

Aya-Maria Wakim
ID: 201803969
POL499 – Senior Study Political Science
Dr. Joseph el Helou

The importance of forensic auditing in Lebanon

Abstract:

After decades entrenched in corruption, it was time to try and put a halt to it. After the request and withdraw of the consulting Firm, Alvarez and Marsal, to Lebanon, many questions have been raised by the people, most politically related NGOs and some political parties wondering what actually did happen to push the Firm to stop the forensic audit in Lebanon. The aim of this research paper is to shed the light that forensic audit has a crucial role in helping Lebanon from sunken disaster. The only way to rebuild the country is by raising awareness on the degree of corruption Lebanese live in so that everyone understands the gravity of the issue. The research being conducted will help better understand the withdrawal of the Alvarez and Marsal firm investigation, by answering, why many political parties were against exposing those accountable for corrupted operations while engaging in a forensic audit investigation? And why the consulting firm Alvarez and Marsal decided to withdraw from Lebanon? Thus, we Hypothesize that, despite the need for the forensic audit many parties are trying to sabotage it for many reasons. In addition, the corruption in Lebanon has developed into a nonreversible way which would possibly make the firm to leave the country. Most Lebanese parties were not willing to cooperate in the investigation Which also led to the withdraw. Many corrupted organizations around the world found their way out of depts and were capable to rebuild their organization through the forensic audit holding the dishonest accountable. In order to conduct the research a case study on the Lebanese Central Bank (BDL) will be piloted.

Introduction:

Lebanon is the third most indebted country in the world. Its economy has been in freefall for years. Since 1990, Lebanon witnessed the end of a 15-year long civil war leading to more debts and economic crisis throughout the years.

Lebanon, being on the verge of an economic meltdown, ongoing corruption and fraud have established the fundamentalism realm of its core politics long before it declared its independence. Over the years, the government in Lebanon has been using the banking system to finance unsustainable spending setting the citizen's money in jeopardy. Year after year, the situation in Lebanon deteriorated to the point where it pushed thousands of Lebanese all around the country to get to the streets on October 17, 2019, to fight for their basic rights. After nearly a month of protesting, the disastrous economic collapse the country has been witnessing for a long period of time has worsened, leaving one-third of the Lebanese population without proper jobs and more than half of the population living under the poverty line, unable to provide the necessities, such as healthcare or even food. The central bank has been using what is left of its foreign currency reserves to support the basic imports soon after the local Lebanese currency lost more than 90% of its value.

As Lebanon has been impelled into an unrelenting cycle of corruption, that has led to extreme poverty and the collapse of the whole economy, citizens found no other way but to demand help, and this time around, it was not coming from the country's rulers. Even so, the help that came in the several forms of aid coming from neighboring countries never reached the Lebanese people, leaving its economy as worse as it previously was.

As a matter of fact, aiding countries were very clear in terms when they provided Lebanon with some sort of settlement. The end of corruption would mean the rebirth and continuation of a strong economy ruled by autocrats. However, several solutions were proposed over the years, yet to start rebuilding the country, a forensic audit is the only way to stop the ongoing corruption and hold those most at fault accountable. This would mean the ability to acquire funds and aid from helping countries.

On July 21, 2020, the government at the time met in Baabda Palace in an attempt to resolve the ongoing issues. Two weeks later, a huge explosion occurred in the Beirut Port making the newly appointed government resign on the grounds of anger, corruption, and injustice. The country's situation was at its worse and continued emerging toward chaos, the Lebanese Lira lost even more of its value and the hyperinflation grew stronger. Succeeding the explosion, which has caused ultimate damage mentally as well as physically, with the help of the international community and the constant protests taking place, Caretaker Minister of Finance Ghazi Wazni signed a contract with the consulting firm Alvarez and Marsal in order to perform forensic auditing on the central bank.

Even so, fast-forward a few weeks later, following the constant neglect coming from the local Lebanese authorities in providing the firm with the supporting documents required to conduct the auditing procedure, the firm took on the decision to withdraw themselves from the investigation. Ever since the day of the explosion, a new government has not been formed, leaving the country in the hand of previous leaders. All in all, none of the essential reforms that were desperately needed to be set to improve the economic situation have yet to be placed.

This research paper will focus on the increasing level of corruption, the exponential growth of the debt in Lebanon and the important role of forensic audits in solving the issues. The

aim of this research paper is to shed light on the crucial role forensic audit plays in maneuvering the future of the country from collapsing and going into a state of chaos where it would have to be rebuilt again on non-corrupt and dissident grounds.

After decades of debts and corruption this research paper will investigate why Lebanon's political elites play a vital role in challenging those reforms and why reforms are a must to support Lebanon's financial stability.

The need for the application of forensic auditing investigation in Lebanon will have a massive implication on the future of Lebanon in terms of providing potential bailout package and in terms of the reconstruction of the balance payment of the country. With Lebanon being a current state of sovereign debt, facing several crises, the auditing would allow Lebanon to regain trust with the international investors in the international community, as it has lost it previously due to similar crises and regain credit worthiness. Moreover, the Lebanese leaders, are playing a role in hindering the work of the forensic auditing company that will help the country emerge from its current crisis, blaming it on the protection of their sects' rights and jeopardizing the whole country's development to guarantee their leadership over the population.

This research will mostly focus on the work of several experts in their field in Lebanon, specifically the work of economists, lawyers, politicians, and policy makers. In order to understand why it is so hard to restructure the economy of the country as a whole. It also helps to become more familiar with different approaches used to report the current economic crisis. This study will mostly focus on the post war era which led to today's debt crisis and the level of corruption the Lebanese live in. Shedding the light on the work of experts in many fields of study

such as economists, lawyers, politicians, and policy makers. Which will help understand more the crisis, studying their work might assist in finding solutions to fix this issue.

