

EMPIRICAL ANALYSIS OF THE RELEVANCE OF FORENSIC ACCOUNTING AS PANACEA TO FRAUD DETECTION AND PREVENTION IN NIGERIA

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ABSTRACT

The failure of statutory audit to deter, detect and prevent fraudulent crimes has been blamed for the recent surge and increase in financial crimes in Nigeria. This has given credence to the preference of forensic accountants in the Nigerian private and public sector. This study explains how forensic accountants can be employed to confront head on this pressing challenge. The study was an empirical research which critically discussed the roles of forensic accountant in fighting fraud and fraud related activities in Nigeria, vital difference between the conventional accountant and forensic accountant, major characteristics and qualities required of a forensic accountant, and the impact of forensic accountant to deter, detect and prevent fraud and financial crimes in the Nigerian society. From the research, it was discovered that the services of forensic accountant will assist in mitigating and possibly reduce fraud to its barest minimum in Nigeria. Among the recommendations made was that government should enforce it on all the agencies in Nigeria to employ forensic experts and ensure that all government transactions are subjected to forensic audit.

Keywords: Forensic Accountant, Financial Fraud, Traditional Accountant, Fraud Deterrence, Fraud Prevention, Fraud Detection.

INTRODUCTION

Forensic accounting is the integration of accounting, auditing and investigative skills. Forensic accountants use accounting, auditing and investigative skills to assist in legal matter and the application of specialized body of knowledge to the evidence of economic transaction and reporting suitable for the purpose of establishing accountability or valuation of administrative and legal proceedings. (Okoye, Maimako, Jugu and Jat 2017).

Forensic accounting is a special part of the accountancy profession which explains engagements that result from actual on anticipated disputes or litigation (Olukowade and Balogun, 2015). One of the most appreciative definition of forensic accounting is the one done by Dhar and Sakar (2010) which defined forensic accounting as the application of accounting concepts to legal problems. It demands reporting where accountability of the fraud established and the report is considered as evidence in the court of law and or in administrative proceedings (Dhar and Sakar, 2010).

The increasing failures of conventional auditing systems in the last five decades has paved the way for a paradigm shifts in accounting. However, it is interesting to know that in the height of fraud detection in the 20th century, few watchers of the system predicted that auditors will be given the General responsibility to carry out tests to unravel frauds and memos if they exist (Brown, 1962).

It is believed that forensic accounting came into being as a result of many emerging fraud cases. For instance, some of major scandals that befell some of the big firms in the world such as Enron and world com cases are still fresh in our memories. According to Maduga and Anyaduba (2013), the level of financial fraud in Nigeria currently is unbearable. Therefore, it requires that fraud fighting organizations and agencies should add forensic accounting tools to help reduce the menace. It is generally expected that forensic accounting may be capable of offering some help to the clearly observed weaknesses of the conventional audits system.

REVIEW OF LITERATURE

Conceptual Framework

Concept of Forensic Accounting

The subject forensic accounting can be traced back to 1817 court decision involving a bankrupt estate. Maurice E. Peloubet, a partner in New York City accounting firm, may have first published the term forensic accounting in an article in 1946 (Okoye, Maimako, Jugu and Jat, 2017).

Singleton and Singleton (2010) explained that forensic accounting can be traced back to the period when the pharaohs existed in ancient Egypt. It was believed that they were the eyes and ears who watched over the gold, grains and other assets of the king. Forensic accounting is also seen as encompassing fraud investigation, prevention and anti-fraud controls analysis and financial and non-financial information gathering (Singleton and Singleton 2010).

However, forensic accounting according to Okoye, Maimako, Jugu and Jat(2017), can assist in detecting and interpreting the evidences of both normal (non fraudulent) and abnormal (fraudulent) phenomenon introduced into the books and records of accounting system and the resultant effects upon the accounts, inventories and the presentation thereof (Okoye, Maimako, Jugu and Jat 2017).

More so, other fundamental functions of forensic accountant includes aiding in calculations of values and drawing conclusions and identify irregular patterns or suspicious transactions through the in debt analysis of data (Olukowade and Balogun, 2015). In addition, the forensic accountant is burdened with the task of identifying perpetrators of fraud, tracing money laundering and theft activities, detects insurance fraud etc

Joshi (2003) argues that the origin of forensic accounting can be traced to kutilya, the first economist to openly recognize the need for the forensic accountant and he mentioned 40 ways of embezzlement centuries ago. However, according to Thornbill (1995), forensic accounting discipline is relatively new, up till now, there has been no formal definition being accepted. But many authors disagree, noting that forensic experts have increased (Ramaswammy (2015), Ibrahim & Abdullahi (2007)

Concept of Fraud

Defining fraud is as difficult as identifying and locating it. It has been observed that there is no laid down rule or General proposition in defining the term fraud as it includes surprise, trick, cunning and unfair ways by which another is cheated. Some have referred it to be a legal term that is intentional misrepresentation of the truth in order to manipulate or deceive someone.

