits.
- Managers should be sensitive to employees.
- Special attention has to be paid to young employees.

Hollinger puts forward four main views for the development of business policies:

1. Understand how the cheater behaves
2. To ensure the sharing of positive information in accordance with business policies
3. Strengthen legal practices
4. Publicize these practices.

### 2.2.8 Fraud assortment

According to Acfe's fraud classification, frauds are grouped in 3 main groups (Acfe, 2006:10).



**Figure 3:** Fraud Types

#### 2.2.8.1 Employee frauds

The cheater plans to use the entity's assets for his/her own benefit. When the Acfe reports are examined, although this type of fraud is more common, it causes less damage to the business than other frauds.

#### 2.2.8.2 Cash fraud

Cash frauds include methods of taking the cash assets of the employer without consent and unintentionally (Singleton, 2006) Factors affecting the formation of cash frauds are as follows:

- The frequency of cash transactions,
- Failure of the management to pay sufficient attention,
- Lack of independent audit,
- Lack of approval and acceptance systems,
- Late recording of transactions



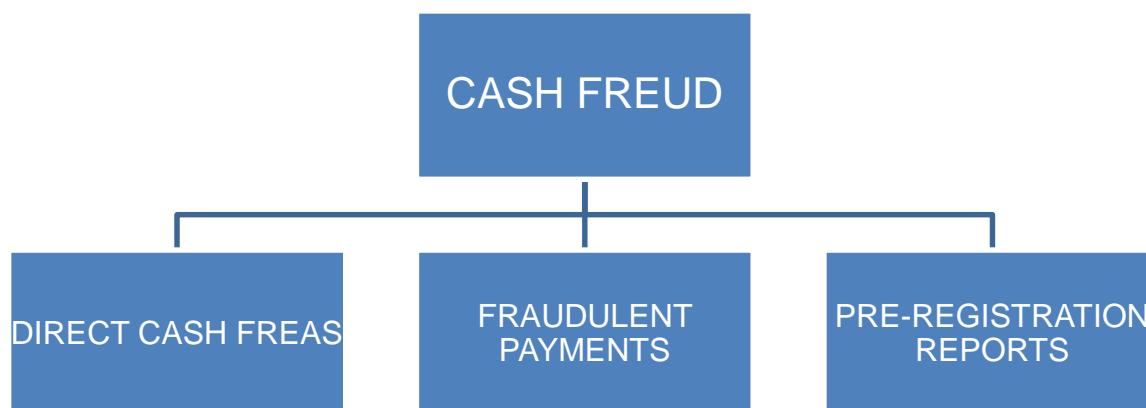


Figure 4: Cash Frauds

*Direct cash frauds:*

They do not deal with forging documents or signatures that fraud in direct cash frauds and take the money directly. As with all frauds, the two most important elements in direct cash fraud are weak controls and trust. If there is no trust, the likelihood of fraud also decreases.

In direct cash theft, most of it is done directly from the cash register. Similar points where cash is collected, cash drawers and boxes are within easy reach of employees create an opportunity for fraud. Sometimes the intense cash transactions trigger the cheater. For example, during a hectic and intense transaction, money can move between customers and employees all the time, while an employee can slip the money from the safe into his pocket and pretend it has not been collected.

The following risks should be taken into consideration in direct cash frauds:

- Extraordinary or unexplained withdrawals in bank accounts,
- There is an unusual difference between company records and reports and bank records,
- A noticeable change in the lifestyle of the staff.

The most effective way to detect and prevent direct cash fraud is to keep the relevant personnel under surveillance. Surveillance covers both monitoring by senior authorities and separation of duties. Separation of duties means that each employee controls another employee. The principle of separation of duties in matters such as cash-related documents, cash counts and records, bank reconciliations and performing transactions by more than one personnel are important measures that can be taken for fraud. In addition, staff rotation and physical measures are effective in preventing direct cash fraud (Erol, 2016).

#### *Fraudulent Payments:*

It is the seizure of cash and similar assets of the enterprise by the fraudster by making changes in business records, issuing fake documents, creating situations that do not exist in reality. It is the seizure of cash and similar assets of the enterprise by the fraudster by making changes in business records, issuing fake documents, creating situations that do not exist in reality. This is done by redirecting payments to illegal channels using the employees' location. Company personnel will cause the company to make incorrect payments with the wrong documents it has issued.

Fraudulent payments are divided into 5 within themselves. These are;

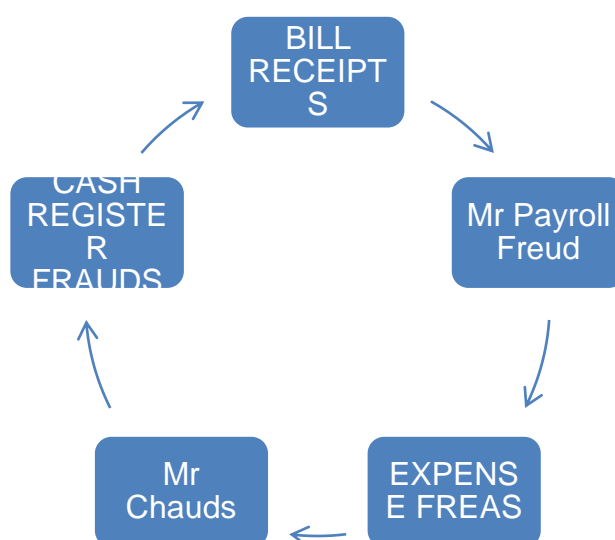


Figure 5: Fraudulent Payments:

### *Invoice Frauds:*

Invoice frauds are operations against the purchasing function in particular. Invoice frauds can be grouped into 3 groups: (Acfe, 2008)

**Use of Shell Companies:** In such frauds, the personnel establishes a shell company that will sell goods or services to the enterprise they work for, these companies generally do not sell any goods or services, but issue documents as if they have made sales and collect the value of the sales from the enterprise.

- Shell companies are companies that consist of addresses and names that do not actually exist.
- The person who cheats usually creates the company title from a name that is very similar to a legal title so that it is not understood that the invoice is fake. Sometimes these names consist of surnames and names of family members. At this point, close company names, companies with the same surname and name should be carefully examined.
- These companies can sometimes be established domestically in certain tax havens in order to benefit from privacy rights.
- Transactions in shell companies are partially or entirely counterfeit.
- People who fraud try to get more payment from the employer by manipulating documents such as invoice, order, credit card statement.
- In this framework, cheaters are usually the ones who are authorized to pay in the company.
- It is the same person who makes a payment request, prepares the necessary documents for payment and performs the fraud by taking advantage of the careless intensity of the supervisors.
- The person who cheats pays particular attention to make the documents look like the real thing.
- It is also seen that multiple duties and officers act together in an organized manner in order to overcome the controls in the enterprise.

Issues to be considered in order to prevent and reveal these frauds:

- Distribution of tasks to different personnel
- Careful monitoring of vendor and supplier charts, accounts,
- Paying attention to the missing and small details on the issued invoices,
- Evaluation of whether the expenditures of the enterprises and departments exceed the budget allocations,
- Questioning the economic and commercial logic of purchasing goods or services as well as questioning fake documents,
- Attempting to determine the owner of the shell company,
- Checking whether the accounts on which salaries or fees are deposited are the same as the accounts of the shell company,
- Only businesses that issue service invoices should be examined more carefully,
- A vendor company with the same address as the personnel should be questioned,
- Vendors accepting payments to two different addresses and accounts should be examined,
- Evaluation of invoices prepared with Excel,
- Receiving continuous consecutive numbered invoices from the sellers,
- Continuous full figures in the invoices
- Extraordinary purchases (*such as a lawyer buying pebbles*)
- Lack of details of the invoice,
- There are general explanations instead of detailed explanations about the goods or services sold,
- Payment conditions are not clear or are very different from market standards,
- Unusual unexpected increases in the cost of goods sold,
- Sellers who systematically pay earlier than other sellers,
- Special and additional expense records,
- Many purchases are made in the same amount and below a certain authorization limit.

### *Non-Collaborative Procurement/Use of Vendors:*

In this fraud method, the first payment process and then the return process are performed. Contrary to the use of shell companies, there is no cooperation or compliance between vendors or suppliers and fraudsters, on the contrary it is used by fraudsters.

To request the amount to be reimbursed to the special account by making the expenses appear to have been made through the invoices of the supplier or sellers, by intentionally paying more to the supplier or sellers or by making payment to the wrong supplier or sellers. Examples of this fraud are placing unnecessary goods orders, then returning the goods to the seller or supplier, and recovering the payment from the seller or supplier.

Issues to be considered in order to prevent and reveal this fraud:

- Purchasing, confirmation of the purchase, separation of the payment process,
- Review of repeated payments made in the past,
- Recording the received cheques immediately to the relevant account and sending them to the bank for collection without delay,
- Paying attention to unusual numbers in invoices,
- Unusual and unexplained purchases from the sellers,
- It is that more than usual purchases have been made from a product.

### *Use of Company Resources for Personal Purposes:*

This fraud method is defined as allowing fraudsters to make false and invalid invoices and personal expenditures and to reimburse said irregular expenditures. Such frauds arise largely because of the weakness of control. Accumulation of ordering and payment confirmation by the same person creates an environment suitable for fraud.

In enterprises where two tasks appear to have been separated from the outside, since the approval authority is senior managers and the purchasing request authority is low-level staff, the same result actually occurs as the upper

level directs the lower level. Cheaters can prepare fraudulent purchase requests in the purchasing process and get the necessary approvals by abusing the trust relationship between subordinate and superior.

Changing the delivery address of the purchased goods to a personal home or workplace address rather than the address of the business and using company resources for personal purposes using company credit cards are also included in these frauds.

In order to prevent fraud with the company credit card, care should be taken to establish spending and card limits, to carefully examine the account statements and to ensure that the expenditures are justified and documented. In addition, attention should be paid to the intensity of continuous budget, exceeding the limit, unusual substance intake and intakes just below the level subject to control (Kandemir, 2010).

#### *Payroll Frauds:*

Payroll fraud is defined in its simplest form as employees fraud on the payroll system where they work to get funds to which they are not entitled. Many ways are used to handle payroll fraud, including salary, commission, and hourly employees and ways to prevent and detect it. For salaried workers, the most prevalent type of payroll fraud is to increase what should fraudulently receive or add a fake employee to the list and collect such wages.

For those receiving hourly pay instead of pay, payroll fraud methods may include entering and leaving work at the inappropriate times, changing the number of working hours, or claiming that they are actually working shifts while not at work. Employees working in production and receive salary from the unit they produce or the commission employees may also commit payroll fraud. This action includes falsification of records, such as the rate of sales they make or produce.

The latest prevalent form of payroll fraud falsifies claims for expenses, ranging from a dinner with friends or family allegedly part of the business with a customer to trips that are incorrectly marked as business meetings or trips.

Although such fraud is not prevalent, it occurs frequently and their businesses and employers could potentially lose a significant amount of money. Since the financial cost of payroll fraud is high and such crimes are serious in nature, some methods could be used to identify payroll fraud and give evidence if suspicious. Key signs of payroll fraud include:

- Symptoms of an employee who lives an extremely expensive lifestyle based on their earnings
- Multiple non-family members who share a bank account or an address
- Payroll audits
- Unfamiliarity of a staff with payroll system control records
- Abnormalities in payroll records

While it should be determined whether fraudulent activities are committed in a company, doing everything possible is equally important to ensure that this is not committed in the first place. While payroll records are frequently checked, this can ensure that employees know all the outcomes of surrounding payroll fraud. Payroll fraud penalties go well beyond the discipline of work or having to pay back the money, and criminals are often given significant prison sentences. Frequently having an organization or staff from out of the team check the records enhances the probability of discovering wrong behaviors. Not every situation where an employee receives an excess salary will be fraudulent, one cannot make mistakes, and the system can be frequently checked to help the company or the relevant employee quickly correct these mistakes without significant financial loss.

Several legal experts specializing in fraud think that payroll fraud occurs because it is regarded as a 'victimless crime' and that such types of fraud are already common. This behaviour can be prevented by ensuring that employees know the damaging effects of their actions and their significant sanctions. This can encourage those committing non-detected payroll frauds to stop their actions.

Jobs can be assured that they have reliable staff not committing fraud and that they perceive any suspicious action from other employees, taking care to

appoint only the highest quality candidates when they fill out your blank payrolls.

Issues to be considered in order to prevent and reveal this fraud:

- Separation of recruitment and personnel duties from each other and payroll duties,
- Monitoring personnel records independently of payroll and time records,
- Verification of situations that cause changes in payroll,
- Systematically monitoring the records of the leaving personnel,
- Review of the corrections made for wage increase and decrease,
- Identification of personnel with the same address, social security and bank account number,
- Checking whether the allowance allocated for wages and salaries has been exceeded,
- To evaluate whether the personnel signing the timecard imitates the signature,
- To determine whether the card is printed instead of the staff not coming to work,
- To check whether the leave periods are reported correctly,
- Attention should be paid to those who never goes on vacation,
- Those who have never taken sick leave,
- Those whose address is known,
- Those without a phone number,
- Those receiving unusual premium in sales commission
- Those receiving unusual and difficult to explain normal and overtime wages,
- Those with unusual hourly wage changes (Kandemir,C, 2010).



### *Expense Cheats:*

It is the fact that the personnel shows the expenditures they make as high as they are due to the work and demands payment. These frauds can be done by changing the name of the expense and showing personal expense as business expense. It's a simple and common fraud. However, when senior management does, costs and expenditure costs increase. In order to prevent this fraud, detailed expenditure reports should only be prepared together with supporting documents. Expenditures of subordinates should be reviewed and approved by their superiors and department expenditures should be analyzed by comparing.

Issues to be considered in order to prevent and reveal this fraud:

- Since the spending documents can be destroyed, attention should be paid to the explanations and amounts, and it should be checked whether there is any tampering,
- It should be monitored whether the expense was made by authorized personnel,
- Should the expense be controlled within the specified limits,
- It should be inspected whether the expense documents brought are fake or not,
- Attention should be paid to the expenditure documents, which are rounded and always full figures,
- Attention should be paid to expense vouchers-invoices from the same seller and representation expenditures defeated with the same supplier,
- Representation limits should be carefully monitored,
- Payment should never be made with a photocopy document,
- Signature of upper approvals should be checked in the document issued after spending,
- Expenditure amounts of personnel who make the same expense should be compared with each other,
- Expenditures should be compared with the budget figures of the previous year,

- Expense verifications should be made from sellers,
- Attention should be paid to the expenditures of people who make high expenditures with cash and low expenditures with credit card,
- If travel by vehicle is in question, mileage control has to be performed,
- The content of the expenditures and the place where the expenditures are made should be compared,
- The date of spending should be considered and expenditure control should be made on the dates when the personnel is on leave,
- Attention should be paid if the amount demanded for payment is constantly close to the limit determined by the enterprise (Bayraktar, 2007).

#### *Cheque Frauds :*

Cheque fraud is when staff issues a cheque in their favor from the company account or when cheques issued from the company account in favor of a third party are seized and used for personal benefit.

In this context, the cheque is signed on behalf of another person and the signature of the fraud detector is forged. In order to perform such frauds, cheaters must have access to the blank cheque book. It is necessary to know where the cheque book is kept and to access the book or pages through a password in a key and computer environment. Blank cheques that are not used but not cancelled properly can be used for fraud. Cheaters prefer the lowest and closest leaves of the cheque book because they attract less attention and are more difficult to notice. It can also be cheated by printing a completely forged check.

Issues to be considered in order to prevent and reveal this fraud:

- Blank cheques should be stored in a secure environment.
- The sequence number of the first cheque of the day and the first cheque of the following day should be compared.
- Automatic signature and stamping machines should be used in a strict order.

- Checking and approval tasks should be separated from each other and assigned to different personnel.
- The approval process should be carefully monitored in case of the possibility of fraudulent cheques being added to other real cheques and collective approval.
- Attention should be paid to the cheque arrangement of those authorized to sign.
- Personnel responsible for protecting and forwarding the cheque to its beneficiary should be carefully monitored in order to avoid theft of the issued cheque.
- Business book records and bank records should be compared.
- The signature and turnover sequence on the back of the cheque should be well followed.
- Vendor and supplier address changes must be verified.
- The person who collects cash and writes a cheque should not be the same person.
- The order quantities should be taken into consideration. The cheater can first pay with small orders and then write a bad cheque with a big order and disappear after ensuring business confidence.
- Two or more cheques can be written to the double beneficiary for the same debt. Here, one of the beneficiaries could really be the provider of goods and services and the other could be the cheater or accomplice
- Cancelled or lost cheques, bank account notifications and reconciliations must be made carefully.
- Cheques must have double signature requirements.
- Changes made on legal books should be done with caution.
- Accounts with too much movement and too little trading should be examined well.
- Vendor and supplier complaints should be taken into consideration.
- Electronic facilities provided by the banks should be utilized and worked in cooperation with the banks,
- Cancellation of a large number of cheques increases the risk factor.

- It has to be checked whether there is a cheque issued for salary but the beneficiary is personnel.
- The amount of cheques paid and the names of the persons paid should be checked.
- Cheques with sequential numbers that are repeated or do not comply with the order should be risked and paid attention (Çelik, 2010).

#### *Cashier frauds:*

In this fraud, cash is taken from the cash register, exit is reported in the cash register and recorded as if a proper expense is made in the legal books. Although the customer does not return the goods, cash is released from the cash register by pretending to return them. In this method, the value of the goods actually returned can be shown to be higher than it is.

#### **2.2.8.3 Pre-recording frauds**

To prevent these frauds:

- Collection and discount procedures for the company should be clearly defined and necessary announcements should be made to all customers.
- The documents related to the sales must be delivered in full and on time and in sequence number.
- The sales personnel should be controlled by the senior management.
- The behavior of the sales personnel with the customer should be supervised by independent organizations.
- Inventory counts should be done carefully and these differences should be approached carefully as significant differences between counts and records may be unrecorded sales indicators.
- Rotations have to be made to the personnel in the field.
- The principle of separation of duties is of utmost importance. Personnel should not have the authority to access the entire registration system and the personnel who register in the receivables accounts should not have the authority to cancel.

- Sales revenues that are lower than expected should be monitored.
- The profit below the estimates should be taken into consideration.
- Collections should be monitored regularly.
- Overbilling errors should be taken into consideration.
- Reductions in receivable turnover rate should be followed up.
- The accounts on which a lot of play is made should be taken into consideration.
- Cash and banking movements should be followed.

<b>Asset Embezzlement Sub Categories</b>					
<b>Category</b>	<b>Description</b>	<b>Examples:</b>	<b>Case Number</b>	<b>Case Rate</b>	<b>Average Loss</b>
<b>Frauds against collections</b>					
<b>Frauds before recording.</b>	Cash theft without company records	Accepts payment from an employee customer but pockets the money instead of recording the sale	203	14.6	58.000 \$
<b>Cash theft</b>	Cash theft after entering into company records	The employee steals cash and cheques from daily receipts before depositing them to the bank	152	11	54.000 \$
<b>Fraudulent payments</b>					
<b>Invoice frauds</b>	The person makes a payment to his/her employer for the purchase of imaginary goods or services, for personal purchases or by sending an inflated invoice.	The employee creates a shell company and invoices the employer for the services that are not actually received	346	24.9	100.000 \$

		Employee purchases personal belongings and issues invoices on behalf of employer			
<b>Fraudulent payments</b>	Make a claim regarding the payment of imaginary or inflated business expenses of an employee.	Employee reports fraudulent expenses with personal trips and non-existent meals etc.	201	14.5	26,000 \$
<b>Cheque frauds</b>	Stealing from the employer's funds by fraud, blocking or altering a cheque made out to a person's bank account.	Employee steals blank company cheques and completes them for him or his accomplice  Deposits the amount of cheque due for an employee seller to their bank account	165	11.9	\$143,000
<b>Payroll scams</b>	An employee making a payment to his/her employer by claiming compensation with false statements.	Employee claims overtime for non-working hours  Adds ghost employees to employee payroll	129	9.3	\$48,000

<b>Cash register frauds</b>	Fake entries by an employee on a cash register to conceal stolen cash.	Employee fraudulently sells on cash register and steals money	50	3.6	25.000 \$
<b>Other Corruptions</b>					
<b>Direct cash theft</b>	The perpetrator embezzles the cash held by the victim organization at its premises.	Steals cash from a working company's vault	164	11.8	20.000 \$

Figure 6: Acfe 2012 Asset Abuse Table (Acfe, 2012).

