



The Role of Forensic Accounting in Economic Stability and Fraud Prevention

Uwakwe Blessing Chidiebere

University of New Haven, West Haven, Connecticut, USA

ABSTRACT

This paper explores the critical role of forensic accounting in maintaining economic stability and preventing fraud. With the increasing complexity of financial transactions and the rise in white-collar crimes, forensic accounting has emerged as a vital tool in uncovering financial discrepancies and combating corruption. By integrating accounting, auditing, and investigative skills, forensic accountants play a pivotal role in identifying fraudulent activities, tracing embezzlement, and ensuring the accuracy of financial records. The study discusses the principles and techniques of forensic accounting, its impact on economic stability, and how it serves as a proactive measure in fraud prevention. Through case studies and practical applications, the paper highlights the effectiveness of forensic accounting in enhancing corporate governance and safeguarding economic interests.

Keywords: Forensic Accounting, Economic Stability, Fraud Prevention, White-Collar Crime, Financial Discrepancies.

INTRODUCTION

Investigating and tracking white collar crimes can be likened to chasing shadows. It is difficult and could be quite challenging. As the methods of doing business are changing, so also the volume of money involved is at an exponential rate. This is why the journal of the chartered institute of taxation of Nigeria (citn journal vol 1) noted that on 3rd July 2009, the former executive secretary of the United Nations Economic Commission for Africa, Koifi Annan, disclosed that Africa was losing about two hundred and fifty billion dollars annually to corruption, thereby making up \$148 billion of the African revenue. This, if not properly checked, according to the United Nations, would put the hope of the world recovering from the present global financial crisis in "dilemma". Forensic accounting, which has been defined variously, has turned the center of focus towards unraveling this economic malady [1, 2, 3]. It aims at setting the goal for this initiative by tracing the roots of this crisis, identifying the cause from where the problems are streaming, and suggesting broad-based and practical solutions at different levels of the system, i.e. Policy, participation, and effective monitoring. Section 2 and 3 revealed the culpability of information technology, legal and regulatory systems of the country in promoting the fraudulent activities of employees of parastatals sector in Nigeria, as reported in the SEC annual report of 2000. The investigative, preventive, and protective role of forensic accountants became apparent, and the need to reposition them in an unsavory, confronting, and challenging economy was discussed in section 4 [4, 5, 6].

UNDERSTANDING FORENSIC ACCOUNTING

Forensic accounting, for beginners, involves the use of accounting, auditing, and investigative skills to assist in legal matters. Besides working on litigation, forensic accounting is also used for hiring the services of authorities or businesses where there is a need for investigation of any financial issue like suspicions of fraud, disputes over revenues, losses or profits due to contractual breach, professional negligence, calculation of loss on personal injury claims, etc. It should be understood that identifying fraud lies as a third priority while conducting forensic accounting. The foremost priorities involve the identification of embezzlement and misappropriation of funds, and secondly, explaining the accounting transactions [7, 8, 9]. The aim of forensic accounting is not to establish guilt for people who have committed financial misdemeanors but to identify the plan carried out for embezzlement through an audit. Similarly, evaluation of tax return anomalies, identifying and proving manipulations under government entitlement programs also constitutes forensic accounting. Anybody can practice forensic

accounting because it can be done without a state-issued certification. However, there is some specialized training involved in the practice of forensic accounting which consists of an understanding of the legal and regulatory enforcement, dispute resolution, claiming damages, circumvention of an agreement, etc., as well as an in-depth understanding of accounting and investigative steps along with the proper manner of using computerized tools and techniques [10, 11, 7].

DEFINITION AND SCOPE

Definition and scope hannes sharma head, department of business law, pondicherry university, pondicherry. Abstract in the change of economic development era, financial discipline has become the most important one in the world. Businesses are carried out in several ways, through which the owner gets good revenue. Some of them carry out their business by providing accounts which are true, fair, complete, free from material misstatement or misappropriation, and represent the books of account, whereas some do not. For the latter, it is necessary to detect whether these represent true and safe. Forensic accounting can be employed in several areas to ensure that financial discrepancies are detected and examined, to avoid and investigate fraud, to double-check or certify revenue and the value of accounts involved in several activities. It is a must for the business running in India to bring the customer/client and the owner at ease, by providing what is said to be done has been done exactly, but not differently. This paper discusses the role of forensic accounting in protecting the interest of the organization [12, 13]. Forensic accounting has been generally termed as the application of accounting knowledge and investigative skills possessed by a forensic accountant. He also uses law for those involved in litigation, valuation, mediation, arbitration, etc. In other words, forensic accounting is the quintessence or integration of accounting, auditing, and investigative capability to conduct an examination into a company's financial statement and report the outcome for litigation purpose or interpretation as per the usage of the stakeholder. The dictionary of discipline of accountancy defines forensic accounting as the numbers of legal accounts and calling the audit to be called before the court, to bring his colleague to "forensic explorer". The chambers twentieth century dictionary describes the term "forensic" as referring to the law courts, and accounting must necessarily suggest investigation or evidence for legal proceedings [14, 11].

