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Why Should the Forensic Accounting Be Needed in Japan?: Toward a No Accounting Fraud Community

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ABSTRACT

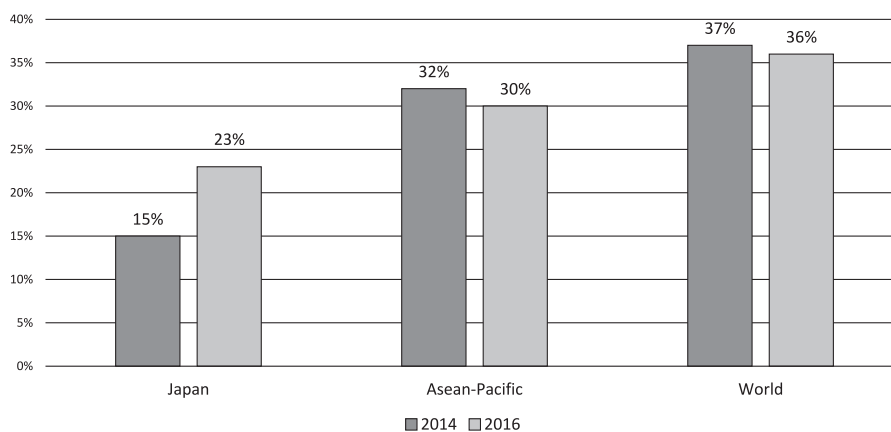
Is there any relationship between the increases in economic crimes in Japan and a great accounting fraud occurrence in Japan? This study focuses on why forensic accounting should be needed in Japan, and what is the significance of forensic accounting education in Japan. In order to clarify the reasons, I set up two hypotheses and test those hypotheses, and provide implications based on the results. I document that the inconsistent results regarding the improvement of earnings quality are from the differences in an internal controls system between an indirect reporting and a direct reporting. And, following Seda and Kramers (2014), I find that there are no face-to-face forensic accounting courses in Japan. Following the fraud triangle (Cressey 1953), when incentive, opportunity, and rationalization coexist, accounting fraud occurred. The cultivation of forensic accounting education to detect and investigate fraud would help managers to encourage their internal controls to work well. Also, the existence of forensic accountants who confront fraud might be a checks-and-balance function against incentives and rationalization that a manager transfers his or her subjective incentive into social and universal significance.

Keywords: Forensic Accounting; Fraud; the Fraud Triangle; Internal Controls Auditing; Indirect Reporting

1 INTRODUCTION

The number of economic crime occurrences reported increased from 15% to 23% in Japan while the number of economic crime occurrences reported in the world decreased from 37% to 36%, that is decreased by 1 % from 2014 (PwC 2017, 6). Figure 1 indicates the changes in economic crime between 2014 and 2016 following PwC survey 2016. According to PwC 2016 Global Crime Survey (PwC 2016) and the Analysis in Japan (PwC 2017, 10), reported losses between \$1 million and \$100 million in the world decreased from 26% to 22% (FY 2016) and reported losses in excess of \$100 million in the world decreased from 20% to 14% (FY 2016), while reported losses between \$1 million and \$100 million increased from 36 % to 39% (FY 2016) and reported losses in excess of \$100 million increased from 18% to 23 % (FY 2016) in Japan.¹

FIGURE 1: Economic Crime in the World (Global Economic Crime 2016 Survey)



Note: Based on the Table 1 of PwC (2017, 6) Japan, I prepare this figure.

¹ The financial damage loss by economic crime shows 13% of respondents suffered losses between \$1 million and \$100 million and 1% of respondents reported losses in excess of \$100 million, 39% of respondents suffered losses between \$1 million and \$100 million and 23% of respondents reported losses in excess of \$100 million and that means 5% increases from FY2014 in Japan (PwC 2017, 10).

Are the increases in economic crimes in Japan and a great accounting fraud occurrence in Japan accidentally matched? Is there any relationship between the current state of economic crime in the world and Japan, and the accounting fraud occurrence at Toshiba in Japan? This study focuses on why forensic accounting is needed in Japan, and what is the significance of forensic accounting education in Japan. In order to clarify the reasons why forensic accounting is necessary in Japan and the significance of forensic accounting education, I set up two hypotheses and test those hypotheses, and provide implications based on the results.

