ISSN 2072-3334
Development Compilation
Vol. 03. No. 02. January 2010

FORENSIC ACCOUNTING IN BANGLADESH: EMERGENCE AND INTRODUCTION

Alim Al Ayub Ahmed*
Taposh Kumar Neogy**

Introduction

The objective of this paper is to examine to what extent and in what type something like Forensic Accounting (FA) now exists in Bangladesh, and to determine how long such an orientation has existed. The purpose of this article is to study the emergence and development of forensic accounting in Bangladesh. *What is the situation of "Forensic Accounting" in Bangladesh?* These are no strict equivalent for that term, nor has this specialty received official recognition in that country, as it has in Canada for instance (Labelle, 2004). Adopting an historical perspective enables us to outline the evolution of the role played by Bangladesh accounting in the judicial system as a whole, and in dispute settlement and fraud detection in particular.

To adequately understand current forensic accounting conditions in Bangladesh it is essential to appreciate the context in which present circumstances developed. The situation that prompted reform efforts is strikingly summarized in the very first papers of Humayan Kabir FCA's paper on *Importance of deploying forensic accounting techniques*, Nasim Anwar FCA and Md. Salim Uddin Ahmed FCA, FCMA, MBA's paper on *Forensic accounting: A dynamic tool for combating corruption,* and Moazzem Hossain's paper on *Combating corruption involves a process, not an event*.

The relationship among business, the political realm, and the administrative bureaucracy in Bangladesh is much closer than in the developed countries. When companies need to measure and recover damages caused by fraudulent activities, they often rely on

* Lecturer in Accounting, School of Business Administration, Asian University of Bangladesh, Bangladesh

** Lecturer, Department of Business Administration, Southern University, Bangladesh

a new corporate sleuth- forensic accountant, who assists in making a legal review of an investigation. Forensic accounting is a king postmortem, which reveals the inherent cause of an event that takes place with the intention of committing corruption, fraud, embezzlements and other scandals of moral turpitude and implications.

The base of forensic accounting is Accounting knowledge. A middle layer is a dispersed knowledge of auditing, internal controls, risk assessment and fraud detection. Forensic accounting is the application of a specialized knowledge and specific skills to stumble upon the evidence of economic transactions. The job demands reporting, where the accountability of the fraud is established and the report is considered as evidence in the court of law or in the administrative proceeding. Forensic accountants apply concepts and techniques of accounting, auditing, statistics and economics. They have the skills to investigate what happened, to measure the damages, and to provide litigation support to corporate and outside counsel. The forensic accountant must understand the legal process because the investigation may lead to court action, requiring him to give testimony as an expert witness.

It's a thrill of hunt. Maurice E. Peloubet who coined the term Forensic Accountant in 1946 said that the preparation of financial statements has some but not all of the characteristics of forensic accounting. The opportunities for the Forensic Accountants are growing at the rapid speed. Collapse of Enron and WTC twin towers have blessed the American Forensic Accountants with the opportunities. In Bangladesh growing cyber crimes, failure of regulators to track the security scams, series of falling share market- all are pinpointing the need of forensic accounting, irrespective of whether we understand the need or not. In the Bangladeshi context the Forensic Accountants are the most required in the wake of the growing frauds. The law enforcement officers are the experts of analyzing the fingerprints but what about the digital evidence analysis. Very few know about it.

Forensic accounting: The Curtain Raiser

Forensic accounting as a dynamic tool for combating corruption, as a topical theme in its broader context, has relevance to efforts for combating corruption in Bangladesh under priest circumstances. As a concept having its own technicalities, the professionals like the chartered accountants are only competent to grasp, appreciate and understand it well and its links to efforts for dealing with the problem of corruption. Forensic accountant takes a more proactive, skeptical approach in examining the books of Accounting. They make no assumption of management integrity (if they can assume so then there is no need for their appointment) show less concerns for the arithmetical accuracy have nothing to do with the Accounting or Assurance standards but are keep in exposing any possibility of fraud.

Forensic accounting is one of the fastest-growing phenomena, not just in the field of accounting, but also in other work fields world over. In such a context, the market for forensic accounting continues to grow especially in the backdrop of the recent rash of corporate scandals, corporate collapses, and business failures. In fact these have prompted businesses houses to hire forensic accountants to discover through investigation, various types of wrongdoing, on one hand and prevent such occurrence, on the other. The plague of fraud has accelerated the need for a specialist trained specifically in investigation and detection.

