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Power of Forensic Accounting Practices in the Detection of Frauds in Sri Lanka: The Moderating Role of Internal Control System

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ABSTRACT

There is a propensity of growing financial frauds and to uncover such frauds, the attention grown towards the forensic accounting concepts. Thus, this study examines the impact of forensic accounting practices on fraud detection in Sri Lanka with the moderating effect of the internal control system. Investigative and litigation practices were analyzed as independent variables, with fraud detection as the dependent variable and the internal control system as the moderator. The study utilized quantitative method, gathering data from 384 auditors through an online survey using simple random sampling technique. Hypotheses were evaluated using structural equation modeling (SEM) with partial least squares (PLS). Key findings indicate that investigative and litigation practices significantly impact fraud detection. Further, the internal control system moderates these relationships, enhancing fraud detection outcomes. This study underscores the relevance of forensic accounting in protecting organizational assets, stakeholder interests, and reputation. Moreover, this study expands the theoretical knowledge regarding investigative and litigation practices along with their importance. It further calls for government measures to train undergraduates and professionals in forensic accounting to elevate its practical application and effectiveness.

Keywords: Forensic Accounting, Fraud Detection, Investigative Practices, Litigation Practices, Internal Control Systems.

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INTRODUCTION

The history of accounting goes back thousands of years to Mesopotamia, which is the origin of civilization. As time passes, the Association of Chartered Accountants in the United States (2002) illustrates that the contemporary accounting profession was coined in Scotland and ought to take precedence. From that moment on, the accounting discipline radically evolved throughout the succeeding decades, with the addition of various domains to the discipline. Due to the rapid expansion that took place throughout the milestones of the business world, effective and efficient financial management has become crucial for a company to be successful in its operations.

Nevertheless, the number of scams and financial crimes that occur in the modern era is increasing gradually, which has made financial management complex. Further, those fraudulent activities not only harm the company but also other stakeholders, such as the general public and investors (Dewayanto, 2020). Fraud can be identified as the purposeful misrepresentation of reality, which is a deliberate fraudulent activity that allows an individual to manipulate an organization and gain an advantage or generate a profit (Micah et al., 2023). Examples of such fraud include misrepresentation of financial documents, corruption, misuse of funds and assets, etc. (Dewayanto, 2020). In the present context, fraud has turned out to be a universal problem, affecting the existence of every business around the globe, regardless of the industry it operates (ACFE, 2024).

As stated in the ACFE Report to the Nation 2024, organizations lose 5% of their income each year because of scams. From those losses, 51% of victim organizations in Southern Asia will not be able to recover any fraud losses (ACFE, 2024). Even though the world has suffered from fraud over many generations, in recent eras, it has suffered from many noticeable financial disgraces namely, Enron, WorldCom, and Satyam. When considering the local context, the number of frauds that took place has increased, and some of such frauds are Golden Key, Pramuka Bank, Ceylinco Group, ETI Finance, and bond scams (Perera & Undugoda, 2020; Sheriffdeen & Sameera, 2022) and ultimately it has directed the country's attention towards fraud investigation (Rathnasiri & Bandara, 2017). Since Sri Lanka belongs to the Southern Asia region, corruption that took place in the region accounts for 74% of occupational fraud in 2024 which has increased compared to the 71% from 2022. Moreover, 124 cases have been reported in the region. This has led the community to question whether auditors exist and whether they play their role in identifying, preventing, and detecting fraud. Those cases have contributed to lose the confidence on the accuracy of the financial statements which have increased the demand for forensic accounting (A. O. Enofe, P. O. Okpako, & E.N. Atube, Vol.5, No.26, 2013).

Due to this concern, the term forensic accounting gained a lot of popularity (Micah et al., 2023). Further, when addressing these frauds, relying solely on basic accounting knowledge is insufficient (Walakumbura & Dharmarathna, 2022). In that scenario, forensic accounting emerged as a pivotal discipline in discovering deceptive activities. Moreover, as pointed out by Thilakerathne (2010) to lessen unanticipated business failures within the country, Sri Lanka must take necessary steps to implement and maintain its forensic and investigative accounting services.

Considering the present context of Sri Lanka, there is a high volume of fraud taking place and according to previous scholars; this may arise because of profession needs to raise the caliber of its practitioners. On the other hand, the findings of the previous scholars mention that Sri Lanka should take the necessary steps to implement and develop existing services on forensic accounting to combat failures and frauds in businesses (Thilakerathne, 2010). Further, previous scholarly work suggests that future research should be conducted in areas, namely forensic accounting education, real-world application of forensic accounting, and forensic accounting and auditing (Wijerathna & Perera, 2021) which indicates that there is a need to broaden the discipline to address this knowledge gap.

The ACFE report 2022 and 2024 states that according to their analyses, half of the fraud cases occurred due to deficiencies in internal controls within a company, which accounted for 32% in 2024 which has been increased compared to 29% in 2022, or due to the overriding of prevailing internal controls within the company, which accounted for 19%. As a result, 82% of organizations that have witnessed fraud or such fraudulent activity have taken the necessary steps to strengthen their anti-fraud controls (ACFE, 2024) which demonstrates that internal control systems play a vital role in companies' fraud detection (Yuniarti, 2017). Further, Rathnasiri & Bandara(2017) suggest that companies need to make their employees aware of the internal control system of a company and its direction toward fraud detection, which indicates that it is noteworthy to investigate the moderating impact of the internal control system on the relationship between forensic accounting practices and fraud detection.

