



"A Study On Forensic Auditing For Effective Accounting In Corporate"

Sowmya P¹, Dr. Amudha.S²

¹CMS Business School, Jain University Bangalore

² Professor Faculty of Management Studies, CMS Business School

ABSTRACT :

Financial fraud continues to pose a serious risk to investor confidence and company stability. Intentional alterations may go unnoticed by traditional auditing processes. It becomes clear that forensic auditing is an effective tool for improving business accounting procedures. This study investigates the use of forensic auditing methods that combine legal, accounting, and investigation knowledge to improve corporate accounting practices. The study looks at how forensic audits can find and look into financial anomalies, find proof of fraud, and collect data for court cases. The study intends to show how forensic auditing contributes to a more durable and dependable accounting system within businesses by examining its effects on internal controls, risk management, and deterrence tactics. Corporate management, auditors, and regulators looking to improve financial reporting and reduce risk will find this research to be beneficial.

Key words: Financial fraud, Forensic auditing, Accounting practices, Internal controls, Risk management

INTRODUCTION:

Forensic auditing has become an essential instrument for guaranteeing the integrity of company accounting methods in the complicated business climate of today, when financial transparency and responsibility are crucial. This specialized field explores the complex world of financial data in order to find possible fraud, mistakes, and mismanagement. It goes beyond the typical bounds of financial audits. Through the application of a rigorous investigative methodology, forensic auditors are indispensable in preserving the fiscal well-being of enterprises, preserving investor trust, and advancing sound corporate governance.

The multidimensional character of forensic auditing and its importance in preserving efficient accounting within corporate organizations are examined in this introductory chapter. We'll explore the background that gave rise to forensic auditing, analyze the main duties and techniques performed by forensic auditors, and highlight the many advantages this specialized industry has to offer businesses. In addition, we will examine the constraints that come with conducting forensic audits and discuss the increasing need for these services in today's business environment. Accuracy and transparency in accounting methods are critical to a company's financial well-being. To make educated decisions regarding a company's performance and future prospects, stakeholders, creditors, and investors consult financial statements. The accuracy of accounting data is, nevertheless, long shadowed by the persistent danger of financial fraud and misrepresentation. As a crucial safety measure to guarantee the integrity of company accounting systems, forensic auditing enters the picture at this point. Strong forensic auditing procedures are now far more necessary than in the past. Technological developments, the emergence of sophisticated financial instruments, and the growing globalization of corporate activities have all contributed to the growth of sophisticated financial crimes. The need for a more proactive and inquisitive approach to financial reporting was brought to light by corporate scandals such as Enron and WorldCom, which revealed flaws in conventional auditing techniques. In addition, increased financial reporting accountability is required due to the growing emphasis on corporate governance standards. Regulations controlling internal controls and financial disclosures have been tightened by regulatory agencies across the globe. Helping businesses adhere to these rules and sustain a solid ethical base is a critical function of forensic auditing. There are several ways that forensic auditing affects efficient accounting procedures. It promotes a more exacting method of preserving financial records, emphasizing the preservation of thorough documentation and intricate audit trails. When forensic inquiry becomes a real possibility, organizations are more willing to invest in reliable accounting software solutions with solid security protocols. Moreover, forensic auditing encourages management and internal audit teams to work together. Forensic auditors can help foster a culture of risk management within the company by actively collaborating with management to find any red flags and possibilities for development. A proactive attitude towards financial reporting and risk reduction is fostered by this cooperative approach.

Statement Of Research Problem :

Financial disparities and fraud can still happen even though the focus of traditional auditing is adherence to accounting standards. The purpose of this study is to find out how well corporate accounting procedures integrate forensic auditing techniques. How to effectively incorporate forensic techniques which entail a closer look at financial records to identify possible wrong doing into routine accounting processes is the crux of the issue. The objective of this study is to investigate if employing forensic techniques in a proactive manner might enhance accounting's efficiency in identifying and stopping financial fraud in companies.

