

## Impact of Forensic Accounting on Audit Expectation Gap in India

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### ABSTRACT

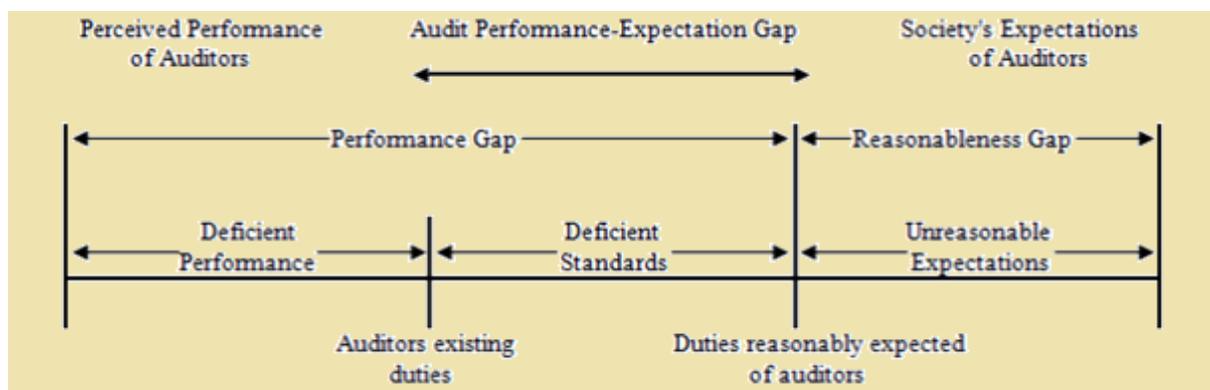
Forensic accounting, a multi-faceted approach in accounting, has been introduced as part of fraud investigations. Forensic accounting gained more importance after the collapse of companies like WorldCom and Enron. In India, it gained importance after the accounting scandal i.e. Satyam scam. Across the world, there have been many financial frauds and scams in all eras, and affected millions of corporations. This increased the demand for forensic accounting, leading to emergence of anew profession called forensic accountant. The present research study titled “Impact of forensic accounting on audit expectation gap in India” intends to highlight the importance of forensic accounting for the organization and its stakeholders and investigate how forensic accounting can help detect and prevent fraud in India. The study concluded that there is no significant gap on how forensic accounting can help to address audit deficiencies and bridge the AEG by providing reliable accounting information that discloses more accurate and relevant essential information.

**Keywords: Audit expectation gap (AEG), Forensic accounting, performance gap, financial fraud**

### INTRODUCTION

The AICPA's (Cohen Commission) study on auditor duties (1978) indicated that there is a gap b/w auditor performance & user expectations of financial statements. Tweedie (1987) outlined public expectations of auditors. The public appears to want a burglar alarm system (fraud prevention), a radar station (early warning of potential bankruptcy), a safety net (generic financial assurance), a third party auditor (auditor impartiality protections), and clear messaging (knowledge of audit reports).

Auditor report users feel that the auditor should not only provide an audit opinion, but also evaluate the financial information provided so that the user may determine whether to invest in the company (Salehi, 2011). This disagreement has been dubbed the "audit expectation gap (AEG)". Guy and Sullivan (1988) define the expectation gap as "a variance in what the public and those who utilize financial statements believe auditors and accountants are responsible for and what accounting and auditing professionals themselves believe they are responsible for". Porter (1993) defined the Audit Expectation Disparity as "the gap within the norms of auditors and auditor effectiveness, as perceived by society."



**FIGURE 1: AEG**

**Source: Porter, B. (1993)**

Porter (1993) classified the AEG gap in performance into two parts: the credibility gap, which is the distinction among what society expects auditing firms to accomplish (irrational expectations) and what they are reasonably projected

to get done, and the effectiveness gap, which is the variations within what society ought to anticipate auditing firms to achieve and what they are perceived to achieve.

Figure 2 depicts Salehi's (2007) explanation for the presence of these gaps. The reasonableness gap arises as a result of user misunderstanding, users exceeding expectations, ignorant users, missing users, user miscommunication, and audit report users being unaware of audit practice restrictions. Deficient standards gaps emerge when there are not enough standards to cover all audit procedures or when there are inadequate standards for audit roles and duties, fraud detection, and fraudulent practices. The primary causes of the poor performance gap include auditors' failure to provide audit services, their economic connection with customers, self-interested auditors, dependent auditors, and untrained auditors.

