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**FORENSIC ACCOUNTING AS A SOLUTION TO MANIPULATIVE
ACCOUNTING OF SME'S IN BOSNIA AND HERZEGOVINA****Anida MEKIC***International Burch University, Sarajevo, Bosnia & Herzegovina
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alma.huric@hotmail.com***Abstract**

Accounting reports are the main certificate of financial position, as well as business and monetary success of the company. Manipulation of accounting reports include fictitious or incorrect processing of the data – all with the aim to camouflage the true picture of firm's financial health. Forensic accounting as a special accounting practice will be scope of this study. This study was conducted on the Bosnian market and targeted small and medium enterprises with less than 250 employees. The aim of this research is to prove that forensic accounting gives satisfactory results in discovering significantly wrongly presented information in the financial statements, caused by frauds. This study uses primary data collection through the distribution of questionnaires. The data collected from the observed SMEs companies were analyzed, and study findings showed that forensic accounting is important and helpful to point out the wrongly presented information.

Keywords: *Forensic Accounting, Fraud Prevention, Small and Medium Enterprises, Manipulative Accounting*

JEL Classification: *M41, M42, K13*

I. INTRODUCTION

The financial statements require fair and objective presentation of the balance sheets. To get a financial reporting with a high quality, there should be an adequate treatment of business events. The accounting treatment of business events to a large extent depends on the adopted accounting policies and estimates that must comply with the applicable regulations – especially with the International Accounting Standards, International Financial Reporting Standards, and the framework for the preparation and presentation of financial statements. Recently, the audit function is actualized, whose main task is to determine whether the financial statements are prepared in accordance with applicable regulations in order to ultimately prevent financial fraud. However, business practice has shown that the audit does not provide sufficient protection of the financial fraud. Due to the above, and in order to assess the legality and expertise in organizing business events, there is a need for more sophisticated kind of control which would be able to detect fraud within the company. And this form of control is perceived in forensic accounting as in new branch of the accounting control. Reasons for the development of forensic accounting are numerous – among them stands out the lack of special knowledge and experience of external and internal auditors, tax auditors, inspectors and accountants in the investigation of criminal and other illegal acts, and providing expert opinions regarding the legal, business, and other needs. Forensic accounting is a separate branch of accounting, which deals only with evaluations of legal and professional recording and reporting.

Objective of the Study

The research wants to explore the need to develop professional forensic accounting, due to the increase in traditional and new crimes, and due to the lack of special knowledge and experience of the existing supervisory and executive bodies in the process of investigation and giving opinions on forbidden activities. Consequently, the aim of this research is to analyze the concept and aim of forensic accounting, as well as to determine the tasks of forensic accountants. For this purpose were used methods of analysis and synthesis, while in determining the subject of forensic accounting methods the description is used.

Research Question

The purpose of this research is to answer the following research question: Does the forensic accounting give satisfactory results in the discovery of significantly wrongly presented information in the financial statements, caused by frauds?

Scope of the Study

This study was conducted on the B&H market and targeted small and medium companies. Those are the companies with less than 250 employees. The aim is to highlight the importance that forensic accounting has within operations of modern business systems. Top management takes primary responsibility for the true and fair presentation of financial information, where the accountants and forensic experts can be of huge help.

II. LITERATURE REVIEW

Theoretical Background

As mentioned in the abstract the main target of the study are the small and medium enterprises in Bosnia and Herzegovina. Small and medium enterprises (SME) in BiH are defined by Act on the Promotion of Small Businesses. Below is table that classifies small and medium enterprises in BiH. (Celebic, 2015)

Figure 1: Classification of SMEs in Bosnia and Herzegovina

Category of Enterprise	Number of employees	Annual Turnover (KM)	Annual Balance Sheet (KM)
Micro	< 10	≤ 400.000	≤ 400.000
Small	< 50	≤ 4.000.000	≤ 4.000.000
Medium	< 250	≤ 40.000.000	≤ 30.000.000