When considering the local context, in the words of Transparency International Sri Lanka (2022), Sri Lanka has secured 101th position on the Corruption Perception Index (CPI) out of 176 countries scoring 36 out of 100 in the 2022 (Corruption Perceptions Index - CPI corruption index, n.d.). Further, Sri Lanka has reported nine fraudulent cases, being the third in the South Asian region (ACFE, 2024). Hence, it is vital to carry out this study in the local context to combat financial fraud and corruption, to strengthen the regulatory compliance including the Companies Act No. 7 of 2007 and financial reporting standards and to enhance the judicial processes and dispute resolution related to financial disputes such as bankruptcy, misappropriation of assets, misrepresentation of financials, tax evasions which require the litigation practice.

However, only a few studies were conducted about the subject area of this research, as far as the researcher is known(Mbugua, 2020; Perera & Undugoda, 2020; Walakumbura & Dharmarathna, 2022). Moreover, as pointed out by Dewayanto, the scope of future studies can expand by including more empirical data on various aspects of forensic accounting (Dewayanto, 2020). In addition, he mentioned that important aspects of forensic accounting such as financial investigations are not considered in most of the studies. Further, the previous scholarly work has focused mainly on the impact of forensic accounting on fraud detection which indicates that there is a need for an acceptable understanding of forensic accounting practices for the detection of fraud (Gunathilake , 2017). Additionally, former researchers have recommended broadening the scope of future studies by examining the practical application of forensic accounting services on fraud detection within the Sri Lankan context(Walakumbura & Dharmarathna, 2022) which indicates that there is still a need for more research in certain areas to advance the discipline while addressing the aforementioned knowledge gaps and empirical gap. With the identified literature and recommendations from previous studies, the researcher has focused on the aforementioned knowledge gaps and empirical gaps. Thus, it is vital to identify which practices of forensic accounting can help understand, mitigate, and detect fraud with the moderating effect of the internal control system in a situation where the number of occupational frauds within the country is rapidly increasing (ACFE, 2024), which also leads to an increase in the demand for forensic accounting (Central Bank, 2020).

LITERATURE REVIEW

Forensic Accounting

Forensic accounting can be identified as an emerging practice within the accounting profession (Umar, Ibrahim, & Eriki, 2020; Okoye, 2009), which is indispensable to combating financial fraud within companies (Barzinji, Yusof, Rosbi, Salleh, & Abdullah, 2022). As financial frauds are increasing gradually, the role of forensic accounting in detecting those has gained utmost importance (Odeyemi, 2024) and has heightened the need for forensic accounting since financial frauds has become the world's most severe economic threat (Eghe-Ikhurhe, 2024). Moreover, forensic accounting is widely recognized as the most efficient way of detecting frauds (Eghe-Ikhurhe, 2024). Though there is no identical way to detect and get rid of fraud, (Sarker, 2020), it has made forensic accounting a prerequisite to combat such frauds. ACFE delineates forensic accounting as the application of three aspects which are accounting, auditing, and financial investigative skills in collecting, analyzing, and presenting proof in judicial proceedings or any other situation that needs a comprehension of financial transactions (ACFE, 2024). Further, it can be viewed as a branch of accounting that aims to identify and detect fraud within a company by applying investigation techniques (Emmanuel, 2016; Micah et al., 2023). Forensic accountants are the ones who are primarily responsible to detect those frauds (Eghe-Ikhurhe, 2024). On the other hand, forensic accounting represents two specific areas as its practices, namely litigation support and investigative accounting (Emmanuel, 2016) which are powerful tools for fraud detection (Eghe-Ikhurhe, 2024).

Forensic Accounting Practices

Forensic accounting practices can be identified as a practice that applies techniques in advanced accounting along with investigative skills that are crucial in investigating fraud cases and for litigation purposes (Gbegi & Adebisi, 2014). The scholarly work of Okoye, (2009) delineates forensic accounting practices as the use of investigative and other specialized techniques by forensic accountants and auditors who provide such services in gathering, analyzing, and demonstrating proof in judicial proceedings, mainly including investigating the practice, dispute resolution, and litigation. Forensic accountants and auditors combine accounting, auditing, legal, and investigative skills and practices to conduct investigations to detect fraud and they can present financial evidence clearly and concisely as expert witnesses in a hall of justice (Emmanuel, 2016). As stated by previous scholarly works, forensic accounting practices play a crucial role in fraud detection (Mbugua, 2020) and mainly include investigating the practice, dispute resolution, and litigation and it utilizes accounting, auditing, investigations, and litigation practice when conducting investigations on frauds (Emmanuel, 2016).

Investigative practice (IP)

Investigative practice can be identified as a practice that involves the collection and examination of physical and digital evidence related to a particular fraud or such fraudulent activity to recognize a victim (Whiting, 2013). Emmanuel

(2016) summits that investigative practice is a vital part of forensic accounting and it includes conducting detailed verification and clarification of transactions. Forensic accounting differs from traditional accounting due to the use of skills to carry out investigative work. As stated in previous scholarly work, investigative skills can be considered one of the main skills required to carry out forensic accounting practices (Rathnasiri & Bandara, 2017). Utilizing investigative practices in forensic accounting requires, analytical effort, exploratory investigation, careful inspection, following transaction traces, and evidence preservation (Bhasin, 2016). Moreover, Emmanuel (2016) states that to perform investigative practice, accounting knowledge, auditing, investigative knowledge, interviewing skills, IT and communication skills are critical.