#### 2.2.8.4 Fraudulent financial reporting

Fraudulent financial reporting is the most costly of three types of professional fraud. Recent research shows that financial fraud is important and affects the validity and reliability of financial statements. It has the potential to damage the usefulness of financial statements in the long term. There are three types of professional fraud. There are three categories of asset embezzlement, corruption and fraudulent financial consequences, and this report focuses on the final item, financial reporting fraud. 10% of the professional fraud cases is fraud of financial statement. This is the most expensive of desertified fraud auditors if it is not considered the most common type of professional fraud.

Fraudulent financial reporting;

- (a) to report imaginary or exaggerated revenues,
- (b) concealing or reducing debts or expenses,
- (c) timing differences for recording income or expense in the incorrect period,

(d) disclose material information in the form of improper valuation goods.

Due to increasing awareness and interest in fraudulent financial reporting, many people have conducted their own research in the field of accounting and financial fraud. As a result of all of this, the reliability of the financial statement is jeopardized and its decisibility decreases. The fact that financial violations have exceeded USD 100 billion in the last two years and continue to increase creates significant economic pressure on stakeholders.

Financial fraud can range from simple financial programs to more complex accounting techniques used to deceive investors, which can typically include deliberate misstatements of the firm's actual financial position. There are several examples of methods used in financial reporting scandals that also take into account financial reports.

The most common forms of fraudulent reporting techniques are;

- (a) imaginary revenues,
- (b) recording revenues early,
- (c) exaggeration of revenues,
- (d) overestimating the accounts receivable,
- (e) to register imaginary assets,
- (f) expenditures as non-flowing activities that keep their expenses low and incorrectly increase earnings, and
- (g) low expenses or other liabilities.

A review of the literature on fraudulent financial reporting showed that fraud is difficult to detect and eliminate and that no company is completely isolated from financial fraud. Studies have shown that anyone can commit fraud and fraud is a growing problem worldwide. Since not all cases of fraud have been reported to the prosecution authorities, the absolute real cost of fraud is



unknown. For example, the four most important reasons why organizations decide not to prosecute fraud offenders are;

- (a) fear of negative publicity,
- (b) addressing discipline internally
- (c) a special agreement has been reached
- (d) preventing further follow-up of cost (Çıtak, 2009).

#### **2.2.8.5 Corruption and unethical behaviour**

Corruption, corporate and personal honesty continue to be increasingly important factors in the global economy. Several multinational and national organizations and companies and face vital cultural issues, particularly in terms of corruption and honesty. This lack of integrity indicates that a country is harmful to the economy, society, politics and the general environment. Honesty in a country is suitable for opening the door for more corruption and there is not accountable institution.

Corruption also affects the country's economy intensely, as corrupt staff consumes the national wealth to a large extent. However, the greatest evil for a country is corruption affecting community. The corruption character penetrates into the individuals of society. Corruption in a country creates a highly negative and distressing environment for citizens and foreign governments. It is also unethical behavior.

This situation creates space for the outside world and the country and for unethical behavior and corruption. Commemorating a country with corruption is also reflected in agreements with other countries and leads to an insecure environment.

The 2009 list, based on the Corruption Perceptions Index in international broadcasting, includes the countries where seen highest and lowest corruption in the world. Five countries with the least corruption: 1. Denmark , 2.New

Zealand, 3. Sweden, 4. Switzerland, 5. Singapore, and the five most corrupt countries: 1. Afghanistan, 2. Somali, 3. Sudan, 4. Myanmar, and 5. Iraq.

The Corruption Perception Index (CPI) carries out a study to measure corruption levels in the public sector in approximately 180 countries in the world and in various parts of the world, including the United States. In 2009, CPI demonstrated that Somalia was tagged as the most corrupt state of world, just after Myanmar and Afghanistan. Besides, CPI defined New Zealand as a country where lowest corrupt and then Singapore ranked third.

Finding corruption trends is at a very challenging level of measurement and therefore there is no general consensus on what corruption is. Corruption is not fully defined. In order for CPI to conclude that the countries given are the most corrupt or less corrupt, the levels of morality and honesty need to be determined as criteria for the level of corruption. While the countries with the highest professional ethics are known as the countries with the lowest rate of corruption, the countries with the lowest moral value are accepted as the countries with the highest rate of corruption. (Çitak, 2009).

#### *Corruption in Myanmar:*

World's most corrupted countries include Myanmar. After over the 40 years of political severity, systematic pressure from the military administration and even democratic opposition, Myanmar has faced great challenges of endemic corruption. It is consistently listed under CPI. Very little is known about certain corruption practice in this country. However, the range of the illegal economy has displayed powerful association between the leadership and organised crime such as human and drugs smuggling or illegal lumbering. There is tendency to have democratic institutions and an effective balance and control system. The licit model against corruption creates a gap because the weak people are not effective in politics.

#### *Corruption in Somalia:*

In the Global Integrity report preview published in February 2008, the Somali people also see the government as a partial boarding auditor in the report of

Somali citizen Abdurrahman Warsameh. It establishes a personal relationship with government officials only because they are located at these points, seaports, airports and other control points. Somalis agree that corruption is unavoidable in daily processes, particularly when regarding government agencies. For nearly 20 years, the provision of services to citizens to state institutions was problematic.

Citizens, government officials and government officials were constantly taking bribes during their duties, Warsameh said in a study. In Somalia, as long as you know someone authorized or have the resources you need to give them, they can do something and get out of here. Illegal coal burning, drug trafficking, cattle theft, illegal arms trafficking, and murder are the daily crimes of the Somali people. The system forces you to bribe to start a business or obtain a license.

In state-controlled areas, toll taker of government do their jobs. However, the fact that businessmen mostly refrain from paying their income causes them to collect very little income. Importers and exporters must pay their normal taxes. After that, they pay bribes to the authorities. Otherwise, there is a risk of losing the goods. Corruption is inevitable regardless of whether their cars on the roads are new or in bad conditions. The drivers wouldn't dare challenge the soldiers. Bus drivers require almost 15,000 Somali shillings payment each day.

There are institutions dealing with corruption in many countries where corruption can be prevented. There is not a single institution in New Zealand that has taken responsibility for the fight against corruption. There's no need to set up these commissions. Instead, the country is trying to reinforce the values that keep the country free of corruption.

Singapore, which emerges as the third freest country in the country of corruption, has a community administration system that fully relies on institutional and attitudinal aspects to increase effectiveness in public institutions. Organizations regarded as incomplete are either rearranged or completely omitted from the system and changed with others. New employees are redirected to assure the complete dismantling of former

system. Unlike several countries in which a corrupt officer was dismissed or inducted to another department, he received compensation from the country for firing a corrupt officer in Singapore. The Singapore government strives to instill its citizens in the fight against moral corruption. Children learn values such as honesty at school and the perception that there are no suspicious deals during all periods of life develops. When such a personality is impressed in children, even when they grow up, they try to put it into practice.

The culture of a community serves a major function in how people live. Culture takes a superior identity because it forms a person or group's model. National culture ensures that a person from a particular nation has a cultural identity. The culture against nature is built by man. Culture is transferred from one individual to another by way of a socialization process. Culture affects the business ethics of countries. Business ethics are everyday business behaviors in the business world. Good business ethics makes the firm respectable. The country developing honesty and a culture of deprivation of corruption results in a poor work ethic or good work ethic that is not respected by the relevant staff.

Unethical countries are affected by many ethical issues that are longed for power among them. Countries like Somalia and Myanmar have turned nations into battlefields for power. This has caused the government to refuse to choose democracy, freedom and wages. Money has led to insane corruption. According to moral ethics, people increase their disrespect for the determined values. There is a great responsibility for neglecting important areas of responsibility. This forms gaps for corruption and malpractice. Human rights are excelled. Laws are too soft for lawmakers, and if people make controversial deals, they can easily go unpunished.

A government could smoothly defeat existing unethical behavior initially by overcoming unethical conduct. Authorities and business concern should now try to find the root causes of corruption; they strive to root out the problem. The biggest difficulty to corruption is the people's morality. Countries succeeding in tackling unethical issues and corruption have tried to identify the public's members with good moral values technology. In order to eliminate problems,

it becomes easier to prevent a problem than to wait for the problems to arise. If all humans are morally upright from childhood, such a character will have this kind of character in life, in such a way that they will later have difficulty accepting corrupt behaviours. People took part in a corruption agreement should be addressed seriously. Justice systems should dismiss dishonest officials, and pay their dues very tightly. Unethical behaviours should be open to the public and those concerned should be publicly prosecuted as a monition to others with such behaviours or their purposes (Akçay, 2010).

### **2.2.9 Methods used to prevent fraud**

The fraud prevention list is listed as follows:

- Preventing occurrence of fraud is the most efficient way to limit losses of fraud. This list helps organizations test whether the fraud prevention measures are effective or not.
- Raising awareness of employees about fraud,
- Informing employees about where to consult when faced with uncertain ethical decisions,
- To apply a zero-tolerance policy on fraud,
- Everyone in the company tells the cost of fraud,
- Surveying bank accounts and cheque-cash status with unannounced counting and audit tests,
- To determine why the income expenses change according to the previous reporting periods,
- To create special notification channels for employees,
- To give the message that fraudulent activities are actively evaluated by the auditors to all employees,
- Realistic personnel targets have to be determined,
- Control activities should be developed against possible fraud risks,
- Proper separation of duties should be made,
- Authorizations should be made according to the nature of the work and the competence of the personnel,
- Physical security measures have to be taken,

- Personnel rotations have to be made,
- Staff must be given mandatory leave,
- Appropriate environment and working conditions have to be provided for the internal audit unit to work effectively and independently,
- When hiring personnel; points such as honesty, verification of past studies, forensic history, credit history, drug screening, confirmation of educational status, reference control should be taken into consideration.
- Taking frauds in businesses seriously by the management,
- Paying attention to premium payments,
- Employees have to be supported with auxiliary programs in the fight against emotional and mental health, family or financial problems,
- Employees have to be provided with a working environment where they can speak freely without pressure,
- Independent studies and working ethics tests have to be conducted

The threat of employee fraud exists for all businesses. Businesses exposed to fraud have to bear serious costs. Rather than bearing these costs, preventing fraud should be the first purpose of businesses. Awareness has to be provided by providing targeted fraud awareness trainings for employees and managers. Especially for small enterprises with few resources, the impact of losses is higher than for large enterprises. In such businesses, the business owner should protect their businesses against fraud risks in order not to cause major losses in the future (Akçay, 2010).

#### **2.2.10 Cases of accounting fraud**

The Enron scandal is one of the most outrageous cases in the history of the accounting field. Enron quickly ascend to achievement after it was founded in 1985. However, although stock prices are high, the firm went bankrupt within a week in December 2001, the company's share value declined from \$ 92 to \$ 0.67. The stakeholders still wonder that how such a big company, one of the most up-and-coming establishment in the United States, begins to collapse in one night. The main problem with Enron's situation is that the figure managers

do not have enough accounting oversight to ensure that the company's position reflects a fair and true view.

The tremendous liberalisation and the insufficiency independent accounting companies to supervise Enron's books help run on the convention for years. Although the company began to fail in the late 1990s, the world did not realize what was going on behind the scenes until the end of 2001. The scandalous main players, involving CEO Jeffery Skilling, previous CEO of Enron Kenneth Bay and forward-looking CFO Andrew Fastow, are sentenced to fraud charges and insider trading. The failed accounting firm i.e., Arthur Andersen LLP that reported Enron's deceit was shut down and sentenced to obstruct justice, although the conviction was reversed.

The SEC is working with a rigorous elementary system to avert companies from hazardous occupations, as in the Enron case. However, these gaps allow Enron to develop. Among them, a method allows companies to affect how their stock values progress on the stock market. In the mark-to-market accounting, Enron is permitted to put its price above the market price not the value exhibited in the books.

Thereupon, allowing companies to hedge their balance sheets using SPVs is a failure to prevent companies from affecting the advancement of their stock values unfairly. These basic issues are exploited by Enron, but a greater protection i.e. an independent audit firm is available. Arthur Andersen LLP does not fulfil its incumbency to ensure that Enron's operations have a fair and true view. By doing so, the company is allowed to continue committing fraud for a long time. On this date, instead of reporting to the board of directors, the supervisory board reports directly to company managers who significantly restrict their independence. It also creates a gap in the mechanism enabling managers to pursue their interests against them.

#### *Amendments to SAS 99:*

Potential fraud communication: SAS 99 improves appearance to ensure higher surveillance against corporate counterfeiting. Thus, the reporting system has

been extended to contain not only management but also other agents. The communication of the fraud operation is now more interested by the board and other stakeholders (Thomas, 2002). In addition, compelling the independent auditor has changed and now covers a broader stakeholder coverage, meaning that it is not enough just to provide information to management. Failure to disclose the audit in detail to other stakeholders leads to unsuccessful agreement.

Risk factors of fraud: Auditors heavily rely on the information obtained when coming together to decide about financial statements of a company. However, SAS 99 is revised to mean that they allow detecting fraud through the control environment assessment. In other words, auditors can use information beyond the financial information provided by a company to specify whether it has made any false statements in the information which is sent to the board of directors or the public.

Higher auditor independence: The SAS assesses what is expected during the audit activity of the independent audit institution. The biggest transformation made to SAS within this context is to separate the role of management from the roles of auditors. At the outset, a fine line is drawn between auditors and management since the auditors are authorized to gain other interests linked to management. This amendment to the standard aims to annihilate conflicts of interest through a fine line between the two main stakeholder groups when accounting fraud is desired to be prevented. More independence is not merely due to formations, but also revision in stakeholders number reported by auditors.

Illegal activities of the customer: SAS 99 provides a new perspective when reporting illegal actions in which audit findings are conducted by the customer. The failures that occurred in the initial reporting of these actions were given to the criminal justice jurisdiction and called the justice obstruction. However, SAS 99 provides a more recent approach when it comes to reporting and addressing customer perceived illegal transactions, summarizing the auditor's procedures and obligations. Therefore, the auditor first is responsible under



the principles of accounting when he/she thinks that illicit actions have been taken by the client.

Other major scandals include:

Credit and Trade International Bank of Cocaine and Criminals internationally recognized for widespread fraud and money laundering. His creditors went bankrupt in 1991 due to excess £10 billion. The collapse with ongoing effects left for more than a decade, has helped modify the UK corporate governance to control corporate governance.

The most famous accounting scandal in the world was Enron's unification in 2001. The accounts held by the energy merchant concealed the huge debts that covered his balance sheet. When they were uncovered, the company wiped out 74 billion dollars in shareholder funds and thousands of employees' pensions and jobs. Arthur Andersen, Enron's supervisor, declined.

In 2002, it was found that Tyco International's bosses had siphoned hundreds of millions of dollars as producers of electrical, safety, and health equipment. The looted money was mostly used to finance luxury lifestyles, such as numerous homes owned by Tyco's chief executive, Dennis Kozlowski, a \$2 million birthday party for his wife, and a \$6,000 shower curtain. Kozlowski and his accompanying rulers were sentenced to 25 years in prison after a mistrial.

The fraud of \$1.7bn at Olympus was discovered by the chief executive of the camera manufacturer from Britain in late 2011. Olympus' previous administration buried the losses for 13 years. Former president Tsuyoshi Kikukawa and two other directors were sentenced to prison and a consultant was imprisoned for four years in this month.

Tesco, the UK's largest retailer, said the profits it placed on the market were £263m in profits, overestimating the revenues it paid to suppliers. To increase revenues, Tesco was struggling during the attack of the discounter Aldi and Lidl. The matter is investigated by the Serious Fraud Bureau which cleared the Tesco board and the UK management team.

The largest collective financial scandal is the crisis of credit in 2007 and 2008, but bank leaders such as Lehman Brothers and the Royal Bank of Scotland have been viewed as inadequate, deceived or victims of events.

Within the framework of the above, major accounting scandals are examined below (Atmaca, 2012).

*Waste Management Scandal (1998):*

Atık Yönetimi A.Ş is a public US company for waste management. In 1998, A Maurice Meyers, the company's new CEO, and his management team, reported that it made a fake \$1.7 billion profit. I found the owner and former CEO, guilty. Dean L Buntrock with some other senior executives of the Real Estate Securities and Exchange Commission (SEC) were involved. Furthermore, Arthur Andersen, the auditor of SEC Waste Management was fined more than \$7 million. The company finally settled into a shareholder-class case for \$457 million.

*Enron Scandal (2001):*

The Enron Corporation was a U.S. energy, commodity and service company founded in Houston, Texas. The most debatable accounting scandal in the past decade revealed that the company used accounting deficits in 2001 to conceal billions of dollars in debt while they inflated the company's profits, causing shareholders to lose \$74 billion due to decline of Enron's share price from \$90 to less than \$1 in a year. A SEC research showed that former CEO Ken Lay and CEO, Jeff Skillings, borrowed billions of dollars from the balance sheet of a company. They also forced Arthur Andersen, the company's audit firm, to forget the problem.

They were convicted largely through the testimony of Sherron Watkins, the former Enron employee. Nevertheless, Lay passed away before giving time in prison. Jeff Skillings was sentenced to prison for 24 years. The scandal resulted in bankruptcy of Enron and Arthur Andersen's dissolution. In fact, convictions were controversial because the collapse of the company was shocking. Prosecutor Andrew Weissman not only blamed the individuals, but

also Arthur Andersen's entire accounting firm, and fired the company. It partially consoled 20,000 employees who later were unemployed after breaking the conviction.

*WorldCom Scandal (2002):*

WorldCom became an American telecommunications company in Ashburn, Virginia. WorldCom expanded its assets by almost \$11 billion in 2002 one year after the Enron scandal, as one of the biggest accounting scandals to date. The company did not record income by spending instead of spending and increased its income by making incorrect entries. The scandal appeared for the first time when about \$3.8 billion was found in fraudulent accounts the company's internal by the audit department. Bernie Ebbers, the company's CEO, was sentenced to prison for 25 years due to conspiracy, fraud, and forgery. The scandal resulted from more than 30,000 layoffs of investors and losses of \$180 billion.

*Tyco Scandal (2002):*

An American blue security company, Tyco International was founded in Princeton, New Jersey. CEO Dennis Kozlowski and CFO Mark Swartz in 2002 were found to have inflated the company's revenues by more than \$500 million and stolen more than \$150 million from the company in their reports. Swartz and Kozlowski used the unapproved loans and stock sales to fund their money. SEC and the District Attorney's office investigated some questionable accounting practices of the company to discover the scandal. Both Swartz and Kozlowski were sentenced to prison for 8 to 25 years. Investors were forced by a class action to pay \$2.92 billion.

*HealthSouth Scandal (2003):*

Health South Corporation is the best public health organization in the United States based in Alabama, Alabama. It was found in 2003 that the company increased its profits by more than \$1.8 billion. Previously, SEC investigated Health South CEO Richard Scrushy and the company sold shares of \$75 million one day before. Although he was accused, Scrushy was discharged of

all 36 accounting fraud cases. However, then Governor Don Siegelman of Alabama was found guilty of bribery and imprisoned for to seven years.

*Freddie Mac Scandal (2003):*

The Federal Mortgage Home Loan Corporation is a U.S. federally funded mortgage finance giant located in Fairfax County, Virginia. Freddie Mac was found to have missed profits exceeding \$5 billion in 2003. COO David Glenn, former CEO LelandBrendsel, former CFO VaughnClarke and former Senior Vice Presidents, Nazir Dossani and Robert Dean deliberately lowered earnings in the company's books. There was the scandal when an SEC investigated accounting practices of Freddie Mac. Clarke, Glenn, and Brendsel were all dismissed and the company was fined to pay \$125 million.

