

*A critical study on the role of forensic accounting in scrutinizing multinational companies working in their country. A case of Pakistan.*

**Abstract**

**Aim:** The main focus of the research is to critically evaluate the role of forensic accounting in scrutinizing the multinational companies: a case of Pakistan

**Methodology:** The systematic literature review approach is adopted in the study where it enables in assessing the role of forensic accounting in scrutinizing the multinational companies of Pakistan. The technique that is incorporated in the study is the content analysis which is a qualitative analytical technique and is designed for conducting critical analysis.

**Results and Findings:** Forensic accounting utilizes many accounting tools and methods to evaluate financial statement validity. In Pakistan, the field is comparatively little applied because the common one has poor knowledge of financial issues. On the other hand, the institutions for financial law enforcement in Pakistan also improve their personnel capacity to address these problems. Many instances have also been resolved to utilize forensic accounting software.

**Keywords:** *Forensic Accounting; multinational companies; Pakistan, Forensic auditing; auditing, fraud, preventing fraud*

**Introduction**

Forensic accounting uses different accounting tools and techniques to determine the viability of financial statements. It is mostly used in litigation, fraud and scam cases. Legally, a forensic accountant provides testimony about different aspects of a case. It also involves accounting procedures involved in the cases. While considering the dynamics of forensic accounting, it mainly deals with a wide range of financial frauds and scams. In Pakistan, the field is relatively less applied as the common does not understand financial matters. On the other hand, the financial law enforcement institutions in Pakistan also enhance their employee capability to deal with such issues. Besides, many cases have also been solved using the applications of forensic accounting. Forensic accounting uses accounts, auditing and research abilities to examine the

financial affairs of a person or company. Forensic accounting offers a financial reporting study appropriate for judicial procedures (Ozkul and Pamukcu, 2012). Meanwhile, this study aims to delineate the uses of forensic accounting with regard to accountability of multinational organizations in Pakistan. Hence, its objects are mainly concerned with forensic accounting spheres. Forensic accountants are educated to see through all the statistics and handle such a situation's commercial reality. The problem statement here maintains that along with scam and embezzlement prosecutions, forensic accounting is often utilised to demonstrate the nature of financial crime in the courtroom. Accounting information is used when quantifying damages is required in litigation. The quantifications of parties engaged in legal disputes help settle differences via settlements white-collar judicial judgments. This may occur, for instance, because of compensation and benefit conflicts. If the disagreement extends to court judgement, the professional forensic accountant can also be an expert witness.

Moreover, forensic accounting is also used to detect the occurrence of a crime and to evaluate the probability of criminal intent. Therefore, this study rationalizes to evaluate such perspectives. These crimes can involve the theft of employees, insider trading, fabrication of facts on financial statements, data theft or mortgage fraud. Emphatically, forensic accounting is frequently involved in sophisticated and prominent financial crimes. Forensic accounts may also help look for concealed wealth in instances of aid for other civil issues also including breach of fiduciary duty, tort, company purchase conflicts, claim breaches or business value disputes (Bressler, 2012). However, there has been lack of studies in case of Pakistan which makes this paper more valuable and significantly important; thus, it aims to critically study the role of forensic accounting in scrutinizing multinational companies working in their country and how does this applies to the Pakistan as country.

### **Literature Review**

Forensic accounting is referred to as the process of reducing the aspect of risk, which increase productivity and profitability of the company. In contrast, several factors have been used that trigger the concept of forensic accounting and its activities. At the same time, the factors of forensic accounting include perceived benefits of using forensic accounting services, attitudes

towards forensic accounting services, the strength of the internal control system, shareholder pressure, government pressure, and audit time budget pressure. According to Osho (2017), due to the need for effective and efficient activities, companies often use the applications of forensic accounting to enhance their operations and reduce uncertain risk, which results in good brand value. Apart from that, Rezaee and Wang (2019) highlighted that majority of the organisations that use the application of forensic accounting enhance their activities and make their attitudes and operations accounting to the forensic rules and policies. This factor helps the organisation in identifying the illegal frauds and misuse of the operations. With the implementation of forensic accounting, organisations developed their services on a legal basis, which helped increase the brand image and provide value addition to the company.