The scholarly work of Mbugua (2020) summits that investigating fraud consists of using forensic techniques and tools to ascertain if fraud has happened and if so gathering realistic evidence to back up the findings. As argued by Omondi Erick Oyier, (2013), when defining whether an act was intentional, can be identified as a vital part of investigative work. Also, he mentioned that skills related to forensic accounting can be applied to investigations of either corporate or individual misconduct such as misrepresentations in financial statements, money laundering, bribery corruption, etc. To detect those frauds, auditors have utilized fraud investigation techniques such as proactive fraud audits, ratio and trend analysis, and evaluation of physical evidence (Emmanuel, 2016). Forensic accountants, public practice accountants, and both internal and external auditors not only consider the physical and documentary evidence to identify the suspects but also conduct investigations in financial statements. Hence, Researchers use physical evidence evaluation and fraud investigation as the measurements of investigative practice.

Litigation Practice (LP)

As pointed out by Nnabuife (2009) litigation practice is a practice where forensic accountants use accounting, auditing, and investigative expertise during an inquiry, as well as the capacity for prompt response and communicating clearly and briefly providing financial information in a judicial setting. Providing litigation support can be identified as one of the distinct features that set it apart from traditional accounting (Albrecht, 2018). Additionally, litigation support can be identified as a process where forensic accountants and auditors grant necessary instructions to lawyers on complicated accounting issues that are related to a controversy which comes up in a court (Micah et al., 2023). In other words, lawyers are engaged with forensic accountants, and auditors to assess the monetary loss related to a fraud (Nnabuife, 2009). Moreover, when providing evidence through reports and audits in litigation proceedings, forensic accounting is utilized (Mbugua, 2020). Further, litigation support grasps the understanding and representation of issues related to assisting ongoing or upcoming legal proceedings and it is the reason for companies to hire forensic accountants to the companies. Furthermore, it provides the needed specialist knowledge which is a crucial component in determining whether to convict or not (Wahinya, 2015). However, litigation is not only necessary for occupational fraud investigations but also for the investigation of bankruptcies, insolvencies, and breaches of compliance (Nnabuife, 2009).

Providing litigation support requires a variety of skills; nonetheless, the process ends when forensic accountants give their opinion as expert witnesses in court about whether fraud has been committed. To provide litigation support it requires the expert knowledge and proficiency of highly qualified professionals related to accounting, finance, and tax disciplines. Also, they should possess the ability to interpret data (Nnabuife, 2009). Forensic accounting links to litigation practice since it offers accounting analysis that is necessary to a judicial proceeding which forms the basis for the argument and eventually leads to dispute resolution. To resolve a dispute, the knowledge, skills, and practice of a forensic accountant, and auditors are vital since they serve as counselors in a judicial setting (Nnabuife, 2009). Hence, researchers use expert testimony and legal support as the measurements of litigation practice.

Internal Control System (IC)

As pointed out by the ACFE, an internal control system is a system, developed by the management, and board of directors who are the executive level employees of a company or any other individual of an organization who provide ample rationalizations for the accomplishment of their goals and objectives in terms of the efficiency and effectiveness in its operations, adhering to relevant legal and regulatory requirements and reliability of financial reporting (ACFE, 2024). Scholarly expertise Yuniarti (2017) states that internal control systems include policies and procedures that belong to the control environment and control procedures adopted by the aforementioned parties which aid them in achieving the company objectives, sticking to the internal policies within the company, and safeguarding assets to prevent and detect frauds whilst ensuring the accuracy and completeness in records, and timely representation of trustworthy financial statements. As mentioned by the Public Company Accounting Oversight Board (PCAOB), the management of the company is accountable for forming and upholding sufficient internal controls within the company and the external auditor who is carrying out the audit of a particular company should audit the existing internal control system of the company and prepare a report about the internal controls held over financial reporting (PCAOB, 2001) since it link with the accomplishment of goals and objectives of the organization.

ACFE report 2024 states that according to their analyses, taken as a whole, most of the companies probably avoid the frauds that they have witnessed with a strong anti-fraud control system since half of the fraud cases ensued due to the deficiencies in internal controls within a company which accounts for 32% or due to the overriding of prevailing internal controls within the company which accounts for 19%. This means that an organization that witnessed a fraud incident has safeguards in place to detect fraud, however, fraudsters have overcome those safeguards and committed fraud. Most importantly when anti-fraud controls are in place it lowers fraud losses and quicker fraud detection. Other internal control loopholes that give rise to occupational fraud include insufficient management evaluation, poor tone at the top, incompetent staff in supervising roles, absence of autonomous checks/audits, inadequate training for employees on fraud, and absence of strong reporting mechanisms. As a result, 82% of organizations that have witnessed fraud or such fraudulent activity have taken necessary steps to strengthen their internal controls (ACFE, 2024) which demonstrates that internal control system plays a vital role in companies' fraud detection (Eghe-Ikhurhe, 2024)

Internal control's effectiveness leads to avoiding fraudulent activities and misleading accounting reports. It can be evaluated through the Internal Control-Integrated Framework created by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) since it is a framework that is employed frequently to conduct financial statement audits (PCAOB, 2001).

