

# Forensic Accounting and Fraud Examination: Evidence from Bangladesh

Madhobi Sarker

## Abstract:

This study evaluates the awareness and practice of forensic accounting and fraud examination, the responses of different types of professions, students concerning forensic accounting and fraud examination in Bangladesh. An online survey was conducted to collect the responses and the responses were analyzed by chi-square tests through Microsoft Excel 2010. The results reveal that there is no significant relationship between the awareness of forensic accounting and people, 1 out of 7 questions are significant relative to the practice of forensic accounting with gender, and 3 out of 7 questions are significant to the different types of professions. This study shows the current status and practice of forensic accounting and recommends steps to combat corruption and financial crimes. But this research lacks an error-free selection of samples having 12 from top accounting and auditing firms, 5 from multinational companies, 11 from local organizations, and 24 from students of the top four universities of Bangladesh. This study evaluates the emergence introduction and practice of forensic accounting as a separate body in Bangladesh and international perspective as well.



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## Introduction

Financial distress and corruption are complex and an old problem laying its root in bureaucratic and political institutions. Though financial fraud is an ancient phenomenon, it has drawn the attention of policymakers and researchers in the last 30 or 40 years. Like the rest of the countries of the world, Bangladesh is not free from financial fraud having its roots in administrative and socio-political issues (Anup). According to a report of the Association of Fraud Examiners', half of the money lost in the financial scandal can never be recovered anymore. Also, a very little amount may be recovered in some fraud cases. Bhasin (2016) determines that forensic accountants can be recruited as a valuable addition to corporate governance which helps to create a healthy working environment aiming to detect fraud. Also, forensic accounting is in need to combat financial fraud and the main duties of forensic accountants are auditing, accounting, and investigative skills to detect and prevent fraud. Karim et al. (2017) evaluated that the practice of forensic accounting is not popular yet in Bangladesh. There is no separate body for producing professional forensic accountants in Bangladesh. History of financial crimes, such as Destiny-2000 scam, Hallmark-Sonali Bank fraud, Bismillah group scam, and financial fraud in Bangladesh Bank questions for adding the application of forensic accounting to detect & prevent fraud in Bangladesh.

The objectives of current study are to know the awareness of forensic accounting, the practice of forensic accounting in Bangladesh, and the response of different types of professions concerning forensic accounting.

## Literature Review

Forensic accounting must be introduced as a compulsory tool for combating fraud and corruption to promote corporate governance. The knowledge of forensic accounting should be encouraged by proper training so that the concerned parties can be experts in this field (Jugurnath et al., 2017). Forensic accounting utilizes the combined application of accounting, auditing, and investigative skills to examine the company's financial statements. Job titles in this field are interchangeably called forensic accounting, fraud examiner, investigative accountant, and fraud auditor. Forensic accounting is an emerging area of accounting discipline which is used in a court of law. Forensic accountants gather their expertise from different fields, such as accounting, auditing, taxation, information technology, and cost accounting. Forensic accountants can define the financial status of certain financial organizations and help the attorney with additional information needed to prove the fraud case if any (Karim et al., 2017). Dhar and Sarker (2010) define forensic accounting as the application of accounting definition and concepts to deal with legal issues. In Bangladesh, creative accounting practice is rampant and forensic accounting should be introduced & recognized for detecting fraud and corruption (Islam et al., 2011). Tysiac (2012) examines that the financial troubled many industries, but these continued creating opportunities in forensic accounting in firms and professionals. Forensic accounting is more than accounting and more than investigative work-it entails multidisciplinary actions that require versatile knowledge of different areas (Albrecht et al., 2006).

In Bangladesh, corruption is a common phenomenon. There are scant numbers of fraud investigation teams recruited by the Securities and Exchange Commission, Bangladesh bank, Anti-Corruption Commission. In the context of Bangladesh, forensic accountants are mostly needed to prevent financial crime, corruption which is rampantly growing (Mazumder, 2011).

Bassey (2018) evaluates that the increasing occurrence of frauds asks for forensic accountants to uncover fraudulent activities both within and outside an organization.

### **The Rationale for forensic accounting in Bangladesh**

Financial crime is widespread in the corporate world of Bangladesh mostly and hence requires immediate application of forensic accounting. The future of forensic accounting is extensive. There is a saying that accountants act like 'watchdog', but forensic accountants act like a bloodhound. So, regular accountants should be trained to turn into forensic accountants to mitigate financial fraud (Ahmed and Ali, 2019). Bangladesh Securities and Exchange Commission (BSEC), Anti-Corruption Commission, ICAB can't eradicate financial frauds as companies use loopholes of International Accounting Standards (IAS) and Generally Accepted Accounting Principles (GAAP) through creative accounting practices. So, it's better to have a forensic accounting body to inspect the business practices of organizations and prevent fraud. To deal with frauds ranging from minor to significant loss, corporations are very much aware to recruit forensic accountants. Having awareness of forensic accounting, forensic accountants may detect and prevent frauds expected.