*AIG Scandal (2005):*

A US multinational insurance company, the American International Group (AIG) had more than 88 million clients in 130 countries. HankGreenberg, the CEO was charged of stock price manipulation in 2005. SEC's Greenberg investigation found that a total accounting fraud was valued at almost \$4 billion. The company was found to allocate loans as income in its books, forcing customers to use insurance companies with previous payment agreements. It also wanted stock sellers to increase its share price. AIG fined SEC \$1.64 billion. It also paid \$725 million to three Ohio pension funds and \$115 million to a Louisiana pension fund.

*LehmanBrothers Scandal (2008):*

A global financial services company, Lehman Brothers was founded in New York and was one of the biggest investment banks in America. When there was financial crisis in 2008, the company focused on a \$50 billion loan. These loans were shown as sales based on the accounting gaps. The SEC investigation showed that banks purchased toxic assets from the company in the Cayman Islands in the short term. The Lehman Brothers are found to take these assets back, showing that the company had \$50 billion more toxic assets and \$50 billion more cash. Lehman Brothers went bankrupt after the scandal.

*BernieMadoff Scandal (2008):*

A former American stockbroker Madoff, Bernard L., BernieMadoff directs the largest Ponzi scheme in history and is one of the largest accounting scandals. Madoff Yatırım Menkul Değerler A.Ş. After the 2008 financial crisis, Madoff cut investors more than \$64.8 billion.

David Friehling, his accountant and Frank DiPascalli his second in command, were convicted of charges against them. The former stockbroker was sentenced to prison for 150 years and fined \$170 billion in compensation.

*Satyam Scandal (2009):*

SatyamComputer Services was an Indian back-office accounting and IT services firm in Haydarabad, India. He flagged one of the company's biggest accounting scandals in 2009, discovering that it raised revenue by \$1.5 billion. The Indian Central Bureau of Investigation was investigated to find that the Chairman and Founder of the Board of Directors, RamalingaRaju, disrupted margins, revenues, and cash balance. Raju under the investigation confessed that he committed fraud through a letter to the board. Despite charging Raju and his brother with breaches of conspiracy, trust, falsification of records, and fraud, he was acquitted when the Central Bureau could not file the charges over time.

**2.3 Judicial Accounting**

Forensic accountants investigate the data to determine the place of the missing money and way of recovering it. In addition, they can give reports on their financial findings in the form of evidence during hearings and often give evidence here as expert witnesses. The role played by a forensic accountant these environments is different. Each company uses various ways to deal with money and fraudsters direct at organizations according to their tasks. Some accountants deal with a wider fraud case, such as law firms or law enforcement. Accountants who work in more specialised areas, such as insurance or public accounting, often emphasize certain forms of fraud

including insurance fraud. Forensic accountants who work in some institutions tend to testify in court (Karacan, 2012).

Since job of forensic accountant is very important for financial security, certain competencies are required for the position.

- Tax evasion
- Fraud of Marketable Securities
- Money Laundering
- Commercial Economic Losses and Bankruptcy
- Hidden or Misused Assets
- Insurance claims
- Terrorism and Counterintelligence

Different form of transaction from financial statement audit is required for the forensic accounting audit. A unique protocol is required for every situation. This process includes information reporting, a final case, and an initial investigation. The following information addresses the significance of expertise skills of a forensic accountant when investigating forensic accounting research and researching to make a claim (Manning; 2000, p.1).

### 1. Research

Forensic accountants usually investigate and gather evidence if suspected fraud already exists. Therefore, the data they seek during investigation includes inconsistencies and red flags that may indicate occurrence of fraud. To find the person committing fraud and to get more information, they can interview staff in an organization. Using the information gathered, they begin to hypothesize the event and establish follow-up schemes to evaluate the work. When this stage is completed, the next required action is determined by the forensic accountant and this information is transferred to the company.

### 2. Reporting

After forensic accountants collect data/information and bring a case, they submit brief findings to the required staff. These employees use this

information to specify the way fraud occurs and who plays a role. Then, the accountant specifies the way the case is handled and proposes the steps of the company from now on. They can also suggest ways of preventing these future incidents by strengthening and enhancing internal security and showing red flags. After the report is submitted, the forensic accountant plays his role in court proceedings associated with the case.

### 3. The case

The forensic accountant process's final step includes joining the case as an expert. His findings are presented by the professional as evidence in court and they testify against criminals. They explain the financial documents and interpret the evidence in reasonable terms and present how they determine the topic meaning that the accountant should not only search evidence, but also apply the rhetoric understandable to the court. When this step is completed, the ultimate decision on the situation will be determined by the court. The forensic accountant contributes to this process.

A bachelor's degree in finance, forensic accounting, or accounting is required for most positions of the forensic accountants. Individuals with criminal justice or a law enforcement degree are qualified to work in this area. Professionals with higher degree such as a master's or doctorate's degree in forensic accounting can find more profitable positions. In addition to on-the-job training, at least 1-3 year experience in a general accounting profession is required for proficiency for most forensic accounting careers.

#### **2.3.1 The concept of forensic accounting and forensic accounting**

Forensic accounting investigates financial manipulation or fraud by conducting highly detailed analysis and research on financial information. Forensic accountants are usually recruited to prepare for cases of bankruptcy, insurance claims, embezzlement, divorces, fraud, evasion and all kinds of financial theft. You may have confronted the expression "forensic evidence" before, meaning the evidence presented in a court of law. Therefore, forensic accounting is the term used for description of financial information used to defend a case in a court. It may take months or even years to research all the

financial information of an individual or a company, for which a group of expert accountants should act like detectives to solve a mystery. An accounting firm will be typically engaged with a client who either wants to defend himself or wants to prosecute someone. Most of the medium-sized and large-scale companies have a forensic accounting department consisting of different forensic auditors (Oberholzer, 2002:5).

Different judicial audits can occur and are usually grouped according to the types of legal proceedings falling within their scope. Below are some of the most common examples (Crumbley and Apostolou, 2002:15). :

- Financial theft (customers, employees or foreigners)
- Securities fraud
- Bankruptcy
- Default of debt
- Economic damages (different types of lawsuits for compensation of damages)
- Fraud or tax evasion
- disputes of corporate valuation
- Allegations of professional negligence
- Money Laundering
- Privacy information

There are different career options for accountants entering forensic accounting. Based on the customer represented and the research nature, responsibility and work can be significantly different. For example, dealing with a personal divorce against the Enron scandal will be very different (Gülten, 2010).

Forensic accounting is used to describe the duty type. It is the entire process of conducting a judicial investigation, including drawing up a witness statement or an expert report and probably being an expert witness in legal proceedings. A part of forensic accounting duty is forensic investigation, which is the process of collecting evidence for the preparation of witness statement or an expert's report. It includes forensic inspection, but interviews with witnesses and



suspects, e-mails, in-building physical searches, etc. It includes a more extensive range of research techniques, including viewing or recovering computer files. Judicial audit means applying traditional audit techniques and procedures to collect evidence as part of a judicial investigation.

The main forensic accounting practices include negligence cases, insurance claims, and fraud investigations. An insurance claim requires determining how much the customer needs to claim against the insurer. In the first step, the insurance policy will be reviewed in detail to specify the "coverage", meaning what is insured and the provisions restricting the amount that may invalidate the claim or be claimed. In the second step, evidence will be gathered to determine the amount of loss, i.e. the claimed amount. Insurance claims may include claims for misuse of assets, such as theft of money or goods. In such cases, cash or inventory records and purchase and sales reports shall be examined by the forensic accountant to settle the retained amounts and specify value of the stolen cash or goods. The reliability of the held information will be tested by them by counting an inventory or cash sample already held compared to the customer's records. The forensic accountant does not imagine that a theft occurred. They also consider other possibilities such as erroneous retained data (Gülten and Kocaer, 2011: 11).

However, in the case of business interruptions due to flooding or fire, insurance claims can be much more complex than that. In such contracts, the prospective financial information shall be reviewed by the forensic accountant against the reported output in order to assess the profit loss caused by the business interruption. Any loss of profit will not be assumed by the forensic accountant due to the interruption of business. Other possibilities, such as loss of direct market share to a competitor will be also considered by them.

The forensic accountant should measure a loss for forensic investigations. Such involvement is in allegations of professional negligence, that is, when another accountant breaches the maintenance obligation towards a client or a third party, causing a loss for that client. In such duties, the judicial accountant will also provide an opinion as to whether the maintenance obligation owed has been violated, i.e. whether the audit or other accounting service has been

performed based on the existing standards, legislation and techniques in practice. Regarding an audit, this requires consideration of compliance with International Auditing Standards.

A forensic accountant may also be needed due to the failure of the two parties to agree on the amount one party owed to the other and the accountant's mandate to provide, for example, an expert assessment of an entity. This may be the case in a marriage dispute in which a divorced couple with assets including shares in a company or partnership hires a forensic accountant to appraise the company in order to reach an agreement. When a partner wants to leave a partnership and is purchased by the remaining partners, a similar process may be valid in the partnerships (Gülten and Kocaer, 2011: 11).

An accountant may be called to testify as a professional witness meaning an expert witness or witness of a case. In order to testify as an expert, they need to be an expert. They should show an expertise level that means their opinions are important for the court. This means not only speciality in the field of accounting but also expertise in the specific field of accounting that they have proven. A witness will submit a written statement/report to the court and shall come to the court to provide live evidence personally and to be cross-examined by another party.

However, not all judicial duties require the submission of evidence to the court. Generally, the audit will need a report for the customer's aims or sometimes a report to be used by the insurer. In both cases, the basic skill required to be a successful forensic accountant is the ability to interpret complex concepts of accounting in simple terms to a person not an accountant himself; this is to explain issues to the jury or judge as an expert witness or to the client. It integrates investigation, forensic accounting, accounting and communication skills.

Judicial accounting contracts are agreed upon procedural contracts, not assurance contracts. The forensic accountant does not give an assurance opinion. Such duty is performed by the auditor when examining the loss amount in the financial statements. This would typically include quantifying a

loss or determining an appropriate value as discussed above, which is quite different from an assurance audit in which an amount set by the client would be reviewed by the audit team. The forensic accountant as an agreed procedure contract shall normally draw up a report for the client setting out his findings according to the scope under the contract letter. Such report can usually be sent to management or the insurer in the event of a fraud.

A witness statement / report may be required to be submitted to the arbitrator/court in place of or in addition to a report provided to the client. However, the investigation planning will be similar to the planning of an audit or other assurance task. Planning, customer, contract team's problem / events (fraud, theft, etc.) And from the moment it occurs, it will begin with a meeting where it will develop an understanding of the actions taken by the customer. As an important part of planning, what format the output is required in and what issues should be covered in it should be exactly confirmed.

Any technique for getting evidence may be applied in a forensic accounting audit, which is not a limited assurance audit in which procedures will be limited to investigations and analysis. Forensic investigations shall include a complete or detailed review of all available documents and electronic evidence. The opinion the expert accountant has given must be justified and supported by evidence. They cannot be objective if their views are based solely on their speech. They need to verify this information. Your procedures cannot be ambiguous to take notes on the exam. They must be specific enough for the task force to follow your instructions actually. In order to design the appropriate procedures, you need to determine the type of forensic accounting task and a specific type of insurance, fraud, or negligence claim. For example, measuring goods theft would differ greatly from measuring loss of profits following a pay slip or 'ghost worker' fraud or a business interruption.

The scope of professional and ethical issues will be similar to other types of engagements. However, ethics is much more important in forensic accounting. Both 'sides' often bring an expert witness to the hearing, in which they disagree. The decision maker should determine which evidence to 'prefer' that is the witness credibility is often the primary factor based on which they can

make this decision, and an accountant credibility depends on their adherence to fundamental ethical principles (Aktaş and Kuloğlu, 2008: 102).

### **2.3.2 Qualifications of forensic accountants**

The forensic accountant must have skills such as understanding theories on issues such as financial crimes, law, accounting, audit, rules of evidence, investigative ability, social skills, psychology, criminal science, communication skills, information technologies and expertise.

The forensic accountant should be aware that frauds can be hidden and examine them with the curiosity and suspicion of the researcher at a level that can reveal them. Forensic accountant management should make reports, definitions, measurements, analyses and evaluations on accounting, computer systems, finance, economy, risk management information and this information. Forensic accountants should systematically review policies, rules, laws and regulations that have an impact on their work and continuously improve themselves.

Forensic accountant should evaluate which assets have been used or are being used to determine whether the assets have been used adequately, effectively and economically. The forensic accountant should examine the operations and programs to understand the compliance of the results with the objectives and targets set and whether the operations and programs are carried out as planned. (Kuloğlu, 2007:28)

The forensic accountant must have deep knowledge of the application and principles of accounting standards. The forensic accountant should follow the innovations and regulations introduced to professional standards as well as his/her experience and improve his/her professional knowledge. Have knowledge of how accounting records and financial statement frauds are performed and how they are revealed.

He/she should have knowledge and experience in fraud and fraud research as well as accounting and audit information. The forensic accountant should have

a sufficient level of legal knowledge and should know which actions may be illegal and should be able to identify the subject of the investigation.

The forensic accountant must have sufficient knowledge and experience in internet fraud, money laundering, fraudulent declaration, fraudulent bankruptcy, tax evasion, etc. In addition to these, personal rights should be familiar with research and confiscation, detention processes, admissibility of evidence and investigation techniques. The forensic accountant should have extensive knowledge of whether the actions are fraudulent and involve the potential for fraud and the collection of evidence as he/she will provide support counseling to cases with accounting knowledge.

### **2.3.3 Forensic accounting profession in turkey**

The "judicial accountancy profession", which is not very common in Turkey, has become an issue of interest to both accountants and faculty members due to the fact that fraud and abuse of duty cannot be prevented despite all international regulations. Çabuk and Yücel, (2012: 37) He stated the developments in Turkey as follows; "Although there are no basic training programs and legal regulations in our country yet for the profession, many independent companies have started to be established on fraud control and forensic accountancy. The first of these is Fraud Research Corporation (FRC) International Fraud Audit and Consulting Services AS, established in 2011 to provide an institutional solution to the prevention of fraud and corruption.

Established by 35 Independent Financial Advisors (CPA) who received certificates after the "Independent Forensic Accounting Expert Program", which was first organized by Istanbul Chamber of Independent and Financial Advisors (ISMMO) in 2009, this organization also paved the way for many forensic accounting companies working in this field.

However, the addition of the titles of "independent forensic accountant" , "independent forensic accountant" or "independent forensic accountant" to the title of many CPA after the Independent Forensic Accounting Expertise Program lasting approximately 7 months (360 hours) has increased the interest in the forensic accounting profession in our country ". 55 In addition

The terms "Code of Civil Procedure No. 6100 (HMK)" and "Expertise" and "Expert Opinion" are separated from each other. According to the "Article 293" of the Law, parties receive ideas from experienced individuals related to the case for scientific issues. This arrangement paved the way for "litigation support" and "expert witness" professions of "forensic accounting" practices in Turkey (Çabuk and Yücel, 2012: 73). Keleş and Keleş (2014: 65);

"Taking these issues into account in Turkey," lawyer" , " independent accountant and financial advisors "and "sworn in financial advisors" have been included among the obliged groups as of 01.04.2008 within the scope of laundering and terrorist financing".

Although there is no legal limit to the profession of forensic accountancy in Turkey, there are groups based on forensic accountancy. The most fraudulent method of corruption in Turkey is document fraud.

The use of forensic investigation techniques in the event of bankruptcy can resolve transactions contributing to the collapse of a company and lead to asset recovery to favour creditors. Fraud may be a factor and detecting incorrect or irregular accounting practices may result in recognition of the underlying fraud. The forensic accountants' ability to eliminate important data volumes to recognise possible causes of a company's financial difficulties, including in some cases misapplication of funds, can help achieve the best possible outcome for creditors by providing recovery action against the responsible ones.

Challenging economic conditions and the existence of wage grants backed by government and support packages mean that there are conditions for increased opportunistic fraud. At the same time, a large number of businesses claiming under lockdown restrictions and such programmes make it even more difficult for organizations to address any financial deficits. Challenging economic conditions and the existence of wage grants backed by government and support packages mean that there are right conditions for increased opportunistic fraud.

In the business world, boundaries that distinguish illegal business practices, acceptable practice, and best practice may sometimes blur. This means that for an untrained eye, determining whether a business bankruptcy is due to non-effective management or whether other malicious activities have occurred is difficult. Forensic accountants can uncover the truth behind unusual or suspicious transactions and assist the appointed bankruptcy practitioner in deciding on the strategy of recovery.

When forensic accountants are trained to investigate the financial situation of a business going into bankruptcy proceedings, they will begin by collecting information about the company before going into financial difficulties. This usually involves further investigation of a specific financial problem. In Laura Ashley's case, questions were asked about the company managers' activities before applying for management. To understand what happened, the forensic accountant will collect evidence from several sources, from complaints about work on social media to individual direct interviews with employees and securing a company's financial records.

For a forensic accountant, there are often 'red flags' that can show non-regular business practices in the past. For example, some distinct signs include overvaluation, high-volume transactions with associated companies, or rapid disposal, or a fast decline in the value of assets that may indicate changes in the balances owed in executive credit accounts. Sometimes, the emergence of irregular or incorrect accounting practices may represent an underlying fraud. In case of the unusual financial behavior, forensic accountants should investigate whether this can be clearly explained, and this may indicate that people derive financial benefits through deceptive or dishonest behavior.

It is possible that there will be a further increase in bankruptcy cases with several businesses that are likely to feel the financial impacts of coronavirus-related deterioration in the coming months. Forensic accounting skills that help to reach the cause of financial problems of an organization can help return value to creditors and alleviate the financial crisis of the pandemic

### **2.3.4 Reasons for the emergence of forensic accounting profession**

The significance of forensic accounting has been increasing rapidly in recent years. This is a professional area with a landscape due to the rise of financial technology (FinTech). Forensic accountants not only work for law enforcement agencies but also they can be found in compliance departments of commercial organizations, banks, law firms, and government agencies. Most forensic accountants are recruited for compliance. They ensure that a company's financial position is maintained in a safe and good condition.

Although many companies always have internal accountants to control and reduce complications or irregularities occurring during regular business, complex fraud activities become increasingly common. Modern businesses are doomed to find fraudulent activities masked cleverly when they review their books, but only when such evidence is found by the forensic accountants. Insurance companies call upon the forensic accountants to investigate certain fraudulent activity suspicions or may sometimes be introduced as a preventive measure.

Forensic accounting means using accounting skills to examine embezzlement, fraud, and other irregularities disguised as financial deals. Forensic accounting investigations are mostly used in legal proceedings, but they are also used to prevent offences and compliance efforts. While traditional accounting is related to evaluation of business funds and the correct transmission of information to management and investors, a forensic accountant is called upon to examine the flow of funds in an enterprise in order to assess the paths they follow and specify whether there are unlawful deals.

A forensic accountant investigates various activities related to fraud in the areas of corporate, mass marketing, hedge funds, health care, real estate, and securities trading. Other crimes such as money laundering, contract disputes, embezzlement, and bribery can be investigated by these professionals. Although the forensic accountants' duties mainly encourage them to examine and analyze, they can also be asked to act as experts in the court.



There are cases where the skills used by forensic accountants are applied more personal issues. For example, in the event of the dissolution of a marriage, the financial situation and both parties' expenses will be reviewed by a forensic accountant to develop the settlement process and give the correct information to the lawyers to be used in court. Assets can be monitored by forensic accountants based on the investment accounts and hidden income or assets can be also identified.

