

Forensic Accounting in Commercial Banking Sectors for Fraud Detection and Prevention

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Abstract: The study emphasizes commercial bank departments' proactive efforts, such as forensic accounting services. In this study, we examine the importance of forensic accounting in commercial banking for detecting, investigating, and preventing fraud. The study found that fraud investigations affect a company's ability to prevent fraud by forensic accounting. Forensic accounting mostly focuses on financial frauds control because 41.9% respondents were agreed regarding this, other factors contribute the rest. The government should develop effective and legal framework and do proper enforcement regarding fraud detection and prevention. Results can be helpful to policymakers who have yet to consider offering forensic accounting divisions in different banking sectors.

Keywords: Commercial Bank, Forensic Accounting, Fraud detection, and Fraud Prevention.

Introduction

Accounting principles and methodologies answer legal issues in forensic accounting. Fraudulent individuals must be discovered and reported for court or administrative proceedings (Dhar & Sarkar, 2010). Forensic accounting is fascinating and growing fast. Accounting firms are scrambling to hire fake discovery and avoidance experts to help auditor's spot fakes in financial account audits. Forensic accountants can determine financial importance from supporting documents. Forensic accountants analyze commercial operations in fraud-prone industries like banking, insurance, and industry. In Bangladesh's commercial banking community, forensic accounting is rare. The report explores how Bangladesh's banks use forensic accounting to detect and prevent fraud. After decades, forensic accounting now includes numerous types of financial evidence scrutiny. Forensic accounting analyses whether a person or organization engaged in illegal economic activities. The forensic accounting process comprises investigation, dispute resolution, and litigation support. Since proactive detection, fraud is more complex. Forensic accounting is a modern prevention and detection method. Higher efficiency, insignificant losses, reduced possibility of exploitation, greater authority, and stronger brand recognition help firms manage finances and prevent legal concerns.

In a world where financial stability, investor confidence, and public trust hang in the balance, Forensic Accounting is the guardian of integrity, the safeguard of our economic ecosystem. The study is on forensic accounting facilities on the detection of fraud and results indicate that forensic accounting services have an impact on the magnitude of bank fraud, Ebimobowei (2011). The study revealed, among other things, that possession of enhanced skills aids the forensic Accountant in discharging his duties, Okafor, M. C., & Agbiogwo, A. A. (2016).

This study by Islam, Rahman, and Hossan (2011) focused on aspects associated with the current state of forensic accounting in Bangladesh and its efficacy in detecting fraudulent

activities. They provided evidence that forensic accounting for fraud detection can be an asset in the fight against exploitation and fraud in Bangladesh. The writer conducted a study on investigation of forensic accounting as a tool for detecting and preventing fraud. Public sector organizations can detect and prevent fraud with the assistance of forensic accounting, which reduces the number of fraud cases by a significant margin, Okoye (2011). According to Koh (2009), the study emphasized the fundamental notion that the purpose of forensic accounting is to raise awareness regarding the identification and eradication of accounting deception. In the conclusion of their reading, they were concerned that forensic accounting practices, including litigation support and analytical accounting, would develop a structured presentation. As stated by Bhasin (2007), forensic auditors continue to be willing to disregard statistical data and disclose the profitable certainties of a situation. Complex economic business-related subjects are analyzed, explained, summarized, and organized as a profession's defining characteristics.