In order to understand why reforms are vital in Lebanon's case, it is important to understand their origin of debt crisis in Lebanon, it is crucial to conduct the study of the Lebanese recent history including the government changes, the civil war's outcomes, and the post war era which is considered the beginning of the debt and the core of the issue happening today.

Since the study will be conducted in Lebanon. This suggests that the emphasis would be on a particular case, so working on deductive inference would be the safest way to do this analysis. This implies that the research would be committed to working it on a specific viewpoint that will be the case, rather than starting from a broad perspective. The case theory in this study would be that leaders and elites are the greatest impediment to transformation because of the advantages corruption provides to their plans. Since this study will be conducted In Lebanon, focusing on the developmental changes of the Lebanese government and it is presented solutions to the current debt crisis. Hence, the most appropriate method to approach such topic is a longitudinal research design based on a deductive reasoning.

Since the conflict of this research started thirty years ago, this research will tackle past interviews and articles, hosting politicians and experts related to the matter. Lebanon is divided into 18 sects which are also divided into many political parties, to be least biased possible, this

study will investigate as much aspects as possible from different sects to conduct a detailed and neutral conclusion.

This research paper will tackle the crisis Lebanon is facing and the solution needed to resolve this catastrophe. At first, an idea on forensic auditing and its effectiveness in other countries will be the focus of the literature review to understand the major solution Lebanon needs to be able to rebuild its broken economy. After building up a clear idea on forensic auditing and its previous achievement in several countries, a study on Lebanon will follow. To start with sectarianism in the country and how it led the country to the collapse it is facing today. Yet sectarianism is not the only factor that piloted this economic meltdown, it is important to also tackle the debts of Lebanon and the massive level of corruption the country is dealing with. Most importantly, this paper will thirdly focus on the previous reforms attempted by the country in the past and understand their failure. Finally, the paper will also emphasize the CEDRE agreement and the importance of reforms the country needs to rebuild.

Literature Review:

What is forensic auditing:

Accounting has traditionally served as a source of knowledge for different parties to use in making decisions. Financial accounting delivers information to lenders, clients, vendors, and the state, while management accounting provides information to firm administrators for internal decision-making (Abdul-Baki, 2019). A forensic audit is a thorough review and inspection of a company's or individual's financial records in order to uncover facts that can be used in court.

Forensic audits cover a broad variety of forensic procedures. To sue a group for fraud,

embezzlement, or other financial wrongdoing, a criminal investigation may be undertaken. (Prillwitz, 2020). Furthermore, according to Rezaee, Larry Crumbley, and Elmore (2004), forensic accounting has arisen as a significant field of accounting research, encompassing fraud investigation, anti-corruption and anti-bribery, company valuation, legal aid, professional witnessing, and cybersecurity. As companies, authorities, and consumers continue to express questions about fraud, financial irregularities, corruption, and bribery, the market for forensic accounting services is increasing.

In general, forensic accountants have three types of services: consultation, non-scientific evidence, and investigation services (Glusman, 2007). Steinberg (2007) explains that these programs are not mutually exclusive. As consultants, they are hired by parties to resolve litigation, bankruptcy, insolvency, reorganization, liability cases, customer rights, arbitration, appraisal, and family disputes. When talking about catching corruption and fraud in a company or government, forensic audits have become a turning point.

Effectiveness and importance of forensic auditing:

Forensic Auditing should be regarded as a breakthrough in the area of fraud prevention and identification (Rehman and Hashim, 2018). Because of the prevalence of fraud and associated crimes, the presence of Forensic Auditing is needed (Siregar and Tenoyo, 2015). In addition, Honigsberg (2020) based her research on the significance of forensic auditing and its effect on the firm's well-being, culminating in the frequency of suspected financial reporting fraud, as well as the failure to disclose such misconduct, emphasizes the importance of forensic accounting as a regulatory and investment tool.

Financial fraud has severe consequences on both the victims of the misconduct (e.g., taxpayers and employees) and the economy as a whole. The process of revoking the property and community key update of unauthorized users can ensure judicial audit of a protected company (Li, Cui, Zhong, & Liu, 2017). As well, Ulrich, Blouch, and Michenzi (2017) report, which arose from accounting fraud leading to notable company failures, has had a profound effect on the auditing world and is widely regarded as the most significant regulation impacting the accounting profession since 1933 and 1924 Securities Acts. Niesner's (1999) study aim is by the use of forensic auditing help to repair broken ties and restore confidence, the government must demonstrate to people that it is capable of performing well.

Auditors of local government are continually being recognized for their work in establishing transparency and enhancing government efficiency. The Lebanese government today is calling for a forensic investigation of the central bank. Such investigations have been conducted in several countries, and the results have undergone revolutionary changes.

Example of countries that went under forensic auditing:

The research has confirmed multidimensional research on government assessments, such as the capacity for changes in workforce population organizational efficiencies (Cohen & Sayag, 2010) The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) schemes and funds control strategies in China, identification of irregularities and bribery in China, in the United States, in Brazil and Nigeria. (Deb, 2015). In Egypt, Alawattage and Alsaid (2018) investigate how the state used accounting to institutionalize economic changes under colonial, postcolonial, and neoliberal regimes. Abdul-Baki (2019), studied the case of Nigeria and its well-known corruption.

Accounting advancements have been a critical tool in the fight against corruption in Nigeria, but their potential remains untapped. According to the findings of Abdul-Baki (2019) report; accounting technology can be a critical tool in maintaining transparency over public finances, especially in recognizing areas that need a proper inspection to determine where things have gone wrong. Accounting technologies can offer accountability guidelines, but they cannot guarantee accountability on their own if the overall accountability system is undermined. By addressing disputes created by inadequate regulatory and governance systems, as in the case studied in this report.

