



GORDON INSTITUTE OF BUSINESS SCIENCE
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Quality management in forensic accounting

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Abstract

The discipline of forensic accounting in South Africa suffers from a lack of professional standards and regulation. The hypothesis of the study is that this has contributed to poor quality of service delivery and, consequently, a lack of credibility. The purpose of the research was to test the hypothesis, identify the drivers of quality, and develop a model for the management of service quality in a forensic practice. Empirical research confirmed the hypothesis. The proposed quality model incorporates the research results and best practice in quality management in professional services firms. A strategy is suggested for the implementation and integration of the model, using a broad Total Quality Management framework. Macro-environmental forces, such as regulatory, public and legal pressure on the auditing profession, to assume responsibility for fraud detection in financial reporting, are discussed. The need for a tailored regulatory framework for the discipline in South Africa is emphasised.

Declaration

I declare that this research project is my own, unaided work. It is submitted in partial fulfilment of the requirements of the degree of Master of Business Administration for the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination at any other university.

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Chapter 1

Introduction

The current prominence of forensic accounting masks the fact that the discipline's roots can be traced back more than 5000 years.

Archaeological findings, dating between 3300 and 3500 BC, revealed the habits of the world's first accountants or scribes in Mesopotamia and Egypt, who recorded commercial transactions onto damp clay tablets or papyrus. A scribe would then enfold the original document in a thin clay envelope. If the outer tablet was tampered with later, it was cause for an investigation. Egyptian bookkeepers were careful to prepare meticulous records since any irregularities found by royal auditors were punishable by fine, mutilation or even death.¹

Similarly, during India's Mauray period (321-184 BC) records indicate the inclination to go beyond accuracy and accountability, addressing issues of criminality. Kautilya's *Arthasastra*, the earliest known treatise on accounting concepts, lists at least 40 different types of embezzlement. Kautilya also considered the punishment for accountants failing in their duties, be it by deliberate fraud, incompetence or negligence.²

¹ Nurse, D.B. (June/July 2002) 'Silent Sleuths', *CA Magazine*, 135:5, 22.

² *ibid.*

The chartered accounting profession was only established in nineteenth-century Scotland. At this time a close relationship existed between lawyers and accountants. The two professions frequently belonged to the same associations and most lawyers offered clients accounting services. Accountants, in turn, incorporated the duties of expert witnesses into their general services rendered. An 1824 circular, announcing the accounting practice of one James McClelland of Glasgow, states that he will make “statements for laying before arbiters, courts or council”.³

During these early years, legal work comprised a substantial portion of the accountant’s services. When in 1854 the Edinburgh Society of Accountants petitioned Queen Victoria for a royal charter, it took pains to draw attention to the relationship between accounting and law. It stated that “*the business of the Accountant is not confined to the department of Actuary, it also ranges over a much wider field in which a considerable acquaintance with the general principles of law is quite indispensable*”. By the early twentieth century, chartered accountants had increased their accounting services and court appearances reduced to a fraction of their overall business. It could therefore be argued that rather than a new specialty within accounting, modern-day forensic accounting represents a return to accounting roots.⁴

³ *ibid.*

⁴ *ibid.*

The discipline of forensic accounting gained prominence during the trial of notorious gangster, Al Capone. Eliot Ness, an agent with the Prohibition Bureau during the 1930s, has earned a permanent place in the annals of American crime fighting for his efforts to convict Al Capone. Yet, Ness was only one of a team responsible for terminating Capone's career. In fact, it was an accountant with the Internal Revenue Service, Elmer Irey, who played a key role in pursuing Capone for tax evasion. Irey was, in effect, America's first high profile forensic accountant. The team of investigators, dubbed "the silent investigators", used their superior investigative and analytical skills to piece together an irrefutable chronicle of Capone's financial malfeasance.⁵

The first person to coin the phrase "forensic accounting" in print was probably Maurice E. Peloubet in 1946.⁶ At that time Peloubet was a partner in the public accounting firm of Pogson, Peloubet & Co in New York. Peloubet stated that "*during the war both the public accountant and industrial accountant have been and are now engaged in the practice of forensic accounting*".⁷

Following the globalisation of businesses in the early 1900s, and especially after the American stock market crash of 1929, auditors shifted their focus from fraud detection to public financial statement reporting.

⁵ *ibid.*

⁶ Peloubet, M.E. (June 1946) 'Forensic Accounting: Its Place in Today's Economy', *Journal of Accountancy*, 81:6, 458 – 462.

⁷ *ibid.* at pg. 459.

That created an expectation gap between auditors and the users of financial statements, who still viewed auditors as the first line of defence against fraud.⁸ This expectation gap was spectacularly exposed during the recent spate of corporate failures and the demise of Big Five auditing firm, Arthur Andersen.

There is currently immense regulatory and public pressure on the auditing profession to bridge this expectation gap. The response to this situation, especially in the United States of America, includes a dramatic increase in the number of, and an expanded role for, forensic accountants, and the enhancement of accounting curricula to improve the fraud detection skills of statutory auditors. Based on this response, the demand for the services of forensic accountants has mushroomed in recent years. A *US News and World Report* cover story on 18 February 2002 ranked forensic accounting as the most secure career track in the United States of America.⁹

A “forensic accountant” can be defined as “*someone who is applying financial skills and an investigative mentality to unresolved issues, conducted within the context of the rules of evidence. It encompasses financial expertise, knowledge of fraud and a strong knowledge and understanding of business reality and the working of the legal system*”.¹⁰

⁸ Reason, T. (December 2001) ‘Fraud Detectives’, *CFO*, 17:15, 41.

⁹ Cited in Crumbley, D.L. and Apostolou, N. (July – September 2002) ‘Forensic Accounting: A New Growth Area in Accounting’, *The Ohio CPA Journal*, July – September 2002, 16.

¹⁰ Thornhill, W.T. (1995) *Forensic Accounting. How to investigate financial fraud*, New York, Irwin, pg. 10.

Terry Chilvers¹¹ defines “forensic accounting” as *‘the use of investigative techniques, integrated with accounting and business skills, to develop information and opinions for evidence in court and for use by expert witnesses. The resulting analysis can be used in law courts as well as for discussion, debate and, ultimately, for resolving disputes. It therefore involves both the fields of litigation support and investigative accounting’*. He continues by stating that it is not about “*number crunching*” but about “*solving complex financial riddles – investigating suspected fraud, determining damages, valuing businesses and resolving other financial disputes using an intuitive approach*”.¹²

Unlike many other jurisdictions, forensic accounting in South Africa has adopted a multi-dimensional approach, encompassing a number of related sub-disciplines, including fraud and commercial investigations; fraud risk management; litigation support, including expert testimony; dispute consulting and resolution; forensic data analysis; business intelligence; and business insurance claims consulting. The concept of forensic accounting has therefore assumed an expanded meaning in South Africa.

¹¹ Chilvers, T. (December 2000) ‘View to a Killing’, *Financial Management (CIMA)*, December 2000, 38.

¹² *ibid.*

While the above definitions presuppose some judicial proceeding or legal dispute, the discipline in South Africa has been expanded to incorporate a number of activities unrelated to any legal dispute. Examples include:

- (i) Fraud risk management, such as the development of fraud prevention and response plans.
- (ii) Forensic data analysis, i.e. using tailored forensic software to analyse large amounts of electronic data to detect anomalies and other indicators of irregularities.
- (iii) Business intelligence services, including performing elaborate background searches on individuals and entities, often as part of a due diligence process.
- (iv) Fraud auditing, or the pro-active searching for financial fraud in a company's financial statements.
- (v) Regulatory investigations and "curatorships", including the investigation and winding down of illegal pyramid and other investment schemes, and the repayment of investors.

Chapter 2

The Research Problem Stated

2.1 Background

Due to the multi-dimensional nature of the discipline of forensic accounting in South Africa, forensic accounting is practiced by accountants, lawyers, investigators, IT programmers, researchers and loss adjusters. These divergent professions and practitioners have all contributed to the development of the discipline of forensic accounting. While the contributing disciplines have ensured the diversity of forensic accounting in South Africa, this emerging discipline lacks an academic and theoretical basis, as well as professional regulation.

Formal university training and professional regulation of forensic accounting are still in its infancy in South Africa, and have only contributed modestly to alleviating these problems. While the contributing disciplines benefit from decades of research, university-based training and established professional regulation (including documented standards, practices, policies and procedures), forensic accounting is lacking credibility and professionalism due to the absence of these. The long history of forensic accounting, as described in Chapter 1, would suggest a well-established and mature discipline. However, this is not true, particularly in the case of South Africa. The dynamic of the local market has dictated an emphasis on the investigative rather than the accounting aspect of the discipline.

The result is that as many as 50% of forensic practitioners do not have an accounting background. The multi-dimensional dynamic of the discipline in South Africa, substantially different to that of the United States of America, has contributed to the lack of professional standards and regulation in this country.

In her research on the outsourcing of fraud investigations in South Africa, Gerber¹³ identifies a number of deficiencies in the local forensic accounting discipline. These include:

- (i) Any person who feels himself or herself competent to perform a fraud investigation may do so.
- (ii) There are no rules, restrictions or laws that prevent or prohibit anyone from becoming a fraud investigator.
- (iii) No formal training, experience or qualification is required to conduct investigations.
- (iv) Knowledge and experience can only be gained through involvement on the job.
- (v) The fraud investigation “profession” is totally unregulated.
- (vi) Fraud investigators need not register with any professional body before they investigate fraud.

¹³ Gerber, J.P. (2001) *Outsourcing of the fraud investigations aspects of forensic accounting in the public and private sectors*, Pretoria, Research report presented to the Graduate School of Business Leadership, University of South Africa, pg. 174.

- (vii) There is no code of conduct, ethical code, authoritative standards or guidelines with which fraud investigators' conduct or investigation must comply.
- (viii) No Investigative Forensic Accounting Practice, similar to GAAP, is in place for auditors and other investigators belonging to professional institutes, to which they can adhere when performing forensic accounting duties.

These deficiencies have contributed to a critical lack of universally applied professional and industry standards, which, in turn, has led to widely diverging standards of quality. These inconsistencies, and the questionable business practices of some practitioners, have marred the reputation of the discipline. The lack of a regulatory framework, and the consequent lack of best practice, impedes the ability to manage the quality of forensic accounting services.

These problems, experienced in the South African context, are also prevalent internationally. Some initiatives to address these deficiencies have been launched, particularly in Canada and the United States of America.¹⁴ The Canadian Institute of Chartered Accountants has

¹⁴ The American based Association of Certified Fraud Examiners, formed in 1988 and with more than 25 000 members internationally, has published a set of *Professional Standards and Practices for Certified Fraud Examiners*, incorporating a number of General and Specific Standards. However, these are neither comprehensive nor generally accepted within the industry. Refer Robertson, J.C. (2000) *Fraud Examination for Managers and Auditors* (2000 edn), Austin, Viesca Books, Chapter 14.

acknowledged the lack of professional standards in forensic accounting. They commissioned a study group whose terms of reference included researching current best practice and identifying the areas most in need of developing professional standards.¹⁵ In their Discussion Paper the authors comment that *“Unfortunately, there is currently a vacuum of forensic accounting principles and standards. This vacuum could be filled by a set of standards that would provide guidance for the forensic accountant in exercising professional judgement.”*¹⁶

2.2 Why was the research topic selected?

Macro-economic and social factors dictate that the need for forensic accounting services will continue to grow in South Africa. Chapter 1 has alluded to the expectation gap between auditors and the users of financial statements regarding the role of auditors in detecting fraud. This gap will increasingly be bridged by forensic accountants, conducting forensic audits, and by statutory auditors enhancing their forensic accounting skills. This driver, which is discussed in Chapter 4, has provided additional impetus and urgency to efforts aimed at regulating the forensic accounting discipline and the setting of professional and quality standards.

Globalisation as well as the transition to democracy in South Africa have resulted in local enterprises being targeted by international and local

¹⁵ The Canadian Institute of Chartered Accountants (2001) *Discussion Paper: Proposal for the development of standards in investigative and forensic accounting*, Montreal, Quebec, CICA.

¹⁶ *ibid.* at pg. 6. Refer also to Chapter 4 where this matter is discussed.

criminals. New and complex legislation, such as that relating to money laundering and the proceeds of crime, has created a need for specialist skills to ensure its effective operation. Apart from the macro-environmental forces relating to fraud, there is also a growing reliance on forensic accountants to assist in civil disputes, corporate governance reviews, risk management projects and other contentious matters. Accordingly, the market for forensic accounting services is seen as an area with significant commercial potential.

Reference has already been made to the fact that forensic accounting is regarded as the most secure career track in the United States of America. Although the discipline has not yet reached these dimensions in South Africa, there is no doubt that the market is in a growth phase with significant potential for expansion.

While the forensic accounting market has grown dramatically during especially the past five years, and in view of the expected continued growth, it is recognised that a critical need exists for the development of professional standards and consistent methodologies, standardised training and a framework or model to manage quality of service delivery. Meeting these challenges would greatly enhance the service quality, the degree to which clients can rely on the services of forensic accountants and, generally, the credibility of the discipline.

In this growth market, the competitive strategy of many forensic accounting practices is based on the distinctiveness of their service offering, *inter alia* based on superior quality of delivery.¹⁷ This quest for quality is based on Zeithaml and Bitner's contention that "*the three main components of customer satisfaction are service quality, product quality and price*".¹⁸ Practical execution of this strategy therefore necessitates the development of a quality management model for such a practice.

2.3 What is the relevance to management in South Africa?

The hypothesis of this study is that the lack of professional standards and professional regulation in the forensic accounting discipline has resulted in a lack of appropriate criteria for assessing service quality. The result is inconsistent service quality and a lack of credibility and professionalism within the discipline. It is suggested that if these problems are addressed effectively, the reputation of the discipline will be significantly enhanced, and management will be able to rely on forensic accountants to a far greater extent to provide value-added services.

The emerging role of forensic accountants, in bridging the expectation gap between users of financial statements and auditors regarding fraud

¹⁷ Empirical research by Craswell *et al* confirmed the propensity of the market to systematically pay premium fees for quality-differentiated audit related services. Refer Craswell, A., Francis, J. and Taylor, S. (1995) 'Auditor brand name reputations and industry specializations', *Journal of Accounting and Economics*, 20 (1995), 297 – 322.

¹⁸ Zeithaml, V. and Bitner, M. (1996) *Service Marketing*, New York, McGraw-Hill, pg. 118.

detection, also dictates in favour of more rigorous quality management of service delivery.

It is intended that this research should contribute to the development and strengthening of the discipline of forensic accounting in South Africa by providing a model for the measurement and management of service quality. It is further anticipated that such a model will improve the consistency and level of delivery of a forensic accounting practice, thus enhancing its competitive positioning in the market.

2.4 Scope of the research

As evidenced by the discussion above, there is substantial risk of setting the parameters of the research too broadly. Clearly, the study cannot comprehensively address all aspects of quality management in the discipline. Neither does the study attempt to develop a comprehensive set of professional standards for forensic accounting, or incorporate all the sub-disciplines of forensic accounting. The study rather focuses on identifying the drivers of quality, and developing a framework to measure and manage quality of service. The study focuses on “fraud and commercial investigations” as this sub-discipline represents the dominant service offering in the forensic accounting market in South Africa.

For purposes of this research, “fraud and commercial investigations” is defined as *“the investigation of any white collar crime, dispute or*

regulatory contravention, with the objective of collecting and collating evidence for purposes of corrective action, the settlement of the dispute or the reporting of the regulatory breach.”

In addition to testing the hypothesis highlighted in paragraph 2.3 above, the study seeks to answer the following three questions:

- (i) What constitutes service quality in forensic accounting? This question is researched from the perspective of users of the service, practitioners and academics.¹⁹
- (ii) How can the factors determining quality be incorporated into a cohesive framework, which will allow for consistent management of critical success factors?
- (iii) How can such a framework be incorporated into the value chain and business processes of a forensic accounting practice to ensure consistent and superior quality of service delivery?

Due to the interrelation of quality management and professional standards and regulation, considerable attention is devoted to the regulatory framework of forensic accounting, locally and abroad. However, the development of professional standards for South Africa falls outside the ambit of this study, although certain suggestions are made in this regard.

¹⁹ As seen from the research of Warming-Rasmussen and Jensen, these perspectives are often contradictory, or the focus is at least placed on different drivers of quality. Refer Warming-Rasmussen, B. and Jensen, L. (1998) ‘Quality dimensions in external audit services – an external user perspective’, *European Accounting Review*, 7:1, 65 – 82.

Chapter 3 incorporates a general discussion of quality management, based on a literature review of aspects relevant to the research topic. Chapter 4 narrows the focus, with a more specific discussion of professional regulation and quality management in forensic accounting, including local and international developments impacting upon quality management in forensic accounting. Chapter 5 documents the results of the empirical research into the drivers of service quality in forensic accounting, incorporating the views of users of the service, practitioners and academics. Chapter 6 introduces the proposed model for managing quality in forensic accounting, including the strategy adopted to develop the model, the key elements, and a suggested strategy to integrate the model into the value chain and business processes of a forensic accounting practice. Chapter 7 concludes with a number of insights gained and suggestions for further research.