A study was undertaken by Okoye and Gbegi (2013) to examine the efficacy of forensic accountants in the process of strategizing and constructing methods for detecting management fraud risk. When there is a high risk of management fraud, the study demonstrates that forensic accountants can effectively alter the scope and nature of an audit test; they can suggest special procedures that auditors do not recommend in such situations; they can improve the efficacy of an audit plan in such situations; and their involvement can enhance the risk of management fraud assessment process. Gottschalk (2010) surveyed 517 prospective respondents using a standardized questionnaire. A total of 141 completed responses were utilized in the study, which employed descriptive statistics. The results indicate that control is the most essential technique for administering and preventing fraud. In their study, Njanike et al. (2009) utilized a three-part questionnaire—personal, detection, and investigation—to collect data regarding the present condition of forensic auditing and provide suggestions for its development. As a consequence, forensic audit departments encounter a multitude of challenges, encompassing inadequate material resources, technical proficiency, managerial interference, and ambiguity regarding the profession's acknowledgment. Rose et al. (2012) identified preliminary evidence that auditors and fraud specialists differed in the order in which they stored red flags when 15 fraud signals were represented graphically. It was observed that auditors who implemented the organizational knowledge pattern of fraud specialists conducted risk assessments with greater accuracy. An empirical investigation was undertaken to examine the perspectives of forensic accountants, solicitors and academics within the accounting industry regarding the transparency of expert testimony. The findings indicate that although forensic accountants and lawyers provided distinct responses to each research question, academics and forensic accountants held divergent opinions on the majority of matters, Di Gabriele (2010). The study observed that the public's demand for honest, fair, and transparent reporting has increased exponentially in recent years, resulting in a heightened demand for forensic accountants. In addition, he stated that universities must design curriculum for forensic accounting programs that produce certified professionals and meet likely future demands, Ramaswamy (2007). The research study is to ascertain whether forensic accountants are more required in emergent nations to combat financial crimes by the public or private sectors of society. The conclusion of this study is that the government sector has an even greater need for forensic accountants, Kasum (2009). The significant considerable importance is to forensic accounting and fraud auditing in the course of their inquiry, Singleton et al. (2006).

Academics and certified fraud examiner practitioners were utilized by Razzae and Burton (1997) to evaluate the current average, future trajectory, and purpose of accounting education. A growing demand for forensic accounting education and specialized competency areas, either as a stand-alone course or as modules in auditing and accounting, was determined by their investigation. The authors reviewed literature on forensic accounting at various universities. Different authors focused their overview on different issues related to detecting and avoiding fakes. Most of the articles were constructed in the previous year. However, more research is needed in recent years. In commercial banking, many institutions are less interested in forensic accounting. This is the research gap for the current study. The research gap helps forensic accounting identify and prevent fraud, and its advantages can be evaluated and analyzed. On the basis of research gap these are the objectives of this study:

- a. To examine the usage and presentation of forensic accounting in fraud discovery and avoidance in Bangladesh of banking sectors.
- b. To determine the level of consciousness of the practice of forensic accounting in banking activities of Bangladesh.

Theoretical framework:

The aim of forensic accounting is to examine, detect, and prevent fraud in a country or corporation. Forensic accounting is essential for businesses' present and future growth. Enterprise development is promoted. This paradigm was proposed by Lister (2007):

Opportunity: When internal controls are deficient or when there is inadequate management oversight during the implementation of internal controls, employees exploit their positions to commit fraud. The primary motivation for most workers who engage in fraudulent activities is the opportunity to obtain access to assets and information that enable them to effectively hide their deceptive behavior. Indeed, employees must have access to a certain policy in order to accomplish their responsibilities. An analogous entry point could provide the employee with an opportunity to engage in fraudulent activities.

Motivation/factor: An employee may engage in fraudulent activities due to external pressure. There are various types of pressure, and financial pressure is just one of them. Lister (2007) posits that there exist three distinct classifications of pressure or motivation: Internal pressure encompasses various factors such as personal pressure to maintain a certain lifestyle,

Fraud Triangle Theory:

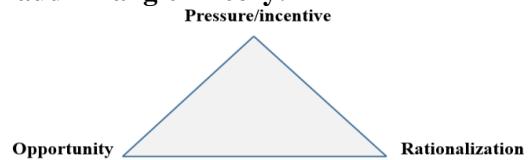


Figure 1 Fraud triangle theory (FTT)

Source: Coenen (2005) and Adebisi, & Gbegi, (2015)

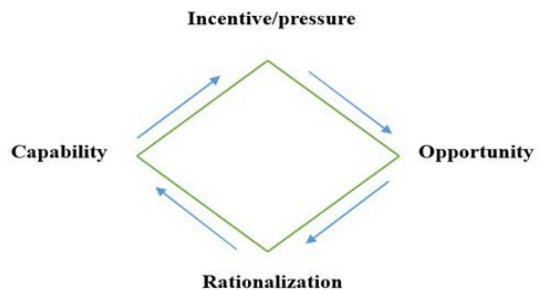


Figure-2: Fraud diamond theory (FDT)

Source: Wolf and Hermanson (2004)

workplace pressure arising from incentive programs or the organization's financial interests, and external pressure stemming from factors like the company's financial stability, contractual obligations with lenders, and market opportunities. The problems signify the incentive that can impact fraudulent activities.