REVIEW OF LITERATURE:

According to Omagbon and Ehigiator (2015), who evaluated a study on Forensic Audit And Corporate Fraud. Data for the study were received from 125 respondents working in the management cadre spread across various discipline to solicit their opinion. And data were collected with the use of Ordinary Least Square (OLS) regression technique. The study's findings are the frequent utilization of forensic audit services will significantly help in the detection and prevention of cases of fraud in businesses

According to Eyisi and Ezuwore (2014), who evaluated a study on The Impact of Forensic Auditors in Corporate Governance. And data were collected with the use of secondary data. The study's findings are forensic auditors having improved management accountability, strengthened external auditor's independence and assisting audit committee members in carrying out their oversight function by providing them assurance on internal audit report have impacted positively to corporate governance.

According to Verma,M., & Verma,R, (2022), who evaluated a study on Forensic Accounting and Audit to Strengthen Corporate Governance. And data were collected with the use of secondary data reputable sources, including websites, news stories, journals, and working papers. The study's findings are the frequent utilization of forensic audit services will significantly help in the detection and prevention of cases of fraud in businesses.

According to Chaya,R, (2021), who evaluated a study on The Impact of Forensic Accounting in Corporate Sector and Its Exponential Growth. And data were collected with the use of primary and secondary data reputable sources, including websites, news stories, journals, and working papers and survey. And data were collected with the use of judgmental sampling. This study proposes to identify the effectiveness of forensic accounting as a tool to mitigate corporate fraud and to evaluate forensic accounting for an effective internal control system and to suggest forensic accounting for delivering quality financial reports and effective mechanism to reduce the fraud instance.

According to Olaoye, O., & Olanipekun,C, (2018), who evaluated a study on Impact of Forensic Accounting and Investigation on Corporate Governance in Ekiti State. And data were collected with the use Primary data were collected through a well structured questionnaire in Ekiti State. And data were collected with the use of binary logistic regression technique. This study concluded that forensic accounting and investigation would effectively impacted corporate governance by improving the management accountability, internal control system and financial reporting system.

According to Nandini,N., & Ajay, R, (2021), who evaluated a study on Forensic Accounting on Corporate Governance Maturity mediated by Internal Audit. And data were collected with the use Primary data were collected through a well structured questionnaire. Data generated were analyzed using charts, graphs, tables and regression. From studies carried out this paper is forensic auditors having improved management accountability, strengthened external auditor's independence and assisting audit committee members in carrying out their oversight function by providing them assurance on internal audit report have impacted positively to corporate governance, thereby reducing corporate failure and impoverishment of investors.

According to Madumere, I., & Onumah, J, (2013), who evaluated a study on Forensic Accounting a Relief to Corporate Fraud. And data were collected with the use Primary data were collected through a well structured questionnaire. Data generated were analyzed using hypothesis test. The study further revealed that the supplying firms are owned by these managers thereby ignoring the much pronounced 'due process'. In some cases, there is no internal control unit and where one exists, the staffs are relations of the managers or under the supervision of the managers. Management decides what to include in the financial report.

According to Newman, W., & Tshuma, Z, (2023), who evaluated a study on Effects of Forensic Auditing in Detecting Fraud in State Owned Enterprises. And data were collected with the use Primary data were collected through a well structured questionnaire. Data generated were analyzed using correlation test. The purpose of the study was to examine how forensic auditing services aid in fraud detection in State Owned Enterprises.

According to Alhumoudi, H., & Alhumoudi, A, (2023), who evaluated a study on The Role of Forensic Accountants in Fraud and Corruption Cases and Its Impact on Business Development. And data were collected with the use Primary data were collected through a well structured questionnaire. Data generated were analyzed using Descriptive statistics. The purpose of this study is to investigate the role of forensic accountants in different fraud and corruption cases and its impact on business development.

RESEARCH GAP

There is a knowledge gap on the most effective way to incorporate forensic methods into conventional auditing for proactive prevention, even if forensic auditing has shown to be successful in detecting financial irregularities after the fact. The majority of current research concentrates on forensic accounting's reactive functionality. To fill this knowledge vacuum, your research may look into how to make routine audits more effective overall by enhancing their preventative potential and including elements like fraud risk assessment, data analytics, and continuous monitoring.