Forensic accounting as a modern discipline begins to see several ways for additional skills beyond finance and accounting. More information on legal process and information technology is needed. He saw that the demand for forensic accounting increased because we saw the emergence of business professionals and hopeful entrepreneurs who started their own businesses. Half a million new companies are start-ups every year. Many of them are set up with the sole aim of operating online.

Forensic accountants who are currently confident in internet technologies, have developed accordingly. Potential lawbreakers are given a false sense of security through online financial transactions since they believe that they can easily cover their tracks; nevertheless, knowledgeable people can use internet to hide unlawful deals when forensic accountants' expertise is needed.

The new technology leads forensic accountants to examine several email messages and books while searching for fraudulent activities, but in most cases they still need to separate paper file boxes.

### **2.3.5 Professional activities of forensic accounting**

An economic downturn under ordinary circumstances can be a blessing to forensic accountants. Disruption of market tends to be associated with widespread layoffs and economic uncertainty, increasing fraud and proportionate work for accountants specializing in legal transactions and lawful calculations.

However, the whims of the decline accelerated by the COVID-19 lead forensic accountants to face unexpected obstacles. Court closures, social distancing,

and business disruptions will make the forensic environment increasingly unstable.

Stay-at-home decisions and social distancing rules influenced almost every group of professionals including those working in the court systems. Several forensic accountants cooperate with lawyers to defend or investigate people accused of embezzlement, tax fraud, or other white-collar crimes. They found that the supply of such duties was diminishing when court systems were shut down or had limited operations. It is not the only challenge. The forensic accountants confront some of the following unique opportunities and challenges in the COVID-19 changing economy:

Personal connection lost. Face to face interviews are the primary components of legal work. The forensic accountants work for the lawyer and therefore meet regularly with witnesses, participate in testimony and investigate the suspicious fraudsters. Kibosh was put at least temporarily in face-to-face talks due to the COVID-19 pandemic and forensic accountants later found that investigative efforts were diminishing.

For forensic accountants and lawyers, interviews are mostly a chance to review documents together as the interview. This often clarifies the previously uncertain financial activities and transactions. This element of forensic accounting duty was eliminated by the COVID-19 guidelines.

Statements and interviews have been mostly moved to Zoom and other online meeting platforms. Forensic experts see this as a temporary measure not a laryngeal long-term solution.

The criminals started selling fake cheques on the dark web, which sometimes puts them back three or four times. Remote operation can disrupt the work flow. A high level of coordination is required for financial investigations. Collaboration with lawyers, law enforcement agencies, internal groups, witnesses, and subjects is often required for forensic accounting. Coronavirus lockdowns have put white-collar professionals at work from home, disrupting the forensic process.

Several forensic accountants realize that they can work from home more easily than expected. Despite changes in the forensic accounting industry created by COVID-19, experts in this field are optimistic, with increasing demand as soon as possible. The priority is now to ensure that client cases continue to be up-to-date and that their legal position is strong so that court proceedings can be resumed in full. No forensic accounting business is the same and the industry largely requires adaptability. Therefore, forensic accountants are well positioned to adjust to the new condition and advance their projects.

### **2.3.6 Scope of forensic accounting profession**

A Forensic Accountant operates to interpret, summarize, analyze, and present complex business-related and financial issues such that both are properly supported and understandable. Forensic Accountants may work in the public institutions or be employed by the banks, insurance companies, government agencies, police forces, and other organizations.

A Forensic Accountant is mostly interested in:

- Examining and analysing financial evidence;
- Increasing the computerized applications to help analyse and present financial evidence;
- Transmitting findings as reports, exhibitions and document collections; and
- Assisting the case process, including providing expert testimony in courts and preparing visual assistance to support case evidence.

### **2.3.7 Principles of forensic accounting**

When performing the activity of the forensic accountant, he/she should have a qualified personality by complying with the ethical rules in the profession as well as his/her professional knowledge. Since forensic accountants are professional experts in their fields, they must strictly comply with all the principles that accountants and auditors are obliged to comply with. These principles also have missions such as performing the profession and ensuring quality (Atmaca and Terzi, 2012: 29).

In this respect, the general principles regarding the forensic accountant indicate on the one hand, who should perform this profession while describing the forensic accountant. The main professional principles that forensic accountants should have are independence, professional competence, professional attention and care and honesty.

- When we examine the word "independence" in our brains, the first thing that comes to mind is neutrality. All reports prepared by the forensic accountant on the subject must be independent of the relevant institutions and organizations, that is, impartial. Forensic accountants must be aware of independent thinking. No person, institution, institution or authority should act impartially during the decision phase. If the forensic accountant handles the issue only in an impartial manner, he/she will make transparent, quality and reliable decisions in accordance with his/her profession (Karacan, 2012: 118)
- Professional Attention and Care In accordance with this principle, the forensic accountant should show the necessary attention and diligence in the report he/she prepared as a result of his/her researches while continuing his/her activities. Even if the forensic accountant has all the vocational training, knowledge and experience and has managed to remain completely independent of the parties to the investigation he/she will undertake, he/she cannot achieve a successful result if he/she fails to show the necessary care, interest and meticulousness in his/her work related to his/her profession. The minimum condition of the forensic accountant's work in carrying out his/her activities is that he/she strictly complies with the professional principles at all stages of his/her work and performs all variables very carefully and with care.
- Professional Competence Forensic accountant must have professional knowledge and experience, mastery of the field of activity and detailed information about the existing laws. Because he/she is the person whose knowledge is consulted, he/she is in a decision-making position on the subject and he/she needs to have all the information and equipment in the decision-making phase (Karacan, 2012: 118). Therefore, forensic accountants should constantly increase their

technical competencies by turning to vocational trainings. Because in order for a forensic accountant to be successful in his/her job, his/her vocational training alone is not sufficient, and at the same time, he/she needs to constantly improve himself/herself by finding the field of application of knowledge and by providing up-to-date vocational training.

- **Honesty** One of the basic virtues we need to have in our lives is honesty. This is one of the basic features that every professional should have as well as a forensic accountant. The forensic accountant must be honest and ensure that the accounting information is communicated as is, without directing the interested parties in a particular direction. Not everyone in the case should doubt the integrity of the forensic accountant in the slightest. Otherwise, the whole study becomes meaningless. Forensic accountant is the person who should have high social responsibility due to his/her profession. He/she should share his/her opinion in the light of scientific data and observe the interest of the society.

### **2.3.8 Fields of activity of forensic accounting and its relationship with independent audit**

To comprehend the current situation and tomorrow of money laundering, a short statement about history of its beginning should be made. Bosworth et al. (1994) state that money laundering appeared in the United States in the 1930s.

Although there are various disseminations in the literature which are criticizing the subject field, perspectives draw attention to the regulatory and legal system, contributing to analyzing the phases of cash deposit or examining the causes and redressment of legislation. However, little is done though it contributes to money laundering. In other words, there are many limited empirical studies to examine whether there is a link between developed and developing countries and whether any course has been learned.

Wolfensohn (2002) showed in his study that at least 1 trillion US dollars per year believe that funds are being laundered using increasingly advanced

methods such as cable transfers to boarders, in addition, these complex methods are used by professionals such as service and financial advisors , and accountants (Arnold and Sikka, 2001;Sikka, 2003; Bakre, 2007;Aloba, 2002).

Mitchell et al. (1996) examined the actions which some professionals and companies accomplished in the field of accounting, such as Coopers and Lybrand; Grant ThorntonPartners; Jackson & Company; and a cabinet minister caught in the UK government since it laundered the unlawful money transfers from AGIP to Kinz Joallier SARL. In the Institute of Sworn-In Certified Public Accountants in England and Wales (ICAEW), the professional body has been sued to investigate members' professional misconduct.

Although the Supreme Court had dealt with the case and made its own decision before, the court ruled that the two Accountants involved in money laundering knew that the court ruling, these professionals' actions were unlawful, and clearly laundering money, the Judge found them guilty, but it turned out that the professional body itself (ICAEW) did not see them as the Court did. Moreover, when the ICAEW's "investigative and disciplinary committee" was criticized, it disputed in its defence that there was not sufficient evidence of disciplinary action against any of its members in this money laundering case.

BBC, but then, researched the global activities in 1991 and revealed numerous criminal attempts, involving laundering of illicit money in several countries including government personals permitting bribery worldwide, arms smuggling, sale of nuclear technologies, as well as large-scale financial fraud support (Arnold and Sikka, 2001).

A 400-page Report by Arnaud Montebourge (2001) indicated that "The city is an impassable fortress with its rights, status, and tradition, a closed universe in which every banker, businessman, or financier prefers silence above others. The report noted that Britons spent extraordinary time giving British tips before directing 19 banks to freeze accounts linked to ex-Nigerian director Sanni Abacha [BBC News, 10 October 2001].

Franklin Jurado, a Colombian economist trained at Harvard, used the services of accountants through Merrill Lynch's offices to make \$36 million in gains from American cocaine revenue for Colombian drug ruler Jose Santacruz-London, and other financial institutions to Europe. It has opened above 100 bank accounts in 68 different banks in three years, in nine locations: Austria, Germany, Hungary, Denmark, France, United Kingdom, Luxembourg, Italy, and Monaco. Some accounts were opened on behalf of Santacruz's relatives and mistresses, while others were opened with names called European names. To avoid an investigation, balances were kept below \$10,000 and Jurado transferred money across different accounts. He founded European companies with the final goal of returning "clean" money to Colombia.

The UN General Assembly stated that corrupted politicians, government officials, and other criminal organizations are increasingly subjecting experts (such as accountants, lawyers and bankers) to the task of money laundering to subcontracting since the methods necessary to elude law enforcement officers are getting more and more complex state (see UN World Drug Problem 8-10 June 1998). The accountants, lawyers, and bankers are used not only to concentrate the source of income, but also to direct consecutive investment in the statutory real estate and other assets.

#### *Money Laundering Policy:*

Financial stability in the world is based on the collective action internationally as well as efficient national systems. A strong anti-terrorism regime financing anti-money laundering and combating is an important foundation of the regulation and supervision system in international scale and is the current section and parcel of attempts to fortify the global financial system. Hence, owing to money laundering and newly evolving complexity of methods used by ordinary people, it is difficult to have correct information about such crimes.

#### *What is Money Laundering?*

Despite the increasing observable reality of money laundering, the concept of money laundering from all parts of the world is still a debate in criminological

discourses. In the foresight of the money laundering concept, which has been almost discussed and documented for the last two decades, it is extraordinary to give less research work to this issue, regardless of whether it is part of organised crime.

Money laundering is defined as taking your hands illegally or acquiring their assets so that it can appear to be legally obtained. Money laundering, on the other hand, may have a different meaning for different organizations and countries as there are differences in money laundering definition, although it is broadly explained by the strictly accepted recognition that fits the global idea of defining a framework and a global definition of money (UN Convention on Organised Crime). In Article 6 of the Convention, the following behaviors are considered as money laundering:

- (i) the legal consequences of the act of transforming or transferring the property in order to concentrate or conceal the illegal source of the property or to assist any person took in the operation of the eviction offence, considering that such property is the profit of the crime;
- (ii) concealing or concealing the real source, nature, disposition, location, movement or property rights in relation to the property, considering that the property in question is the revenues of the crime;
- (iii) Taking over, possessing or using the Property during receipt, knowing that such Property is the revenues of the offence.

According to FATF, money laundering is defined as:

The perpetration of several criminal acts, in order to legitimize the acquired patient gains of the crime, in order to gain profit for the person or group who carried out the act in order to concentrate its illegal origin. A significant amount of snow theft, drug trafficking, arms trafficking and any crime constituting a kind of white-collar crime cause money laundering (FATF).



### *Money Laundering Process:*

Alternatively, money laundering run in the similar way as a legitimate business in terms of financial activities. Therefore, the value of the money involved in their own business operations takes action to bring the resources arising from criminal activities into the economy and thus to make them look legitimate. In order to achieve this, funds or revenues require to go a long way before a licit financial transaction happens. Processes used in money laundering include, theoretically, all three containing stages known as stratification, integration and placement.

(i) Placement: Placement is the first step of the money laundering process. Includes entering the proceeds of criminal activity into the mainstream finance system. This may include opening the bank account under real or imaginary names and then depositing it into the fund account. This stage is the most vulnerable one.

(ii) Layering: in this process, a complex layer of financial transactions is created to avoid the audit path. Seller, cars, jewellery, etc. may decide to buy high value goods and export to a different country. Or better yet, it may involve the acquisition of shares by companies in the stock market;

(iii) Integration: in this stage, the laundered wealth is reused to Launderer's direct advantage so that it shows up obtained from legitimate activities. This may include the sale of some valuables bought in the layering process.

### *Causes of Money Laundering:*

In recently published study of (Galvao, 2000; Ribeiro, 2002); It is claimed that money laundering rises the risk and instability of financial systems and the banking sector as the demand for money increases and causes strange changes. It also brings about corruption, money laundering, white-collar crime, bribery, fraud, and other financial crimes. One should consider whether the main causes of money laundering in the developing societies depend on the western regulations complexity.

Linell (1999) states that western countries such as the United States and the United Kingdom are approaching the fight against a cost and benefit approach to money laundering. For example, bailiffs assess the resources cost and compare it with the crime value for their investigation; it is can openly curse the developing countries. Moore (2004) published another report to accuse Britain of being a safe place for money laundering. According to Moore's reports, "dirty money flows from £25 billion to £40 billion every year in the UK across the world". This raises the question of whether technology, and globalization and professionals and developed countries will cause money laundering in the developing countries (Killick, M. (2004).

#### *Globalization and Technology:*

To comprehend how increasingly technology can negatively impact money laundering, one should reflect why the criminally considered technology hides the technology in order to hide its shelters. Giving consideration to the revolutionary effect of technological advancements, especially on the concept of money laundering and globalization, as well as on organised crime, the combination of the two eliminates or places only the simple traditions of state control on their territory. Undoubtedly, there is deficiency of academic grounds to uphold this, technology and globalization provided more opportunities for guilt than they have committed these crimes. For example, according to Tinker (1980), globalization creates profit-making organizations.

#### *Money Laundering and Occupations in Developing Countries:*

What is the association between experts such as Auditors, Lawyers, and Accountants and money laundering in countries which are under development? Their roles can be found in contradiction with the ambition of capital accumulation. In agreement with Hoogvelt and Tinker, the cash for 1978 is contracting and professionals are seen as assurance of capitalism for created capitalist nations. For these reasons, the capitalist goal of Western economic authorities, demonstrated in the establishment of multinational corporations (MNCs) and other abroad capitalists who also lead to the emergence of capitalist relations in the developing societies may be the reason

for the contradictory settlement of corruption. You have effective powers in power leaders and developing countries and "good governance",

Wade argued in 1996 that his claim to bring investment to countries which are under development is mainly based on exceedingly commendable globalization. But then, it can be questioned whether globalization could be beneficial for these advancing countries.

This suggests that ÇUŞ and other overseas capitalists who operate in foreign countries do not rely on subjecting their capitalist interests to the interests of the countries in which they operate, particularly the developing countries. Nevertheless, the idea that advanced capitalist economies will help develop and increase the developing countries' economies with investments that will finally be free from poorness and corruption has been an admirable part of globalisation (Groom, 2001).

#### *Accountants and Auditors:*

While foreign auditors, Price Waterhouse, held dual positions as special advisor and tax advisor for BCCI management's specific interests, the Government relied on performing functions of public interest by behaving as an monitoring externally and independent semi-product. - regulator (Arnold and Sikka, 2001). Therefore, it could be discussed that England and other western countries yet provide a safe place for person who are in money laundering field and financial offenders (Moore, 2004). The document on the BBC News website contains further evidence accusing manifestly London because of that had best as a consequence of banking secrecy codes that disregard the public interest.

The African Business (online) report could be shown as another example. While those who demanding billions of dollars in white-collar crime were devastated by financial system of South Africa, there is not convictions yet (African Business, July 1, 2002). RupertHaw, the decretorial service manager at Deloitte & Touché, said the global trend shows bosses in commitment illegal acts earn revenues in countries that is currently in development but they prefer

funding in country where safe and elaborate financial systems is exist (African Business, July 1, 2002)

*Duty to Report Illegal Behaviors:*

it is quite obvious that in order to achieve far more effective conclusions in the fight against money laundering and fraud, the state must fulfill an explicit role of professional boards of directors working on prevention as well as duties for individuals and companies. Masciandaro and Portolano (2003) & Barret (1997), stated that country's economic growth and socio-economic advancements are threatened by money-laundering. When it is thought from this perspective, the succeeding sentences will provide proofs for that developing countries and their sovereign elites, public institutions, professional associations and community-residing persons are hypocritical in their tasks for preventing money laundering in countries under development as mentioned above.

*Global Organs and Developed Countries' Hypocrisy:*

*Evidence:*

Laundering of illicit money is a trouble importantly affecting not only advanced countries but also developing countries. In this article, it is indicated that the issue should be addressed by both advanced and countries under development, instead of changing the pressure on poor countries that do not have the budgets to fight against this global delinquency (crime) [Ekaette, 2002].

Concurrently, present evidences suggest that government budgets to be used in public services have stolen by some African country authorities, allowing banks in the UK, Switzerland, France, Germany, United States, and Cayman Islands to transfer to some secret accounts, and Bahamas [Agabi, 2002]. This is similar to how former Zaire (Congo) President Mobutu Seseko supported the British government's fraudulent win. Moreover, it is claimed that when power was in time, the Westerner remained silent when he looked the other way and stole state money, pouring funds into foreign bank accounts (especially Switzerland).

In protests from many developing countries, many of Britain, the former colonial power in the first place, refused to cooperate with these countries, which served as a refuge for funds from developing countries to help recover the funds stolen from developing countries in their banks. While some hope to cooperate (such as Switzerland), these words are sometimes not followed by these countries.

For example, former Mexican President Carlos Salinas de Gotari's brother Raul Salinas de Gotari managed to derive almost \$90 million - \$100 million by profiting his personal relationship with the private banking of Citibank New York in 1992. (See) U.S. General Accounting Office, 1999). The financial assets were sent from New York and Mexico branches of Citibank to private accounts in Citibank branches of Switzerland and London. However, UK and the US governments are strong and in the lead member states of FATF, which claims to be tackling against laundering of illicit money on a global scale.

However, from the current evidence shown in this article, it is clear that money laundering is among the biggest drawbacks facing developing countries, and as far as it is not addressed, it will become the main disruptive force of their social and economic development, as well as influencing economic growth, reducing the productivity of the real sector of the economy by encouraging corruption and crime and directing resources, and may disrupt the long-running growth of the economy. This article highlights the perceptible facts of Money Laundering and its sources, and its figures and outcomes in the developing countries. It is important to take into account the two-sided approach taken by Western countries, but it is recommended that an accurate study be conducted to effectively determine whether these claims exist. Systems for preventing laundering of illicit money should be fortified to guarantee that professional and SOEs do not keep up abusing finance systems. The ultimate global response to the rigors of laundering illicit money should be stringent than now.

## *Fraud Overview*

### *Triangle of Fraud:*

Fraud should be handled with caution by today's business circles, especially with regards to the Enron and WorldCom cases. It is important to note that while many senior managers consider fraudulent activities, especially those considering financial reporting; lower levels of employees contribute to the risk of fraud in a company. The triangle of fraud illustrates three key elements needed to make fraud: opportunity, rationalization, and pressure.

The first and main reason in committing a fraud for a company employer is generally Financial pressure. This situation can sometimes be carried out by an employee with a lower income who feels financially in a difficult situation and believes that she/he could only get out of this bad situation by stealing from the company. Instead, an employee could be fraudulent because she/he believes that the company or her job may be in danger if she does not meet the financial aims set for the period. Either way, the employee may normally be an ethical person, but may feel pressured to meet company or personal expectations.

Rationalization is the other element required for fraud. At this stage, employee convinces oneself to that fraud could not be bad as it seems. Generally, an employee will find a pretext by asserting that if stolen, the money will be refunded or that the company can later compensate for damages if the problem consisting financial reporting.

