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BEYOND TRADITIONAL AUDITING: FORENSIC ACCOUNTING AS A STRATEGIC MECHANISM FOR DETECTING FINANCIAL FRAUD AND CORRUPTION

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ABSTRACT

Financial fraud and corruption threaten the integrity of financial reporting, organizational accountability and the trust of investors. The core of auditing and internal control systems are essential to safeguard financial reporting, but misconduct is limited if the misconduct is collusion, management overrides or concealed transactions or sophisticated financial information is manipulated. Forensic accounting is a complementary type of investigation, but literature tends to examine its methods separately and does little to explain how they work and the conditions. The article provides a conceptual view of forensic accounting as a strategic tool in a system of financial accountability in which forensic accounting is regarded as a mechanism of strategic investigations and is conceived as a purposeful technique in the field of investigation. Based on fraud theory, agency theory, internal control and fraud risk management guidance and research into accounting manipulation and its detection, the authors define five investigative methods: forensic examination of financial data, analysis and digital investigation, internal control and governance assessment, evidence collection and documentation and coordination with the legal and regulatory authorities. It then defines four enabling conditions (professional competence, investigator independence, data accessibility and quality, institutional support) and proposes testable propositions that connect the mechanisms to measurable detection results. The analysis distinguishes between identifying suspicious transactions and rooting out fraud and financial statement manipulation from corruption. The article offers a theoretical basis for empirical research and practical advice on how to embed forensic accounting in governance structures. There is no empirical data that is presented.

Keywords: forensic accounting; financial fraud; corruption; fraud detection; forensic analytics

INTRODUCTION

Financial fraud undermines the credibility of financial reporting, devolves the allocation of organizational resources and diminishes public confidence in institutional governance. Their costs range from direct monetary loss to reputational damage, regulatory penalties and less trust from investors. Fraudulent schemes can be different, from misappropriating assets to fraud in financial reporting to bribery and procurement fraud and conflict of interest, but they often are rooted in poor internal control, information asymmetry and

organizational opportunity (Cressey, 1953; Wells, 2005). The scale of the problem is illustrated by the Association of Certified Fraud Examiners' (ACFE, 2026) study of 2,402 occupational fraud cases from 143 countries and territories, which has total costs of over USD 3.4 billion and estimates that organizations lose about 5% of revenues to fraud each year. Corruption was present in 45% of those cases (as opposed to 10% in the first edition of the study in 1996 and in 60% of those in the Middle East and North Africa. As we can see, this does not cover the full extent of fraud worldwide and it is precisely this that we must detect fraud properly and investigate it in an effective way. Traditional auditing is still at the heart of corporate accountability.

External auditors ensure that financial statements are not misleading and internal audit is a good way to measure their risk management and internal controls. But an audit does not guarantee detection of every fraud, especially if there is collusion, forged documentation, management override or hidden transactions. The data of (ACFE ,2026) also confirm this: 19% of all frauds were due to an override of internal controls, almost half of all frauds were caused by two or more people, and financial statement fraud, while it was the rarest category (6% of cases), was the most expensive with a median loss of USD 1,000,000 and median duration of 24 months. In this respect, professional standards emphasize professional skepticism, a fraud lens in risk assessment and appropriate responses to identified risks rather than the discovery of all fraud. The updated ISA 240 for auditing financial statements for periods beginning on or after 15 December 2026, strengthens these requirements and clarifies when specialized skills are needed to respond to identified or suspected fraud (International Auditing and Assurance Standards Board [IAASB], 2025). Research has demonstrated the importance of financial data and quantitative models in identifying patterns of accounting manipulation. (Dechow et al. ,1996) studied the firms that were subject to SEC enforcement action for earnings manipulation and (Beneish, 1999) developed the M-score to identify financial characteristics of manipulators. This work has also been extended to predicting material misstatements and applying statistical and machine learning methods to fraud detection (Dechow et al., 2011; Perols, 2011). A large body of research, summarized in recent reviews, is into

financial statement fraud detection (Shahana et al., 2023; Soltani et al., 2023). However, financial statement fraud accounted for only 6% of the cases reported by ACFE (2026) and corruption appeared in 45% of cases reported. Moreover, statistical anomalies do not necessarily show a fraudulent intention, nor do they suggest how suspicious transactions should be studied, confirmed and turned into evidence that can be used in an organization (or a legal action).

