

Forensic Accounting and Fraud Investigation: A Language of the Court of Law to Resolve Anticipated Disputes

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Abstract:- The specialty practice area of accounting known as "forensic accounting" deals with engagements that come up as a result of ongoing or impending legal proceedings or anticipated disputes. It gives the court a credible accounting analysis that will serve as the starting point for discussion, debate, and ultimately conflict resolution. In general, "forensic" is about fact-finding and interpretation, yet it is unquestionably perfect for court testifying. The demand for forensic accounting has increased due to the rise in fraud and fraudulent activities in Bangladesh and throughout the world. In criminal cases, forensic accountants are frequently called upon after fraud has occurred. Because the forensic accountant has the innate ability to detect fraud, fraud examination in forensic accounting differs from that of "traditional accounting."

The purpose of this article is to describe how forensic accounting is used in fraud investigations and lawsuit assistance, as well as to make recommendations that, in theory, will raise public understanding of the significance of this branch of accounting.

Keywords:- Forensic Accounting, Fraud Investigation, Litigation Support.

I. INTRODUCTION

Forensic accounting employs three distinct skills: accounting, auditing, and investigative work-in order to help with legal issues. Engagements that are the outcome of ongoing or upcoming disputes or litigation fall under the specialty practice area of accounting.

The science of forensic accounting focuses on the relationship and application of financial, accounting, tax, and auditing expertise to analyze, probe, enquire, test, and evaluate issues in civil law, criminal law, and jurisprudence.

Forensic accounting, therefore, can be viewed as a component of accounting that is appropriate for legal scrutiny, providing the highest level of certainty and includes the typically accounted connotation of having been arrived at in a scientific manner.

Forensic accounting is the fastest-growing field in accounting today. Forensic accounting is not a new concept despite the recent media attention. Despite of having roots that can be traced back to Glasgow, Scotland in the early 1800s, forensic accounting as a profession remained largely unheard of until a number of high-profile corporate scandals and stricter reporting and internal control regulations brought to light its significance to the business world. It was stated that up until recently, forensic accounting was typically kept in the investigation department, but in recent years, it has emerged as a profession.¹

More than just accounting and detective work, forensic accounting is a combination that will be in demand for as long as human nature persists.

The major focus of forensic accounting is the explanatory examination (cause and effect) of phenomena—including the identification of deceit (if any), and its effects—introduced into the jurisdiction of an accounting system.

Objective verification is the main methodology used by forensic accountants. Therefore, forensic accounting focuses on both the documentation of economic activity and reporting as found in an accounting system and the legal framework that permits such documentation to be appropriate for establishing accounting and/or valuation.

Respect for the law, adherence to high ethical standards, and the application of rigorous financial and operational controls are all implied by the term "accountability" in this context.

The popularity of forensic accounting services has increased as a result of the worrisome rise in fraud and fraudulent activities in Bangladesh and throughout the world.

¹ Wallace, A. (1991): *The Role of The Forensic Accountant*. Accountant November 1991.

Frauds are unethical, dishonest, false, and manipulative acts committed for monetary or non-monetary advantage. Fraud and all other illegal ways of obtaining and possessing property to the detriment of another person are considered fraudulent practices.²

Accounting fraud is the illicit misappropriation of assets (cash, stocks, book debts, fixed assets), manipulation of accounting records, and falsification of accounting books and records, among other criminal activities. Forensic accountants, in order to carry out their duties, make use of their knowledge of business information and financial reporting systems, accounting and auditing standards and procedures³, evidence-gathering and investigative tactics, and litigation processes. As part of their work, they may look into and analyze financial evidence, create a computerized tool to aid in the analysis and presentation of financial evidence, communicate their findings through reports, exhibits, and collections of documents, and support legal proceedings by offering testimony as an expert witness and creating visual aids to support trial testimony, among other things.