Further, it aids in determining, evaluating, and managing the risk within the company. Utilizing diverse procedures, guidelines, and projects ensures that enhanced funds protection, fraud prevention, and financial information are high in accuracy and authenticity (Barzinji, Yusof, Rosbi, Salleh, & Abdullah, 2022). Additionally, companies use internal control systems to monitor the operational activities within the businesses and to lessen the mismanagement of organizational resources (Yuniarti, 2017). When a company possesses a good control system in place, it leads to identifying and detecting the occurrence of fraud in an earlier stage which will result in a reduction of losses (Yuniarti, 2017). Strengthening the prevailing internal controls can prevent fraud and guarantee that any fraudulent undertakings are spotted more easily (Eghe-Ikhurhe, 2024).

On the other hand, when a company does not have a proper and effective internal control system in place, it will increase the chance of fraud occurrence since there is a low chance of detecting fraud (Smith et al., 2017). This indicates that the internal control system within the company plays a critical part when it comes to growth, profitability, and sustainability within the organization (Nalukenge et al., 2017). Moreover when there are inadequate internal controls within the company it increases the vulnerability of frauds (Eghe-Ikhurhe, 2024). By considering the above information, the Researcher uses control environment, risk assessment, and risk activities as the measurements of the internal control system of a company.

Fraud Detection (FD)

Fraud has become a universal problem for businesses around the world, especially predominant in countries that face a challenging situation such as financial crises or any undergoing financial troubles (Barzinji, Yusof, Rosbi, Salleh, & Abdullah, 2022). Based on the evidence from previous scholars there are no fraud-free organizations (Ahmad, 2019). ACFE Report 2022 mentioned that frauds that affect the organization are occupational frauds which can be further categorized into three groupings namely asset misappropriations, fraudulent financial statements, and corruption (ACFE, 2024). Since fraud has grown as a menace, most business organizations are now concerned about forensic accounting practices to detect and prevent fraud since it supports organizations to protect from the long-term damage that frauds create (Enofe et al., 2015).

Fraud Detection can be identified as a method of resolving a fraudulent activity from its origin to its resolution by anti-fraud specialists and it includes identifying the fraud, collection of evidence, reporting, expert witnessing, and conducting a fraud risk assessment as its steps (Umar, Ibrahim, & Eriki , 2020). Because of the gradual upsurge of frauds worldwide due to the rapidly growing technology and communication, numerous contemporary methods for identifying such fraud are constantly emerging and being used in a variety of business domains. It is a crucial matter to be addressed which in turn leads the businesses the need to adapt to fraud detection techniques since it is an imperative component in diminishing fraud occurrence (Brenda, 2021). Fraud detection starts from the point where there are signs of deviation. Further, in the past decades, fraud detection was not considered necessary; however, due to the increasing number of fraudulent practices, organizations focus more on fraud detection (Bassey et al., 2017) and prevention. Thus, researchers use reporting programs and preventive measures as the measurements of fraud detection.

Hypothesis Development and Conceptual Framework

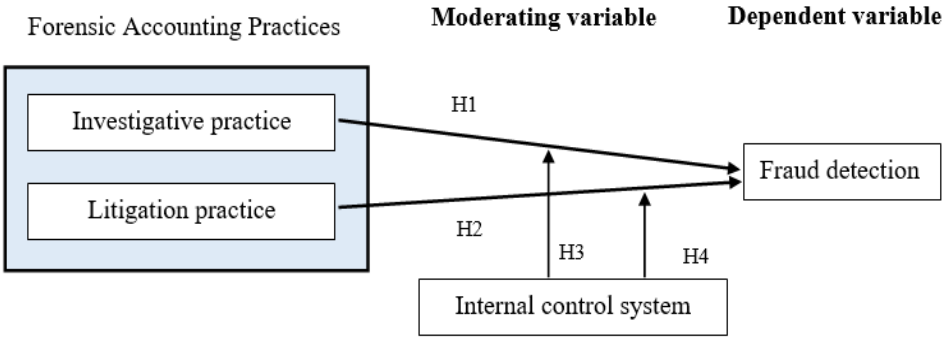

Figure 1: Conceptual Framework of the study
Source: *Developed by the author*

- H1: Investigative practice as a forensic accounting practice has a significant impact on fraud detection in Sri Lanka.
- H2: Litigation practice as a forensic accounting practice has a significant impact on fraud detection in Sri Lanka.
- H3: The internal control system has a significantly moderating effect on the relationship between investigative practice and fraud detection in Sri Lanka.
- H4: The internal control system has a significantly moderating effect on the relationship between litigation practice and fraud detection in Sri Lanka.

RESEARCH METHODOLOGY

The positivist research philosophy and quantitative research approach were applied to test the deductive conceptual model of the study as emphasized by Soiferman (2010). The data analytical tool used for this research is SmartPLS (Partial Least Squares), a structural equation modeling (SEM) technique. Quantitative research approach was employed in study to observe the relationships among variables and further decide the cause-and-effect interactions between them. Additionally, the studies align with the positivism paradigm concentrate on identifying the explanatory relationship between variables through quantitative approaches where findings are favored from a larger sample and will apply to the entire population (Park et al., 2020). Therefore the researcher has employed positivism as the study's philosophy to conduct this research. Sample of this study compromised with the auditors who follow a professional qualification in a professional accounting organization in Sri Lanka. Questionnaire has been sent to 390 auditors and a total of 384 sample was achieved, and the response rate was 98.46%. The respondents of the sample were selected by using simple random sampling technique whereby population components possess an equal opportunity of getting included in the sample (C.R.Kothari, 2004).

