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FORENSIC ACCOUNTING AND CORPORATE SUSTAINABILITY IN BANGLADESHI COMPANIES: AN EMPIRICAL STUDY

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ABSTRACT

Sustainable corporate governance plays a vital role in enhancing transparency, accountability, and long-term organizational performance, particularly in emerging economies such as Bangladesh, where governance vulnerabilities remain persistent. Despite growing recognition of forensic accounting as a tool for strengthening internal controls and reducing financial misconduct, empirical evidence on its influence within Bangladeshi listed companies is limited. This study investigates the impact of forensic accounting on sustainable corporate governance. Data were collected via a structured questionnaire administered to professionals employed by listed companies, yielding 225 valid responses. Sustainable corporate governance was assessed using three core components: the Board of Directors (BOD), Audit Risk Committee (ARC), and Nomination and Remuneration Committee (NRC). Structural Equation Modeling (SEM) was utilized to examine the relationship between forensic accounting practices and sustainable corporate governance. The results reveal that forensic accounting has a significant positive effect on sustainable corporate governance, demonstrated by a path coefficient of 0.090, a standard error of 0.023, a t-value of 3.888, and a significance level of $p < 0.01$, thereby confirming the proposed hypothesis (H1). The findings indicate that applying forensic accounting enhances sustainable governance structures among Bangladeshi listed companies. Improvements were observed across the BOD, ARC, and NRC indicators, demonstrating that forensic accounting significantly strengthens decision-making processes, reinforces risk oversight, and enhances committee-level governance. Overall, the study provides empirical evidence that forensic accounting plays a measurable role in supporting the key structural components of sustainable corporate governance among Bangladesh's listed firms.

INTRODUCTION

In recent years, there has been growing interest in the role of forensic accounting in promoting sustainable corporate governance. Forensic accounting is the application of accounting, auditing, and investigative techniques to detect and prevent financial fraud and other financial crimes (Das, 2020). Sustainable corporate governance refers to the management of a corporation in ways that are sustainable and promote long-term growth, social responsibility, and ethical behavior (Bhasin, 2015). The increasing frequency of financial scandals, governance failures, and fraudulent practices in emerging economies has intensified the demand for stronger governance mechanisms supported by forensic accounting tools (Guellim et al., 2024; Xanthopoulou et al., 2024).

Forensic accounting and ethical and sustainable corporate governance are significant for organizations because they emphasize the crucial role forensic accounting can play in ensuring that businesses operate in ways that are ethical and sustainable (Bhasin, 2015). The use of specific methods and abilities by forensic accountants can aid in detecting fraud, ensuring the accuracy and transparency of financial reports, and advancing ethical and sustainable company operations (Blessing, 2015). Despite these benefits, a scientific gap persists regarding how forensic accounting practices contribute to sustainability-driven governance structures, especially in developing economies such as Bangladesh, where governance weaknesses and regulatory challenges are well documented (Mahmod et al., 2024).

Corporate governance and sustainability have become increasingly important issues in the contemporary business world. There has been a growing concern about the need to promote transparency and accountability in corporate practices to ensure long-term business sustainability (Acharya & Volpin, 2010). At the same time, forensic accounting has been recognized as a critical tool for detecting and preventing financial fraud, embezzlement, and other forms of financial malpractice in organizations (Akani & Ogbeide, 2017). Bangladesh has experienced several high-profile fraud cases and

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internal control failures, underscoring the pressing need to strengthen governance mechanisms and the relevance of forensic accounting as a preventive and corrective measure (Ahmad et al., 2025; Azizah et al., 2025).

However, existing studies in Bangladesh remain fragmented, descriptive, and largely conceptual, leaving unanswered the scientific problem of whether forensic accounting practices can empirically influence sustainable corporate governance outcomes. This gap forms the core problem addressed in the present research.

To address this issue, this study employs a quantitative design supported by survey data and Structural Equation Modeling (SEM) to evaluate the impact of forensic accounting practices on sustainable corporate governance in Bangladeshi listed companies.