This study contributes to the literature in the following ways. First, this study is the first study to clarify the need of forensic accounting in Japan by providing evidence in international perspective. Second, this study helps educators to recognize that the development of their accounting programs to include a forensic accounting course is an urgent task through providing a current situation of forensic accounting education in the world.

The remainder of this study proceeds as follows; Section 2 develops hypotheses. Section 3 describes the research design. Section 4 discusses the results. The final section provides implications and concludes this study.

2 BACKGROUND AND HYPOTHESES DEVELOPMENT

The Japanese Institute of Certified Public Accountants (2007, para 3.2, 3) prescribes that the internal control audit is the Internal Control Report prepared by management, and external auditors should express their opinions, as to whether management's Internal Control Report fairly states the results of the assessment of the effectiveness of internal control in all material respects, in accordance with generally accepted assessment standards for internal control. Business Accounting Council (2007) prescribes CPA's Audit on Internal Control Over Financial Reporting as follows:

Managerial assessments on the effectiveness of internal control over financial reporting are assured by certified public accountants responsible for auditing the financial statements of the company in question (hereafter referred as "auditor(s)") by auditing whether the result of assessments are fairly stated on the Internal Control Report).

Auditors should understand the company's context obtain a sufficient understanding of the management's assessment of design and operation of internal control and organize audits, paying attention to the materiality of the audit. As the auditors audit the results of the management's assessment of internal controls, they shall first examine the appropriateness. Of the scope of assessment as determined by the management and then examine the management's assessment of company-level controls and the assessment of process-level controls performed by the management based on the result of assessments of company-level controls. The auditor shall prepare the ' Internal Control Audit Report and express an opinion on the management's assessment on the effectiveness of Internal controls over financial reporting (Business Accounting Council 2007, 5-6).

In order to avoid the burden of excessive cost in the assessment of internal control and the audit, the Committee decided to adopt indirect reporting. Direct reporting refers to the process whereby external auditors express their opinions directly on the effectiveness of the internal control over financial reporting of listed companies (Business Accounting Council 2007). External auditors are required to "express their opinions, as to whether the management's Internal Control Report fairly states the results of the assessment, in all material respects." In other words, external auditors should basically obtain appropriate audit evidence by conducting tests using samples they select. However, external auditors are allowed to utilize a portion of the samples selected by management in their assessment, considering the validity of the samples and by examining some of the results derived using the management's test (JICPA 2007, para 3.2, 3).

In the early 1980s, external auditors used to investigate a firms' records (Crumbley et al. 2017, 4-2). As the computerization of firms was developed and the number of transactions increased, auditors shifted to reduce the labor-intensive process of the accounts and relied on the firms' internal controls. This allowed the auditors to do less work on account balances and transactions (Brown 2002, C1). Managers can organize their internal controls, they were able to manipulate the records. Due to the inherent limitations of internal controls, a fraud committed by a CEO will not be detected by the client's internal control system (Cullinan and Sutton 2002). This lead the great accounting fraud, such as Enron and WorldCom in the U.S. (Brown 2002, C1). Thus, SOX required external auditors to review the internal controls directly.

Japan needed to learn the history in the pre-SOX and why SOX was enacted in the U.S. External auditors relied on the client's internal controls, which managers can manipulate. This led accounting fraud in the U.S. As a matter of course, direct reporting was applied in the SOX in the U.S. in order for external auditors to investigate a firm's books by themselves. The direct reporting should have been applied in the J-SOX in Japan if we learned the lesson from the U.S. results.

Cressey's (1953) theory means that when incentives/pressure, opportunity, and rationalization coexist, fraud occurs. The three risk factors of the fraud triangle are related to fraudulent financial statements.² Pressure is the degree to which the person in authority has the motivation to commit fraud. Opportunity is the degree to which conditions are such that fraud could be committed due to feasible governance or ineffective internal control systems. Rationalization is the rationale that a manager transfers his or her subjective decisions to social and universal significance in order to justify his or her misuses or mistakes (Nakashima 2017b).

Japanese regulation for internal controls (J-SOX)³ requires managers of public firms in Japan to design their internal control systems and to assess the effectiveness of the internal controls (FSA 2007). This indirect reporting system does not allow external auditors to audit whether their internal control systems work effectively or not.

