

Strengthening Corporate Fraud Detection through Forensic Accounting and Whistleblowing: The Moderating Role of Regulatory Enforcement

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ABSTRACT

Corporate fraud continues to erode stakeholder trust, distort financial markets, and inflict severe economic damage despite advancements in auditing and governance frameworks. While forensic accounting and whistleblowing are critical for proactive fraud detection, their effectiveness hinges on audit committee independence and regulatory enforcement strength. This conceptual paper aims to examine how forensic accounting practices and whistleblowing mechanisms, supported by audit committee independence, enhance corporate fraud detection effectiveness, and how this relationship is moderated by the strength of regulatory enforcement. Using a narrative review of Scopus-indexed literature (2010–2024), this study synthesizes insights on how regulatory enforcement moderates the fraud detection impact of forensic accounting and whistleblowing, enabled by audit committee independence. The study identified key themes and theoretical insights that highlight how forensic techniques, protected reporting channels, and independent oversight function as complementary fraud detection mechanisms whose efficacy is amplified under strong regulatory regimes. The findings suggest that while forensic accounting and whistleblowing are potent on their own, their impact on fraud detection is significantly strengthened when audit committees are independent and when regulatory bodies actively monitor, investigate, and penalize misconduct. The study contributes theoretically by integrating agency theory, institutional theory, and the fraud triangle to develop a framework explaining the conditional effectiveness of internal controls. Practically, it offers actionable insights for regulators, corporate boards, and compliance officers to design synergistic fraud detection systems aligned with external enforcement realities. Limitations include reliance on conceptual synthesis without empirical testing, prompting the need for future cross-national and longitudinal studies to validate the proposed model.

Keywords—Corporate Fraud Detection, Forensic Accounting, Whistleblowing, Regulatory Enforcement, Audit Committee Independence, Fraud Triangle, Agency Theory

INTRODUCTION

Corporate fraud remains a persistent threat to global financial systems, eroding trust and triggering systemic instability. High-profile scandals continue to expose vulnerabilities even in firms with sophisticated governance underscoring the limits of traditional auditing and the urgent need for complementary detection mechanisms.

Forensic accounting and whistleblowing have emerged as vital complements to traditional auditing, offering proactive, evidence-based, and insider-driven detection capabilities. Yet their effectiveness is not guaranteed — it depends on governance structures and external enforcement.

While prior research acknowledges the role of these mechanisms, their interplay — particularly how regulatory

enforcement moderates their efficacy, enabled by audit committee independence — remains underexplored. This study fills that gap by integrating agency theory, institutional theory, and the fraud triangle to propose a conditional effectiveness framework.

Despite growing attention, the interplay between these variables remains underexplored. For instance, firms may implement sophisticated whistleblowing systems or hire forensic accountants yet fail to detect fraud if regulators are perceived as weak or corrupt. Conversely, strong enforcement may incentivize firms to invest in internal controls, thereby amplifying their effectiveness. This incongruence indicates a serious research gap: the need to conceptually explain how regulatory enforcement moderates the relationship between internal fraud detection mechanisms (forensic accounting, whistleblowing) and detection effectiveness, with audit committee independence as a key enabler.

This study is significant for several reasons. First, it integrates micro-level organizational practices (forensic accounting, whistleblowing) with macro-level institutional factors (regulatory enforcement) to develop a holistic fraud detection framework. Second, it contributes theoretically by positioning regulatory enforcement not merely as a background variable but as a dynamic moderator that activates or deactivates the efficacy of internal controls. Third, it has practical implications for corporate leaders, audit committees, and regulators seeking to design fraud detection systems that are contextually responsive and institutionally aligned. The proposed framework may also guide future empirical studies and inform regulatory reforms in high-risk sectors and jurisdictions.