After gathering the information for this study, there was not enough information in order to elaborate more on the matter of forensic auditing in Lebanon. Very few studies formed a clear relationship between the importance of forensic auditing in Lebanon and the corrupted elites and the banking system. The key question remains on the importance of forensic auditing and reforms in Lebanon to rebuild the country after decades of corruption and fraud by current and previous Lebanese leaders. Therefore, this study aims to build a clear relationship between the extremely high level of corruption in Lebanon and the crucial implementation of forensic accounting in Lebanon to solve this horrific crisis. Several pieces of research were conducted on the role and achievements of the forensic audit in several cases. However, a shallow number of studies focused on the importance of the collaboration between corrupt politicians and the forensic audit company.

The Case of Lebanon:

Sectarianism in Lebanon:

Sectarianism has always existed in Lebanon and was always an issue. It remained continuously regarded as a difference between political powers and caused several conflicts in the past decades leading to the Lebanese civil war. Sectarianism is a politically fraught concept that has been overused, often without distinguishing between discourses, feelings, and real policymaking. However, some perceive religious loyalty as the source of identity and democratic processes in the area (Darwich & Fakhoury, 2016), while others view sectarianism as a legitimizing rhetoric built around the sharing of power and wealth (Abdo, 2016). In this view, sectionalization mechanisms are often intertwined with numerous types of neopatrimonialism, in which various sectarian patrons and identity merchants use state power to ensure the allegiance of their clients or a large portion of their constituency (Makdissi, 2004).

Nevertheless, sectarianism did not only strengthen political leader but also religious ones. Lebanese religious leaders are often regarded as authentic members of their religions and are granted strong powers over religious affairs. However, their leadership is not spontaneous, nor are they naturally influential since these persons are educated and chosen by prestigious organizations.

Sectarianism, over the past years have blocked many economical chances that could have led Lebanon to a better financial situation. Several factors contribute to most of the population remaining underprivileged, vulnerable to the sectarian systems of clientelism, discipline, power, and fueling the discontent of an oppressed working class, which is at the frontline of mass demonstrations and activism (Bayat, 2013). This statement is also true when discussing the current uprising occurring since October 2019 or while talking about the 2015 uprising.

When all alternative ideas were dismissed on the grounds of petty parochial claims with sectarian overtones, protestors condemned the complicity of corporate interests and the government of Lebanon, a lack of openness and accountability, and the asphyxiating position played by sectarian political parties (Abiyaghi, Catusse, Younes, 2017). The protests demonstrated that discontent and indignation could no longer be confined within rigid sectarian limits, even as sectarian narratives, selective conceptions of danger and victimhood, distrust, and a lack of shared confidence continued to inform political policies and positioning (Abiyaghi, Catusse, Younes, 2017).

Lebanon's political model is based on sectarianism. The state acknowledges 18 religious' groups, including twelve Christian, five Muslim, and one Jewish. The country is frequently referred to as a "consociationalism democracy" because its political structure is founded on power-sharing among disparate populations based on demographic weight of those religious groups. Sectarianism is commonly seen as an antithesis of progressive country building and the polar opposite of coexistence, contributing to a conservative conception of sectarianism as a dividing power. Sectarianism also makes it difficult for separate religious sects to coexist, as demography becomes a significant political instrument for claiming dominance.

Sectarianism is still widely acknowledged as profoundly ingrained in Lebanon's society; however, this was not always the case. The relentless agitation from outside forces to raise one sect over another has only resulted in more bloodshed and more sectarian extremism over time between different sects in Lebanon. The overpower of sectarianism has led the youth to lose many jobs. In fact, dividing the public jobs into the sects (also known in Lebanon as *sette w sette mkarar* "سنة وستة مكرر") is one of the biggest frauds the Lebanese political leaders have created to

“preserve” their sects’ rights, leaving a better qualified person without a job opportunity because of his sect despite him having a better grade on the entrance exam just because of his religion.

Debt in Lebanon: How it started and why its growing

Public debt has been a big problem for many nations. While the effects of tax policies on capital allocation are easily discernible, the mechanisms by which public deficits and debt shape the economy are less obvious.

Since the 90s, the Lebanese government has been spending more than it earns mainly due to reconstruction of the country after the civil war in the 1990s, losses of the public electricity company, and interest paid on the increasing debt. In many ways, Lebanon's ongoing economic meltdown is the tragic culmination of a patron-client power structure tinged with sectarian narratives and arguments that have drained the state's capital in return for short-term allegiance and the social reproduction of its leaders.

The internal causes played a significant role in the Lebanese economic downturn. As well, many regional and foreign influences have had an impact on the Lebanese economy. From the early 1940s until the mid-1970s, the Lebanese economy was booming, attracting Arabs from different countries investing in the Lebanese banking system due to the bank secrecy law, growing the ratio of bank deposits to national income from 20% in the 1950s to 122% in 1974 (Tierney, 2015).

The Lebanese civil war affected tremendously the country’s economy. To begin, Makdissi (2004) noted in his article that the first phase of war actually maintained some economic stability and that it was only after the disastrous Israeli invasion in 1982 that public debt began to spiral out of control. Mazzucotelli (2020) added that as inflation soared in the late 1980s, the US dollar

started to be used as a medium of trade. However, it was the massive post-war reconstruction scheme, especially the grandiose plans for the reconstruction of Beirut's Central District, that triggered an irreversible debt.

Many civilians were physically wounded during the fighting, resulting in a lower development rate, which forced the country into a lower exportation rate and higher importation rate, reducing drastically the Lebanese national income. The Lebanese government was forced to seek IMF loans to rebuild the devastated region. The fragility of the Lebanese state has often been easily shaped by external forces, such as the condition of Syrian refugees because of Syria's unfolding civil war (Mouawad, 2018). Slowing investment and direct foreign aid from Gulf countries, as well as a reduced inflow of foreign currency, led to “sluggish” real GDP growth after 2011, Gade (2013), argued that with erratic economic activity as a consequence of regular political shocks. Besides, the most recent COVID-19 outbreak slowed the whole global economy, putting the world’s economic transactions idle as Lebanon is based on importations.