Final reason for committing fraud is that there must be an opportunity for attempt to crime. This is often possible with a weak voice at the top about the company's weak internal controls and the employees' moral responsibility. This is probably the most essential part of the fraud triangle, since if there is not exist an opportunity, there is no way for the employee to commit fraud.

Companies use three main ways to manage to alleviate fraud-related risks. First, take a firm stance at the top so that all employees dedicate time and effort to their moral responsibilities. The ethical perspective of management is

very important. Second, auditors should see companies with a sound sense of suspicion in all work done; bearing in mind that any fraud can be committed. Finally, it should be ensured that there are abundant communication networks at all levels of the company-owned supply chain. (Yardımcıoğlu, 2007).

*Influence of Information Technology on Fraud:*

Information technology could be the source for both fraud resolution and fraud. Although information technology could be used to help an audit by auditors, it can be utilised by a company to collect records more easily with a computer software.

Companies increasingly make use of information technology in developing their business strategies. Although companies rely on information technology to prevent fraud, this situation has some risks in itself. With the use of information technologies, unauthorized access to company data or confidential information is possible. This may have the ability to save non-existent registration operations or modify updated in the system. In addition, since technical expertise is required for using the information technologies in accounting systems to use the system, it will be very easy to make changes by people who know how to control or change the system.

Moreover, cyber-crimes are a special worry for companies that utilise the internet in their business system. Critical information of companies' customers can be accessed by cybercriminals who can combine computer skills with social engineering. Hacking techniques like phishing are increasingly creating more and more problems for people. Hackers are defeating cyber security systems day by day, and organizations need to constantly know what is happening in their computer systems without their knowledge. In business environments, it becomes more important for auditors and management, who rely more and more on information technology to manage their operations, to be aware of technological changes in systems to track issues that can cause fraudulent financial reporting (Doğan, 2014).

### *Fraud Responsibility:*

Under audit standards, the auditors need not make allegations of fraud, but they should determine whether the financial statements are not materially misstated. Thus, the company management is responsible for fraud. The Investor Protection Act 2002 (the Sarbanes-Oxley Act) and Public Corporation Accounting Reform were partially enacted after a series of fraudulent financial reporting events to restore investor confidence in the financial statements. This Act has been responsible for more management of fraud in financial statements than before. Article 303 of this law demands the Chief Executive Officer and the Chief Financial Officer of the company to ratify the final statements and ensure that they are acceptable. As a result, management will take responsibility for fraud, but it should be noted that in the event of possible fraud, someone will necessarily claim compensation from the auditors (Bilen, 2012).

### *History of Fraud and Forensic Audit:*

Since the foundations of judicial control have been given up to this point, we can now examine the history of this field. The explosion of technology-based business functions in the 1970s and 1980s resulted in fraud and judicial control. As is common knowledge, technology has the potential to increase safety and risk factors as well as increase efficiency. Throughout this process, the news raised concerns about fraudsters, waste of governments, and crimes committed by white and blue-collar employees. Hence, businesses need a system that detects inappropriate activities to manage the risk of improper activities occurring, and therefore requires a system of discipline and judicial control for fraud.

This new control system to be created can be used in the detection and prevention of bankruptcy, embezzlement, computer fraud, insurance, and other similar crimes beyond existing government systems. In computer fraud and financial crimes, fraudsters attack their attacks by making very careful calculations and heuristic assumptions. Therefore, fraud and forensic control require more intuitive standards than basic standards.



Fraud crimes are often discovered by accident, so fraud controllers have come up with a number of scenarios to develop active thinking and thinking like a criminal before fraudsters. According to Jack Bologna, who was the head of Computer Protection Systems Inc. in 1984, which is the most effective training for those who control fraud is on-the-job training. After that, Bologna says that there is no complete way to learn about them in the classroom, as there are constant big changes in the field of fraud. Auditors of fraud should basically understand the auditing and accounting. Therefore, the best experience is gained from working in the area.

Fraud and judicial control are vigorous and quickly changing subject fields. The first fraud and forensic control tools (called attack detection systems) include system administrators monitoring a computer console to monitor the user's behaviour. Illegal or unauthorized access to the system is prevented by these intrusion detection systems. System administrators saw employees accessing into the system remotely or a rarely used component of computer that was not suddenly used for a specific reason as "red flags" in the system. The data obtained from these systems for early intrusion detection were recorded between layers of computer paper that reach a height of a few meters at the end of the week.

System administrators looking to find these scams are faced with the dreadful task of inspecting files that are stacked many meters. Although this system aims to discover fraud, illegal use and misuse of systems, this system requires being reactive rather than proactive. The system was running at night, and data were reviewed the next day due to its slow running approach. For this reason, even if many attacks have occurred, they could not be detected. But real-time intrusion detection scanners in the 1990s gave system administrators the opportunity to monitor system information and respond instantly.

However, as attack detection systems evolve, there are forms of fraud. The Securities and Exchange Commission currently sees more than 100 cases of accounting and financial fraud per year; considerably increased before the business boom that occurred before the 1970s. Big names such as Sunbeam, Bausch and Lomb, and Knowledge sometime ware had to rearrange financial

reports because of fraud. This situation influences stock values, frequently causing other problems such as bankruptcy, layoffs and changes in ownership. However, in terms of financial fraud cases, only 2% are prosecuting, 20% are fired; the remaining court is adjudicated. Prosecutions create extra burdens for the government, company employees and investors. However, as has been witnessed recently, when the economic situation in a country deteriorates, the type and number of fraud cases are increasing. Financial fraud has a dynamic structure that is constantly changing by keeping up with new technologies. (Bilen, 2012).

Fraud and forensic inspectors are involved in meeting the increase in demand for fraud detection systems used to detect fraudsters. As stated earlier and as told by Jack Bologna, most system methods for fraud detection cannot be learned in the classroom but can be obtained through experience at work. Considering this notion, most universities still do not have a financial fraud detection curriculum to this day. The need for auditors trained in the field of fraud detection grows rapidly, as the number and variety of fraudsters are increasing. Similarly, with the rapidly-changing accountants, fraud environment, and auditors need to stay up to date in detection of fraud to design audit programs to meet the forensic audit's changing needs.

#### *How Fraud and Judicial Audit Are Different from Traditional Audit?*

With the advancement in the Sarbanes-Oxley Act of 2002, the world of accounting and auditing world changed its way. The Sarbanes-Oxley Act was a frame breaking law in detection of fraud. Before the law, audit firms had first self-audited, which affirmed problematic. Companies like Arthur Anderson have shown the absence of integrity to commit fraud with fraud companies. For this reason, Sarbanes-Oxley formed the Public Company Supervisory Board (PCAOB) to give further regulation and oversight to the accounting profession. Fraud spent \$684 billion on the US economy in 2004, twenty times as much as the cost of standard street crime, showing more the significance of a powerful fraud detection system.

There are some differences if counterfeiting and judicial audit appear to be almost the same as a regular audit. Although fraud audits, judicial audits and regular financial audits work to prevent material errors that may occur in the financial statements, those who conduct fraud and judicial control take this process one step more. Fraud audits and judicial controls are subjected to much stricter rules and these rules are mainly related to internal controls. These rules examine deviations or variations in strong internal controls that may occur. Fraud investigators and forensic controllers can usually consist of a department's accountant, lawyer, purely experts, or a number of detectives. These evaluators ought to be able to demonstrate all of their evidences are valid. Fraud auditors and forensic controllers often have to work with methodology tables to analyze deviations by monitoring transaction flows.. They must have a lot of detail, because accountants have evidence to present to their juries. Therefore, the evidence must be irregularly stated and beyond reasonable doubt.

Although there are distinctions between traditional auditing and fraud and forensic audits, the work of forensic auditors can provide significant benefits to financial accountants and auditors. As stated in Sarbanes-OxleySection 404, senior management must approve and take responsibility for all financial information, including the company's internal controls. To the advantage of traditional inspections, fraud inspectors and judicial inspectors guarantee the implementation of Section404. Since forensic and fraud auditors supply assurance to these during internal controls, the job of financial auditors is facilitated and they can comfortably grasp the internal controls of the enterprise and identify the audit procedures and the risks of misstatement that may occur in the financial statements. (Açık, 2016).

#### *The Role of Computer Forensics:*

Due to increasing possibility of fraudulent activity, it has become an important necessity for each company to monitor forensic and financial audits on a daily basis, especially through computers used by individuals for daily work. One of the ways to combat these fraud crimes is by quickly and easily integrating

computer technologies into these areas. By considering the information obtained, it can help identify the criminals behind the fraudulent activities.

Forensic research using a computer is the main source of the analysis made during the research, as the traces of every step taken in the network can be traced and vitally important information can be obtained. It is the idea of fully analyzing all electronic evidence for the restructuring of events and the proper documentation of documents and preserving the integrity of data for effective prosecution or defence in a court. If computer systems are not used with the correct methods to obtain evidence, none of the data obtained may be accepted by the court board. In order for the obtained data to be used as evidence and to be useful in criminal investigations, law enforcement officials should have a good understanding of the principles of forensic informatics and a sufficient understanding of how information will be obtained and processed in criminal investigations.

Two of the most fundamental functions of computer forensic investigation are understanding information that can be evidence and choosing appropriate tools while obtaining this information. Computer crimes can involve many crimes such as intellectual property theft and identity fraud, so it is important for investigators to know what type of data they are aiming to obtain. It is important to ensure that the files are damaged as little as possible and that those investigating the data know how to recover them as criminals try to delete or destroy them.

The tools used in forensic auditing could involve different programs and tools required for regaining data, dismantling a computer enclosure, or taking photos. Sometimes the tools needed for investigation could be, for example, pliers and screwdrivers, an archive field, a digital camera, a physical tool for software and applications, disk eraser or imaging tool, file or data recovery, encryption for files and data.

Pliers and a screwdriver are utilised when it is necessary to remove the computer enclosure to entree the hard drive. An archive media, recordable CD-ROM or DVD type is employed to duplicate and stock the contents of the

digital cameras and hard drive are required to save pictures of the physical components of the computer and also to take other required pictures. While looking into software and applications, deleting disk data involves maintaining and maintaining a backup of hard drive information, and simultaneously cleaning and overwriting. Hash accounts are used to ensure the accuracy of target files and sources with the same 32-bit hash values. Then, the auditors scan the text strings and apply EnCase to restore and view files and data.

Two important applications such as data query and digital analysis models have important purposes in fraud detection. Benford's law, that is, a system based on the first digit of natural numbers in a particular model, is used in digital analysis. Phone numbers and e-mail addresses are not suitable because they are based on a certain pattern, but the costs and combined interest values on the invoice are suitable for use as they do not have a repeating pattern. Benford's law helps information technology auditors discover fraud by enabling them to compare observed distributions of frequency with expected distributions of frequency. Data interrogation models compare the obtained data with other evidence using computer-aided systems, thus making the obtained evidence more meaningful and supporting for the claims.

Not only is it useful for prosecuting criminals, as thought using a computer, it is also used to discover the deleted evidence, as evident in the Enron scandal. Although employees and many financial institutions attempted to misguide investors, deleted emails raised doubts about the loan and reported Enron's actual number of investigations. The saved, opened, or displayed content on a computer is saved somewhere permanently. Not found and can be restored unless overwritten properly. After McKesson bought the HBO company, audits conducted by company auditors found inconsistencies in accounting documents. A deeply investigation utilizing computer forensic ways found some e-mails that HBO company had deleted or concealed in an effort to destroy the traces. (Gerçek, 2012).

### *The Future of Computer Forensic Technology:*

As computer hackers and web criminals use constantly and rapidly developing technological systems, the importance of cyber forensics is increasing day by day and will be more important in the future. As white-collar criminals and web criminals who commit cyber-crimes earn high revenues for their crimes, they face a very low risk of conviction, making it increasingly popular. Computer forensics will soon become as indispensable to an auditor as a walkie-talkie or clamp. In fact, today, all activities such as communication, banking transactions, shopping or social interaction are now carried out online. This situation makes online channels an extremely suitable area for committing crimes.

Another issue where information technologies are used is to apply business intelligence using the computers. One can define business intelligence as obtaining information and analyzing it. The data obtained through analysis helps to discover fraud using the acts and patterns as a guide for investigations.

Police officers and researchers are conducting investigations, but using the computer technologies assists procedures and allows conducting deeper investigations, analyzing relevant information and monitoring or retrieving documents from computer networks. Fraud created today stems from online activity (Özkul, 2009).

### *Trends in Judicial Control:*

Forensic audit increased the presence of companies such as Enron and WorldCom in the audit environment mainly due to fraud scandals in 2002. Subsequently, the FINANCIAL Affairs Board (FAB) approved Resolution 99, a new standard to further define it financially. Responsibility of auditors for fraud detection. However, since financial audits aim not to discover fraud, one cannot trust them to reveal it at significant level, which is shown in a statistic of about 10 and 12 percent of all fraud accredited and detected by financial auditors. Since there is no fraud detection in the financial audit, the necessity

of increased judicial audit has emerged with increasing fraud training in all audit fields.

Accounting students lacked sufficient fraud or moral education even before the Sarbanes-Oxley Act of 2002 (SOX). Without this education or training, many difficulties have emerged in recognizing fraud in the industry. However, after several fraudulent scandals occurred and the SOX was passed, fraud and ethical education have become an important part of education of every accounting student. These reforms stemming from SOX have particularly revealed some areas where audit firms are weak. Lack of staff and lack of staff in audit firms are among the weak areas leading to a positive trend in the training of auditors. There is a lot of demand for audit firms that need to meet legal requirements and auditors now that babies are retired.

Not only do judicial audit elements generally penetrate financial audit, but they also fall into certain audit areas, such as internal audit. The techniques, approaches, and objectives used by internal auditors are similar to those used by forensic auditors, for fraud investigations to become a part of internal audit at present and in the future. Internal auditors have dealt with investigations of fraud historically: review the collapse of internal controls leading to fraud and make suggestions to prevent it in the future. However, companies currently look at internal auditors to play a greater role in investigations of fraud. When there is no need for outsourcing every fraud investigation, there can be high cost savings in future. However, it may be more costly in the long run not to outsource higher quality resources due to an inadequate or unsuccessful investigation when research emerges when a deeper knowledge and experience of forensic audit is needed (Al, 2014).

#### *Career in Judicial Audit:*

In the field of forensic audit, there are opportunities for the application of forensic audit techniques to all areas of forensic audit mentioned above, as well as specific forensic audit works. A person is not necessarily a forensic auditor trained and does not use the same techniques. In large firms, such as the Big Four CPA Firms, auditors have certain careers to conduct fraud audits.

If there is a fraud proposal within a company, they are called separately from the one-year audit team. However, in small firms with no more staff or a separate forensic department, financial statement auditors have the potential to be more trained and experienced in fraud audits.

In the audit we mentioned earlier, another type of career is in computer forensics or cyber forensics. This is a quite new area of inspections, because it is a rapidly expanding field, as in the last two decades and mostly in the last decade. The relatively recent discovery of higher education teaches is a limited number of cyberforensics, but as is the case now, there is more need than before. The emergence of information technology and the digital world makes auditors more dependent on digital information and information technologies to conduct audits and investigate counterfeiting. Judicial supervision critically requires these components.

Counterfeiting and judicial control will affect the future businesses. Companies should ensure that practices of fraud keep pace with incoming technologies. One the technology has progressed in the last 30 years, there have been fraudulent incidents. For this reason, there has been high improvement in complexity of forensic and fraud control techniques, as we have seen. Computer forensics has expanded the capabilities of these techniques and will continue to grow significantly due to the constant growth in technology. Corruption and judicial auditors become more trained in abuse and judicial control, increasing the rate of found fraud. In general, falsification and judicial oversight are important for the correct use of evidence in a court.

The main practices of forensic accounting include negligence cases, fraud investigations, and insurance indemnities.

An insurance indemnity will determine how much the customer needs to claim against the insurer.

In the first step, the insurance policy will be reviewed in detail to specify the “coverage”, meaning what is insured and the provisions restricting the amount that may invalidate the claim or be claimed. In the second step, evidence will



be gathered to determine the amount of loss, i.e. the claimed amount. Insurance claims may include claims for misuse of assets, such as theft of money or goods.

In such cases, cash or inventory records and purchase and sales reports shall be examined by the forensic accountant to settle the retained amounts and specify value of the stolen cash or goods. The reliability of the held information will be tested by them by counting an inventory or cash sample already held compared to the customer's records. The forensic accountant does not imagine that a theft occurred. They also consider other possibilities such as erroneous retained data.

However, in the case of business interruptions due to flooding or fire, insurance claims can be much more complex than that. In such contracts, the prospective financial information shall be reviewed by the forensic accountant against the reported output in order to assess the profit loss caused by the business interruption. Any loss of profit will not be assumed by the forensic accountant due to the interruption of business. Other possibilities, such as loss of direct market share to a competitor will be also considered by them.

The forensic accountant should measure a loss for forensic investigations. Such involvement is in allegations of professional negligence, that is, when another accountant breaches the maintenance obligation towards a client or a third party, causing a loss for that client. In such duties, the judicial accountant will also provide an opinion as to whether the maintenance obligation owed has been violated, i.e. whether the audit or other accounting service has been performed based on the existing standards, legislation and techniques in practice. Regarding an audit, this requires consideration of compliance with International Auditing Standards. Disagreement of two parties on the amount one party owed to the other necessitates the presence of a forensic accountant so that the accountant attempts to give expert valuation of one job, for example.

This may be important in a marital dispute in which a divorced couple with shares in a partnership or company has a relationship with a forensic

accountant for valuation of the company in order to reach an agreement. A similar process can be applied in partnerships where one of the partners tends to withdraw from the partnership and be purchased by other partner (s) (Coşkun, 2013).

*An Expert Witness's Role:*

There is a difference between an expert witness and any other witness in court proceedings. Most of the witnesses are real ones, meaning that they can only give evidence about what they saw, and heard. Above all, they cannot clarify the issues on which they have given evidence. On the contrary, an expert witness is particularly named to state his views on a specific subject.

As a professional witness, that is, an accountant is called to provide evidence of a real witness or expert witness. As expert witnesses, they must only be experts to provide evidence. They should show an expertise level that means their opinions are important for the court. This means not only speciality in the field of accounting but also expertise in the specific field of accounting that they have proven. A witness will submit a written statement/report to the court and shall come to the court to provide live evidence personally and to be cross-examined by another party. Nevertheless, not all judicial duties require the submission of evidence to the court. Generally, the audit will need a report for the customer's aims or sometimes a report to be used by the insurer. In both cases, the basic skill required to be a successful forensic accountant is the ability to interpret complex concepts of accounting in simple terms to a person not an accountant himself; this is to explain issues to the jury or judge as an expert witness or to the client. It integrates investigation, forensic accounting, communication, and accounting skills.

*Planning:*

Forensic accounting contracts are the agreements on procedures, not the assurance contracts. The forensic accountant is not responsible for giving an assurance opinion, which is part of the role played by the auditor in reviewing the rate of loss included in the financial statements. This typically includes

determining a suitable value or determining the amount of a loss discussed above. This is relatively different from an assurance audit where the audit team will review a rate determined by the client.

The forensic accountant as an agreed procedure shall usually draw up a report to the client stating his findings under the scope agreed in the finding. This report can usually be directed to management during a fraud or for the insurance company. A witness statement / report may be requested in addition to or in place of a report for the customer to be submitted to the court / arbitrator. However, the investigation is planned is similarly to audit or other assurance audit which is planned.

Planning, participation team, subject / event (counterfeiting, theft, etc.) And it will start with a meeting with the customer where he/she will develop an understanding of the actions taken by the customer from the date of occurrence. An important part of planning is confirming exactly in which format the outputs are required and exactly in which topics they should be addressed. In this step, all main documents will be taken and reviewed. For example, partnership agreement, evidence for fraud discovery, the insurance policy, etc. there will be agreement between the team and the client and design procedures allowing them to meet the customer's requirements agreed based on the above, what availability of other information or staff will be needed and planned. Depending on the conditions, this may or may not include testing of controls. There is no need to test control when evaluating a job for a marital dispute. However, test checks will be important to determine how a fraud occurs.