### **Auditing vs. forensic accounting**

Auditing is a macro system. In contrast, forensic accounting is a microsystem (Smith and Crumbly, 2009). The auditors analyze financial statements prepared by the management and give an opinion based on documents which are given to them, provided that there are intrinsic limitations of time and resource. As such, auditors fail to trace intentional misstatement and potential red flags. Auditors ensure financial integrity working on documents that may be fabricated, falsified, or altered. Consequently, auditors can't provide litigation support if material misstatement occurs, and henceforth, auditing is not investigative in nature. On the other hand, forensic accounting whistle blow red flag issues and uncover fraud even where there is no sign of fraud or immaterial evidence. Besides, forensic accounting is investigative in nature and provides litigation support.

### **Skills required by forensic accountants**

A forensic accountant needs to be intricate and expert in dealing with large documentation of accounting and financial frameworks. Some required skills of a forensic accountant are a sound knowledge of peculiar techniques of business methods, ability to review a large volume of data sets ranging from very typical accounting work to unpopular memos, correspondence, etc., knowledge of frauds to deal with and should be aware of typical fraud cases, such as asset misappropriations, bribery, etc., expertise in computing skills to easily trace computerized accounting systems and e-banking transactions, a sense of commitment that will ensure a timely response when needed, knowledge of human psychology to understand the human characteristics of committing to fraudulent activities, and proper expertise of internal control system and existing laws.

### **Role of forensic accountants**

A forensic accountant engages investigative proceedings and present complex financial & business in such a way which is comfortably understood. They assist in legal proceedings as expert witnesses of all documents and support visual support to trial evidence (Owojori and Asaolu, 2009). Reviewing relevant accounting evidence provided by third parties that may support as an aid on the lawyers' reports, giving primary advice of pleading and documents at the initial stage of proceedings, airing legal counsels about financial evidence of pre-trial

preparation, and recording financial and accounting aspects which can be used as evidence. These shreds of evidence should be arranged in such a way easily understandable by non-accountants and done so whether proceedings go for or against the client are some roles of forensic accountants to name.

### Research Methods

A questionnaire was designed to collect primary data that consisted of three sections: awareness of forensic accounting, the practice of forensic accounting and the demographic to students, accounting and auditing firms, multinational companies, and local organizations through an online survey. A sample size of 52 respondents was taken into consideration for the collection of data. The responses were analyzed using chi-square tests through Microsoft Excel 2010. Besides these, related journals and books were also taken into careful consideration for preparing this paper.

### Results and Discussion

The questions from the questionnaire were distributed in two forms, the 1<sup>st</sup> group consists of a Likert scale and the 2<sup>nd</sup> group is of yes/no questions.

### Chi-Square Statistics

The 1<sup>st</sup> group was used to analyze the awareness of forensic accounting and people consisting of four categories: students (MBA program, department of Accounting and Information Systems of four renowned public universities of Bangladesh), accounting and auditing firms, multinational companies, and local organizations). From table-1(end of the article), the chi-square result verifies that there is no significant relationship between all the statements and people with critical value 21.02607. So, the respondents of the four categories are aware of forensic accounting. A chi-square test has been conducted to test the relationship between different questions and the gender of the respondents concerning the practice of forensic accounting. From the references of table-2, the result evaluates that there is a significant relationship between question 4 and gender  $\chi^2(4) = 4.761002179$ ,  $p=0.029112$ . This shows that respondents have different views on the effect of forensic accounting on external auditing. In addition, the result shows that there is no significant relationship regarding other questions namely between question 1 and gender  $\chi^2(1)= 0.217516$ ,  $p=0.640939$ ; between question 2 and gender  $\chi^2(2)= 1.685474188$ ,  $p=0.194199$ ; between question 3 and gender  $\chi^2(3)= 0.145514403$ ,  $p=0.702859$ ; between question 5 and gender  $\chi^2(5)= 0.116526611$ ,  $p=0.732833$ ; between question 6 and gender  $\chi^2(6)= 2.294118$ ,  $p=0.129865$  and between question 7 and gender  $\chi^2(7)= 0.280112$ ,  $p= 0.596628$  respectively.

