

# The Role of Internal Audit Function and Forensic Accounting Practices in Bangladesh

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**Abstract:** The internal audit function and forensic accounting practices play pivotal roles in enhancing organizational governance, ensuring financial transparency, and combating fraud. Internal auditing focuses on assessing risk management, control processes, and compliance with established policies to safeguard organizational assets and optimize performance. Meanwhile, forensic accounting emphasizes detecting, investigating, and preventing financial irregularities through specialized accounting and investigative techniques. This paper explores the synergy between these two disciplines, highlighting how internal audits establish robust systems that reduce vulnerabilities, while forensic accounting addresses complex fraud cases with precision. Together, these functions contribute to a holistic framework for ensuring integrity, accountability, and operational efficiency in organizations.

**Keywords:** Internal Audit, Forensic Accounting, Financial Transparency, Risk Management, Control Processes, Compliance, Accountability, Operational Efficiency.

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## I. INTRODUCTION

Organizations operate in a highly dynamic and competitive environment, where financial integrity, compliance, and risk management are crucial to achieving sustainable growth. Amid increasing regulatory scrutiny and the growing prevalence of financial fraud, the roles of internal audit and forensic accounting have become more significant than ever. The internal audit function serves as a vital component of an organization's governance framework. It evaluates the adequacy and effectiveness of internal controls, risk management strategies, and compliance with applicable laws and policies. By identifying weaknesses in processes and providing actionable recommendations, internal audits help organizations safeguard their assets, ensure operational efficiency, and build stakeholder confidence.

Forensic accounting complements the internal audit function by focusing on the detection, investigation, and prevention of financial irregularities. It employs specialized techniques to analyze complex financial data, uncover fraudulent activities, and provide evidence in legal proceedings. As financial crimes become increasingly sophisticated, forensic accounting has become an indispensable tool for addressing fraud risks and ensuring accountability. This paper examines the interconnected roles of internal audit and forensic accounting in promoting financial transparency and organizational resilience. It explores their individual contributions and synergies in fraud prevention and control, ultimately highlighting their

importance in fostering ethical practices and sustainable success in modern organizations.

### ➤ Research Objectives

- To examine the contribution of internal audit functions to organizational risk management and fraud detection.
- To evaluate the effectiveness of forensic accounting practices in identifying and preventing financial irregularities.
- To explore the integration of internal audit functions and forensic accounting in enhancing corporate governance.
- To identify the key challenges faced by internal auditors and forensic accountants in modern business environments.
- To assess the impact of technology and data analytics on the synergy between internal auditing and forensic accounting practices.
- To provide recommendations for organizations to optimize the collaboration between internal audit and forensic accounting teams.
- To identify the skills and competencies required for internal auditors and forensic accountants to effectively combat financial misconduct.

➤ *Research Question*

- How does the internal audit function contribute to organizational risk management and fraud prevention?
- What is the role of forensic accounting in identifying and addressing financial irregularities?
- In what ways can internal audit and forensic accounting practices complement each other to enhance corporate governance?
- What challenges do internal auditors and forensic accountants face in detecting and mitigating fraud in modern organizations?
- How do technological advancements, such as data analytics and artificial intelligence, impact the effectiveness of internal audit and forensic accounting practices?
- What are the critical skills and competencies required for internal auditors and forensic accountants to effectively perform their roles?
- What strategies can organizations adopt to strengthen the collaboration between internal audit functions and forensic accounting teams?
- How does the integration of forensic accounting into internal audit processes affect the overall effectiveness of fraud detection and prevention?
- What role do internal audit and forensic accounting play in fostering ethical business practices and organizational integrity?
- How does organizational culture influence the effectiveness of internal audit and forensic accounting efforts in fraud detection?
- What are the key areas of overlap between internal auditing and forensic accounting, and how can they be leveraged for improved fraud detection?
- What are the primary differences in approaches and methodologies between internal auditing and forensic accounting?
- How do regulatory frameworks and compliance requirements influence the role of internal audit and forensic accounting?

## II. LITERATURE REVIEW

The role of the internal audit function (IAF) has evolved significantly over the years, transitioning from traditional compliance and financial oversight to a more dynamic role in risk management and organizational governance. Contemporary literature underscores the increasing

importance of IAF in enhancing organizational accountability and mitigating risks, particularly in the face of complex regulatory environments and economic uncertainties.