Rationalization: Employees who engage in fraudulent behavior frequently try to justify or explain their behavior. For instance, a situation where an employee is on the verge of losing their home can be exploited to justify a dishonest action.

Fraud diamond theory: Wolf and Hermanson (2004) proposed a novel progressive model known as the fraud diamond theory, which supersedes the fraud triangle hypothesis. They argue that the FDT offers a more comprehensive perspective on the underlying factors that contribute to fraud. A fourth variable, capability, was incorporated into Cressey's three-factor approach.

Capability: The fake needs certain characteristics, abilities, or positional power in order to perform his illegal deed. A more profound comprehension of the reasons behind fraud is offered by the fraud diamond theory. It is believed that if the right person had not been able to carry out the details of the deceit, many scams would not have occurred. He needs to be aware of and capitalize on gaps in the accounting and internal control systems.

Conceptual Framework: The study develops a new conceptual framework that will initiate forensic accounting elements by analyzing theoretical ideas and reviewing the literature. It also advances the banking sector's overall corporate financial performance and development.

Standard Rate: It automatically decreases fraudulent operations when the potential rate reaches the standard rate. Because the rate is limited, these actions do not provide the desired financial rewards, so no one or group benefits.

Government Rules: When certain regulations are put in place by the government, fraud naturally decreases.

Forensic Accounting: This is significantly reduced when forensic accounting is used to investigate fraudulent actions. Regarded as a means of inquiry, conflict settlement, and bolstering legal proceedings.

Materials and Methods

This research has started to take a well-accepted view of the essential concerns of legal secretarial and fraud. As a result, we recognize that the research is a relevant study with fraud as an independent variable and forensic accounting as a dependent variable. Secondary data was used to complete this study. The methods of this study are qualitative and relational, in which enough information is taken about forensic accounting practices and how they are essential to our commercial banking sectors—the initial purpose of this study is to

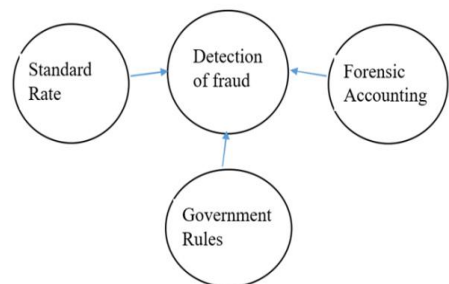


Figure 3. Essential view of study

Identify forensic accounting practices in the commercial banking sector in Bangladesh. The study takes data from 31 employees from 31 commercial banks. These 31 banks have taken as a sample. The sample includes both private and state-owned commercial banks. The seven (7) government commercial banks and other private commercial banks are selected for the study. Moreover, both groups of banks are considered to know the actual status of forensic accounting in banking sector in Bangladesh. The study includes both conventional and Islami banks. The study’s sample is selected conveniently. The study is conducted in 2023. The study shows how the selected commercial banks perform their forensic accounting practices. This study uses questionnaires to help get relevant information. The questionnaire involves 11 questions as well as some basic information related questions. It helps to get to the point result and to make a decision about it. The data is mainly collected from questionnaires, and data was also collected from secondary sources like websites, research journals, relevant publications, academic articles, and selected commercial banks' annual reports, which quickly know their financial circumstances against fraudulent transactions. That means both primary and secondary data source were used in this study.

The data is collected from 31 commercial Bangladeshi banks. It presented that 100% responsive rate in which 74.2% are male and 25.8% are female.