Chapter 3

Quality Management: A Theoretical Framework

This chapter introduces the concept of quality, also explaining the rationale for managing quality and its relationship with strategy. This is followed by a discussion of total quality management and the particular challenges of managing quality in professional services firms. A discussion on the compatibility of total quality management with professional services firms concludes the chapter.

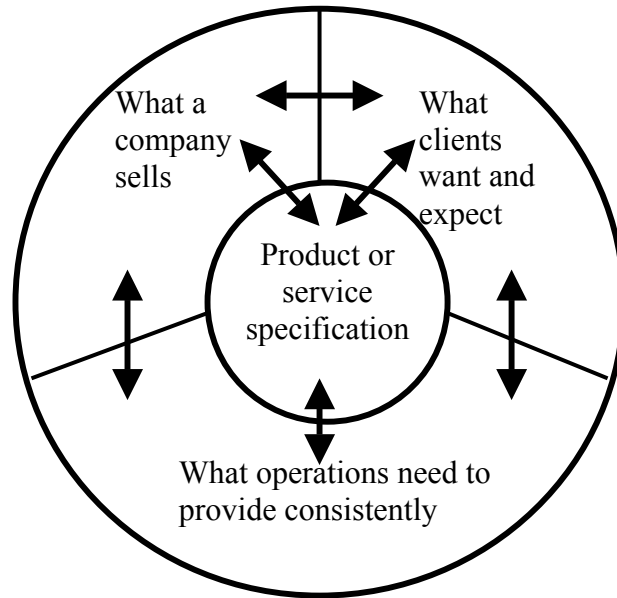
3.1 What is quality and why should it be managed?

Terry Hill²⁰ defines “quality” as *“consistently meeting customers’ expectations. This, in turn, embodies decisions around specifying expectations and then consistently meeting these specifications for the products and services involved”*.

The quality offering, incorporating both product/service specification and quality conformance can be illustrated graphically as follows:

²⁰ Hill, T. (2000) *Operations Management. Strategic Context and Managerial Analysis*, New York, Palgrave, pg. 304.

The quality offering



Hill continues by listing four key principles of managing and controlling quality.²¹ These are:

- (i) Meet customer requirements.
- (ii) Error-free work, i.e. consistently meeting the product or service specification.
- (iii) Manage by prevention, i.e. adopting a pro-active approach to managing quality by allocating resources to provide products and services right the first time, and by building quality into the work process.
- (iv) Measure by the cost of quality, i.e. reducing the cost of doing business by identifying causes and preventing errors.

²¹ *ibid.* at pg. 311.

These four principles of quality also hold true for quality management in forensic accounting. The underlying philosophy has been incorporated in the development of the quality framework, introduced in Chapter 6.

During the 1980s concerns about competitiveness stimulated many companies to a new interest in quality. The growth in market share by Japanese and other Far East companies leading up to and during this period was impressive. Much of the gain was due to markedly superior quality performance.²² The main contributors to the philosophy of quality at this time were W. Edwards Deming, Joseph M. Juran and Philip B. Crosby. At the time of their mutual impact, Deming and Crosby were in their eighties and Juran was in his sixties. Each had a distinct orientation although they all argued the same salient points.²³

Deming is widely credited with leading the Japanese quality revolution. He exposed Japanese managers from the 1950s onwards to the fundamental concept of variance reduction through the introduction of tools and techniques such as statistical process control (STC). He envisaged quality as an organisation-wide activity rather than a technical task for quality specialists.²⁴

²² *ibid.* at pg. 312.

²³ *ibid.* at pg. 312.

²⁴ *ibid.* at pg. 313.

Deming highlighted the central role of managers in bringing about essential improvements in quality conformance levels and productivity. He regarded managers, and not staff lower down in an organisation, as the real obstacle, pointing out that 85% of quality problems could be traced to management actions and failures. He also believed that quality and productivity were not to be traded off against each other. Rather, improved productivity needed to be recognised as a by-product of improved quality and of doing a job right the first time.²⁵

Juran succinctly defined “quality” as “*fitness for use*”.²⁶ That is, users should be able to expect that a product or service would provide what they needed or wanted to do with it. Therefore, rather than defining quality in terms of specifications and conformance, Juran described it as fitness for use.

Crosby also addressed his message to top management, proposing that quality management provided a viable strategy for corporate survival and growth. He also denied that a firm had to make large investments to improve quality. He asserted that a quality management programme would lead to such a level of savings that it would pay for itself, maintaining that, ultimately, “*quality is free*”.²⁷

²⁵ *ibid.* at pg. 315.

²⁶ *ibid.* at pg. 316.

²⁷ *ibid.* at pg. 320.

According to Crosby the goal of quality improvement was zero defect, to be achieved through prevention rather than after-the-fact inspection. The key to quality improvement, he believed, was to change top management's thinking. Management needed to establish a higher standard of performance and communicate these expectations throughout all levels of the company.

Crosby estimated that the cost of poor quality is between 15% and 20% of sales in most companies. Identifying the size of the problem arrests management's attention, illustrates the opportunities for profitable improvement and gains corporate support for a quality program.²⁸

The themes underlying the teachings of these doyens of quality philosophy remain topical today, and any attempt at building a quality framework must take cognisance of their work. Although their philosophies had a clear manufacturing bias, the essence thereof is still true today for professional services firms in general, and for forensic accounting in particular.

Having considered the nature and elements of quality and quality management, the question must be answered why it is important for a company to manage quality? Townsend and Gebhardt²⁹ state that *"attention to quality can increase a company's profits by lowering production costs, or by making it possible to charge higher prices, or both.*

²⁸ *ibid.* at pg. 320.

²⁹ Townsend, P.L. and Gebhardt, J.E. (1992) *Quality in Action. 93 Lessons in Leadership, Participation and Measurement*, New York, John Wiley & Sons, Inc., pg. 243.

There is no better long-term investment.” They continue by stating that quality professionals conservatively estimate that a well-run quality process yields a minimum of a 5-to-1 return on investment.

Despite these general observations by Townsend and Gebhardt, it is imperative that a company’s commitment to quality is aligned to its strategy. This assertion can be explained with reference to the groundbreaking work of Michael Porter.³⁰ Porter maintains that there are four generic market strategies from which firms must choose. These are:

- (i) Overall cost leadership.
- (ii) Product differentiation.
- (iii) Cost focus.
- (iv) Differentiation focus.

The choice of strategy has direct consequences for product and process development, with definite trade-offs between performance and price, and different choices in the balance between product and process innovation. Porter insists on the importance of these choices. He argues that firms that get “*stuck in the middle*” between cost and product quality will have low profits.

³⁰ Porter, M. (1980) *Competitive Strategy*, New York, Free Press.

Differentiation measures the degree to which competitors differ from one another in a specific market. Markets in which there are little differentiation and no significant difference in the relative quality of competitors are characterised by low profitability, whereas differentiation on the basis of relative quality or other product or service characteristics is a strong predictor of high profitability in any market conditions. Where a firm achieves a combination of high differentiation and high-perceived relative quality, the return on investment is typically twice that of non-differentiated products.³¹

An analysis by Luchs³², of more than 3000 business units, identifies the profit impact of market strategy. His study *inter alia* concludes that: high relative quality is associated with a high return on sales. One reason for this is that businesses with higher relative quality are able to demand higher prices than their competitors. Moreover, higher quality may also help reduce costs by limiting waste and improving processes.

Based on the above discussion, it is clear that a quality management process could yield positive financial results for any firm if applied correctly. However, a quality management process is imperative for a firm adopting a strategy of differentiation based on quality. Successful implementation of such a quality management programme will, in turn, result in higher return on investment and superior profitability.

³¹ Tudd, J., Bessant, J. and Pavitt, K. (1997) *Managing Innovation. Integrating Technological, Market and Organizational Change*, New York, John Wiley & Sons, pg. 166 – 167.

³² Luchs, B. (1990) 'Quality as a Strategic Weapon', *European Business Journal*, 2:4, 34 – 47.

This conclusion is supported by the research of Craswell, Francis and Taylor.³³ Their research indicated that the (then) Big Eight auditing firms achieved a 30% premium over non-Big Eight firms due to their brand name. They also found that industry specialist Big Eight auditors earned a 34% premium over non-specialist Big Eight auditors due to the differentiation of these specialists.

3.2 Total quality management

Total quality management (“TQM”) developed out of a manufacturing emphasis on quality control and represents a long-term effort to orient all an organisation’s activities around the concept of quality. Robbins³⁴ defines “TQM” as “*a philosophy of management that is driven by the constant attainment of customer satisfaction through the continuous improvement of all organizational processes.*” According to Robbins, TQM comprises the following elements:

- (i) An intense focus on the customer.
- (ii) A concern for continuous improvement.
- (iii) Improvement in the quality of everything the organisation does.
- (iv) Accurate measurement.
- (v) Empowerment of employees.

³³ Craswell, R., Frances, J. and Taylor, S. (1995) ‘Auditor Brand Name Reputations and Industry Specializations’, *Journal of Accounting and Economics*, 20 (1995), 297-322.

³⁴ Robbins, S.P. (2001) *Organizational Behavior* (9th edn), New Jersey, Prentice-Hall, Inc., pg. 15.

Chase and Aquilano³⁵ define “TQM” as “*managing the entire organization so that it excels on all dimensions of products and services that are important to the customer*”. Customer satisfaction and quality are therefore inseparable according to TQM philosophy. This key principle also plays a central role in the quality model introduced in Chapter 6.

Quality improvement processes were popular in the 1990s and many leading companies incorporated TQM interventions. Most commentators agree that today continuous quality improvement is essential for global competitiveness. TQM increases workers’ knowledge and skills through extensive training, provides relevant information to employees, pushes decision-making power downward in the organisation and ties rewards to performance. When implemented successfully, TQM is also closely aligned with a firm’s overall business strategy, and it attempts to guide the entire organisation towards continuous quality improvement.³⁶

The principles underlying TQM can be linked to the contributions of Deming and Juran. They initially introduced TQM to American companies during World War II, but found their ideas taking hold more in Japan than in the United States of America.³⁷

³⁵ Chase, R.B. and Aquilano, N.J. (1995) *Production and Operations Managements Manufacturing and Services* (7th edn), Chicago, Irwin, pg. 163.

³⁶ Cummings, T.G. and Worley, C.G. (2001) *Organization Development and Change* (7th edn), Cincinnati, South-Western College Publishing, pg. 331.

³⁷ *ibid.* at pg. 331 - 332.

According to Cummings and Worley³⁸, TQM is typically implemented in five major steps:

(i) Gain long-term senior management commitment

This stage involves helping senior executives understand the importance of long-term commitment to TQM. Without a solid understanding of TQM and the key success factors for implementation, managers often believe that workers are solely responsible for quality. Yet only senior executives have the authority and larger perspective to address the organisation-wide, cross-functional issues that hold the greatest promise for TQM's success. Establishing organisation-wide TQM generally requires three or more years, although technical improvements to the workflow can be as quick as six to eight months. Top executives must also be willing to allocate significant resources to TQM implementation, particularly to make large investments in training.

(ii) Train members in quality methods

TQM implementation requires extensive training in the principles and tools of quality improvement. Staff members typically learn problem-solving skills and simple statistical process control (SPC) techniques, usually referred to as the seven tools of quality. These include brainstorming, histograms, flowcharts, scatter diagrams, Pareto charts, cause-and-effect diagrams and control charts. These tools are used to understand

³⁸ *ibid.* at pg. 333.

variations in organisational processes, to identify sources of avoidable costs, to select and prioritise quality improvement projects, and to monitor the effects of changes on product and service quality.

(iii) Start quality improvement projects

In this phase of TQM implementation, individuals and workgroups apply the quality methods to identify projects that hold promise for the largest improvements in organisational processes. They identify output variations, intervene to minimise deviations from quality standards, monitor improvements, and repeat this quality improvement cycle indefinitely. Identifying output variations is a key aspect of TQM.

(iv) Measure progress

This stage of TQM implementation involves measuring organisational processes against quality standards. Knowing and analysing the competition's performance are essential for any TQM effort because it sets minimum standards of cost, quality and service, and ensure the organisation's position in the industry over the short run. For the longer term, such analytical efforts concentrate on identifying world-class performance, regardless of industry, and creating stretch targets, also known as benchmarks. Benchmarks represent the best in organisational achievements and practices for different processes and are generally accepted as world-class. The implied goal in most TQM efforts is to meet or exceed a competitor's benchmark.

(v) Reward accomplishment

In this final stage of TQM implementation, the organisation links rewards to improvements in quality. TQM does not monitor and reward outcomes normally tracked by traditional reward systems, such as the number of units produced. Such measures do not necessarily reflect product quality, and can be difficult to replace because they are ingrained in the organisation's traditional way of doing business. Rather, TQM rewards members for "process-oriented" improvements, such as increased on-time delivery, gains in customers' perceived satisfaction with product or service performance, and reductions in cycle time. The linkage between rewards and process-oriented improvements reinforces the belief that continuous improvements, even small ones, are an important part of the new organisational culture associated with TQM.

The five-step implementation plan suggested by Cummings and Worley is incorporated in the suggested integration strategy, discussed in Chapter 6. It is suggested that this implementation plan, with minor adjustments for professional services firms, is also appropriate for a TQM implementation in a forensic accounting practice.

TQM's emergence and variations in its applications across organisations have made rigorous evaluation of results difficult. Much of the evidence is anecdotal. By way of example, Motorola reduced the number of parts in

its cellular phones by 70% and cut the time required to build a cellular phone from 40 hours to 4 hours. It reduced defects by 80% and saved US\$ 962 million in inspection and reworking costs. In the United States of America the stock performance of Baldrige award winners (for quality excellence) are tracked and compared to the Standard & Poor's 500 index fund. The Baldrige winners outperform the index fund by a ratio of 2.6 to 1. A 1998 survey of the Fortune 1000 companies showed that about 66% have implemented some form of TQM, with 76% of these companies rating their TQM experience as either positive or very positive. The study also revealed a positive association between TQM and performance outcomes such as productivity, customer service, product/service quality, and profitability, as well as with human outcomes, such as employee satisfaction and quality of work life.³⁹

3.3 Managing quality in professional services firms

The relationship between a client and a professional has historically been characterised by the unquestioned acceptance by the client of the professional's advice. Clients relied on the credibility of the trustworthy advisor. More recently, clients have become more critical of the professional and his work. "Evidence" of the quality rendered is receiving increasing attention. A striking element of quality management in professional services firms has been the extent to which quality management is individual-oriented, aimed mainly at the knowledge and

³⁹ *ibid.* at pg. 337 - 338.

attitude of the professional himself. The organisation in which the professional works has historically received less attention.

According to Ritsema van Eck-van Peet and Broekhuis⁴⁰, a transformation of quality management in professional services firms is required with a move away from focusing solely on specialist knowledge, and towards the co-ordination of activities, the transfer of information, the mode of communication and of operating, and the division of authority. They contend that quality management is now becoming an area of explicit attention for professional services firms. They identify four problems of quality management in professional services firms. These are:

- (i) Determining quality norms.
- (ii) Developing a quality management methodology, which fits the specific character of the firm.
- (iii) The demonstrability of quality in professional services.
- (iv) The area of tension between the organisational quality management to be developed and the individual quality management, which usually already exists.

These four problem areas, identified ten years ago, remain unresolved today. Professional services firms in general, and forensic accounting practices in particular, still grapple with these. Resolving these challenges

⁴⁰ Ritsema van Eck-van Peet, H. P. and Broekhuis, M. (1992) "Problems of Quality Management in the Professional Services", *International Journal of Quality & Reliability Management*, 9:7, pg. 23.

successfully will provide a definite competitive advantage, and a suggested approach aimed at this objective is therefore discussed below.

(i) Determining quality norms

It is difficult to determine quality norms and criteria in professional services for a number of reasons. There is no tradition in professional services to develop explicit quality norms. Many professionals are, in fact, resistant to formulating norms due to the value they attach to their own autonomy. A further reason is the highly intangible nature of the output, which does not facilitate the development of quantitative criteria. The problem is exacerbated by the fact that a number of interested parties, including management, clients, professionals, authorities, financiers and consumer organisations, have different evaluation criteria.⁴¹

Despite these difficulties it is possible, and advisable, to develop quality norms in professional services firms. Ritsema van Eck-van Peet and Broekhuis⁴² suggest that a quality policy be established at board level. This policy should be developed through a deliberation process in which strategic and subjective elements are involved. In practice, knowing the views of clients is often difficult due to the large, widespread and seldom homogeneous nature of the group. Despite this difficulty, it is suggested that more can be done to determine and assess the needs of clients. For purposes of this study, the views of clients were canvassed by means of a

⁴¹ *ibid.* at pg. 29.

⁴² *ibid.* at pg. 29.

tailored questionnaire and structured interviews. The conversion of these into quality norms is discussed in Chapters 5 and 6.