Lebanon's economy is highly dollarized, limited, and open, making it vulnerable to both internal and external shocks. The government's debt level is high, the debt ratio is high, and the general primary balance is inadequate. Debts are increasing year after year; the country’s economy has worsened for several reason however the huge amount of debt the country is in is worsening the situation. While the country’s rulers are not helping reduce those dues, its population is starving to death with no solution other than leaving the country for good.

Corruption

Corruption is embedded in Lebanon's politics. As Barroso Cortés and Kéchichian, (2020) argued, the lack of ethical standards within Lebanese political circles promoted for almost a century the practice of corruption, which turned praxis into an unequaled medium of art, which produced powerful elites. Sophisticated state power structures developed for the advantage of the country's eighteen religious denominations turned them into partners-in-corruption, securing larger quotas of power and exclusive control over all public services. It is also important to note a shocking example of corruption, which occurred a few weeks ago while people were dying on hospital doors while the minister of health Hamad Hassan was directly admitted to a hospital the moment, he got diagnosed with the corona virus.

For many years commercial banks in Lebanon were offering high interest rate to people who save their money in the bank. For a long period of time people were happy with the high interest rates because without doing anything they were receiving money. However, in 2019 people started questioning why the commercial banks offering high interest rates. People started withdrawing their money from commercial banks and putting it abroad, in addition, people who live abroad stopped sending money to Lebanon. These actions alarmed the Lebanese market because all of a sudden, the money that were in the commercial banks vanished and were not circulating in the market anymore. Meaning that commercial banks did not have sufficient money to give loans to the Central Bank. When the commercial banks stopped funding the Central Banks, the government did not have money to peg the Lebanese currency and to support its people.

The Lebanese government support a lot of products, the medicine, oil, bread, and the electricity. The government needed a new source of income in order to have an income so that

the government will keep on supporting. Leaving the government to decide to tax people to on WhatsApp (6\$/month), this decision was the last straw that broke the camel's back. After several defeatist resolution the government tried in order to gain a new source of income, the taxes on WhatsApp were a lot for people to handle so they were extremely irritated and ran to the streets to protest against the corrupted government and wanted to fix the corruption within the country. Due to this protest and lack of dollar flow in the market, the exchange rate started fluctuating and the Lebanese currency lost its value. After few months of protesting the Lebanese people did not achieve anything and at the same time the coronavirus hit the country. The lockdown hurt the economy even more and the Lebanese currency lost more and more of its value. The black market was one of the main reasons why the value of the Lebanese currency fluctuated, because at the time the official currency was still 1,500 L. L. and the black-market rate was increasing gradually.

Many countries offered aid to fix the economic crisis. Of course, the Lebanese politicians did not agree or accept any help from other countries because it will leave them with a shrunken power and every crime that they did in the past will be uncovered. Another reason why Lebanon lost its money suddenly was because people living abroad stop sending money. The biggest outside income to Lebanon was the money received from expat. Lebanon received around 5 billion USD every year. The government was supporting and still is supporting on products for its people but soon the government will run out of money and they are forced to stop supporting the necessities. Which means that the poverty level will increase, the recession will increase and eventually enter depression where the Lebanese government will not have an answer to fix the crisis.

Corrupted banking system

In their article Moore (1987), discussed how Lebanon's banking structure is regarded as an "international dictatorship" that kept the country together in the face of all-encompassing warfare. Moreover, just as foreign regimes are meant to represent the interests of state actors, an examination of the banks' balance sheets and income statements shows shifts in capital structure that correspond to changes in Lebanon's political balance. Although maintaining elite stability, the banks served political clients and could accept the restructuring of a consociationalism structure more in line with Lebanon's demographic equilibrium if a political compromise is achieved. In 1997 Lebanon pegged its currency against dollar (1USD=1,500L. L). This peg system gave the Lebanese people hope in their currency and making them trust the Lebanese pounds again. Throughout the years Lebanon's government pays the currency to be pegged, public salaries, and electricity. Lebanon heavily relies on money which expat Lebanese workers send to support their family every month. In the recent years the Lebanese economy has been facing problems which are harming its people. One of the main problems is due to the banking system in Lebanon. The central banks borrowed money from the commercial banks in order to pay its bills as it was mentioned above. In addition to that, the central bank gave the commercial banks high interest rates, around 15%, then the banks were encouraging people to put their money in their bank, making them receive very high interest rate of around 12%. Moreover, people who live abroad and send money to their families in Lebanon started to save their money in the banks too and investing it with the high interest rates. Here Lebanon was receiving around \$5 Billion every year. Before the uprising, people started questioning the high interest rates and were getting scared, they removed the money from the banks and relocated their money abroad. Also, people who were sending money to their families in Lebanon suddenly stopped, meaning

that a huge income stopped. Suddenly all the dollar in the banks and in the market disappeared. This led to the many problems that Lebanon is facing right now.

The pegged system was abolished, and the Lebanese currency lost its value. People are suffering, the poverty rate is sky rocketing, the unemployment rate is increasing, the government cannot help its people because of the corrupted Politian's that run the country and stole from the people. The overemployment of the public sector is due to the political parties and the politician who leads those party. They hire a large number of people in the public sector in order to get their votes and stay in power, little did they know that this was leading the country into an economical crisis.