Davia (2011) in Agaba (2016) states that fraud is not a possibility but a probability. He further explained that fraud can better be prevented if decisions are made by a group and not an individual. Fraud aims at creating a misjudgement or maintain an existing misjudgement to induce somebody to make a contract.

Agaba (2016), explained that when all frauds are analysed, it is ascertained that three components come together when committing the crime, there are pressure, opportunity and justification and that constitute the fraud triangle. Accordingly, he viewed the components of fraud triangle as the fuel, spark and oxygen which together ignites the fire called fraud.

Adeniji (2004), Anyanwu (1993), Ajie and Ezi (2000), Okafor (2004) gave a summary of the types of fraud in Nigeria to include, defalcation, outright theft, suppression, embezzlement, tampering with reserves, insecentent abuses and forgeries, fraudulent substitutions, unauthorized lending, ghost workers syndrome, impersonation, fake payment, fraudulent use of firms document, fictitious accounts, false proceeds, fake declarations, misuse of suspense accounts and much more.

Efficacy of Fraud Prevention, Deterrence and Detection Methods

Agaba (2016) has described internal control as the whole system of controls financial and otherwise established by management in the conduct of business including internal Checks, internal audit and other forms of controls (Agaba, 2016).

However, Baira (2010) argued that what make up an effective internal control system is centred on opinions that are centred on specific knowledge set up through research.

A study carried out by Moyes and Baker (2013) on auditors' acceptance of fraud detection efficacy of standard audit procedures. The outcome of the study showed that in a total of 218 standard audit procedures, about 56 were considered to be more effective in fraud detection. The researchers in their findings went further to explain that most effective procedures were those Connected to internal controls in relations to strength and existence.

However, more researchers have continued to argue that internal control measures are necessary for detection and prevention of fraud in Nigeria. For instance, Idowu and Adedokun (2013), examined the role of internal control systems on fraud detection: Nigeria experience. Through survey research design some members of staff of commercial banks were selected for the research. The study revealed that proper well designed employee training techniques improves fraud detection, and adequate employee training on internal control systems also has effect on fraud detection. It has been observed and read in various accounting literatures that internal control in itself does not deter fraudsters from committing fraud. However, even the internal control measures can be compromised via collusion. This therefore makes it imperative for the inclusion of forensic accounting techniques as part of the fraud detection measures in the national fraud fighting policy.

Forensic Accounting and Fraud Deterrence and Detection

For understanding the fact that fraud cannot be totally eradicated does not mean that it should be ignored because it can be controlled to minimize losses.

However, Okoye, Maimako, Jugu and Jat (2017) stated that fraud deterrence is connected with proactive forensic accounting, they further explained that proactive forensic accounting as an element of fraud deterrence is aimed at assisting management in complying with the laws and regulations when performing compliance audit. Others purposes of proactive forensic accounting is to assist in deterring fraud in the following major risk areas.

- Recruitment
- Procurement
- Treasury/finance
- Physical security

Okoye, Maimako, Jugu and Jat, (2017)

More so, Willey (2006) argued that one major preventive measures put up by any organization against fraud is fraud deterrence. Its purpose is to assist in improving organizational procedures to reduce causal factors of fraud.

Ogar (2016) on the hand stated that fraud detection which is more of an act requires creative and innovative thinking which may necessitate the review of past transactions so as to identify indicators of transactions that are not conforming to rules and may lead to fraud (Ogar, 2016).

However, Okoye, Maimako, Jugu and Jat (2017) affirm that fraud detection is a function of reactive forensic accounting which involves the investigation of cases of suspected fraud so as to prove or disprove the suspicion and if suspicion are proven, to identify the culprits involved, support findings by evidence and to present the evidence in an acceptable format in any criminal proceedings (Okoye, Maimako, Jugu and Jat (2017).

Buckhoff and Schrader (2010) observed that the introduction of forensic accounting as a course of study in the accounting curriculum of higher institutions can be of immense benefit to many stakeholders which includes employers of accounting graduates, academia and even the students. In a study conducted by Boritz, Kotchetova, and Robinson (2008), the researchers confirmed that forensic accountant stand better chance of detecting great and higher quantity of fraud than the conventional auditors. Consequently upon this, there is greater need for the conventional auditors to acquire forensic accounting knowledge so as to rise up to the challenges of fighting the deadly virus called fraud in our society. Other researchers like Enyi (2009) advised that it is important for all normal statutory auditors to have some iota of knowledge of forensic enquiry so as to assist in easy detection of fraud. All these studies are aimed at proffering strong mechanisms for prevention, deterrence and detection of fraud in Nigeria.