#### *Evidence and Procedures:*

How to obtain evidence can be included in a forensic accounting contract - a limited assurance audit where procedures are limited to investigations and analytical procedures. Judicial tasks shall include a complete and detailed review of all documents and available electronic evidence. One should justify and support the expert accountant's opinion based on evidence. They should

not have opinion based on objective solely on what they say. They should verify this information.

Your procedures can't be ambiguous to be rewarded on the exam. They need to be particular enough for the participation team to actually follow your guidelines. For example, typing 'interviewing the suspect' is not enough. Under the circumstances of the scenario, you should suggest the questions that the suspect should be asked during the interview. For example, from the suspect to the business roles and their systems, inventory, cash, etc.

This also applies to management questions or discussion suggestions - in your answer, it is not enough to suggest using computer-assisted audit techniques (CAATs), for example, that the engagement team must ask them, for example, that they inform the police, that the suspect is suspended, that they inform the insurer, etc. You must specify how to use CAATs. For example, bank accounts and suppliers used to pay employees, exception reports identifying non-vacationers, etc.

To design suitable procedures, the type of forensic accounting contract, specific type of fraud, and insurance or negligence claim should be specified. For example, quantification of the stolen goods would differ greatly from measuring a loss (as discussed above) from payroll or 'fraud by the ghost worker' or loss of profit after business interruption.

#### *Basic Ethical Principles:*

Professional and ethical issues will like any other type of participation. However, the ethical rules are the most important with regard to forensic accounting. Both parties will often bring an expert witness to a hearing in which there is no consensus. The decision maker must determine which evidence he "prefers". The witness credibility is usually the main factor on which they can base this decision, and the accountant's credibility depends on its adherence to the basic ethical principles.

You should consider whether the client who requests the forensic accountancy service is an audit client in the exam. If so, this will pose a more significant

threat to objectivity and to self-examination. The investigation will include the amount to be reviewed later as part of the financial statement audit. The importance of the threat will be influenced by the significance of the quantity and the influence of the subjectivity related to quantification; for example, in case of loss of profit after business interruption, it will be done more subjectively than valuation of the stolen inventory.

The decision to investigate is a matter for the customer. Most of the time, customers don't want to be judged to fear that their reputation is damaged. The forensic accountant may give an analysis of all facts to the client, but should not make a prosecution decision (a management threat for impartiality). The forensic accountant has an obligation of confidentiality, not to disclose fraud to the third party, including the police, without permission of the client, unless it is in the public interest.

#### **2.4 A Forensic Accounting Case Study: Enron Scandal Example**

The Enron accounting scandal is accepted as one of the worst dreams in the history of the profession. Enron quickly became successful after it was founded in 1985. However, although the share prices increased, there was a decline from the share value from \$92 to \$0.67 in a month when the company went bankrupt in December 2001. The question of most stakeholders is how such a large company, as one of the most promising company in America, began to collapse in one night. The main problem with Enron's situation is that figure managers do not have enough accounting oversight to ensure that the company's position reflects a true and fair view (McLean & Elkind, 2003). The convention continues for years due to the considerable deregulation and the absence of an independent accounting firm to supervise Enron's books. Although the company began to fail in the late 1990s, the world did not realize what was going on behind the scenes until the end of 2001. The scandalous main players, including Jeffrey Skilling, the CEO, Kenneth Lay, the former CEO of Enron and Andrew Fastow, the innovative CFO are charged with fraud and insider trading. the failed accounting firm, Arthur Andersen LLP that reported Enron's misrepresentation, was shut down and convicted to obstruct justice, although the conviction was reversed.

The SEC prevents companies from pulling stunts, as in the Enron case through working with a rigorous regulatory framework. However, these gaps allow Enron to develop. Among them, a method allows companies to affect how their stock values progress on the stock market. In the mark-to-market accounting, Enron is permitted to put its price above the market price not the value exhibited in the books (Collins, 2006). Thereupon, allowing companies to hedge their balance sheets using SPVs is a failure to prevent companies from affecting the advancement of their stock values unfairly. These basic issues are exploited by Enron, but a greater protection i.e. an independent audit firm is available. Arthur Andersen LLP does not fulfil its incumbency to ensure that Enron's operations have a fair and true view. By doing so, the company is allowed to continue committing fraud for a long time. On this date, instead of reporting to the board of directors, the supervisory board reports directly to company managers who significantly restrict their independence. It also creates a gap in the mechanism enabling managers to pursue their interests against them. (McLean & Elkind, 2003).

#### **2.4.1 Amendments to SAS 99**

Potential fraud communication: SAS 99 makes appearance better to ensure higher surveillance against the corporate counterfeiting. Thus, the reporting system has been extended to contain not only management but also other agents. The communication of the fraud operation is now more interested by the board and other stakeholders (Thomas, 2002). In addition, compelling the independent auditor has changed and now covers a broader stakeholder coverage, meaning that it is not enough just to provide information to management. Failure to disclose the audit in detail to other stakeholders leads to unsuccessful agreement.

Risk factors of fraud: Auditors heavily rely on the information obtained when coming together to decide about financial statements of a company. However, SAS 99 is revised to mean that they allow detecting fraud through the control environment assessment. In other words, auditors can use information beyond the financial information provided by a company to specify whether it has made

any false statements in the information which is sent to the board of directors or the public.

Higher auditor independence: The SAS assesses what is expected during the audit activity of the independent audit institution. The biggest transformation made to SAS within this context is to separate the role of management from the roles of auditors. At the outset, a fine line is drawn between auditors and management since the auditors are authorized to gain other interests linked to management. This amendment to the standard aims to annihilate conflicts of interest through a fine line between the two main stakeholder groups when accounting fraud is desired to be prevented. More independence is not merely due to formations, but also revision in stakeholders number reported by auditors(Thomas, 2002).

Unlawful activities of the customer: SAS 99 provides a new perspective when reporting illegal actions in which audit findings are taken by customer. The failures that occurred in the initial reporting of these actions were given to the criminal justice jurisdiction as the justice obstruction. Nevertheless, SAS 99 provides a more recent approach when it comes to reporting and addressing customer perceived illegal transactions, summarizing the auditor's procedures and obligations. Thus, the auditor first is responsible under the accounting principles when he/she thinks that illicit actions have been taken by the client.

#### **2.4.2 Enron scandal**

Enron started in 1985 and emerged as a promising foundation for the business world. Along with Arthur Anderson Enron accounting firm, it got to be one of the greatest bookkeeping scandal in history. During the rise and fall of Enron, there were many illegal acts, as well as many ethical dilemmas.

The scandal of Enron was the biggest event in regard to bankruptcy in US history and led to 4,000 employees lost their jobs. If there was something wrong with Enron's accounting, there was transaction per procurement to the Securities and Exchange Commission. The investigation had moved on to a formal investigation by 31 October 2001, and Enron filed for bankruptcy on 2 December 2001. It was always a memorable event as the most catastrophic

events in the financial world. Enron's shares in late 2001, fell to a penny, as a disaster to many employees, investors, and the nation that followed, at over \$90.00.

Enron's decline took place after it became clear that most of its revenues and profits resulted from agreements with particular goal entities. Finally, Enron's debts and many companies' losses were not shown in the financial report. Enron formed offshore assets used to plan and prevent taxes, which increased the profitability of the business. Enron executives are faced with an ethical dilemma, knowing the offshore accounts that hide the company's losses and the negative consequences of their exposure. However, corporate investors did not know a single thing about fraudulent practices.

On August 14, 2001, Jeffrey Skilling, CEO of Enron, who was a former energy consultant at McKinsey & Company, participate the business in the year of 1990 and declared that he was leaving his current position in the company after six months. It is realized that in the time until this resignation, Skilling led to selling minimum 450,000 shares of Enron corresponding about \$33 million. At this time, Enron executives encouraged people to invest most of their lives in the firm because they sold them at the same time with their shares.

Operations of Enron in Europe filed for bankruptcy on 30 November 2001. On the day, Enron filed an application to report bankruptcy, company employees were informed to take their possessions and evacuate the building in thirty minutes. When Enron's employees and investors collapsed thousands of Enrons, they lost children's college funds, pensions, and all savings. The case accused twenty-nine managers and internal trade managers and misled the public. If one of the managers or managers was spoken of when he learned these immoral actions, the company might not go bankrupt and ruin their business and reputation.

Former Enron CFO Andrew Fastow was the mastery behind Enron's offshore partnerships and group of the controversial accounting practices. Fastow was indicted in Houston on 1 November 2002. He was charged with 78 counts of



fraud, conspiracy, and money laundering. Fastow was sentenced to prison for ten years and sentenced to \$23.8 million.

Ben Glisan Jr, one of the most important actors in the case of Enron's treasury scandal, was the first person to go to jail for the scandal. His belief really concerned the public with embarrassing events. He claimed to be guilty of a conspiracy to commit wire fraud and security. John Forney, a former energy merchant, was convicted of 11 counts of fraud and conspiracy in December 2002. Jeffrey Skilling, who resigned six months after employment, was arrested by the FBI on February 11, 2004. Of 28 securities fraud charges against Talent, 19 were convicted, but the remaining nine were not counted as a crime, of which Talent was acquitted. He was committed to 24 years and 4 months in prison due to illicit activities.

Kenneth Lay was the former chairman of Enron's Board of Directors and Executive Board and was tried in January 2006 for his role in the scandal. He was sentenced to up to 45 years in penal institution. He died on July 5, 2006, before being sent to prison.

This scandal led to the proliferation of other crimes related to accounting. Enron's fall down also promoted to the formation of the US Sarbanes-Oxley Act, constituted on July 30, 2002. This action aimed to protect people against the deception in Enron. The move changed the way Arthur Andersen kept company records because of a bad decision to dismantle most of financial documents of Enron. The law also tries to protect those reporting illegal or unethical acts. Sarbanes-Oxley has been recognized as the most remarkable change in federal securities laws since the FDR's New Deal in the 1930s. Rather than Enron's restructuring, they confronted liquidation and then changed the name of the company to "Enron Creditors Recovery Corporation" to reflect the company's name and the new form of payment owed to the litigants and creditors.

It seemed that the company's reaction to the scandal was fleeing; pointing fingers, and many managers worked for some kind of fraud or conspiracy census. Algerian investigations started in early January 2002. As Fastow

performed the Fifth Amendment, Skilling said Enron that he had no problems with leaving. Waktins told Fastow and Skilling murdered Lay and Lay refused to testify. In November 2004, when Enron went bankrupt, he formulated a plan to restructure their assets and try to sell them.

It took some time to formulate this plan, and in the time it wrote, Enron did not bring an answer to defend his actions. Considering that there was no way to turn things to their advantage, Enron executives began to stand trial in order to avoid the scandal. It is hard to tell how effective or ethical this lack of reaction is. They were brave enough to storm, and now that they're in the process of repaying what they owe, that's how they work. On the ethical side, the rulers were brought to justice in the court, and the causes of this scandal were simply explained beyond greed and the great ego.

Enron's response to the crisis, known as Enron Creditors Recovery Corporation, is emerging as quickly as possible with as much cash as possible. They take money from MegaClaims, where they say businesses will participate, and they profit from their collapse. They follow more than Citigroup, which is built with a settlement of about \$1.76 billion and rejects demand of about \$1.38 billion. They filed a lawsuit to recover the counterfeit commercial paper loan prepayments, and they exceeded \$170 million and still exceeded \$400 million. In addition, they participate in stock trading cases and received approximately \$250 million. Enron Creditors Rescue is slowly but effectively repaying people. This response also applies ethically as long as payments are being made.

Enron originally emerged as a prosperous and successful company. However, Enron's illegal and unethical decisions have been made in the history, causing several employees to loosen up a significant amount of money and others to loosen up. The Enron scandal will go on forever, and the Sarbanes-Oxley Act has prevented such a catastrophe from happening again and again. I hope the future will be more moral and lawful.

### 2.4.3 Enron scandal and ethical issues

Enron Corporation is a natural gas, energy, and electricity company with 21,000 employees in Houston, Texas, before going bankrupt in mid-2001. In 2000, it had a turnover of over \$100 billion and was named the most innovative companies of America by Fortune for six consecutive years. Enron could profit companies and businesses by distributing gas to market value. Enron is introduced as the 7<sup>th</sup> largest company in America and has dominated the trading of power, weather securities, and communications (Corporate Narc, nd).

When the Enron case is examined quickly, it seems like a corporate citizen, working in harmony with corporate social responsibility projects and business ethics tools. However, Enron has been the biggest corporate fraud scandal in our history because it includes both unethical and illegal activities.

Carroll and Buchholtz (2008) state that Jeffrey Skilling as CFO and Ken Lay as CEO had important parts in the Enron case. They both managed to conspire and commit securities fraud in order to increase their profits. In Enron, Lay and Skilling's implicit debts, when using partnerships other than books, they then "lied to employees and investors about the catastrophic financial circumstance of the company while selling its marketable securities " (Carroll & Buchholtz, 2008, p. 256) .Enron's senior management breached SPE laws , various accounting laws, and bent accounting rules to meet their profit demands in the short term, but ignored long-term repercussions for shareholders, employees , investors, and the business. Close relationships between senior managers and the board of directors have grown arrogantly, leading them to behave unethically, thinking they are invincible. Enron allowed Chief Finance Officer Andrew Fastow and gave him chance to misuse his power to control two deliberately affiliated SPEs (special purpose entities).

The Enron company also invested some of its debt in SPVs' balance sheets and managed to hide this from investors and analysts. The burden of debt on the company gradually increased, and when it emerged over time, Enron's credit rating was lowered. Immediately after this situation, the lenders

immediately demanded the repayment of the hundreds of millions of dollars they had given (Sims & Brinkmann, 2003). This means that Enron's decision-makers see borrowing time not as an immorality, but as a matter of timing. In order to protect their personal interests, they made decisions for personal gain, arguing that the situation was not serious, although they knew how the company was actually doing financially.

None of the talks or discussions about the Enron case would have been fully spoken if Enron's accountant, Arthur Andersen, was not involved in the discussion. Arthur Andersen Enron's collapse was one of the most important causes of Enron's collapse, and for Enron, the two roles had a conflict of interest not as an auditor, but a consultant. Andrew Fastow, Enron's Finance Director, has reached many agreements where he has a place that concerns both sides of the deal. By participating and wittingly involving into that deals, he managed to relate his financial covetousness to his position in the firm.

In 2000, Paul and Palepu (2003) stated that Arthur Andersen received an audit fee of \$25 million and a consultancy fee of \$27 million, representing approximately 27% of the public clients' audit fees for Arthur Andersen's Houston office. Auditors' processes were examined either to collect their annual remuneration or due to Enron's absence of speciality in properly reviewing its incomes, private assets, derivatives and other accounting practices. Due to the link between Arthur Anderson and Enron, it was quite easy for Enron and the accounting company to collaborate to cover up debts and financial losses. Andersen had responsibility for some of Enron's internal books, and some employees of Andersen were going to work for Enron.

The consequence of the accounting case was that most of Enron's losses were not reported in its financial reports. In November 2001, Enron accounted for \$586m in losses to its financial statements for the previous five years (CorporateNarc stalled in mid-November 2001, following a series of scandals involving Enron and accountant Arthur Andersen's fraudulent accounting transactions, when the biggest bankruptcy occurred. Enron was considered a stock of blue chips. It is unprecedented and catastrophic in the world of finance. Enron's decline happened after it became apparent that most of its

profits and revenues were due to agreements with special aims of wealth (Corporate Narc, nd).

Serious problems in business transactions, including the leaders of the Enron firm, were ignored and priority was given to individuals' financial rewards rather than the status of the company. As the company's problems became more public, its shares began to fall, and in this case the company was moving from an investment program to another.

#### **2.4.4 Impacts on stakeholders**

The moral responsibilities of businesses include serving their customers, shareholders or employees. The bankruptcy of Enron caused damage to banks, former employees, suppliers, shareholders, customers, and other communities, including the United States of America.

#### **2.4.5 Impacts on employees**

The Enron scandal was the first thing, and most importantly, the job had an impact. Carroll and Buchholtz (2008) argued that employees were significantly affected and displaced when Enron went bankrupt and Arthur Andersen's accountant quit his job in 2002" (p. 47). Enron's case leading financial arduousness pull thousands of employees to lose their jobs, it forces thousands of them to work for the bankrupt firm, and "left 5,600 employees unemployed and retired with nestless eggs" (Carroll & Buchholtz, 2008, p. 256). Many employees' pensions had Enron shares, Kenneth Lay advised employees to keep Enron shares in the collapse and sell their own products. While employees could not sell their stock, Lay and other managers quickly sold most of their shares. Thousands of employees' lives and savings have been destroyed. They were also lost their freedom to enlarge their pension portfolios, and their pension savings had to be helpless while senior managers made money from their lucrative stock options at the same time evaporated.

#### **2.4.6 Impacts on shareholders and investors**

Due to the Enron scandal, persons investing individually and corporate investors bleed money ( in millions of dollars) due to the fact that the firm gave

misinformation for questionable accounting practices about its financial performance reality, and the money of the investment made by the shareholders was lost due to the bankruptcy of the company. Shareholders lost \$11 billion when Enron's stock price, which stood at \$90 per share in mid-2000, fell to below \$1 at late November 2001 (Answers.com, 2010). Investors, after Enron's terrible experiences, those who are once again damaged can never be completed again.

#### **2.4.7 Effects on United States and communities**

the Bush administration as one of the political parties which received Enron's contributions, found themselves in places where they could extradite themselves to Enron or donate themselves to a charity. Enron influenced America in a few important ways. One of the positive aspects of the Enron case is that it is understood how important honesty is for accounting and business world and it increased the awareness for the necessity of taking new measures to prevent such scandals from happening again.

#### **2.4.8 Effects on other stakeholders**

The Enron case has damaged other stakeholders. For example, Enron's senior executives influence over Arthur Andersen to confirm highest risks; Restricted accounting uses partly to maintain and participate in consulting business, Arthur Andersen won big contracts in the short term, but finally missed his professional credibility and customer base. Some of the banks in investment, such as Citigroup, JP Morgan and Merrill Lynch, received a fee of \$200 million from agreements that helped energy companies such as Enron increase cash flow and hide their debts and, thanks to their inability to perform their own due diligence, harm other stakeholders. Citigroup and JP Morgan Chase turned out to lose significant rates, especially with the fall of Enron.

#### **2.4.9 Penalty**

Investors, stakeholders and thousands of employees were eagerly awaiting what penalties would be imposed on those who successfully kept Enron's real financial situation for a long time. Three people involved in various frauds

perpetrated by Enron include Jeffrey Skilling, former president and CEO of Enron; LJM, former finance manager responsible for Andrew Fastow; founder, former president and CEO, Kenneth Lay. Andrew Fastow, Enron's former chief financial officer, and three other former Enron executives, exercised their right in 2002, not to testify at a congressional session on their Fifth Amendment.

He has been accused of bank and postal fraud, illegal money laundering, and compounding, including securities fraud. Fastow et al. allegedly organize a system to swindle Enron and its shareholders (Cbsnews.com, 2006). Fastow himself and a criminal group, including his wife and 9 of his former rulers, faced more than 31 indictments and 98 fraud charges, and were charged with a range of crimes such as insider trading and fraud. (Associated Press, 2006). Andrew Fastow was found guilty of two counts of conspiracy. The defense side ordered a 10-year prison sentence, and Enron requested assistance in bringing it to the agenda of its former manager, Lay and Jeffrey Skilling.