Forensic Accounting is a highly talked about topic all over the world and is the fastest growing area of accounting. Forensic Accounting covers areas including fraud, litigation, dispute and corruption. It has become a very useful tool to resist corruption and crimes of any dimension. The terminology "Forensic Accountant" is not well known to us. All professional accountants are, in a sense, forensic accountants. It is the nature of "engagement" that distinguishes a professional accountant from a 'forensic accountant'. The finding or analysis of a professional accountant may be subject to administrative review and considered from the point of view of accountability and transparency, but the forensic accountant seeks a level of analytical precision, which may be a subject of judicial scrutiny to be considered within a legal framework in the process of trial in the court of law.

Forensic accountants are called upon to play important pre-emptive roles (as of right, without cause), offering independent assurance in such diverse areas as audit committee advisory services, merger and underwriting due diligence, investment analyst research, and enterprise risk management. Forensic Accountants are trained to look beyond the numbers and deal with the business reality of the situation. Since all professional accountants operate within a commercial legal environment, all professional accountants are, in a sense, forensic accountants. Forensic accounting is focused,

therefore, upon both the evidence of economic transactions and reporting as contained within an accounting system, and the legal framework, which allows such evidence to be suitable to the purpose(s) of establishing accountability and/or valuation.

Fraud auditing is, however, different than financial auditing. Fraud auditing focuses on motive and opportunity. Financial auditing looks for error and irregularities based on risk assessment using audit-sampling approach. When engaged to do fraud auditing, forensic accountants try to think like a perpetrator, look for weaknesses in controls, evaluate the environment and assess where fraud is likely to occur.

Forensic accounting has established itself as dynamic and strategic tool in combating corruption, crime and frauds through investigations and resolving allegations of frauds and embezzlements. It is seen to be engaged in evidence gathering, document findings, provide internal control assessment, internal risk assessments, design, implement and monitor fraud policies, loss recovery, due diligence and compliance studies, lost profit analysis, damage calculations, shareholder disputes, business damages, valuation, settlement negotiations, mediation, search for hidden assets, business or pension plan, etc.

Analytical techniques are used for fraud detection. Computerized audit software has been developed to detect computer fraud. While forensic accounting techniques are employed after fraud has been committed, opportunities do exist to be proactive in trying to prevent fraud. The Chartered Accountants (CAs) are well qualified to act as forensic accountants, particularly for engagements where transactions entail to bankruptcy, falsifications and manipulations of accounts or inventories or in the presentation thereof and there is a need for evidence for trial in the court of law or review within legal statute.

"Auditor should be watchdog and not be the bloodhound". It's a good quote that every auditor knows. But for Forensic Accountant this is otherwise. The forensic Accountant is a bloodhound of bookkeeping. These bloodhounds sniff out fraud and criminal transactions in bank, corporate entity or from any other organization's financial records. They hound for the conclusive evidences. External Auditors find out the deliberate misstatements only but the Forensic Accountants find out the misstatements, which have been created deliberately. External auditors took at the numbers but the forensic auditors took beyond the numbers. Forensic accountants take a more proactive, skeptical approach to examining the books of accounting. They make no assumption of management integrity (if they assume so, then there is no need for their appointment), show less concerns for the arithmetical accuracy and have nothing to do with the accounting or assurance standards but are keen in exposing any possibility of fraud.

All of us know it well that all societies face the problem of corruption. It is no unique phenomenon for Bangladesh alone. But the scale and intensity of corruption in the context of the situation that has been prevailing in this country since long in an uninterrupted sequence has been a matter of concern. This has created an environment of graft and venality, undermining the public confidence in Government. Moreover, this has continued to engender wrong economic choices, threatening the strategy of a private-sector-led, competitive market-oriented economic growth, raising the costs of doing business and forcing the poor to pay the price.

While the contributing disciplines have ensured the diversity of forensic accounting in Bangladesh, this emerging discipline lacks an academic and theoretical basis, as well as professional regulation. It is also high time for Bangladesh to consider the Forensic Accounting as strategic tool in combating as well as identifying fraud and corruption at all level of public and private sectors. The new government of Bangladesh has declared a crusade against corruption, which is likely to be assisted by Forensic Accounting.