Source: Celebic et al, 2015

BiH has experienced a huge expansion in SMEs in post war era. More visible investment opportunities in local markets are related to privatization of government’s entities and a development of competitive markets where SMEs lead the way (Halilbegovic, 2017). With the violent shove from socialistic to capitalistic economy SMEs are faced with temptations to manipulate financial statements, both intentionally and unintentionally. Reasons for the development of forensic accounting are numerous – among them stands out the lack of special knowledge and experience of external and internal auditors, tax auditors, inspectors and accountants in the investigation of criminal and other illegal acts, and providing expert opinions regarding the legal, business, and other needs. Forensic accounting is a separate branch of accounting, which deals only with evaluations of legal and professional recording and reporting. Interpretation of forensic accounting research was found in Spain in the nineteenth century, in the writings of Pedro Antonio Alarcon, who described a short story about pumpkins and tomatoes (Crumbley, Heitger & Smith, 2007).

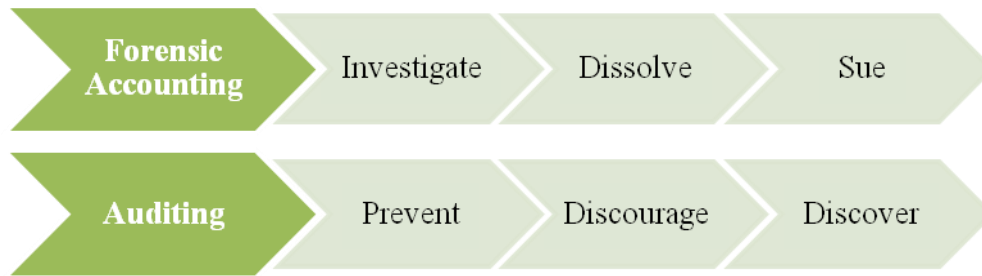
Beginnings of real forensic accounting is related to the court proceedings Meyer against Sefton from 1817 for causing bankruptcy (McArthur, 1948). There is a belief that the “forensic accounting” is first used by Maurice E. Peloubet in his article "Forensic Accounting: Its Place in Today’s Economy" (Belak, 2011). He said that during the war both public and industrial accounting were in the function of forensic accounting, emphasizing that the forensic accounting was used only in the courtroom until then, and that prepared financial statements did not have all the characteristics of a forensic accounting (Kolenda, 2011).

The first book on forensic accounting was written by Francis C. Dykeman in 1982. Vinko Belak published in 2011 a book in the field of forensic accounting, business forensics, and forensic accounting. In the United States, there are numerous organizations that support the use of forensic accounting and prescribe strict standards related to this field. Some of them include the Association of Certified Fraud Examiners, the American College of Forensic Examiners, Association of Certified Fraud Specialists, National Association of Certified Valuation Analysts, the American Institute of Certified Public Accountants, etc. The traditional forensic accounting is focused more on the discovery of the violation in the application of accounting and legal regulations in court proceedings. However, in recent times comes to the development of so-called commercial forensic accounting. Its primary roles are fraud detection, fraud prevention, finding evidence of resulting fraud, and evaluation of the actual situation and the results of the company which reports from the point of interest of management, potential partners or investors who are purchasers and users of the reports from a forensic accountant. On the other hand, in developed countries there are authorized forensic accountants. As business people and all other users of financial statements at the present time – due to bad experiences – are all more careful, the forensic accounting is becoming the fastest growing area of accounting. Due to the complexity of the fraud, and most of their detection is constantly increasing, it is necessary to develop appropriate methods and mechanisms for their prevention.

Fraud in Accounting

When we talk about fraud, it should be emphasized that there is no clear definition. With the help of this term the procedures such as deception, extortion, forgery, embezzlement, concealment of material facts, and collusion (Stanisic, 2007) are described. Frauds usually occur where the controls are weak, or where it is not applicable or does not exist. Therefore, it is very important that the companies determine the level of internal control to strengthen control and reduce the possibility of fraud. If fraud takes into consideration "all kinds of criminal activities" (Kulina, 2011) in finances, then, if observed by the forensic accountant, fraud can be classified into three main groups, namely: corruption, looting and falsification of financial statements.