At the end of 2018 and beginning of 2019, speculators suspected that Lebanon would face a huge market crash and the central bank will issue severe laws regarding people's money in the commercial banks. Many people transferred their money abroad. This led to a huge outflow of money (mainly dollars) leaving Lebanon. This was a shock for the central bank and Lebanon itself, the banks were not prepared for this huge withdrawal of money. This alone led the central bank to take some severe actions to save the Lebanese economy. If the central bank did nothing, then the people would have withdrawal their money in order to save it and the banks would not have any money to work with leaving the Lebanese government with more debts. Lebanon's problem is that the BOP (balance of payments) is negative due to significantly low rate of exportation compared to the importation rate. This means that Lebanon needs a lot of foreign currency in order to import all kinds of goods. In 2008 the president of the Lebanese central bank won an award for having the highest foreign reserves, but after that Lebanon started facing problems which led for the central bank to use these reserves and take internal loans from its people in order for the government to provide for its people. When the people removed their

money from the banks and when the remittance stopped the government did not have sufficient funds to cover the bills. The peg system was removed in the black market and the dollar started to fluctuate and the Lebanese Pounds lost its value sharply. When the global pandemic occurred, Lebanon shut down the country which led to a huge crisis that the Lebanese people are still facing.

The dollar is still rising, and the Lebanese pounds is losing its value even more. People are in fear and the government is not doing anything to help its people in need. Lebanese government could fix the crisis by producing locally and exporting it because now the BOP gap decreased, the government decreased the import rate because insufficient fund, but the export stayed the same. One thing that the government could do is to increase the local production and sell it to the international market because now the production is cheaper than it used to be. This way foreign money will enter the country and slowly will fix the problem.

Now Lebanon is currently facing an economic crisis where the currency lost its value horribly and the government does not have any money to pay its debts. The reason why the official exchange rate in Lebanon was still 1,500 LBP against the USD was to attract investors and by showing them that the Lebanese currency is still the same, it is still stable. The reason why the black-market currency was high is because of demand and supply. Due to the lack of dollar in the market, people started demanding more dollars. When the demand of the dollar increases and the supply decrease meaning that the value of your local currency devaluates. Another way the Lebanese government can fix its economy is through production which Lebanon does not have. This is a good time to enter the international market because the dollar in Lebanon is cheap against the local currency. For example, if a product before the devaluation of the currency cost 150,000L.L. (100\$) now the same product will cost 500,000L.L. (around 41\$). This means that

internationally the product will be cheap, meaning that countries will buy from Lebanon rather than buying from another country. By doing this, first Lebanon will increase its exportation meaning that fresh dollars will enter the country. Second the production in the country will be stronger because it is competing internationally now. Unfortunately, this will not help the Lebanese economy because the rulers of this beautiful country will steal the money and not invest it in Lebanon like they did the past 20 years.

Previous reforms

Lebanon was eager to begin a new chapter after the civil war, and the rebuilding of the country's shattered economy began. One of the first government attempts was Paris I in 2001 when France hosted the first assembly of foreign organizations intending to assist Lebanon. Paris I resulted in a 500-million-euro of aid package for Lebanon (International conference on Lebanon's reconstruction: The international community's economic aid for Lebanon - Lebanon 2007). However, the donated money went into wasted projects such as Zeytouna bay founded by the deceased Prime Minister Rafiq Hariri, and the renovation of Saeb Salem tunnel that costed Lebanon more than 9 million of US dollars.

The second meeting took place a year later in Paris under the name of Paris II in the presence of representatives from 23 different countries and under the management of the United Nations. During Paris II, Lebanon earned 3,1 Billion USD in financial aid and 1,9 billion USD worth of project aid (International Monetary Fund, 2006 & World Bank, 2016).

Those two conferences resulted in a great deal of aid granted by many countries to help rebuild Lebanon. However, the projected result was not satisfying. In fact, those aids were acquired by political parties and spent to spread their political influence, one of the many

examples of the committee of Displacement fund founded by Walid Jumblatt to refund the displaced durzi families after the war (Talha, 2003).

In 2006, after the failed Israeli invasion during the summer of 2006, the Swedish government announced a meeting in Stockholm to discuss the reconstruction funds of the war aftermath. The assembly led to a 980 million USD aid for the south. After Lebanon acquired the money, the south Displacement fund was founded by the Shia parliament leaders to help Shia families from the south and spread their political influence. However, the misappropriation of funds led to an economic disaster (Lebanese national accounts 2013).

The Lebanese government has had several opportunities to reverse the table regarding the economic situation using the money that has been provided to them as aid money, however, no sustainable plan was created in order to balance and improve the country's economic situation. The Lebanese government has been selling dollar-denominated Eurobonds in order to pay the accumulated debt since 1995. Moreover, the interest rate difference between these bonds and US Treasury are a pure representation of lack of sovereignty.

In May 2016, the Ministry of Finance and the BDL performed an anonymous swap transaction where sovereign bonds were denominated in terms of Lebanese pounds and were exchanged for Eurobonds denominated in US dollars, which were then sold to selected Lebanese private banks. The latter could also swap US dollars for Lebanese pounds in order to buy sovereign bonds denominated in Lebanese pounds, and then turn the investment back into US dollars at the same rate. If the number of companies traded in Lebanese treasury bonds increased after 2008, the Lebanese government began to issue Eurobonds denominated in US dollars to finance maturing debt bonds.

CEDRE and the importance of reforms

Many international organizations and countries are looking towards a reform that could change the Lebanese economical future. In fact, CEDRE is still a subject that could happen in the near future, the French president is still waiting for true reform and governmental changes to help Lebanon acquire new aid projects to help the economy. On April 6, 2018, France hosted CEDRE, an international conference in favor of Lebanon's growth and reforms. The Conference was heard from Mr. Emmanuel Macron, President of the French Republic, and Mr. Saad Hariri, Prime Minister of the Republic of Lebanon. They decided that for a number of years Lebanon has faced significant barriers to its economic and human development. Despite recent promising advances, Lebanon remains fragile and faces mounting challenges. In addition, the Lebanese citizens are still hoping that a significant change of political situations would reduce the ongoing immigration situation (CEDRE (Conférence économique pour le développement, par les réformes et avec les entreprises) Joint Statement - Lebanon, 2018). The goal of the international community CEDRE conference was to promote Lebanese economy growth and enhancement, as part of an integrated program of reform and infrastructure projects developed and addressed during the conference by the Lebanese government (Lebanon - CEDRE Conference 2018). The French president Emmanuel Macron approved the Lebanese government and wanted to help the Lebanese economy under one single condition, new reforms were needed, and the Lebanese government should present changes in front of the international community.