Guided by agency theory, institutional theory, and the fraud triangle framework, this study conceptualizes regulatory enforcement as a moderating force that determines whether forensic accounting and whistleblowing translate into effective fraud detection, with audit committee independence serving as a critical enabler. The paper proceeds as follows: a literature review synthesizing key themes, methodology, theoretical framework with propositions, and conclusion with implications and future research directions.

LITERATURE REVIEW

Corporate Fraud Detection Effectiveness

Corporate fraud detection effectiveness refers to an organization's ability to identify, investigate, and resolve fraudulent activities in a timely, accurate, and comprehensive manner. It encompasses metrics such as time-to-detection, proportion of frauds detected internally versus externally, financial recovery rates, and recurrence rates. According to ACFE (2022), only 43% of fraud cases are detected internally; the majority are uncovered by external parties (accidental discovery). This suggests a systemic failure in internal detection capabilities.

Detection effectiveness hinges not just on control design but on activation; whether controls are empowered, resourced, and supported by governance and regulatory structures (He et al., 2020; Rezaee & Riley, 2019).

Recent studies emphasize that detection effectiveness is not merely a function of control design but of control activation i.e., whether controls are empowered, resourced, and supported by governance and regulatory structures (He et al., 2020; Rezaee & Riley, 2019). For instance, a whistleblower hotline may exist on paper but remain unused if employees fear retaliation or believe reports will be ignored. Similarly, forensic accounting capabilities may be outsourced but never deployed if audit committees lack independence to initiate investigations.

Forensic Accounting Practices

Forensic accounting has emerged as a specialized discipline at the intersection of accounting, auditing, and law enforcement. Unlike traditional auditing, which is confirmatory and compliance-oriented, forensic accounting is investigative and adversarial. Forensic accountants employ techniques such as data mining, Benford's Law analysis, transaction tracing, lifestyle analysis, and digital forensics to detect anomalies and reconstruct fraudulent schemes (Silverstone et al., 2019).

The value of forensic accounting lies in its ability to go beyond the numbers, to understand motive, concealment methods, and behavioural patterns. In the Enron case, forensic accountants were instrumental in uncovering off-

balance-sheet entities and related-party transactions that auditors had missed (Squires et al., 2003). Similarly, in the Wirecard scandal, forensic techniques were critical in tracing fictitious cash balances and forged auditor confirmations (Financial Times, 2020).

Emerging evidence increasingly positions forensic accounting as a proactive strategic asset rather than merely a reactive tool. Rezaee and Riley's (2019) findings, for instance, suggest firms using forensic accountants don't just detect fraud more quickly; they do so by a margin of 40%, while also recovering nearly a third more in financial losses. While forensic accounting significantly reduces detection time and increases recovery (Rezaee & Riley, 2019), its deployment varies by firm size and sector, often constrained by cost and internal resistance; factors further moderated by governance and enforcement (see Section IV).

Whistleblowing Mechanisms

Whistleblowing, defined as the disclosure by organization members of illegal, unethical, or illegitimate practices under the control of their employers to persons or organizations that may be able to effect action (Near & Miceli, 1985), is arguably the most effective source of fraud detection. The ACFE (2022) reports that 42% of occupational fraud cases are detected via tips, with employees being the most common source (50% of tips). Whistleblowers often possess insider knowledge of concealment methods, collusion networks, and timing of fraudulent acts, information inaccessible to external auditors or automated systems.

Despite being the most common fraud detection source (ACFE, 2022), whistleblowing is hindered by fear of retaliation, social ostracism, and institutional vulnerability (Dyck et al., 2010). Legal protections (e.g., Dodd-Frank, EU Directive) improve reporting rates (Call et al., 2018), yet cultural and hierarchical norms persist — particularly in collectivist societies where speaking up risks career suicide unless legal backing is visibly credible (Park et al., 2020). Effective systems require not just channels, but demonstrable safety and follow-through.