Figure 2: Forensic Accounting vs. Auditing



Source: Zilic (2012)

We can clearly state that the frauds are very difficult to identify. Forensic accounting does not detect all fraud and embezzlement, but increases the hope that they will be enlightened over time. Action forensics can be viewed from two aspects, namely: ex-ante (includes deterring fraud) and ex-post (after the suspicion of fraud arose after the discovery of themselves or fraud). It is known that forensic experts can act internally and externally, where internal work includes researching all the possible fraud by employees and managers, while externally includes the exploration of possible fraud by customers, suppliers, banks, etc.

Forensic Accounting

In the business world, a new form of accounting is even more present, which is called the forensic accounting. The most common reasons for the development of forensic accounting are the disadvantages of specialized knowledge and experience, which are essential in forensic examination. Forensic accountants are striving to detect and resolve financial and accounting problems in the operations of the company, whether as a result of lack of professionalism and ethics, applicable accounting, audit, investigative and thinking skills (Koletnik & Wheeler, 2008). So, in a forensic accounting a forensic accountant is hired, who in a professional manner determines the actual state of the subject.

Forensic accounting is a special type of financial knowledge which aims to detect and prevent fraud and other crimes (Koletnik & Wheeler, 2008). During the regular work, forensic accountants have to prove the integrity of their work. When we talk about the forensic accounting, it should be emphasized that its concept is very complex and thorough and that the accountants in their professional and independent judgment, forming a presentation at a very high level of reliability in such extent that it could be used as evidence in legal proceedings conducted, judicial proceedings, etc. Based on this, we can conclude that forensic accounting is accounting that is appropriate for public examinations, because it implies a high degree of security. As a first determinant of a forensic accounting we can point out analysis, which elaborates and explains the cause and consequences of certain events, including detection of fraud and its consequences.

The Goals and Tasks of Forensic Accounting

For forensic accounting is typical investigative function, and as such, it is an occupation that represents accounting, law, and information technology, as well as integrative parts. When the heads of enterprises are concerned about the discrepancies in the financial statements and for financial frauds, in these cases they require much more complex services than those offered by accountants, and in this case they need forensic accountants.

The primary objective of forensic accounting is an objective verification of financial events. For this reason, forensic accountants are often invited to the courts as witnesses, experts in the courts, either for a plaintiff or for a defendant. Based on this, we can conclude that forensic accountants can work on cases of civil and criminal litigation. When we talk about civil litigation, a forensic accountant may be required to estimate the economic damages caused as a result of termination of the contract. On the other hand, in the criminal cases, the forensic accountant may be asked to present the factual information about the committed fraud in the insurance industry, to identify fraud, money laundering, and so on. There are several events that led to an increase in the number of forensic scientists and the need for forensic accounting, and those are:

- A number of companies said that they had been victims of fraud.

- A growing number of companies have had cases of corruption and bribery.
- The number of financial statements increased in which misstatements are identified.
- Frauds are growing in the form of presentation of losses on assets on average.
- Over a third of frauds were discovered by accident, according to the conventional methods of detection of fraud.

Of course, forensic accountants use their skills of understanding the information on operations and financial reporting system, accounting and auditing procedures, research techniques, etc. Forensic accounting is not only the task to discover the disagreement, but to find a series of fraud, and, of course, to give an answer to questions such as: who, what, where, why, etc.

Forensic Accounting in Bosnia & Herzegovina

When we observe the situation in Bosnia and Herzegovina, we can say that the position of an accountant is extremely ungrateful, primarily because of the conditions and environment in which they perform their work.

The reasons for this are:

- Insufficient development of awareness of the need or the habit of lifelong learning; insufficiently regulated accounting legislation with supporting regulations,
- Irregular recovery of information on amendments to IAS/IFRS,
- Inadequate valorization of accounting as a profession and its members,
- Other subjective and objective reasons.

Specifically in B&H today, the more importance is given to accounting profession by management and by the owners of capital, but also by the accountants, who are trying to act in accordance with the rules of the profession. Despite the positive trends, overall picture of accounting as a profession in Bosnia and Herzegovina is still conservative, in terms of access to the accounting techniques and methods. When we talk about the forensic accounting, it should be emphasized that it is impossible to talk about it in Bosnia and Herzegovina because our accounting practice does not recognize the title of "forensic accountants".

