

Necessity and importance of developing forensic accounting services in Sri Lanka to mitigate corporate failures

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ABSTRACT

The accounting scandals involving Enron, WorldCom and Global Crossing in the world, and Pramuka Bank and Golden Key Credit card companies in Sri Lanka have put accountants in the public spotlight as never before in their history. After these accounting scandals, public confidence in the accounting profession has been undermined (Wallace, 1991; Chu, 1999). Sri Lanka is in the process of economic transformation, and with the gradual development of the economy and the continual enhancement of the comprehensive national strength, the accounting information is more and more important in the whole social and economic activity, and the amount of the civil action induced by the accounting information is increasing by the geometric series, which will all quicken the further integration of the legal domain and the accounting domain, and generate a new accounting domain, i.e. the forensic accounting.

This study investigates the necessity and importance of developing forensic or investigative accounting services to mitigate corporate failures. The failure of statutory audit to prevent and reduce mis-appropriation of corporate fund and an increase in corporate crime has put pressure on the professional accountant and legal practitioner to find a better way of exposing frame in business world. The study makes use of available literature on forensic accounting and intends to find out how the knowledge of forensic accounting can reduce corporate fraud and mismanagement which eventually resulted in collapsing commercial ventures in Sri Lanka.

Study finds that the generation of forensic accounting services is closely related with the economic and legal background and the social demand, and the development and change of the economy and the society will be the core force to push the advance of the forensic accounting. In this context, Sri Lanka should establish and develop the forensic and investigative accounting services as soon as possible to reduce unexpected corporate failures.

Key words- Forensic and investigative accounting, frauds, corporate failures