Accordingly, the objective of the study is to examine whether forensic accounting significantly improves governance structures related to transparency, accountability, and ethical conduct—specifically through the Board of Directors (BOD), Audit Risk Committee (ARC), and Nomination and Remuneration Committee (NRC).

The remainder of the article is structured as follows: Section 2 presents recent literature and hypotheses; Section 3 describes the research methodology; Section 4 reports the empirical results; and Section 5 concludes with key findings and directions for further research.

LITERATURE REVIEW

Corporate governance remains a foundational element in business organizations, as it structures the formal relationships between a firm's management, board, shareholders, and other stakeholders to promote accountability and performance. According to Mousavi et al. (2022), robust governance mechanisms, such as an independent board and a strong audit committee, are negatively associated with fraudulent financial reporting, suggesting that good governance helps reduce fraud risk.

The preventive and detective aspects of governance are strengthened when combined with fraud-control measures. In a study of Omani public companies, Rehman and Hashim (2020) develop a conceptual framework showing how forensic accounting, especially fraud risk assessment and preventive mechanisms, contributes to "governance maturity" by integrating with traditional governance theories (e.g., agency theory, fraud triangle).

Empirical research further supports this integration. Rehman and Hashim (2020) show via PLS-SEM that forensic accounting has a significant positive relationship with sustainable corporate governance, particularly through governance bodies such as the board of directors, audit risk committee, and nomination & remuneration committee in Oman. This study provides quantitative evidence that forensic accounting can be embedded in governance structures to improve their effectiveness.

At the country-level, Napitupulu and Purba (2025) synthesize the literature on forensic auditing's role in governance and fraud risk management. Their review indicates that forensic auditing strengthens internal control systems, promotes transparency, and plays both proactive and reactive roles in governance by identifying weaknesses before they lead to major fraud. Fraud prevention via forensic accounting is not limited to governance bodies. Rehman and Hashim (2020) argue in their journal article that forensic accounting's preventive role mediates the relationship between fraud risk assessment and good corporate governance.

Sustainability and long-term organizational value are increasingly tied to fraud control. Gupta et al. (2023) examine the case of an Indian company (ABG Shipyard) and find that forensic auditing helped uncover misreporting using Altman's Z-score and Beneish M-score, suggesting that without robust fraud detection, sustainability is at risk. Their results underscore the role of forensic accounting in organizational survival and stakeholder trust.

Recent developments in governance theory also emphasize ethical leadership. Hussein et al. (2024) find that ethical leadership and strong governance structures, such as transparent board practices, are critical in preventing financial statement fraud and money laundering, linking governance quality with ethical and regulatory compliance. Louis et al. (2025) examine how forensic accounting strengthens internal controls and mitigates fraudulent behavior using factor analysis and ANOVA. Their findings support the idea that forensic audits directly contribute to governance effectiveness by reducing financial crime and improving internal reporting systems. Taken together, the theoretical and empirical literature strongly supports integrating forensic accounting into corporate governance. The proactive and reactive capabilities of forensic accountants strengthen governance mechanisms, particularly those of boards, audit committees, and nomination committees. However, despite this growing body of knowledge, there remains a need for context-specific empirical research (for example, in Bangladesh) to validate these relationships under local regulatory and institutional conditions.

Corporate Governance

Corporate governance refers to the practices, policies, and decisions that guide an organization's operations and management, ensuring accountability and ethical behavior (Acharya & Volpin, 2010). Effective corporate governance has been shown to impact company performance and long-term success significantly (Saeed et al., 2025). It encompasses the relationships among management, board of directors, shareholders, and other stakeholders, as well as the ethical principles and values that guide decision-making (Anwar, 2019). Corporate governance mechanisms include board composition, decision-making processes, compensation structures, leadership styles, and commitments to environmental and social responsibility.