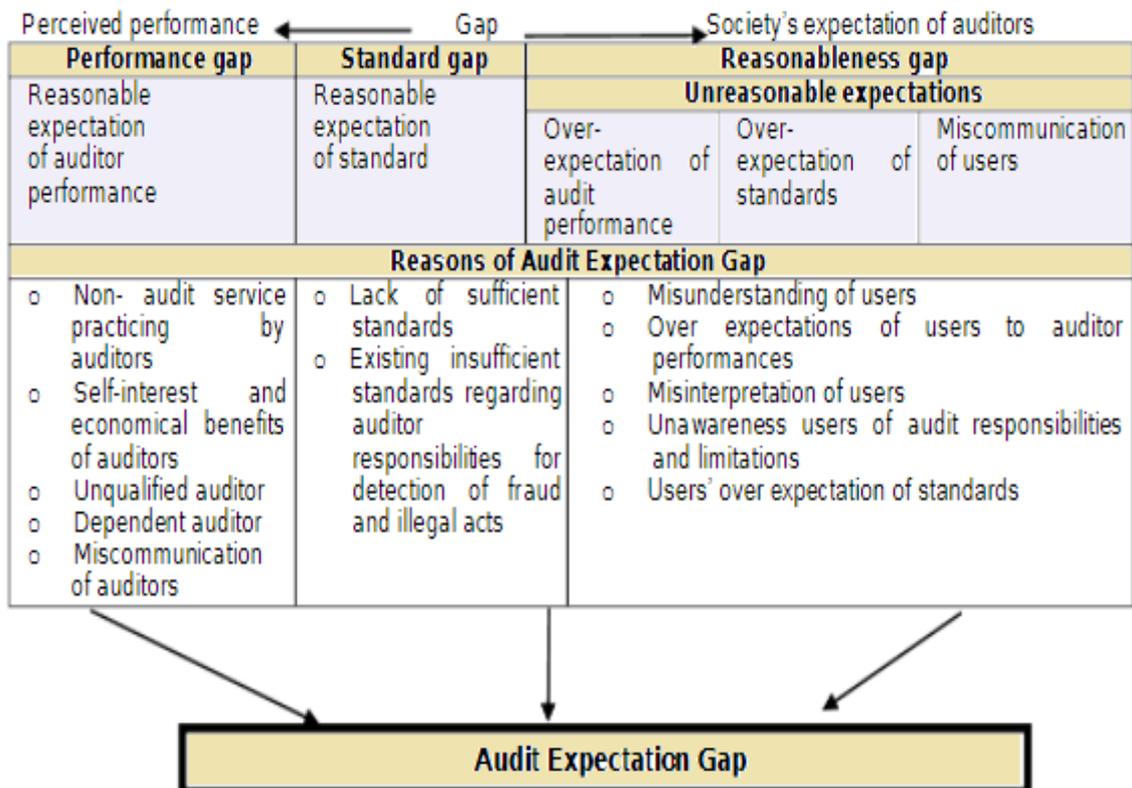


FIGURE 2: REASONS OF AUDIT EXPECTATIONS GAP

Source: Salehi, M. (2007)

**LITERATURE REVIEW**

Darmawan & Saragih (2017) investigated effect of financial stability, financial objectives, & auditor quality on fraud detection in financial statements. This study used carefully chosen samples and logistic regression modeling to evaluate 21 organizations that committed fraud as reported in the Financial Service Authority's financial records, as well as 21 companies that did not commit fraud, including Compass 100 on Indonesia Stock Exchange. The study found that auditor quality has a positive effect on financial reporting fraud. This suggests that the higher the auditors' expertise, the better the chances of discovering fraud and fraudulent activity.

Ejoh (2017) emphasized the significance of forensic accountants' sworn evidence as advisers to the successful. The study discovered that forensic accountants utilize investigative skills to identify causes and quantify losses. At the company level, forensic accountants investigate fraud and other unlawful practices, which may or may not lead to litigation. They can assess potential damage claims and advise corporate legal departments on whether to pursue action. Attorneys occasionally use forensic accountants as expert witnesses in a wide range of civil cases, from contract disputes to large-scale antitrust proceedings.