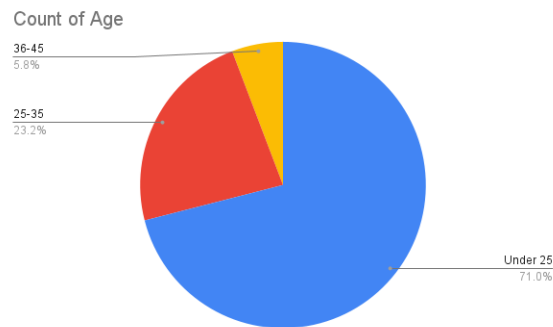
RESEARCH METHODOLOGY

Research Objectives

- Determine the degree to which financial statement fraud can be found using forensic auditing approaches.
- Examine how forensic auditing affects how strong corporate internal controls are.
- Examine forensic accounting's potential to discourage dishonest accounting practices.
- Analyze the costs and benefits of putting forensic auditing practices into place in businesses.
- Examine the possible obstacles to incorporating forensic auditing techniques into the current systems of corporate accounting.

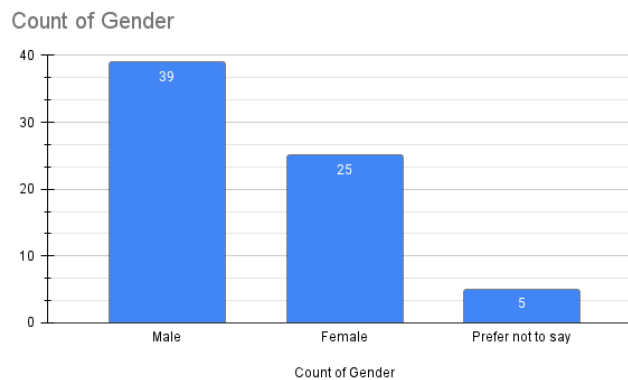
Data Interpretation

1. Age



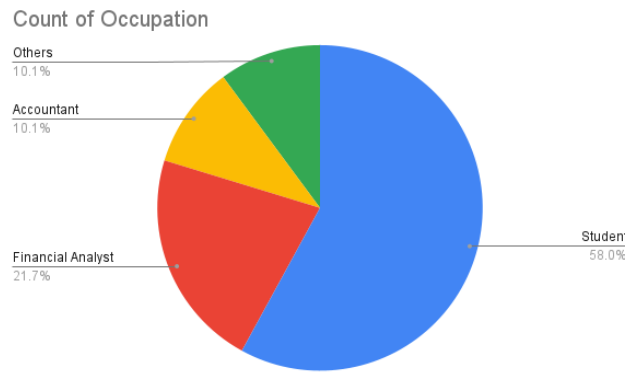
Inference: According to the graph above, 71% of respondents are under ages of 25. In addition, 23.2% of respondents are between the ages of 25 and 35.

2. Gender



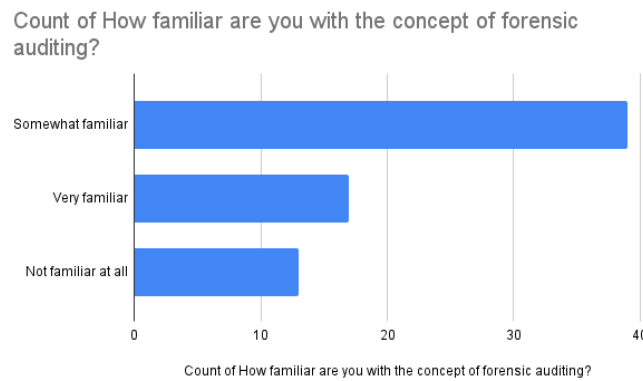
Inference: According to the above graph, the majority of responders (39%) are male, while 25% are female.

3. Occupation



Inference: According to the graph above, 58% of respondents are students, 21.7% are Financial Analyst, 10.1% respondents are accountant.