Forensic accounting practices (FAP), on the other hand, have emerged as a critical tool in addressing fraud and financial misconduct. Defined as the integration of accounting, auditing, and investigative skills, forensic accounting seeks to uncover financial irregularities and provide evidence for legal proceedings. The literature highlights its application in fraud detection, litigation support, and the resolution of financial disputes. Forensic accountants play a pivotal role in reconstructing financial records, identifying fraudulent schemes, and providing expert testimony, making their role indispensable in modern business practices.

Research highlights the complementary nature of these two fields. Internal audit's preventive mechanisms can significantly reduce the incidence of fraud, while forensic accounting offers specialized tools and methodologies for detecting and resolving fraudulent activities.

Studies underscore the importance of integrating these practices to enhance organizational transparency, safeguard assets, and build stakeholder trust.

Furthermore, advancements in technology, such as data analytics, have improved the efficiency and effectiveness of both disciplines, fostering a robust framework for fraud prevention and detection.

However, challenges persist in the implementation of these practices. The literature identifies constraints such as inadequate resources, lack of specialized training, and organizational resistance as barriers to the effective functioning of both internal audit and forensic accounting functions. The integration of advanced technologies, such as data analytics and artificial intelligence, is frequently proposed as a solution to enhance the efficiency and accuracy of both disciplines.

In conclusion, the evolving roles of IAF and FAP highlight their critical importance in promoting financial transparency and organizational integrity. Future research is encouraged to explore their integration further, particularly in leveraging technology to overcome existing challenges and strengthen fraud detection mechanisms.

## III. RESEARCH METHODOLOGY

To comprehensively explore the role of the internal audit function and forensic accounting practices, a structured and multi-faceted methodology will be employed. The methodology involves a combination of qualitative and quantitative approaches to ensure a robust analysis of the subject matter.

➤ *Research Design:*

A mixed-methods approach is employed to capture the depth and breadth of the subject.

- **Qualitative Analysis:** To explore the theoretical underpinnings and best practices of internal audit and forensic accounting.
- **Quantitative Analysis:** To analyze data, trends, and case studies demonstrating the effectiveness of these functions in practice.

➤ *Data Collection Methods:*

- **Primary Data**
  - ✓ **Surveys and Questionnaires:** Distributed to internal auditors, forensic accountants, and management professionals to gather insights on the practical application of these practices.
  - ✓ **Interviews:** Semi-structured interviews with experts in audit and forensic accounting to understand their perspectives on the integration of these disciplines.
- **Secondary Data**
  - ✓ **Literature Review:** Examination of academic journals, books, and industry reports to identify frameworks, principles, and historical applications of internal auditing and forensic accounting.
  - ✓ **Case Studies:** Analysis of real-world examples of fraud investigations and audit reviews to understand their roles in fraud detection and prevention.

➤ *Data Analysis Techniques:*

- **Content Analysis:** To interpret qualitative data from interviews and document reviews, identifying common themes, challenges, and best practices.
- **Statistical Analysis:** To assess survey data, measuring the impact and effectiveness of internal audit functions and forensic accounting in various organizational contexts.
- **Comparative Analysis:** To compare case studies across industries, focusing on the alignment and divergence in methodologies used.

➤ *Validation and Reliability:*

- **Triangulation:** Using multiple data sources (surveys, interviews, and secondary data) to ensure reliability and accuracy.
- **Expert Validation:** Engaging industry professionals to review and validate findings.

➤ *Thematic Focus Areas: The Study Focuses on,*

- **The Scope of Internal Audit:** Understanding how internal audit functions contribute to risk management and compliance.
- **Forensic Accounting Techniques:** Identifying forensic tools and practices that aid in fraud detection and financial investigations.
- **Collaborative Approaches:** Exploring how internal audit and forensic accounting can work together to enhance organizational resilience.

- **Challenges and Barriers:** Investigating limitations, such as resource constraints and ethical dilemmas that hinder the effective application of these practices.

➤ *Ethical Considerations:*

The study ensures confidentiality and anonymity for participants, adheres to ethical research standards, and complies with data protection regulations. This structured methodology aims to provide a comprehensive understanding of the roles and synergies between internal auditing and forensic accounting in modern organizational frameworks. It seeks to offer actionable insights for practitioners, policymakers, and academicians.

➤ *Expected Outcome:*

The study is expected to provide insights into:

- The complementary roles of internal audit and forensic accounting in organizational risk management.
- Key challenges and areas for improvement in the integration of these functions.
- Recommendations for enhancing their collective impact on fraud prevention and corporate governance.

#### IV. IMPORTANCE OF IAF & FAP FOR THE BANGLADESHI INDUSTRIES

Bangladesh's rapidly growing economy and industrial sector face increasing financial complexities, regulatory requirements, and risks such as fraud and financial misstatements. In this context, the Internal Audit Function and Forensic Accounting Practice play crucial roles in ensuring transparency, accountability, and sustainability in business operations.