Relevant Skills of Forensic Accountant

The issue of the skills of a forensic accountant has generated several discussions as they are different views regarding the vital skills required by forensic accounting investigator. While investigating the qualities of a forensic accountant, Brown (2007) pinpointed some special skills and abilities a forensic investigator must possess. According to them, an investigator must have the knowledge of civil and criminal law. They further explained that an investigator needs to have good understanding of court room procedures and expectations. Included in the qualities

enumerated are investigative skills, creative thinking ability and good understanding of the communication skills.

A set of competencies required by forensic accountant have been identified by Okoye, Maimako Jugu and Jat (2017). These skills include investigative flexibility, analytical proficiency, and unstructured problem solving abilities, critical thinking, legal knowledge, oral communication, written communication and good composure and others not mentioned here.

Ghosh and Barneyee (2011) cited in Olukowade and Balogun (2015) specified three fold approach of skills vital to a forensic accountant. They emphasized the levels to include base, middle and top layers. The base layer is made up of mainly accounting knowledge. The middle layers has to do with knowledge and understanding of internal controls technique and audit. Others are fraud detection and risk assessment while a strong understanding of the legal environment and workings of the law is paramount. Part of the outcome of their research was that a forensic accountant deserves to have knowledge of variety of disciplines such as, quantitative methods, accounting, psychology, research, law, finance etc. Therefore, a forensic accountant must have in-depth understanding of the above skills to be well equipped to perform his functions in fraud ravaged society like Nigeria.

Traditional Auditing and Forensic Accounting – A Distinct Contrast

The differences between these forms of accounting are very clear. According to Olukowade and Balogun (2015), forensic accountant applies reliable principles and methods and enough facts or information and mainly requires expertise and skills in private investigation and accounting. On the other hand, the traditional accounting is devoid of these necessities.

However, in a study conducted by Predrag, Goranka and Vule (2015), on the characteristics of forensic audit and differences in relations to external audit in Serbia, they outlined eleven major difference between forensic accounting functions and traditional accounting in a tabular form as shown below.

Table 1: The difference between traditional accounting/audit and forensic accounting /audit

No	Element of differences	Traditional accounting /audit	Forensic accounting /audit
1	Legislation	Legal and professional requirements	Professional regulations
2	Objective	Expression of professional, independent and competent opinion on the truthfulness, correctness and accuracy of financial statements	Prevention, investigation and detection of fraud
3	Limitations	Limited by professional standards beyond which it does not perform further checks	Not limited by external audit standards and can perform professional activities outside the standards
4	Materiality	Very important	It is not important because it determines the amount of damage of the fraud regardless of the amount of damage
5	Period of activity	Expression of opinion on the financial statement of one fiscal year.	No specific timeline, activity last until the fraud is discovered.

6	Methodology	Based on the sampling method	Investigate every financial transaction which is connected to fraud
7	Investigation	Do not investigate	One of its main activities is to investigate fraud.
8	Reporting	Provides independent, professional and competent opinion in the form of prescribed by the international auditing standards	Specialized report containing the elements of the offense of fraud and is intended for legal proceedings and there is no generally accepted standard prescribed
9	The court proceedings	Expert auditor may be a witness in court.	The forensic auditor is required as a witness in court in the role of expert.
10	Method of detecting fraud	In the normal course and plan review	Alert, doubt, request the client and other ways
11	Obligation	It is a mandatory process for government agencies and private organizations in Nigeria.	It is not a legal obligation. Only carried out when fraud is believed to have occurred.

Source: Predrag, Goranka and Vule (2015)

Application of Forensic Accounting in Nigeria: Problems and Challenges

Prior research has shown that financial crimes and corruption have greatly affected the growth and development of the Nigerian economy. In view of the identification of the effects of these menace, the Nigerian government and indeed the Nigerian private sector have in recent times identified critically and subjected most financial crimes to forensic accounting to determine its effects on the private sector and the economy as a whole. However, in the bid to entrench the tenets of forensic accounting in the management of fraud and financial crimes in Nigeria, the profession has faced several problems and challenges.