The above processes should lead to determining output indicators. Certain general process norms may also be established. The more specific the board or management tries to make this kind of process and output norms, the more resistance is likely from professionals. It is advisable to start with a general quality framework, which prescribes the level and kind of services in comparison with competitive service organisations, and some critical quality indicators with reference to the output and the process. Within this process, cognisance should also be taken of the quality norms originating from the profession, which are contributed by the professional, and the ideas and expectations of the specific client concerning the service output.

At the micro level, there are no general quality norms that are valid for all situations and all clients. The client and the professional should work out what constitutes a desired process and output on a continuous basis. It is possible, however, to establish a general procedure for determining the quality norms for a specific client with specific problems. This entails that, in consultation with the client, the process and output are specified as accurately as possible prior to and during the provision of the service within a broadly defined process path. Larsson and Bowen⁴³ refer to

⁴³ Larson, R. and Bowen, D. E. (April 1989) “Organizations and Customer, Managing Design and Co-ordination of Services”, *The Academy of Management Review*, 14:2, pg. 213 – 233.

“large, loosely specified scripts”. As a general principle, the professional must have the final say in the matter in the process norm, based on his professional expertise, while the client should have the final say in the matter of the output norm, as the client decides if and when his problem has been solved.

(ii) *Developing a suitable quality management methodology*

In order to manage a professional services firm, management must have an adequate model of the firm in order to predict the effect of its measures. In many professional services firms, there is no such model when it comes to improving the quality of the services provided. Three dimensions should be considered in developing a quality management methodology.

These are:

- (a) Not all professional organisations are the same or function according to the same model. There are different possible forms of organisation or structural configurations.
- (b) Various leadership styles are possible, including the segmental model (management only creates conditions), the colleague model (management co-ordinates the actual work, and also puts work goals up for discussion), and the integral model (beside sufficient autonomy and a high degree of co-ordination with colleagues, decisions are also made at central level by management).

- (c) Managing professional organisations requires thinking and working in levels of control. A continuous assessment must be made at which level control can and should be exerted. Management can co-ordinate work, and sometimes make decisions, but there are limits imposed by the professional culture, the complex nature of the work, the invisible and intangible nature of the work, and the immediate confidential relationship of the professional and client.

Ritsema van Eck-van Peet and Broekhuis⁴⁴ contend that the solution to the problem of a lack of an appropriate quality management methodology may be found in two areas:

- (a) Making the form or structure of the organisation explicit and selecting a particular leadership model. On this basis an appropriate control system, aimed at the quality of the primary process, can be developed.
- (b) Developing level models for quality management, i.e. who manages what with whom at what level.

(iii) The demonstrability of quality

Due to the increased concern over professional liability, demonstrating quality to clients and third parties has assumed greater significance in

⁴⁴ Ritsema van Eck-van Peet, H. P. and Broekhuis, M. (1992) *op. cit.* pg. 31.

recent times. The traditional culture of professional services firms and the intangible nature of professional services dictate against the easy accomplishment of demonstrating quality. It is difficult because of the small number of tangible elements in the output and the uniqueness of each service. It is also difficult due to the limited opportunity for standardisation of service processes and the “assistance” of the client in the process. The problem is further exacerbated by the fact that professionals usually attach more value to the opinion of their peer professionals than to the opinion of a layman, which a client often is. The question should also be asked, what should be demonstrated: relevance, accuracy, effort or result?⁴⁵

The professional services firm’s challenge is to communicate confidence to the client. Important strategies for inspiring confidence include external activities to develop a favourable professional image. However, such measures for inspiring confidence may be desirable from a marketing point of view, but do not actually demonstrate quality. At organisational level, potential quality may be demonstrated by describing, making explicit, and communicating already existing measures for creating the conditions in which quality can be provided. These measures could include recruiting, selecting, supervising, training, in-service training, grading, etc. At the micro level, it is important to provide the client with an insight into the entire service process and to plan explicit opportunities for evaluations

⁴⁵ *ibid.* at pg. 32.

during and after the provision of the service, based on agreed quality characteristics.

This study is based on the assumption and belief that it is possible and feasible to demonstrate quality. The empirical research, discussed in Chapter 5, was conducted with the objective of determining what drives the perception of quality. The research findings clearly show that demonstrating quality is not only feasible, but a business imperative.

(iv) The area of tension of organisational and individual profession-oriented quality management

In any professional services firm there are always quality mechanisms at work from within the profession, sometimes even from more than one profession. This is especially true in the field of forensic accounting where multi-disciplinary teams provide professional services on given engagements. For the management of the professional organisation it is difficult to add systematic quality management on top of the existing quality mechanisms from within the profession. There are a number of reasons for this difficulty, including:

- (a) The culture of the professionals is such that there is a continuous fear of harm to professional autonomy and integrity.
- (b) There is only limited external environmental pressure to add additional quality management mechanisms.

- (c) There is an inherent tension between the professional organisation and the professional. Demands of effectiveness, strategy, image and meeting the effort contract can affect professionally sound action.
- (d) The process and output characteristics of professional services make systematic quality control difficult. Using obvious mechanistic systems such as the laying down of behaviour in the form of rules, programmes, or plans, or the development of an hierarchic system or laying down output norms, will not have the intended effect in view of the uncertainty of the professional's work. To a certain degree mechanistic measures can be effective for managing the quality of certain aspects of the tangibles, such as documents and reports, but they are not suitable for controlling the professional soundness or the professional logical construction of these documents.

Ritsema van Eck-van Peet and Broekhuis⁴⁶ contend that the solution to these problems may be found in two areas: on the one hand, by strengthening the external orientation of management and professionals through systematic market research, including more evaluations with and by clients, and on the other hand, by strengthening and extending lateral relations and mutual co-ordination.

⁴⁶ *ibid.* at pg. 33.

It is suggested that achieving universal focus on client needs, albeit tempered by professional judgement, is at the core of resolving this inherent conflict. This aspect is further explored below.

3.4 Implementing TQM in professional services firms

A relatively new phenomenon is the use of TQM to manage quality in professional services firms. As explained in paragraph 3.2, TQM has a radically different philosophy from that of traditional quality control. TQM imposes discipline on adopting organisations and people working in them.

Although professionals want to provide their clients with good service, the characteristics of professionals, particularly their individuality and independence, pose some potential problems for the application of TQM in professional services firms. By law or convention, professionals often have or assume the right, indeed the obligation, to decide what is wrong (diagnosis), what needs to be done (prescription) and how to do it (action). Professionals are often reluctant to accept advice from someone outside their area of specific expertise. Similarly, many are reluctant to advise others outside their own restricted circle. Professionals' reaction to TQM's need for measurement could also complicate the implementation process.⁴⁷

⁴⁷ Haywood-Farmer, J. and Nollet, J. (1994) "Professional Service Firms and Total Quality Management: A Good Fit?", *International Journal of Service Industry Management*, 5:3, pg. 7.

A central tenet of the TQM philosophy is empowering workers, thus recognising the important front-line client relations role of junior and middle-level professionals. According to Bowen and Lawler⁴⁸, empowerment provides many benefits but is particularly attractive for services that:

- (i) Are highly differentiated, customised and personalised.
- (ii) Build relationships over a long time frame.
- (iii) Are non-routine and complex.
- (iv) Are unpredictable with many surprises.
- (v) Employ Theory Y managers and staff with high growth and social needs and strong interpersonal skills.

As most professional services, including forensic accounting, have these characteristics, empowerment should be widespread in this sector. Consequently, the TQM philosophy is not inherently incompatible with professional services firms.

TQM has an additional potential benefit due to its ability to alter the firm's balance or gearing. As processes and individual performance improve, there should be less need for partner and manager involvement. The professional services firm typically hires junior level staff and charges their time at a rate substantially higher than their salaries. The partners, in turn,

⁴⁸ Bowen, D. E. and Lawler, E. E. (1992) "The Empowerment of Service Workers: What, Why, How, and When?", *Sloan Management Review*, 33:3, pg. 31 – 39.

usually receive compensation at a rate well above their bill-out rate, supported by the imbalance in the rates of the juniors. If TQM allows operation with a higher proportion of juniors, the compensation of partners should increase.⁴⁹

The discipline required of those who work in TQM organisations seems to conflict with the traditional autonomy of professionals. TQM potentially alters the balance of power between the professional, management and clients. This raises a number of pertinent questions:

- (i) Can a professional services firm successfully adopt TQM?
- (ii) What compromises does it have to make to do so?
- (iii) What changes are necessary?
- (iv) How can the professional services firm control the individualism of the professional?
- (v) How can a professional services firm implement TQM?

These questions are addressed below.

Internationally, several accounting firms have recently implemented TQM. In Canada, the move has been a result of the perceived change in the balance of power between clients and accounting firms. Formerly, accountants held the power through controlling the supply of accounting

⁴⁹ Haywood-Farmer, J. and Nolett, J. (1994) *op. cit.* pg. 7.

services. Conditions have now shifted to create a buyers' market in which the power rests with clients. Accordingly, the accounting firms increasingly focus on satisfying clients. As a result, internal quality improvement programmes, client surveys, formalised and friendly complaint handling processes, itemised billings and lower fees have emerged. As clients become more quality conscious, poor service results in lost clients.⁵⁰

According to Banks⁵¹, TQM has affected the internal operations of adopting accounting firms. It has led to a thorough examination of all operating procedures, with a view to eliminating unnecessary steps and streamlining the remainder, always with the goal of providing more value to the client at lower cost. New manuals of procedures have been written, administrative staff have been added to client service teams, and offices have designated staff to act as facilitators to disseminate relevant information about TQM, especially successes, within and between offices. Firms see the process as ongoing, with improvements being guided by identified gaps in client satisfaction.

Implementation has apparently not been universally smooth. Some partners were initially sceptical although earlier successes and feedback from clients led to increased acceptance. TQM has changed the culture of these implementing firms. Whereas partners traditionally worked individually with their own clients, managing the information flow, TQM has

⁵⁰ *ibid.* at pg. 8.

⁵¹ Banks, B. (1992) "The Rites of Service", *CA Magazine*, 125:7, pg. 20 – 28.

opened up information so that professionals at lower levels have more influence. The result has been a shift in the power from partners to clients, to lower level professionals and to the firm as a whole. The new culture has required firms to give such criteria as communication and business development skills high prominence in hiring and promotion decisions. It is also positively affecting the firms' ability to attract and retain staff.

An area of difficulty for accounting firms adopting TQM has been the definition of quality. Firms realised that the traditional focus on technical quality was inadequate. It is assumed that technical quality will be high and, although technical quality is important, such factors as timing, how results are presented and who does the work are also very important to clients. Failure in any of these factors may be enough to cause a client to change service providers. It is therefore clear that without such an expanded definition, satisfying clients is virtually impossible. This shift in definition was in some cases seen as a threat to partners who are generally experts on technical questions but are less adept at interpersonal and managerial level.⁵²

Haywood-Farmer and Nolett⁵³ conclude that TQM will be effective in professional services firms, but will cause certain changes. Key success criteria for the implementation of TQM include:

⁵² Haywood-Farmer, J. and Nolett, J. (1994) *op. cit.* pg. 9. Refer also the linking of quality and client satisfaction by Chase and Aquilano, discussed in paragraph 3.2.

⁵³ *ibid.* at pg. 10.

- (i) It is advisable to have a good reason for using TQM. If TQM is seen to be a key to survival or if it will demonstrably improve the firm's competitiveness in a changing market, it is easier to gain the needed commitment of the professionals affected.
- (ii) Implementation is critical. Management must accept and own the philosophy before it will be successful. There must be widespread discussion with the goal of seeking consensus. The idea must be sold to the professionals rather than forced upon them.
- (iii) A process should be established to reward and recognise TQM successes. This includes changing the compensation system or implementing non-monetary recognition of improvements.

In their study of eight TQM implementations at professional services firms, Harte and Dale⁵⁴ highlight a number of key learnings. They conclude that TQM is often not well understood by professionals and concur with the view that implementation is difficult due to the autonomous nature of professionals who often view the concept as patronising. They further state that a TQM initiative can only be successful if introduced and developed by a committed management who fully understand the concept and can apply it to the complex work patterns of professional staff. They stress the need for a TQM framework that is specific to professional services, incorporating the complexities of a professional services firm.

⁵⁴ Harte, H. G. and Dale, B. G. (1995) "Total Quality Management in Professional Services: An Examination. Part 1", *Managing Service Quality*, 5:4, pg. 38 – 43.

A further key element highlighted, is the significant problem experienced by most of the organisations studied in maintaining the momentum of the quality improvement initiatives. Apparently none of the organisations studied had considered this problem in the development phase of the strategy. A suggested solution is staggering the process across different divisions. By introducing TQM in this manner, a cyclical feedback of experience from one division to another can be developed. When TQM is introduced to all divisions, the pioneering division could then be used to provide a cycle of launching and re-launching of quality improvement experience.⁵⁵

These success criteria are again dealt with in the suggested integration strategy, discussed in Chapter 6.

⁵⁵ *ibid.* at pg. 41.

Chapter 4

Professional Regulation and Quality Management in Forensic Accounting

In this chapter recent developments in the United States of America and Canada, in respect of auditor responsibility for fraud detection, as well as the development of professional standards in the discipline of forensic accounting, are discussed. The regulatory environment in South Africa is also discussed.

4.1 Convergence of forensic accounting and regulatory auditing

Chapters 1 and 2 alluded to the expectation gap regarding the auditor's responsibility for detecting financial statement fraud. This phenomenon represents the single most important macro-environmental driver of the rapid growth and new prominence of the discipline. Accordingly, it plays a significant role in providing impetus to the drive towards the development of professional and quality standards, and improved regulation of forensic accounting. Seen against this background, a discussion on the convergence between forensic accounting and regulatory auditing is regarded as highly topical to the subject-matter of this study.

During the past twenty years, the structure of the American financial reporting system has been the subject of Security and Exchange Commission (SEC) charges, congressional inquiries and lawsuits. The

profession historically contended that auditors should not be responsible for detecting fraud during the course of a financial statement audit. However, the reality of regulatory, legal and public pressure is increasingly strengthening the argument that fraud detection is a major justification for audits. Litigation costs associated with the settlement of lawsuits against auditing firms for failure to find fraud, have been estimated to approach 9% of accounting and auditing service revenue. This figure is based on a 1996 study and is certain to be understated given recent events.⁵⁶

In 1988, in response to the increasing demand for “*fraud auditors*”, the Association of Certified Fraud Examiners (ACFE) was established. Based in Austin, Texas, the 25 000 member professional organisation is dedicated to educating and aiding the work of individuals trained in the highly specialised aspects of detecting, investigating and deterring fraud and other white collar crime. After an extensive application process and on passing a uniform examination, members receive the CFE designation.⁵⁷ The establishment of the ACFE represented an attempt to bridge the gap between auditors, believing that fraud detection is not their responsibility, and users of financial statements, who believe it is.

CFEs come from various professions, including auditors, accountants, fraud investigators, loss prevention practitioners, attorneys, educators and criminologists. They gather evidence, take statements, write reports and

⁵⁶ Carnes, K. C. and Gierlasinski, N. J., (2001) “Forensic Accounting Skills: Will Supply Finally Catch up to Demand?”, *Managerial Auditing Journal*, 16:6, pg. 378 – 382.

⁵⁷ *ibid.* at pg. 379.

assist in investigating fraud in its varied forms. They are employed by major corporations and government agencies, or as private contractors called in to investigate when management suspects that assets have been misappropriated. The ACFE has also developed Professional Standards and Practices for CFEs. These came into effect on 1 July 1991 and comprised *general standards* relating to independence and objectivity, the qualifications, skills and knowledge needed by CFEs, requirements of due professional care in the conduct of fraud examinations, and stipulations regarding confidentiality. The Professional Standards and Practices also include a number of *specific standards* relating to independence and objectivity, qualifications, due professional care in fraud examinations and confidentiality.⁵⁸

Findings of fraud being overlooked by auditors have raised concerns from the Public Oversight Board (POB) in the United States of America. In 1999, at the request of the SEC, the POB created a panel on audit effectiveness to specifically investigate auditor independence issues that regulators felt might be impairing the ability of auditors to investigate as diligently as they should. The report of the panel, issued in August 2000, generally supported the profession's independence standards, but did call for far stronger attention to issues of fraudulent financial reporting. They concluded that:

⁵⁸ Robertson, J. C. (2000) *Fraud Examination for Managers and Auditors* (3rd edn), Austin, Viesca Books, pg. 547 – 551.

“The panel is concerned that the auditing profession has not kept up with a rapidly changing environment. The panel believes that the profession needs to address vigorously the issue of fraudulent financial reporting including fraud in the form of illegitimate earnings management. It believes that audit firms should aspire to “zero defects” as their goal and endeavor to eliminate audit failures completely.”⁵⁹

The report recommended stronger and more definitive audit standards to improve auditors’ ability to detect fraud and called for the introduction of a “forensic-type field work phase”, including performance of substantive tests aimed at detecting fraud. Firms should immediately develop and expand training programmes for auditors at all levels, oriented toward fraud detection. Increased use should also be made of auditors with forensic audit backgrounds.⁶⁰

Standard-setting bodies have continued to mandate stronger auditing standards aimed at making clear the profession’s responsibility for detecting fraud. The American Auditing Standards Board (ASB) issued Statement on Auditing Standards No. 82, “Consideration of Fraud in a Financial Statement Audit”.⁶¹ This was followed by an exposure draft from the International Auditing Practices Committee of the International

⁵⁹ Carnes, K. C. and Gierlasinsky, N. J. (2001) *op. cit.* pg. 380.