III. METHODOLOGY

This chapter describes the detail of the methodology which has been applied to examine the importance of the development of forensic accounting in the thought of preventing fraud in business. It is important to have appropriate system of leadership and management, preventing the emergence of entrepreneurial crime. This chapter contains research objectives, research hypothesis, research design, data collection methods, target population, and data analysis sections. The general objective of this study was to analyze and highlight the importance of the development of forensic accounting in terms of preventing fraud in business. Every company must have an appropriate system of management and administration, which prevents and / or reveals the formation of entrepreneurial crime.

IV. RESEARCH HYPOTHESIS

H1 - Forensic accounting gives satisfactory results in the discovery of significantly wrongly presented information in the financial statements of SMEs caused by frauds.

V. RESEARCH DESIGN

There are four basic techniques for obtaining insights and a clearer picture of a problem. These are secondary data analysis, case studies, pilot studies, and questionnaire surveys. In this research, a questionnaire survey was chosen as a tool to examine the importance that forensic accounting has within operations of modern business systems. We will test a small sample that is representative portion of the whole population to obtain a more in-depth and rich description. For the purpose of this research, nominal, ordinal, and interval scales will be used. In this research, the primary sources of data will be used to answer this research's hypothesis and research questions. This survey is handed out to individual targets or segments of people to gather desired data and information. For the purpose of this research, 200 questionnaire were distributed. The questionnaires will be used to ensure completeness and consistency of information gathered. The private small and medium size companies in the market of Bosnia will be targeted for this research. Therefore, the target population for this study will be the employees in the management departments of the targeted companies on the market of B&H. For this research, descriptive statistics and content analysis will be used to analyze the data. The SPSS program will be used to aid in data analysis and the results. For this study, the frequency distribution tests and central tendency and variance tests will be used to analyze the study variables.

VI. ANALYSIS AND DISCUSSION

The research discusses the respondent's demographic profile and central tendencies measurement of constructs. In the questionnaire survey, each respondent was asked four questions regarding their demographic profile, including gender, age, working experience (in years), and position level in the organization. This part provides an analysis of the demographic characteristics of the respondents based on frequency analysis.

Table 17: Gender of the Respondents

What is your gender?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Female	38	47.5	47.5	47.5
Male	42	52.5	52.5	100.0
Total	80	100.0	100.0	

Source: Data generated by SPSS

Table 3 shows percentage of respondents, whereby female (47.5%), while male (52.5%). In other words, from the 80 respondents, 42 of them are male while the remaining 38 are female.

Table 18: Age of the Respondents

What is your age bracket?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 18 - 30 years	47	58.8	58.8	58.8
31 - 40 years	19	23.8	23.8	82.5
41 - 50 years	13	16.3	16.3	98.8
51 - 60 years	1	1.3	1.3	100.0
Total	80	100.0	100.0	

Source: Data generated by SPSS

Table 4 shows age group of the respondents. The majority of the respondents falls under the age group category of 18 - 30 years old (accounted for 58.8% or 47 respondents), followed by the age group of 31 - 40 years old (23.7% or 19 respondents), 41 - 50 years old (16.3% or 13 respondents), and 51 - 60 years old (1.3% or 1 respondent).

Table 19: Job Position of the Respondents

What is your job position?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Accountant	24	30.0	30.0	30.0
Director	12	15.0	15.0	45.0
Manager	44	55.0	55.0	100.0
Total	80	100.0	100.0	

Source: generated by SPSS

This question was about the respondent's position level in the organization. The results are in Table 5. Majority of the respondents are managers (55% or 44 respondents), followed by accountants (30% or 24 respondents), directors (15% or 12 respondents).

Table 20: Employment Duration in the Company
How long have you been employed at your company?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0 - 10 years	62	77.5	77.5	77.5
11 - 15 years	15	18.8	18.8	96.3
16 - 20 years	3	3.8	3.8	100.0
Total	80	100.0	100.0	

Source: Data generated by SPSS

Table 6 shows the employment duration in the company. The majority of the respondents falls under the group category of 0 - 10 years old (accounted for 77.5% or 62 respondents), followed by the age group of 11 - 15 years old (18.8% or 15 respondents), 16 - 00 years old (3.8% or 3 respondents).