The establishment and effectiveness of fraudulent practices may depend on the length of time of banks and also age of years of commercial banks employees. So, the below graph shows that 25-30 years of age 45.2%, 31-35 years of age 41.9% and 35-above years of age 12.9% are given their valuable opinions. This graph is represented that the Bangladeshi commercial banks has exit in forensic accounting or not. It’s very important to know the existence in financial section and easily understand how much fraud occurred or not.

Table 1 Respondents Gender

Particulars	Frequency	Percentage
Male	23	74.2%
Female	8	25.8%
Total	31	100%

Source: Field Survey

Table 2 Age of Employees

Particulars	Frequency	Percentage
25-30	14	45.2%
31-35	13	41.9%
35-above	4	12.9%
Total	31	100%

Source: Field Survey

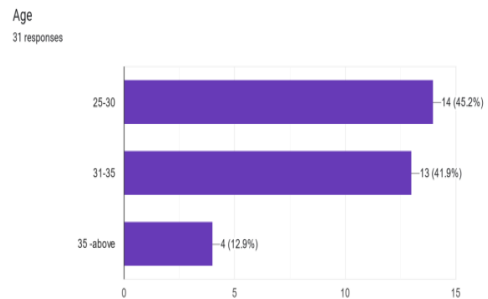


Figure 4. Age of employees

Source: Field Survey

Do you have a department of forensic accounting?

31 responses

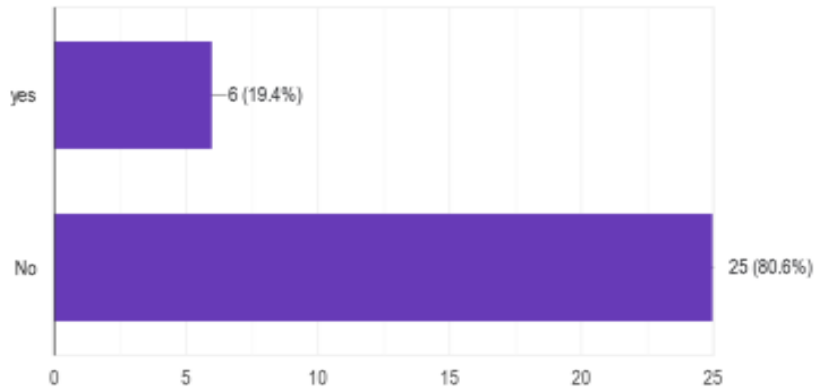


Figure 5. Department of Forensic Accounting

Source: Field Survey

In Bangladeshi perspective, forensic accounting service is very important for general people. But unfortunately, this service is not available in commercial banking sectors. Only available percentage is 5.16% and 83.9% is not available for this services.

Section B: Fraud Detection and Prevention Do you think forensic accounting services are actively apply to commercial banks?

31 responses

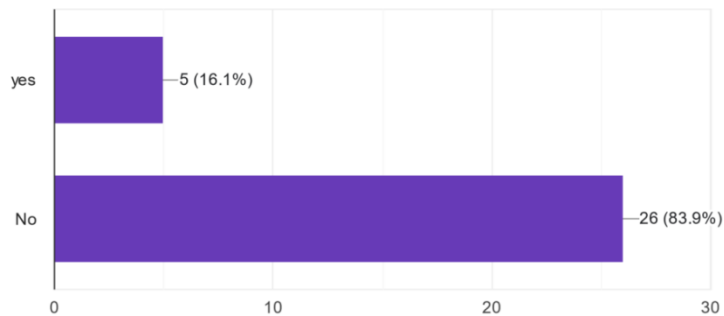


Figure 6. Forensic Accounting Service

Source: Field Survey

According to graph, we can see that most respondents given their opinion about essential of forensic accounting. When applied the forensic accounting then fraud can be easily detected. But Bangladeshi perspective, application percentage is very poor in which they understand the value of forensic accounting. Here 80.6% support forensic accounting but 19.4% are not interested in forensic accounting.

Table 5. Necessity of Forensic Accounting

Particulars	Frequency	Percentage
Yes	25	80.6%
No	6	19.4%
Total	31	100%

Source: Field Survey

Do you agree forensic accounting is essential for fraud detection?