Audit Committee Independence

The audit committee, a subcommittee of the board of directors, plays a pivotal role in overseeing financial reporting, internal controls, and audit functions. Regulatory standards (e.g., SOX, NYSE listing requirements) mandate that audit committees be composed primarily of independent, financially literate directors. Independence is critical because it reduces the risk of managerial capture and enhances objectivity in oversight (DeZoort et al., 2002).

Independent audit committees are more likely to: (1) challenge management's accounting choices (Carcello et al., 2011; Cohen et al., 2013), (2) demand higher audit quality, (3) initiate forensic investigations when red flags arise, and (4) protect whistleblowers from retaliation (Carcello et al., 2011; Cohen et al., 2013). Research by Cohen et al. (2013) found that firms with independent audit committees were 35% less likely to restate earnings due to fraud.

Moreover, audit committees serve as a bridge between internal controls and external regulators. They are responsible for ensuring regulatory compliance and often liaise with enforcement agencies during investigations. Thus, their independence not only strengthens internal governance but also facilitates external accountability.

Regulatory Enforcement Strength

Regulatory enforcement refers to the capacity and willingness of government agencies to monitor compliance, investigate violations, and impose sanctions. Enforcement strength varies across jurisdictions due to differences in legal traditions, resource allocation, political independence, and cultural attitudes toward compliance (La Porta et al., 2006).

Strong enforcement regimes are characterized by: (1) proactive monitoring (e.g., random audits, data analytics), (2) credible sanctions (fines, director bans, criminal prosecution), (3) transparency in enforcement actions, and (4) institutional independence from political or corporate influence (Coffee, 2011). The SEC in the U.S., for example, has broad investigative powers and a track record of imposing billion-dollar penalties (e.g., against Enron, Goldman Sachs, Tesla). In contrast, regulators in emerging markets often lack resources, suffer from

political interference, or exhibit regulatory forbearance (Pistor, 2013).

Theoretical and empirical literature suggests that strong enforcement deters fraud by increasing the expected cost of misconduct (Becker, 1968). But beyond deterrence, enforcement also shapes organizational behaviour by signalling the “rules of the game.” Firms operating in strong enforcement environments are more likely to invest in internal controls, including forensic accounting and whistleblowing systems, because the cost of non-compliance outweighs the cost of prevention (Shleifer & Vishny, 1997).

Beyond deterrence, strong enforcement signals institutional credibility, prompting firms to invest in internal controls, because the cost of non-compliance outweighs prevention (Shleifer & Vishny, 1997). In weak enforcement contexts, even robust controls may remain symbolic or ignored.

METHODOLOGY

Research Design

This study employs a narrative literature review to synthesize multidisciplinary insights and develop a conceptual framework exploring how regulatory enforcement moderates the fraud detection impact of forensic accounting and whistleblowing, enabled by audit committee independence (Ferrari, 2015).

Key Steps in Conducting a Narrative Review

This study's narrative review followed a series of systematic and flexible steps, as illustrated in Figure 1. The primary data source was the Scopus database, chosen for its extensive coverage of peer-reviewed journals, books, and conference proceedings in social sciences, business, and legal studies. The review commenced with the identification of key research themes: forensic accounting, whistleblowing, audit committee independence, regulatory enforcement, and fraud detection effectiveness. These themes were combined with Boolean operators and search strings to ensure the retrieval of relevant literature. The data were limited to only peer-reviewed articles published between 2010 and 2024 to ensure recency and scholarly rigor. In addition, studies that offered conceptual, theoretical, or empirical findings on the variables of interest were selected.

The screening process involved a three-stage selection protocol: (1) title and abstract review to assess relevance, (2) full-text review to evaluate methodological quality and contribution, and (3) thematic categorization according to the constructs being explored. Articles were further evaluated based on citation impact, relevance to the theoretical framing, and contextual diversity. The final sample consisted of 28 high-quality sources from journals indexed in Scopus, including Journal of Forensic & Investigative Accounting, Journal of Business Ethics, Corporate Governance: An International Review, and Journal of Accounting and Public Policy. The findings from this narrative review were synthesized to identify emerging patterns and gaps, which were then used to construct the proposed conceptual framework and derive theoretical propositions.