Measures of Central Tendency

Because the data values of most numerical variables show a tendency to group around a specific value, statisticians use a set of methods, collectively known as measures of central tendency, to help identify the properties of such variables. Three commonly used measures are the arithmetic mean, also known simply as the mean or average, the median, and the mode.

Figure 3. Descriptive Statistics
Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation	Variance
Forensic accounting can be used to locate diverted funds or assets.	80	1	4	3.16	.803	.644
Forensic accounting can identify misappropriated assets and reversible insider transactions.	80	1	4	3.06	.847	.718
Forensic accounting is effective as a fraud detection tool.	80	1	4	3.09	.889	.790
Forensic accounting is solely enough as a tool to detect suspicious or fraudulent transactions.	80	1	4	2.89	.914	.835
Forensic accounting provides assistance with the protection and recovery of assets.	80	1	4	2.99	.893	.797
Forensic accountants obtain documents necessary to support or deny a claim.	80	1	4	3.03	.856	.734
The forensic auditor leaves audit trail in carrying out his investigation.	80	1	4	2.83	.854	.728
Forensic accountants review factual situation and provide suggestions regarding possible courses of action.	80	1	4	3.00	.886	.785
Forensic accountant searches for evidences of criminal conduct or assist in the determination / rebuttal of claimed damages.	80	1	4	2.96	.892	.796

Forensic accountants review the relevant documentation to form an initial assessment of the case in an identified area of loss.	80	1	4	3.00	.871	.759
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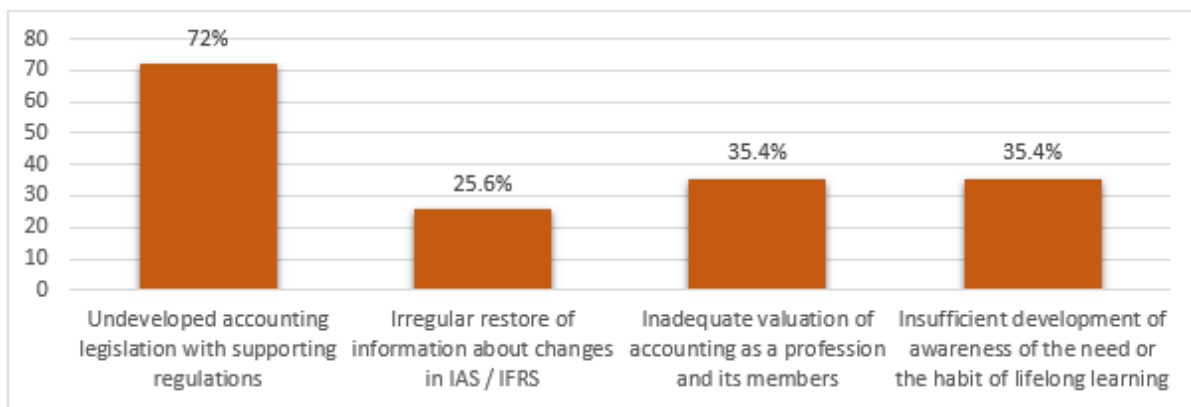
Source: Data generated by SPSS

According to the results above, the mean shows that the most of the respondents strongly agree or disagree with the statements. The mean is 3, which is good. It represents that forensic accounting gives satisfactory results in the discovery of significantly wrongly presented information in the financial statements, caused by frauds. According to that, the hypothesis is accepted. Also, the standard deviation is too low, so there is no big deviation from the mean.

Manipulative Accounting in B&H

In this section we investigated what are the main reasons for the appearance of the fraud accounting in BH companies and why the accountants make the fraud through financial statements? The results are outlined below.