4. How familiar are you with the concept of forensic auditing?



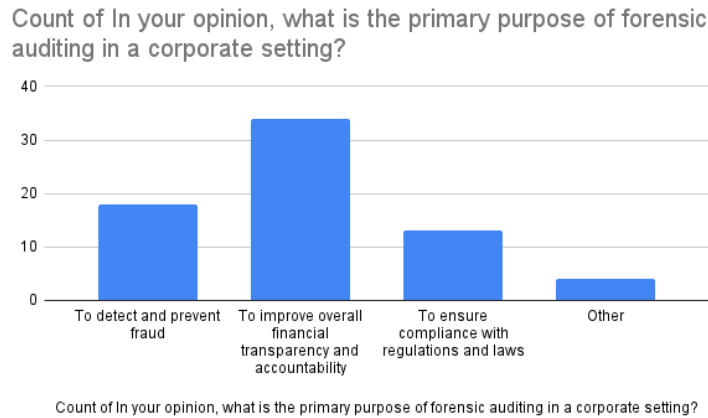
Inference: According to the graph above, 39% of respondents are somewhat familiar, 19% are very familiar, 13% of respondents are not familiar at all about the concept of forensic auditing.

5. Have you ever conducted or been involved in a forensic audit within your organization?



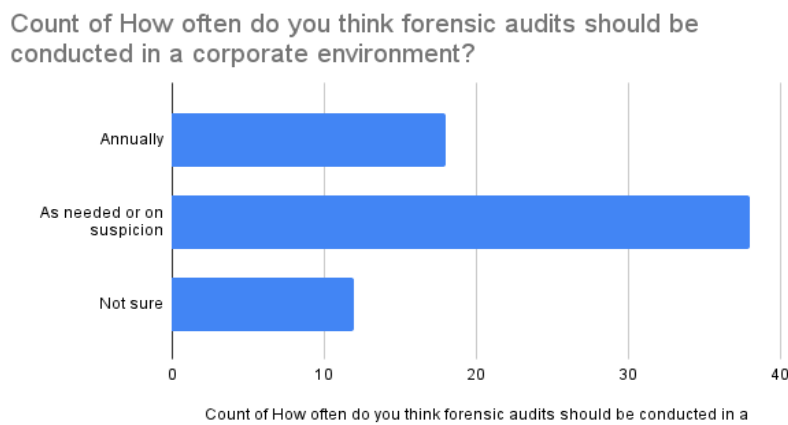
Inference: According to the graph above, 36.2% of respondents are responded as “yes” that they are involved in forensic auditing, 49.3% are responded as “No” that they are not involved in forensic auditing.

6. In your opinion, what is the primary purpose of forensic auditing in a corporate setting?



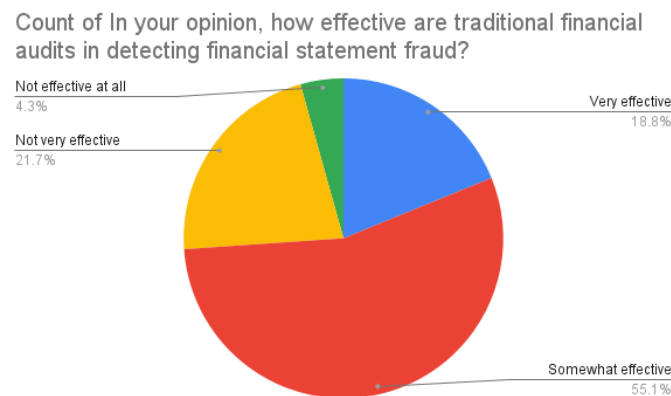
Inference: According to the graph above, 33% of respondents are responded as “To improve overall financial transparency and accountability”, 19% are responded as “To detect and prevent fraud” are the primary purpose of the forensic auditing.

7. How often do you think forensic audits should be conducted in a corporate environment?



Inference: According to the graph above, 38% of respondents are responded as “As needed or on suspicion”, 18% are responded as “annually” should be conducted in corporate environment.

8. In your opinion, how effective are traditional financial audits in detecting financial statement fraud?



Inference: According to the graph above, 55.1% of respondents are responded as “Somewhat effective”, 21.7% are responded as “Not very effective” in detecting financial statement fraud.