Sustainable Corporate Governance

Sustainable corporate governance integrates environmental, social, and economic considerations into strategic decision-making, thereby aligning business objectives with long-term societal goals (Elkington, 2006). Companies that implement sustainable governance practices can better manage risks and improve organizational performance (Le & Nguyen, 2022;

Schrippe & Ribeiro, 2019). This approach promotes ethical business practices, stakeholder engagement, and accountability while ensuring that long-term corporate objectives are compatible with social and environmental considerations (Lombardi et al., 2019; Rehman & Hashim, 2021). By incorporating sustainability principles, organizations can foster an ethical culture, identify opportunities for innovation, reduce environmental impact, and align operations with corporate values (Assoratgoon & Kantabutra, 2023; Saxena et al., 2024).

Board of Directors (BOD)

The Board of Directors provides strategic leadership and oversees company operations. It sets the tone for organizational ethics and ensures compliance with financial and regulatory requirements (Schrippe & Ribeiro, 2019). A diverse board with relevant expertise enhances decision-making quality and supports sustainable governance initiatives. Regular engagement among board members, through meetings and collaborative discussions, ensures alignment of corporate strategy with long-term objectives.

Audit Risk Committee (ARC)

The Audit Risk Committee monitors the Company's financial, operational, and strategic risks, providing oversight and guidance on risk management (Anwar, 2019). An effective ARC composition, with members who possess diverse skills and ethical commitment, enhances objectivity and strengthens corporate risk governance (Acharya & Volpin, 2010). The committee ensures that financial and operational risks are accurately evaluated and appropriately mitigated.

Nomination and Remuneration Committee (NRC)

The NRC ensures that board members are highly qualified and fairly compensated (Appiah & Chizema, 2015). It evaluates candidates based on experience, skills, and alignment with corporate objectives (Yoshikawa & Rasheed, 2009). Through structured remuneration policies, NRC helps attract and retain competent directors, supporting long-term governance sustainability.

Forensic Accounting

Forensic accounting applies accounting, auditing, and investigative skills to detect and prevent financial irregularities (Rehman & Hashim, 2021). It provides specialized analyses for legal and regulatory purposes, helping organizations identify fraud and mitigate financial risks (Imoniana et al., 2013; Osunwole et al., 2020). Forensic accounting strengthens internal controls, enhances transparency, and promotes ethical business practices. Companies that employ forensic accounting practices can reduce reputational, financial, and legal risks while ensuring compliance with regulatory standards (Albrecht et al., 2016).

Therefore, the study aims to investigate whether forensic accounting enhances governance practices—particularly transparency, accountability, and ethical behavior—by assessing its impact on the Board of Directors (BOD), the Audit and Risk Committee (ARC), and the Nomination and Remuneration Committee (NRC). Based on the above gaps, the study was conducted to test the following hypotheses.

***H_1**: The Forensic Accounting has a positive and significant effect on the Sustainable Corporate Governance.*

Conceptual Framework

Forensic accounting, as an independent variable, encompasses the various practices and techniques used to detect and prevent financial fraud, embezzlement, and other financial irregularities. Implementing forensic accounting practices in a company can significantly impact its financial management and reporting (Das, 2020). FA can be viewed as an organizational activity aimed at preventing, detecting, and deterring fraud (Bashin, 2016).

Sustainable corporate governance, as a dependent variable, depends on the practices and policies implemented by a company, including its reporting practices and mechanisms for detecting and preventing financial misconduct. The Board of Directors (BOD), Members of the Audit Risk Committee (ARC), Members of the Nomination and Remuneration Committee (NRC), etc., are the regulatory bodies within organizations that implement the corporate governance code and ethics.