Forensic accounting is a different approach to the problem and combines accounting skills, financial analysis, investigation of transactions, reconstruction of the transactions and evidence analysis. It can help trace suspicious financial flows, investigations into bribery and procurement fraud and loss quantification (Bologna & Lindquist, 1995; Crumbley et al., 2007; Hopwood et al., 2012). The reviews summarize its role in fraud detection and prevention and outline research agendas (Ozili, 2015; Dewayanto, 2023; Kaur et al., 2023; Kumar et al., 2026), but they are mostly organized around different areas such as detection techniques, implementation problems, education and so on. This thematic approach does not explain how the primary investigative mechanisms work together and how their effectiveness varies across different contexts. The outcome depends on investigator independence, professional competence, access to reliable records, cooperation from the organization and institutional capacity. The question of whether fraud or corruption turns out to be genuine is then one of corroborating evidence and compliance with the standards and laws of an organization. In this view, the current article offers an integrated conceptual framework that links forensic accounting mechanisms with professional, organizational, and evidentiary conditions that give the foundation for their effectiveness in detection of financial fraud and corruption. It has three major contributions. First, it draws on the literature to identify the basic investigative mechanisms for forensic accounting to assist in fraud detection. Second, it describes the conditions that make them effective or hamper them. Third, it makes propositions (with some measurable outcomes) to guide future empirical efforts. A strategic mechanism in the title is meant by forensic accounting as an investigative capability that is integrated into a system of financial accountability,

and not as opposed to it (i.e., accounting is a system of auditing). The term "investigative mechanisms" refers to five steps that this capability takes to deliver detection results. The remainder of the article is organized as follows. In section 2 we describe the theoretical basis of forensic accounting. In Section 3, we cover the theoretical foundations. Section 5 deals with the main mechanisms of investigation and Section 6 with the enabling conditions. Section 7 is a critical synthesis. In Section 8, we develop the conceptual framework and propositions. Section 9 addresses the implications and future research, Section 10 outlines limitations, and Section 11 concludes.

LITERATURE REVIEW

Conceptual Foundations of Forensic Accounting

Definition and Scope

Forensic accounting is the application of accounting expertise and investigative methods to detect financial fraud, recover transactions, quantify loss and make financial statements that are relevant for accounting and legal purposes. Definitions exist in the literature (Crumbley et al., 2007; Hopwood et al., 2012; Manning, 2005). Forensic accounting is an investigative practice that integrates accounting analysis with evidence development. It can be applied to fraudulent financial reporting, asset misappropriation as well as corruption, bribery transactions, procurement irregularities, conflicts of interest, or financial disputes. Forensic accountants will study financial statements, accounting records, contracts, invoices, payment trails, electronic records, and relationships between counterparties depending on the engagement. The distinguishing characteristic of forensic accounting is its investigative orientation, but forensic accounting is also an investigating process. The standard audit procedures are concerned with whether financial statements are free of material misstatement and whether reporting has been made. Forensic investigation is more about identifying and investigating how a suspicious transaction occurred, how money was moved between parties, whether supporting documentation is reliable, and what evidence supports or contradicts a suspected explanation. It links accounting to economic events and organizational processes which generated accounting

irregularities. Table 1 summarizes our main differences.

Table 1. Traditional Auditing and Forensic Accounting Compared

Dimension	Traditional auditing	Forensic accounting
Primary objective	Reasonable assurance on financial statements	Investigation of suspected or alleged irregularities
Trigger	Periodic, mandated engagement	Allegation, red flag, or specific concern
Scope	Financial statements as a whole, guided by materiality	Targeted transactions, parties, and relationships
Evidential standard	Sufficient appropriate evidence to support an opinion	Evidence capable of supporting organizational, regulatory, or legal action
Typical output	Audit opinion	Investigative report, loss quantification, expert testimony

Source: Authors' synthesis, drawing on Gray (2008), Singleton et al. (2006), and Hopwood et al. (2012).

Two related constructs are used throughout. Financial statement fraud refers to the deliberate misstatement of financial data. Corruption is usually defined as a misuse of entrusted power for private gain (Transparency International, 2009), a concept that is reflected in international anti-corruption instruments (United Nations Office on Drugs and Crime (UNODC, 2004). While these two are inextricably linked, not all misstatements are corrupt, and not all corrupt act is a material misstatement.

Relationship With Adjacent Disciplines

Forensic accounting is closely associated with external auditing, internal auditing, fraud examination, and digital forensics, although these are different things. External auditing provides visibility of financial statements, internal auditing assesses governance, risk management and controls in the scope of the job; fraud examination investigates possible fraudulent conduct; and digital forensics analyzes the electronic information with appropriate preservation and analysis (Gray, 2008; Kranacher et al., 2011; Singleton et al., 2006). Forensic accounting brings together all these disciplines if an investigation involves reconstructing financial events and coming to conclusions that are backed by evidence (Gray, 2008; Kranacher et al., 2011; Singleton et al., 2006). This association with auditing is reinforced by the new ISA 240 (IAASB 2025) which states that an auditor would need special skills to deal with fraud.