Khersiat (2018) emphasized the need of a forensic accountant in detecting financial statement manipulation and preventing tax fraud in Jordan. Forensic accountants use investigative strategies and analytical skills in an objective and

appropriate manner to produce a strong instrument for identifying fraud and manipulation of financial statements in businesses. Forensic accountant with an entirely objective viewpoint capable of identifying tax fraud in financial accounts as well as financial statement manipulation.

Akinbowale and Esther (2018) examined impact of information and communication technology (ICT) on forensic accounting methodologies. The study revealed that information technology (IT)-based forensic accounting has a substantial correlation with the speed at which fraud and other financial crimes are identified during forensic inquiry. IT-based forensic accounting solutions would shorten the time spent conducting forensic investigations while simultaneously producing trustworthy evidence for financial reporting and other potential criminal prosecutions.

Ernst and Young (2018) outlined the six SA components. Audit quality is most important factor in auditor decision-making & the fundamental criteria for defining an auditor's professional reputation. SAQ consists of six components: tone at top, increasing people capabilities, auditing technology & digital, enablement & quality support, simplicity, and responsibility.

Alexander Leischnig et al. (2019) look at how causative elements from four different domains combine to create configurationally causes of immoral judgments of two prevalent types of corrupt consumer behaviour: shoplifting and fare evasion. Fuzzy-set Qualitative Comparative Analyses provide alternate, consistently sufficient "recipes" for achieving the required results. This study adds to earlier research on the topic by giving new insights into the interaction and interconnected structures of various causal components, as well as describing configurational explanations for consumers' ethical assessments of corrupt activity. This insight might assist practitioners and governments develop education and control initiatives to fight corrupt consumer behaviour.

BIAC (2020) stressed the significance of audit quality in building confidence in company. Maintaining good audit quality is the responsibility of the whole financial the environment, which includes legislators, rule makers, firms (management and audit committees), traders, regulators, and unbiased auditors. Audit quality necessitates that anyone involved in financial reporting perform their responsibilities with enthusiasm, skill, and thoroughness.

Prabhat Mittal et al. (2021) created a study model and hypotheses to assess the relationship between legal accounting awareness and Big Data, with the aim of employing the use of structural equation modelling to identify fraud. Awareness of the concept of forensic accounting motivates practitioners to apply it for fraud detection. Big data technologies fill the gap among awareness and intent to utilize for fraud detection. The study's findings are valuable in the use of big data technology in relation to investigate accounting practices, which can help prevent fraud.

Mr. Nilesh bhai M. Gamit et al. (2022) define forensic accounting as a branch of practice. As the frequency of corporate and financial crimes has risen in recent years, authorities have been increasingly reliant on forensic accounting to ensure public honesty, impartiality, and openness of information. Forensic accounting use a number of methods to detect, investigate, and prevent fraudulent activity. Forensic accounting is critical for reducing financial fraud and improving the image of the business and banking sectors. If forensic auditing is made required in the business and financial sectors, many frauds can be prevented. The recruitment of forensic accountants in public sector & significant corporations has been proposed as a must for the economy's long-term growth.

Pragnesh B. Dalwadi et al. (2023) investigate the function of forensic accounting in preventing and identifying financial crime in India. The first part presents an overview of financial fraud in India, emphasizing the many forms and causes of fraud that exist in the nation. The second section discusses ways to avoid financial fraud, such as internal controls, anti-fraud policies, and evaluations of risks. The third part discusses ways to detect financial fraud, including financial statement analysis, transaction tracking, data analysis, tip-offs and those who leak information, and internal audits.

This publication discussed findings and methodology of Rakesh Kumar Jain et al. (2024). To fill a vacuum in the literature, we investigated how new indirect tax system affects company bottom lines. The conclusions of this study will help policymakers, strategists, & managers overcome the issues raised by GST. According to study, firms' financial performance does not differ considerably before and after GST introduction.

Producers, service providers, and market intermediaries have varying perceptions and reactions to GST. There is a scarcity of empirical evidence supporting positive bad consequences of GST, notably in India. So we conducted a trial to observe how firms fared a year after the GST was implemented. Companies listed on the BSE were chosen at arbitrary, and three selected for further investigation. The financial impact of GST was assessed.