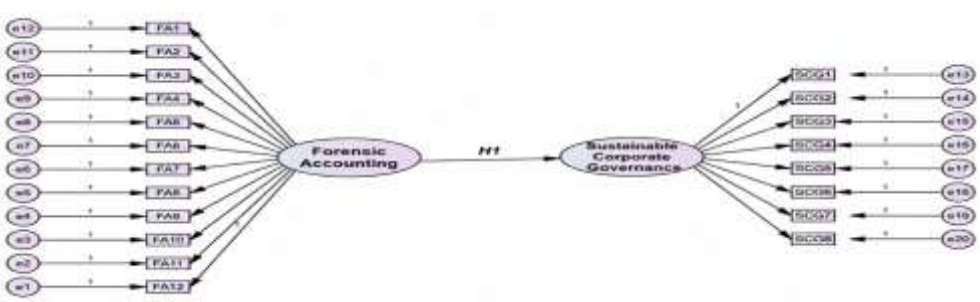

Figure 1. Conceptual Framework

MATERIALS AND METHODS

The research is deductive because it was developed using an existing model, which was further extended to provide the groundwork for this study. The total number of listed companies under the Bangladesh Securities and Exchange Commission (BSEC) is 628 in 2023. To identify the required sample, a priori sample size calculator (https://www.danielsoper.com/statcalc/default.aspx) for the structural equation model (SEM) was used, which indicated a sample size of 147 participants from listed companies. This sample size is based on the Structural Equation Model (SEM). This sample size is calculated for an effect size of 0.3 (small), two latent variables, 20 observed variables, and a probability level of 0.05. Since the calculator indicated a required sample size of 147, we collected data from 225 respondents. A closed-ended survey questionnaire was used to collect all the data for this study. Sustainable corporate governance was the dependent variable, and forensic accounting was the independent variable. Both the printed and online questionnaires were distributed to collect data. While online data were captured in Google Forms and distributed via digital networks, social media, and mailing channels, paper-printed questionnaires were personally distributed, and data were promptly collected in person with the responder. Data collection from various organizations in Bangladesh was made possible through an online distribution channel, aided by ICAB and ICMAB members, thereby removing all geographical and physical restrictions. A total of 500 questionnaires were distributed: 260 were printed on paper, and 240 were sent via Google Forms. From the 500 questionnaires, 248 were collected from the respondents. Of 248 responses, 225 were valid, yielding a valid rate of 90.72%. Due to unwillingness to provide information, 23 responses were rejected for missing or incomplete data. Moreover, the ethical issues were taken with utmost care in this study. All respondents approved the survey, and we ensured their information remains confidential. Confidentiality is very carefully protected and guaranteed. For this work, we employed a five-point Likert scale ranging from 1 (strongly agree) to 5 (strongly disagree). Using our conceptual framework, the primary question items were developed. The measurement item was taken from previously conducted research. To analyze the data and test the hypothesis, Structural Equation Modeling (SEM) is used. SEM is a complex model analysis technique that uses a series of dependent variables (Cheng, 2001). The analysis was conducted using two steps. In the first step, the fitness, Validity, and reliability of the model and its variables are measured using the covariance matrix. In the second step, the structural model is used to examine the dependent and independent variables using Analysis of Moment Structures (AMOS) software to understand the impact of the independent variable on the dependent variable. AMOS software was also used to assess structural relationships and to conduct confirmatory factor analysis (CFA) in this investigation. Statistical Package for the Social Sciences (SPSS) version 25.0 was used to analyze data collected from respondents via the questionnaire. Descriptive statistics (mean, SD) and internal consistency measures (frequencies, reliability, and Validity) were used to analyze the data in SPSS.

RESULTS AND DISCUSSIONS

The data were collected from 225 respondents. We have considered those people as respondents who are involved with publicly listed companies in Bangladesh, including members of the BOD, ARC, NRC, executive Managers, CEOs, COOs, CFOs, internal auditors, external auditors, etc. The data were collected from both male and female respondents. Among the 225 respondents, 134 were male (59.6%), and 191 were female (40.4%). The analysis shows that respondents engaged with the Company listed as a public limited Company within less than 1 year (14.7%), within less than 5 years (32%), and within more than 5 years (53.3%). 44.4% are from the Finance sector, 38.2% are from the Industrial Sector, and 17.3% are from the Service sector. More than 50% are Professionals (CA, CMA, ACCA, PhD, etc.).