Detection, Substantiation, and Prevention

Three activities are important. Detection is to detect suspicious activity or evidence of potential misconduct. Substantiation is to be able to confirm that misconduct occurred through evidence and to be open to alternative explanations. Prevention is to reduce the opportunities for fraud through governance, internal controls, ethical leadership, monitoring and accountability. Forensic accounting is the key to detection and substantiation and is also at play in prevention indirectly, when the results from the investigation are used to improve controls and eradicate the shortcomings that allowed misconduct to take place. Investigative expertise cannot replace good governance or routine controls to prevent and identify unauthorized activities (COSO & ACFE, 2023; Rezaee, 2002).

Data-Driven Developments

The development of forensic accounting for the present day is driven by the volume of electronic financial data. The investigators combine accounting skills with data analytics, transaction screening, digital evidence evaluation and network analysis (Al-Hashedi & Magalingam, 2021; Gkegkas et al., 2025; Ngai et al., 2011). These tools help to increase the scope of investigations but may also raise the issues of data quality, false positives and automated results interpretation. AI-based accounting decisions also raise ethical dilemmas as objectivity, privacy, transparency, accountability and trustworthiness are all issues that must be shared between humans and AI, and professional judgment is required (Lehner et al., 2022). Section 5 summarizes these developments in the whole investigative process.

Research Approach

This article is conceptual and integrative. It does not test hypotheses or report original data; its aim is to build theory-informed propositions by synthesizing existing knowledge. Sources were selected purposively from four groups: (i) foundational theoretical works on fraud and agency relationships; (ii) empirical studies on accounting manipulation, misstatement prediction, and governance; (iii) reviews of forensic accounting and fraud detection; and (iv) professional standards and guidance, including ISA 240 (Revised), the COSO and ACFE Fraud Risk Management Guide, and the ACFE Report

to the Nations. Peer-reviewed journal articles, standard-setting publications, and established academic texts were prioritized. The five investigative mechanisms were derived by relating the stages of an investigation described in professional guidance and textbooks (examination, analysis, diagnosis of control failure, evidence development, and escalation) to the questions raised by each theoretical perspective (Table 2). No structured database search protocol was applied; the selection is therefore purposive and non-systematic, and relevant studies may have been omitted.

Theoretical Foundations

Fraud theory

The fraud triangle, which arose from Cressey's (1953) work regarding violation of trust, presents the three main reasons for occupational fraud: perceived pressure, perceived opportunity, and rationalization. The pressure may be financial pressure, personal circumstances or organizational performance targets. Opportunity might be poor internal controls, ineffective oversight, or the power to overrule established procedures. Rationalization is the explanation people give to justify misconduct. These three conditions have been evaluated empirically, to predict financial statement fraud (Skousen et al., 2009). The framework is useful for forensic accounting because an investigation could examine the organizational and financial conditions of suspicious transactions. For example, irregular accounting adjustments with a reporting deadline may be examined along with management motivation, approval arrangements, and the quality of the supporting documents. But pressure and weak controls do not imply fraud is happening; instead, they provide context for risk assessment and further investigation. Wolfe and Hermanson (2004) expanded the discussion through the fraud diamond, which adds individual capability to pressure, opportunity and rationalization. This perspective is relevant to schemes that require specialized accounting knowledge, access privileges, organizational authority or the ability to hide transactions. (Dorminey et al., 2012) reviewed the evolution of fraud theory and (Schuchter & Levi ,2015) explored the limits of conventional explanations through a study of elite fraudsters. Both of these perspectives suggest that investigations should consider individual behavior and

organizational opportunity and the overall environment, but not in a way that every case is to be explained by a single model.

Agency theory and information asymmetry

Agency theory describes the conflicts in which principals delegate decision-making authority to those with a different view about what is right (Jensen & Meckling, 1976). In corporate worlds, managers may have information that shareholders, creditors, and other stakeholders do not have. This asymmetry offers opportunities for earnings manipulation or concealment of losses, asset misappropriation or deals that favor a particular decisionmaker. Healy and Wahlen (1999) showed how accounting discretion can be used to influence the report of results and the perception of their stakeholders. Forensic accounting can help to minimize the information asymmetry by examining transactions that appear not to be connected to real economic activity and identifying the relation between counterparties and the extent to which the financial representations are based on evidence. Agency theory does not explain all forms of corruption; it might also involve institutional weaknesses, collusion, political connections, or enforcement failures. We will therefore view it as one explanation, not as an indictment of misconduct.