Nourhene Guellim et al. (2024) conducted a comprehensive evaluation of the available literature in order to assess the perceived usefulness of forensic accounting. This study investigates the growth of forensic accounting, the primary services it provides, the skills required, industry norms, and educational requirements. It also discusses the expectation gap in instruction in forensic accounting and suggests subjects for further investigation. By combining information obtained from many studies, the report provides a complete overview of the current status of accounting forensics research. Key findings demonstrate a growing global need for forensic accounting, as seen by the formation of specialist departments inside significant firms and regional accounting organizations. The study finishes with insights into the basic elements and categorization schemes of forensic accounting research, as well as an in-depth evaluation of the field's current and future directions.

Saka A. Q. et al.'s (2025) study used a log it regression model to examine financial records, forensic audit reports, and corporate governance indices gathered from various regulatory organizations, business filings, and international governance databases. Forensic accounting either considerably improves or does not better corporate governance, with the dependent variable stated as a binary outcome. The study revealed that forensic accounting interventions had a significant beneficial link with reducing financial misstatements, the frequency of fraud, and improving governance mechanisms.

## OBJECTIVES

- To investigate the role & responsibilities of auditors in fraud detection & prevention in India.
- To investigate impact of forensic accounting on fraud in India.

## DATA ANALYSIS

Quantitative data enables descriptive statistical analysis. Descriptive statistical analysis summarizes a set of data to convey the most information in the simplest way possible (Gupta et al., 2019). This analysis provided a meaningful explanation of the study's findings based on the responses to questions. The responses were collected on a 5-point Likert scale (strongly agree, agree, neutral, disagree, and strongly disagree). For responses, the following codes were used: strongly disagree = one, disagree = two, natural = three, agree = four, and extremely agree = 5. The presentation sequence aligns with the study's objectives.

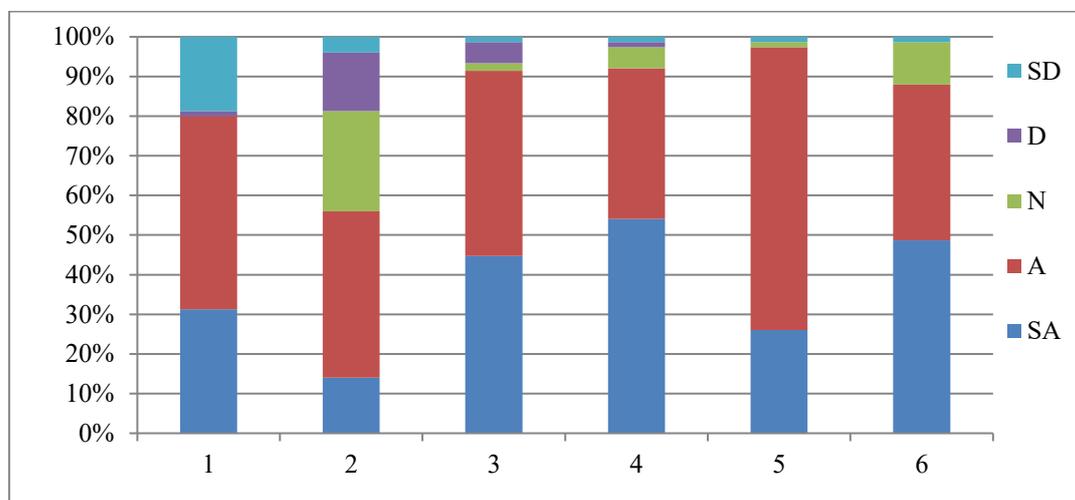
## FINANCIAL FRAUD AND AUDIT

The primary purpose was to look into role & duties of auditors in fraud detection and prevention in India. According to the standards of auditing (SA 240), paragraph 5, an auditor conducting an audit in line with SAs is responsible for establishing reasonable confidence, rather than absolute certainty, that the balance sheet as a whole are free of substantial deception, whether caused by fraud or error. According to SA 240, Para 4, the entity's TCWG and "management" share main duty for fraud prevention and detection. The study examined the value and limitations of auditors' engagement in the identification and avoidance of fraud in India, comparing comments from accounting educators and specialists. Table 1 has six questions that report on the results of this purpose.