31 responses

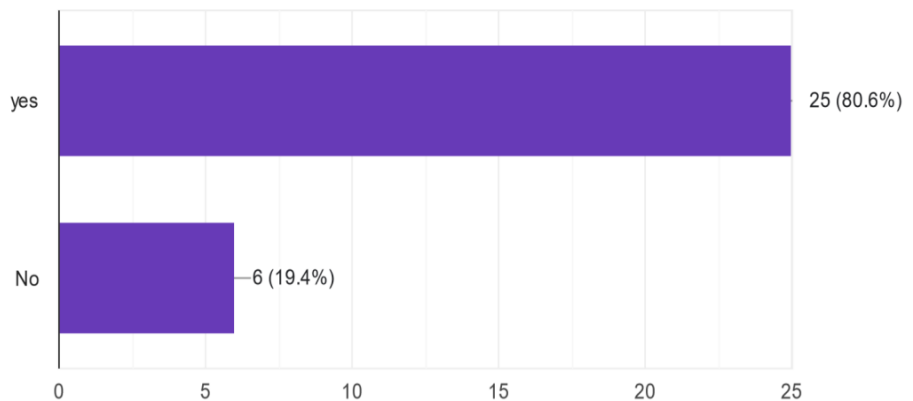


Figure 7. Necessity of Forensic Accounting.

Source: Field Survey

Fraud Prevention

According to the graph, we can see how can prevent fraud by helping forensic accounting. This question wants to know the respondent's expectations. They show their opinion on how relevantly prevent fraud according to forensic accounting. These elements how much benefitted for forensic accounting. Most respondents gave positive opinions with which 51.6% agreed for that purpose.

Do you think litigation support, fraud investigation, business advisory services, dispute resolution and expert consultation can prevent fraud according to forensic accounting?

31 responses

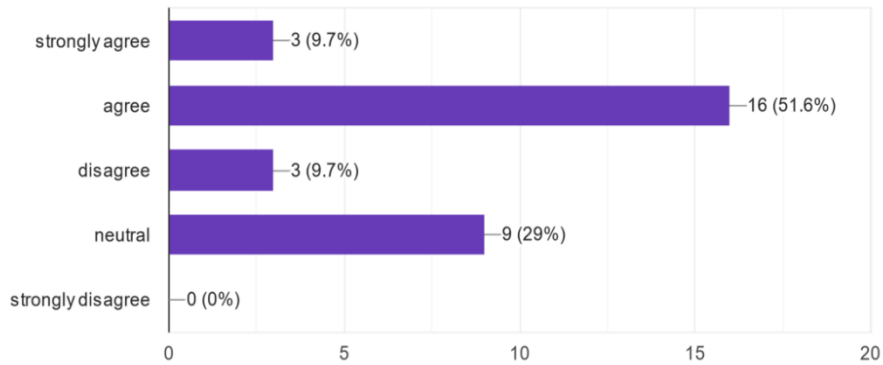


Figure 8. Fraud Prevention.

Source: Field Survey

Types of Fraud

In this graph we can see that different respondents give different opinions. They face different frauds in commercial banks in which financial fraud 54.8%, check fraud 22.6%, debit and credit card deposit 19.4%, automated clearing house fraud 12.9% and safe deposit box fraud 6.5%.

In your opinion, what type of frauds are occurred in commercial banking sectors?