Another factor that triggers the concept of forensic accounting is to strengthen the internal control system as by identifying the illegal activities and frauds, forensic accounting enables the organisations to enhance the activities for the increase of security and reduce the risk for better productivity, which also build the trust factors among potential customers. Okoye and Ndah (2019) indicated that companies often use forensic accounting activities to control shareholder pressure. With the help of this aspect, companies increase their bonding with the customers and enhance their activities to provide good quality services, which results in brand value among other competitors. According to the report of Hashem (2021), the concept of forensic accounting was a significant aspect for enhancing the companies as it helped deal with government pressure. This aspect significantly helps the multinational companies run their operation in different parts of the world, so the applications of forensic accounting help in catering for the government pressure and make arrangements according to their policies and regulations. According to Nigrini (2012), audit pressure is also the primary factor that triggers the concept of forensic accounting as with the implications of forensic accounting, companies change their operations according to the audit policies, which helps in identifying illegal financial activities and financial fraud that decrease brand value, as well as this aspect, provide a better solution to the companies to cater this types of issues to enhance their activities.

According to the statistics provided by Global Fraud Study in its 2014 study, the globe on average loses 1.8 million dollars to fraud every minute. Meanwhile, Pakistan is likewise no exception to this problem. Fraud varies from an employee declaring false hours in his monthly manual logbook to a Head of State manipulating the acquisition process on behalf of one specific product or brand in an aircraft contract costing billions. It ranges from an apparent act like counterfeiting a cheque to an act camouflaged as a completely legal move of making somebody the director of the prime public accountability agency redirects the agency attention from its actions.

The fraud assessment is a non-linear approach and heavily depends on the researcher's professional scepticism based on a factual understanding of relevant inner controls. Any of those other two factors would lead to a more efficient but unsuccessful study. A fraud examiner usually follows the "fraud theory method" from which a detective assumes that what may have happened based on existing facts and tests the hypothesis mentioned above via fresh data retrieval (or connection or integration) (Huber, 2017). The assessment examines both whether fraud could have taken place and if it could not have taken place.

The actual scope and breadth of fraud is enormous and comes in different forms; however, the most relevant to the readership of this publication is Occupational Fraud that includes corruption, asset theft, and financial statement scams (Pedneault et al., 2012). Much has been published about the more detailed kinds of scams. To give instances of how frauds and corrupt activities are done in Pakistan by companies – from small proprietorship firms to big multinationals to public sector enterprises, the cases may vary. Interviews and interrogations, while components of the fraud examination procedure, are also distinct disciplines.

## **Methodology**

The main focus of the research is to critically evaluate the role of forensic accounting in scrutinizing the multinational companies: a case of Pakistan. The nature of the research is determined to be qualitative as the approach for the critically assessing a certain phenomenon is commonly conducted through subjective view. Similarly, the research of Astroth and Chung (2018) has demonstrated that the qualitative study is considered to be 'fit' while critically

analyzing a certain research topic. In terms of data collection, there are mainly two approaches that are available in gathering of data i.e. secondary and primary. In respect to the following study, the secondary method is approach for collecting the data which reflects to gathering information from available sources such as journals, articles, news and magazines. The systematic literature review approach is adopted in the study where it enables in assessing the role of forensic accounting in scrutinizing the multinational companies of Pakistan. Hence, the information is mainly gathered from journals and articles that contains the relevant information which enables in obtaining the relevant findings for achieving the fundamental aim. The inclusion criteria for selecting the journal is that it emphasizes on the forensic accounting in terms of scrutinizing multinational country particularly on Pakistan. In addition, the recent journal and article are selected to be evaluate. The technique that is incorporated in the study is the content analysis which is a qualitative analytical technique and is designed for conducting critical analysis regarding a certain topic (Slocum and Rolf, 2021; Vaismoradi and Snelgrove, 2019).