**TABLE 1: FINANCIAL FRAUD AND AUDIT**

Item		5	4	3	2	1	Mean	SD
1. Audit report is important for stakeholders in the decision-making process.	N	94	146	0	4	56	2.26	1.408
	%	31.3	48.7	0	1.3	18.7		
2. Prevailing fraud situation seems that auditor fails to perform their job effectively and efficiently.	N	42	126	76	44	12	2.54	1.035
	%	14	42	25.3	14.7	4.0		
3. With constant changes in the business environment and technological advancements, the modi operandi of committing financial fraud are also changing.	N	134	140	6	16	4	1.73	.853
	%	44.7	46.7	2	5.3	1.3		

4. In today's environment, only audit of financial statement is not enough to detect any fraud specifically, White collar crimes.	N	162	114	16	4	4	1.57	.772
	%	54	38	5.3	1.3	1.3		
5. Today's investors do not depend only financial statement information. They are increasingly depending on information outside the primary financial statements that is outside the cop of audit or review.	N	68	214	4	0	4	1.78	.595
	%	26	71.3	1.3	0	1.3		
6. There is need to enhance the scope of audit.	N	146	118	32	0	4	1.65	.775
	%	48.7	39.3	10.7	0	1.3		



**FIGURE 3: FINANCIAL FRAUDS AND AUDIT**

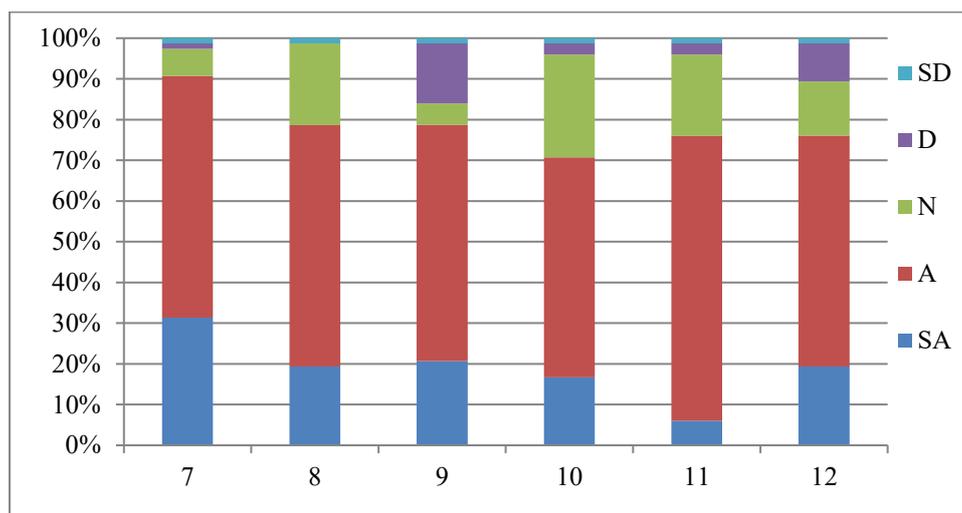
- 80% of respondents agreed that audit reports are important for stakeholder decision-making, whereas 20% disagreed. This evidence suggests that organizational stakeholders rely on audit reports. Why 56% of respondents believe auditors do not do their tasks effectively and efficiently, with 25.3% neutral and 18.7% disagreeing. This figure depicts India's 'audit expectations gap'.
- 91.4% of respondents feel that financial fraud evolves with organizational and technological changes. This data highlights the need for sophisticated tools, tactics, and systems to detect & prevent financial fraud. This data also highlights the need for improved audit quality.
- 92% of respondents believe that auditing financial accounts alone is insufficient to detect fraud, especially in white collar crimes. According to several investigations and publications, high and middle management were involved in the bulk of big frauds, such as the Satyam Scam, Richo India Scam, PNB/Nirav Modi Scam, IL&FS Crisis, PMC Bank Scam, and so on.
- 97.3% of respondents said they don't rely only on financial statements. They are increasingly reliant on information outside than the main financial statements, which are beyond the scope of auditor review. Respondents (88%) also agreed that audits needed to be broader in scope. This data demonstrates the need for more information, transparency, accuracy, and reliability to assist stakeholders in making better decisions and protecting their interests.