31 responses

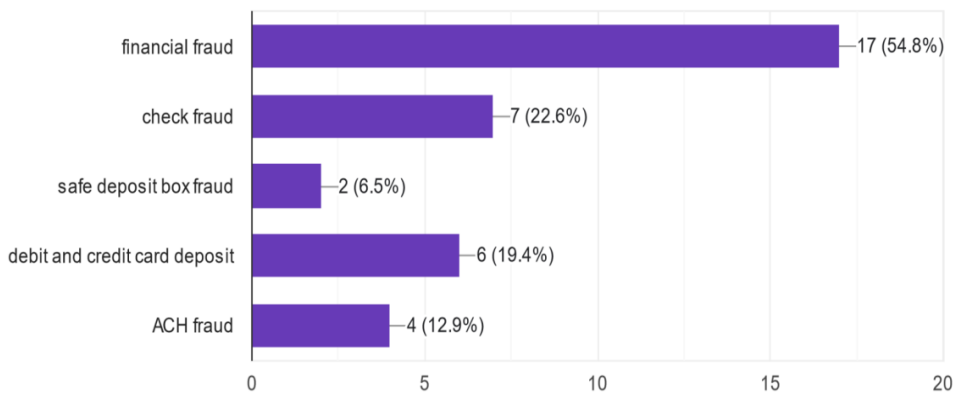


Figure 9. Types of Fraud

Source: Field Survey

Percentages of Frauds

In this questionnaire, the research graph shows that what portions of frauds are minimized by the forensic accounting. In which 26-50 % frauds are removed by forensic accounting, then the respondents gives a truly observation is 35.5%. At the same way, 32.3% respondents assume that 10-25% frauds are removing possible with the help of forensic accounting.

What percentage of frauds are removed with the help of forensic accounting?
31 responses

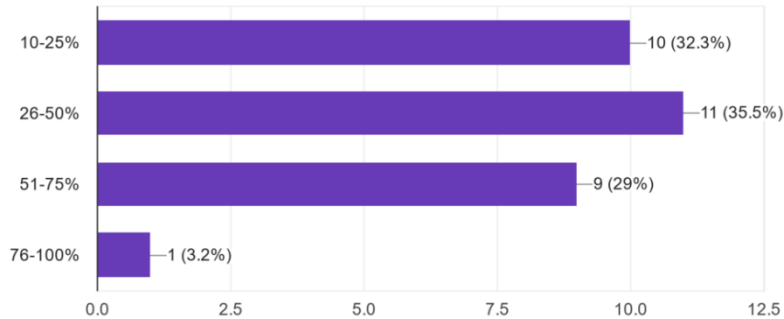


Figure 10. Percentages of Frauds

Source: Field Survey

Detection of Fraud

According to this graph, we can see that how can easily detected frauds by forensic accounting. In which 45.2% frauds are removed by expert consultant ,25.8% frauds are removed by proper training, 16.1% frauds are minimized by properly justified accounts, 12.9% frauds are removed by fraud investigation and 9.7% detected by financial report review.

How forensic accounting easily detect frauds?
31 responses

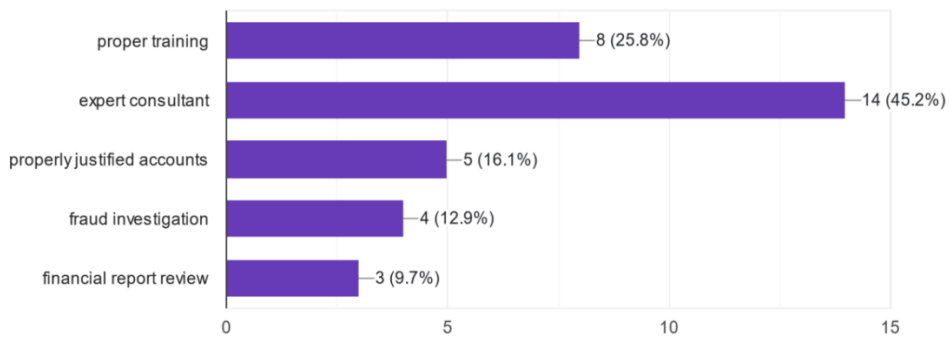


Figure 11. Detection of Fraud.

Source: Field Survey

Percentage of Forensic Accounting

This questionnaire represented that how necessity of forensic accounting to easily fraud detection in which high extents 32.3%, moderate extents 29%, and low extents 22.6% and also very high extents is 19.4%.

If easily detect frauds by forensic accounting, then how essential for Bangladesh perspective?