## **Content Analysis**

### ***Incorporation of Forensic accounting in Pakistan***

The high level of corruption as indicated by the Auditor General of Pakistan and National Accountability Bureau of Pakistan (NAP) along with the high level of corruption as reported in the news reported in the print media and electronic media. Therefore, this has raised the concern for anti-corruption services such as the forensic accounting (Iqbal and Aslam, 2020; Dilshad et al., 2020). Similarly, the research conducted by Abbas (2020) has indicated that the traditional anti-corruption in Pakistan is failing while there are no serious efforts that are made by the government. In this manner, the forensic accounting is considered to be a vital option for reducing the level of corruption along with attempting to prevent the fraud and corruption. As indicated in the research conducted by studies of Iqbal and Aslam (2020), the need and importance of incorporating forensic accounting in Pakistan has become highly important in the multinational companies. The forensic accounting that is being incorporated in the Pakistan company enables in deducting the financial fraud through the digital devices or internet technology. There are several computer assisted techniques regarding auditing that are being adopted in Pakistan that performs the aspects of

forensic accounting. Moreover, the findings from the research has also indicated that the practitioners and academicians has agreed that the forensic accounting should not be overlooked in Pakistan as the frauds of financial particularly the white-collar crime is increasing where the adoption of the forensic accounting can aid in reducing the level of crimes. Moreover, the research conducted by Shakeel et al. (2020) has indicated that the forensic accounting is connected with the corporate governance where the multinational companies of Pakistan are emphasizing on developing good corporate governance that only enables in causing the forensic accounting to be effective but also contributes towards reducing the level of corruption and fraud in the companies.

### ***Role of Forensic Accounting on scrutinizing multinational companies***

The fraud and economic crimes has caused major issue for the majority of the organization in meeting their financial obligations among the stakeholders. In the current era, the level of frauds has drastically increased throughout the globe which has led to the importance of incorporating fraud prevention and detection techniques in the developed and developing nations (Okoye and Ndah, 2019; Siddik, 2021). In this basis, several researches has recommended that forensic accounting is an effective technique for preventing the frauds along with scrutinizing the companies that has been attempting fraudulent activities (Abdulrahman, 2019; Eko, Adebisi and Moses, 2020; Mamahit and Urumsah, 2018). The study conducted by Oyebisi et al. (2018) has examined the role of forensic accounting in the prevention and detection of fraud in the banking sector of Nigeria. Based on this, the researcher has adopted the questionnaire survey that was distributed among the employees of the banks. The findings of the research has illustrated that the forensic accounting has a significant and positive effect in terms of scrutinizing the organizations that enables in preventing the fraud activities. However, the major issue that was determined was that there is lack of awareness of forensic accounting in Nigeria where the incorporation of forensic accounting can strengthen the legal, political and educational framework in the companies.

### ***Impact of Forensic Accounting on multinational companies***

Forensic accounting is considered as the best technique to reduce the financial risk and fraud that decreases the brand value and productivity as this aspect help the companies to enhance their activities, which leads to determining the uncertain risk that rise from any financial fraud.

Muthusamy, Quaddus and Evans (2010) supported this concept by stating that forensic accounting reduces the business risk and increase security that helps in identifying illegal financial risk and provide a solution to overcome that issue. Among other aspects, forensic accounting has been crucial for multinational companies as it helps in analysing their activities more accurately and help in making effective decisions. Dada, Owolabi and Okwu (2013) supported this aspect by stating that forensic accounting has a significant positive impact on the activities of multinational companies as it helps in reducing losses, which lead to minimising the uncertain risk and reducing unauthorised entry. Kimani (2015) also highlighted the same aspect by stating that forensic accounting is significant in increasing the productivity of multinational companies. With the implications of forensic accounting, companies often increase their efficiency, which leads to better performance in the market. With this aspect, multinational companies often identify various risk possibilities that occur in their operation in the local country and develop an effective and efficient solution for this issue to make progress in the market. Wahinya and Ondigo (2017) also incorporated the implementation of forensic accounting as the significant impact on multinational companies by stating that this aspect helps multinational companies reduce exploitation risk.

