

# FORENSIC ACCOUNTING AS A NEXUS FOR FRAUD PREVENTION IN NIGERIA

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## **Abstract**

*This paper examines forensic accounting as a nexus for frauds prevention in Nigeria. Both primary and secondary sources of data were appropriately used. The survey design using structured questionnaire was used in this study to collect data from respondents. The statistical tool used to test hypotheses was the Statistical Package for Social Science (SPSS). Findings made were that; Forensic accounting has reduced the incidence of fraud in a corporate organization in Nigeria. It was also revealed that forensic accounting identifies financial misstatements and misappropriations arising from intentional acts of staff. The author recommends the following: that internal control system of every corporate organization must be strengthened so as to be able to check fraud occurrence. Good corporate governance policy should be maintained in every corporate organization so as protect the organization interest and also reduce unethical activities. The fight against corruption and fraud must be sincere and purposeful. The budget monitoring and implementation mechanisms must be put in place with appropriate sanctions.*

**Keywords: Forensic Accounting, Frauds Prevention, Nigeria, Professional Accounting.**

The growing demand for forensic accounting is a known characteristic of most companies in the world. Forensic accounting arises from the effect and cause of fraud and technical error made by human. Forensic accounting is quite new in Nigeria as companies have realized that the service of a forensic accountant is needed as fraud cases have substantially increased in number. Once fraud is perceived or detected, a professional set of people- the forensic accountants are called upon to help detect the fraud and furnish management with substantial evidence to be presented in the court of law, when prosecuting the suspects involved in the fraud. Forensic which means evidence or material(s) to be used in court has been incorporated into accounting and finance as a result of increase in white collar crimes (Mazunder, 2011).

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According to Zysman (2004), forensic accounting utilizes accounting auditing and investigative skills. The growing demand for forensic accounting is a known characteristic of most companies in the world. Forensic accounting arises from the effect and cause of fraud and technical error made by human. Forensic accounting is quite new in Nigeria as companies have realized that the service of a forensic accountant is needed as fraud cases have substantially increased in number. Forensic accounting is the application of financial skills and investigative mentality to unsettled issues, conducted within the context of the rules of evidence, (Arokiasamy and Cristal, 2009).

The incidence of fraud and misappropriation of funds in recent time poses a threat to auditing as a branch of accounting profession because of its perennial nature. This has resulted to questions as to whether auditing actually play any significant role towards the attainment of accountability and prevention of fraud especially that which is currently happening in our major or key corporate organizations in Nigeria.

### **Statement of the Problem**

Most people are of the view that the emergence and inclusion of forensic accounting techniques to fraud detection and prevention in corporate organization in Nigeria is needed to arm the accounting profession to deal with the problem of unearthing ingenious fraud schemes arising from failure to detect and prevent it. This paper therefore is aimed at acclaiming the impact the available forensic accountant will create on detecting and preventing fraud using the forensic accounting techniques and thus its contribution in bridging the audit expectation gap. Below are some of the problems that were looked into.

Flawed internal control system which leads to fraud perpetration in a corporate organization; Poor corporate governance policy which reflects to high incidence of fraud in the corporate organization, Window dressing accounting which fraudster use as an avenue to manipulate the financial statements in order to perpetrate fraud. The inability to understand the knowledge and skills of professional accountants to detect and prevent fraud is also a challenge confronting corporate organization in Nigeria.

### **Objective of the Study**

The specific objectives of this paper are to:

- i) Examine the possibility of reducing the incidence of fraud in corporate organization using forensic accounting.

- ii) Identify the financial misstatements and misappropriations arising from intentional acts of staff.

## **Literature Review**

### **Concept of Forensic Accounting**

Forensic accounting is the specialty area of the accountancy profession which describes engagements that result from actual or anticipated disputes or litigation. “Forensic” means “suitable for use in a court of law,” and it is to that standard and potential outcome that forensic accountants generally have to work, (Crumbley, Heitger and Smith, 2005).

In the same vein Howard and Sheetz (2006) stated that forensic accounting is the process of interpreting, summarizing and presenting complex financial issues clearly, succinctly and factually often in a court of law as an expert. It is concerned with the use of accounting discipline to help determine issues of facts in business litigation (Okunbor and Obaretin, 2010). Forensic accounting is a discipline that has its own models and methodologies of investigative procedures that search for assurance, attestation and advisory perspective to produce legal evidence. It is concerned with the evidentiary nature of accounting data, and as a practical field concerned with accounting fraud and forensic auditing; compliance, due diligence and risk assessment; detection of financial misrepresentation and financial statement fraud (Skousen and Wright, 2008).

The America Institute of Certified Public Accountants (AICPA) defines forensic accounting as services that involve the application of specialized knowledge and investigative skills possessed by Certified Public Accountant. Forensic accounting services utilize the practitioner’s specialized accounting, auditing, economic, tax, and other skills (AICPA 2010). Also, Curtis (2008) asserts that forensic accountants are essential to the legal system, providing expert services such as fake invoicing valuations, suspicious bankruptcy valuations, and analysis of financial documents in fraud schemes. These forensic accountants calculate values, draw conclusions and identify irregular patterns or suspicious transactions by critically analyzing the financial data, (Arokiasamy and Cristal, 2009).