Internal control and fraud-risk management

Internal control and fraud-risk management are another foundation. The COSO (2013) framework is based on structured risk assessment, control processes, information and communication, and monitoring. The COSO and ACFE Fraud Risk Management Guide defines fraud-risk management as a process of governance, risk assessment, preventive and detective control activities, investigation, and monitoring (COSO & ACFE, 2023). Forensic accounting has investigative capability to take action when suspicious activity is observed. It can help us to determine if controls were bypassed, whether oversight was inadequate and if corrective measures were needed and this information can lead to better authorization, supplier verification, segregation of duties and exception reporting.

From explanations of fraud to a capability perspective

The perspective above explains why fraud arises and how controls shape opportunity. They do not explain how

investigative competence converts into detection outcomes. This article therefore adds a capability perspective, which treats forensic accounting as a bundle of competences whose effect depends on the resources and conditions available to the organization (cf. Barney, 1991). Table 2 shows how each perspective informs the investigative mechanisms developed in Section 5.

Table 2. Theoretical perspectives and their implications for forensic investigation

Perspective	What it explains	Implication for investigation	Mechanisms engaged
Fraud triangle and diamond	Why individuals commit fraud: pressure, opportunity, rationalization, capability	Circumstances and incentives around suspicious transactions are examined as context, not as proof	M1, M3
Agency theory	How information asymmetry and misaligned interests create opportunities for concealment	Verify whether representations are supported by evidence; trace counterparties and flows	M1, M2
Internal control and fraud-risk management	How control design and governance shape opportunity and organizational response	Diagnose control failure; feed lessons back into controls and escalate findings	M3, M4, M5
Capability perspective	How investigative competences yield outcomes under enabling conditions	Specifying conditions and measurable outcomes	M1–M5 and enabling conditions

Principal Investigative Mechanisms

The theoretical perspectives point to five investigative mechanisms through which forensic accounting contributes to the detection of fraud and corruption. They are presented in the order in which they typically arise in an investigation, although in practice they overlap and iterate.

Forensic Examination of Financial Records (M1)

The examination of the financial records is the key step in this process. This involves reviewing journal entries, reconciling accounts, checking supporting documentation, following payments, considering related parties and accounting estimates, and considering if accounting estimates, by definition, are in line with the data and evidence we have. Fraud examination texts classify the symptoms or red flags that are required for such work (Albrecht et al., 2019). Studies of financial statement manipulation show the relevance of financial statement indicators and the role of those indicators. (Beneish, 1999) developed a model that used financial statement variables to observe manipulators and later the relationship between these

indicators and market outcomes (Beneish et al., 2013). (Jones, 1991) modeled discretionary accruals, (Bell & Carcello ,2000) developed a risk factor-based decision aid for assessing the likelihood of fraudulent financial reporting, and (Dechow et al. ,2011) studied the predictors of material misstatements. These studies show that accounting information can indicate suspicious reporting patterns. Nonetheless, changes in receivables, accruals, margins or asset composition can be due to legitimate business conditions, changes in estimates or acquisitions and should be treated as indicators to prioritize investigative work, rather than as proof. The distinction between a risk indicator and evidence of misconduct is critical to the credibility of forensic accounting. Record examination also identifies asset misappropriation schemes involving unauthorized payments, fictitious suppliers, duplicate invoices, payroll irregularities, or unexplained transfers. In corruption investigations it is combined with procurement records, contracts, payment approvals and information about relationships between employees and counterparties. The point is to recover the economic substance of transactions and determine if the evidence supports a legitimate explanation.

Analytical and Digital Investigation (M2)

Digital accounting systems have increased the amount and complexity of financial data. Manual inspection can sometimes not be enough when organizations are dealing with huge numbers of transactions on different systems and locations, and analytics can help them identify trends, look for exceptions and prioritize cases(Ngai et al. ,2011) classified the data mining methods in financial fraud detection and (Al-Hashedi & Magalingam, 2021) assessed their applications over the past decade(Perols ,2011) compared statistical and machine learning algorithms for financial statement fraud detection(Bertomeu et al., 2021) aimed to use machine learning to detect misstatements (Shahana et al., 2023; Gkegkas et al., 2025) synthesized methods and challenges. Digit-based tests based on Benford's law are also a good tool for numerical data screening (Nigrini, 2012). These methods can be used to detect unusual payment patterns, a number of transactions that are just below approval thresholds, unusual activities in account activity, or connections between seemingly

unrelated entities. But their results are based on not just the quality of the data but also on sample imbalance, changing fraud patterns and model assumptions that are incorrect (Beneish & Vorst, 2022) show that the cost of prediction errors is critical to the real-world application of fraud prediction models: a model which flags real transactions is expensive to investigate and a model that misses fraud is costly to lose. Forensic analytics should support investigative judgment, not replace it. An anomaly is a reason for inquiry. The investigators need to look at the transactions, verify that they happened, and give reasons to believe in the conclusions.