This indirect reporting system makes external auditors to review whether the evaluation of the effectiveness of internal controls system by managers is stated fairly based on so-called "*the three-piece set*"⁴ for the evaluation of operational processes that managers set up (FSA 2011b, 17, Question 32: preparation of the three-piece set, Practical Standard II3

² Nakashima (2017b) examines whether the effectiveness of the fraud triangle should be clarified through this analysis. The fraud triangle is a framework for the occurrence of fraud, developed by a criminologist, Cressey (1953). The fraud diamond was mentioned in Wolfe and Hermanson (2004) by adding capability to the three factors of the fraud triangle.

³ The Internal Control Regulation was enacted in Japan after accounting scandals, as well as the U.S. SOX was enacted in the U.S after accounting scandals, Enron and WorldCom. The Japanese regulation denotes the Standard for Assessment and Audit for Internal Control over Financial Reporting from the following site: <http://www.fsa.go.jp/en/news/2007/20070420.pdf>. Although this standard is not a simple Japanese version of SOX, since media in Japan calls it J-SOX, the terminology of J-SOX for the internal controls reporting regulation in Japan is used in this study.

⁴ FSA (2011a, 17, Practical Standard II3) illustrate that managers should prepare *the three-piece set* that covers a flowchart of operation, a description of operation, and a reaction for risk and controls in order to evaluate the operational process.

and 29). According to the Council Opinion (FSA 2011a, 29), since the direct reporting system is not applied in Japan, the range for the review and the points of the controls for the target of an evaluation by external auditors should be consistent with those by managers. Therefore, external auditors should not originally review the points of the controls that managers do not make as a range (FSA 2011b, 29, Question 49: No application of Direct Reporting)

Through the indirect reporting system it is difficult for stakeholders and users to know whether the firm's internal controls system is effective or not. Also, if the three-piece set is manipulated by unfaithful managers, it is likely that it is hard for external auditors to detect fraud based in the process of auditing based on the three-piece set.

Since the indirect or direct reporting is one of the most focused differences in the internal control reporting regulation between the U.S. and Japan, there is an interest of researchers in the attitudes or ideas of CFOs of the public firms regarding the indirect or direct reporting. Suda et al. (2011a; 2011b) asked the CFOs of the U.S. firms and the presidents of the Japanese firms whether the direct reporting is effective for internal controls and corporate governance. They suggested that 57.3% of the U.S. firms and 37.5% of Japanese firms that they evaluated the direct reporting as effective. They noted that it is significant that approximately 60% of the U.S. firms which adopted direct reporting in practices evaluated the direct reporting as effective (Suda et al. 2011a; 2011b).

As managers in the U.S. firms showed that the direct reporting is effective for their internal controls, I predict that J-SOX's indirect reporting system might have led to the feasible internal control system in the post-J-SOX and resulted in that internal controls did not work well as a restraint of accounting fraud. Therefore, I set up the following hypothesis:

H1: Accounting fraud occurrence in Japan was due to the feasible internal controls systems that resulted from the indirect reporting in Japan.

Although there was limited forensic accounting available during the 1990s in the U.S., as the demand grows for professionals with forensic accounting skills due to increases in accounting fraud, the number of colleges and universities that offer certificate programs and master's degrees has been increasing during the 2000s in the U.S. (Seda and Kramer 2008, 1). CPAs have neither the training nor the experience to tackle fraud examination and forensic accounting investigation (Seda and Kramer 2008, 1). Accounting students need