31 responses

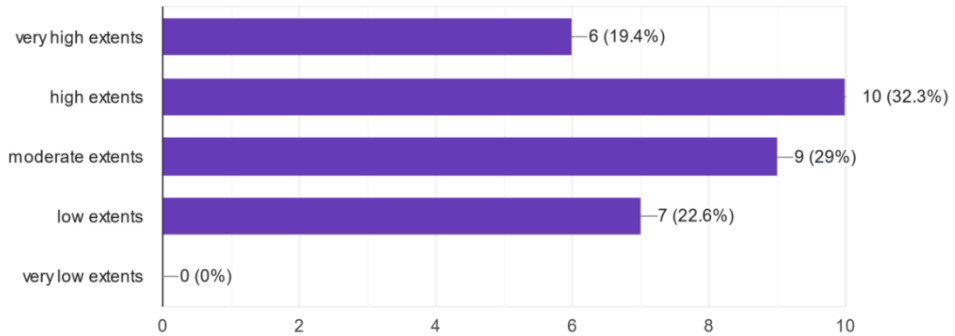


Figure 12 Percentage of Forensic Accounting.

Source: Field Survey

Application of Forensic Accounting

According to this graph, we see which areas are mostly applied in forensic accounting. Financial frauds control 41.9%, expanding quality financial reporting 32.3%, electronic crimes control 16.1%, and internal control systems monitor 9.7%.

Section C: Application of Forensic Accounting which areas are applied of application of forensic accounting?

31 responses

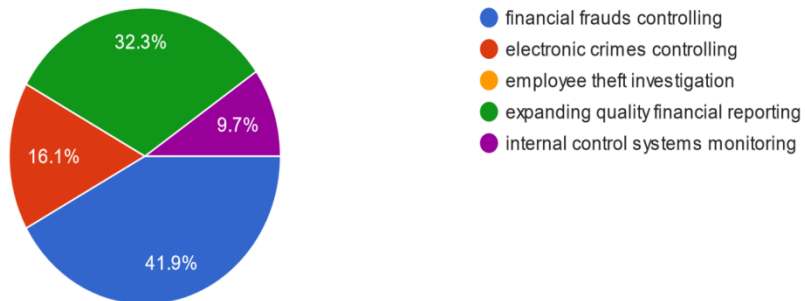


Figure 13. Application of Forensic Accounting

Source: Field Survey

Dispute Resolution

The study discovered that risk-based and interest-based, neutrals all apply to a high extent. Negotiations, which include all efforts by individual disputants to resolve conflict themselves, also apply to a high extent. This graph represented that risk basis 48.4%, interest basis 25.8%, neutrality 19.4%, and negotiations 16.1%. So, most priority factors are risk basis and then interest basis.

which factors are applied in dispute resolution through forensic accounting?
31 responses

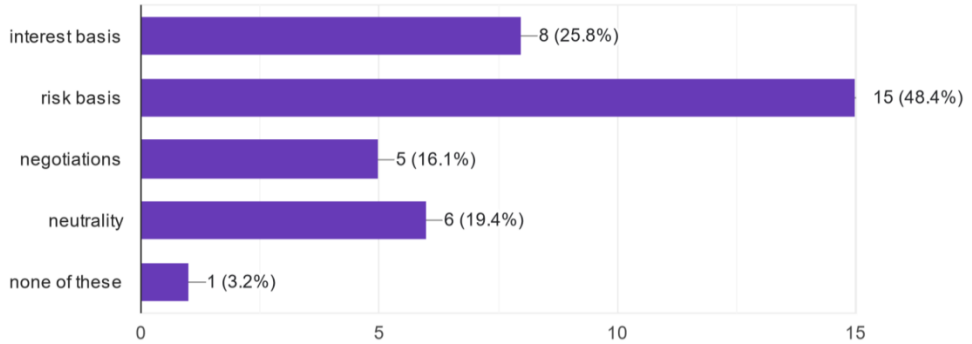


Figure 14. Dispute Resolution.
Source: Field Survey

Acceptability of Forensic Accounting

According to the graph, the research represented that how much acceptable of forensic accounting through Bangladesh in commercial banking sectors. Most respondents give opinions their valuable judgments. In which poor acceptability is 35.5%, very poor acceptability is 22.6%, and moderate acceptability is 12.95%.