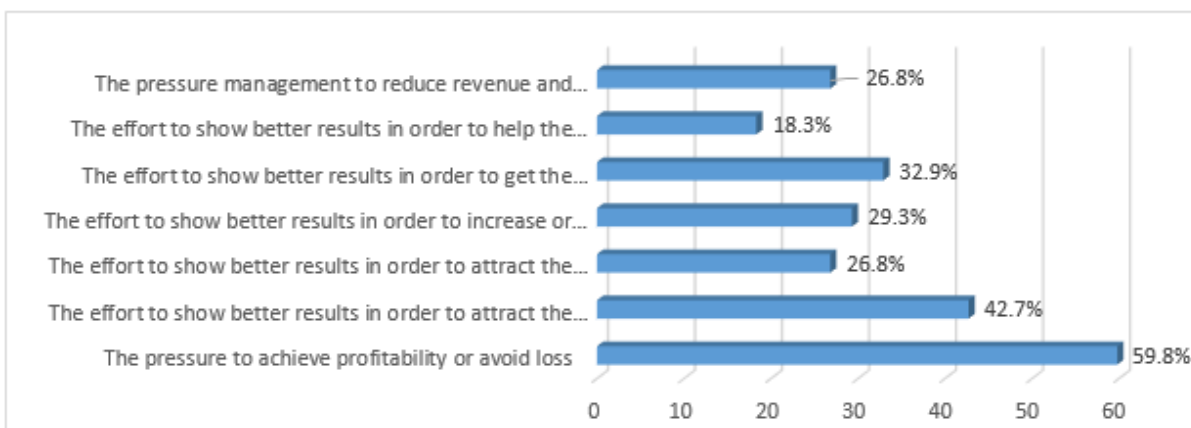
Table 21: What are the main reasons for the appearance of the fraud accounting in BH companies?



Source: Data generated by SPSS

The majority of the respondents, actually 72% or 59 of them, said that the main reasons for appearance of the fraud is undeveloped accounting legislation with supporting regulations. About 35.4% of the respondents or 29 said that inadequate valuation of accounting as a profession and its members as well as the insufficient development of awareness of the need or the habit of lifelong learning are the reasons for the fraud accounting. Only 25.6% or 21 of them said that the reason is irregular restore of information about changes in IAS / IFRS.

Table 22: Why the accountants make the fraud through financial statements?



Source: Data generated by SPSS

In this case, most of the respondents, actually 59.8% or 49 of them, said that the accountants make the fraud to achieve profitability or to avoid the loss. The following reason is to show better results in order to attract the investors, 42.7% or 35 of them. Also, majority of the respondents said that frauds are made to show better results in order to get the

loan from the bank, actually 32.9% or 27 of them. Generally, the main reasons are to achieve the profit, attract the investors, avoid taxes, to get the loan and etc.

VII. CONCLUSION

The main objective of forensic accounting is to detect fraud, embezzlement and other criminal activities, and to provide judicial support through financial expertise, consulting and other services. The main actors in the forensic accounting are forensic accountants who possess adequate knowledge and skills to prevent, detect and prove financial frauds, which are not expressed at accountants, auditors, representatives of the government and judicial authorities.

The role of forensic accounting is to give – on the basis of credible evidence – an independent and impartial opinion on the causes resulting from fraud, to analyze the causes and consequences of fraud to financial reporting, to detect and analyze untrue and unfair financial reporting, to recommend improving the system for the detection of fraud, and similar.

Of course, workers in the forensic accounting should have high moral and professional qualities and technical requirements to be able to apply their knowledge more efficiently and effectively. Not reducing the need for forensic accounting in the developed economies as well, it is certainly much more important in transition economies since the transition is considered as an activity that is subject to all sorts of manipulation and fraud. Manipulation and manipulators are almost always, unfortunately for investors, faster than the regulatory authorities. Repairing or mitigating of the situation mainly comes in the end which is not good because losses are huge. All further reforms of regulatory bodies, training of accountants and audit efforts are focused on strengthening confidence in the accounting profession and the financial statements, the decline in the cost of capital, and the stabilization of financial markets where the manipulation would be fetched to a minimum. According to this study, the forensic accounting gives satisfactory results in the discovery of significantly wrongly presented information in the financial statements, caused by frauds. So, the hypothesis is accepted. There is a need for forensic accounting that can investigate fraud in details, and eventually act in its discovery. The way in which the transition is made and the current state of the economy in Bosnia and Herzegovina require the quick incorporation of this accounting discipline into legislation, and of course that it is urgently applied to the statements of current operations as well as those in the previous years.

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