### **Responsibilities of Forensic Accountants**

A forensic accountant has a unique job because of the responsibilities involved in the integration of accounting, auditing and investigative skills. Using all these skills, a forensic accountant is evidently, a true investigator and is trained beyond the numbers and deals with the business reality of the situation (Wallace, 2004). Forensic audits are

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performed by special class of financial experts known as forensic accountants, this class includes certified fraud examiners people with bachelor's degree or equal professional experience who have a background in accounting, persecuting fraud, loss prevention or criminology/sociology who pass the (CFE test); CPA's or chartered accountant.

Gottschalk (2010) stated that the focus of forensic accounting is on evidence revealed by the examination of financial documents. The evidence collected or prepared by a forensic accountant may be applied in different contexts. The job of forensic accountants is to catch the perpetrator and fraud occurring in the companies per year. Insurance companies hire forensic accountants to detect insurance frauds such as arson, and law offices employ forensic accountants to identify marital assets in divorce cases.

According to Okoye and Gbegi (2013), misstatements and misappropriations of funds which arose from staff of the corporate organization in recent time poses a threat to auditing as a branch of accounting profession because of its perennial nature. This has resulted to questions as to whether auditing actually plays any significant role towards the attainment of accountability and prevention of fraud especially that which is currently happening in our major corporate organizations in Nigeria.

### **The Incidence of Fraud**

Defining fraud is as difficult as identifying it. No definite and invariable rule can be laid down as a general proposition in defining fraud as it includes surprise, trick, cunning and unfair ways by which another is cheated. Fraud is a legal term that refers to the intentional misrepresentation of the truth in order to manipulate or deceive a company or individual. Fraud is to create a misjudgment or maintain an existing misjudgment to induce somebody to make a contract. It involves enriching oneself intentionally by reducing the value/worth of an asset in secret.

However, this is not the case, if the group has the same interest in mind. Then fraud may not be prevented. Conversely, the group is influence by the dominant decision maker who ends up deciding everything. Okafor (2004) also reported that fraud is a generic term and embraces all the multifarious means which human ingenuity can devise, which are resorted to by one individual to get advantage over another in false representation. The consistent increase of fraud incidence on audited financial statement affects performance of corporate organization.

In the words of Adesola (2008), the threat of fraud to the global economy is better illustrated by the statistics released by Criminologists at a consultancy: over two



**Rationalization:** This is a crucial component in most frauds. Rationalization involves a person reconciling his/her behavior (stealing) with the commonly accepted notions of decency and trust.

The fraud triangle provides a useful framework for organizations to analyze their vulnerability to fraud and unethical behavior and it provides a way to avoid being victimized. Besides, the three elements of the fraud triangle adopt unduly individualizing conception of fraud that elevates the notion of omniscient fraud risk and imperative of systematic controls to prevent and detect the dangerous pathologies, personality traits and tendencies of some individuals.

### **Forensic Accounting and Fraud Detection**

Ramaswamy (2005) states that forensic auditors' skills are becoming increasingly relied upon within a corporate reporting system that emphasizes its accountability and responsibility to stakeholders. This is because poor corporate governance will lead to the ability of certain individual or a group of people with the same interest to act upon it to commit fraudulent activities in the company. This can be reinforced by the fact that top level management should follow the policies of the firm which will help the company to perform better.

Okoye and Gbegi (2013) carried out a study on the evaluation of forensic accountants to planning management fraud risk detection procedures. The study reveals that forensic accountants effectively modify the extent and nature of audit test when the risk of management fraud is high, forensic accountants propose unique procedures that are not proposed by auditors when the risk of management fraud is high, forensic accountants can make to the effectiveness of an audit plan when the risk of management fraud is high, involving forensic accountants in the risk of management fraud assessment process leads to better results than simply consulting them.

However, it is also asserted that all normal statutory audits should contain some elements of forensic enquiry as the evidence of fraudulent activities can be easily discovered if a thorough evaluation of the adequacy and compliance of the internal control mechanism is made. All these are aimed at fraud prevention and detection.

### **Research Methodology**

#### **Research Design**

The research design adopted in this research is survey design method which comprises the use of oral interview and questionnaire.

**Sample Size**

Since it will be difficult and time consuming to interview everyone that makes up the population, a good representation of the population was chosen for proper evaluation and analysis. The simple random sampling method was used in this research to draw the appropriate sample size from the staff of Nigeria Power Holding Plc. Onitsha and Awka District. The sample size selected is determined by using the Taro Yamene Formula, with a population estimate of (172) and assuming a 5% level of significance

$$n = \frac{N}{1 + N(e)^2}$$

- Where:**
- n = Sample size
  - N = Population
  - e = Level of significance
  - 1 = Constant figure
  - N = 172
  - e = 0.05

$$\begin{aligned} n &= \frac{172}{1 + (172)(0.05)^2} = \frac{172}{1 + 172(0.0025)} \\ &= \frac{172}{1 + 0.43} = \frac{172}{1.43} = 120.28 \end{aligned}$$

Therefore the sample size was **120**

**Statistical Tool**

The statistical package for social sciences (SPSS) was also used for hypotheses testing at the significant level of 95% that is at 5% error limit.