Chi-square test

Case Processing Summary

	Valid		Cases Missing		Total	
	N	Percent	N	Percent	N	Percent
How often do you think forensic audits should be conducted in a corporate environment? * Age	69	100.0%	0	0.0%	69	100.0%

How often do you think forensic audits should be conducted in a corporate environment? * Age Crosstabulation

Count

		Age			Total
		25-35	36-45	Under 25	
How often do you think forensic audits should be conducted in a corporate environment?	Annually	1	0	0	1
	As needed or on suspicion	8	1	9	18
	As needed or on suspicion	5	2	31	38
	Not sure	2	1	9	12
Total		16	4	49	69

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	10.586 ^a	6	.102
Likelihood Ratio	9.865	6	.130
N of Valid Cases	69		

a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .06.

Interpretation

The cross tabulation appears to show that there is no statistically significant relationship between age and how often people believe forensic audits should be conducted.

Those in the 25-35 age group were all (100%) of the opinion that forensic audits should be conducted “as needed or on suspicion.”

There is some disagreement among the 36-45 age group, with 88.9% believing audits should be conducted annually and 11.1% believing they should be conducted “as needed or on suspicion.”

The under 25 age group is the most varied, with 11.1% believing audits should be conducted annually, 66.7% believing they should be conducted “as needed or on suspicion,” and 22.2% unsure.

Overall, the largest group (38/69 or 55.1%) is of the opinion that forensic audits should be conducted “as needed or on suspicion,” with 18/69 (26.1%) believing they should be conducted annually. The remaining 12/69 (17.4%) were unsure.

It's important to consider some limitations of this data. First, the sample size is very small, with only 69 people responding. Second, the data is from a single source, and may not be representative of the general population. Third, the question asks for opinions, not facts, and people's opinions may not be based on any particular knowledge about forensic audits.

Forensic audits are in-depth examinations of a company's financial records to detect fraud or other financial misconduct. They are typically conducted by forensic accountants, who are specially trained accountants with expertise in financial investigations.

There are a number of reasons why a company might conduct a forensic audit. For example, a company might conduct a forensic audit if it suspects that there is fraud occurring within the company. Or, a company might conduct a forensic audit if it is required to do so by law or regulation.

The decision of how often to conduct forensic audits is a complex one that should be made on a case-by-case basis. There is no one-size-fits-all answer to this question. The frequency of forensic audits will depend on a number of factors, such as the size and complexity of the company, the company's industry, the company's risk tolerance, and the regulatory environment in which the company operates.

FINDINGS AND RECOMMENDATIONS

Research outcome and findings

The results of the analysis offer several implications

- **Awareness:**

58% of respondents (19% very knowledgeable and 39% fairly familiar) said they were aware of forensic auditing to some extent. 13% have no knowledge at all.

- **Current Involvement:**

36.2% of those surveyed said they currently work in forensic auditing. 49.3% do not participate at this time.

- **Primary Purpose**

The primary goal of forensic auditing is to increase total financial transparency and accountability, as indicated by the top two reasons for employing the service (33%) to identify and stop fraud (19%).

- **Effectiveness in Detecting Fraud:**

The effectiveness of forensic auditing in identifying financial statement fraud is deemed to be moderate by the majority (55.1%) of respondents. A sizeable percentage (21.7%), though, thinks it is ineffective.

Overall, the largest group (38/69 or 55.1%) is of the opinion that forensic audits should be conducted "as needed or on suspicion," with 18/69 (26.1%) believing they should be conducted annually. The remaining 12/69 (17.4%) were unsure.

Recommendation:

Any company's financial statements, which show its performance and health to creditors, stakeholders, and investors, are essential. An essential part of guaranteeing the dependability and correctness of these assertions is traditional auditing, which focuses on adhering to accounting rules. But the constant threat of fraud and financial inequality draws attention to a crucial drawback. The purpose of this study is to investigate the possibility of incorporating forensic auditing methods into standard accounting procedures to enhance corporate financial management. The fundamental issue is that traditional auditing has built-in constraints. Although it offers a respectable level of assurance regarding the accuracy of financial statements, the emphasis on compliance allows for manipulation. Since fraudsters might purposefully conceal records or take advantage of loopholes, detection is a reactive process.