⁶⁰ *ibid.* at pg. 380.

⁶¹ The American SAS 82 is comparable to the South African SAAS 240, which still leaves some ambiguity about the auditor’s responsibility for fraud detection.

Federation of Accountants, “Fraud and Error”. These standards require auditors to plan and perform audits to obtain reasonable assurance that financial statements are free of material misstatement, whether caused by error or fraud.⁶²

During November 2002, the American Institute of Certified Professional Accountants (AICPA) issued a press statement, announcing the replacement of SAS 82 with a new standard, SAS 99.⁶³ Although SAS 99 has not yet come into effect, it is evident that all ambiguity is now removed about the role of the auditor to detect fraud in financial statements. Some of the key aspects of SAS 99 include the following:

- (i) *Increased emphasis on professional scepticism.* Members of audit teams are required to put aside any prior beliefs as to management’s honesty and must exchange ideas or brainstorm how fraud could occur. Throughout the audit, the engagement team is required to think about and explore the question, “if someone wanted to perpetrate a fraud, how would it be done?” From these discussions, the engagement team should design audit tests responsive to the risk of fraud.

- (ii) *Discussions with management.* The engagement team is now expected to enquire of management and others in the

⁶² *ibid.* at pg. 380.

⁶³ “SAS 99 and Your Duty to Detect Fraud: How Quickly Do You Need to Respond” (online) (cited 5 November 2002). Available from <[URL:http://www.accountingmalpractice.com](http://www.accountingmalpractice.com)>.

organisation as to the risk of fraud and whether they are aware of any fraud. The auditors are also required to talk to employees in and outside management.

- (iii) *Unpredictable audit tests.* During an audit, the engagement team should test areas, locations and accounts that otherwise might not be tested. The team is required to design tests that would be unpredictable and unexpected by the client.
- (iv) *Responding to management override of controls.* Because management is often in a position to override controls in order to commit financial statement fraud, the standard includes procedures to test for management override of controls on every audit.
- (v) *All frauds are material because they indicate a lack of management integrity.* The amount involved is therefore no longer the determinant of materiality.

Although the profession has resisted the new fraud standard for some time, it was just a matter of time before the regulatory authorities stepped in to breach the ever-widening expectation gap between the users of financial statements and auditors. The failures of Enron, WorldCom and others merely served as catalysts for this inevitable change.⁶⁴

⁶⁴ *ibid.*

SAS 99 will undoubtedly change the nature of audits. This is a much bigger change than many seem to appreciate at this point. While subtle, the perspective of promoting “exceptional client service” as a financial professional, is at significant odds with delivering a service that is going to identify management manipulations. Audit planning procedures will need to be revolutionised and the relationship between the auditor and management is set to change forever.

A key question that must be asked in response to SAS 99, is what the role of forensic accountants will be in addressing the regulatory challenges posed by SAS 99? Will forensic accountants be called upon to assist audit teams during the regulatory audit, or will they merely be required to train and sensitise auditors in order to enhance the latter’s fraud detection skills? It is suggested that a major opportunity has been presented for the further elevation of the discipline, by stepping into the regulatory breach created by SAS 99.

The above discussion clearly illustrates that auditors are being held to higher standards in their ability to understand and detect fraudulent activity within organisations. Unfortunately, educational institutions training accountants have not responded appropriately with the necessary changes to curricula of accounting students. A number of commentators have criticised educational institutions for their lack of appropriate response and for failing to strengthen the forensic accounting skills of

prospective auditors.⁶⁵ This situation further dictates in favour of an expanded role for forensic accountants.

Well-publicised fraudulent financial reporting, business failures, loss of public confidence in the credibility of financial reporting, lack of responsible corporate governance and public dissatisfaction regarding audits that were not designed to detect fraud are contributing to the increased emphasis on fraud investigation within the accounting profession. This, in turn, necessitates a new focus on quality management in forensic accounting. Internationally, there seems to be a convergence of forensic accounting and statutory auditing due to the factors highlighted above. This has important implications for the development of the discipline of forensic accounting as universities incorporate forensic accounting within the curricula of accounting students, and as the profession increasingly considers regulating professional standards of forensic accounting.

4.2 Guidance from CICA

The Canadian Institute of Chartered Accountants (CICA) has recognised the lack of professional standards in forensic accounting and the need to develop such standards. For this purpose a Study Group was instructed

⁶⁵ Refer *inter alia* Carnes, K. C. and Gierlasinski, N. J., (2001) “Forensic Accounting Skills: Will Supply Finally Catch up to Demand?”, *Managerial Auditing Journal*, 16:6, pg. 378 – 382; Rezaee, Z. and Lander, G. H. (1996) “Integrating Forensic Accounting into the Accounting Curriculum”, *Accounting Education*, 1:2, pg. 147 – 163; Rezaee, Z. and Burton, E. J. (1997) “Forensic Accounting Education: Insights from Academicians and Certified Fraud Examiner Practitioners”, *Managerial Auditing Journal*, 12:9, pg. 479 – 489.

to develop a proposal for the development of standards in forensic accounting, the first such attempt in the world.⁶⁶

The Study Group set out to develop a framework for forensic accounting and highlighted the following reasons for this approach.⁶⁷

(i) To promulgate best practices and state general principles

The gradual development of forensic accounting standards would permit the pooling of current practices and methodology, leading to the identification of best practices, and finally to the development of an accepted set of standards. It is preferable to begin by establishing general professional standards that apply to all forensic accounting engagements. These standards should not constitute a mere codification of current practices but should set out clear and logical principles, state targeted objectives, and allow for the use of professional judgement in their application. In a second stage, a more detailed set of standards relating to specific areas of forensic accounting could be gradually established so as to provide guidance tailored to these areas.

(ii) To achieve consistent professional practice

Despite the gradual development of a consensus regarding best practice, there are still important differences in forensic accountants' work methods.

⁶⁶ The Canadian Institute of Chartered Accountants (2001) *Discussion Paper: Proposal for the development of standards in investigative and forensic accounting*, Montreal, Quebec, CICA.

⁶⁷ *ibid.* at pg. 5 – 7.

The development of forensic accounting standards would ensure greater consistency of professional practice in this field.

(iii) To provide a framework for the use of professional judgement

When conducting a forensic accounting engagement, the forensic accountant encounters situations where professional judgement must continually be exercised. The forensic accountant often seeks accepted references, rules or standards to assist in the decision-making process. However, there is currently “*a vacuum of forensic accounting principles and standards*”. This vacuum could be filled by a set of standards that provide guidance for the forensic accountant in exercising professional judgement. This guidance would most likely constitute the main advantage of establishing standards in this field since professional judgement should not be exercised in a vacuum.

(iv) To define forensic accounting and identify the parties involved

Before developing professional standards for forensic accounting, the discipline itself, the types of engagements and their characteristics all need to be defined precisely in order to understand the difference between forensic accounting engagements and other engagements.

(v) To uphold the reputation of the profession

Standards are provisions that constitute a framework for the practice of the profession. They act as a safeguard to prevent improper conduct and

non-professionalism that can damage the reputation of the profession and undermine its credibility. Forensic accountants' compliance with professional standards in the performance of their engagements would ensure consistency in the quality of services rendered and, accordingly, better protection of the public.

(vi) To affirm the leadership of the profession

CICA is the first national body of professional accountants to adopt a forensic accounting framework. To establish a set of forensic accounting standards for the profession would affirm its leadership and ensure it a head start in this field.

(vii) To overcome problems tied to the development of standards

Standards are inevitably constraining since they set out authoritative rules. There is also a real danger that the rules could end up impairing the creativity, flexibility, adaptability and perceptiveness that the forensic accountant should demonstrate in conducting an engagement. This is why standards should set out general principles with clear objectives that leave room for professional judgement when applied to specific situations.

Forensic accounting also encompasses various types of engagements with diverse natures and objectives. Standards of general application should be flexible enough to suit all circumstances.

Following a deductive approach, the Study Group developed a set of proposed standards for investigative and forensic accounting engagements. The Study Group recognised that the development of detailed standards will require a more extensive gathering of information on the current practices of forensic accounting service providers, together with an analysis of these practices to determine what should constitute standard practices in this area.

The proposed standards are of general application and constitute the basic professional standards the forensic accountant would have to comply with when conducting a forensic accounting engagement. These proposed standards, together with the definitions, the characteristics of forensic accounting engagements, and the identification and needs of the parties involved, make up the framework for the performance of forensic accounting engagements in Canada.⁶⁸

For purposes of the proposed standards, “an investigative and forensic accounting engagement” is defined as:

“An engagement where, within the context of a contemplated or actual dispute or a legal action with a significant financial component, an expert provides services based on the application of knowledge related to the accounting domain (such as financial

⁶⁸ *ibid.* at pg. 7 - 8.

information, accounting, finance, assurance, and control), and of knowledge related to one or more of the following: financial investigation, loss quantification, certain aspects of the law. An investigative and forensic accounting engagement involves at least one of the following: analyses, loss quantifications, investigations, gathering of evidence, mediation, arbitration and testimony as an expert witness. An investigative and forensic accounting engagement often involves the communication of a conclusion, that is, the communication of the results of the investigative and forensic accountant's work and findings and, if applicable, the investigative and forensic accountant's opinion on the issues examined.

The proposed standards incorporate a number of general standards, performance standards and reporting standards. The general standards set out the general forensic accounting postulates and the forensic accountant's professional qualities, that is, due care, objectivity and proficiency. The *general standards* include:

- (i) The investigative and forensic accounting engagement should be performed with due care and with an objective state of mind.
- (ii) Before accepting the engagement, the investigative and forensic accountant should determine that he/she has the knowledge, experience and skills required to perform the engagement.

- (iii) The investigative and forensic accountant should ensure that he/she has a clear understanding of the engagement objective and that the terms of the engagement are acceptable.

The proposed *performance standards* constitute the basic principles that must be adhered to when conducting a forensic accounting engagement.

These principles state only broad objectives and include:

- (i) The investigative and forensic accountant should acquire a proper knowledge of the subject-matter and of the environment specific to the engagement.
- (ii) The investigative and forensic accountant should adequately plan the engagement and supervise the persons performing the engagement.
- (iii) The assessments and analyses of the investigative and forensic accountant should be based on basic facts, or the valid data available, appropriate and accepted theoretical concepts and, if applicable, on consistent and reasonable assumptions.
- (iv) When forming a conclusion, the investigative and forensic accountant should support the conclusion with sufficient appropriate evidence.
- (v) The investigative and forensic accountant should adequately document the work performed.

The proposed *reporting standards* are only intended to provide guidance on the written reports in which the forensic accountant expresses a conclusion, that is, reports that communicate the results of the forensic accountant's work, the forensic accountant's findings and, if applicable, the forensic accountant's opinion on the issues examined. The proposed reporting standards provide that the forensic accountant's report should adequately explain and support the conclusion expressed therein. The report should be worded so as to be clearly understood by the parties involved and, within the limits of the mandate and skills of the forensic accountant, so as to clarify the financial aspects of the conflict. The proposed reporting standards therefore stipulate that the report should be worded clearly and concisely, in simple and readily understandable terms, and that the findings be explicit but not overly detailed.

4.3 Guidance from SAICA

The actions of Chartered Accountants (SA) are regulated *inter alia* by the professional standards issued by the South African Institute of Chartered Accountants (SAICA). This includes management consulting services provided by members of SAICA. In SAICA's Standards of Management Consulting Services Practice, management consulting services are described to include "*transaction services*", which, in turn, include "*litigation services*".⁶⁹ It can therefore be concluded that a forensic accountant providing litigation services will be subject to the provisions of

⁶⁹ The South African Institute of Chartered Accountants (2001) *SAICA Handbook Vol 3: Standards of Management Consulting Services Practice*, Johannesburg, SAICA.

MC 100 to MC 300 (Standards of Management Consulting Services Practice) provided that the forensic accountant is a member of SAICA.

General standards relate to matters of professional conduct with which management consulting services practitioners are required to comply. These standards are included in statement MC 200. *Practice standards* relate to matters with which management consulting services practitioners are required to comply in conducting engagements for clients. These standards are included in statement MC 300.

The forensic accountant, who is a member of SAICA, is therefore also subject to SAICA's code of professional conduct, which *inter alia* dictates integrity, objectivity and independence, a certain level of professional knowledge and skill and related matters.

It must, however, be concluded that the guidelines outlined in MC 100 to MC 300 are totally inadequate in providing substantive guidance in the conduct of forensic accounting engagements. Unlike its Canadian counterpart, SAICA has yet to develop authoritative professional standards for forensic accounting. This failure represents a significant impediment to quality management in forensic accounting in South Africa.

4.4 Regulation of Forensic Accounting in South Africa

As highlighted in Chapter 2, forensic accounting in South Africa is substantially unregulated. There is no requirement for forensic accountants to register with any professional body and, consequently, there is no code of conduct, ethical code, authoritative standards or guidelines with which their conduct or investigation must comply. Any person who feels himself/herself competent to perform a fraud investigation may do so. There are no rules, restrictions or laws that prevent or prohibit anyone from becoming a fraud investigator or forensic accountant. No formal training, experience or qualification is required.

In an attempt to start regulating the profession, a number of practitioners formed the Institute of South African Forensic and Fraud Investigators (ISAFFI). There are no training, experience or qualification requirements for becoming a member, but ISAFFI does have its own code of conduct, which members must comply with.⁷⁰ Although ISAFFI has approximately 200 registered members, it has, to date, failed to position itself as a sustainable professional regulator of the discipline.

Regulation of fraud investigations in South Africa is indirectly regulated by other professions. This is the case where fraud investigators are members of other professional bodies or institutes. The relevant standards of those other professions and codes of conduct then apply in the conduct of a

⁷⁰ Gerber, J. P. (2001) *op. cit.* pg. 40.

fraud investigation. Examples include the rules of the Public Accountants and Auditors Board (PAAB), SAICA, the Institute of Internal Auditors of South Africa and the Law Societies.⁷¹

Many South African forensic accountants belong to the Association of Certified Fraud Examiners, based in the United States of America. Membership is obtained through a process of accreditation and no examination is required. This is in contrast with the American based CFEs, who are required to have three years practical experience and sit for a uniform examination as final evaluation. Strict continuous professional development is also required. A local chapter of the ACFE has been established in South Africa. This body does not attempt to regulate the discipline in South Africa, but rather serves as a forum for sharing best practice and providing limited training to its members.

Research conducted by Gerber⁷² has revealed that forensic accountants and fraud investigators in South Africa have expressed their desire that:

- (i) The discipline will become more regulated.
- (ii) Legislation will be passed that will enforce both a standard code of conduct for every person involved in fraud investigations and also require compulsory membership of a professional body.

⁷¹ *ibid.* at pg. 41.

⁷² *ibid.* at pg. 59.

- (iii) The word “forensic” will be better explained, as the current definition is too wide.
- (iv) Standard definitions will be developed to differentiate between forensic or fraud accountant, auditor and investigator.
- (v) Investigative Forensic Accounting Practice, similar to GAAP, will be developed for auditors and other investigators belonging to professional institutes.
- (vi) Relevant tertiary courses will be developed, and that such training as well as practical expertise will be required for membership of a professional body.
- (vii) Strict continuous professional development will also be required of South African fraud investigators and forensic accountants to facilitate an increase in the respect and prestige of the discipline in South Africa, comparable to that of the United States CFEs.

It is suggested that a comprehensive forensic accounting framework, along the lines of the Canadian model, should be developed in South Africa as a matter of urgency. In this regard guidance can be taken from CICA, while taking cognisance of developments in other jurisdictions. With reference to the work performed by CICA, it is noted that a restrictive definition of forensic accounting is used. It is suggested that a more inclusive definition be adopted in South Africa, in recognition of the multi-dimensional nature of the discipline in this country.

A key challenge to the development of such a framework is the question, who will assume responsibility for such an endeavour? In South Africa, a large number of practitioners are not chartered accountants, and therefore not subject to regulation by SAICA. Nevertheless, it is suggested that SAICA should assume the lead role in the development of such a framework. This should preferably be done in consultation with the Law Societies. Although such a framework might not be universally enforceable, it is suggested that it could become the *de facto* standard in forensic accounting in South Africa. In time, compliance with the framework will become the minimum standard expected by the market.

In the absence of local professional standards for forensic accounting, it is suggested that the Canadian standards may serve as an important tool to guide actions and the exercise of professional judgement in South Africa. For this reason, the Canadian standards also influenced the quality model, introduced in Chapter 6.