FINDINGS AND DISCUSSION

Reliability Test

The reliability test is an important test that is held to identify the internal consistency of the responses that were carried out in the study. The threshold point of Cronbach's Alpha is 0.7 (Bacon, Sauer, & Young, 1995). Accordingly, the researcher before collecting to whole sample of the study has to conduct a pilot survey. The researcher selected 30 respondents for the pilot survey and the reliability of the pilot sample was assessed.

Table 1: Overall Reliability Statistics

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.778
Bartlett's Test of Sphericity	Approx. Chi-Square	24079.931
	df	351
	Sig.	.000

Source: *SPSS output from a pilot study*

Based on the above table, Cronbach's Alpha value for the pilot test is 0.977 and the alpha level is at a good level. Therefore, it can be concluded that all the variables that were used in this study have good internal consistency and all the questions in the questionnaire that were considered are further regarded as reliable.

Sample Adequacy - The Kaiser-Meyer-Olkin (KMO) Test

The suitability of the data for factor analysis was verified by employing the Kaiser-Meyer-Olkin (KMO) test.

Table 2: KMO and Bartlett's Test

Reliability Statistics	
Cronbach's Alpha	**N of Items**
0.977	27

Source: *SPSS analysis 2024*

The overall sampling adequacy KMO indicating the suitability of the data for factor analysis is 0.778 exceeding the measure of 0.6 and it can be said that the data sample is adequate.

Measurement Model

Before analysis, researchers should conduct a study of outer loadings. If values are lower than 0.5, the indicators should not be considered as they will not help in constructing the validity and reliability of a construct. This process will enable only reliable and robust indicators to contribute to the measurement model that would enhance the accuracy and reliability of the study findings (Farrell & Rudd, 2009). The below table illustrates the outer loading values of the variables.

Table 3: Outer Loadings

	Outer Loadings
ControlActivitiesQ1	0.778
ControlActivitiesQ2	0.611
ControlEnvQ1	0.762
ControlEnvQ2	0.776
ControlEnvQ3	0.831
ExpertTQ1	0.847
ExpertTQ2	0.797
FraudInvQ1	0.847
FraudInvQ2	0.765
FraudInvQ3	0.827
FraudInvQ4	0.83
FraudInvQ5	0.832
LegalSupportQ1	0.846
LegalSupportQ2	0.809
PhysicalEQ1	0.806
PhysicalEQ2	0.769
PhysicalEQ3	0.828
PhysicalEQ4	0.833
Preventive Measures Q1	0.705
Preventive Measures Q2	0.845
Preventive Measures Q3	0.805
Reporting Program Q1	0.685
Reporting Program Q2	0.71
ReportingP rogram Q3	0.695
RiskAssessmentQ1	0.51
RiskAssessmentQ2	0.537
RiskAssessmentQ3	0.632

Source: *Smart PLS analysis 2024*

According to the above table, all the outer loading values are more than 0.5, meaning all the indicators were kept in the model for further analysis.

Convergent Validity

Convergent Validity is used to show that constructs that should be related in some way are related. This shows that the indicators measure the same construct, and strengthens the research findings because it provides consistency in the measurement and interpretation (Bacon, Sauer, & Young, 1995).

Table 4: Average variance extracted (AVE)

	Average variance extracted (AVE)
Fraud Detection	0.553
Internal Control System	0.653
Investigative Practices	0.665
Litigation Practice	0.681

Source: *Smart PLS analysis 2024*

When looking at the AVE values of variables, all the values are above 0.5, which is known to be the threshold point. Therefore, it can be determined that the study's variables ensure the construct's validity.

Composite Reliability and Cronbach's Alpha

In research, Composite reliability and Cronbach's alpha are types of internal consistency reliability. Composite reliability assesses a scale by looking at whether latent variables explain observed variables well and ranges from 0 to 1, where a value over 0.7 indicates acceptable reliability. Cronbach's alpha looks at the correlation between scale items and provides a single coefficient that can be used to measure internal consistency, which is more reliable as it approaches.

Table 5: Cronbach alpha and composite reliability

	Cronbach's alpha	**Composite reliability**
Fraud Detection	0.848	0.869
Internal Control System	0.822	0.824
Investigative Practices	0.938	0.942
Litigation Practice	0.846	0.854

Source: *Smart PLS output 2024*

Table 5 displays the reliability measures, Cronbach's alpha, and composite reliability, of the variables in the study. It demonstrates that all variables have strong internal consistency as all Cronbach's alpha and composite reliability are greater than 0.7, respectively. Investigative Practices had the highest reliability with a Cronbach's alpha of 0.938 and composite reliability of 0.942. These results mean that the data collected for each variable is reliable and consistent which reinforces the research measurement validity and adds confidence to the research results.

Discriminant Validity

The Fornell and Larcker criterion checks for discriminant validity in structural equation modeling. It looks at the square root of the Average Variance Extracted (AVE) and compares that to the correlations between constructs. If the AVE's square root is greater than the correlation, then discriminant validity is established and the constructs are different from each other (Farrell & Rudd, 2009).This standard is proven by the below table, indicating that the variables have discriminant validity.

Table 6: Fornell- Lacker Criterion

	FD	IC	IP	LP
FD	0.843			
IC	0.47	0.673		
IP	0.827	0.284	0.816	
LP	0.827	0.298	0.791	0.825

Source: *Survey Data 2024*

R Square (Coefficient of Determination)

R-squared, in statistics, can be identified as the proportion of the variance in the dependent variable that is predictable from the independent variable(s). In general, the higher the R-squared, the better the model fits the data (Cohen, 2012).