Okoye and Akenbor (2009) in Ehioghiren and Atu (2016) observed that the application of forensic accounting in a developing economy such as Nigeria is confronted with a lot of challenges. These includes it inability to operate independently and efficiently, lack of technical capabilities and inability to gather the required data that is admissible in the court of law (Ehioghiren & Atu 2016).

Crumbly (2001), Grippo and Ibex (2003) as cited in Olukowade and Balogun (2015) revealed the following challenges confronting the application of forensic accounting in Nigeria.

- i. A significant challenge that faces a forensic accountant in Nigeria is admissibility of evidence in compliance with the laws of evidence, as it is crucial to the prosecution of criminal and civil crimes and claims.
- ii. Globalization of the economy and the fact that a fraudster can reside anywhere in the world has led to the problem of inter-jurisdiction. (Crumbly (2001), Grippo and Ibex (2003) in Olukalade and Balogun (2015).

In addition, Degboro and Olofinsola (2007) stated that the vital challenges bedevilling the application of forensic accounting in Nigeria remains the fact that Nigerian laws are not always updated to meet up with the changes in technology. Another critical challenges faced by this profession in Nigeria, is that forensic accounting is often seen as an expensive venture therefore most companies tends to settle criminal and fraud related cases out of court (Degboro & Olofinsola 2007).

Relevance of Forensic Accountant

The relevance of forensic accountants can be visible from the standpoint of the failure in statutory audits to detect and prevent fraud in Nigeria. Owojori and Asaolu (2009) summarized the relevance of forensic accountants as follows:

- i. Assist the police and other crime fighting agencies in investigation
- ii. Improve management accountability
- iii. Strengthens auditors independence
- iv. Assist audit committee members
- v. Help in detecting fraud
- vi. Strengthens control mechanisms in an organization
- vii. Improve efficiency by identifying areas of waste

Examples of Forensic Accountants Usage in Nigeria

Emeh and Obi (2013) applied a survey research design in carrying out a study on the empirical analysis of forensic accounting and financial fraud in Nigeria. The study adopted a simple random sampling techniques and primary data was used in the study. The instances of forensic investigation was able to show accounting analysis that revealed the whole level of financial fraud in Nigeria.

Dada and Okuni (2013) applied multiple regression analysis using statistical package for social science (SPSS) in carrying out a study on forensic accounting education as a panacea to alleviation of fraudulent practices in Nigeria. Their study was centred on investigating the level of awareness of the staffs of Nigeria's economic and financial crime commission awareness of forensic techniques and its relevance in detecting financial fraud in Nigeria. The study concluded through its finding that there is a positive relationship between forensic accounting and investigation and detection of fraudulent practices. It further discovered however, that forensic accounting has not been applied in the investigation and detection of fraud, especially by the major anti-corruption agency (EFCC) in Nigeria.

Also, according to Nweke (2010) as cited in Olukowade and Balogun (2015). It cited a recent forensic audit of the Nigerian Stock Exchange (NSE) by some independent auditors. The audit outcome revealed that they exists pockets of shady deals especially in the expense accounts of the exchange agency which came to light during the statutory audit (Olukowade & Balogun, 2015)

CONCLUSION AND RECOMMENDATIONS

The role of a forensic accountant in the contemporary Nigeria economy cannot be overemphasized especially as they assist the police, lawyers, courts, regulatory bodies, crime fighting agencies e.g. EFCC and ICPC and other institutions in investigating, detecting and documenting frauds. With the increase in the occurrence of financial frauds and continued audit failures in Nigeria, the modern day business environment requires the services of a forensic accountants. Therefore, there is no better time to integrate the forensic accountant into the scheme of affairs of the Nigeria financial sector than now.

Therefore, it is recommended that for Nigeria to fully harness the benefits of forensic accounting, it should enforce it on all the agencies in Nigeria to employ forensic experts (especially forensic accountants) to fortify the internal control systems of the various government agencies in Nigeria.

In addition, government should ensure that all agencies are made to subject their transactions to forensic audit. This is to ensure that fraud is reduced to its barest minimum in the country. Also, for the Nigerian Public sector to effectively cleave to the practice of forensic accounting, the required standard for the detection of economic and financial crimes must be streamlined and modernised in pari Paso with other economies. Furthermore, constant training should be given to forensic accountants and staff of anti-crime and corruption agencies like the EFCC and ICPC so as to aid them in effectively fighting fraud and financial crime in the private sector and indeed the Nigerian state.

Finally, government should develop more interest in forensic accounting to assist in monitoring and investigating suspects in fraud cases in Nigeria. Also, our laws should meet up with the latest technology to ensure admissibility of evidence in the law court for proper persecution of fraud related cases and other financial crimes.

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