Chapter 5

Empirical Research into Forensic Accounting Service Quality in South Africa

5.1 Objectives of the research

Empirical research was conducted with the following objectives:

- (i) To test the hypothesis of the study, discussed in paragraph 2.3. The hypothesis of the study is that the lack of professional standards and professional regulation in the forensic accounting discipline has resulted in a lack of appropriate criteria for assessing service quality. The result is inconsistent service quality and a lack of credibility and professionalism within the discipline. In short, the question is whether a need exists for the improvement of service quality in forensic accounting in South Africa.
- (ii) To determine what constitutes service quality in forensic accounting, i.e. to identify the drivers of service quality in forensic accounting.

These objectives were pursued from the perspective of practitioners, academics and users of forensic accounting services in South Africa, in

order to establish whether substantive differences exist, especially between users and providers of forensic accounting services.

5.2 Methodology

The empirical research was conducted using a combination of structured interviews and a tailored questionnaire. The research objectives were explained to all participants in the study, where after they were requested to complete the questionnaire. A copy of the research instrument is attached as Annexure 1.

Due to the relatively small size of the forensic accounting market in South Africa, it was possible to target a statistically representative sample of the discipline. A total of 41 questionnaires were completed and analysed. These were completed by 18 practitioners, 17 users of forensic accounting services and six academics and trainers in forensic accounting.

Practitioners were targeted to ensure a representative sample of the discipline. Forensic accounting practitioners from three of the Big Four auditing firms completed the questionnaire. Other practitioners included members of the most important emerging forensic accounting practices, in-house forensic accounting practitioners of the major banks, including ABSA and Nedcor, the Auditor-General's forensic accounting unit, the National Directorate of Public Prosecutions' forensic accounting capability and forensic units of two national State Departments. Users of forensic

accounting services were also targeted to ensure representivity of regular users. These included the Auditor-General, the South African Reserve Bank, the Financial Services Board, the major Banks, four of the largest firms of attorneys, the National Directorate of Public Prosecutions, the Scorpions, national State Departments regularly using forensic accounting services, the Legal Aid Board and the Asset Forfeiture Unit. The academics included the presenters of forensic accounting programmes at the University of Pretoria and the Rand Afrikaans University. They also included four trainers that regularly conduct forensic accounting training in South Africa.

The research instrument was designed to incorporate as many drivers of quality as possible, based on an initial literature review, preliminary interviews with academics and practitioners, as well as the author's experience in the discipline of forensic accounting. The research instrument was discussed with all interviewees before they completed the questionnaire.

Based on the above preliminary research and information, 53 potential drivers of quality, divided into seven broad categories, were included in the research instrument. The seven categories include staffing of projects, methodology and approach, communication, reporting, investigation outcome, value for money considerations and relationships between the service provider and the client.

The analysis of the completed questionnaires was done with the objectives, highlighted above, in mind. The Excel spreadsheet summarising the research results is attached as Annexure 2. The results, from the perspective of users, academics and trainers, and practitioners, respectively, are discussed below.

5.3 User perspective

5.3.1 *The hypothesis tested*

Question 9.1 of the research instrument reads as follows:

“Is there a need for better quality of service delivery in the forensic accounting discipline in South Africa?”

Of the 17 users who participated in the study, 100% answered “yes”, thus providing strong support for the hypothesis. Participants were also requested to rate the quality of forensic accounting service delivery in South Africa (question 8.1), using the following scale:

(1) Very poor, (2) Poor, (3) Average, (4) Good, (5) Excellent.

The average score for all users was 3.17, indicating a rating of marginally higher than “average” but substantially short of “good”.

Based on the above research results, the hypothesis is supported by users of forensic accounting services in South Africa who participated in the study.

5.3.2 Drivers of quality

Based on the research results, users of forensic accounting services identified the most critical drivers of quality. The top ten drivers, achieving an average score of at least 4 (“very important” to “critical”) are listed below:

Quality driver	Category	Average score	Question number
1. Conclusions must be supported by sufficient and appropriate evidence.	Reporting	4.94	4.8
2. Confidentiality relating to the subject-matter of the investigation and the client's affairs must be maintained at all times.	Methodology and approach	4.76	2.6
3. Where expert evidence is required in a tribunal, testimony must be professional and accepted by the presiding officer.	Methodology and approach	4.71	2.13
3. Facts must be presented objectively and in a balanced fashion.	Reporting	4.71	4.4

Quality driver	Category	Average score	Question number
5. The objectives of the investigation, as highlighted in the mandate, must be fully addressed.	Reporting	4.59	4.2
6. The methodology should ensure the thoroughness of the investigation, addressing all aspects of the mandate and beyond, if changed circumstances so require.	Methodology and approach	4.47	2.5
6. Wording must be clear and precise to prevent misunderstanding.	Reporting	4.47	4.5
8. Must be led by a senior and experienced practitioner, providing proper supervision.	Staffing	4.41	1.2
8. Restrictions on the use and circulation of the report must be clearly specified.	Reporting	4.41	4.9
10. Project team must have adequate capacity to meet client requirements, including changing requirements during the course of the project.	Staffing	4.35	1.5
10. The legal and regulatory framework of the client must be understood and accommodated.	Methodology and approach	4.35	2.8
10. The nature and scope of the work performed and the evidence gathered, must be specified.	Reporting	4.35	4.6
10. Must contain the conclusions of the investigation as well as the opinion of the Forensic Accountant as appropriate.	Reporting	4.35	4.7
10. The truth regarding the investigation subject-matter must be established, e.g. unsubstantiated allegations are disproved.	Investigation outcome	4.35	5.4

5.4 Academic perspective

5.4.1 *The hypothesis tested*

Of the six academics and trainers answering whether there is a need for better quality of service delivery in the forensic accounting discipline in South Africa, five, or 83%, answered in the affirmative. On the question how they rated the quality of forensic accounting service delivery in South Africa, their average score was 3 (“average”), thus rating the quality of service even lower than users of forensic accounting services.

Based on the above it is evident that the hypothesis is also supported by the academics and trainers in accounting services who participated in the study.

5.4.2 *Drivers of quality*

Based on the research results, the critical drivers of quality, as identified by academics and trainers, are the following:

Quality driver	Category	Average score	Question number
1. A comprehensive planning process, including client involvement, should be conducted at the outset of the project.	Methodology and approach	4.67	2.1

Quality driver	Category	Average score	Question number
1. Where expert evidence is required in a tribunal, testimony must be professional and accepted by the presiding officer.	Methodology and approach	4.67	2.13
1. The format and structure of the report must facilitate understanding and ease of use.	Reporting	4.67	4.1
1. Conclusions must be supported by sufficient and appropriate evidence.	Reporting	4.67	4.8
5. The truth regarding the investigation subject-matter must be established, e.g. unsubstantiated allegations are disproved.	Investigation outcome	4.50	5.4
5. Key team members must be available and accessible to the client.	Relationships	4.50	7.1
7. Must be led by a senior and experienced practitioner, providing proper supervision.	Staffing	4.33	1.2
7. The methodology should ensure the thoroughness of the investigation, addressing all aspects of the mandate and beyond, if changed circumstances so require.	Methodology and approach	4.33	2.5
7. Confidentiality relating to the subject-matter of the investigation and the client's affairs must be maintained at all times.	Methodology and approach	4.33	2.6
7. There must be regular, on-going communication between the project team leader and the client.	Communication	4.33	3.1
7. The objectives of the investigation, as highlighted in the mandate, must be fully addressed.	Reporting	4.33	4.2

Quality driver	Category	Average score	Question number
7. Facts must be presented objectively and in a balanced fashion.	Reporting	4.33	4.4
7. Wording must be clear and precise to prevent mis-understanding.	Reporting	4.33	4.5

5.5 Practitioner perspective

5.5.1 *The hypothesis tested*

Of the 18 practitioners asked whether there is a need for better quality of service delivery in the forensic accounting discipline in South Africa, 17, or 94%, answered in the affirmative. When asked to rate the quality of forensic accounting service delivery in South Africa, the average score of practitioners was 3.22. This is a similar score to that given by the users of forensic accounting services, confirming a rating of marginally above “average”.

Based on the above empirical research findings it is evident that practitioners who participated in the study also support the hypothesis, recognising the need for enhanced service quality in forensic accounting in South Africa.

5.5.2 Drivers of quality

Based on the research results, the critical drivers of quality, as identified by practitioners, are as follows:

Quality driver	Category	Average score	Question number
1. Conclusions must be supported by sufficient and appropriate evidence.	Reporting	4.83	4.8
2. Where expert evidence is required in a tribunal, testimony must be professional and accepted by the presiding officer.	Methodology and Approach	4.78	2.13
3. The objectives of the investigation, as highlighted in the mandate, must be fully addressed.	Reporting	4.56	4.2
4. The format and structure of the report must facilitate understanding and ease of use.	Reporting	4.50	4.1
4. Facts must be presented objectively and in a balanced fashion.	Reporting	4.50	4.4
6. Must be led by a senior and experienced practitioner, providing proper supervision.	Staffing	4.39	1.2
6. Confidentiality relating to the subject-matter of the investigation and the client's affairs must be maintained at all times.	Methodology and approach	4.39	2.6
8. The methodology should ensure the thoroughness of the investigation, addressing all aspects of the mandate and beyond, if changed circumstances so require.	Methodology and Approach	4.33	2.5

Quality driver	Category	Average score	Question number
8. Wording must be clear and precise to prevent misunderstanding.	Reporting	4.33	4.5
10. The truth regarding the investigation subject-matter must be established, e.g. unsubstantiated allegations are disproved.	Investigating outcome	4.28	5.4
10. Key team members must be available and accessible to the client.	Staffing	4.28	7.1

5.6 Empirical research conclusions

The empirical research supports the hypothesis. 95% of all respondents confirmed that there is a need for better quality of service delivery in the forensic accounting discipline in South Africa. When asked to rate the current quality of forensic accounting service delivery in South Africa, the weighted average score of all respondents was 3.13, on a scale where 3 represents “average” and 4 represents “good”. 90% of all respondents indicated that there is a need for regulated professional standards in the forensic accounting discipline, while 85% of the respondents indicated that if the quality of service delivery in forensic accounting is significantly improved, this would result in an increase in the use of forensic accountants. Users of forensic accounting services also rated quality of service delivery as a deciding factor (with a score of 4.41) in choosing a service provider.

The critical drivers of service quality in forensic accounting, based on the evidence of *all* respondents, are listed below. All drivers of quality that achieved a score of 4 or more (i.e. “very important” to “critical”) are listed.

Quality driver	Category	Average score	Question number
1. Conclusions must be supported by sufficient and appropriate evidence.	Reporting	4.85	4.8
2. Where expert evidence is required in a tribunal, testimony must be professional and accepted by the presiding officer.	Methodology and Approach	4.73	2.13
3. Facts must be presented objectively and in a balanced fashion.	Reporting	4.56	4.4
4. Confidentiality relating to the subject-matter of the investigation and the client's affairs must be maintained at all times.	Methodology and Approach	4.54	2.6
4. The objectives of the investigation, as highlighted in the mandate, must be fully addressed.	Reporting	4.54	4.2
6. The format and structure of the report must facilitate understanding and ease of use.	Reporting	4.44	4.1
7. Must be led by a senior and experienced practitioner, providing proper supervision.	Staffing	4.39	1.2
7. The methodology should ensure the thoroughness of the investigation, addressing all aspects of the mandate and beyond, if changed circumstances so require.	Methodology and Approach	4.39	2.5

Quality driver	Category	Average score	Question number
7. Wording must be clear and precise to prevent misunderstanding.	Reporting	4.39	4.5
10. The truth regarding the investigation subject-matter must be established, e.g. unsubstantiated allegations are disproved.	Investigating outcome	4.34	5.4
11. Key team members must be available and accessible to the client.	Staffing	4.29	7.1
12. Limitations of the investigation must be clearly specified.	Reporting	4.22	4.10
13. There must be regular, ongoing communication between the project team leader and the client.	Communication	4.20	3.1
14. Project team must have adequate capacity to meet client requirements, including changing requirements during the course of the project.	Staffing	4.17	1.5
14. A comprehensive planning process, including client involvement, should be conducted at the outset of the project.	Methodology and approach	4.17	2.1
16. Must have excellent problem-solving skills, including the ability to think laterally and analytically, and devise innovative solutions.	Staffing	4.15	1.8
16. The legal and regulatory framework of the client must be understood and accommodated.	Methodology and Approach	4.15	2.8
16. The nature and scope of the work performed and the evidence gathered, must be specified.	Reporting	4.15	4.6

Quality driver	Category	Average score	Question number
19. Must contain the conclusions of the investigation as well as the opinion of the Forensic Accountant as appropriate.	Reporting	4.05	4.7

A noteworthy observation is that there seems to be substantial agreement between practitioners and users on the critical drivers of service quality. The top eight drivers of quality identified by users, also appear on the list of top ten drivers identified by practitioners, albeit in slightly different order.

It would therefore appear that the inadequate quality of service delivery in forensic accounting is not due to the fact that practitioners are unaware of the true drivers of service quality, but rather due to their inability to translate this knowledge into superior service quality. This provides further support for the development of a quality management model in order to manage these key drivers of quality during all projects. This aspect is dealt with in Chapter 6.

Other notable observations from the research results include:

- (i) With reference to staffing, users attach greatest importance to the qualities of the team leader, including his or her problem-solving skills, and to the flexibility and adaptability of the service team.

- (ii) Users rate objectivity and independence even higher than practitioners, challenging the myth that clients wish to use forensic accountants as “hired guns”.
- (iii) The most important investigation outcome for users is establishing the truth, followed by appropriate corrective recommendations to prevent future losses.
- (iv) In assessing value for money, cost is the least important indicator for users.

During the interviews, respondents were given the opportunity to list additional drivers of quality. These are included in Annexure 2. A recurring theme was the emphasis on the qualities of the lead forensic accountant in the team. This aspect was stressed, especially his or her ability to develop holistic solutions and produce positive results.

Chapter 6

A Proposed Model for Managing Quality in Forensic Accounting

6.1 Approach adopted

The approach adopted in developing the proposed model for managing quality in forensic accounting, broadly followed the guidelines of quality function deployment (QFD). QFD is a useful technique for translating customer requirements into development needs. Unlike most other tools of quality management, QFD is used to identify opportunities for product or service improvement or differentiation, rather than to solve problems.⁷³

The construction of a QFD matrix involves the following steps:

- (i) Identify client requirements and any major dislikes.
- (ii) Rank requirements according to importance.
- (iii) Translate requirements into measurable characteristics.
- (iv) Establish the relationship between the client requirements and technical service characteristics, and estimate the strength of the relationship.
- (v) Choose appropriate units of measurement and determine target values based on client requirements and competitor benchmarks.

⁷³ Tidd, J., Bessant, J. and Pavitt, K. (1997) *op. cit.* pg. 167 – 168.

In developing the model, cognisance was taken of the empirical research discussed in Chapter 5. Following the QFD methodology, the requirements of users of forensic accounting services were incorporated into a model for quality management. Cognisance was also taken of the views of practitioners and academics on the drivers of quality, due to the importance of these views for purposes of risk management. The quality model follows the broad principles and best practices enumerated in Chapter 3.⁷⁴ Insights gained from developments and standards in other jurisdictions were also incorporated into the model to ensure compliance with international best practice.

A guiding principle during the design of the model was ensuring that strategic and professional autonomy were not removed from forensic accounting professionals. Although a process element is introduced, the focus is on administrative and operational dimensions of autonomy, rather than suppressing professional judgement. It is therefore believed that the process mapping incorporated in the model introduces a process element without undermining professional independence and judgement.

While the elements and identified drivers of quality were incorporated into the model, it was recognised that these elements and drivers were not sufficient, in themselves, to ensure a comprehensive and sustainable

⁷⁴ Refer Terry Hill's four key principles of managing and controlling quality, discussed in paragraph 3.1; Robbins' definition of TQM, and his discussion of its constituent elements, discussed in paragraph 3.2; and Chase and Aquilano's linking of quality to client satisfaction, also discussed in paragraph 3.2.

quality framework. For this reason it was critical to supplement the empirical research and the literature review with practical aspects of practice management and risk management. These different dimensions were integrated in the development of the model.

6.2 Key elements of the model

Following the methodology outlined above, a proposed model for managing service quality in forensic accounting was developed. The model comprises the following three main elements:

- (i) A process map outlining the investigation process of a typical fraud and commercial investigation, as defined in Chapter 2.
- (ii) An investigation quality review checklist and score sheet.
- (iii) A set of performance standards and measurements relating to the investigation process.

These three elements are integrated and are discussed below.

(i) Process map

The investigation process map is attached as Annexure 3.

Mapping the process of a typical fraud and commercial investigation allows for the operational standardisation and better management of the process. Introducing a process element to professional services allows for

enhanced management of the quality of the service due to the fact that consistency can be improved. By training all staff members to adopt this basic process, consistency, management and, ultimately, quality can be improved. It also facilitates greater understanding of the effect of changes or actions relating to specific elements in the process on other elements in the process. The process map can also be used to explain and discuss process issues with clients, thus deepening their understanding of the discipline and the process, and enhancing the demonstrability of the service quality.