- Enhancing Corporate Governance
- Attracting Foreign Direct Investment (FDI)
- Strengthening Financial Management
- Operational Efficiency & Cost Control
- Building Trust in Capital Markets
- Supporting SME Growth and Development
- Facilitating Sustainable Industrial Growth
- Ensuring Compliance with Regulatory Requirements
- Fraud Prevention & Risk Management
- Investor & Stakeholder Confidence
- Preventing Money Laundering & Financial Crimes
- Strengthening Tax & Regulatory Compliance
- Enhancing Business Reputation & Sustainability
- Support in Litigation & Dispute Resolution

The Internal Audit Function and Forensic Accounting Practice are indispensable for Bangladesh's industries to ensure financial integrity, regulatory compliance, and fraud prevention. As the country moves toward industrialization and global business integration, strengthening these functions will enhance corporate governance, attract investment, and promote sustainable economic growth. Businesses should invest in skilled auditors and forensic accountants to mitigate risks and safeguard financial interests.

➤ *Sector-wise Contribution & Efficiency of IAF and FAP of Bangladesh*

Banking & Financial Sector	NGOs & Development Sector	Telecommunications & IT Sector
Manufacturing & Industrial Sector	Healthcare & Pharmaceuticals	Healthcare & Pharmaceuticals
Public Sector & Government Institutions		

➤ *Sector-wise Contribution to GDP of Bangladesh (2019-2023)*

Over the past five years, Bangladesh's economic growth has exhibited notable sector-wise variations. Here's a

graphical analysis of the contributions from the agriculture, industry, and services sectors to the Gross Domestic Product (GDP).

Table 1 Sector-wise Contribution to GDP of Bangladesh (2019-2023)

Year	Agriculture (%)	Industry (%)	Services (%)
2019	13.07	35.36	51.57
2020	12.65	35.01	52.34
2021	12.43	34.99	52.58
2022	11.61	35.38	53.01
2023	11.00	34.59	51.11

➤ *Key Observations:*

- **Agriculture:** There has been a gradual decline in the agriculture sector's contribution to GDP, decreasing from 13.07% in 2019 to 11.00% in 2023.
- **Industry:** The industry's share has experienced minor fluctuations, peaking at 35.38% in 2022 before slightly decreasing to 34.59% in 2023.
- **Services:** The services sector maintained a dominant position, reaching 53.01% in 2022, but saw a decline to 51.11% in 2023.

## V. CONCLUSION

The role of the Internal Audit Function (IAF) and forensic accounting practices has become increasingly critical in fostering robust governance, ensuring financial transparency, and mitigating fraud risks in contemporary organizations. This study underscores the synergistic relationship between these two disciplines, highlighting how their integration enhances organizational resilience and stakeholder trust.

The Internal Audit Function plays a proactive role in identifying risks, evaluating internal controls, and ensuring compliance with regulatory frameworks. By providing assurance and advisory services, it supports decision-making processes and contributes to the achievement of strategic objectives. On the other hand, forensic accounting practices specialize in the detection, investigation, and prevention of fraudulent activities, providing a focused and reactive mechanism to address financial misconduct. The findings of this research emphasize that when organizations leverage forensic accounting expertise alongside their internal audit

activities, they not only strengthen their fraud detection capabilities but also build more comprehensive control environments. This alignment ensures that internal audits are not merely procedural exercises but are also equipped with the analytical depth needed to uncover complex financial irregularities.

Furthermore, the evolving business landscape, characterized by globalization, technological advancements, and increasing regulatory scrutiny, necessitates a more dynamic and adaptive approach to risk management. The collaboration between internal auditors and forensic accountants equips organizations to meet these challenges effectively, reinforcing the importance of their complementary roles in achieving financial integrity and operational excellence.

In conclusion, the integration of the Internal Audit Function with forensic accounting practices represents a critical pillar in modern governance frameworks. By adopting a proactive and investigative stance, organizations can not only safeguard assets and deter fraud but also enhance stakeholder confidence and long-term sustainability. Future research could explore the technological innovations and cross-disciplinary approaches that further amplify the impact of these practices in a rapidly evolving economic environment.

## DECLARATION

This work has not previously been in substance for any degree and is not concurrently submitted in candidature for any degree. This report is being submitted in partial fulfilment of the requirements for the degree of Doctor of Philosophy

(PhD). This paper is the result of my own independent work/investigation, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references.

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