Forensic accounting offers investigative services and legal support to comprehend the breadth and complexity of financial frauds occurring in any economy. Bangladesh is placed 147 out of 180 and received a score of 26, which indicates that its reputation has not improved, in Transparency International's Corruption Perception Index (CPI-2021), which ranks 180 nations on their capacity to tackle corruption. In the many areas, they occur in, such as banking, trade-in export-import, insurance, the stock market, the cyber world, etc., frauds require a precise scientific tool for investigation and dispute settlement.

Human rights violations are made possible by corruption, which starts a dangerous cycle that only gets worse. As rights and liberties are lost, democracy wanes, authoritarianism replaces it, and corruption rises as a result. Although corruption may be a complex issue, we are aware of how to address it by applying numerous forensic accounting techniques. People should demand that their governments use an investigative accountant to find financial fraud in tandem with other government institutions in order to break the cycle of corruption, human rights abuses, and democratic collapse.

➤ *Milieu, Objective, Methodology and Limitation of the Study*

In order to prepare forensic accounting and auditing in balance sheets, income statements, and cash flow statements under managerial and financial accounting, this study has been written for individuals who are familiar with traditional accounting and auditing procedures and techniques.

This study's objective is to assess how well stakeholders in Bangladesh are aware of the use of forensic accounting in an investigation. Secondary data was working as a tool to collect the data in order to achieve the objective of this study. This publication's conclusion will be based on the available published sources with insightful recommendations.

In order to uncover instances of dubious behavior and financial irregularities cloaked in intricate transactions, forensic accounting employs exceedingly sophisticated accounting techniques. These include, for instance, theft and fraud. Due to the depth of the investigations, forensic accountants could provide expert testimony in court.

The study's major goal is to gain knowledge in forensic accounting as well as the skills that a forensic accountant needs in order to investigate and manage fraud in order to settle disputes. Knowing the critical role that forensic accounting and accountants play in financial investigations and the detection of crimes in financial statements are other specific aims.

Secondary data⁴ have served as the foundation for this paper's methodology. In the paper's conclusion, the academic review methodology is used. The literature on forensic accounting that is currently available for use in fraud investigations and courtroom support is one of the sources of data collection.

➤ *Model Analysis*

Data that has been made publicly available helps accountants and forensic accountants to determine what is necessary. Through observations and answers, trend analysis teaches professionals how to assess fraud and corruption. The study attempts to offer the following techniques/models for detecting financial account fraud in addition to those already listed, based on recent analysis.

²Ojaide, F. (2000). *Frauds detection and prevention: the case of pension accounts ICAN NEWS January/March. P8*

³*International Accounting Standards (IASs) were issued by the antecedent International Accounting Standards Council (IASC) and endorsed and amended by the International Accounting Standards Board (IASB). Generally Accepted Accounting Principles, also called GAAP or US GAAP, is the accounting standard adopted by the U.S. Securities and Exchange Commission (SEC). While the SEC has stated that it intends to move from US GAAP to the International Financial Reporting Standards (IFRS). The Financial Accounting Standards Board (FASB) has published US GAAP in Extensible Business Reporting Language (XBRL) beginning in 2008.*

⁴*Theory of Reference Service, Ed. 2 (1961), S.R.Ranganathan 'Secondary sources are writings that evaluate, interpret, or examine a historical event, period, or phenomena. A review, critique, or interpretation may be written using primary sources, frequently years after the event. Secondary and primary sources are identified and located using tertiary sources.'*

Model specification*

$$Y = f(X)$$

Where: Y = dependent variable (Financial Fraud (FF))
X = independent variable (Forensic Accounting (FA))

Financial Fraud (FF) = f (Forensic Accounting (FA))
 That is $FF = f(FA)$
 $X =$ Forensic Accounting (FA)
 $FF = f(FA)$
 $FF = \alpha_1 + \beta_1 LSS + \mu_1$

Where:

α_1 is intercept; β_1 is the coefficients of the explanatory variables

μ_1 is the stochastic variables of the model.