Table 1. Research Participants and Demographics

Variable	Category	Frequency	Percent	Cumulative Percent
Gender	Male	134	59.6	**59.6**
	Female	91	40.4	**100**
Years Company is listed as a publicly listed Company	Less than 1 year	33	14.7	**14.7**
	1-5 years	72	32.0	**16.7**
	More than 5 years	120	53.3	**100**
Industry Sector	Finance	100	44.4	**44.4**
	Industrial	86	38.2	**82.7**
	Services	39	17.3	**100**
Highest Qualifications	Bachelor	69	30.7	**30.7**
	Master	42	18.7	**49.3**
	Professional (PhD, CA, CMA, ACCA, etc.)	114	50.7	**100**
Role/ Position in Organization	Executive Manager	75	33.3	**33.3**
	Member of ARC	28	12.4	**45.8**
	Member of BOD	78	18.7	**64.4**
	Member of NRC	46	20.4	**84.9**
	Academician	34	15.1	**100**
Work Experience	1-5 years	113	50.2	**50.2**
	6-10 years	56	24.9	**75.1**
	11-15 years	32	14.7	**89.3**
	More than 16 years	**24**	**10.7**	**100**

Measurement Model Validation

To verify the gathered data, we used confirmatory factor analysis (CFA). By examining construct reliability (CR) and Cronbach's Alpha, the model's discriminant Validity and convergent Validity were verified; AVEs and factor loadings supported convergent Validity.

Construct Reliability and Convergent Validity

We have ensured the model's construct reliability per the recommendations. Composite reliability measures the internal consistency of the items. Hair et al. (2010) suggested that composite reliability (CR) should be at least 0.7, with higher values better, and that it should explain 70% of the measurement model's variance. In Table 3 mentioned below, CR values range from 0.769 to 0.911, exceeding the required level of 0.70. Our analysis also validated the measurement model, as per Hair et al.'s (2010) recommendations for Cronbach's alpha. Cronbach's alpha is the way to measure the internal consistency of the items. Hair et al. (2010) noted that the cut-off value is 0.7 ($\alpha > 0.7$).

Moreover, we have confirmed convergent Validity through AVEs (average variance extracted) and cross-loadings. Average variance extracted (AVE) measures the variance a construct explains relative to measurement error variance. Hair et al. (2010) noted that an acceptable AVE for each construct is greater than 0.5, which represents 50% of the variance in the research model. The higher the value, the more acceptable the construct. The required criteria for CR, Cronbach Alpha, AVE, and factor loadings were met for each construct given in Table 2.

Table 2. Confirmatory Factor Analysis (CFA)

Latent Construct	Measured Variables	M	SD	Standardized Loadings	Cronbach's Alpha	Composite Reliability (CR)	Average Variance Extracted (AVE)
FA	FA2	1.63	.778	.747	.892	0.896	**0.443**
	FA3	1.59	.721	.729			
	FA4	1.63	.751	.683			
	FA5	1.70	.816	.657			
	FA6	1.61	.783	.663			
	FA7	1.65	.748	.611			
	FA8	1.61	.794	.679			
	FA9	1.59	.698	.674			
	FA10	1.63	.809	.660			
	FA11	1.58	.684	.484			
	FA12	1.61	.822	.696			
SCG	SCG1	1.07	.250	.689	.902	0.901	**0.537**
	SCG2	1.07	.250	.519			
	SCG3	1.11	.309	.757			
	SCG4	1.09	.285	.847			
	SCG5	1.04	.207	.630			
	SCG6	1.09	.285	.907			
	SCG7	1.08	.265	.713			
	SCG8	**1.09**	**.285**	**.693**			

The Discriminant Validity by the Confirmatory Factor Analysis

Table 3 is used to measure the discriminant Validity of the measurement model. The diagonal values of the table indicate the square roots of the AVEs, whereas the other cells represent the correlations. A higher diagonal value is preferable to an off-diagonal value.

Table 3. Discriminant Validity of the Confirmatory Factor Analysis

Correlations	FA	SCG
FA	**0.666**	
SCG	0.316	**0.733**

Note: The bold value on the diagonal is the square root of the Average Variance Extracted (AVE).