Internal-Control and Governance Assessment (M3)

Financial misconduct is usually due to lack of authorization procedures, separation of duties, procurement oversight, supervision, or monitoring of unusual transactions. Forensic accounting can assess what is in the way of suspicious activity and why it happens— whether controls were poorly built, poorly implemented, or simply a cover-up. Good governance is associated with financial reporting risk. (Beasley ,1996) linked board composition to financial statement fraud, (Abbott et al. , 2004) examined the characteristics of audit committees and restatements and (Farber, 2005) looked at the governance of a group of companies found to have fraudulent statements and their subsequent changes. But there is no single governance feature that guarantees prevention, and the effectiveness of any one of these is dependent on the level of information available to decisionmakers and willingness to look into irregularities. Forensic accountants can look at whether suspicious transactions bypassed established procedures, whether approval was genuine, or whether there were exceptions. Their findings could lead to stronger supplier verification, independent review of high-risk journal entries, and better reporting channels. A control weakness can still be distinguished from fraudulent behavior: weak controls create opportunities but do not prove that anyone exploits them, and fraud can occur when it is not mitigated by adequate controls when the collusion of management or clever concealment defeats them.

Evidence Collection, Documentation, and Reporting (M4)

A forensic investigation has to produce findings that others can judge

independently. Even finding an unusual transaction is just one step, investigators need to record the sources of information, explain the procedures performed, differentiate the observations from interpretations and explore other explanations. At the work level, workpapers, reconciling data across systems, keeping electronic data and documenting chain of custody are essential in order to have a good research process. If evidence is to be reviewed and there is the potential for regulatory or legal action, investigators must take into account evidence-based regulations and confidentiality requirements, privacy and professional requirements. A report should state the type of irregularity suspected, the evidence investigated, the limitations of the analysis, the estimated financial implications where supportable, and the challenges that are still open. Suspicion should not be presented as fact, and legal conclusions should not exceed the investigator's competence or mandate. This is also why forensic accounting can't be reduced to automated fraud scores: a model may flag a transaction, but a reliable conclusion requires corroboration, professional judgment and business context.

Coordination With Legal, Regulatory, And Investigative Authorities (M5)

Financial fraud and corruption may require accounting professionals, internal auditors, compliance teams, legal experts, regulators, law enforcement agencies, and judicial authorities to cooperate with each other, whether that's the case or not depends on the accusation, jurisdiction, and institutional responsibility. Forensic accountants' work can reconstruct transactions, estimate losses, organize documents, and give an understanding of accounting problems in a way that decision makers can determine. Their services can support internal disciplinary processes, regulatory inquiries, civil disputes, or criminal investigations that are regulated in legal and professional terms. It is particularly relevant in corruption situations where financial flows may cross different organizations, other actors and transactions that may appear legitimate in isolation. The international anti-corruption toolkit requires cooperation between national authorities and institutions and tracing and recovery of illegal proceeds (UNODC, 2004). Public sector environments have shown that audits can both detect and deter corruption. Olken (2007) found in a field study of Indonesian village road development that a greater level

of external auditing decreased the amount of missing money and Ferraz and Finan (2008) found the electoral impact of publicly released audits of Brazilian municipalities were greater when local media could disseminate the findings. These studies are not about audits but about forensic activities that are only a small part of the problem; the results depend on if institutions can act on what they find. Coordination does not eliminate independence and due process. Investigators should not be biased against any one another, not have conflicts of interest, maintain evidence, honor confidentiality and report objectively.

Enabling Conditions

The mechanisms above do not operate in a vacuum. Four conditions are identified as enabling or constraining their effectiveness (Table 3). Each is derived from the professional guidance and literature discussed earlier and is treated as a moderator in the framework presented in Section 8.

Professional Competence

A forensic investigation needs accounting, auditing, investigating, quantitative, and legal knowledge. Gray (2008) describes forensic accountants as being "the combination of an auditor and an investigator" with skills in the areas of investigation, research, law, quantitative methods, finance, auditing, and accounting. Where analytics are used, competence is data management and the ability to critically interpret model output. The revised ISA 240 acknowledges that special skills may be necessary for responding to fraud (IAASB, 2025). Lack of competence can result in missed schemes, unreliable evidence, and conclusions that cannot withstand scrutiny.

Investigator independence

Investigators need to have an ability to follow the evidence without interference, especially when it relates to senior management. Independence has organizational aspects reporting lines to the board or audit committee and no management restrictions on scope for the company and individual aspects such as lack of conflicts of interest and objectivity in reporting. The high incidence of management override and collusion in the ACFE (2026) data shows why independence matters: schemes involving senior personnel are the least likely to be investigated impartially from within.

