

## FORENSIC ACCOUNTING IN FRAUD DETECTION IN NIGERIA

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**Abstract:** The study examined the concept of forensic accounting in fraud detection in Nigeria. It made use of three specific objectives, three research questions and three hypotheses. It adopted survey research design. Simple random sampling technique was utilized to select a sample of 140, made up of 80 accountants and 60 auditors from Enugu State Civil Service. While mean and standard deviation were used to answer the research questions, hypotheses were tested using t-test statistic. The study revealed that there was no significant difference in the perceived roles of forensic accounting in fraud detection by accountants and auditors. The implication of this is that major players in the finance world are in agreement over the roles of forensic accounting in fraud detection. It was concluded that in spite of the relatively newness of forensic accounting, there is no contradiction in its perception, roles and areas of application in fraud detection by accountants and auditors. The study recommended that necessary facilities for forensic accounting should be provided by the three levels of government in Nigeria to reduce its associated cost, among others.

**Keywords:** Forensic accounting, fraud detection, criminal conduct, embezzlement, auditors, accountants, Nigeria.

### 1.0 Introduction

#### o Background to the Study

Modern information technology and globalization that combined to replace old business practices have equally advanced the pace of electronically manipulated frauds and introduced more complex challenges to corporate financial management.

A cursory look at corporate organizations reveals high level corruption properly synchronized as part of the operation of the business. The sophisticated technicality and method of committing such fraud related corruption makes it difficult to unravel the personalities involved and deter its further occurrence.

Series of events in the last two decades have placed financial management and accounting issues as top concern for both the international community and international financial institutions. The users of accounting information rely so much on the auditors' certification for use for variety of decisions, which supposedly should advance user's interest. A breach of any of the fundamental ethical principles of competence, integrity, objectivity and independence will therefore have far reaching consequences. Wide variety of publicized cases of fraud or corporate scandals such as the case of Enron, Union Dicon Salt of Nigeria, Lever Brothers now Unilever, Cadbury and recently the sack of Board of five banks by the Central Bank of Nigeria (CBN) due to frauds and financial abuses are still too fresh to be forgotten.

These increases in corporate failures have placed greater responsibilities on accountants to equip themselves with the skills to identify and act upon indicators of poor corporate governance, mismanagement, fraud and other wrong doings. It has become imperative for the professional accountants to be grounded in the technique



for identifying, discovering as well as preserving the evidence of all forms of financial abuses. To match the capacity of financial crime level, sophisticated accounting techniques are necessary to detect, trace, resolve and deter frauds in corporate organizations. One of such techniques is the introduction of forensic accounting which aims at utilization of scientific evidence based accounting, auditing and investigation of the forensic accountants to assist in the judicial process to avoid miscarriage of justice in fraud-related judgment.

Forensic accounting to Ramaswamy (2007) is the practice of utilizing accounting and investigative skills to determine whether fraud has occurred. It is the study of rigorously collected and analyzed data in the areas of litigation support, consulting expert witnessing and fraud examination.

Do accountants and auditors perceive forensic accounting in the above perspectives in Nigeria? Do they have differences in their perception of forensic accounting, its roles in fraud detection and areas of application to fraud detection in Nigeria?

### 1.2. Statement of Problem

As the world economy improves technologically, there is also scientific increase in financial crimes and fraud which makes it difficult to be tracked using the application of conventional accounting techniques. This therefore, creates a wide expectation gap among the users of accounting information as it relates to auditing and investigation since it does not in any way assist in fraud detection. Consequent on the gap, it becomes imperative that there should be highly sensitive and scientific techniques to be used to determine who and who collaborates in a particular fraud and the degree of involvement. For this to be possible there is need for congruence in perception, roles and areas of application of forensic accounting by accountants and auditors. This underlines the need for this study.