KEY PRINCIPLES AND TECHNIQUES

Forensic accounting is based on a set of core principles, such as objectivity, independence, honesty, diligence, skepticism, and the ability to perform under the requirements of the legal system. Forensic accounting is intended for the examination and citation of accounting evidence that is suitable for litigation and dispute resolution. Forensic accountants perform their studies and analyses in such a way as to appear in court at some future date. Forensic accounting principles are essentially sound and can be helpful in presenting financial information in a more meaningful way. Techniques used in forensic accounting include interviews, review of documents, examination of internal accounting records, and observation of the computer environment. The goal of a forensic audit is not only to trace funds but also to determine how recovered funds can be validated [15, 16]. Fraudulent activities are best detected using forensic accounting methods. Verifying and understanding the real position that a business is in by employing an application of proficiency and a critique of financial statements formulated onto an accounting model. Forensic accounting deals with determining whether personnel are stealing company property. These personnel can either be outsiders or insiders of the corporations, and this is seen to be widespread globally. The major role of a forensic accountant is to investigate, analyze, and conclude from the results of their investigation if fraud has been detected and where the irregularities have come from. Many financial statements are hard to comprehend because of the significance of certain transactions, and therefore, uncovered should be reviewed carefully to prove that these transactions are genuine and cannot be associated with fraudulent activities [17, 18].

THE IMPACT OF FRAUD ON ECONOMIC STABILITY

Fraud culminates in economic instability. It results from deceit and unfair conduct, and usually represents liability offenses targeting economic benefits gained through deception from states, economic subjects, entrepreneurs, or individuals. Fraud also largely involves unfair gain from budget, social, and environmental funds, from business organizations, and jeopardizes economic and financial stability. It can have global effects that reflect on the economy. The currency decreases in value, people spend more money on goods and services, or a foreign trade partner becomes more expensive for its dollar-denominated goods and services [19, 20]. An economy is multiply connected, so negative events will affect both undesirable and unexpected advances and other connections. The economic background, climate, and the current political, economic, and environmental situation can also directly or indirectly impair an anti-fraud system. An understanding of the world's latest frauds, mostly in the field of money laundering, corruption, or capital export, can make most companies reluctant to deal, create joint

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ventures, and collaborate with other companies. In a fraud-sensitive area, the importance of a thorough fraud risk analysis is eminent, as current fraud schemes and the most recent scam methods are tried to be disclosed, in addition to the classical review of financial processes. An inadequate risk analysis may not draw a true picture of fraud risks [21, 22].

THE ROLE OF FORENSIC ACCOUNTING IN FRAUD PREVENTION

In today's world, the emerging concept of forensic accounting has been thought to be an elite tool to deter and prevent fraudulent activities in situ while information is communicated on the basis of verification and validation. Forensic accountants are proactive, rather than reactive. So they can not only detect fraud which is committed, but also can work on the opposite way by preventing fraud which might occur in organisation in the future. There are many ways fraud can be detected, prevented and deterred, but forensic accountants can provide greater assistance in prevention instead of detection expenditure of financial loss. By playing a damper on the fraudulent disposition, the damages susceptible to fraudulent activities are minimal. Therefore, forensic accounting can be used in a proactive way to aid in the reduction activity of fraudulent activity in areas of business and industry through detecting preventions [23, 24]. In the context of the above paragraph, forensic accountants have been proactive academic papers written by many researchers for their services in all fields of accountancy. The Australian accountant's professional body stated that they have thrown the concept of forensic accountants in the national professional body in Australia, but has been an integral part of the definition of services offered by their members. Forensic accountants are considered integral professionals within the social realm, not the legal realm, since they are deemed effective in the deterrence, detraction, detection, investigation, and prevention of fraudulent activities. The good image and skills of the forensic accountant hopefully will inspire greater confidence in the stability of the economy [17, 11].

CASE STUDIES AND PRACTICAL APPLICATIONS

Forensic accounting is gaining attention due to ethical issues. It has been used to uncover fraud in various firms. Clear field consulting is one such consultancy. Practical applications of forensic accounting show its potential in autonomous business intelligence services. It can also be used in a conflict-free business environment [25, 17, 26]. Case study 1 illustrates forensic accounting to prevent potential frauds occurring if an expert fraudster were to be appointed as an elder guardian. The forensic accounting approach helps the primary investigator provide the applicant with increased confidence that the PGO has taken appropriate measures before the court hearing. This includes notifying the applicant about the investigation team's presence and any potential evidence that objectively suggests the applicant might be involved in fraudulent activities. The forensic accounting research can be a game-changer that often drastically reduces the workload involved in such checks in the event of all candidates being investigated. If the forensic accountant cannot find any such evidence and advises against the appointment of the third applicant, in turn, the matter would have to go to a hearing in the local court [27, 28, 29, 30].

CONCLUSION

Forensic accounting is indispensable in the modern economic landscape, where financial fraud and corruption pose significant threats to economic stability. By combining financial expertise with investigative skills, forensic accountants provide a critical service in detecting, preventing, and mitigating fraud. Their work not only protects individual organizations but also contributes to broader economic stability by ensuring that financial practices remain transparent and accountable. As the business environment continues to evolve, the role of forensic accounting will become increasingly crucial in fostering a culture of integrity and trust within financial systems.

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CITE AS: Uwakwe Blessing Chidiebere (2024). The Role of Forensic Accounting in Economic Stability and Fraud Prevention. RESEARCH INVENTION JOURNAL OF CURRENT ISSUES IN ARTS AND MANAGEMENT 3(3):84-88.