Conclusion and Discussion:

In summary, with all the beauty of Lebanon, the country is facing an almost irreversible economic crisis for decades now; the country is indebted, and those debts are increasing per year with time solutions were proposed, projects were put together, however because of the increasing corruption, none of them were able to achieve the necessary changes. Aided money “disappeared” when arriving to the country. Corruption is flagrant in Lebanon and has led to the economic crisis the country is witnessing today. One solution could help the country not only to reemerge into a better economy but to regain trust in the international community, forensic auditing is the only option to help Lebanon because the corruption is rooted ever since the country gained its independence. In order to stop the crisis, public accountability should happen and hold everyone responsible into custody. Crime has increased exponentially with the huge increase in hyperinflation and unemployment rate, now people are willing to kill and steal in order to fulfil their families and their needs.

Forensic audit had a huge impact on several countries and several companies in the world from India to Nigeria, China, and Zimbabwe etc. It was a turning point in those countries making their economy able to rise from bankruptcy and corruption to be one of the most affecting countries to the global economy and one of the most important cites of tourism in the world.

Forensic auditing focuses on the archives of the countries, the records of the central bank, and the corrupted public sectors; in order to seek the truth about vanished governmental resources to rebuild a new economy far away from corruption and fraud.

India focused on the importance of their people, started working on developing their universities and encouraged exporting labors. They also focused on extending the engineering power they have to invest in outer projects. On the hand, China being one of the largest countries in term of

population, focused on this fact to develop an industrial economy based on human power and exportation. Now China is ranked second on the most developed GDP and is characterized by having the largest economic power among many developed nations.

Today, Beirut is a massive redevelopment site. Over the last 25 years, the Lebanese Metropolis has witnessed a poverty-driven rehabilitation process that has extended well beyond the contentious downtown megaproject, Solidere, which was launched shortly after the country emerged from a civil war. After several failed tentative to handle the foreign, the international community lost the trust of Lebanon as all the aided money went to personal agendas of the corrupted elites. In order to regain this trust, Lebanon must undergo a forensic audit investigation to apprehend the corrupted elite and rebuild the country. Forensic auditing is the solution for Lebanon to rebuild on more dissident ground and improve its economy.

For Lebanon, to be able to contest against these countries, the country has to work on stopping the public waste of money and resources and start focusing on the many assets Lebanon has. Such as tourism, agriculture, and the innovative youth the country has.

Lebanon is one of the oldest countries in the world, with an amazing history shared by people with different religions and ethnicities. It is the exporter of the first known language, the land of the first miracle written in the bible and owning one of the most beautiful weather of all. The Lebanese government took all of this for granted instead on focusing on boosting the tourism sector and working on providing better security and protection for tourists. Lebanon has one of the largest lands ready for harvesting in the middle area, with a great weather for agriculture, the Lebanese government should encourage the agricultures to focus on planting instead of importing vegetables at a higher rate. Laws should be implemented to aid the farmers and encourage every landlord to plant. For example, giving them the minimum of healthcare is a

must and providing the necessity in terms of seeds, plant meds and social security. Work opportunities should be created decreasing the amount of migration and focusing on keeping the Lebanese workers in Lebanon helping the economy. The government should support the local small businesses and help them expand their work. A new procedure should be elaborated between Lebanon and foreign countries to help small businesses export their products at a lower rate and fees.

Nevertheless, before starting any of these suggestions above, the accountable for destroying the whole country should pay, and in order to pay for their crimes, there should be someone finding the truth about them. Forensic audit plays that role in the Lebanese case despite the obstruction of the political leader concerning that matter. Sooner or later, the accountable are going to pay and they will not be able to run away from the truth. Once the true criminals will be held accountable and new faces will rise and lead the country on a non-corrupt basis reforms should start in each and every sector helping the country to rebuild, hoping to regain trust in the international community as it has lost it because of such criminals. By implementing those reforms and increasing the exportation, rather than the importation, the economy will grow again and soon enough the country will be able to repay its debts and focus on developing new projects and idea to be once again on the map of the most developed countries of the world.

Citation:

- A. BAYAT, A new Arab street in post-Islamist times, in “Foreign Policy”, 26 January 2011.
- Also A. BAYAT, *Life as Politics: How Ordinary People Change the Middle East*, Stanford, Stanford University Press, 2013.
1. Abdul-Baki, Z. (2019, May 13). *The role of accounting in conflicts resolution: The case of PwC’s forensic audit of the Nigerian National Petroleum Corporation*. Emerald insight.
 2. Abdul-Baki, Z. (2019, May 13). *The role of accounting in conflicts resolution: The case of PwC’s forensic audit of the Nigerian National Petroleum Corporation*. Emerald insight.
 3. Adwan, C. (2019). *Corruption in Reconstruction: The Cost of ‘National Consensus’ in Post-War Lebanon*. *Corruption in Post-conflict Reconstruction: Confronting the Vicious Cycle*. <http://www.anti-corruption.org/wp-content/uploads/2016/11/Corruption-in-reconstruction-TIRI-Adwan.pdf>.
 4. Afp. (2020, December 21). *Lebanon parliament clears way for forensic audit of central bank*. Arab News. <https://www.arabnews.com/node/1780611/business-economy>.
 5. Alawattage, C. and Alsaid, L.A. (2018), “*Accounting and structural reforms: a case study of Egyptian electricity*”, *Critical Perspectives on Accounting*, Vol. 50, pp. 15-35.
 6. Asmar, C., Kisirwani, M., & Springborg, R. (1999). CLASH OF POLITICS OR CIVILIZATIONS? SECTARIANISM AMONG YOUTH IN LEBANON. *Arab Studies Quarterly*, 21(4), 35-64. Retrieved May 3, 2021, from <http://www.jstor.org/stable/41858306>