* *Based on primary data, this model can be applied. However, this paper has developed by using secondary sources of information. Nevertheless, based on concurrent analysis, this model can be thought of as a way to detect fraud in financial accounts with litigation support.*

II. LITERATURE REVIEW

➤ General Literature

In affluent nations, there has been a significant increase in the value of forensic accounting expertise⁵. Through the creation of specialist foundations that look after the gathering and organization of expertise in this sector, the countries with complex economies started to worry about enhancing their experience in forensic accounting.

In the USA, the FBI began to send more than 700 professional accountants to the Financial Crime Section in the middle of the nineteenth century to handle fraud offenses⁶.

Various commissions focused on fraud offenses were established in Nigeria⁷. The creation of such commissions and specialized entities will make it easier to gather and arrange forensic accounting data. To have complete access to the investigation of fraud offenses, these bodies were constituted as independent ones. These organizations can work with the courts to identify the types of fraud crimes, how they are classified, and how they affect the nation's economy.

The alternative strategy is used to protect the universities' representation of forensic accounting experience. Universities across the globe are aware of the value of this area of accounting for the regional markets.⁸

These universities provide specialized forensic accounting courses. The emphasis of the seminars is on techniques for identifying fraud offenses⁹. The use of appropriate protocols to address each sort of fraud crime is important to the majority of colleges. The student's exposure to these sectors will improve their ability to combat fraud-related offenses. There is little interest among universities in creating forensic accounting departments¹⁰.

The Accounting Bureau¹¹ is a government-dependent organization in Jordan that handles cases of employee and governmental entity fraud. To handle the governmental duties, the Bureau's working procedures still need to be improved. The approaches and strategies applied are conventional and based on individual research. The Integrity and Anti-Corruption Commission, on the other hand, is a

reliant organization that looks after the investigation of fraud crimes. The results of these two bodies' work are provided, however, there are no instructional initiatives in these bodies. Universities in Jordan do not support the creation of specialist forensic accounting divisions. These outcomes are a reflection of the dispersed attempts to combat fraud crime. These efforts gradually become lost since there is no national organization to guide them.

➤ Related Literature

According to Lo et al. [2016]¹², the demand for experienced forensic accountants to take on their role in detecting fraud and practicing their profession increased as a result of the rise in financial fraud and crimes in recent years. They suggested that in order to detect fraud, forensic accountants need to possess advanced expertise. Most business schools that provide accounting programs want to produce highly skilled individuals, and integrating forensic accounting education with these programs is another fundamental goal for these schools. The evidence from throughout the world demonstrates that forensic accounting is becoming more and more in demand. Along with this growth, the corporate world also experiences a rise in sophistication due to current technological advancements. In response to the rising need for this education globally, forensic accounting is now taught in universities and business schools. Business schools make an equal effort to offer specialized courses for graduate and undergraduate degrees. The study found that both the Chinese environment and the environments of foreign students interested in these programs regard the introduced topics as being of utmost importance. According to the survey, high demand and a developing market have made forensic accounting courses quite popular with organizations.

To meet the requirements for graduating successful students in forensic accounting who will assume responsibility for combating financial crimes in all their forms in Jordan, the legal system in Jordan should be enhanced.

⁵ & ⁶ Kristen Dreyer [2014], *A History of Forensic Accounting*, Grand Valley State University

⁷ Abdulrahman S [2019], *Forensic accounting and fraud prevention in Nigerian public sector: A conceptual paper*. Igbinedion University Journal of Accounting 2(7):215-238.

⁸ National Institute of Justice, [2007], Federal government of the United States

⁹ Ocansey, E. O. N. D. [2017], *Forensic Accounting and the Combating of Economic and Financial Crimes in Ghana*, Babcock University, Nigeria.

