

Means to what end? This is how forensic auditing works

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BEIRUT: All or most Lebanese will probably follow the news of the forensic audit of the Central Bank's accounts to determine if the governor of BDL truly violated the law.

But few Lebanese understand what is forensic auditing and what does it entail.

The Finance Ministry has asked that Alvarez & Marsal auditing firm to conduct a thorough forensic auditing of all the accounts at BDL.

But the company has not yet decided if it will renew the contract with the government although the Central Bank assured that it will fully cooperate with the firm and provide all the requested documents and data.

A country or a company usually seeks the help of a forensic auditing firm if suspected of financial embezzlement, misappropriation of funds or corruption in an entity.

This will be the first time in Lebanon's history a government has requested the assistance of an international firm to conduct forensic auditing of BDL.

But experts in the field of forensic auditing warn that among the main conditions of an effective forensic audit is the existence of an honest and impartial judicial system and this maybe one of the drawbacks facing the authorities.

A leading forensic audit expert said one of the conditions for a successful examination of the Central Bank's accounts is to have an honest and unbiased judicial system, which is not the case in Lebanon.

"Let's say for the sake of argument that Alvarez & Marsal uncovered incriminating evidence in the accounts of BDL. Can we guarantee that this case will be treated fairly and professionally in Lebanese courts? The answer is no. The Lebanese judicial system must be rehabilitated first in order to handle cases like BDL's accounts," Roy Ferneini, MBA, CPA and lead forensic auditor, told The Daily Star.

The US-based auditor, who audited accounts of companies and banks in 56 countries, explained that the other condition to ensure full transparency to conduct a forensic audit is to assign this project to a reliable firm with a good record.

On Nov. 27, 2020, the Lebanese Parliament passed a recommendation for a forensic audit to be carried out not just for the Central Bank, but for all state institutions.

Alvarez & Marsal, the consulting company that was tasked with conducting the Central Bank's audit, pulled out of the contract last year, citing noncooperation by the bank in providing the necessary documents.

But the company is now reviewing its position after BDL pledged to provide Alvarez will all the information it requested.

"The first objective of forensic auditing is to find evidence that can be used in court. The Lebanese judicial authorities do not have a good reputation and hence this case will not be handled professionally by the court," Ferneini argued.

In his opinion, it would be wrong to blame BDL for the current financial situation in Lebanon, stressing that Salameh has lent the government and financed the needs of the state.

He added that Lebanon can't have a proper forensic audit as long as the same politicians are ruling the country.

Among the conditions for an effective forensic auditing is to talk to the employees of BDL, according to Ferneini, adding that forensic auditing cannot be done from distance.

Forensic audit procedures are used to obtain evidence to be used in court.

Below are the forensic audit's steps to follow:

- THE EVIDENCE gathered from forensic auditing is normally used for legal purposes as the requirements to have the forensic audit are different from the requirement of a financial statements' audit. Therefore, the procedure to obtain that evidence is more specific and fact rather than assumption. It is "crucial" for forensic auditing procedures to obtain evidence. It usually requires the officers or personnel who being investigated to be suspended temporarily.
 - INQUIRY provides the information for auditors to have a better picture or understanding of the inappropriate act that might have happened so that they could perform an additional procedure to gather the facts.
 - ANALYTICAL PROCEDURES where auditors before performing any analytical review should always pay extreme caution in order to make sure that the data they use for analysis is accurate. Otherwise, the result of the analytical review can not be used as evidence and could be led to make a wrong conclusion. The most important point of this procedure is helping the auditor to see the trend or fluctuation of certain transactions consistently. If it does not flow consistently, then a detailed review should be performed.
 - RECALCULATION AND INSPECTION of the data and the records are the most popular procedures to be used in gathering evidence regarding the forensic auditor's job. It just simply means collecting a sample of original invoices, receipts, and other important documents. Then, figure out how much the loss should be and where. The performance of this procedure should be align with the result of the analytical review and inquiry that the auditor already performed.
 - OBSERVATIONS before performing some specific testing of the cause, it is required to understand some specific procure or function, and to do so, auditors need to perform actual observations. It is a very important part of the forensic auditors should not avoid otherwise the performance of other procedures like inspections will not run smoothly or naturally.
- "Other important things are, that they might need some specific information from the person who is involved in specific procedures like payroll accountants, purchasers, and councils. Moreover, the forensic auditors might inquire about information from the low level of staff to the top level or from external parties if required like banks and suppliers," Ferneini said.
- But the expert acknowledged that Salameh's biggest mistake is that he inflated the assets of BDL.

Deloitte & EY 2018's qualified auditor's report revealed discrepancies in Lebanon Central Bank's financials, mainly their Balance Sheet.

Deloitte & EY's auditors believe that assets were inflated and others were not re-evaluated to reflect the 2018 Balance Sheet's true value.

Ferneini said the other big mistake committed by Salameh is that he failed to protect the deposits of people which were used to subsidize goods and keep the lira stable.

“Maybe Salameh thought that the situation will improve and the governments will sincerely implement reforms. But this did not happen,” he added.