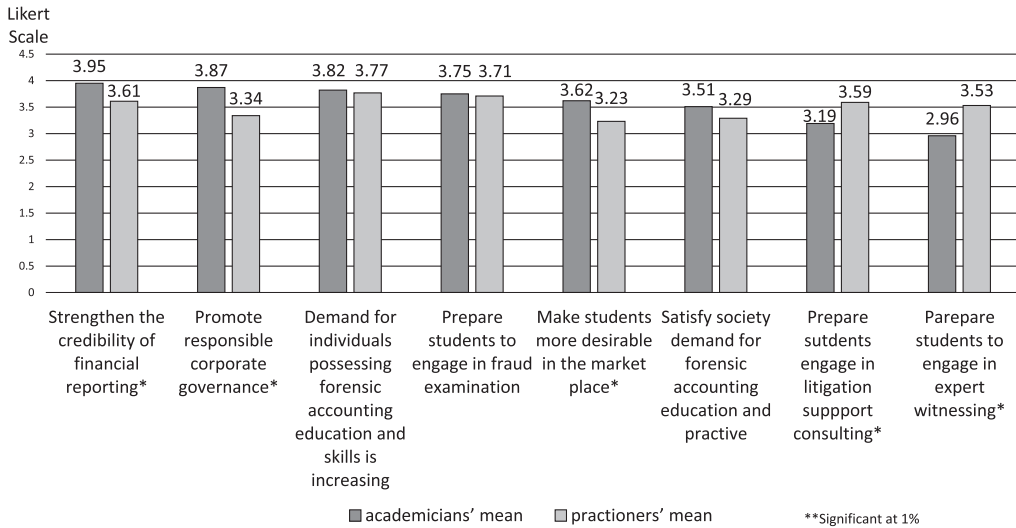
fraud-specific education in order to fight against fraud (Seda and Kramer, 2008, 1). Thus, forensic accounting education to fight fraud should be provided to students as the accounting environment is changing and the demand for it is growing in Japan.

Russell et al. (2000, 5) assert the changes in accounting education are needed along with environmental changes and demands as the following:

Accounting educators have been warned many times that accounting education must change to maintain relevancy, retain its position within the profession, and add value to students and business. The time to change just to be better is past. In fact, we must transform our educational programs merely to survive. Failure to embrace market-based changes will continue to decrease the relevance of accounting education (Russell et. al 2000, 5).

Rezaee et al. (2004) conducted a survey of both academicians and practitioners regarding the significance and relevance of forensic accounting education. They asked respondents to rank the importance of perceived benefits of forensic accounting education. Rezaee et al. (2004, 11) suggested that academicians considered the benefits of forensic accounting education the following reasons: strengthening the credibility of financial reporting; promoting responsible corporate governance; increasing the demand for individuals possessing forensic accounting education and skills; preparing students to engage in fraud examination; making students more desirable in the marketplace; and satisfying society's demand for forensic accounting education and practice. The benefits of forensic accounting education as "preparing students to engage in litigation consulting and expert witnessing" is a significant difference between academicians and practitioners. Figure 2 shows that the perceived benefits of forensic accounting for academicians and practitioners respectively.

FIGURE 2: Perceived Benefits of Forensic Accounting Education



Note: This figure is prepared by the autor following Rezaee et al. (2004), Table 4.

If at least one of these factors of the fraud triangle is restrained in a given situation, it would be highly likely that no fraud occurs. If forensic accounting courses were offered, people could have more chances to learn fraud theory, managerial ethics and business ethics systematically and theoretically in Japan. It seems that the managerial ethics restrains the motivation and the rationalization by managers, thus there might be no occurrence of fraud. However, I predict that since there are no colleges and universities that offer forensic accounting courses in Japan that can offer managerial ethics and fraud theory, it seemed that a great accounting fraud occurred in Japan. Therefore, I set up the following hypothesis:

H2: Accounting fraud occurrence in Japan is due to no face-to-face forensic accounting education in Japan.

3 RESEARCH DESIGN

3.1 Test of Hypotheses

I conduct a meta-analysis in order to test H1. I discuss how the direct reporting or indirect reporting for the auditing of the internal controls system impacted on earnings quality in the post Internal Control Regulation by reviewing literature in the U.S., Mexico, Ger-

many, and Japan. The U.S., Mexico, and Germany have the direct reporting systems that assess internal controls by outside auditors. On the other hand, the indirect reporting that Japan introduced is the auditing of internal controls that assesses whether managerial assessment of the effectiveness of the internal controls system is stated fairly. I explore whether differences in the results of the archival studies for each country can reveal which reporting systems for the internal controls would work or not.

In order to test H2, I review the results of a previous study regarding forensic accounting education (Seda and Kramer 2014) and a website found by searching for the keyword “forensic accounting in Japan.” I clarify how forensic education situation proceeds in Japan from a global perspective.