Lea Fastow was found guilty of filling out the wrong tax forms. Finally, in March 2006, Fastow pleaded guilty and was sentenced to up to 10 years in two conspiracies. His wife Lea Fastow and nine other former executives faced 31 more indictments and 98 more frauds and were also charged with a series of frauds, insider trading and other counts (AssociatedPress, 2006). Andrew Fastow was found guilty of two counts of conspiracy. The defense has issued a 10-year sentence and has called for helping target Kenneth Lay and Jeffrey Skilling as the former top Enron executives. LeaFastow was found guilty of filling out the wrong tax forms. Finally, Fastow pleaded guilty in March 2006, and was sentenced to 10 years in prison in two conspiracies. His wife Lea Fastow and nine other former executives faced 31 more indictments and 98 more frauds, and were also charged with a series of frauds, insider trading and other counts (Associated Press, 2006). Andrew Fastow was found guilty of two counts of conspiracy. The defense has issued a 10-year sentence and has called for help in targeting former top Enron executives Kenneth Lay and Jeffrey Skilling. Lea Fastow was found guilty of filling out the wrong tax forms. Finally, in March 2006, Fastow pleaded guilty and was sentenced to 10 years in prison in two conspiracies. Lea Fastow was found guilty of filling out the

wrong tax forms. Finally, Fastow pleaded guilty in March 2006, and was sentenced in prison for 10 years in two conspiracies. Lea Fastow was found guilty of filling out the wrong tax forms. Finally, in March 2006, Fastow pleaded guilty and was sentenced to 10 years in prison in two conspiracies.

Lay and Skilling were tried in January 2006 in the Enron scandal in Houston. The skill faced 31 points, ranging from fraud allegedly lying about Enron's financial situation to auditors. The plan faced seven counts of alleged fraud and conspiracy. After six days of negotiations, the Houston case of former Enron chiefs Kenneth Lay and Jeffrey Skilling was adjudicated on May 25, 2006. Skill was convicted of 28 stock fraud and fraud convictions and acquitted the remaining nine people, including insider trading, and became the top executive responsible for Enron's collapse. He was sentenced in prison for 24 years and 4 months due to his engagement in the largest scandals in US history (Cbsnews.com, 2006).

Lay was found guilty of all six counts imposed on him, including a conspiracy to wire fraud and commit securities, and sentenced to in prison for 45 years. However, Lay died of a heart attack on 5 July 2006 before the punishment was planned (Answers.com, 2010).

#### **2.4.10 Lessons from Enron cases**

The Enron scandal has become a moral lesson in the new economy. The case will instruct the rulers and the American people their most important ethical lessons. In the first lesson, both institutions and individuals or firms make only money by providing services or goods at real value in the new economy. In addition, overpaid managers may think that they do not obey the rules and tend to cut ethical corners to protect their wealth and assets. All companies must clearly state that they have eliminated all non-accounting records that distort the financial view of the public, and must undertake not to prop up temporarily the rules of the company and to inform the public of possible situations.

Executive director of the Markkula Center for Applied Ethics, KirkHanson (2002), said that the significant reforms of corporate governance and



accounting in the United States and the cultures of business in the United States are required in the Enron scandal. As a result of accounting fraud that took place in the Enron case, some companies working in the accounting field asked their staff to make arrangements to comply with the standards laid down in SEC laws.

In order to prevent companies from preventing an Enron-like scandal, managers and managers need to be audited for applying their own business judgments about what is most relevant to an institution. On the other hand, when accounting firms act seriously in both audit and consultancy services for consultancy work, SEC probably needs to embark on annotation requirements. Government controls and rules ought to be upgraded, not loose and dispensed with for the new economy.

Considering the Enron scandal in terms of historical records, it is seen that most of the problems Enron faced stem from the activities of the board members to make profits for their personal interests. Thanks to this scandal, people realized that they had to take care of themselves, they saw the consequences of breaking the law out of ambition, and in this regard, people's lives changed significantly. Many people or organizations have learned both from punishment and from this situation in accordance with their activities.

## **CHAPTER 3**

### **METHOD**

In this part of the study, the model, universe and sample of the research and data collection tools are discussed.

#### **3.1 Model of Research**

In this study, the relational screening model and the cross-sectional research pattern, which is a descriptive research type, were applied for evaluation of the attitudes of the credit authorities working in the commercial credit service of the banks registered in the Turkish Republic of Northern Cyprus towards financial manipulation, to determine whether these attitudes are modified based on the different demographic groups, and to show more suitable accounts for manipulation in the accounts and financial statements positively affecting the enterprises' credit worthiness. The cross-sectional research is designed to measure the variables described as behavior, attitude, and skill at once (Büyüköztürk, 2016).

#### **3.2 Universe and Sample**

In this study, the sample was selected with purpose-oriented sampling, which is a non-probabilistic sampling type. Goal sampling type is defined as the selection of appropriate, rich situations in terms of data and the selection of the sample related to certain situations according to the purpose of the study (Büyüköztürk, 2016).

The sample includes 400 Turkish-speaking participants aged 18-65 working in the SME and entrepreneurial marketing departments of their banks enrolled in the Turkish Republic of Northern Cyprus in 2020.

### **3.3 Data Collection Tools**

The questionnaires to be used for data collection were made ready for application and given to the people in the study universe. Before starting to answer the questionnaires given to them, the individuals were informed by the researcher about the purpose, scope and response of the questionnaires. The confidentiality and limitations of the research are stated in order to ensure that individuals respond to the data collection tools sincerely and correctly.

The research sample includes 400 Turkish-speaking participants aged 18-65 working in the entrepreneurial marketing and SME departments of their banks enrolled in the Turkish Republic of Northern Cyprus in 2020. These people are at least high school graduates. The banks they work for are Halkbank, Ziraat Bank, Garanti BBVA, Türkiye İş Bankası, Vakıfbank, Albank, Türkiye Ekonomi Bankası, Creditwest Bank, Limasol Türk Kooperatif Bankası, İktisatbank and Cyprus Türk Kooperatif Merkez bankaları. Participants have medium and upper-middle income level as income level.

#### **3.3.1 Financial manipulation scale**

"Financial Manipulation Scale" was used to measure the significance levels of some items in the credit worthiness of the participants in the study universe, their thoughts on financial statement manipulations and the degree of susceptibility of some items to financial statement manipulations. The questionnaire used consists of 4 parts and 57 questions in total. The first part includes 6 questions aimed at determining the socio-demographic characteristics of the participants; the second part includes 16 statements aimed at determining the significance of the selected account items in the financial statements in the eyes of the credit authorities; the third part includes 19 statements aimed at measuring the level of agreement of the authorities regarding the statements regarding the financial statement manipulations; and the fourth part includes 16 statements aimed to measure the degree to which the selected account items are susceptible in the financial statements to manipulation.

### **3.4 Data Acquisition Processing**

The accessible universe of the research consists of Turkish-speaking individuals aged 18-65 working in the entrepreneurial marketing and SME departments of their banks registered in the Turkish Republic of Northern Cyprus. The study was conducted in December 2020 with a total of one month of application. The people who constitute the population of the study were informed by the researcher about the inclusion criteria. Information Form (Annex-1) was given to the participants who met the research criteria and volunteered for the study.

### **3.5 Data Analysis**

At the beginning of the questionnaire, participants were asked various demographic questions such as age, gender, educational status, working time, ownership status of the institution they worked for and the type of institution they worked for. In the second part, 16 statements aimed at determining the significance levels of the account items selected in the financial statements in the eyes of the credit authorities, in the third part, 19 statements measuring the opinions of the authorities about the manipulation of the financial statements and in the fourth part, 16 statements measuring the susceptibility of the selected account items in the financial statements to manipulation are included. Scale Demir and Arslan's (2015) "Financial Statement Manipulations from the Perspectives of Bank Commercial Loan Officials: A Research in Sivas". 5-point Likert scale was used to evaluate the statements in the survey. The survey results were analyzed in SPSS statistical program. The extent to which the participants agreed with the statements in the questionnaire with a numerical method was examined using a classification scale for the items. In the calculation of the range width, the series width is divided by the number of groups to be made (Demir and Aslan, 2015). Scale score ranges are shown in the following table.

## CHAPTER 4

### FINDINGS AND COMMENTS

**Table 1: Scale Score Ranges and Related Participation Levels**

Attribute Level	Point Value	Value Ranges
Totally True		
Very Important	1	1.00-1.79
Very Predisposed		
TRUE		
Important	2	1.80-2.59
Predisposed		
Floating	3	2.60-3.39
No idea		
FALSE		
None	4	3.40-4.19
Not Predisposed		
Totally Incorrect		
Absolutely Not Important	5	4.20-5.00
Not at all predisposed		

#### 4.1 Reliability Analysis

Cronbach's Alpha Coefficient was used to measure the reliability of all 51 items in the third, second, and fourth sections of the questionnaire.

### Reliability Statistics

Cronbach's Alpha	N of Items
,998	51

Cronbach's Alpha Coefficient was 0.998. This value is well above the minimum value (0.70) that should be. This shows the extreme reliability of the scale.

The survey results were analyzed according to the following items:

1. Analysis of participants according to their demographic characteristics
2. Analysis of participants' views on the significance levels of selected items of the financial statement in the business's credit worthiness
3. Analysis of participants' thoughts on financial statement manipulation
4. Analysis of participants' attitudes toward the susceptibility degree of selected items to manipulation in the financial statement
5. T-test and ANOVA as the difference tests that determine whether a difference is observed by participants based on their demographic characteristics

#### 4.2 Distribution of Demographic Characteristics

Distribution of the participants according to age, educational status, gender, employment status, ownership status of the bank they work in and the type of bank they work in are given below.

**Table 2: Demographic Distribution**

<b>Age</b>					
		Frequency	%	Current %	Cumulative Total
Value	25-34	99	24.8	24.8	24.8
	35-44	82	20.3	20.3	45.1
	45-54	94	23.5	23.5	68.6
	55-64	126	31.4	31.4	100
	Total	400	100	100	
<b>Education</b>					
		Frequency	%	Current %	Cumulative Total
Value	High school	126	31.5	31.5	31.5
	Two-year Degree	65	16.3	16.3	47.8
	Bachelor's Degree	79	19.8	19.8	67.5
	Master's Degree	48	12	12	79.5
	Doctorate	82	20.4	20.4	100
	Total	400	100	100	
<b>Operation period</b>					
		Frequency	%	Current %	Cumulative Total
Value	1-5 years	126	31.5	31.5	31.5
	6-9 years	100	25	25	56.5
	10-15 years	52	13	13	69.5
	16-19 years	79	19.8	19.8	89.3
	20 years and more	43	10.8	10.3	100
	Total	400	100	100	
<b>Gender</b>					
		Frequency	%	Current %	Cumulative Total
Value	Female	219	54.8	54.8	54.8
	Male	191	45.2	45.2	100
	Total	400	100	100	
<b>Ownership status</b>					
		Frequency	%	Current %	Cumulative Total
Value	Public	170	42.5	42.5	42.5
	Custom	112	28	28	70.5
	Hybrid	118	29.5	29.5	100
	Total	400	100	100	
<b>Organisation type</b>					
		Frequency	%	Current %	Cumulative Total
Value	Commercial Bank	191	47.8	47.8	47.8
	Katılım Bankası	209	52.3	52.3	100
	Total	400	100	100	

As can be seen in the tables, the age ranges of the participants were distributed as evenly as possible. The most common age range was 55-64 years. In this case, it can be said that the participants are generally experienced and mature employees. The vast majority of the participants were high school graduates, indicating that the sample consisted of what is commonly referred to as sarcastic employees who entered the business life at an early age. Although the majority of the participants are women, it can be said that the female-male distribution is largely equal.

When it comes to the study period, it is seen that the highest percentage consists of participants working between 1-5 years. At this point, it can be concluded that there is a rapid rotation and job change in the sector. The proportion of participants working in the public bank is higher in terms of ownership status. In terms of the type of institution, the proportion of participants working in the participation bank is more than those working in the commercial bank.

#### **4.3 Importance of Selected Account Items in terms of Credit Value of the Business**

The opinions of the participants about the importance of certain selected account items in terms of the credit worthiness of the enterprise are given in the following table.



**Table 3: Importance of Selected Account Items in terms of Credit Value of the Business**

Item No	Selected Account Items	n	$\bar{x}$	ss	Attendance Level
1	Sales	400	2.3675	0.9379	Important
2	Capital	400	2.785	0.9545	Floating
3	Commercial Liabilities	400	2.0925	0.9307	Important
4	Period profit	400	2.0925	0.9307	Important
5	Trade Accounts Receivable	400	2.0925	0.9307	Important
6	Financial Debts	400	2.74	0.9668	Floating
7	Stocks	400	2.785	0.9545	Floating
8	Liquid Assets	400	2.3675	0.9379	Important
9	Expense Items	400	2.785	0.9545	Floating
10	Tangible Fixed Assets	400	1.61	0.9619	Very Important
11	Receivables From Shareholders	400	1.61	0.9619	Very Important
12	Payables to Shareholders	400	1.66	0.9522	Very Important
13	Advances (Received / Given)	400	1.55	0.9512	Very Important
14	Backups	400	1.63	0.9568	Very Important
15	Taxes Funds Payable	400	2.66	0.9522	Floating
16	Accumulated Amortization	400	2.66	0.9522	Floating

Very Important(1,00-1,79) Important(1,80-2,59)

Undecided(2,60-3,39) Not Important(3,40-4,19) Not Important at all (4,20-5,00)

Investigation of the values in the table shows that the most important items are "Receivables from Shareholders", "Payables to Shareholders", "Advances (Received/Given)", "Tangible Fixed Assets", and "Reserves". These items are

followed by “Trade Payables”, “Profit for the Period”, “Trade Receivables”, and “Cash and Cash Equivalents”. At this point, it is worth noting that no item has taken an average value of "Not Important at all" or "Not Important". From this point of view, the participants can be said to see account items as generally important.

#### 4.4 Thoughts about Financial Statement Manipulation

The participants' thoughts about financial statement manipulation were summarized in the table below.

**Table 4: Thoughts on Financial Statement Manipulation**

Item No	The expressions related to the manipulation of the financial statements	N	$\bar{x}$	Hh	Level of Participation
1	The creditor should consider both the financial statements and the intelligence information when assessing the loan request.	400	2.5775	0.96245	<b>TRUE</b>
2	Non-quantitative factors of the enterprise (the age of the enterprise owner's reputation in the market, etc.) are also effective in the evaluation of the credit line.	400	2.81	0.94664	Floating
3	Sector averages are important in identifying manipulation practices.	400	2.455	0.93818	<b>TRUE</b>
4	Manipulation practices of provisional financial statements are also more common.	400	2.3333	0.93789	<b>TRUE</b>
5	The credit officer should ask the accountant to revise the financial statement manipulations he/she has identified.	400	2.3827	0.93645	<b>TRUE</b>
6	Manipulated financial statements are eliminated because credit reversibility is subject to strict application and supervision.	400	2.4691	0.95249	<b>TRUE</b>
7	Credit authorities have prejudices that the financial statements do not reflect the truth.	400	2.642	0.95676	Floating
8	I believe that the financial statements of the business requesting credit have been adapted (manipulated) to credit alumina.	400	2.7037	0.96349	Floating
9	Financial statement manipulation practices are highly effective in experiencing financial crises.	400	2.7284	0.96349	Floating
10	Business managers (owners) are pressuring the accountant about financial statement manipulation.	400	2.6667	0.95219	Floating
11	I get the feeling that accountants don't follow the code of ethics.	400	2.7901	0.95449	Floating

12	Some credit authorities act in the direction of lending to make their performance appear high, even if their financial statements are subject to manipulation.	400	2.6667	0.95449		Floating
13	Accountants make manipulative practices to show the income of the enterprise high.	400	2.8025	0.95449		Floating
14	Some credit authorities tend to have creditworthy financial statements of the entity which requests the loan to be adapted.	400	2	0.93428	<b>TRUE</b>	
15	If the collaterals of the enterprises requesting loans are high, financial statement manipulations are ignored.	400	2.8765	0.93174		Floating
16	Friendship, kinship, etc. with the business ' credit authorities requesting the loan. The intimacy bond positively affects credit demand, resulting in the absence of manipulative practice.	400	2.5926	0.96188		<b>TRUE</b>
17	Manipulative practices ignored by the credit authorities due to the high collateral are not considered by the bank's audit mechanism.	400	2.6914	0.95219		Floating
18	Among the accountants, some request the bank for commission for the taxpayers they direct with credit request.	400	1.9506	0.90526	<b>TRUE</b>	
19	Some credit authorities offer commissions to accountants to direct their taxpayers requesting credit to them.	400	2.679	0.95219		Floating
Absolutely True (1.00-1.79), True (1.80-2.59), Undecided (2.60-3.39) Incorrect (3,40-4,19) Absolutely Incorrect (4,20-5,00)						

Based on the table, the statements that the participants found most precise were "The credit authority should consider not only the financial statements but also the intelligence information to evaluate the loan request.", "the manipulation practices should be determined based on sector averages", the "provisional financial statements more commonly contain manipulation practices" , "The credit authority should ask the accountant to correct the financial statement manipulations he/she has determined.", "Manipulated financial statements are eliminated because credit returnability is subject to a strict application and audit.", "Some credit authorities want the credibility of the financial statements of the entity which requests appropriateness of the loan.", "The close relationship of the entity requesting the loan with the credit authorities, kinship, etc. positively affects the loan request by leading to the absence of the manipulative application." and "There are those who request commission from the bank for the taxpayers they refer with the loan request among the accountants." At this point, it is particularly remarkable that the

statement "The bond of friendship, kinship, etc. with the credit authorities of the credit requesting business positively affects the credit request by causing the manipulative practice not to be seen." has been evaluated correctly and indicates that financial manipulation has taken place effectively. It is worth noting that the average value of none of the items was evaluated as "Very Correct" and that the participants experienced indecision in many items. In addition, the participants did not evaluate any item as "Wrong" or "Absolutely Wrong". This can be constructed as participants avoiding giving extreme answers and tending to give more political and average answers through self-censorship at some points.

#### 4.5 Predisposition Degrees of Selected Financial Statement Items to Manipulation

Participant evaluations of the degree of susceptibility of selected financial statement items to manipulation are shown in the following table.

**Table 5: Predisposition Degrees of Selected Financial Statement Items to Manipulation**

Item No	Selected Items	N	$\bar{x}$	Hh	Attendance Level
1	Shareholders Payables	400	2.66	0.9522	No idea
2	Receivables from shareholders	400	2.4	0.9467	No idea
3	Trade Payables	400	2.63	0.9568	No idea
4	Stocks	400	2.6975	0.9635	No idea
5	Trade Receivables	400	2.74	0.9668	No idea
6	Expense Items	400	2.74	0.9668	No idea
7	Ready Values	400	1.9925	0.9053	<b>Predisposed</b>
8	Sales	400	2.0425	0.9343	<b>Predisposed</b>
9	Period Profit	400	2.4	0.9467	No idea
10	Financial Debts	400	2.74	0.9668	No idea
11	Advances (Received/ Given)	400	2.92	0.9278	No idea
12	Accumulated Depreciations	400	2.66	0.9522	No idea
13	Backups	400	2.74	0.9668	No idea
14	Tangible Fixed Assets	400	2.66	0.9522	No idea
15	Capital	400	2.0925	0.9307	<b>Predisposed</b>
16	Tax Funds Payable	400	2.74	0.9668	No idea
Total Engagement Level		400			

Very Predisposed(1,00-1,79)

Tender (1.80-2.59)

No idea (2,60-3,39)

Unprone (3,40-4,19)

Not at all prone (4,20-5,00)

When the table is examined, "Sales", "Cash Values", and "Capital" items are determined as items susceptible to financial manipulation. On the other hand, the participants did not made decision when many items were evaluated and evaluations such as "Very prone" , "Not prone" or "Not at all prone" were not evaluated. This can be explained by the participants' avoidance of giving answers at the ends. At this point, the fact that the participants answered many items as "I have no idea" may be due to the fact that they could not completely predict the degree to which several items were prone to manipulation or could not clearly recognize the relationship between openness to manipulation and these items.