The dimension of corruption in Bangladesh is well known to all of us. It is very extensive. The germ of corruption is so dangerously infectious in the various strata of the society and our national life that, many perceive it; even the judiciary is not immune there from it. To salvage the country from such a deplorable state of affairs, the use of the knowledge of forensic accounting is a must and engagement of CAs as forensic accountants is necessary and a demand of the time. (This is an edited version of the speech delivered by the President of the Institute of Chartered Accountants of Bangladesh (ICAB), welcoming the participants to a CPE seminar on 'Forensic Accounting': A Dynamic Tool for Combating, Corruption in Bangladesh', organized by the ICAB on April 17,2008 at the ICAB auditorium in Dhaka.)

Why Forensic accounting?

The nature of the regulatory environment, the lack of transparency in government as well as business houses, the influence of powerful business interests, low salaries for public servants, weakness in the legal framework etc., are largely responsible for public corruption in Bangladesh. We do not need experts to tell us how corruption has spread its wings. Many of our problems here stem from non-transparent and non-accountable mechanisms relating to governance. This has further been aggravated by already weak system of checks and balances. The reasons for extensive or pervasive official corruption are numerous. Many of these are due to sociological or cultural, organizational and economic policy-related factors. Faulty land transfer-and property-related transactions, values that are fixed officially setting the limit for registration purposes, high rates of transfer fees, irregularities in the land record and revenue administration offices etc., may be cited here as the reasons for the consequent non-transparent deals and transactions involving immovable property.

The integration of accounting, auditing and investigative skills yields the specialty, known as forensic accounting, which utilizes accounting, auditing and investigative skills when conducting an investigation to assist legal matters. Equally critical is the ability to respond immediately and to communicate financial information clearly and concisely in a courtroom setting. It encompasses two main areas - litigation support, investigation, and dispute resolution. Litigation support represents the factual presentation of economic issues related to existing or pending litigation. In this capacity, the forensic accounting professional quantifies damages sustained by parties Involved in legal disputes and can assist in resolving disputes, even before they reach the courtroom. If a dispute reaches the courtroom, the forensic accountant may testify as an expert witness. Investigation is the act of determining whether criminal matters such as employee theft, securities fraud (including falsification of financial statements), identity theft, and insurance fraud have occurred. As part of the forensic accountant's work, he or she may recommend actions that can be taken to minimise future risk of loss. Investigation may also occur in civil matters. For example, the forensic accountant, may search for hidden assets in divorce cases. (This is an abridged version of the keynote paper, presented by the writers to a CPE seminar on Forensic Accounting: A Dynamic Tool for Combating Corruption in Bangladesh, organised by the Institute of Chartered Accountants of Bangladesh (ICAB) at ICAB auditorium in Dhaka on April 17.04.08)

In this context, anti-graft drive that has been launched by the reconstituted Anti-Corruption Commission (ACC) has raised a new hope among the people. This has, to a considerable extent, removed public cynicism that had earlier generated a widespread sense of resignation, coupled with a belief that attempts to fight corruption 'are doomed to fail'. An effective ACC, functioning independently while not being oblivious of the hard socio-economic realities about corruption being more a part of the system than many other relevant factors, will certainly be able to deliver better results in the fight against corruption. So far so good. Combating corruption is no easy job. It is easier said than done. This is more so in Bangladesh like many other similar ones where corruption, in essence, is system-related and institutionally induced. This should not, however, provide any reason whatsoever to take any relaxed view of graft and corruption. That is untenable and irresponsible. Indeed, there can be no excuse for perpetrating the rot.

The chartered accountants have a strong role in setting the norms, standards and rules and also in applying the same with professional integrity and morale, on which the Institute of Chartered Accountants of Bangladesh (ICAB) has been placing a great deal of significance, now-a-days, for laying strong foundations of accountability in both public and private sectors. Transparency and openness are hallmarks of accountability. These can contribute enormously to making continuous efforts in order to increase "value for money" by improving efficiency and productivity and eliminating waste of all organizations, whether in public domain or in private sector.