¹⁰ Tawfeeq et al., 2014; Tawfeeq & Alabdullah, [2013], *The Role of Courts and Universities in Activating the Forensic Accounting to Discover Financial Fraud*

Rezaee et al. [2004]¹³, outlined the significance of documentation support for the achievement of the academic field of forensic accounting. Courts or other local organizations interested in combating financial crimes have always been the source of such experience. To incorporate courses that assist students graduate with the skills necessary to combat financial crimes in Jordan, the legal system must work closely with other educational institutions. The relevant literature covered the growing need for forensic accounting as a national necessity, particularly given the recent rise in fraud and financial crimes. The literature emphasized the crucial role of universities in meeting the rise in demand for forensic accounting and in developing programs that satisfy national standards for thwarting fraud and financial crimes. The focus of the literature was on the caliber of graduate and undergraduate students who will study forensic accounting. The third issue brought up in the literature is how crucial it is for students to understand legal principles when working with forensic accounting. In order to function as both accountants and lawmen in various circumstances, the legal components will combine the student's knowledge. This mentality has been developed because the forensic accountant would be in charge of handling financial cases and crimes that call for legal expertise.

According to Adegbe and Fakile (2012), Nigeria's efforts to progress economically are hampered by corruption and other financial and economic crimes. One of the main reasons for error in judgment is the apparent lack of sufficient litigation support services in the court.

According to Dada, Enyi, and Owolabi (2013), bribery and corruption are hot-button issues in Nigeria and other areas of the world.

According to Anomah, Ayebofo, and Agyabeng (2014), the weak regulatory environments in many third-world nations contribute to their high levels of corruption and low rankings on the corruption perception index.

They stated that the statutory audit's lax approach to dealing with EFCs had failed to offer the assurance demanded by audit criteria.

The relevant literature covered the growing need for forensic accounting as a national requirement, particularly given the recent rise in fraud and financial crimes. According to the literature, universities have a crucial role to play in introducing courses that are in line with national standards for forensic accounting and mitigating fraud and financial crimes. The focus of the literature was on the caliber of graduate and undergraduate students who will study forensic accounting. The third issue brought up in the literature is how crucial it is for students to understand legal principles when working with forensic accounting. The legal components will integrate the students' knowledge so they may function in various contexts as both accountants and lawmen. This mentality has been developed because the forensic accountant would be in charge of handling financial cases and crimes that call for legal expertise.

III. THE ROLE OF FORENSIC ACCOUNTING IN LITIGATION SUPPORT

An appropriate accounting analysis for the court is provided by forensic accounting, which will serve as the foundation for discussion, debate, and ultimately conflict settlement. A good forensic accountant's knowledge, abilities, and expertise are very helpful to litigation counsel judges in the context of a legal dispute. Complex accounting, tax, and financial issues that arise in litigation frequently call for the specific knowledge and experience of highly skilled accounting, finance, and tax specialists.¹⁴

The factual presentation of economic issues related to ongoing or upcoming litigation is known as litigation support. It offers accounting-related support in a situation where litigation is ongoing or has already begun. Calculating the economic loss due to contract violation would be a normal litigation support task. In this role, the forensic accounting expert assesses the losses incurred by parties involved in legal disputes and helps to resolve conflicts before they go to court. Not every forensic accounting investigation leads to a legal proceeding. The forensic accountant may, however, testify as a witness in court if a dispute arises.

According to Omoniyi [2004]¹⁵, the role of an expert witness is to help the court make a decision on issues where the court may not have the appropriate information to do so. The circumstances and specifics of each case will greatly influence what a forensic accountant can bring to the bench. Typically, litigation consultants are involved in court proceedings when the examination of financial data is necessary. Typically, a lawyer will hire a forensic accountant to determine the extent of the financial losses involved. Engagements involving civil problems can be categorized into a few different groups, calculating and estimating losses and economic damages, including those brought on by tort or contract violations, disputes over business acquisitions—possibly including earn-outs or warranty breaches—and corporate valuation. When evaluating and commenting on the work of other experts, forensic accountants frequently offer their assistance in accusations of professional negligence.