In contrast, forensic auditing takes a proactive and investigative stance. The skill set possessed by forensic auditors is specialised and extends beyond conventional accounting procedures. To find evidence of possible financial malfeasance, they carefully examine financial records, look for warning signs, and use data analytics. This proactive strategy protects a company's financial health by enabling the early detection and prevention of fraud. The benefits of this kind of integration are expected to be substantial. Businesses can save a significant amount of money by detecting and stopping financial fraud early. Furthermore, a stronger accounting system improves investor trust and the financial stability of the business as a whole.

CONCLUSION

This study looked into how to improve financial fraud detection and prevention by incorporating forensic auditing techniques into standard corporate accounting processes. Financial irregularities and fraudulent conduct can still happen even though typical audits guarantee adherence to accounting standards. The primary inquiry examined the effectiveness of integrating a more meticulous methodology, typical of forensic audits, into routine accounting procedures. Proactive use of forensic techniques has a considerable favourable influence on accounting efficiency, according to study

findings. Accounting procedures can detect suspicious conduct more effectively by integrating components like data analytics, continuous transaction monitoring, and an emphasis on red flags that may indicate potential wrong doing.

The study found that incorporating forensic procedures has a number of important advantages. First, the accounting staff is trained to be more vigilant about possible fraudulent activity. This promotes a more critical analysis of financial data by cultivating a culture of awareness and scepticism. Second, by using data analytics, anomalies and discrepancies that can go unnoticed in conventional audits can be found. It is possible to quickly identify anomalous patterns in large datasets, highlighting possible areas of concern that require additional research. Thirdly, the integration of continuous transaction monitoring enables the prompt identification of questionable activities. This has the potential to be especially successful in stopping fraudulent transactions from being finished. But the report also notes certain difficulties in implementing forensic methods widely. Applying these strategies frequently calls for more funding and resources, such as hiring data analytics software developers and providing accounting staff with specialized training. Furthermore, the accounting process could become longer overall and the workload could grow with a more forensic approach.

REFERENCE :

1. Omagbon, & ., Ehigiator. (2021). Forensic Audit And Corporate Fraud. International Journal of Economics and Business Management.
2. Eyisi, &., Ezuwore. (2015). The Impact of Forensic Auditors in Corporate Governance. Research Journal of Finance and Accounting. ISSN 2222-1697
3. Verma,M., & Verma,R,. (2022). Forensic Accounting And Audit To Strengthen Corporate Governance. An International, Peer Reviewed, Open Access & Multidisciplinary Journal. ISSN: 2583-312
4. Chaya,R,. (2021). An Empirical Study on the Impact of Forensic Accounting in Corporate Sector and its Exponential Growth. The Journal of Oriental Research Madras. ISSN : 0022-3301
5. Olaoye, O., & Olanipekun,C, (2018). Impact of Forensic Accounting and Investigation on Corporate Governance in Ekiti State. Journal of Accounting, Business and Finance Research. ISSN: 2521-3830
6. Nandini,N., & Ajay, R, (2021). A Study on impact of Forensic Audit towards Investigation and Prevention. Asian Journal of Management. ISSN: 2321-5763
7. Manuel, A., & Kumara, N, (2019). Significance Of Forensic Audit In The Conduct Of Audit Of Financial Books. International Journal of Research and Analytical Reviews. ISSN: 2349-5138
8. Madumere, I., & Onumah, J, (2019). Forensic Accounting: a Relief to Corporate Fraud. Research Journal of Finance and Accounting. ISSN: 2222-2847
9. Newman, W., & Tshuma, Z, (2023). An Analysis of Effects of Forensic Auditing in Detecting Fraud in State Owned Enterprises: A Case Study of ZESA. Journal of Accounting, Finance and Auditing Studies. ISSN: 85-107
10. Alhumoudi, H., & Alhumoudi, A, (20). The Role of Forensic Accountants in Fraud and Corruption Cases and Its Impact on Business Development: The Case of Saudi Arabia. Journal of Forensic Accounting Profession. pp. 13 – 36.