As these companies run their operation in different parts of the world, so it becomes difficult to cater for every uncertain risk on their own, so this aspect helps them in decreasing the risk that creates hindrance in the activities. Thus this increases productivity. Apart from that, forensic accounting also caters for avoiding legal problems as Herbert et al. (2017) supported this concept by stating that multinational companies work in various countries and deal with all kinds of government authorities. In contrast, often, this aspect creates legal problems that hinder the activities. So to cater to this issue, forensic accounting is crucial for multinational companies as it helps solve legal problems through different strategies and increase value in that country.

On the other hand, with the implementations of forensic accounting, the brand value of the multinational companies increases, as this aspect help in reducing the risk and increase efficiency. Okoye and Ndah (2019) supported this aspect by stating that forensic accounting increases the brand value as well as the authority of multinational companies as with the implication of forensic accounting, multinational companies reduce losses through identifying the possible risk that

creates challenges in the activities and reduces them to gain more productivity and profitability. Whereas, this aspect also helps in solving the legal problems that occur in foreign countries, which increases the brand image and value as well as increases the reputation of the companies that provide the authority to make effective and efficient decisions.

### ***Forensic scrutiny of multinational companies in Pakistan***

In Pakistan, the forensic audits of white-collar crime/financial crime can be conducted only by selected government agencies like the Federal Investigation Agency (FIA) and renowned chartered consulting companies. It is because of the considerations that financial accounting institutions are still under the developmental phase in Pakistan. Meanwhile, the NAB (another accountability watchdog) has eventually appointed a chartered accountability company to aid in the investigation procedure, with special relevance to the interpretation of financial data/audited accounts, the transaction records of funds flowing through and among non-bank financing companies and associated companies and their core managers, and in particular to help determine the monetary trail of selected transactions. Recently, the sugar scam inquiry was conducted against the sugar Mills of Punjab through forensic accounting of the involved sugar mills' financial statements (Sehgal and Robotka, 2020).

Moreover, a leading chartered accountant has argued that expertise in forensic auditing in Pakistan is not available (Recorder, 2021). There is no tradition of forensic accounting as the field is still developing in the country. The investigative agencies of Pakistan and chartered accountant companies are not trained to perform such a job. Even the tax officers of the Federal Revenue Board (FBR) are unable to carry out a forensic audit of tax fraud cases. Tax officers may perform annual, desk or investigative audits but are not trained to carry out forensic audits. The tax machinery is unable to conduct the forensic audit because training facilities are not available. Past VAT law included forensic audit provisions by tax officials (Abbas, 2020). The mere introduction of a provision as law ensures that tax officials can carry out such an audit. An enquiry audit mustn't be called a forensic audit unless a detailed examination of the records required by the forensic audit is conducted.



## Conclusion

Forensic accounting utilizes many accounting tools and methods to evaluate financial statement validity. It is utilized mostly in instances of litigation, fraud and scam. A forensic accountant legally gives evidence on many elements of a case. It also includes accounting processes in the instances. The results also maintain that forensic accounting is the use of different accounting methods and procedures to determine the validity of financial statements. In Pakistan, the subject is utilised only seldom since the general public lacks a thorough knowledge of financial issues and concerns. On the other hand, the organisations responsible for financial law enforcement in Pakistan are working hard to improve their staff's capacity to deal with these types of situations. A large number of cases have also been resolved via the use of forensic accounting software. Although it considers forensic accounting dynamics, it deals primarily with various financial crimes and frauds. In Pakistan, the field is comparatively little applied because the common one has poor knowledge of financial issues. On the other hand, the institutions for financial law enforcement in Pakistan also improve their personnel capacity to address these problems. Many instances have also been resolved to utilise forensic accounting software.

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