### FRAUD AND FORENSIC ACCOUNTING

The second goal was to evaluate influence of forensic accounting on fraud in India. The outcomes of this goal are depicted in the six questions in Table 2.

**TABLE 2: FORENSIC ACCOUNTING AND FRAUD**

Item		5	4	3	2	1	Mean	SD
7. Forensic accountants have greater accounting, auditing, investment, and analytical skills than traditional auditors to identify fraud.	N	94	178	20	4	4	1.83	.725
	%	31.3	59.3	6.7	1.3	1.3		
8. Forensic accounting is the effective tool to fight with the ever-changing form of modus operandi to commit the financial fraud.	N	58	178	60	0	4	2.06	.716
	%	19.3	59.3	20	0	1.3		
9. Forensic accounting may assist in enhancing the quality of financial reporting that are free from material misstatement due to fraud & safeguard the public financial interest.	N	62	174	16	44	4	2.17	.971
	%	20.7	58	5.3	14.7	1.3		
10. Forensic accounting is the sophisticated tool for detecting and preventing fraud, specifically White-Collar Crimes.	N	50	162	76	8	4	2.17	.785
	%	16.7	54	25.3	2.7	1.3		
11. The work of a forensic accountant is based on the principle of 'substantialness' in accounting which is expected by the public.	N	18	210	60	8	4	2.24	.661
	%	6	70	20	2.7	1.3		
12. The integration of forensic accounting and corporate governance systems can help with prevention, mitigation and detection of fraud in organizations.	N	58	170	40	28	4	2.17	0.893
	%	19.3	56.7	13.3	9.3	1.3		



**FIGURE 4: FORENSIC ACCOUNTING AND FRAUD**

- The researcher described forensic accounting as process of gathering, analyzing, & assessing evidence to address financial concerns and fulfill legal requirements. In compared to traditional auditors, 90.6% agreed that forensic accountants possessed accounting, auditing, investigative, and analytical skills to detect fraud, while 6.7% were undecided.

- 91.4% of respondents feel economic uncertainty and technology developments have influenced the nature of fraud. 78.6% of respondents said that forensic accounting is an effective tool for addressing the ever-changing techniques of committing financial crimes. This illustrates the rising demand for forensic accounting in the present environment.
- 78.7% of respondents say forensic accounting enhances financial reporting integrity, prevents fraud, and safeguards the public's financial interests. 16% disagreed.
- 70.7% of respondents believed that forensic accounting is the most effective tool for detecting & preventing white collar crimes, while 25.3% were neutral and 4% disagreed with this statement. White-collar crimes are increasingly complex, with greater planning and organization. Understanding complex financial schemes is challenging, and perpetrators and victims are often confusing.
- 76% of respondents believe forensic accountants focus the financial reality of a transaction over its legal form, aligning with public expectations for accounting.
- 76% of respondents believe that combining forensic accounting and corporate governance systems can prevent, reduce, and detect fraud in businesses. Management and TCWG are primarily responsible for identifying and combating fraud. Ramaswamy (2005) found that forensic accountants' skills, techniques, and inherent characteristics can help management develop and implement a comprehensive governance policy that establishes an efficient control system in the organization, thereby contributing to the creation of a positive working environment. Forensic accounting may also help with continuous monitoring, evaluation, and interpretation of evidence difficulties.

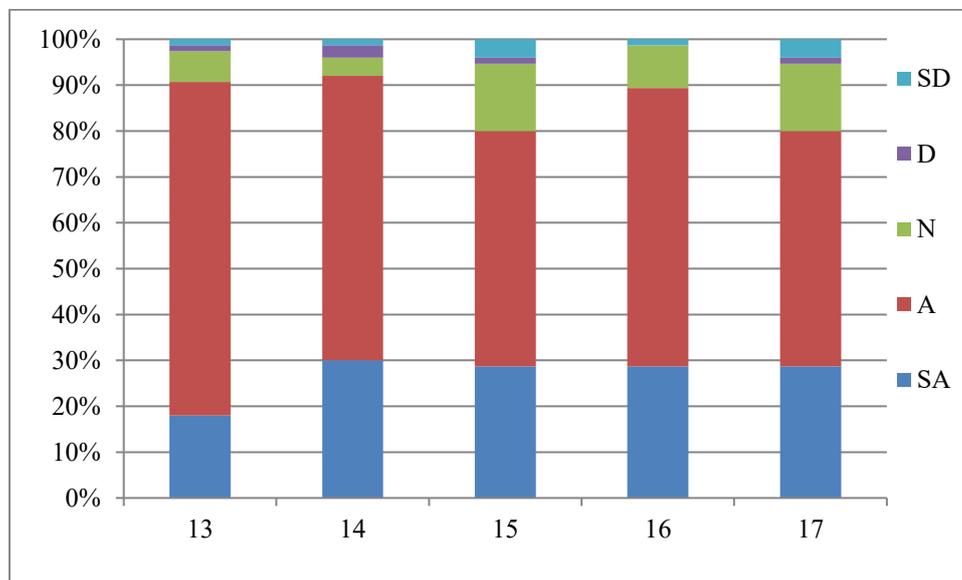
### AUDIT EXPECTATION GAP AND FORENSIC ACCOUNTING

