

Research Article

**Purpose of Forensic Accounting: An Internal and External Auditors Perception**

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**Abstract**

Forensic accounting is the application of accounting, auditing and investigative skills in detecting frauds committed in the corporation. In the recent past, the recurrence of corporate scandals in spite of having external and internal audit raise the scope of forensic accounting through the world. This paper examines the importance of the emergence of forensic accounting as well as the effects of forensic accounting from the perception of external and internal auditors. The study was conducted amongst 25 external and 25 internal auditors of Bangladesh. Findings show diversified perceptions of the respondents in this respect.

**Key words:** Forensic accounting, forensic audit, creative accounting

**1.0 Introduction**

Forensic accounting, sometimes referred to as fraud examination accounting, is an emerging area of specialization within the accounting discipline. Forensic accounting can, therefore, be defined as accounting that is used in a court of law, including, but not limited to, the application of accounting theory, principles, and calculations to actual or too hypothetical issues in legal proceedings. The term is broad enough to include the many procedures that an accountant or auditor applies in a fraud investigation (Arnoff and Jacobs, 2001).

Job titles commonly used in this field include forensic accountant, investigative accountant, fraud examiner, and fraud auditor. These terms are essentially interchangeable. Forensic accountants draw their expertise from many areas, including accounting, auditing, cost accounting, taxation, and information technology. Forensic accounting is more than accounting—more than detective work—it is a multifaceted activity that requires the use of knowledge from a number of disciplines (Albrecht, Albrecht and Albrecht, 2006).

Forensic accounting is one of the most interesting and fastest growing specialties in the profession. To help auditors in detecting fraud in a Financial Statement Audit, accounting firms are scrambling to hire people with knowledge and skills in the area of fraud detection and prevention. Forensic accountants can explain the financial significance by reviewing documentation. Some forensic accountants specialize in specific industries that are susceptible to fraud, such as insurance or banking, and learn the business practices associated with those fields. Forensic accountants may provide litigation support in some cases. A forensic

accountant can tell the attorney what additional information may be needed to prove the case and what questions to ask of witnesses.

## **2.0 Research Objective**

To study the perceptions of external and internal auditors about the purpose of forensic accounting.

## **3.0 Research Question**

What are the perceptions of external and internal auditors about the purpose of forensic accounting?

## **4.0 Literature Review**

Forensic accountants work in two primary areas, investigative accounting and litigation support. Investigative accounting encompasses not just the numbers and documents of a company, but the business environment as well. (Moncliff, 2005)

There is a difference called 'Perception Gap' between the public and the auditing profession concerning the duty of an auditor regarding the fraud and errors detection. Therefore, the auditor duty can be seen as the independent examination and expression of opinion over the financial statements produced by the entities. It must be done by an appointed auditor in compliance with the relevant statutory obligation (Millichamp and Talor, 2008).

The traditional role played by the external auditors is that they will just certify whether or not the financial statements of the concerned clients show a true and fair view of the state of affairs of the organization. But they are not liable to detect fraud if they work with proper diligence and good faith. This means that external auditors are basically working with numbers. They will not go beyond the number. In such a situation, forensic accountants do not merely look at the numbers but rather looks behind the numbers. Forensic accounting may be one of the most effective and efficient way to reduce and prevent accounting fraud. (Koh, Arokiasamy & Suat, 2009)

Creative accounting is referred to also as income smoothing, earnings management, earnings smoothing, financial engineering and cosmetic accounting. The preferred term in the USA, and consequently in most of the literature on the subject is „earnings management“, but in Europe the preferred term is „creative accounting“ and so this is the term that will be used in this paper. It should be recognized that some accounting manipulation involves primarily balance sheet rather than earnings management (Karim et al., 2011) The technique may be used to increase or decrease income in order to show higher or lower profit, to turn expenses into assets so as to increase profitability or to manoeuvre the net worth of the business. (Karim et al., 2016).

Forensic professional accountants while conducting their examinations must look for signs of fraud whereas all other accountants (financial accountant, cost and management accountant, and even chartered accountant) in this arena do not do so. In doing so, forensic accountants may examine internal databases and court records.

"While Forensic Accountants ("FAs") usually do not provide opinions, the work performed and reports issued will often provide answers to the how, where, what, why and who. The FAs have and are continuing to evolve in terms of utilizing technology to assist in engagements to identify anomalies and inconsistencies.

From a positive viewpoint, "it may seem that creative accounting connotes invention of accounting principles and techniques to recognize changes in economic, social, political and business environments. But in reality, the term is not normally used in the positive, but negative, sense, although it might be both a blessing and a curse. It is a blessing when something new is created to refine the accounting system and becomes an addition to the existing stock of accounting knowledge. Creative accounting becomes a curse, and therefore undesirable, when unethical elements enter the system. But real-world experience reveals that it is in most cases practiced in an undesirable way to attract investors by presenting an exaggerated, sometimes misleading and deceptive state of an organization 's financial affairs. This is why this system of accounting is sometimes referred to as —deceptive accounting. Thus, two perspectives of this term may be identified. The first one recognizes genuine changes in the business accounting practices while the second one reflects undesirable window-dressing" It is the second perspective is normally referred to as creative accounting (Akenbor and Ibanichuka, 2012).

## 5.0 Methodology

This research is an exploratory in nature. Both primary and secondary data was used. The secondary sources include published books, journals, periodicals and reports. The unit of analysis were (1) 25 internal auditors (2) 25 external auditors. Survey was conducted online. For the purpose of analysis, the collected data have been tabulated in five tables using mean.

## 6.0 Analysis and Findings

**Table 1: Perceptions about the purpose of forensic accounting**

SL No.	Effects of Forensic Accounting	Internal Auditor	External Auditor
1	To study the fraudulent practice	4.3400	4.1200
2	To investigate the practice	4.2600	3.8000
3	To make the external stakeholders more aware	4.1000	3.3000
4	To make internal stakeholders more aware	3.0800	3.5000
5	To make an effort to introduce forensic accounting as a statutory audit as well	4.1300	4.2000
6	To develop a forensic cell to monitor the financial reporting	3.9200	2.3200
	Grand Mean	3.9716	3.5400

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In analyzing some of the key component from table 1 we can see that the responses on to study the fraudulent practice was highest in the internal auditor with mean of 4.3400 while to make internal stakeholders more aware it was lowest with 3.0800. For the external auditor's perspective to make an effort to introduce forensic accounting as a statutory audit as well ranked highest with 4.2000 while to develop a forensic cell to monitor the financial reporting ranked last with 2.3200.

On the perception of to investigate the practice internal auditor ranked 4.2600 while the external auditor 3.8000. A close similarity on the perception was see on to make an effort to introduce forensic accounting as a statutory audit, here internal auditors mean was 4.1300 and external auditors were 4.2000.

We can see that the grand mean in table 1, the internal auditor with mean of 3.9716 and the external auditors with grand mean of 3.5400.

### 7.0 Conclusion

Forensic account is still in its very early stage in Bangladesh. There have been certain incidences of financial fraudulent practices which may be research later. Establishment of forensic cell, making more awareness amongst management, awareness among both internal and external stakeholders still remained an important issue.

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