¹¹ Accounting Bureau [2019] *Accounting Education and Accountancy Profession in Jordan: The Current Status and the Processes of Improvement* Research Journal of Finance and Accounting ISSN 2222-1697, (Paper) ISSN 2222-2847 (Online) Vol.4, No.11, 2013

¹² Lo et al. [2016] *An investigation of the effects of litigation and interrogation skills of forensic accounting on fraud risk valuations: an empirical study of government auditors in Dubai, United Arab Emirates.*

¹³ **Rezaee et al. (2004)**, Forensic Accounting Education: A Survey of Academicians and Practitioners

¹⁴ Emma I. Okoye and Akamobi, Ndidika L [2009] *The Role of Forensic Accounting in Fraud Investigation and Litigation*

Support The Nigerian Academic Forum Volume J 7 No J November, 2009

¹⁵ Tope Omoniyi [2004], *The sociolinguistics of colonisation: A perspective of language shift*, ISSN: 1750-8649 (print

According to Messier, Jr. (1997), there have been more lawsuits filed recently against auditors. One justification for such a litigation is because damaged parties expect to recoup some or all of their auditors because they believe auditors have "big pockets." A forensic accountant would be employed in auditor malpractice lawsuits to demonstrate what audit procedures—or lack thereof—might have led to the company's false statement.

In summary, a **forensic accountant** can help with legal support in the manner listed below:

- Assistance in locating the important document that needs to be made available as proof. This is absolutely required to prove or disprove a claim.
- Examining the pertinent papers as part of the first case evaluation to pinpoint potential and likely areas of loss.
- Informing the council during pre-trial preparation on the case's financial and accounting issues.
- Giving counsel to attorneys during trials, especially about the cross-examination of the opposing expert.
- Analyzing the damages report from the opposing expert and reporting on the arguments made as well as its weaknesses
- Support during negotiations and discussions about a settlement.
- Providing oral testimony during the trial if the matter needs to be resolved by the court of law.

IV. INSIGHTS RECOMMENDATIONS

The recommendations are as follows:

- All tertiary institutions in Bangladesh that provide accountancy programs should include forensic accounting in their curricula. The course should be offered by professional accounting organizations as part of their curricula. This will contribute to raising awareness of its significance.
- Professional accountants in the public and private sectors who are in practice should receive updated training on the importance of forensic accounting in Bangladesh.
- Forensic accountants should be taught as early as possible in order to receive the greatest benefits. They must be aware that they can be called before a judge one day to defend any view stated in their reports. The ensuing groups are capable of retraining them. Attorneys, law enforcement, insurance providers, governmental regulatory organizations, banks, courts, and the business community. If they are taught early on in the process, their support could be very helpful in minimizing overall costs and maximizing results.
- Lastly, Bangladesh lacks books and other resources on forensic accounting. This might be because it's a brand-new field of research. To promote this branch of

accounting, which the Use World Report listed as one of the "**20 hot employment tracks of the future**," all hands must be on deck.

V. CONCLUSION

The technique of using accounting, auditing, and investigative abilities to support legal cases is known as forensic accounting. The accounting practice area known as "engagements that emerge from real or expected disputes or litigation" is specialized. It consists of investigation, conflict settlement, and litigation assistance. The demand for forensic accountants has been highlighted by the rise in fraud and fraudulent activities in Nigeria and around the world. A forensic accountant will use extensive and practical research to a case to assist find patterns that highlight important issues. So that being said.

The courts don't have any shared resources that may be used to learn from other entities. The courts care about how the law is applied in particular situations, but they did not bother to create laws to protect against fraud offences. On the other hand, colleges' contributions to enhancing and enriching the practice of forensic accounting were also unfavorable. To reduce financial crimes in Bangladesh, universities there are isolated from participation. The responsibility to combat fraud offences through work plans was not accepted by these universities. According to the report, courts that deal with fraud offenses should be rehabilitated to have specialist employees for these crimes and departments that organize records, styles, and other information to share with other organizations in Bangladesh. The universities should take part in the battle against fraud crime by creating high-quality courses to combat this crime in Bangladeshi society. They should also get in touch with the relevant organizations in Bangladesh to gather data in order to improve the course offerings' content.

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