Data Accessibility and Quality

Investigative procedures depend on completely reliable and accessible records. Analytical results are sensitive to data quality and to the representativeness of the data from which models are built (Perols, 2011; Al-Hashedi & Magalingam, 2021). Access may be limited by incomplete ledgers fragmented systems, inadequate retention or deliberate withholding, and by legal restrictions on privacy and cross-border transfers.

Institutional Support and Legal Environment

Finally, effectiveness depends on whether the organization and the wider institutional environment can respond to substantiated findings. This includes management's willingness to act, adequate resources, a legal mandate for investigation, protection for those who report concerns, and enforcement capacity. The Brazilian evidence discussed above (Ferraz & Finan, 2008) illustrates how the consequences of audit findings depend on institutions that disseminate and act on them.

Table 3. Enabling Conditions In The Framework

Condition	Role in the investigative process	Illustrative indicators
Professional competence	Determines the quality of examination, analysis, and evidence	Qualifications and training; multidisciplinary team (accounting, data, legal)
Investigator independence	Determines whether findings are impartial, including when senior management is implicated	Reporting line to board or audit committee; absence of management restrictions on scope; absence of conflicts
Data accessibility and quality	Determines what can be examined and how reliable the results are	Completeness of records; system access; retention policies; reconciliation across sources
Institutional support	Determines whether substantiated findings lead to action	Legal mandate; resources; management responsiveness; enforcement capacity

Critical Synthesis

These mechanisms suggest that forensic accounting is very much about fraud detection, not about any one technique. Record examination reveals mistakes, analytical processes focus on transactions, control and governance analysis determines why misconduct did take place and documentation allows independent assessment of findings and coordination with the authorities enables

institutional response. There are five features that lend credibility to this account. First of all, detection is not prevention. Some organizations can be better at detecting misconduct without reducing its actual incidence, and the number of cases detected will increase because they are now visible. Thus, effectiveness should be evaluated using outcomes instead of case counts. Second, manipulation of financial statements and corruption are related but distinct (Section 2.1). The evidence base for detection is much stronger for the former and corruption is much more widespread in the ACFE (2026) data. The two have different investigative purposes; corruption is more prevalent in M4 and M5. Third, forensic accounting depends on the organizational environment. Procedures may be ineffective when investigators have no independence, management restricts access, data are incomplete, and institutions are unable to respond to findings. Expertise alone is not enough. Fourth, technology has the potential for both opportunity and limitation. Analytics improve the speed and scale of screening, but model performance can suffer when fraud patterns evolve or historical data is distorted and false positives can increase the cost of investigating (Beneish & Vorst, 2022; Perols, 2011). Validation, contextual interpretation, and independent review are necessary. Fifth, evidentiary quality determines practical value. Suspicious patterns are worth investigating, but credible evidence and a fair investigation of alternatives to them must be considered, especially when findings will have a bearing on employees, counterparties, shareholders and/or legal proceedings. Taken together, forensic accounting should be viewed as a capability within the overall accountability system.

Conceptual Framework and Propositions Constructs

The framework links forensic accounting capability to detection effectiveness under four enabling conditions. The case of investigation is the one we seek to investigate, and forensic accounting capability comprises the five mechanisms M1 to M5. Dependent construct, detection effectiveness, is generally defined as the ability to spot suspicious activities, determine how misconduct might happen, make sure that the evidence is true, and provide an appropriate institutional response. To avoid circularity, each component is associated

with a result that can be observed independently of the mechanism that produces it (Table 4).

Table 4. Constructs, Outcomes, and Illustrative Indicators

Construct	Definition	Illustrative indicators	Linked propositions
O1 Identification	Speed and proactivity with which misconduct is identified	Time from onset to detection; share of cases detected through proactive procedures rather than by tip or accident	P1, P2
O2 Diagnosis	Identification of the control or governance failure that enabled the scheme	Share of investigated cases with a documented root cause; recurrence of similar misconduct	P3
O3 Substantiation	Reliability of findings when independently reviewed	Share of investigated allegations that are substantiated and sustained by regulatory, judicial, or disciplinary review	P4
O4 Institutional response	Timeliness and extent of action on substantiated findings	Time from substantiation to sanction or remediation; amount of loss recovered	P5
Enabling conditions	Competenc, independence, data accessibility and quality, institutional support	See Table 3	P7a–P7d

RESEARCH METHOD

Research Propositions

The framework generates the following propositions for empirical testing.

P1. Stronger forensic examination of financial records (M1) is associated with shorter time to detection of misconduct.