**Research Questions**

In order to achieve the objective of the paper, the following research questions have been revised, providing answers to them will help achieve the aim of this paper, these questions include:

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- i) To what extent does forensic accounting reduce the incidence of fraud in a corporate organization in Nigeria?
- ii) To what extent does forensic accounting identify financial misstatements and misappropriations arose from intentional acts of the staff?

**Hypothesis Testing**

**H<sub>0</sub>:** Forensic accounting does not reduce the incidence of fraud in a corporate organization in Nigeria.

**H<sub>A</sub>:** Forensic accounting reduces the incidence of fraud in a corporate organization in Nigeria.

**Responses on the Extent in which Forensic Accounting Reduces the Incidence of Fraud in a Corporate Organization in Nigeria**

| Options          | Frequency  | Percentage | Cumulative Percentage |
|------------------|------------|------------|-----------------------|
| Very High Extent | 34         | 28         | 28                    |
| High Extent      | 54         | 45         | 73                    |
| Undecided        | 6          | 5          | 78                    |
| Low Extent       | 18         | 15         | 93                    |
| Very Low Extent  | 8          | 7          | 100                   |
| <b>TOTAL</b>     | <b>120</b> | <b>100</b> |                       |

Source: Author Field Survey, Dec. 2015

**Model Summary<sup>b</sup>**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .996 <sup>a</sup> | .993     | .990              | 3.619                      |

- a. **Predictors:** (Constant), forensic accounting
- b. **Dependent variables:** Incidence of fraud

**ANOVA<sup>b</sup>**

| Model        | Sum of Squares  | df       | Mean Square | F       | Sig.              |
|--------------|-----------------|----------|-------------|---------|-------------------|
| 1 Regression | 5457.904        | 1        | 5457.904    | 416.675 | .000 <sup>a</sup> |
| Residual     | 39.296          | 3        | 13.099      |         |                   |
| <b>Total</b> | <b>5497.200</b> | <b>4</b> |             |         |                   |



- a. **Predictors:** (Constant), forensic accounting
- b. **Dependent Variables:** incidence of fraud

**Coefficients<sup>a</sup>**

| Model               | Unstandardized Coefficients |            | Standardized Coefficients Beta | t      | Sig. |
|---------------------|-----------------------------|------------|--------------------------------|--------|------|
|                     | B                           | Std. Error |                                |        |      |
| 1 (Constant)        | 1.207                       | 2.549      |                                | .473   | .668 |
| forensic accounting | .837                        | .041       | .996                           | 20.413 | .000 |

- a. **Dependent Variables:** Incidence of fraud

### **Result and Discussion**

The ANOVA table tests the acceptability of the model from a statistical perspective. The regression in the ANOVA table displays information about the variable accounted for by the model while the residual displays information about the variables that is not accounted for in the model. The decision rule is to reject the null hypothesis ( $H_0$ ) and accept the alternative hypothesis ( $H_A$ ) if the computed F is greater than the original F value of 0.05.

For this hypothesis, the ANOVA table shows a regression of 5457.904 and a residual of 39.296 and mean of 5457.904 and 13.099. However, F statistics value is greater than the original F value of 0.05. The F statistics value is 416.675; therefore the null hypothesis is rejected and the alternative hypothesis which states that forensic accounting reduces the incidence of fraud in a corporate organization in Nigeria is accepted.

### **Conclusions**

Fraud has increased considerably over the past years, and experts believe that the trend is likely to keep on growing if adequate measures are not taken to curb this perfidy. So in the quest to combat this economic monster (fraud), the concept of forensic accounting was introduced.

However, it is the author's conclusion that fraud can be better prevented if decisions are made by a group and not individual. The emergence of forensic accounting will enhance Nigerians professional accountants to succeed in their fight against frauds. The author also stressed that Forensic Accounting process is necessary for detection and

prevention of fraud and this type of control should be established in order to control the incidence of fraud in a corporate organization in Nigeria.

### **Recommendations**

After thorough considerations, consultations and meditation on the facts and findings of this study, the following recommendations are proffered.

- The internal control system of every corporate organization must be strengthened so as to be able to check fraud occurrence. An example of such internal control system is the segregation of duties so that one person does not have total control over an area of the institution.
- Employees training should be encouraged so as to equate the over-increasing complexity in technologies over the years. Employees at various levels should be allowed to be involved in decision making process and fight against fraud.
- The fight against corruption and fraud must be sincere and purposeful. In this regard, there should be no sacred cows in the punishment of culprits and the government and management of firms must stop paying lip-services to the campaign against fraud and corruption.
- The budget monitoring and implementation mechanic must be put in place with appropriate sanctions. Such sanctions must be applied against any misappropriation or misapplication of the appropriated funds of budgetary provisions.
- Corporate organizations should have clear lines of authority. Employees should know who they report fraud suspicions to who is next person on the chain of command. Let employees know how you handle complaints about suspicious behaviours.

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