The process map identifies all stages in the investigation process in logical sequence. It also assigns responsibility for each stage of the process. It is suggested that in addition to providing greater consistency in investigations, the mapping of the process will also enhance the risk management of a forensic accounting practice by clearly delineating responsibilities and ensuring that no phase in the process is omitted, especially by less experienced staff members.

(ii) Investigation quality review checklist and score sheet

The checklist and score sheet is attached as Annexure 4.

The checklist and score sheet was designed to include the critical elements of quality management in forensic accounting. The results of the empirical research, integrated with aspects of best practice and practice management, were used as the basis in designing this document. It is proposed that this document be used as the basis for assessing the performance of project managers on all fraud and commercial investigations. Each aspect must be assessed by the reviewing partner based on the performance standards set out below.

In broad terms, the quality review considers the letter of engagement and risk assessment, the investigation planning, the investigation report, a comprehensive file review, and the reviewer's overall impression of the investigation. It is intended that this quality review should form the basis of the performance management of all project managers of fraud and commercial investigations. It is proposed that the quality review becomes a standard aspect of all fraud and commercial investigations in a forensic accounting practice.

(iii) Performance standards

The performance standards are attached as Annexure 5.

The performance standards were developed based on the results of the empirical research, as well as aspects of best practice and practice management considerations. This document should be read in conjunction with the investigation quality review checklist and score sheet, and explains the relevant performance standard in assessing each aspect of the investigation. The document sets out the relevant requirement, the reason why the requirement is measured, as well as the applicable performance standard. A scoring system is introduced that should be followed in completing the investigation quality review score sheet.

It is suggested that the proposed quality model addresses all four challenges to quality management in professional services firms, discussed in paragraph 3.3. The model establishes quality norms, *inter alia* based on the empirical research. It constitutes a quality management methodology, which fits the specific character of forensic accounting. It has the inherent capability to demonstrate the quality of the professional service, based on client specifications. Lastly, the model addresses the tension between organisational quality management and individual professional autonomy, by focusing on operational and administrative

dimensions, while maintaining the integrity of professional and strategic autonomy and judgement.

The above quality management model, comprising the three key elements discussed, incorporates the drivers of service quality highlighted in Chapter 5. It is suggested that this model will enhance consistency of service delivery and, ultimately, increase the quality of forensic accounting in an adopting forensic practice. Key to success in this regard, it is suggested, is the successful integration of the model into the business processes of a forensic accounting practice.

6.3 Integration of the model

It is suggested that the development and implementation of a quality model as outlined above will not, in itself, lead to a sustainable improvement of service quality. Sustainable improvement of service quality requires a holistic approach, including a change in the culture of a firm. A total commitment to improved quality and focus on the needs of the client are prerequisites to successfully introduce the required change. It is also imperative to align such a quality model with the other business processes and value chain of a forensic accounting practice.

Based on the discussion of TQM in Chapter 3 it is recommended that the quality model be implemented as part of a wider TQM implementation in a forensic accounting practice. Such an approach will ensure the necessary

focus on change management and the introduction of a culture of quality and client satisfaction.

It is suggested that such a TQM implementation should follow the following broad phases:⁷⁵

(i) Gain long-term senior management commitment

The first and most important phase of a successful TQM implementation, is gaining the commitment and support of senior management. It is suggested that the results of the empirical research should act as a *burning platform* for action. The perceptions of poor quality among both users of forensic accounting services and practitioners highlight the need for urgent action. It is further suggested that the *status quo* represents a significant opportunity for a forensic accounting practice wishing to differentiate itself on the basis of superior service quality.

(ii) Train members in quality methods

TQM implementation requires extensive training in the principles and tools of quality improvement. Specific emphasis must be placed on teaching problem-solving skills and empowering staff members to become champions of quality. Training also needs to focus on the required quality performance standards, discussed above.

⁷⁵ Refer the discussion in par. 3.2.

(iii) Start quality improvement projects

Typically, during this phase of TQM implementation, individuals and work groups apply the quality methods to identify projects that hold promise for the largest improvements in organisational processes. It is suggested that the proposed quality model be introduced as one such quality improvement project. It is imperative that the quality model be seen as a tool to enhance service quality rather than as a goal in itself. Seen in its context of enhanced service quality performance, the proposed model will have greater potential for success. It should merely be indicative of the broader culture of service quality commitment.

(iv) Measure progress

This stage of TQM implementation involves measuring organisational processes against quality standards. With reference to the proposed quality model, the maxim "*what gets measured gets done*" is singularly true. The reason for this is simple. If data are collected to measure an aspect of service performance, then how well that dimension is achieved will be noted, monitored and reviewed. As a consequence, performance levels will be highlighted and the attention given to that task will result in time and resources being allocated to maintaining or improving that aspect of service.

Performance in terms of the proposed performance standards should therefore be measured on an ongoing basis. Given the nature of

professional services, accurate measurement of performance will always be elusive and will contain a subjective element. However, as the commitment to quality is ingrained at all levels, and people gain experience in assessing quality levels of service delivery, it is suggested that the process will become less subjective and increasingly objective.

In implementing the proposed model, it is recommended that a database be maintained to record the performance scores achieved by all project managers during the course of a financial year. These scores should then be used as the basis for performance management, promotion decisions and identifying training needs, based on performance against pre-determined benchmarks.

(v) *Reward accomplishment*

In this stage of TQM implementation, the organisation links rewards to improvements in quality. As discussed above, it is suggested that the performance of project managers in achieving greater service quality, as measured in terms of the proposed model, should influence promotion and reward decisions. Whereas the initial focus should be on improving service quality, as measured in terms of the proposed model, it is suggested that future refinements to the process will include rewarding staff members for further process innovations and identification of other quality projects or areas for quality improvement. Every effort should be made to reinforce the belief that continuous improvements, even small

ones, are an important part of the new organisational culture associated with TQM.

As a first step it is recommended that performance in terms of the proposed quality model should be a key performance indicator, with other targets, of all project managers. The influence of quality performance on financial rewards should be substantial in order to drive the correct behaviour. It is suggested that without proper integration of the proposed model into the performance management and reward systems of a forensic accounting practice, its impact will be severely constrained. It is further suggested that its impact will be limited unless the implementation of the model forms part of a wider change programme, focused on improved service quality and client satisfaction.

In order to ensure successful implementation of TQM, cognisance should be taken of the key success criteria, discussed in paragraph 3.4. These include:

- (a) Have a good reason to implement TQM, such as survival or gaining a competitive advantage.
- (b) Implementation is critical. The idea must be sold to the professionals rather than forced upon them.
- (c) Reward and recognise TQM successes.
- (d) Tailor the programme to the specific needs of the practice.
- (e) Retain momentum, possibly by staggering the implementation.

Chapter 7

Conclusion and Suggestions for Further Research

7.1 Empirical research has confirmed the imperative for enhanced service quality

The hypothesis of this study was that the lack of professional standards and professional regulation in the forensic accounting discipline has resulted in a lack of appropriate criteria for assessing service quality. The result is inconsistent service quality and a lack of credibility and professionalism within the discipline. It was suggested that if these problems are addressed effectively, the reputation of the discipline will be significantly enhanced, and management will be able to rely on forensic accountants to a far greater extent to provide value-added services.

The results of the empirical research, outlined in Chapter 5, clearly support the hypothesis. The research has shown universal agreement that the quality of forensic accounting services in South Africa should be significantly improved. There was also general agreement on the need for professional regulation of the discipline and, with improved quality of service delivery, greater use will be made of forensic accountants.

7.2 Empirical research has highlighted the key drivers of service quality

The study also set out to determine the drivers of service quality in forensic accounting, how these drivers could be incorporated into a cohesive quality model, and how such a model could be incorporated into the value chain and business processes of a forensic accounting practice. The drivers of service quality were identified through the empirical research conducted. An important insight was that practitioners and users of forensic accounting services generally agree on the major drivers of quality. The lack of quality is therefore not due to a lack of knowledge relating to the drivers of quality, on the side of the practitioners, but rather an inability to convert this knowledge into improved service quality. For this reason, a quality management model was developed to facilitate the consistent management of key success factors.

7.3 A quality management model was developed, *inter alia* to overcome the lack of professional standards and regulation

There is no doubt that the forensic accounting discipline is set for continued growth in the South African market. International developments, such as the introduction of SAS 99 (which will also become the standard in South Africa in due course), as well as local imperatives dictate in favour of continued growth for the discipline. Given the current lack of professional regulation of forensic accounting in South Africa, strategies

should be adopted to ensure the attainment of best practice and quality of service delivery. For this reason, the suggested quality management model will play an important role in the South African context. This is especially true for a forensic accounting practice adopting a strategy of differentiation based on superior quality of service delivery. However, further research and refinement to the model are required to adapt the model for forensic engagements that fall outside the focus of this study, i.e. fraud and commercial investigations.

7.4 The model should be implemented as part of a broader TQM implementation

The discussion in Chapter 3 clearly demonstrated the compatibility of TQM to professional services firms in general, and to a forensic accounting practice in particular. In Chapter 6 it was suggested that the proposed model be implemented as part of a broader adoption of a TQM programme. It is suggested that successful implementation of TQM and the proposed quality model will provide a definitive competitive advantage to the adopting firm.

7.5 South Africa requires a regulatory framework and further research is required

The introduction of such a quality model should not detract from the continuing debate on the need for regulation of forensic accounting in South Africa. Quality of service delivery will remain at issue as long as

South Africa fails to introduce professional standards and regulation to the discipline. The dynamic of forensic accounting in South Africa provides key challenges to the successful introduction of professional standards and regulation of the discipline. These key challenges necessitate an innovative solution in the South African context. It was suggested that SAICA should assume the lead role in the development of such professional standards and regulation, in consultation with the Law Societies. However, the feasibility of such a solution was not investigated and it is suggested that further research should be conducted to determine the most appropriate regulatory framework for the South African context.

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Annexure 1

Research Instrument

Gordon Institute of Business Science

Research Project Regarding Quality Management in Forensic Accounting

1. Guidelines for completion

This questionnaire has been designed for completion by stakeholders in the forensic accounting discipline.

Please answer the questionnaire after studying the purpose of the questionnaire and the definition. Your responses will be strictly confidential and only cumulative results will be published. It is envisaged that it will take 30 minutes to complete the questionnaire. Your co-operation will be appreciated.

2. Purpose of questionnaire

The purpose of this questionnaire can be summarised as follows:

- To assess current perceptions of quality in the forensic accounting discipline;
- To determine what constitutes service quality in the forensic accounting discipline.

3. Definition

The focus of this study is a specific sub-discipline of forensic accounting, i.e. fraud and commercial investigations. For the purposes of this questionnaire, fraud and commercial investigations are defined as *“the investigation of any white collar crime, dispute or regulatory contravention, with the objective of collecting and collating evidence for purposes of corrective action, settlement of the dispute or the reporting of the regulatory breach.”*

4. Profile of respondents

Please indicate which of the categories outlined below best describes your position in the forensic accounting discipline. Should more than one of these categories apply to you, please indicate all applicable categories.

What constitutes services quality in fraud and commercial investigations?

Practitioner in forensic accounting	Academic in forensic accounting/trainer	User of forensic accounting services	
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4. Questionnaire

Please assess the statements below, for their impact on quality, by marking the most appropriate block. The relative rating given to each question/statement should be done using the following scale:

1. Negligible	2. Reasonably important	3. Important	4. Very Important	5. Critical
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1. Staffing: The individual staff members assigned to the project

1. Must have appropriate academic qualifications such as Law, Accounting, etc.	1	2	3	4	5
2. Must be led by a senior and experienced practitioner, providing proper supervision	1	2	3	4	5
3. Cultural background and personalities of team members should be compatible to that of client representatives.	1	2	3	4	5
4. Must have relevant expertise to the particular assignment.	1	2	3	4	5
5. Project team must have adequate capacity to meet client requirements, including changing requirements during the course of the project.	1	2	3	4	5
6. Project staff members should be dedicated to a single project at a time.	1	2	3	4	5
7. All project members must be full-time employees of the service provider.	1	2	3	4	5
8. Must have excellent problem-solving skills, including the ability to think laterally and analytically, and devise innovative solutions.	1	2	3	4	5

2. Methodology and approach

1. A comprehensive planning process, including client involvement, should be conducted at the outset of the project.	1	2	3	4	5
2. Technology should be applied appropriately to enhance effectiveness and efficiency.	1	2	3	4	5
3. Project should be conducted under the continuous supervision of an appropriately skilled Manager and Partner.	1	2	3	4	5
4. Risk management processes of the service provider must address the risks of both the service provider and the client, including addressing the risk of litigation.	1	2	3	4	5
5. The methodology should ensure the thoroughness of the investigation, addressing all aspects of the mandate and beyond, if changed circumstances so require.	1	2	3	4	5

1. Negligible	2. Reasonably important	3. Important	4. Very Important	5. Critical
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2. Methodology and approach (cont)

6. Confidentiality relating to the subject-matter of the investigation and the client's affairs must be maintained at all times.	1	2	3	4	5
7. The effect of an investigation on a client's business processes must be understood and accommodated in the approach.	1	2	3	4	5
8. The legal and regulatory framework of the client must be understood and accommodated.	1	2	3	4	5
9. The methodology and approach of the service provider must be aimed at providing a holistic solution to investigation issues.	1	2	3	4	5
10. Project deadlines must be met at all times.	1	2	3	4	5
11. The service provider must be responsive to the client's needs and changing circumstances, altering the original approach and mandate if required.	1	2	3	4	5
12. Service provider must have a good working relationship with the SAPS and prosecuting authorities.	1	2	3	4	5
13. Where expert evidence is required in a tribunal, testimony must be professional and accepted by the presiding officer.	1	2	3	4	5
14. A client service assessment must be conducted at the completion of the project.	1	2	3	4	5
15. Quality of service delivery is a deciding factor in choosing a forensic accounting service provider.	1	2	3	4	5

3. Communication: Ongoing two-way communication between client and service provider

1. There must be regular, ongoing communication between the project team leader and the client.	1	2	3	4	5
2. The service provider must continually communicate with the client in order to assess satisfaction, changing circumstances and the need for amendments to the mandate or approach.	1	2	3	4	5
3. Project communication should primarily be in writing.	1	2	3	4	5
4. Project communication should be limited to designated individuals identified by both the client and the service provider.	1	2	3	4	5

1. Negligible	2. Reasonably important	3. Important	4. Very Important	5. Critical
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4. Reporting: Official project report to client

1. The format and structure of the report must facilitate understanding and ease of use.	1	2	3	4	5
2. The objectives of the investigation, as highlighted in the mandate, must be fully addressed.	1	2	3	4	5
3. Only relevant issues must be covered.	1	2	3	4	5
4. Facts must be presented objectively and in a balanced fashion.	1	2	3	4	5
5. Wording must be clear and precise to prevent misunderstanding.	1	2	3	4	5
6. The nature and scope of the work performed and the evidence gathered, must be specified.	1	2	3	4	5
7. Must contain the conclusions of the investigation as well as the opinion of the Forensic Accountant as appropriate.	1	2	3	4	5
8. Conclusions must be supported by sufficient and appropriate evidence.	1	2	3	4	5
9. Restrictions on the use and circulation of the report must be clearly specified.	1	2	3	4	5
10. Limitations of the investigation must be clearly specified.	1	2	3	4	5
11. Must be submitted on time as agreed.	1	2	3	4	5

5. Investigation outcome: Relative importance of investigation results

1. A successful prosecution must be achieved.	1	2	3	4	5
2. Civil recovery of losses must be achieved.	1	2	3	4	5
3. Successful disciplinary action against culprits must be achieved.	1	2	3	4	5
4. The truth regarding the investigation subject-matter must be established, e.g. unsubstantiated allegations are disproved.	1	2	3	4	5
5. Appropriate system and process corrections must be recommended to prevent future losses.	1	2	3	4	5

1. Negligible	2. Reasonably important	3. Important	4. Very Important	5. Critical
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6. Value for money: Relative importance of measures of value for money

1. Is determined by the outcome of the investigation as outlined in "5" above.	1	2	3	4	5
2. Is determined by price/total cost of the project.	1	2	3	4	5
3. Is determined by the thoroughness and professionalism of the investigation.	1	2	3	4	5
4. Is determined by the nature of the solutions presented by the service provider.	1	2	3	4	5
5. Is determined by the successful completion of the mandate within the agreed budget.	1	2	3	4	5

7. Relationships: Service provider with client

1. Key team members must be available and accessible to the client.	1	2	3	4	5
2. Project team members must be loyal and committed to the client.	1	2	3	4	5
3. Key project members must understand the obligations of the client representative to his/her stakeholders.	1	2	3	4	5
4. It is important to receive regular updates from the service provider, e.g. newsletters and professional colloquiums.	1	2	3	4	5
5. It is important for the service provider to have a personal relationship as trusted advisor with the client.	1	2	3	4	5

8. Perceptions of quality of Forensic Accounting

Please answer the questions below using the following scale:

1. Very poor	2. Poor	3. Average	4. Good	5. Excellent
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1. How do you rate the quality of forensic accounting service delivery in South Africa?	1	2	3	4	5
2. How do you rate the quality of forensic accounting service delivery by your preferred forensic service provider (or yourself, if you are a practitioner)?	1	2	3	4	5

9. General impressions

1.	Is there a need for better quality of service delivery in the forensic accounting discipline in South Africa?	Yes	No
2.	Is there a need for regulated professional standards in the forensic accounting discipline?	Yes	No
3.	If the quality of service delivery in the forensic accounting discipline is significantly improved, would this result in an increase in the use of forensic accountants?	Yes	No

1. Negligible	2. Reasonably important	3. Important	4. Very Important	5. Critical
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10. Additional factors identified by respondent

If there are any factors, which you regard as important, not listed above, please list and rate these below.