7. Azhari, T. (2020, November 20). *Lebanon: The forensic audit donors demand is dead. Who killed it?* Business and Economy News | Al Jazeera.
<https://www.aljazeera.com/economy/2020/11/20/lebanon-the-forensic-audit-donors-demand-is-dead-who-killed-it>.
8. Barroso Cortés, F. S., & Kéchichian, J. A. (2020). The practice of corruption in lebanon. *Middle East Policy*, 27(4), 119-135. <https://doi.org/10.1111/mepo.12530>
9. BAUMANN, H. (2019), The Causes, Nature, and Effects of the Current Crisis of Lebanese Capitalism, cit
10. Boatsman, J. R. (2011). Background of Fraud Auditing and Forensic Accounting. *Fraud Auditing and Forensic Accounting*, 1–37. <https://doi.org/10.1002/9781118269183.ch1>
11. CEDRE (*Conférence économique pour le développement, par les réformes et avec les entreprises*) *Joint Statement - Lebanon*. ReliefWeb. (2018).
<https://reliefweb.int/report/lebanon/cedre-conf-rence-conomique-pour-le-d-veloppement-par-les-r-formes-et-avec-les>.
12. Central Administration of Statistics (2014). Lebanese national accounts (2004-2013): Comments and tables. Retrieved from
www.cas.gov.lb/images/PDFs/National%20Accounts/Lebanon_National_Accounts_2012_2013_Comments_&_tables.pdf (p. 7)
13. Cohen, A., Sayag, G. (2010). The effectiveness of internal auditing: Examination of its determinants in Israeli organizations. *Australian Accounting Review*, 54(20), 297–307.
14. Daher, K. (2020, September 1). *Karim Daher: "BDL's Forensic Audit May Come to Nothing"* - Sahar Al-Attar. Commerce du Levant.

<https://www.lecommercedulevant.com/article/30026-karim-daher-bdls-forensic-audit-may-come-to-nothing>.

15. Deb, R. (2015). A practical approach towards managing government funds in Tripura. *International Journal of Business Ethics in Developing Economies*, 4(1), 25–34.
16. *Forensic auditor to review every transaction at Lebanon's central bank*. Middle East Monitor. (2020, May 12). <https://www.middleeastmonitor.com/20200512-forensic-auditor-to-review-every-transaction-at-lebanons-central-bank/>.
17. G. ABDO, *The New Sectarianism: The Arab Uprisings and the Rebirth of the Shi'a–Sunni Divide*, Oxford, Oxford University Press, 2016. 11 N. HASHEMI, D. POSTEL, *Sectarianization: Mapping the New Politics of the Middle East*, Oxford, Oxford University Press, 2016.
18. GADE, T. *Conflit en Syrie et dynamiques de guerre civile à Tripoli, Liban*, in “Maghreb – Machrek”, n. 4, 2013, pp. 61-84.
19. Glusman, S. (2007), “*Why use a forensic accountant? Who to hire? What will it cost? How to supervise? Who should retain?*”, *Family Advocate*, Vol. 29 No. 4, pp. 20-23.
20. Honigsberg, C. (2020). *Forensic Accounting. Annual Reviews*, 16, 147–164.
<https://doi.org/https://www-annualreviews-org.ezproxy.lau.edu.lb:2443/doi/10.1146/annurev-lawsocsci-020320-022159>
21. *International conference on Lebanon's reconstruction: The international community's economic aid for Lebanon - Lebanon*. ReliefWeb. (2007).
<https://reliefweb.int/report/lebanon/international-conference-lebanons-reconstruction-international-communitys-economic>.

22. International Monetary Fund. (2006, June 9). *Lebanon: Selected Issues*. IMF eLibrary. https://www.elibrary.imf.org/view/IMF002/04242-9781451822687/04242-9781451822687/04242-9781451822687_A003.xml?language=en&redirect=true.
23. Kumari Tiwari, R., & Debnath, J. (2017). Forensic accounting: a blend of knowledge. *Journal of Financial Regulation and Compliance*, 25(1), 73–85. <https://doi.org/10.1108/jfrc-05-2016-0043>
24. lbcgroup. (2020, November 7). *LBCI News* أموال ضائعة في كل الإدارات فهل سيُقر التدقيق الجنائي ليبين مصيرها؟. YouTube. <https://www.youtube.com/watch?v=LOH8lBLbimQ>.
25. *Lebanon - CEDRE Conference (06.04.18) - Ministry for ...* (2018, April 6). <https://www.diplomatie.gouv.fr/en/country-files/lebanon/news/article/lebanon-cedre-conference-06-04-18>.
26. *Lebanon - CEDRE Conference (06.04.18) - Ministry for ...* (2018, April 6). <https://www.diplomatie.gouv.fr/en/country-files/lebanon/news/article/lebanon-cedre-conference-06-04-18>.
27. *Lebanon's Aoun: 'Forensic audit of central bank is a national issue'*. Middle East Monitor. (2020, November 26). <https://www.middleeastmonitor.com/20201126-lebanons-aoun-forensic-audit-of-central-bank-is-a-national-issue/>.
28. Leenders, R. (2012). *Spoils of Truce: Corruption and State-Building in Postwar Lebanon*. Cornell University Press.
29. Li, S., Cui, J., Zhong, H., & Liu, L. (2017). Public auditing with privacy protection in a multi-user model of cloud-assisted body sensor networks. *Sensors (Basel, Switzerland)*, 17(5), 1032. <https://doi.org/10.3390/s17051032>