If the emerging term of forensic accounting has to serve a truly meaning under the given socio-economic circumstances in Bangladesh, it must not be hyped up. Rather, it should show the ways, more in deeds than in words, for linking it to efforts for combating corruption in the our socio-economic milieu. (This is an edited version of a speech delivered by the writer at a CPE seminar on 'Forensic Accounting: A Dynamic Tool for Combating Corruption in Bangladesh', organized by the Institute of Chartered Accountants of Bangladesh, in Dhaka on April 17, 2008.)

For combating corruption, forensic accounting involves the practice of utilizing accounting, auditing and investigation skills to assist in legal matters. While this practice needs to be followed in earnest,

one would also like to note here that the application of this accounting tool can not ignore the dynamics and complexities of the societal conditions, at any given period of time. Otherwise, it will not have the usefulness, which is expected of it. No tool, when it is applied to explain, investigate or audit economic or financial transactions, can effectively serve its purpose, if it is divorced from social realities. Laws have to be applied for the benefit of the greatest number of people in the society but they cannot be made effective mechanically or enforced under conditions of a laboratory, being blind to the practicalities or complexities of the real-life situation in Bangladesh.

Professional chartered accountants can assess it better about how far forensic accounting can be of practical relevance, as a dynamic tool for combating corruption in Bangladesh situation. The qualifying word 'forensic' used before the noun, 'accounting', does, however, suggest, to any generalist, some inter-connection between 'forensic accounting' and 'corruption-combating measures'. The Oxford Advanced Learner's Dictionary explains, thus, the word -- 'forensic' -- in the following way: "it is used before noun and is connected with scientific tests used by the police when trying to solve a crime." This Dictionary uses the word, 'forensic' with nouns like 'evidence', 'medicine', 'science', 'tests' etc., citing the instances of its usage in the ways like 'the forensic laboratory' and 'a forensic pathologist'. Furthermore, it notes that 'forensic' as a word is connected with or used in court, exemplifying the case of a forensic psychiatrist who is one who examines people who have been accused of a crime. Forensic Accountants who are also referred to as Forensic Auditors or Investigative Auditors, often have to give expert evidence at the eventual trial. There may be sub-specialisations of this accounting tool. Thus, some Forensic Accountants, for example, just specialise in fraud, and some others in insurance claims, personal injury claims, construction, royalty audits etc. Furthermore, Forensic Accountants sometimes assist in professional negligence claims where they are assessing and commenting on the work of other professionals.

Forensic accounting is the specialty practice area of accounting that describes engagements that result from actual or anticipated disputes or litigation. "Forensic" means "suitable for use in a court of law", and it is to that standard and potential outcome that Forensic Accountants generally have to work.

Forensic accountants, also referred to as forensic auditors or investigative auditors, often have to give expert evidence, if the subject matter eventually landed to trial or litigation. In developed countries all of the larger big accounting firms, as well as many medium-sized and boutique firms, have specialist forensic accounting departments.

Forensic accountants may be involved in recovering proceeds of crime and in relation to confiscation proceedings concerning actual or assumed proceeds of crime or money laundering. In the United Kingdom, relevant legislation is contained in the Proceeds of Crime Act 2002. In India there is a separate breed of forensic accountants called Certified Forensic Accounting Professionals. Some forensic accountants are also Certified Fraud Examiners and/or Certified Public Accountants. In Bangladesh it must not be hyped up.

Forensic accountants utilize an understanding of business information and financial reporting systems, accounting and auditing standards and procedures, evidence gathering and investigative techniques, and litigation processes and procedures to perform their work. Forensic accountants are also increasingly playing more proactive risk reduction roles by designing and performing extended procedures as part of the statutory audit, acting as advisers to audit committees, fraud deterrence engagements, and assisting in investment analyst research.

Forensic Accounting Concepts and Reviews

The definition of forensic accounting is changing in response to the growing complexity and needs of corporate world. "Forensic", according to the Webster's Dictionary means, "Belonging to, used in or suitable to courts of judicature or to public discussion and debate." "Forensic Accounting", provides an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution. It encompasses both Litigation Support and Investigative Accounting.