The third objective was to look at influence of forensic accounting on fraud in India. The outcomes of this goal are shown in the five questions listed in Table 3.

**TABLE 3: AUDIT EXPECTATION GAP AND FORENSIC ACCOUNTING**

Item		5	4	3	2	1	Mean	SD
13. Forensic accounting may bridge the 'audit expectation gap' by providing reliable accounting information that discloses more accurate and relevant Needed information.	N	54	218	20	4	4	1.96	.648
	%	18	72.7	6.7	1.3	1.3		
14. Forensic accounting may expand the 'scope of audit work' beyond the standards of accounting and auditing, principles, rules, and laws for providing more reliable and accurate information.	N	90	186	12	8	4	1.84	.736
	%	30	62	4	2.7	1.3		
15. With the aid of forensic accounting, auditors may carry out their duties and responsibility relating to fraud in an audit of financial statement in more effective way.	N	54	154	44	8	12	2.02	.924
	%	28.7	51.3	14.7	1.3	4		
16. Forensic accounting may	N	86	182	28	0	4	1.86	0.694

enhance the audit quality that will increase the confidence of various stakeholders in financial reports.	%	28.7	60.7	9.3	0	1.3		
17. Forensic accounting provides a high degree of reasonable assurance, which is close to absolute assurance that financial statements taken as a whole are free of material misstatement, Whether due to fraud or error.	N	86	154	44	04	12	2.02	.924
	%	28.7	51.3	14.7	1.3	4		



**FIGURE 5: AUDIT EXPECTATION GAP AND FORENSIC ACCOUNTING**

- 90.7% of respondents say forensic audits provide accurate and useful accounting information, prioritizing substance above form.
- 92% of respondents say audit work should go beyond accounting standards, principles, rules, and laws to ensure accurate and reliable information. This illustrates that the scope of forensic accounting extends much beyond that of auditors. In the case of the Kingston Cotton Mills Company (1896), the auditor's responsibility to detect & prevent fraud & errors was described as follows: "The auditor is a watchdog, not a bloodhound."
- 80% of respondents feel forensic accounting enhances auditors' capacity to spot fraud in financial statements. The nature of fraud is always changing. Detecting and avoiding fraud necessitates highly qualified knowledge, skills, characteristics, mental ability, and competence.
- 89.4% of respondents believe forensic accounting enhances audit quality and stakeholder confidence in financial reports by providing near-absolute assurance that financial statements are free of material misstatement due to fraud or error. This is the view of 80% of responders.

**CONCLUSION**

To get accurate and trustworthy information, the primary appoints an external auditor in accordance with agency principles. 80% of respondents agreed that using forensic accounting will help auditors carry out their duties and responsibilities related to fraud in financial statement audits more effectively. It may broaden the 'scope of audit work'

beyond accounting and auditing standards, principles, regulations, and laws to provide more trustworthy and accurate data. There is no major difference in viewpoints about how forensic accounting may assist overcome audit weaknesses and bridge the AEG by giving credible accounting information that provides more accurate and relevant information. According to Eiya et al. (2013), the goal of a financial audit is to identify major misstatements in financial data based on relevant accounting and auditing standards. In contrast, forensic auditing goes beyond the transaction and focuses on the transaction's content. CMA Ray, P. (2021) stated that forensic accountants may play a significant role in discovering and avoiding fraud. They go beyond standard audits to discover fraudulent transactions.

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