Table 7: R Square

	R-square	R-square adjusted
Fraud Detection	0.833	0.831

Source: *Survey Data 2024*

The R-squared value of about 0.833 for Fraud Detection means that roughly 83.3 percent of the variation in the dependent variable is explained by the variation in the independent variable(s).

Hypotheses testing using Path Coefficients

The first hypothesis tests whether Investigative practices as forensic accounting practices have a significant effect on fraud detection in Sri Lanka. The p-value for "Investigative Practices -> Fraud Detection" is 0.019 and this value is less than the alpha value of 0.05. Therefore, H1 is accepted. It can be concluded that Investigative practices as forensic accounting practices have a significant impact on fraud detection in Sri Lanka. The second hypothesis tests whether Litigation practices as forensic accounting practices have a significant effect on fraud detection in Sri Lanka. The p-value for "Litigation Practices -> Fraud Detection" is 0.000 and this value is less than the alpha value of 0.05. Therefore, H2 is accepted. It can be concluded that Litigation practices as forensic accounting practices have a significant impact on fraud detection in Sri Lanka. The third hypothesis tests whether the internal control system has a momentous moderating effect on the association between investigative practices and fraud detection in Sri Lanka. The p-value for "Internal Control System x Investigative Practices -> Fraud Detection" is 0.002 and this value is less than the alpha value of 0.05. Therefore, H3 is accepted. It can be concluded that the internal control system has a significant moderating effect on the relationship between investigative practices and fraud detection in Sri Lanka.

The fourth hypothesis tests whether the internal control system has a momentous moderating effect on the association between litigation practices and fraud detection in Sri Lanka. The p-value for "Internal Control System x Litigation Practices -> Fraud Detection" is 0.001 and this value is less than the alpha value of 0.05. Therefore, H4 is accepted. It can be concluded that the internal control system has a significant moderating effect on the relationship between Litigation practices and fraud detection in Sri Lanka.

Q Square

Q Square is used to determine how well the structural model predicts accurately. If the Q2 is more than zero for an endogenous latent variable, it means that the predictors of the constructs have more than sufficient predictive power (Russell, 1978).

Table 9: Q Square

	Q^2predict	RMSE	MAE
Fraud Detection	0.813	0.434	0.293

Source: *Survey Data 2024*

Table 8: Hypotheses Testing

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics	P values
Investigative Practices -> Fraud Detection	-1.136	-1.242	0.483	2.353	0.019
Litigation Practice -> Fraud Detection	1.963	2.069	0.487	4.032	0
Internal Control System x Investigative Practices -> Fraud Detection	1.548	1.547	0.503	3.076	0.002
Internal Control System x Litigation Practice -> Fraud Detection	-1.686	-1.686	0.52	3.24	0.001

Source: *Survey Data 2024*

In the above table, all the Q^2 values are greater than 0, hence, it can be concluded that investigative practice and litigation practice as forensic accounting practices as the independent variables are relevant predictors of the dependent variable (fraud detection) and Internal control system (moderator) of the model.

DUSCUSSION

Objective 01 - To identify the impact of investigative practice as a forensic accounting practice on the detection of fraud in Sri Lanka

The hypothesis of the research regarding the impact of Investigative Practice on Fraud Detection in Sri Lanka is substantiated by the p-values are also less than 0.05 and equal to 0.019 at the significance level of 95%. Accordingly, it can be said that there is a significant impact of investigative practice as a forensic accounting practice on the detection of fraud in Sri Lanka.

Several prior research has investigated the link between investigative procedures and fraud detection in a variety of circumstances. Positive findings indicate that effective investigative procedures, such as data analysis and forensic auditing, may considerably improve fraud detection skills (Al Natour, 2023). These techniques enable the rapid identification and mitigation of fraudulent activity, thereby preserving organizational assets and stakeholders' interests. In contrast, another study identifies potential limitations and obstacles connected with investigative procedures (Ahmad, 2019). For example, organizational problems such as resource restrictions and insufficient training may impede the efficiency of forensic accounting approaches in identifying fraud. Pitchayatheeranart & Phornlaphatrachakorn (2023) highlight the importance of investigative methods, such as data analysis and forensic auditing, in improving fraud detection capacities in a variety of organizational contexts. These findings highlight the need to use proactive investigative approaches to quickly detect and resolve fraudulent acts, whilst protecting organizational assets and stakeholders' interests (Burzinji, 2022).

Moreover, cultural and legislative variations between nations may impact the application and effectiveness of investigative approaches(Yuniarti, 2017).Furthermore, studies have emphasized the need to use technical breakthroughs namely artificial intelligence and block chain in investigative methods to improve fraud detection capacities (Haladu, 2018). These revolutionary techniques allow for more efficient data analysis and identification of fraudulent patterns, which improves the effectiveness of forensic accounting practices.

Objective 02 – To identify the impact of litigation practice as a forensic accounting practice on detecting fraud in Sri Lanka.

The aim of assessing the influence of litigation practice on fraud detection in Sri Lanka was met with a very significant p-value of 0.000, demonstrating substantial support for the hypothesis. This demonstrates that there is a significant effect of litigation practice as a forensic accounting practice on the detection of fraud in Sri Lanka.