4 RESULTS

4.1. Results of Testing H1: Direct or Indirect Reporting and the Post-SOX Impact on Earnings Quality

I review the previous studies regarding direct or indirect reporting: the auditing of internal controls in the U.S., Germany, Mexico, and Japan, and the impacts of earnings quality by the internal controls regulations in order to test H1.

United States

There are several studies that have been conducted on the impacts of SOX on earnings quality in the U.S. (Lobo and Zhou 2006; Bedard 2006; Cohen et al. 2008). Cohen et al. (2008) examined whether managers changed their earnings management in the post-SOX periods, focusing on accruals management and real management. They documented that although accrual-based management decreased significantly, real management increased significantly in the post-SOX period and that the decreases in accrual-based earnings management are because of the increased vigilance of investors, auditors and regulators, and managers’ greater care taken in financial reporting after the adverse publicity caused by the fraud.

Lobo and Zhou (2006) examined whether managers’ earning management changed in the post-SOX periods. They documented that firms reported lower discretionary accruals after SOX, and found that firms incorporated losses more quickly than gains in the post-

SOX period. This suggested an increase in conservatism in financial reporting following SOX. Bedard (2006) documented that the absolute level of unexpected accruals as a proxy of earnings quality increased in the year internal control weaknesses are disclosed. She suggested that managers reversed prior amount of accruals that were great in the internal control weaknesses disclosure year that led an increase in the earnings quality. Her result suggested that because of the Section 404 formal internal control assessment process, firms improved their internal controls system. This means that SOX internal control requirements resulted in an improved earning quality.

Mexico

It is important for shareholders to be informed of any defined processes by which the firm operates, and to know that the firm has an orderly process of management and a satisfactory control over the firm's assets. Reports issued by external and internal auditors can provide support in this regard, by verifying the effectiveness of the control systems. The mechanism designed to support the Board in its auditing functions should evaluate the effectiveness of the internal control systems and issue an opinion on existing financial and operational controls. External auditors should validate the effectiveness of the internal control system and issue a report on these controls (Bolsa Mexicana De Valores 2006).

Machuga and Teitel (2007) examined whether Mexican internal control regulation improved earnings quality using two samples of Mexican local firms in Mexico and Mexican firms listed on the U.S. stock exchange and documented an improvement in income smoothing and timely loss recognition for both samples, Mexican local firms in Mexico and Mexican firms listed on the U.S. Stock exchange.

Germany

KonTraG (1998) prescribes that external auditors must assess management's implementation of a suitable ICRM system (§ 317 IV HGB), and evaluate and report on the system's effectiveness (§ 321 IV HGB). Brown et al. (2013) documented that earnings quality, such as timely loss recognition and earnings smoothness, improved after the German legislation on control and transparency by using a sample of the public firms in Germany.

Japan

After accounting scandals such as Kanebo and Seibu Tetsudo, Internal control regulation (J-SOX)⁵ was enacted in 2008. Council Opinion (FSA 2007, 5) prescribes the auditing on Internal Control over Financial Reporting as follows:

Managerial assessments on the effectiveness of internal control over financial reporting are assured by certified public accountants responsible for auditing the financial statements of the company in question (hereafter, referred as “auditor(s)”) by auditing whether the result of assessments are fairly stated (in the Internal Control Report).

J-SOX does not adopt the direct reporting by external auditors due to concerns of public firms paying higher audit fees. J-SOX’s indirect reporting means that external auditors do not audit the effectiveness of internal control over financial reporting directly.

Nakashima (2010) examined whether managers had changed their earnings management in the post-internal controls regulations in Japan. While accruals management and real management had a trade-off in the post-SOX in the U.S. (Cohen et al. 2008), earnings management remained unchanged in Japan in the post-J-SOX (Nakashima and Ziebart 2015). Nakashima and Ziebart (2015) suggested that the inconsistent results in Japan with the U.S. may have been from the deficiency of governance mechanism⁶ and the feasible internal controls systems.