1.		1	2	3	4	5
2.		1	2	3	4	5
3.		1	2	3	4	5
4.		1	2	3	4	5
5.		1	2	3	4	5

Interviewer

Interviewee

Date: _____

Annexure 2
Empirical Research Results

**Empirical
Research Results**

	Practitioners					Total	Academics					Total	Users					Total	Absolute Total	Weighted Total	
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5				
1. Staffing: The individual staff members assigned to the project																					
1.1 Must have appropriate academic qualifications such as Law, Accounting, etc.	0	4	4	7	3	3.50	0	3	1	2	0	2.83	1	2	1	7	6	3.88	3.56	3.41	
1.2 Must be led by a senior and experienced practitioner, providing proper supervision	0	0	1	9	8	4.39	0	0	1	2	3	4.33	0	0	1	8	8	4.41	4.39	4.38	
1.3 Cultural background and personalities of team members should be compatible to that of client representatives.	3	7	6	1	1	2.44	1	3	1	1	0	2.33	5	3	8	0	1	2.35	2.39	2.38	

University of Pretoria etd – Oberholzer, C (2002)

	Practitioners					Total	Academics					Total	Users					Total	Absolute Total	Weighted Total
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5			
1.4 Must have relevant expertise to the particular assignment.	0	2	6	9	1	3.50	0	2	2	1	1	3.17	0	1	2	10	4	4.00	3.66	3.56
1.5 Project team must have adequate capacity to meet client requirements, including changing requirements during the course of the project.	0	0	5	7	6	4.06	0	0	2	2	2	4.00	0	0	1	9	7	4.35	4.17	4.14
1.6 Project staff members should be dedicated to a single project at a time.	2	11	4	0	1	2.28	0	5	1	0	0	2.17	2	7	5	1	2	2.65	2.41	2.36
1.7 All project members must be full-time employees of the service provider.	12	4	1	1	0	1.50	5	1	0	0	0	1.17	8	8	0	1	0	1.65	1.51	1.44
1.8 Must have excellent problem-solving skills, including the ability to think laterally and analytically, and devise innovative solutions.	0	2	1	8	7	4.11	0	1	1	2	2	3.83	0	0	2	8	7	4.29	4.15	4.08

University of Pretoria etd – Oberholzer, C (2002)

	Practitioners					Total	Academics					Total	Users					Total	Absolute Total	Weighted Total
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5			
2. Methodology and approach																				
2.1 A comprehensive planning process, including client involvement, should be conducted at the outset of the project.	0	1	3	7	7	4.11	0	0	0	2	4	4.67	0	2	2	6	7	4.06	4.17	4.28
2.2 Technology should be applied appropriately to enhance effectiveness and efficiency.	0	2	3	11	2	3.72	0	2	1	3	0	3.17	0	1	6	5	5	3.82	3.68	3.57
2.3 Project should be conducted under the continuous supervision of an appropriately skilled Manager and Partner.	0	0	3	12	3	4.00	0	0	2	2	2	4.00	0	0	6	9	2	3.76	3.90	3.92
2.4 Risk management processes of the service provider must address the risks of both the service provider and the client, including addressing the risk of litigation.	0	0	6	7	5	3.94	0	0	3	2	1	3.67	0	2	2	7	6	4.00	3.93	3.87

	Practitioners					Total	Academics					Total	Users					Total	Absolute Total	Weighted Total
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5			
2.5 The methodology should ensure the thoroughness of the investigation, addressing all aspects of the mandate and beyond, if changed circumstances so require.	0	0	2	8	8	4.33	0	0	1	2	3	4.33	0	0	2	5	10	4.47	4.39	4.38
2.6 Confidentiality relating to the subject-matter of the investigation and the client's affairs must be maintained at all times.	0	0	3	5	10	4.39	0	0	2	0	4	4.33	0	0	1	2	14	4.76	4.54	4.50
2.7 The effect of an investigation on a client's business processes must be understood and accommodated in the approach.	0	0	8	10	0	3.56	0	0	4	1	1	3.50	0	1	3	10	3	3.88	3.68	3.65

University of Pretoria etd – Oberholzer, C (2002)

	Practitioners					Total	Academics					Total	Users					Total	Absolute Total	Weighted Total
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5			
2.8 The legal and regulatory framework of the client must be understood and accommodated.	0	0	4	9	5	4.06	0	0	1	5	0	3.83	0	0	2	7	8	4.35	4.15	4.08
2.9 The methodology and approach of the service provider must be aimed at providing a holistic solution to investigation issues.	0	1	7	9	1	3.56	0	1	3	2	0	3.17	0	0	7	6	4	3.82	3.61	3.52
2.10 Project deadlines must be met at all times.	0	2	10	3	3	3.39	0	1	2	1	2	3.67	0	1	9	7	0	3.35	3.41	3.47
2.11 The service provider must be responsive to the client's needs and changing circumstances, altering the original approach and mandate if required.	0	1	6	7	4	3.78	0	0	2	2	2	4.00	0	1	5	8	3	3.76	3.80	3.85

	Practitioners					Total	Academics					Total	Users					Total	Absolute Total	Weighted Total
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5			
2.12 Service provider must have a good working relationship with the SAPS and prosecuting authorities.	0	3	7	3	5	3.56	0	0	3	3	0	3.50	0	4	4	2	7	3.71	3.61	3.59
2.13 Where expert evidence is required in a tribunal, testimony must be professional and accepted by the presiding officer.	0	0	0	4	14	4.78	0	0	0	2	4	4.67	0	0	0	5	12	4.71	4.73	4.72
2.14 A client service assessment must be conducted at the completion of the project.	2	4	7	5	0	2.83	1	1	2	2	0	2.83	1	5	6	3	2	3.00	2.90	2.89
2.15 Quality of service delivery is a deciding factor in choosing a forensic accounting service provider.	0	0	5	8	5	4.00	0	0	2	4	0	3.67	0	0	3	4	10	4.41	4.12	4.03

	Practitioners					Total	Academics					Total	Users					Total	Absolute Total	Weighted Total	
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5				
3. Communication: Ongoing two-way communication between client and service provider																					
3.1 There must be regular, ongoing communication between the project team leader and the client.	0	0	2	10	6	4.22	0	0	1	2	3	4.33	0	1	2	8	6	4.12	4.20	4.22	
3.2 The service provider must continually communicate with the client in order to assess satisfaction, changing circumstances and the need for amendments to the mandate or approach.	0	2	4	7	5	3.83	0	1	0	4	1	3.83	0	1	6	6	4	3.76	3.80	3.81	

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	Practitioners					Total	Academics					Total	Users					Total	Absolute Total	Weighted Total
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5			
3.3 Project communication should primarily be in writing.	3	5	5	3	2	2.78	1	2	2	1	0	2.50	1	3	7	4	2	3.18	2.90	2.82
3.4 Project communication should be limited to designated individuals identified by both the client and the service provider.	0	2	2	11	3	3.83	0	1	1	3	1	3.67	1	1	2	9	4	3.82	3.80	3.77
4. Reporting: Official project report to client																				
4.1 The format and structure of the report must facilitate understanding and ease of use.	0	0	1	7	10	4.50	0	0	0	2	4	4.67	0	0	2	8	7	4.29	4.44	4.49
4.2 The objectives of the investigation, as highlighted in the mandate, must be fully addressed.	0	0	0	8	10	4.56	0	0	0	4	2	4.33	0	0	2	3	12	4.59	4.54	4.49

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	Practitioners					Total	Academics					Total	Users					Total	Absolute Total	Weighted Total
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5			
4.3 Only relevant issues must be covered.	0	3	6	7	2	3.44	0	1	3	2	0	3.17	0	1	5	7	4	3.82	3.56	3.48
4.4 Facts must be presented objectively and in a balanced fashion.	0	0	3	3	12	4.50	0	0	2	0	4	4.33	0	0	0	5	12	4.71	4.56	4.51
4.5 Wording must be clear and precise to prevent misunderstanding.	0	0	2	8	8	4.33	0	0	0	4	2	4.33	0	0	1	7	9	4.47	4.39	4.38
4.6 The nature and scope of the work performed and the evidence gathered, must be specified.	0	1	3	8	6	4.06	0	1	2	0	3	3.83	0	0	1	9	7	4.35	4.15	4.08
4.7 Must contain the conclusions of the investigation as well as the opinion of the Forensic Accountant as appropriate.	0	1	4	9	4	3.89	0	0	3	2	1	3.67	0	1	1	6	9	4.35	4.05	3.97
4.8 Conclusions must be supported by sufficient and appropriate evidence.	0	0	0	3	15	4.83	0	0	0	2	4	4.67	0	0	0	1	16	4.94	4.85	4.81

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	Practitioners					Total	Academics					Total	Users					Total	Absolute Total	Weighted Total
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5			
4.9 Restrictions on the use and circulation of the report must be clearly specified.	2	1	2	7	6	3.78	2	0	2	1	1	2.83	0	0	2	6	9	4.41	3.90	3.67
4.10 Limitations of the investigation must be clearly specified.	0	0	4	7	7	4.17	0	0	1	3	2	4.17	0	0	4	4	9	4.29	4.22	4.21
4.11 Must be submitted on time as agreed.	0	2	10	5	1	3.28	0	1	2	3	0	3.33	0	3	7	7	0	3.24	3.27	3.28
5. Investigation outcome: Relative importance of investigation results																				
5.1 A successful prosecution must be achieved.	0	4	9	3	2	3.17	0	1	5	0	0	2.83	1	4	3	4	5	3.47	3.24	3.16
5.2 Civil recovery of losses must be achieved.	0	3	8	3	4	3.44	0	1	3	1	1	3.33	1	1	3	7	5	3.82	3.59	3.53

	Practitioners					Total	Academics					Total	Users					Total	Absolute Total	Weighted Total
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5			
5.3 Successful disciplinary action against culprits must be achieved.	0	1	9	3	5	3.67	0	0	2	1	3	4.17	1	1	5	4	6	3.76	3.78	3.87
5.4 The truth regarding the investigation subject-matter must be established, e.g. unsubstantiated allegations are disproved.	0	0	3	7	8	4.28	0	0	1	1	4	4.50	0	0	1	9	7	4.35	4.34	4.38
5.5 Appropriate system and process corrections must be recommended to prevent future losses.	0	1	5	9	3	3.78	0	1	3	1	1	3.33	0	1	3	8	5	4.00	3.80	3.70

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	Practitioners					Total	Academics					Total	Users					Total	Absolute Total	Weighted Total	
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5				
6. Value for money: Relative importance of measures of value for money																					
6.1 Is determined by the outcome of the investigation as outlined in "5" above.	0	1	6	9	2	3.67	0	0	1	4	1	4.00	0	1	5	8	3	3.76	3.76	3.81	
6.2 Is determined by price/total cost of the project.	0	4	11	3	0	2.94	0	1	4	1	0	3.00	0	3	11	2	1	3.06	3.00	3.00	
6.3 Is determined by the thoroughness and professionalism of the investigation.	0	1	4	9	4	3.89	0	0	2	1	3	4.17	0	0	4	11	2	3.88	3.93	3.98	
6.4 Is determined by the nature of the solutions presented by the service provider.	0	0	5	7	6	4.06	0	0	2	1	3	4.17	0	1	5	7	4	3.82	3.98	4.02	
6.5 Is determined by the successful completion of the mandate within the agreed budget.	0	2	8	8	0	3.33	0	1	2	3	0	3.33	1	3	7	6	0	3.06	3.22	3.24	

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	Practitioners					Total	Academics					Total	Users					Total	Absolute Total	Weighted Total
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5			
7. Relationships: Service provider with client																				
7.1 Key team members must be available and accessible to the client.	0	0	3	7	8	4.28	0	0	1	1	4	4.50	0	0	4	5	8	4.24	4.29	4.34
7.2 Project team members must be loyal and committed to the client.	0	1	7	8	2	3.61	0	0	1	3	2	4.17	0	2	5	7	3	3.65	3.71	3.81
7.3 Key project members must understand the obligations of the client representative to his/her stakeholders.	0	0	8	6	4	3.78	0	0	3	1	2	3.83	0	0	4	9	4	4.00	3.88	3.87
7.4 It is important to receive regular updates from the service provider, e.g. newsletters and professional colloquiums.	0	6	9	2	1	2.89	0	4	2	0	0	2.33	3	4	6	3	1	2.71	2.73	2.64
7.5 It is important for the service provider to have a personal relationship as trusted advisor with the client.	0	2	4	9	3	3.72	0	1	0	4	1	3.83	0	3	7	3	4	3.47	3.63	3.68

	Practitioners					Total	Academics					Total	Users					Total	Absolute Total	Weighted Total	
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5				
8. Perceptions of quality of Forensic Accounting																					
Please answer the questions below using the following scale: (1) Very Poor, (2) Poor, (3) Average, (4) Good, (5) Excellent.																					
8.1 How do you rate the quality of forensic accounting service delivery in South Africa?	0	3	8	7	0	3.22	0	2	2	2	0	3.00	0	2	10	5	0	3.18	3.17	3.13	
8.2 How do you rate the quality of forensic accounting service delivery by your preferred forensic service provider (or yourself, if you are a practitioner)?	0	1	7	10	0	3.50	0	0	3	3	0	3.50	0	1	7	7	2	3.59	3.54	3.53	

	Practitioners					Total	Academics					Total	Users					Total	Absolute Total	Weighted Total
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5			
9. General impressions	Yes	No					Yes	No					Yes	No					Yes	No
9.1 Is there a need for better quality of service delivery in the forensic accounting discipline in South Africa?	17	1					5	1					17	0					39	2
9.2 Is there a need for regulated professional standards in the forensic accounting discipline?	17	1					6	0					14	3					37	4
9.3 If the quality of service delivery in the forensic accounting discipline is significantly improved, would this result in an increase in the use of forensic accountants?	15	3					5	1					15	2					35	6

10. Additional factors identified by respondent

10.1 If there are any factors, which you regard as important, not listed above, please list and rate these below.

Result based remuneration./ A clear and deep understanding of Corporate Governance issues./ Continuity of staff over medium term./ Expertise of individual./ Skills must be fit for purpose - not over or under qualified./ The individual sometimes more important than the firm./ Individual reputation and track record./ Clarity of report./ Innovative methodological thinking./ Team members to sign Code of Ethics./ Upfront advice to client critical, particularly as regards likelihood of success, practical difficulties in respect of prosecutions (i.e. The Justice system) to avoid service provider being blamed for slow or poor prosecution./ Role of Forensic Accountants and Lawyers within an investigation needs to be more clearly defined.

Affordability of rates./ A loyalty to the truth rather than to a client. Unquestionable ethics./ The success of the investigation should be evaluated against its total impact./ The size of the firm (forensic)/ Objectiveness./ Speed of response on request./ Working relationship with Police and Prosecutors./ Properly recorded pre-engagement activities, i.e. engagement letter./ Full role of service provider must be explained from investigation to assisting prosecutor in formulating case./ The independence or perceived independence of the Forensic Accountant as expert witness has to be safeguarded at all costs.