A chi-square test has also been conducted to analyze the relationship between the practice of forensic accounting and the profession of the respondents to the questions. From table-3, the result shows a significant relationship between question 3 and the profession of the respondents with  $\chi^2(3) = 9.728377$ ,  $p=0.021022$ . It means that respondents have opinions with the awareness of forensic accounting not being better than any other control mechanism. Question 6 is positively associated with the type of profession of respondents  $\chi^2(6) = 8.363005$ ,  $p=0.039076$ . It evaluates that respondents share diversified views of forensic accounting to be used as a fraud detection tool. There is a positive and significant relationship between question 7 and type of professions  $\chi^2(7) = 95.23211$ ,  $p=0.874282$  which testify that respondents have the flexibility to practice forensic accounting.

## Conclusion

This study has been carried out to evaluate the awareness and practice of forensic accounting and the responses of different professions concerning forensic accounting. Different professions in this research include accounting and auditing firms, multinational companies, local organizations, and students from Bangladesh. This research used data obtained from an online survey. 52 responses have been analyzed using Microsoft Excel 2010. Chi-square tests have been conducted to determine the relationships between variables people, gender, and types of professions of the respondents and the questions in an association with the awareness and practice of forensic accounting. The result of chi-square shows that there is no significant relationship between the awareness of forensic accounting and people, 1 out of 8 questions related to the awareness of forensic accounting is significant with gender and 3 out of 7 questions are significant to the practice of forensic accounting and type of profession of the respondents.

Forensic accounting is the combined application of specialized knowledge to combat fraud based on economic transactions, henceforth, there is no uniform and standard rule to detect and eradicate fraud. So, forensic accounting practice can be a good start both for Bangladesh and the international perspective as well. In Bangladesh, there exists a widespread unethical practice of creative accounting. So, forensic accounting needs to be introduced and practiced. Besides, courses similar to forensic accounting should be launched for both public and private institutions to prevent and detect fraud. Specialized training should be provided to the existing accounting professionals.

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Table-1: The awareness of forensic accounting and people.

S N	Question	df	Chi-Square
1	Forensic accounting helps to detect and prevent fraud in any organization.	12	-0.36439
2	Forensic accounting ensures transparency in the financial statements of any organization.	12	11.37433777
3	Forensic accounting brings a greater change in the previous practices of policies, standards, and rules of any organization.	12	9.5754329
4	Forensic accounting ensures creating a healthy working environment.	12	15.59792663
5	Forensic accounting has an impact on the internal control system.	12	6.678731762
6	Forensic accounting helps to create better business communication among three layers of management	12	15.62504329
7	Forensic accounting has an impact on the external audit.	12	14.79027778

Source: Software output

Table-2: The practice of forensic accounting and gender.

S.N	Questions	Chi-square	df	P-value	Test statistics
1	Do you consider forensic accounting prevents fraud?	0.217516	1	0.640939	0.217516
2	Do you think that forensic accounting should be used to investigate fraudulent acts in the concerned organization of Bangladesh?	1.685474188	1	0.194199	1.685474188
3	Do you think that any other control mechanism other than forensic accounting is better?	0.145514403	1	0.702859	0.145514403
4	Do you think forensic accounting affects internal& external auditing?	4.761002179	1	0.029112	4.761002179
5	Do you consider that forensic accounting as the only tool for the prevention and detection of white-collar crime?	0.116526611	1	0.732833	0.116526611
6	According to you, can forensic accounting be used as a tool for measuring the risk of fraud?	2.294118	1	0.129865	2.294118
7	Do you have any pressure or obligation to practice forensic accounting in your organization?	0.280112	1	0.596628	0.280112

Source: Software output

Table-3: The responses of different types of respondents concerning forensic accounting.

S.N	Questions	Chi-square	df	P-value	Test statistics
1	Do you consider forensic accounting prevents fraud?	0	3	0	0
2	Do you think that forensic accounting should be used to investigate fraudulent acts in the concerned organization of Bangladesh?	0.787879	3	0.852364	0.787879
3	Do you think that any other control mechanism other than forensic accounting is better?	9.728377	3	0.021022	9.728377
4	Do you think forensic accounting affects internal & external auditing?	3.263321	3	0.35278	3.263321
5	Do you consider that forensic accounting as the only tool for the prevention and detection of white-collar crime?	2.207186	3	0.530534	2.207186
6	According to you, can forensic accounting be used as a tool for measuring the risk of fraud?	8.363005	3	0.039076	8.363005
7	Do you have any pressure or obligation to practice forensic accounting in your organization?	95.23211	3	0.874282	95.23211

Source: Software output

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