P2. Greater use of validated analytical and digital investigation (M2) is associated with a higher proportion of misconduct detected proactively. This association weakens where the burden of false positives exceeds investigative capacity or where flagged items are not corroborated.

P3. More thorough assessment of internal controls and governance (M3) is associated with a higher likelihood that the failure enabling the scheme is identified and with lower recurrence of similar misconduct.

P4. Stronger evidence collection, documentation, and reporting (M4) is associated with a higher proportion of investigated allegations that are substantiated and sustained when reviewed by regulators, courts, or disciplinary bodies.

P5. More effective coordination with legal, regulatory, and investigative authorities (M5) is associated with more timely sanctions, remediation, and loss recovery after substantiation.

P6. The mechanisms are complementary: detection effectiveness is higher where the

mechanisms are jointly present than the separate associations in P1 to P5 would predict.

P7a–d. Professional competence (a), investigator independence (b), data accessibility and quality (c), and institutional support (d) each strengthen the associations between the mechanisms and their linked outcomes.

P8. The relative contribution of the mechanisms varies with the type of misconduct: M1 and M2 contribute relatively more to financial statement manipulation, and M4 and M5 relatively more in corruption.

Conceptual Model

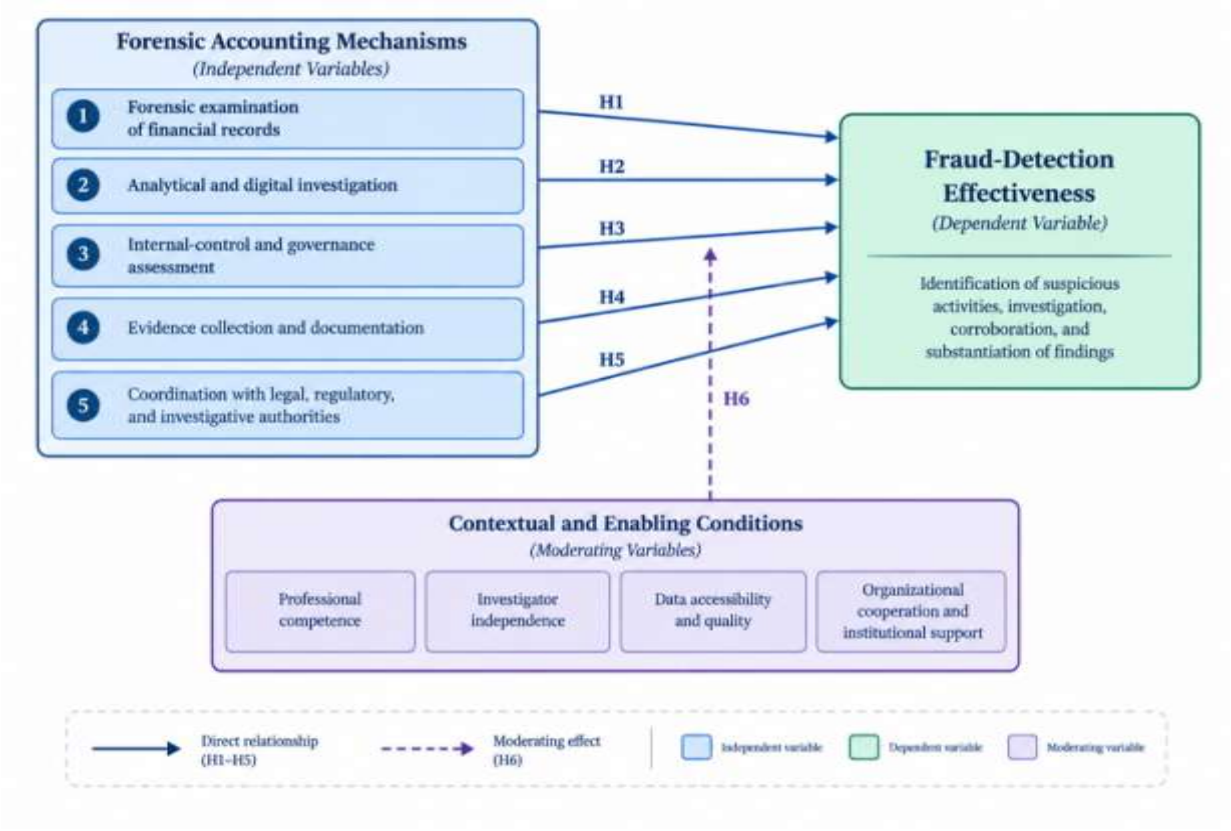

Figure 1. Conceptual Framework (Schematic)

The framework does not assume the same effects across organizations. Analytical investigation may be more important when transaction volumes are large, and documentation and coordination are key in complex corruption cases. The propositions are associations, not causal effects: the organizations with higher fraud risk will have to invest more in forensic capability, and the detected incidents are

only a subset of actual incidents. Empirical tests should address this selection problem explicitly.