Fig. 1 Steps in Narrative Review

Data Collection and Review Strategy

This study employed a systematic and interpretive approach for data collection and analysis to aid in the narrative literature review and development of the framework. The process involved at this phase was to collect, assess, and synthesize academic findings that explain the relationship between forensic accounting, whistleblowing, audit committee independence, regulatory enforcement, and fraud detection effectiveness. Data collection was conducted using the Scopus database, a comprehensive and multidisciplinary scholarly indexing platform widely recognized for its quality and peer-reviewed academic content. To ensure the inclusion of relevant and high-impact literature, a search string was developed combining core keywords and related terms using Boolean operators (AND, OR), and confined to the title, abstract, and keyword fields to maximize relevance and precision. The final search string used was:

((("forensic accounting" OR "fraud investigation" OR "forensic audit") AND ("whistleblowing" OR "whistleblower" OR "reporting mechanism") AND ("audit committee independence" OR "independent audit committee" OR "board oversight") AND ("regulatory enforcement" OR "enforcement strength" OR "regulatory quality") AND ("fraud detection" OR "fraud effectiveness" OR "detection capability")))

This query retrieved publications from 2010 to 2024 that intersect all five domains of interest. To maintain quality and relevance, only peer-reviewed journal articles written in English were considered. After executing the search, the initial yield of articles was screened through a multi-stage filtering process. In the first stage, articles were filtered based on title and abstract review to exclude unrelated studies, such as those focused purely on criminology or public-sector fraud. In the second stage, the full texts of shortlisted articles were evaluated based on their contribution to theory development, methodological robustness, and conceptual relevance. Articles offering cross-disciplinary insights (e.g., from law, management, and accounting fields) were prioritized. This process resulted in a final sample of 28 core articles used in the synthesis.

The process began with open reading and annotation of each article, during which key ideas, constructs, and theoretical lenses were extracted. The content was then organized into thematic categories aligned with the five key constructs: (i) forensic accounting, (ii) whistleblowing, (iii) audit committee independence, (iv) regulatory enforcement, and (v) fraud detection effectiveness. Within these categories, sub-themes were identified, such as investigative techniques, anonymity protections, financial expertise, sanction credibility, and detection metrics. Each theme was then reviewed to identify interconnections and moderating relationships; particularly how regulatory enforcement influences the impact of internal controls on detection outcomes.

Additionally, the review incorporated a theoretical mapping component, tracing the application of theories such as agency theory, institutional theory, and the fraud triangle in explaining detection effectiveness. This allowed the study to bridge fragmented literature and develop a holistic conceptual framework. The integrative thematic analysis not only captured the richness of the existing scholarship but also helped highlight gaps and inconsistencies, such as the varying impact of whistleblowing incentives across cultures or the role of political risk in shaping enforcement effectiveness. The results of this analysis directly informed the development of the conceptual model and theoretical propositions presented in the following section.

Key Findings from the Narrative Review

The narrative synthesis confirmed that fraud detection effectiveness emerges from the interaction of forensic accounting, whistleblowing, and audit committee independence, with regulatory enforcement acting as a critical moderator. These findings directly inform the theoretical framework below (see Table 1 for thematic summary).