what type of acceptability of forensic accounting through Bangladesh?
31 responses

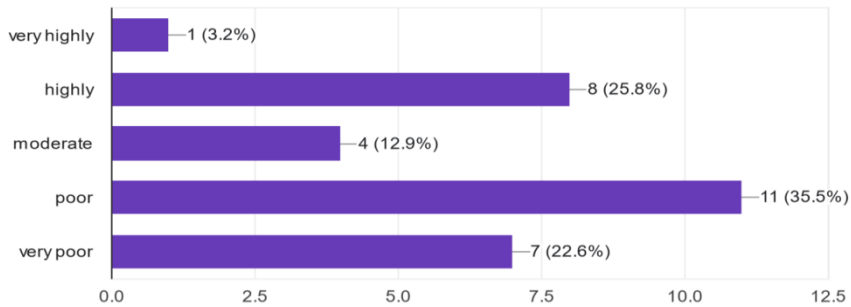


Figure 15. Acceptability of Forensic Accounting
Source: Field Survey

Expert Consultation

The following replies are provided in response to respondents' evaluations of the various bank employees given below:

The respondents emphasized that most corporations effectively employ the review presentation of facts as the primary phase in their expert consultation, as indicated by the highest percentages. The recommendation of the most efficient methods for presenting the facts at trial, determining the truthfulness of the claim, and confirming the size of the claim all stated that these stages are regularly taken as significant procedures in expert consultation. The lowest percentages occurred when helping to study and evaluate data collected from bank-to-bank position analyses by employees.

which factors are applied in expert consultation through forensic accounting?
31 responses



Figure 16. Expert Consultation.
Source: Field Survey

Fraud Investigation

The goal of the study is to identify the key procedures required in fraud investigation that determine forensic accounting. According to graph, we can see that most respondents given different opinions in which justify financial and main documents 32.3%, financial report review 29%, and electronic evidence justified 22.6%, none of these 19.4%, searching illegal activity 16.1%.

which factors are applied in fraud investigation through forensic accounting?
31 responses

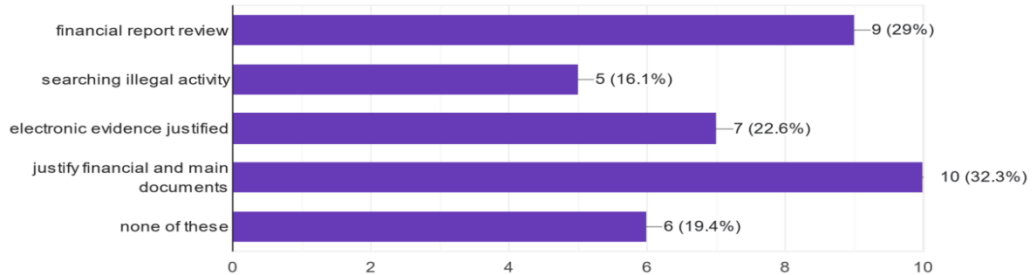


Figure 17. Fraud Investigation
Source: Field Survey

Conclusion and Recommendation

This research suggests changing commercial banks' organizational structures to improve forensic accounting. To prevent unjustified financial loss and fraud, management and internal controls have to learn about the most common fraud and the department that commits it. The International Accounting Standards Board required commercial banks to meet higher auditing and accounting standards. Professional forensic accountants were to investigate prosecutions using correct forensic methodologies and impose disciplinary action for fakes. The status of practice of forensic accounting is not satisfactory. Banks had to create a code of conduct and disclose their assets frequently. This training is required and can boost forensic accounting efficiency by helping personnel understand and avoid fraud. According to study, forensic accounting services can detect and prevent fraud. Thus, a commercial bank must provide enough opportunities to apply forensic accounting in its numerous departments to grow with fewer frauds. The study suggests commercial banks utilize forensic accounting services to decrease fraud like other strategies. According to the literature study, Njanike (2009) discovered results similar to this article after adding that.

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