Implications and Future Research

Organizational Implications

I would urge organizations looking to strengthen detection to incorporate forensic accounting into governance and risk management systems. Financial records, procedures for escalating suspicious transactions and processes and responsibilities for internal audit, compliance, legal and management at all levels of the organization must be available. Professional development must be based on accounting knowledge, investigative thinking, data analysis, professional skepticism and knowledge of legal requirements. And when analytics are applied, the organization must ensure that data is credible, rules are documented, and unusual results are followed up rather than taken as an end point. Forensic accounting can support the COSO and ACFE approach to fraud-risk management by investigating suspected incidents and translating lessons into better control design and monitoring (COSO & ACFE, 2023).

Regulatory and Institutional Implications

It is clear to regulators and policymakers that the framework is needed to provide a framework that is independent and the evidence is not compromised: professional standards, reporting requirements, record keeping, evidence safeguarding and coordination of oversight and enforcement bodies. Forensic accounting cannot eliminate corruption or guarantee compliance on its own. Its effectiveness depends on whether institutions have the authority, independence and ability to investigate and act upon allegations and have evidence. Investment in investigative expertise should be matched with better governance, transparency, procurement integrity and enforcement.

Future Research Directions

In the future, forensic accounting effectiveness should be measured by measurable results in Table 4. Case-level data of the type provided by ACFE (based on the detection method, duration and loss) could be used to test P1, P2 and P8 (with

sampling limitation discussed in Sec. 10). Survey studies could investigate the relationship between capabilities and perceived effectiveness if the instruments are validated and the limits of self-reported data are recognized. Archival work could be used to explore whether firms with better capabilities to investigate the irregularities can do so more quickly, or report different patterns of misconduct, and case studies could show how forensic processes can make sense of complex transactions and show control failures. Researchers should also distinguish between different types of misconduct, where financial statement manipulation, asset misappropriation, bribery, and procurement fraud might require different procedures and outcomes. They need to also take into account that higher numbers of cases might reflect better monitoring, not better detection. Further research is needed on digital technologies: how machine learning complements professional judgment, how false-positive rates affect investigative costs, and if models based on historical cases are useful when fraud patterns change. Data from public and private organizations and across jurisdictions (e.g., the Middle East and North Africa, where the ACFE (2026) data show a high prevalence of corruption) could shed light on how authority, information access, and institutional support impact outcomes.

LIMITATIONS

This article is structured from a purposive selection of the original literature, published research and professional advice. It does not report original empirical data, and its claims have not been tested; they should be read as theoretical expectations and not as established causal effects. Because the literature was not selected through a systematic protocol, relevant studies may have been ignored. The figures are available only in English. The ACFE (2026) figures are not representative of the prevalence of occupational fraud but rather show the scale and pattern of the problem. They are taken from fraud examiners' data, concerned fraud against organizations and may not reflect what is being detected or not. The comparison of them to the focus of the studies is descriptive and not inferential. The new ISA 240 had not been implemented yet when this article was prepared and its practical implications remain to be seen. The five mechanisms overlap in practice, and their relevance depends on the nature of

the investigation, the legal environment and the organizational structure. The differences in definitions and measurement across literature also limit comparisons between studies. Finally, fraud occurrence and fraud detection are different and the observed detection rates are affected by factors beyond forensic ability. Future studies should be careful in the operationalization of outcomes and use comparative, longitudinal, or archival designs that allow for a better evaluation of the proposed relationships.

CONCLUSION

Forensic accounting is an essential tool for the investigation of financial fraud and corruption. Financial records analysis and digital investigation as well as internal control and governance assessment, collection of evidence and cooperation with authorities are all part of the forensic accounting process. The processes help organizations to identify whether or not transactions are suspicious, to reconcile financial events, to establish how misconduct was committed and to present evidence-based findings. Forensic accounting is not an alternative to auditing and governance arrangements; it should be a complement to them. Auditing is critical for assurance, and forensic accounting is an effective and specific response to suspicious transactions and cases where there is a strong suspicion that information is not being disclosed. There are neither guarantees that every fraudulent act will be discovered, and the quality of evidence and independence of the investigation determines the value of investigative conclusions. The proposed framework connects five mechanisms with four measurable results, states four enabling conditions and proposes eight options for empirical testing on a case-by-case basis in the organizations and regulatory environment. The strategic benefit of forensic accounting is to not only detect misconduct but to enable companies and institutions to do so in a responsible way, learn from them, and strengthen the systems to promote financial integrity and public trust.

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