## **4.6 Analysis of Differences**

### **4.6.1 Analysis of differences by age**

When it was examined whether the results varied according to age groups, it was found that the importance given to "Cash Values" , "Stocks", "Accumulated Depreciations" and "Taxes and Funds Payable" items differed. When examined in detail, it was seen that this difference was caused by the 25-34 age group and the 55-64 age group. Considering the gap between these two age groups, it can be said that this difference is an expected difference.

The responses to the articles "If the collateral of the businesses requesting loans is high, manipulations of the financial statements are ignored.", "Sector averages are important in determining manipulation practices.", "Some credit authorities offer commissions to accountants to direct the taxpayers requesting loans to them." and "The credit authority should consider not only the financial statements but also the intelligence information when the loan request is

evaluated." also differ in terms of age groups. This difference was also observed between the 25-34 age group and the 55-64 age group.

Finally, the participants' responses to the "Expense Items" predisposition to manipulation differ between the 25-34 age group and the 55-64 age group.

#### **4.6.2 Analysis of differences by educational status**

When the results were examined by the participants with different educational levels, there was no significant difference for any item. This shows that the perspective on forensic accounting and financial manipulations is not affected by educational status. At this point, this finding can be considered as a positive finding because it shows that employees evaluate financial manipulations according to objective criteria rather than their own past experiences and perspectives.

#### **4.6.3 Analysis of differences by gender**

When examined by gender, only "Non-quantitative factors of the enterprise (the age of the enterprise owner's reputation in the market, etc.) are effective in the assessment of credit demand." It has been observed that there is a difference in terms of gender in evaluating the expression, and men have described this article as more accurate than women. The fact that there is no significant difference in the items other than this is important in terms of showing that financial accounting practices do not depend on the gender of the employee and are made objectively.

#### **4.6.4 Analysis of differences according to working time**

When the differences according to the working time are examined, it is seen that there is a difference in the statements "I think accountants do not comply with the rules of professional ethics." and "Accountants make manipulative practices to show the income of the business as high." This difference arises from the groups that have been doing this job for 6-9 years and have been doing this job for 16-19 years, and it has been seen that the employees have been more in agreement with these statements for a longer time. This can be explained by the fact that these expressions are more related to the increase

of experience and accordingly the development of intuition, so more experienced people agree with these expressions more.

In addition, a difference has been found between the groups that have been doing this work for 6-9 years and have been doing this work for 16-19 years regarding the susceptibility of the "Stocks" item to manipulation. It can be said that this difference arises depending on experience. However, the fact that there is no significant difference between other items and expressions is important in terms of showing that financial evaluations are made objectively and not dependent on the employee.

#### **4.6.7 Analysis of differences according to working time**

When the examination was made according to the working time, a significant difference was seen in the items "Cash Values" , "Payables to Shareholders" and "Reserves". The statement "I think that the financial statements of the business requesting credit have been adapted (manipulated) to the borrowing." has been observed to differ according to the working time. Finally, it was observed that the participants showed a significant difference in the susceptibility of the item "Trade Payables" to manipulation. The significant difference for all statements was due to the difference between the public bank and the private bank.

#### **4.6.8 Difference analysis according to institution type**

There was no difference in the results according to the type of institution. A conclusion can be drawn as the results are evaluated more objectively.

## **CHAPTER 5**

### **DISCUSSION**

The forensic accounting world has evolved for the last 70 years. Identified and defined the triangle of corruption leading to audit standards through the Evaluation of Fraud in Financial Statement Audit. refers to "fraud triangle" elements.

In the last decade, the forensic accounting world has become wider in scope and more specialized in skills. SMMs did not cause the credit and savings scandal of the 1980s and 1990s while there were no strict regulations and the real estate market speculative, the forensic accountant's role was not known during this period. The crisis defined as "death by a thousand cuts" due to many banks' failure, regarded regulations as a solution; FIRREA, the higher authority of FHFBS and some lenders' capital requirements, which came into force in 1994, were among the reforms. Conversely, the failure of publicly traded companies such as WorldCom and Enron has been a driving force for higher audit requirements and has finally caused the emergence of CPAs as fraud prevention experts and leaders in understanding and implementing internal controls. Although the tendency to specialize is simply evolutionary, the necessity of forensic accounting as an applied science has increased further in the decades.

Changes in the implementation and implementation of forensic accounting as a private area leave room for growth. While forensic accounting services are carried out by non-CPA and CPA in different positions, leverage belongs to CPA as a licensed profession. Moreover, as his knowledge expanded, so did his field of growth and professional satisfaction.



A forensic accountant's work is usually carried out by persons who have received accounting or financial training, specializing in obtaining, reporting, and analyzing financial events for a person, "forum", or a decision-making body.

For instance, a business valuation based on a fair market value premise tries to uncover a hypothetical reality on the basis of the available facts. Estimated value includes the perception of a willing buyer since the date of valuation. In fraud investigations, managers or people who are typically in a position of trust have benefited themselves against others (e.g. business partners, company,).

This "pull me, push me" conflict between these two forces in personal life and business can help readers perceive what the forensic accountants are doing abstractly: They fill the gap between what evidence shows to be true and what someone perceives to be true. For example, documents, especially unchanged documents, are what most people consider "an evidentiary matter". An unchanged document shows certain facts, in other words certain facts. Beyond that, compilation of data, assumptions replacing incomplete evidence, statements made by individuals and even companies, and the experiences of forensic accountants can play an evidential role. Even a modified document is regarded as evidence itself, because it expresses a motive to change and shows that the motive should be investigated.

In forensic accounting, the two situations are not exactly the same, and big data, the adaptive use of electronic discovery, and visualization are the recent additions to forensic accountants' toolkit. Because it was cheaper to install and implement such technologies, what began as a meeting of minds from information and finance systems was the recently borrowed technology serving in case presentations, simulations, and different forensic reports to deal with unique questions

But here are a few new trends pointing to developments over the next decade:

Technology Forensic accountants have increasing reliance on technology and expanding new uses. This increases the set of skills required, from purely

critical analysis to working knowledge on technical topics such as various data sources, data set management, visualization, normalization techniques, and presentation of analyses going beyond flat figures.

**Interpersonal skills:** The ability to really listen to, analyze data and factual responses, interpret non-verbal cues, and understand various cultural backgrounds will separate the future forensic accountant from the package.

**The skeptical mind:** The skeptical mind takes what is said and fully understands it, and then continues to rigorously verify the so-called facts. Expanding a skeptical mind is a permanent quest. These skills can serve the forensic accountants' next generation well if implemented and guided by adequate training.

**International impacts:** Anti-corruption skills will be a "or rural" test for developing societies. Leaders who want to prevent or deter corruption and fraud will find ready partners in the forensic accountants, which will have the further benefit of allowing investment in these local economies with international and domestic resources, which other leaders who will be less likely to benefit from in the long term.

**Printing on appraisal services:** Financial modelling often refers to the "valuation" of companies, especially newly established ones, and present valuation standards are an exception to the valuation services provided in connection with the case. Both of these trends threaten to weaken testing services when CPAs perform. The profession may see a change in terminology, e.g. "approved valuation", to distinguish it from daily financial market use. In addition, it may be useful to have case-by-case standards to ensure an equal playing field between compliant professionals and those providing services of valuation under the present exception.

This new type of audit is out of government regulations and is intended for use in cases of bankruptcy, insurance, computer fraud, embezzlement, and other related crimes. Financial fraud and computer crimes calculate the criminals' careful attacks and intuitive attacks. Therefore, forensic and forgery control require more than just a primary set of standards; they require intuition.

Fraud and judicial control is a rapidly changing and dynamic discipline. The first forensic and fraud control tools (called attack detection systems) include system administrators tracking a computer console to track the user's behavior. These intrusion detection systems aimed to discover the unlawful or unauthorized use of the systems. System administrators saw employees logging in to the system remotely or a rarely used computer component that was not suddenly used for a specific reason as "red flags" in the system. The results of these early attack detection devices were recorded on layers of folded computer paper stacked several meters high at the end of each week.

System administrators then confronted the filtering daunting task through these sets of information to detect the potential fraud. Although this system was used to detect improper or illegal use of systems or counterfeiting, it was more reactive than being proactive. Approach was complicated by slow and detection system logs running at night and not inspected until the following day. Thus, a large number of attacks were not discovered until their occurrence. In the 1990s, however, real-time attack detection scanners enabled system administrators to have a better opportunity to review system information and real-time responsiveness as generated.

However, as attack detection systems evolve, there are forms of fraud. Currently, the Securities and Exchange Commission sees more than 100 cases of accounting and financial fraud per year, which was a remarkable increase before the business prosperity occurring before the 1970s. Big names such as Bausch, Sunbeam, Knowledge, and Lomb were sometimes had to rearrange financial reports caused by fraud. This impacts stock prices and often causes other problems such as changes in ownership, bankruptcy, and dismissal.

## **CHAPTER 6**

### **CONCLUSION AND RECOMMENDATIONS**

Examination of the survey results applied to bank employees found that the most important items are "Receivables from Shareholders", "Advances (Received/Given)", "Payables to Shareholders", "Tangible Fixed Assets", and "Reserves". These items are followed by "Trade Payables", "Profit for the Period", "Trade Receivables", and "Cash and Cash Equivalents". At this point, it is noteworthy that no item has received an average value of "Not Important" or "Not Important at all". From this point of view, it can be said that the participants tend to see account items as important in general.

To evaluate the financial manipulation perspective, the statements that the participants found most accurate were "The credit authority should consider not only the financial statements but also the intelligence information when evaluating the loan request.", "Sector averages are important in determining the manipulation practices.", "Manipulation practices in the provisional financial statements are more common.", "The credit authority should ask the accountant to correct the financial statement manipulations it has determined.", "Since the credit irreversibility is subject to a strict application and audit, manipulated financial statements are eliminated.", "Some credit authorities want the creditworthiness of the financial statements of the entity requesting the loan to be made more appropriate.", "The relationship with the credit authorities of the entity requesting the loan, kinship, etc., positively affects the loan request by causing the absence of the manipulative application." and "There are those who ask for commission for the taxpayers they directed by the accountants with the loan request." At this point, it is particularly remarkable that the statement "The bond of friendship, kinship, etc.

with the credit authorities of the credit requesting business positively affects the credit request by causing the manipulative practice not to be seen." has been evaluated correctly and indicates that financial manipulation has taken place effectively. It is noteworthy that the average value of none of the items was evaluated as "Very Correct" and that the participants experienced indecision in many items. In addition, the participants did not evaluate any item as "Wrong" or "Absolutely Wrong". This can be interpreted as participants avoiding giving extreme answers and tending to give more average and political answers by self-censorship at some points.

In addition, "Cash and Cash Equivalents" , "Sales" and "Capital" items have been identified as items susceptible to financial manipulation. On the other hand, the participants remained undecided when evaluating many items and avoided making evaluations such as "Very prone" , "Not prone" or "Not at all prone". This can be explained by the participants' avoidance of giving answers at the ends. At this point, the fact that the participants answered many items as "I have no idea" may be due to the fact that they could not fully predict the extent to which many items were prone to manipulation or could not clearly recognize the relationship between these items and the openness to manipulation.

When the differences according to demographic characteristics were examined, it was determined that the importance given to "Cash Values" , "Stocks", "Accumulated Depreciations" and "Taxes and Funds Payable" items differed. When examined in detail, it was seen that this difference was caused by the 25-34 age group and the 55-64 age group. Considering the gap between these two age groups, it can be said that this difference is an expected difference.

The responses to the articles "If the collaterals of the enterprises requesting loans are high, financial statement manipulations are ignored.", "Sector averages are important in determining manipulation practices.", "Some credit authorities offer commissions to accountants to direct the taxpayers requesting loans to them." and "The credit authority should take into account not only the financial statements but also the intelligence information when evaluating the

loan request." also differ in terms of age groups. This difference was also observed between the 25-34 age group and the 55-64 age group.

Finally, the participants' responses to the "Expense Items" predisposition to manipulation differ between the 25-34 age group and the 55-64 age group. When the results were examined by the participants with different educational levels, there was no significant difference for any item. This shows that the perspective on forensic accounting and financial manipulations is not affected by educational status. At this point, this finding can be considered as a positive finding because it shows that employees evaluate financial manipulations according to objective criteria rather than their own past experiences and perspectives. When examined by gender, only "Non-quantitative factors of the enterprise (the age of the enterprise owner's reputation in the market, etc.) are effective in the assessment of credit demand." It has been observed that there is a gender related difference in the evaluation of the expression, and men have described this article as more accurate than women. The fact that there is no significant difference in the items other than this is important in terms of showing that financial accounting practices do not depend on the gender of the employee and are made objectively.

When the difference according to the working time is examined, the main difference arises from the groups that have been doing this job for 6-9 years and have been doing this job for 16-19 years, and it has been seen that the employees agree with these statements more for a longer time. This can be explained by the fact that these expressions are more related to the increase of experience and accordingly the development of intuition, so more experienced people agree with these expressions more. However, when the items are evaluated in general, the findings do not show a big difference depending on the working time. Similarly, the fact that there is no significant difference in the results according to the type of ownership and type of institution, shows that the evaluations are made more objectively and systematically than depending on the employee's private life story, employee initiative and instant situations, thus ensuring that positive and positive inferences can be made about the future of the sector.

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## ANNEXES

### **Annex 1: Information Form**

The purpose of this research is to evaluate the attitudes of the credit authorities working in the commercial credit service of the banks registered in the Turkish Republic of Northern Cyprus towards financial manipulation, to determine whether these attitudes change according to different demographic groups, to reveal the accounts that are more suitable for manipulation in the financial statements and the accounts that positively affect the credit value of the enterprises.

In this study, we presented you with a demographic information form. The first part of the form contains questions about your age, gender, educational status, working time, ownership status of the institution you work for and the type of institution you work for. In the second part, 16 statements aimed at determining the significance levels of the selected account items in the financial statements in the eyes of the credit authorities, in the third part, 19 statements measuring the opinions of the authorities about the manipulation of the financial statements and in the fourth part, 16 statements measuring the susceptibility of the selected account items in the financial statements to manipulation are included.

The questionnaire was conducted for purely scientific purposes and presented to you on a voluntary basis. Your credentials will not be available on the survey form. Your information will be strictly confidential. The data obtained from the study will only be used as statistical data. Giving your answers sincerely and accurately will enable these survey results to be used as useful information for the community. We note that you agree to participate in the study as soon as you start filling out the questionnaire.

As noted earlier, your responses to the scales and interviews will remain strictly confidential. If you have any complaints, opinions or questions regarding the study, please do not hesitate to contact Emel Çapkıner Tosun, one of the

researchers of this study, if you wish to withdraw from the study. (emel\_biben@hotmail.com).

If participating in this study has caused you a certain level of stress and you would like to talk to a consultant, there are the following organizations offering free service in our country:

If you are a university student, you can apply to the Psychological Counseling, Guidance and Research Center (PDRAM) at the university you attend. If you are not a student, you can apply to Barış Neurological and Mental Diseases Hospital. If you are interested in the results of the research, you can contact the researcher as of June 2020.

Thanks again for participating.

Regards

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## Annex 2: Survey

Dear Sir or Madam,

The attached questionnaire form has been prepared within the framework of a scientific study to determine whether the financial statements have been manipulated in the applications for commercial loan application from the point of view of credit authorities. Your responses have nothing to do with you and your organization. Your contribution to the survey with sincere and objective thinking will make this scientific study more meaningful.

Please do not provide your identification information.

We thank you for taking the time to answer the survey and wish you success in your business endeavors.

### A. Demographic Structure

#### 1. Age

25-34     35-44     55-64     65 and above

#### 2. Educational Status

High School     Associate Degree     Undergraduate     Doctorate

#### 3. Gender

Female     Male

#### 4. For how many years have you been doing this job?

1-5 years     6-9 years     10-15 years     16-19 years     20 years and above

#### 5. The ownership status of the institution you work for?

Public bank     Private bank     Public/Private (mixed) bank

#### 6. The type of organization you work for?

Ticaret bankası     Katılım Bankası

## B. Severity Degrees of Some Items in Credit Value

7. Below are some balance sheet and income statement items. Please indicate your thoughts about the significance of these items in the credit worthiness of the business by placing a (X) mark on the box to the right of the statement.	Very important	Important	No idea	Important	Not Very important
Liquid Assets					
Trade Accounts Receivable					
Receivables From Shareholders					
Stocks					
Tangible Fixed Assets					
Accumulated Amortization					
Advances (Received / Given)					
Financial Debts					
Commercial Liabilities					
Payables to Shareholders					
Taxes and Funds Payable					
Capital					
Backups					
Period profit					
Sales					
Expense Items					

## C. Thoughts on Financial Statement Manipulations

Below are statements about manipulation in the financial statements. Please indicate your level of agreement with these statements by marking (X) in the area to the right of the statement.	Absolutely True	True	Floating	False	Absolutely False
1- I think that the financial statements of the business requesting credit have been adapted (manipulated) for the purchase of credit.					
2- Manipulation practices are more common in provisional financial statements.					
3- The credit officer should ask the accountant to correct the financial statement manipulations he/she has determined.					
4- Among the accountants, there are those who request commission from the bank for the taxpayers they direct with credit request.					
5- Non-quantitative factors of the enterprise (the age of the enterprise owner's reputation in the market, etc.) are also effective in the evaluation of the loan request.					
6- Even if the financial statements are subject to manipulation, some credit authorities act in the direction of lending to show their performance as high.					
7- The bond of friendship, kinship, etc. with the credit authorities of the business requesting the loan positively affects the credit request by causing the manipulative application not to be seen.					
8- Credit authorities have biases that the financial statements do not reflect the truth.					

9- Financial statement manipulations are ignored if the collaterals of the enterprises requesting loans are high.					
10- Manipulative practices ignored by credit authorities due to the high collateral are not taken into consideration by the control mechanism of the bank.					
11- Sector averages are important in determining manipulation practices.					
12- Manipulated financial statements are eliminated because credit reversibility is subject to strict application and audit.					
13- Business managers (owners) put pressure on the accountant about financial statement manipulation.					
14- Some credit authorities offer commissions to accountants to direct their taxpayers requesting loans to them.					
15- The credit officer should consider not only the financial statements but also the intelligence information when evaluating the loan request.					
16- Financial statement manipulation practices are highly effective in experiencing financial crises.					
17- I think accountants do not comply with the rules of professional ethics					
18- Accountants make manipulative practices to show the income of the enterprise high.					
19- Some credit authorities want the creditworthiness of the financial statements of the entity requesting the loan to be adapted.					

#### D. Degree of Tendency of Some Items to Financial Statement Manipulations

Below are some balance sheet and income statement items. Please indicate your thoughts about the degree of susceptibility of these items to manipulative practices by placing a (X) mark in the box to the right of the statement.	Very Predisposed	Predisposed	No idea	Predisposed	Not at all predisposed
Liquid Assets					
Trade Accounts Receivable					
Receivables From Shareholders					
Stocks					
Tangible Fixed Assets					
Accumulated Amortization					
Advances (Received / Given)					
Financial Debts					
Commercial Liabilities					
Payables to Shareholders					
Taxes and Funds Payable					
Capital					
Backups					
Period Profit					
Sales					
Expense Items					



## PLAGIARISM REPORT

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## REPORT OF ETHICS COMMITTEE



### ETHICS COMMITTEE FOR SCIENTIFIC RESEARCH

04/02/2020

Dear Emel apkıner Tosun

Your project proposal to the Scientific Research Ethics Committee with project number YDÜ/SB/2020/554 titled "**Causes of Accounting Fraud and a Different Approach to Preventing Fraud and Corruption in Banks: Forensic Accounting**" has been evaluated by our board and found ethically appropriate. With this article, you can start your research by not going beyond the information you specify in your application form.

Assoc. Prof. Dr. Diren Kanol

Reporter of Scientific Research Ethics Committee

**Note:** If you want to submit an official acceptance letter to an institution, you can apply to the Ethics Committee for Scientific Research of Near East University with this letter and obtain an official letter signed by the chairman of the board.