Model Fitness

To determine whether the model is fit, as suggested by Hair et al. (2010), all relevant and proposed measures were checked. Model fitness is examined using the Comparative Fit Index, Normalized Fit Index, Incremental Fit Index, Relative Fit Index, Tucker–Lewis Index, Root Mean Square Error of Approximation, and Standardized Root Mean Square Residual. The Comparative Fit Index (CFI) ranges from 0 to 1, with 1 indicating a perfect fit and values closer to 1 indicating a good fit. For NFI, a value of 1 indicates a perfect fit, and values above .90 are acceptable. For IFI, RFI, and TLI, a value of 1 indicates that the model fits perfectly. The value closer to 1 indicates a perfect fit of the model.

Relative X^2 (X^2/df) is acceptable if the value is less than 3. Root Mean Square Error of Approximation (RMSEA) and Standardized Root Mean Square Residual (SRMR) for both analyses: values between 0.05 and 0.08 indicate an acceptable result. In this research, all analyses show results within the acceptable range (Table 4). So, the model is fit for the study.

Table 4. Goodness of fit statistics for the Structural Equation Model (SEM)

	χ^2 (df)	χ^2 /df	CFI	NFI	IFI	RFI	TLI	RMSEA	SRMR
Good model fit		<3.00	>0.90	>0.90	>0.90	>0.90	>0.90	<0.08	**<0.09**
CFA	298.447 (149)	2.003	.928	.866	.928	.847	.917	0.067	**0.0605**
SEM	**266.635 (148)**	**1.8015**	**.942**	**.881**	**.943**	**.862**	**.934**	**0.060**	**0.0583**

Note: CFI Comparative Fit Index; NFI Normalized Fit Index; IFI Incremental Fit Index; RFI Relative Fit Index; TLI Tucker-Lewis Index; RMSEA Root Mean Square Error of Approximation; SRMR Standardized Root Mean Square Residual; CFA = Confirmatory Factor Analysis; SEM = Structural Equation Modeling.

Table 5. Hypothesis Test Result

	Hypothesis	Estimate (β)	SE	CR.	p	Hypothesis Support
H_1	Forensic Accounting → Sustainable Corporate Governance	0.090	0.023	3.888	<0.01	Confirmed

Note: SE = Standard Error; CR = Critical Ratio; p = P-value.

Result of the proposed Hypothesis

From Table 5, the result shows that H_1 is supported. H_1 was supported, as the impact of forensic accounting on sustainable corporate governance was significant ($\beta = 0.090$, $p < 0.05$). Forensic Accounting positively influences the sustainable corporate governance of listed companies in Bangladesh. The hypothesis states that a 1-unit change in forensic accounting results in a 9% increase in sustainable corporate governance.

CONCLUSIONS

This study examined the impact of forensic accounting on sustainable corporate governance in Bangladeshi listed companies. The findings demonstrate that integrating forensic accounting significantly improves transparency, accountability, and the reliability of financial reporting. By strengthening internal controls, promoting ethical practices, and ensuring compliance with regulatory standards, forensic accounting enables organizations to build stakeholder trust and maintain the integrity of financial operations.

Theoretically, this study contributes by developing and validating a structural equation modeling (SEM) framework linking forensic accounting to sustainable corporate governance. This relationship has not been previously explored in the literature. This provides a foundation for further research in emerging economies, particularly within Southeast Asia.

Practically, forensic accounting has substantial implications for organizational governance. It helps prevent and detect fraud, identifies potential risks, and supports effective risk management. Based on the findings, organizations are recommended to: (1) institutionalize forensic accounting practices across key governance bodies such as boards, audit committees, and nomination committees; (2) invest in training for management and audit teams on forensic techniques and data analytics; and (3) collaborate with regulators and professional associations to develop standard guidelines and best practices for forensic auditing.

The study has limitations, including reliance on cross-sectional data from Bangladeshi listed companies, which may affect generalizability. Data confidentiality constraints may also have influenced the precision of the results.

Future research could explore forensic accounting practices across different industries such as finance, manufacturing, and healthcare. Comparative studies examining the influence of cultural, legal, and institutional differences on the integration of forensic accounting into sustainable governance provide further insights. Research could strengthen understanding of how forensic accounting contributes to transparency, ethical behavior, and long-term sustainability in diverse global contexts.

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