Table 1 Key Themes And Findings From The Narrative Review

Theme	Description of Key Findings	Key References
Forensic Accounting Techniques	Data analytics, transaction tracing, and lifestyle analysis significantly reduce detection time and increase recovery rates, especially when integrated	He et al. (2020); Rezaee & Riley (2019)

	with internal audit.	
Whistleblower Protections	Anonymity, non-retaliation policies, and monetary incentives increase reporting rates by 60–70%. Cultural and psychological barriers remain significant in collectivist societies.	Call et al. (2018); Park et al. (2020)
Audit Committee Financial Expertise	Committees with financial expertise are 2.3x more likely to initiate forensic investigations and protect whistleblowers. Independence reduces earnings restatements by 35%.	Cohen et al. (2013); Carcello et al. (2011)
Regulatory Sanction Credibility	Firms in high-enforcement jurisdictions invest 40% more in internal controls. Credible sanctions (fines, bans, prosecutions) increase whistleblower confidence and forensic utilization.	Coffee (2011); La Porta et al. (2006)
Moderating Effect of Enforcement	Regulatory strength amplifies the impact of forensic accounting and whistleblowing on detection effectiveness. In weak enforcement contexts, internal controls are often symbolic or ignored.	Shleifer & Vishny (1997); Pistor (2013)
Fraud Detection Metrics	Time-to-detection, internal detection rate, and financial recovery are the most validated metrics. Detection effectiveness is highest when all three internal mechanisms (forensic, whistleblowing, and audit committee) are aligned.	ACFE (2022); Silverstone et al. (2019)

What stood out in our review wasn't the raw power of these tools, it was how dramatically their impact shifted depending on context. A forensic accounting unit in Singapore won't behave like one in Jakarta, not because of skill, but because of the ecosystem around it.

In conclusion, the narrative review provides robust evidence that fraud detection effectiveness is not determined by any single mechanism but by the synergistic interaction of forensic accounting, whistleblowing, audit committee independence, and, critically, regulatory enforcement strength. These findings form the empirical and conceptual foundation for the framework presented in the next section, which integrates these mechanisms into a holistic model that explains how regulatory enforcement moderates the relationship between internal controls and fraud detection outcomes.

Development Of Theoretical Framework

The theoretical framework developed for this study integrates agency theory (addressing monitoring gaps), institutional theory (external pressures shaping internal behaviour), and the fraud triangle (motivation, opportunity, rationalization) to explain conditional effectiveness.

The framework positions forensic accounting and whistleblowing as independent variables that positively influence fraud detection effectiveness (dependent variable), with audit committee independence serving as an enabler and regulatory enforcement strength as a moderator. The framework integrates thematic insights from the literature that highlight how financial expertise, whistleblower protections, sanction credibility, and investigative techniques interact to produce detection outcomes (Call et al., 2018; Coffee, 2011). Theoretical insights from agency and institutional theories are operationalized in this model: agency conflicts are addressed through internal monitoring (forensic accounting, whistleblowing), while institutional pressures are addressed through regulatory alignment. By synthesizing empirical evidence and theoretical models. If there's one takeaway, we hope practitioners hold onto, it's this: don't silo your fraud detection efforts. Forensic accounting teams, whistleblower hotlines, and audit committees; they are not standalone solutions. They're interlocking gears. And those gears only turn smoothly when the broader regulatory environment provides the necessary torque. Yes, it is more complex than buying a software package or drafting a policy. But in our view, that

complexity is precisely what makes it effective. Alignment is not bureaucratic box-ticking; it is strategic calibration.

The framework offers practical implications for firms, regulators, and policymakers. It emphasizes the importance of embedding forensic capabilities and protected reporting channels within a governance structure led by independent audit committees and aligning these with external enforcement expectations. Practically, firms can apply this model by investing in forensic training, whistleblower platforms, and audit committee development, particularly in high-enforcement jurisdictions where the return on investment is highest. Policymakers can draw from the framework to design regulatory tools such as mandatory forensic reviews for high-risk sectors or cross-border enforcement cooperation to prevent regulatory arbitrage. In conclusion, the integration of agency, institutional, and behavioural perspectives enables a holistic understanding of how regulatory enforcement moderates the internal control–detection link, providing both theoretical clarity and practical direction for promoting transparent and accountable corporate behaviour. Forensic accounting and whistleblowing positively influence fraud detection effectiveness, enabled by audit committee independence and moderated by regulatory enforcement strength, synthesizing empirical patterns and theoretical logic from the literature. Given the preceding discussions, Figure 2 illustrates the proposed theory of the study:

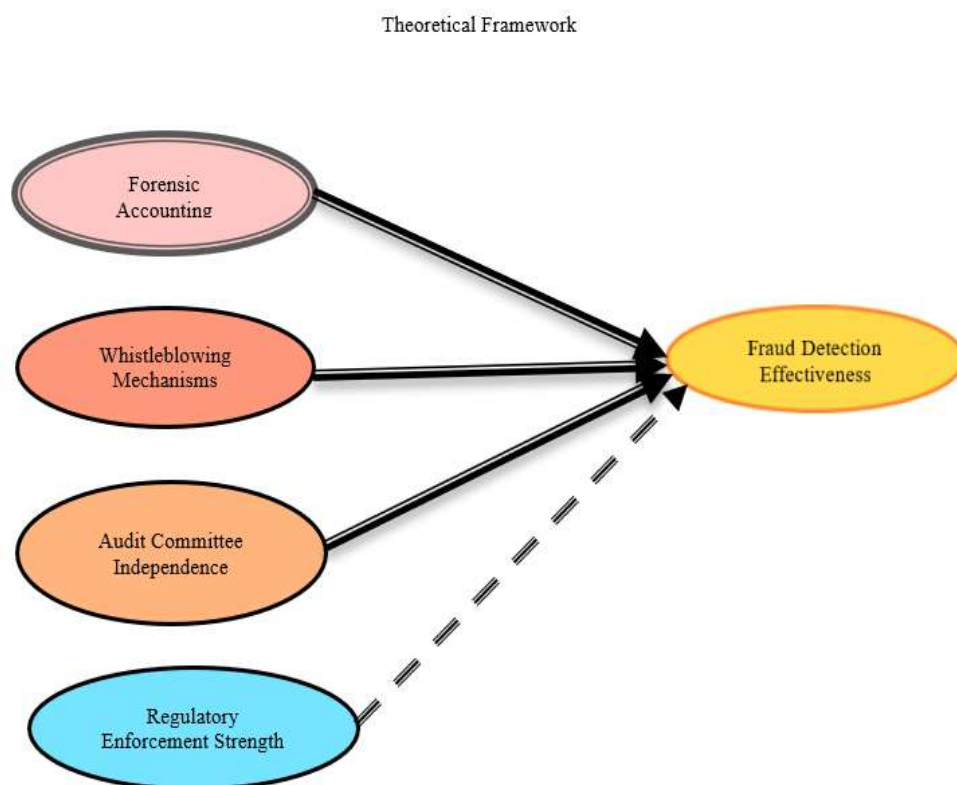


Fig. 2 Proposed Theoretical Framework

Proposition Development

Forensic Accounting Affects Fraud Detection Effectiveness

When firms bring forensic accounting into the mix, they're not just adding another audit layer; they're switching to offense. The numbers tell the story: Rezaee and Riley (2019) found detection timelines shortened by 40%, with significantly higher recovery rates. It's not magic, it's method. Techniques such as Benford's Law, digital forensics, and lifestyle analysis provide objective, court-admissible evidence that increases the likelihood of successful prosecution. However, the impact of forensic accounting is not automatic; it requires resources, management support, and governance backing. In firms where audit committees lack independence or where enforcement is weak, forensic findings may be ignored or suppressed. Thus, while forensic accounting is a powerful tool, its effectiveness is contingent upon enabling and moderating conditions.

Proposition 1: Forensic accounting practices have a positive effect on corporate fraud detection effectiveness.