Thus, Table 1 shows that while earnings quality improved after the internal controls regulations in the U.S., Mexico, and Germany that adopted the direct reporting, earnings quality remained unchanged in Japan which did not adopt the direct reporting in the post-J-SOX. This suggests that it is likely that the indirect reporting of J-SOX does not work well. Thus, it seems that accounting fraud occurrence in Japan was due to the feasible internal controls systems that resulted from the indirect reporting in Japan. The result supports

⁵ The Standard for Assessment and Audit for Internal Control over Financial Reporting (<http://www.fsa.go.jp/en/news/2007/20070420.pdf>) was enacted in 2008. Although this is not an exact Japanese version of SOX, the terminology of J-SOX is generally used in Japan after media used the internal controls and reporting regulation as J-SOX. Therefore, the terminology of J-SOX for the regulation is used in this paper.

⁶ Beasley (1996) and Nakashima (2017a) suggested that financial statement fraud was associated with ineffective inner governance mechanism. This study can provide a comprehensive model that includes not only financial ratios but also governance information for predicting fraudulent financial statements. Nakashima (2017a) documented that there is a possible relationship between fraud and governance mechanism.

H1.

TABLE 1: Direct or Indirect Reorting System and the Impact on Earnings Quality

| Country/Internal Control Audits | Authors | Proxy | Earnings Quality Indicator | Findings |
|---------------------------------|---------------------------|---|--|---|
| US/Direct Reporting | Lobo and Zhou (2006) | Changes in managers' earnings management as Financial Reporting Quality | Discretionary Accruals and conservatism following Basu's (1997) model | Firms showed lower discretionary accruals and higher conservatism in the post-SOX. |
| US/Direct Reporting | Bedard (2006) | Unexpected total and current accruals | Unexpected total and current accruals | A decrease in the magnitude of unexpected accruals in the year of their first report. |
| US/Direct Reporting | Cohen et al. (2008) | Earnings quality | Accrual-based earnings management increased steadily from 1987 until the passage of the Sarbanes-Oxley Act (SOX) in 2002, followed by a significant decline after the passage of SOX. Conversely, the level of real earnings management activities | Accrual-based earnings management increased steadily from 1987 until the passage of the Sarbanes-Oxley Act (SOX) in 2002, followed by a significant decline after the passage of SOX. |
| Mexico/Direct Reporting | Machuga and Teitel (2007) | Earnings quality | $ \Delta NI / \Delta OCF $, timely loss recognition, abnormal accruals | Earnings quality increases after the implementation of the Code. While most earnings quality proxies improve for firms listed on the Mexican Bolsa, only improvements in income smoothing and timely loss recognition for Mexican firms listed on U.S. stock exchanges. |
| Germany/Direct Reporting | Brown et al. (2013) | Earnings quality | Based on Basu (1997), timely loss recognition and as earnings smoothness, $ \Delta NI / \Delta OCF $ and Correlation between Δ accruals and ΔOCF , As predicatability, OCF_{t+1} | German firms experience an increase in timely loss recognition and a decrease in earnings smoothing after KTG. We |
| US/Direct Reporting | Nakashima (2010) | Earnings quality | Accruals earnings, discretionary accruals and accuracy for cash flows | Accruals earnings, discretionary accruals and accuracy for cash flows improved in the post-SOX. |
| JAPAN/Indirect Reorting | Nakashima (2015) | Earnings quality | Accruals earnings, discretionary accruals and accuracy for cash flows | Accruals earnings, discretionary accruals remained unchanged and accuracy for cash flows improved in the post-J-SOX. |

4.2. The Results of Testing H2: No Forensic Accounting Education and Fraud Occurrence

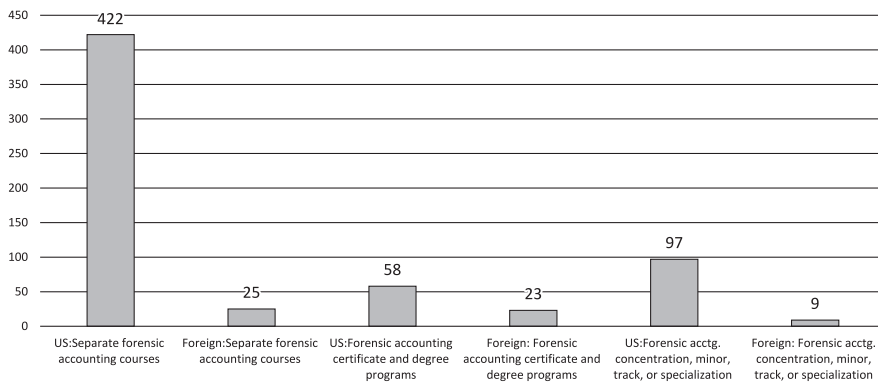
Since forensic accounting education is not cultivated in Japan, there have been no chances to learn the theory of fraud and skills to detect fraud systematically. In order to examine whether there is a relationship between the existence of forensic accounting education and fraud occurrence, I examine the availability of forensic accounting education in the world.