Several studies have examined the link between litigation practice and fraud detection in a variety of circumstances. Positive findings show that proactive litigation measures, such as expert witness testimony and litigation support services, improve firms' ability to detect and resolve fraudulent activity (Dada, 2023). These techniques assist the full examination of financial irregularities and give crucial evidence for judicial proceedings, therefore discouraging fraudulent activity. In contrast, problems associated with litigation practice may be noted. According to previous studies, the high expenses and time-consuming nature of legal procedures may hinder companies' ability to use litigation as a strategy for detecting fraud. Furthermore, relying only on litigation may ignore underlying systemic flaws that contribute to fraudulent activity, demanding a multidimensional strategy for fraud prevention and detection. Furthermore, empirical research by Bassey et al. (2017) shows that litigation practice may be an effective warning against fraudulent actions by imposing legal costs on perpetrators. This deterrent impact not only minimizes the likelihood of fraud but also develops an accountability culture within firms. However, Nalukenge et al.(2017) point out that litigation alone may not be adequate to handle all kinds of fraud. Implementing strong internal controls and encouraging ethical behaviour are also important parts of a complete fraud prevention plan. Furthermore, Ahmad (2019) notes that the success of litigation practice in detecting fraud is dependent on the availability and credibility of evidence. When fraudulent actions are covert or sophisticated, litigation practice may confront difficulties in acquiring adequate evidence to warrant legal action. Organizations must capitalize on contemporary forensic procedures and technology to enhance their ability to detect sophisticated fraudulent schemes(Micah et al., 2023).

Furthermore, studies highlight the need for collaboration between forensic accountants and legal practitioners in maximizing litigation practice's influence on fraud detection. By using their particular knowledge, these specialists may efficiently traverse legal complexity and detect fraudulent schemes, increasing organizational resilience against fraud threats (Burzinji, 2022).

Objective 03- To identify the moderating impact of internal control system on the relationship between investigative practice and fraud detection

The aim of limiting the impact of the internal control system on the association between investigative practice and fraud detection was met, as evidenced by a significant p-value of 0.002. This statistical significance suggests that the internal control system moderates the relationship between investigative practice and fraud detection in Sri Lanka.
The role of internal control systems and investigative methods in fraud detection has been widely researched. Nalukenge et

al.(2017) found that strong internal control systems are critical for preventing and identifying fraudulent activity within firms. These findings highlight the critical importance of internal control systems as a cornerstone of successful fraud prevention methods. Furthermore, research by Henk (2020) has underlined the complementary nature of investigative procedures in detecting fraudulent actions that may evade standard controls. This synergy between internal control systems and investigative activities shows that firms might get the best fraud detection results by including both approaches in their risk management frameworks. Furthermore, Rae and Subramaniam, (2008) found that the success of investigative methods in fraud detection is determined by the strength and effectiveness of the internal control environment. This demonstrates the moderating influence of internal control systems on the link between investigative practices and fraud detection outcomes, emphasizing the need to align internal control mechanisms with investigative efforts to improve fraud detection capabilities.

Objective 04- To identify the moderating impact of the internal control system on the relationship between litigation practice and fraud detection

The objective of studying the moderating influence of the internal control system on the connection between litigation practice and fraud detection was met, with a significant p-value of 0.001. This statistical significance implies that the internal control system moderates the relationship between Litigation practices and fraud detection in Sri Lanka.

Extensive studies in the field have looked into the complex interplay between internal control systems, litigation practice, and fraud detection. Bassey et al. (2017) and Micah et al. (2023) found that litigation practice plays an essential role in enhancing fraud detection efforts by providing critical legal remedies and evidentiary support. However, Teresa & Matriano (2022) have demonstrated the need for strong internal control measures to protect firms against fraudulent actions. These findings highlight the complementary nature of litigation practice and internal control systems, implying that their combined efforts provide better fraud detection results.

Furthermore, a study by Abdullah (2022) found that effective internal control systems moderated the association between forensic accounting practices and fraud detection. Those studies demonstrate that the efficiency of litigation practice in detecting fraudulent actions is dependent on the strength and efficacy of the internal control environment. This highlights the critical significance of internal control systems as moderators in determining the influence of litigation practice on fraud detection outcomes. As a result, businesses must emphasize aligning their internal control mechanisms with litigation tactics to successfully improve fraud detection capabilities.

Theoretical implications

Regarding the theoretical implications of this study, it contributes to understanding the impact of investigative practice and litigation practice as forensic accounting practices on fraud detection, and also the findings of the study highlight the moderating influence of internal control systems on the association among forensic accounting practices and fraud detection, simply the literature for forensic accounting practices, its real-world application and internal control system.

Additionally, this study expands the theoretical knowledge regarding investigative and litigation practices along with their importance and impact and how common these practices are in regions by considering the findings of the ACFE

Report 2024. Further, companies that need to adapt to forensic accounting practices can benefit from this study. Simply, this study provides insights on what are the most common investigative practices and litigation practices as forensic accounting practices and what is their impact on fraud detection, and what practices have become a trend among companies. Most importantly, companies can get an understanding of their internal control system and its capacity to detect fraud. Furthermore, this study provides insights into organizational behavior and control mechanisms by investigating the interaction between forensic accounting practices, internal control systems, and fraud detection. Lastly, this report encourages and promotes Sri Lanka's forensic accounting discipline highlighting how it impacts fraud detection. By participating in the implementation of forensic accounting practices in the future, firms will be able to secure their profitability, funds, interests of other stakeholders, and their reputation through the knowledge of forensic accounting practices which are investigative practice and litigation practice gained via this study.