Whistleblowing Mechanisms Affect Fraud Detection Effectiveness

Whistleblowers provide high-quality, real-time intelligence that is often unavailable through formal audits or automated systems. Protected, incentivized, and well-communicated whistleblowing channels increase the probability that insiders will report misconduct. The ACFE (2022) reports that 42% of fraud cases are detected via tips, making whistleblowing the single most effective detection method. However, effectiveness is highly sensitive to organizational and institutional context. Fear of retaliation remains the primary deterrent; anonymity protections and non-retaliation policies can increase reporting rates by 60–70% (Call et al., 2018). Cultural factors also matter: in hierarchical societies, employees are less likely to report superiors unless strong legal protections exist (Park et al., 2020). Thus, while whistleblowing is potent, its impact depends on psychological safety, governance support, and regulatory credibility.

Proposition 2: Whistleblowing mechanisms have a positive effect on corporate fraud detection effectiveness.

Audit Committee Independence Strengthens the Relationship

Independent audit committees are more likely to commission forensic investigations, allocate adequate resources, and act on findings without managerial interference. They also ensure that forensic recommendations are implemented and that whistleblowers are protected from retaliation (Carcello et al., 2011). Research by Cohen et al. (2013) found that firms with independent audit committees were 35% less likely to restate earnings due to fraud. Moreover, audit committees with financial expertise are 2.3x more likely to detect fraud early. Thus, audit committee independence does not merely correlate with detection effectiveness; it actively enables and amplifies the impact of forensic accounting and whistleblowing. Therefore, we propose that:

Proposition 3: Audit committee independence strengthens the positive relationship between forensic accounting practices and fraud detection effectiveness.

Proposition 4: Audit committee independence strengthens the positive relationship between whistleblowing mechanisms and fraud detection effectiveness.

Regulatory Enforcement Strength Moderates the Relationship

Think of regulatory enforcement less as scenery and more as gravity; it doesn't shout, but it shapes how every other element moves. Strong enforcement doesn't just punish; it pulls internal controls into alignment. In strong enforcement environments, forensic findings are more likely to lead to legal consequences, which increases the deterrent effect and encourages management to cooperate with investigations. Whistleblowers are more likely to report if they trust regulators to act and protect them. Firms in high-enforcement jurisdictions invest 40% more in internal controls because the cost of non-compliance outweighs the cost of prevention (Coffee, 2011; Shleifer & Vishny, 1997). In weak enforcement contexts, however, forensic accounting may be symbolic, whistleblowers remain silent, and audit committees are captured, rendering internal controls ineffective. Thus, regulatory enforcement is not a background variable but a dynamic moderator that activates or deactivates the efficacy of internal mechanisms. Therefore, we propose that:

Proposition 5: Regulatory enforcement strength strengthens the positive relationship between forensic accounting practices and fraud detection effectiveness.

Proposition 6: Regulatory enforcement strength strengthens the positive relationship between whistleblowing mechanisms and fraud detection effectiveness.

CONCLUSION

This study confirms that forensic accounting and whistleblowing significantly enhance corporate fraud detection, but only when enabled by independent audit committees and amplified by strong regulatory enforcement.

Ignoring institutional context renders even sophisticated systems ineffective. Theoretically, this enriches our understanding of how macro-institutional factors (regulatory enforcement) condition the efficacy of micro-organizational practices. Practically, firms must align internal controls with external enforcement realities: investments in forensic capabilities and whistleblower protections yield the highest returns in high-enforcement jurisdictions, while in weak-enforcement environments, such efforts may be futile without concurrent regulatory reform.

However, the study is limited by its reliance on secondary data and conceptual modelling, which may not capture the full complexity of fraud detection dynamics across diverse industries, cultures, and legal systems. Future research should explore empirical validations using cross-national panel data, longitudinal case studies of fraud detection systems pre- and post-regulatory reform, and experimental designs testing whistleblower behaviour under varying enforcement scenarios. Additionally, emerging technologies such as AI-driven anomaly detection and blockchain-based audit trails present new frontiers for fraud detection research.

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