Figure 3 shows the availability of forensic accounting education in the U.S. and the world. Figure 4 presents that among twenty five foreign countries, there are no colleges and universities that offer separate forensic accounting courses in Japan. Figure 4 also shows that among twenty three foreign countries, there are no colleges that offer forensic account-

ing certificates and degree programs in Japan. Figure 5 presents that among nine foreign countries, there are no colleges that offer forensic accounting concentration in Japan.

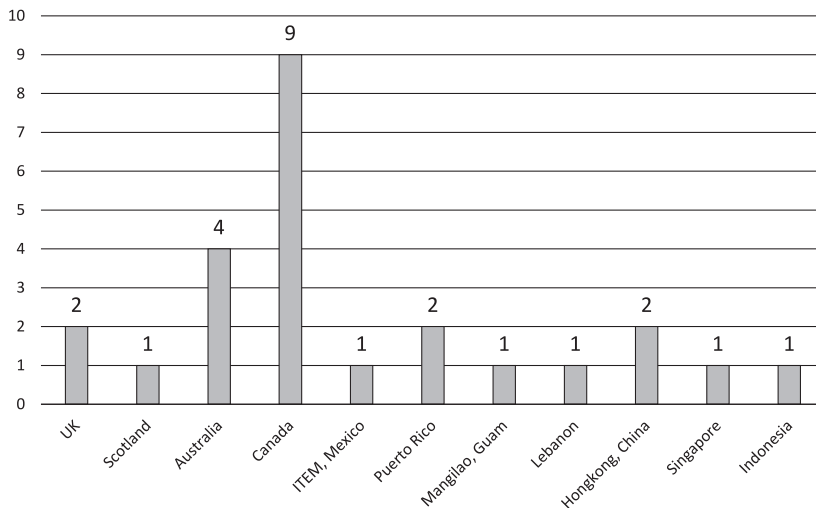
It seems that more forensic accounting courses are taught in English speaking countries. This suggests that they have an influence by the U.S. education. However, even though Japan is one of the developed countries and might have an impact from the U.S., surprisingly there are no forensic accounting courses, programs, or degrees in Japan.

FIGURE 3: The Availabitly of Forensic Accounting Education: the U.S. and the World



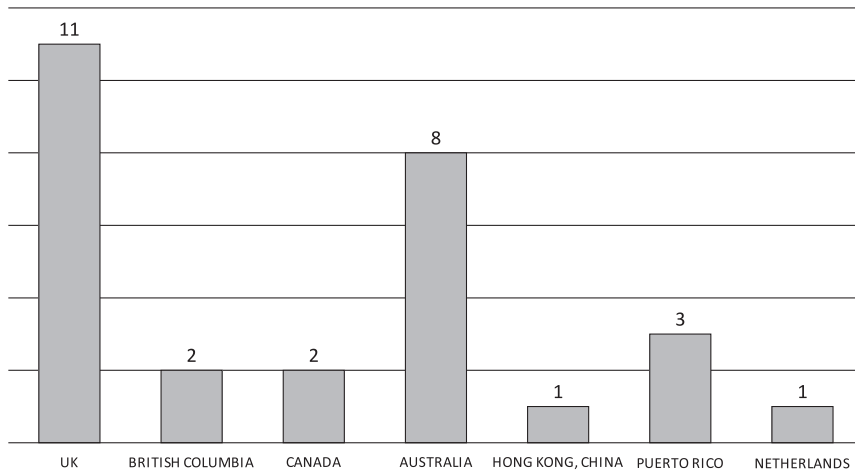
Note: Based on the Table 1 of Seda and Kramer (2014, 12), I prepare this figure.