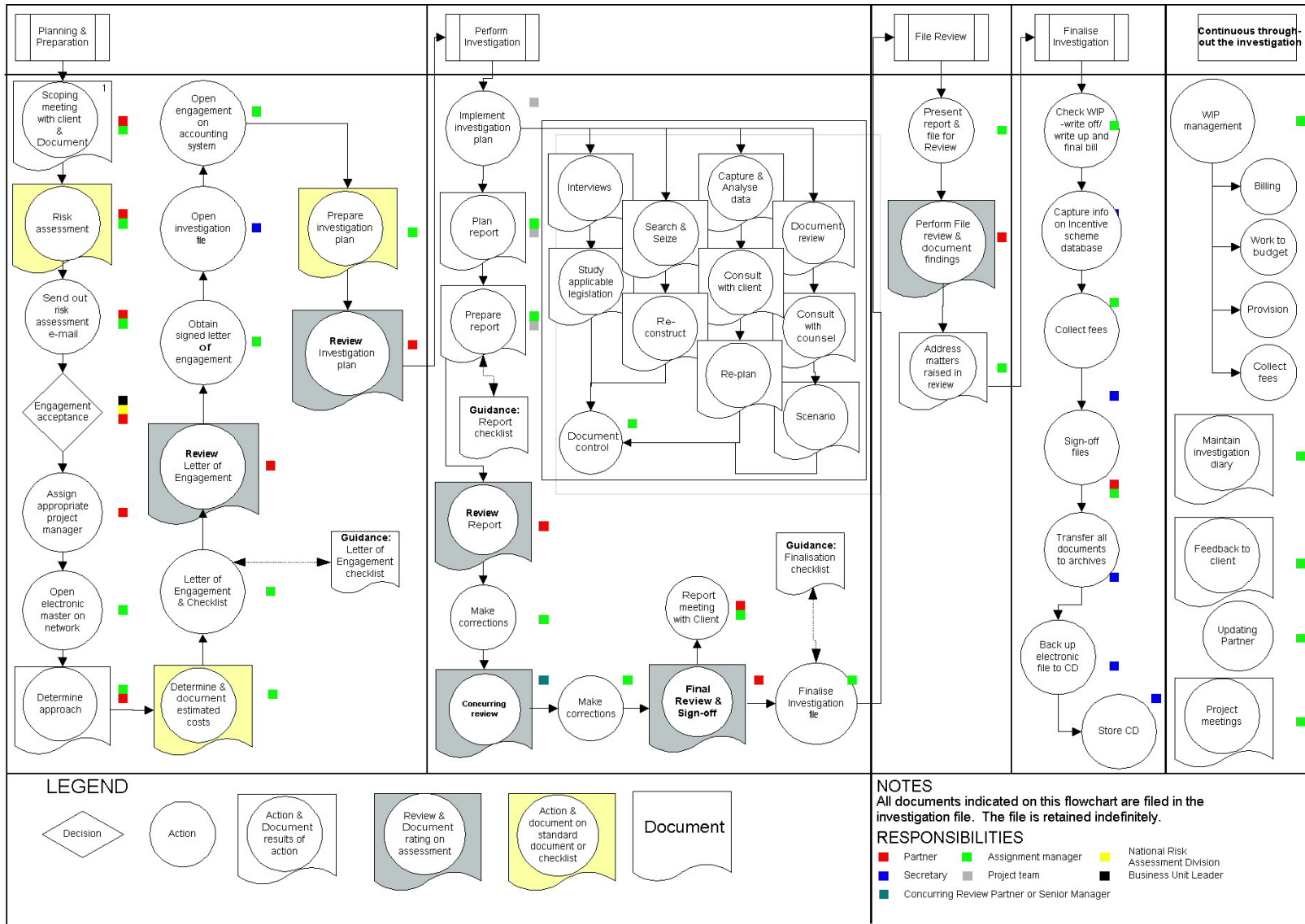
A sensitivity to reputational issues of the client and assistance in the management of perceptions around the project./ The investigation must have alternative positive spin-offs - not only limited to recommendations./ Ability to trust practitioner's judgement in the particular circumstances./ Obtaining initial results./ Service delivery requires definable performance measurement criteria - not subjective assessments.

A clear upfront understanding of the position in relation to client confidentiality and legal privilege. Is a forensic accountant required to disclose or is the outcome of the investigation privileged or is it something in between?/ Technical ability to do the job./ The Quality Management process should be simple and well-communicated.

Annexure 3

Investigation Process Map

INVESTIGATION PROCESS



Annexure 4

Investigation Quality Review

ENGAGEMENT NAME:	ENGAGEMENT MANAGER:	
	RATING	REMARKS
LETTER OF ENGAGEMENT AND RISK ASSESSMENT REVIEW		
1 Quality of risk assessment		
2 Letter of engagement		
INVESTIGATION PLANNING		
3 Investigation planning		
INVESTIGATION REPORT		
4 Format		
5 Risk management		
6 Work performed and evidence gathered are specified in the report		
7 Report addresses the objectives of the investigation		
8 Relevance of issues covered in the report		
9 Objective and balanced presentation of facts		
10 Findings clearly set out in executive summary		
11 Conclusions supported by sufficient and appropriate evidence		
12 Report and oral evidence accepted by presiding officer		
13 Structure and presentation of the report		
14 Clarity and precision		
15 Grammar, spelling and typing		

	RATING	REMARKS
FILE REVIEW		
16		File presented
17		Risk assessment on file
18		Letter of engagement on file
19		Investigation file prepared in standard electronic format
20		Investigation diary
21		Regular and appropriate client communication
22		WIP management: Time & Expenses
23		WIP management: Billing
24		WIP management: Recovery
25		Final report & Concurring review report on file
26		Electronic information
27		Performance reviews completed
28		CVs updated for assignment experience
29		Appropriate use of Technology
REVIEWER'S REMARKS		
30		Overall impression of the investigation
PROJECT MANAGER'S REMARKS		
		DATE SIGNED
PROJECT MANAGER		
REVIEWER		
See performance standards document for legend of ratings.		

Annexure 5

Investigation Process - Performance Standards

#	Requirement	Reason why the requirement is measured	Performance standard
Letter of engagement and risk assessment review			
1	Quality of Risk Assessment	<p>Each engagement must be assessed to determine the overall risk associated with that engagement. Overall engagement risk includes the risk the firm is exposed to in dealing with a certain client, the risk associated with service risk and the client's business risk relating to the project. Litigation risk must also be considered.</p> <p>The risk assessment must be completed before accepting any new engagement. The risk assessment must occur regardless of the size of the assignment.</p> <p>The completed form serves as proof that the Forensic team acted responsibly in managing the engagement risk and in considering the risk faced by the client. This may become important during possible litigation or for insurance purposes.</p>	<p>Usually the engagement partner and engagement manager discuss the risk associated with an engagement.</p> <p>The engagement manager completed the "Memorandum for Assessing Engagement Risk" in full.</p> <p>In addressing each risk area, the engagement manager:</p> <ul style="list-style-type: none"> • took into account all information at his or her disposal at that time; • demonstrated an appropriate understanding of the impact of all risks identified; • recorded all actions to be taken in addressing the risks identified; • cross-referenced the proposed actions to either the Letter of Engagement, Planning Memorandum or level of partner consultation. <p>Exceeded standard: - 4 Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1 Did not present a risk assessment: - 0</p>

#	Requirement	Reason why the requirement is measured	Performance standard
2	Letter of Engagement (LOE)	The letter of engagement formalises the arrangement between the client and the firm.	<p>The LOE:</p> <ul style="list-style-type: none"> • identifies the client; • clearly and precisely sets out the scope and nature of the assignment; • clearly sets out for what purpose the output will be used; • if appropriate, ensures that work is protected by legal privilege; • contains the standard disclaimers regarding expressing an opinion; • has Forensic Standard Terms and Conditions attached; • sets out the provisional timetable; • sets out the fee and billing arrangements, including rates, cost estimate and timing of billing; • identifies the partner and manager responsible for the assignment; • is free of grammatical, spelling and typing mistakes. <p>Exceeded standard: - 4 Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1 Did not present a LOE for review: - 0</p>

#	Requirement	Reason why the requirement is measured	Performance standard
3	Investigation planning	<p>Planning focuses the efforts of the team and ensures that all aspects of the assignment and risk assessment, including the legal and regulatory framework of the client, are covered.</p> <p>The standard planning memorandum must be completed as it will assist the manager to plan the assignment in such a way that will make success more likely.</p> <p>The planning session must include at a minimum the engagement partner and manager. Other staff members should be included as appropriate. The planning must be discussed with the client.</p> <p>If circumstances change, re-planning is required. There must be regular reviews to assess whether original assumptions and planning are still appropriate.</p>	<ul style="list-style-type: none"> • A planning meeting was held by the partner and manager. • The planning memorandum was completed and signed off, and a planning meeting was held with the client. • Original planning was reconsidered as appropriate. <p>Met standard: - 3 Partially met standard: - 2 Did not present planning: - 0</p>
Report review			
4	Format	<p>It is important that each report supports and enhances the firm's corporate image.</p> <p>The report submitted for review must be in a final format as if ready for submission to the client. The drafter of the report must be satisfied with all aspects of the report before submission for review.</p>	<p>The report follows the firm's standards in respect of page set up, formatting, margins, titles, etc.</p> <p>Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1</p>

#	Requirement	Reason why the requirement is measured	Performance standard
5	Risk management	All steps to manage the risk of issuing a report must be taken.	<p>In the opinion of the reviewer, the report contains the appropriate standard paragraphs relating to:</p> <ul style="list-style-type: none"> • Matters of law. • Limitation paragraphs. • Not conducting an audit. • Restriction on the use and distribution of the report. • Confidentiality. <p>Exceeded standard: - 4 Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1</p>
6	Work performed and evidence gathered are specified in the report	It is important from a risk management and a client communication point of view to state clearly the nature and scope of the work that was performed and the evidence that was gathered during the investigation. This will prevent future disputes regarding the activities that were performed.	<p>In the opinion of the reviewer the report clearly sets out the nature and scope of the work performed and the evidence gathered.</p> <p>Met standard: - 3 Did not meet standard: - 1</p>
7	Report addresses objectives of the investigation	The report is only useful to the end user if it addresses the issues relevant to the objectives of the client.	<p>In the opinion of the reviewer, the report deals appropriately with each item listed in the scope of the investigation.</p> <p>Exceeded standard: - 4 Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1</p>
8	Relevance of issues covered in the report	Issues covered in a report that are not relevant to the findings add no value to the report.	<p>In the opinion of the reviewer, the report deals only with relevant issues.</p> <p>Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1</p>

#	Requirement	Reason why the requirement is measured	Performance standard
9	Objective and balanced presentation of facts	Objectivity and impartiality are at the core of forensic investigations. The objective of the investigation is establishing the truth.	<p>In the opinion of the reviewer, the report reflects that the project manager acted objectively and presented his or her findings in a manner that is fair to all parties involved.</p> <p>Exceeded the standard: - 4 Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1</p>
10	Findings clearly set out in executive summary, and where possible cross-referenced to the body of the report	The summary of findings contains the most important conclusions derived from the facts. The summary communicates the findings up-front. By cross-referencing the summary to the relevant paragraphs in the report, the reader can easily access the detail.	<p>In the opinion of the reviewer, the report clearly sets out the findings in an executive summary. The findings are cross-referenced to the body of the report.</p> <p>Exceeded standard: - 4 Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1</p>
11	Structure and presentation of the report	The report must be properly structured so as to set out the scope of the investigation, background information needed to fully understand the report, procedures carried out, a logically sequenced narration of the subject-matter and the findings and conclusions reached. The drafter should find the most appropriate way to bring the message across such as using graphical or illustrative presentations.	<p>In the opinion of the reviewer, the report is organised in a manner that ensures ease of reading and understanding. All assumptions are clearly stated and separated from matters of fact. Analysis and interpretations are clearly identified as such.</p> <p>The drafter made appropriate use of graphical or illustrative presentation. The report covers at least the following:</p> <ul style="list-style-type: none"> • Executive summary • Introduction/background • Scope • Agreed upon procedures • Findings • Conclusion <p>Exceptional: - 5 Exceeded standard: - 4 Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1</p>

#	Requirement	Reason why the requirement is measured	Performance standard
12	Conclusions supported by sufficient and appropriate evidence.	It is critical that any conclusions reached must be supported by sufficient and appropriate evidence. Any unsubstantiated conclusions or opinions could expose the firm to significant risk. Conclusions must be clearly linked to relevant evidence.	In the opinion of the reviewer, conclusions in the report are supported by sufficient and appropriate evidence. Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1
13	Report and oral evidence accepted by presiding officer.	Forensic investigations are usually conducted in order to obtain some form of legal remedy. It is therefore important that reports are professional and of such a standard that presiding officers accept both the report and the oral evidence, based on the investigation, without qualification.	If the report was submitted to a tribunal and/or oral evidence was provided in a legal tribunal, the report and evidence were professional and accepted by the presiding officer. Exceeded standard: - 4 Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1
14	Clarity and precision	The report must contain clear and precise language and terminology to obviate misunderstanding, ambiguity and creating false perceptions in the mind of the reader.	In the opinion of the reviewer, the report is drafted using clear and concise language and terminology. Exceptional: - 5 Exceeded standard: - 4 Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1
15	Grammar, spelling and typing.	The quality of a report is not only measured against its contents. Typing, spelling and correct use of language are vital. These issues must be addressed before submission of the report for review.	The report is free of grammatical, spelling and typing mistakes. Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1

#	Requirement	Reason why the requirement is measured	Performance standard
File review			
16	File presented	Quick finalisation of the investigation file should be encouraged.	File was presented for file review no later than 10 working days after the final report date. Met standard: - 3 Did not meet standard: - 0
17	Risk assessment	The completed "Memorandum for Assessing Engagement Risk" serves as proof that the Forensic team acted responsibly in managing the engagement risk.	The completed, reviewed and signed "Memorandum for Assessing Engagement Risk" form is filed on the investigation file. Met standard: - 3 Did not meet standard: - 0
18	Letter of engagement on file	The letter of engagement formalises the arrangement between the client and the firm. The assignment manager must obtain and file a copy of the LOE signed by the client.	There is a LOE on the file that: <ul style="list-style-type: none"> • is signed by a partner; • incorporates standard terms and conditions; and • is signed by the client confirming the appointment. <p>Or</p> <p>There is a tender document or order document on file that:</p> <ul style="list-style-type: none"> • is signed by a partner; • incorporates standard terms and conditions; and • is signed by the client confirming the appointment. Met standard: - 3 Did not meet standard: - 0
19	The investigation file is prepared in the standard electronic format.	The investigation file serves as a record of the documents considered during the investigation. It is important to be able to find the information needed to service further enquiries or requests.	The file is prepared in accordance with the standard electronic file format. Documents are named properly and filed in the correct sections. Met standard: - 3 Did not meet standard: - 0

#	Requirement	Reason why the requirement is measured	Performance standard
20	Investigation diary is on file	<p>The investigation diary serves as a record of investigation activities and costs. It is essential if the partner has to:</p> <ul style="list-style-type: none"> Justify actions in court. Justify the cost of the investigation. <p>It is the project manager's responsibility to ensure that all investigation activities and costs are recorded on the investigation diary.</p>	<p>In the opinion of the reviewer, the investigation diary contains sufficient detail to indicate all investigation actions or activities leading to the allocation of time and costs.</p> <p>Exceeded standard - 4 Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1 No investigation diary kept:- 0</p>
21	Evidence of regular and appropriate client communication	<p>Regular client communication is essential to inform the client regarding the progress of the investigation, manage expectations and maintain healthy relationships. Where required by the client, communication should be in written form. Where verbal updates are provided, the minutes of such meetings or conversations must be presented.</p>	<p>In the opinion of the reviewer, regular and appropriate client communication took place during the course of the investigation. Necessary progress reports, written correspondence or minutes of meetings are included in the file.</p> <p>Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1</p>
22	Work-in-progress management: Time and Expenses	<p>WIP management encompasses all aspects of ensuring that the time spent on the assignment is recorded weekly, billed in accordance with the LOE and is recovered from the client as soon as possible. All aspects related to WIP management are the responsibility of the project manager.</p>	<p>Only valid time and expenses were recorded against the assignment.</p> <p>The WIP investment did not exceed the assignment budget or revised assignment budget. All WIP provisions were discussed with the assignment partner.</p> <p>Exceeded standard - 4 Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1</p>

#	Requirement	Reason why the requirement is measured	Performance standard
23	Work-in-progress management: - Billing	See "WIP Management Time and Expenses"	<p>The client was billed in accordance with terms stated in the LOE. Copies of all invoices are placed on the investigation file. In preparing the final bill, the assignment manager took into consideration all time and expenses not yet reflected against the engagement code at the time of preparing the final bill.</p> <p>Exceeded standard - 4 Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1</p>
24	Work-in-progress management: Recovery	See "WIP Management Time and Expenses"	<p>The fees, without any write-off, were recovered from the client within 30 days of the invoice date. The accounting code was final billed and cleared, confirming receipt of the debtor.</p> <p>Exceeded standard - 4 Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1</p>
25	Final report	The final deliverable must be kept on file.	<p>A signed copy of the final report is on file. All unnecessary drafts were destroyed.</p> <p>The concurring review copy of the report is on the file.</p> <p>Met standard: - 3 Did not meet standard: - 0</p>
26	Electronic information	A copy of all electronic records must be stored.	<p>The electronic file is backed up to disk / CD and a copy of the back up is on the investigation file.</p> <p>Met standard: - 3 Did not meet standard: - 0</p>

#	Requirement	Reason why the requirement is measured	Performance standard
27	Performance reviews	A performance review is of more value when it is conducted shortly after the completion of each assignment. It empowers the person to address the weaknesses in his or her performance immediately.	The assignment manager reviewed the performance of each team member at the completion of the assignment. The assignment manager discussed the performance review with the relevant person. Met standard: - 3 Did not meet standard: - 0
28	CVs updated for assignment experience	For future reference, including future proposals, up-to-date CVs must be maintained.	CVs of all team members that participated in this investigation are updated with the particulars of this investigation. Met standard: - 3 Did not meet standard: - 0
29	Appropriate use of technology	Technology can assist to work more accurately and effectively.	In the opinion of the reviewer, the manager ensured appropriate use of technology during the investigation. Exceeded standard - 4 Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1
30	Overall impression		The reviewer's overall impression of the investigation. Exceptional - 5 Exceeded standard - 4 Met standard: - 3 Partially met standard: - 2 Did not meet standard: - 1