30. M. DARWICH, T. FAKHOURY, 2016 Casting the Other as an Existential Threat: The Securitisation of Sectarianism in the International Relations of the Syria Crisis, in “Global Discourse”, n. 4, 2016, pp. 712-732.
31. M.-N. ABIYAGHI, M. CATUSSE, M. YOUNES, From isqat an-nizam at-ta’ifi to the Garbage Crisis Movement: Political Identities and Antisectarian Movements, in R. DI PERI, D. MEIER (eds.), *Lebanon Facing the Arab Uprisings: Constraints and Adaptation*, London, Palgrave Macmillan, 2017, pp. 73-91.
32. Makdisi, S. (1977). An Appraisal of Lebanon's Postwar Economic Development and a Look to the Future. *Middle East Journal*, 31(3), 267-280. Retrieved March 28, 2021, from <http://www.jstor.org/stable/4325644>
33. MAKDISI, S. *The Lessons of Lebanon: The Economics of War and Development*, London, IB Tauris, 2004.
34. Moore, C. H. (1987). Prisoners' financial dilemmas: A consociational future for lebanon? *The American Political Science Review*, 81(1), 201-218. <https://doi.org/10.2307/1960785>
35. MOUAWAD, J. Lebanon’s border areas in the light of the Syrian war: New actors, old marginalisation, RSCAS Research Project, 2018.
36. Niesner, H. (1999). Local government auditing--improving the performance of government in the next century. *The Journal of Government Financial Management*, 48(4), 32.
37. Ouazzani, K. (2019, April 9). *CEDRE : one year later, where are we ?* L'Orient Today. <https://today.lorientlejour.com/article/1165541/cedre-one-year-later-where-are-we-.html>.

38. Prillwitz, J. (2020). *Forensic audit in Lebanon: Goodbye to accountability?* Democracy Reporting International. https://democracy-reporting.org/dri_publications/forensic-audit-in-lebanon-goodbye-to-accountability/.
39. Prillwitz, J. (2020). *Forensic audit in Lebanon: Goodbye to accountability?* Democracy Reporting International. https://democracy-reporting.org/dri_publications/forensic-audit-in-lebanon-goodbye-to-accountability/.
40. Rehman, A., & Hashim, F. (2018, January). Forensic Accounting on Corporate Governance Maturity mediated by Internal Audit: A Conceptual Overview. In *1st Economics and Business International Conference 2017 (EBIC 2017)*. Atlantis Press.
41. Rehman, A., & Hashim, F. (2020). *Can forensic accounting impact sustainable corporate governance?* ProQuest. p.212-227. <https://search-proquest-com.ezproxy.lau.edu.lb:2443/docview/2479937307?pq-origsite=summon>.
42. Rezaee, Z., & Wang, J. (2019). Relevance of big data to forensic accounting practice and education. *Managerial Auditing Journal*, 34(3), 268–288. <https://doi.org/10.1108/maj-08-2017-1633>
43. Rezaee, Z., Larry Crumbley, D. and Elmore, R.C. (2004), “*Forensic accounting education: a survey of academicians and practitioners*”, *Advances in Accounting Education*, Vol. 6, pp. 193-231.
44. Rim Zrein·Lebanon News·January 20, 2021. (2021, February 8). *Alvarez & Marsal Expected To Resume Forensic Audit Of Lebanon's Central Bank*. The961. <https://www.the961.com/alvarez-marsal-to-resume-bdl-audit/>.
45. Simeunović, N., Grubor, G., & Ristić, N. (2016). (PDF) *Forensic accounting in the fraud auditing case*. ResearchGate.

https://www.researchgate.net/publication/309892262_Forensic_accounting_in_the_fraud_auditing_case.

46. Siregar, Sylvia & Tenoyo, Bayu. (2015). Fraud awareness survey of private sector in Indonesia. *Journal of Financial Crime*. 22. 329-346. 10.1108/JFC-03-2014-0016.
47. Souad Lazkani·Lebanon News·September 2, 2020. (2021, February 8). *Lebanon Finally Signed To Conduct Forensic Audit Of The Central Bank*. The961.
<https://www.the961.com/lebanon-forensic-audit-bdl/>.
48. Stefan Buehler & Daniel Halbheer & Michael Lechner, 2015. "**Payment Evasion**," *CESifo Working Paper Series* 5342, CESifo.
49. Steinberg, R.S. (2007), "Controlling forensic accounting costs", *Family Advocate*, Vol. 29 No. 4, pp. 38-42.
50. Steinhoff, J. C. (2008). FORENSIC AUDITING: A window to identifying and combating fraud, waste and abuse. *The Journal of Government Financial Management*, 57(2), 10.
51. Talha, L. (2003). Le régime rentier et son mode de régulation. Essai de problématique. Paper presented at Forum de la Régulation. Paris, France. October 9-10, p. 6
52. Tardi, C. (2021, March 4). *A Forensic Audit Could Easily Detect a Padded Expense Report*. <https://www.investopedia.com/terms/f/forensic-audit.asp#:~:text=A%20forensic%20audit%20is%20an,have%20a%20forensic%20auditing%20department>.
53. TIERNEY, J. The Diaspora, Debt, and Dollarization: Unraveling Lebanon's Resilience to a Sovereign Debt Crisis, in "Jadaliyya", 25 November 2015.

54. Ulrich, T. A., Blouch, W. E., & Michenzi, A. R. (2017). effectiveness of auditing curriculum: Perceptions of practicing cpas. *Journal of Business and Accounting*, 10(1), 139-154.
55. World Bank (2016). Lebanon economic monitor - The big swap: Dollars for trust. Washington, DC: Middle East and North Africa Region, p. 36)
56. YouTube. (2020, December 1). *Forensic Audit in Lebanon EXPLAINED* / التدقيق الجنائي في مصرف لبنان. YouTube. <https://www.youtube.com/watch?v=hCiH1sA758k>.
57. YouTube. (2020, June 10). *The Four Phases of a Forensic Investigation from a Certified Forensic Expert | Uncover Fraud*. YouTube. <https://www.youtube.com/watch?v=mqaPZsY3YKI>.