FIGURE 4: Colleges Offering Separate Forensic Accounting Courses outside the U.S.



Note: Based on the Table 2A of Seda and Kramer (2014, 25-26), this figure is prepared by author.

FIGURE 5: Colleges Offering Forensic Accounting Certificate and Degree Program Outside the U.S.



Note: Based on the Table 3A of Seda and Kramer (2014, 34-36), I prepared this figure.

I searched the keywords “forensic accounting course in Japan” and “forensic accounting course” in Japanese on the Internet. Table 2 shows that there are eight universities that offer forensic accounting courses through on-line by the U.S. colleges in Japan. The on-line courses are offered in English and it seems that the forensic accounting education is suitable for the U.S. environment. If we cultivate forensic accounting education in Japan, we should adjust the original forensic accounting in the U.S. in order to match the education to the Japanese environment, since there are differences in the internal controls auditing, law enforcement, and legal systems.

TABLE 2: Online Program of Forensic Accounting Courses Offering in Japan

| <i>Name of School</i> | <i>Location of School</i> | <i>Degree</i> |
|-----------------------------------|---------------------------|---|
| Utica College | NY, US | MBA in Economic Crime and Fraud Management |
| Southern New Hampshire University | NW, US | MS in Accounting - Forensic Accounting |
| Kaplan University | FL, US | M. S. in Accounting - Audit Specialization |
| Neumann University | PA, US | Master of Science in Accounting with emphasis on Forensics and Fraud Detection |
| Western New England University | MA, US | MS in Accounting with a concentration in Forensic Accounting/Fraud Investigation |
| Florida Atlantic University | FL, US | Executive Masters of Accounting in Forensic Accounting. |
| Jones International University | CO, US | MBA in Forensic Accounting |
| Keiser University | FL, US | Master of Accountancy with concentrations in General Accounting and Forensic Accounting |

Note: The above programs are the programs that came up with “forensic accounting program in Japan.”

There are no colleges and universities that offer no face-to-face forensic accounting courses in Japan.⁷ The fact that no forensic accounting education are offered suggests that since there is no chance to learn managerial ethics and the fraud theory, such a situation cannot restrain incentive and rationalization by managers. Thus, it is likely that there is a possibility that education with no fraud theory leads to the occurrence of fraud in Japan. The result supports H2.

5 IMPLICATION AND FUTURE RESEARCH

This study focuses on the reasons why forensic accounting is needed in Japan, and what is the significance of forensic accounting education in Japan by testing the hypotheses

⁷ Forensic accounting course opened as one course of master program at Graduate School of Accounting and Finance, Chiba University of Commerce, in Fall 2017. Also, forensic accounting is supposed to be taught at Hosei University in Fall 2018.

and providing implications based on the results.

First, I document that by showing the inconsistent results regarding the improvement of earnings quality are from the differences in an internal controls system between an indirect reporting system and a direct reporting system. It seems that accounting fraud occurrence in Japan was due to the feasible internal controls systems that resulted from the indirect reporting in Japan.

Second, following the review of Seda and Kramer (2014) and the search of website, I found that there are no face-to-face forensic accounting courses in Japan. The fact that no forensic accounting education are offered suggests that since there is no chance to learn managerial ethics and the fraud theory, such a situation cannot restrain incentive and rationalization by managers. Thus, it is likely that there is a possibility that education with no fraud theory leads to the occurrence of fraud in Japan.

I provide implication from my study: In order to have no accounting fraud business society, if Japan keeps the indirect reporting system for internal control auditing, it should provide accounting students with knowledge of forensic accounting and forensic skills to prevent, detect, and investigate fraud and educate them to be professional forensic accountants. In other words, it is time in Japan to provide students with knowledge about fraud and fraud theory, and the forensic skills to prevent, detect and investigate fraud.

The existence of forensic accountants in business society would encourage managers to organize the firms' internal controls systems better and would act as a restraint of the two factors of incentive and rationalization by a manager. Therefore, forensic accounting education and the existence of forensic accountants would help develop a no fraud businesses society.

This study has limitations: I should have implemented archival studies regarding whether there is an association between the auditing for internal control systems and the improvement in earnings quality by the same proxies for the countries of the U.S., Mexico, Germany, and Japan.

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