Crumbley, (2007) pointed out that forensic accounting is accounting that is suitable for legal review, offering the highest level of assurance, and including the now generally accepted connotation of having been arrived at in a scientific fashion. That is, forensic accounting is sufficiently thorough and complete so that an accountant, in his/her considered independent professional judgement, can deliver a finding as to accounts, inventories, or the

presentation thereof that is of such quality that it would be sustainable in some adversarial legal proceeding, or within some judicial or administrative review.

Bologna and Lindquist (in Fraud Auditing and Forensic Accounting, 1995) defined forensic accounting as "the application of financial skills, and an investigative mentality to unresolved issues, conducted within the context of rules of evidence. As a discipline, it encompasses financial expertise, fraud knowledge and a sound knowledge and understanding of business reality and the working of the legal system." This implies that the forensic accountant should be skilled not only in financial accounting, but also in internal control systems, the law, other institutional requirements, investigative proficiency, and interpersonal skills. Corporations can rely on these skills for developing a consistent system of corporate governance, disseminating such information within and outside the company, ensuring that governance policies and objectives are interwoven into the internal control system, setting up fraud prevention systems, and investigating any existing fraud (Ramaswamy, 2005).

The growing number of regulator and the administrative agencies will demand the services in the nature of forensic practice. Chartered Accountants are going to find themselves more involved in what is essentially a type of forensic practice. The changing nature of the Accounting and Auditing &assurance standards also confirms this. Nearly 40 percent of the top 100 American accounting firms are expanding their forensics and fraud services, according to Accounting Today. If this data is of some sense to Bangladesh Scenario then the day is not far away when forensic practice will contribute maximum to the total revenue of the Bangladeshi CA firm. Far from the humdrum stereotypic accountant your mind might have initially conjured, the forensic accounting professional is more of a private investigator with a financial sixth sense than the bookkeeper with a green eyeshade.

Forensic accounting development in Bangladesh

Bangladesh Institute of Chartered Accountant recently organised a seminar on Forensic Accounting – A Dynamic Tool for Combating Corruption in Bangladesh. While speaking in the seminar as Chief Guest Professor Muzaffar Ahmad said, “ Corruption poses to destroy the moral of our society and is the number one problem of the country. The threat of corruption in Bangladesh has increased manifold in different segments of government offices and the private sector as well, in wider and alarming scale. At the moment the corrupt elements are a bit cautious due to the recent campaign against corruption, but it seems the germ of corruption has not been uprooted altogether and there is no sign that the nation will be free from this vice. Corruption is so dangerously spreading through the various strata of the society and our national life that even the judiciary is also no exception from the pollution of this vice. The socio-economic commercial and industrial institutions are all contaminated with the germs of corruption. To salvage the country from such a deplorable state of affairs, the role of a Forensic Accountant is extremely important commented Mr. Ahmad. There is an unholy alliance among the corrupt elements of the country, which can be dismantled at least partially if not fully with the help, and assistance of the Forensic Accountants commented Mr Ahmad. Mr Md Humayun Kabir FCA, President-ICAB said that Forensic Accounting is in fact a kind of postmortem, which reveals the inherent cause of an event that takes place with the intention of committing corruption, fraud, embezzlements and other scandals of moral turpitude and implications. The dimension of corruption in Bangladesh is well known to all of us. It is very extensive. To salvage the country from such a deplorable state of affairs, the use of the knowledge of forensic accounting is a must and engagement of CAs as forensic accountants is necessary and a demand of the time.

References

Anwar. N and Ahmed, S.U. "*Forensic accounting: A dynamic tool for combating corruption*" The Financial Express, April 2008.

Dilipan, A. "*Accounting Frauds – Cautioning and Cleaning*" Forensic Accounting, 2006.

Hossain, M. "Combating corruption involves a process, not an event", The Financial Express, April 2008.

Ibex, J.W. "Introduction to forensic accounting" The National Public Accountant, June 2003

Kabir, H. "Importance of deploying forensic accounting techniques" The Financial Express, April 2008.

Siege, M.A. *"Accounting Shenanigans on the Cash Flow Statement: Metrics Might Change, but Coporate Behaviour does Not"* Journal of Forensic Accounting, 2008.

Venu, L. *"Traces of Creative Accounting Practices"* Journal of Forensic Accounting, 2007.