Managerial Implication

Implementing forensic accounting practices within the companies along with robust internal controls can significantly enrich the fraud detection capabilities because findings of this study indicate that forensic accounting practices have a significant effect on fraud detection and with a robust internal control system in place, organizations can detect frauds in a proactive manner. Additionally, through investigative practices, companies can timely identify fraudulent activities and can take necessary actions to safeguard their assets, funds, and reputation. Moreover, by utilizing forensic accounting practices such as investigative practice and litigation practice, management can proactively identify potential fraud areas with the support of risk mapping. This allows companies to take actions to mitigate those risks and potential frauds which ultimately ensures the sustainable operation of companies. Integrating forensic accounting practices whilst strengthening the internal control system of the companies ensures compliance and regulatory adherence where the responsible parties pay attention to adhere to all the accounting standards and policies in preparation of Financial Statements which minimizes the risk of financial statement fraud and financial misconduct. This promotes transparency and accountability within organizations. Investigative practice allows companies to identify key susceptible areas where they can efficiently allocate more resources to mitigate potential fraud incidences. Finally, the government can take action to educate undergraduates and accounting professionals on the forensic accounting discipline because financial scandals that are taking place are gradually increasing and according to Association of Certified Fraud Examiners reporting a median fraud loss of $459,000 for businesses from 2022 to 2023. Due to this, companies are mostly relying on forensic accountants to investigate financial misconducts and ensure compliance. By educating undergraduates meets this demand, filling gaps in the workforce. Further, the profession needs to raise the caliber of its practitioners. Therefore, Government-backed education programs for undergraduates can standardize training, emphasizing skills like analytical thinking, auditing, and legal knowledge, and align with certifications like CPA or CFE. This provides insights for policy makers to integrate forensic accounting into undergraduate programs to build a skilled workforce that complies with the demand of the industry. Additionally, accounting professionals can take necessary actions to pursue certifications such as Certified Fraud Examiner (CFE) or specialized training in fraud detection techniques, such as data analytics and investigative auditing.

Further, findings of this study provide insights to policymakers accounting professionals, and regulators. The results highlight the need to integrate forensic accounting into undergraduate programs to build a skilled workforce capable of addressing fraud. Policymakers can fund educational initiatives, develop standardized curricula, and incentivize universities to offer forensic accounting courses or degrees.

CONCLUSION

This study presents insights into the impact of investigative practice and litigation practice as forensic accounting practices with the moderation of the internal control system of firms on fraud detection in Sri Lanka. The concept of forensic accounting practices has been a crucial research area for the past few years and these days the demand for forensic accounting practices has rapidly increased and the focus of government also shifted towards these practices. Most importantly, as highlighted in the ACFE Report to the nation 2022, Sri Lanka has reported nine fraudulent cases being the third in the South Asian region, which is why it is vital to focus more on forensic accounting practices. The present study contributes to the literature by examining the perception of auditors on the practical application of forensic accounting practices on fraud detection. This research comprised two independent variables, one dependent variable, and one moderating variable, where in the analysis all the variables were assessed through 5-point Likert scale questions.

In terms of measuring objective one, in the examination of whether the investigative practices in forensic accounting practices that are in use by the company, have an impact and support identifying frauds that may occur in a business setting based on the perception of auditors were based on the T value and P value. It is supported by the H1 which can be simply expressed that investigative practice as a forensic accounting practice has a significant impact on fraud detection in Sri Lanka. In terms of measuring objective two, in the investigation of litigation practices as a forensic accounting practices that are in use by the company, have an impact, and provide support to identify frauds that may occur in a business setting based on the viewpoint of auditors based on the T value and P value. It is supported by the H2 which can be simply expressed that litigation practice as a forensic accounting practice has a significant impact on fraud detection in Sri Lanka.

In terms of measuring objective three, the examination of the moderating effect of the internal control system that is in use within the business on the relationship between investigative practice and fraud detection from the perspective of auditors was based on the T value and P value. It is supported by the H3 which can be simply expressed that the internal control system moderates the association between investigative practices as a forensic accounting practice and fraud detection in Sri Lanka. In terms of measuring objective four, the investigation of the moderating effect of the internal control system that is in use within the business on the association among litigation practice and fraud detection based on the perception of auditors was based on the T value and P value. It is supported by the H4 which can be simply expressed that the internal control system has a momentous moderating influence on the association between litigation practice and fraud detection in Sri Lanka.

This study has been conducted to identify the power of forensic accounting practices on fraud detection with the moderation of the internal control system from the perspective of auditors. Therefore, their perception can be varied from the perception of public practice accountants and other non-accounting professionals such as attorneys. Besides, the forensic accounting discipline is still growing in Sri Lanka, and it is a developing nation, hence, findings may be limited in their generalizability.

This research confirmed that there is a momentous effect of forensic accounting practices such as investigative practice and litigation practice on fraud detection with the moderation of the internal control system. Hence, future researchers can discuss the effect of forensic accounting practices on fraud detection from the perspective of public practice accountants and other non-accounting professionals such as attorneys or by taking the perception of Big Three audit firms separately to get a broad view. Moreover, future research can focus on the integration of technological innovations such as block chain, artificial intelligence, and machine learning, with forensic accounting practices and fraud detection. Additionally, researchers can conduct their research by examining the impact of organizational culture on the effectiveness of forensic accounting practices and internal control systems on fraud detection. In terms of the way that countries practice forensic accounting practices in the international context, and how strong and weak internal controls impact fraud detection, research can be conducted to investigate the difference between developing countries and developed countries. Similarly, apart from the above-mentioned research areas, this research context contains wider future research aspects to consider.

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