Fraud, being a cankerworm that has eaten deep into the fabrics of the society, has not received the needed attention for its total abolishment. Since the evolution of forensic accounting some empirical works on its ability to deter fraud in public organization have been greeted with controversies from accountants and auditors. While some raise objections concerning the general concept of forensic accounting, others disagree with the perceived role of forensic accounting in fraud detection. Furthermore, there seem not to be any meeting point over the areas of application of forensic accounting in fraud detection among accountants and auditors. This paper is therefore designed to investigate the perception of forensic accounting, its role in fraud detection and areas of application to fraud detection.

### 1.3. Objectives of the Study

The general objective of this paper is to examine the concept of forensic accounting in fraud detection in Nigeria.

Specifically, the study will:

- Determine the perception of forensic accounting by accountants and auditors in organizations.
- Determine the perceived role of forensic accounting in fraud detection in organizations by accountants and auditors.
- Ascertain the areas of application of forensic accounting to fraud detection in organizations by accountants and auditors.

### 1.4. Research Questions

The following research questions guided the study.

1. What is the perception of forensic accounting by accountants and auditors in organizations?
2. What are the accountants and auditors perceived role of forensic accounting in fraud detection in organizations?
3. What are the areas of application of forensic accounting to fraud detection by accountants and auditors?



### 1.5. Research Hypotheses

The following hypotheses were tested in the course of the study.

- H1. There is no significant difference in the perception of forensic accounting by accountants and auditors in organizations.
- H2. There is no significant difference in perceived role of forensic accounting in fraud detection in organizations by accountants and auditors.
- H3. There is no significant difference in the areas of application of forensic accounting to fraud detection by accountants and auditors in organizations.

### 1.6. Scope of the Study

The study is limited to the perception of the concept of forensic accounting, its roles in fraud detection and areas of application to fraud detection in organizations by accountants and auditors in Enugu State of Nigeria.

## 2.0 Review of Related Literature

The review of related literature is done under conceptual framework, theoretical framework, empirical and academic review.

### 2.1 Conceptual Framework

According to Ansari (2005), forensic accounting is the application of a transaction reconstruction methodology to legal issues. It is frequently associated with the analytical investigation of civil or criminal actions such as:

1. White Collar Crimes (fraud and embezzlement)
2. Insurance Casualty Claims
3. Accounting Malpractice
4. General Abuse of Trust Relationship.

In the view of Howard and Sheetz (2006), 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 witness. It is concerned with the use of accounting discipline to help determine issues of facts in business litigation.

Manning (2002) also defines forensic accounting as the application of investigative skills to a standard acceptable by the courts to address issues in dispute in the context of civil and criminal litigation. In the view of Damitola and Olofoinsola (2007), forensic accounting is the application of criminalities, methods and integration of the accounting investigative activities and law procedures to detect and investigate financial crimes and related economic misdeeds. To them, forensic accounting is a highly technical and specialized area of practice within the principles and ethics of accounting profession.

It can therefore, be stated that forensic accounting is the use of accounting skills to investigate fraud or embezzlement and to analyze financial information for use in legal proceedings. Forensic accounting is sometimes called investigative accounting; it involves the application of accounting concepts and techniques to legal problems. Forensic accountants investigate and document financial fraud and white collar crimes such as embezzlement. They also provide litigation support to attorneys and law enforcement agencies investigating financial wrongdoings.

In criminal investigations, forensic accountants analyze complex financial transactions such as those in stock market manipulations and price fixing schemes. They also help governments achieve compliance with various forms of regulation. They typically become involved in financial investigation after fraud auditors have discovered evidence of financial deceptive transactions. After conducting an investigation, they write and submit a report of their findings.



### 2.1.1 Scope of forensic accounting

Nweze (2011) states that forensic accounting covers two broad areas of practice: Litigation and Investigative functions. He argues that Companies in Nigeria are already taking advantage of this as they tend to quantify damages sustained by parties, whether or not involved in legal disputes. It can also assist in resolving disputes even before they reach courtrooms. He further contends that forensic accounting aims at deterring further perpetration of the crimes. Nweze (2011) views the two sub-divisions thus:

**Litigation support:** At early stage of the development of forensic accounting it focuses mainly on litigation support in the form of expert witnessing. However, in cases of litigation support work the forensic accountant is asked to provide an opinion based on facts that can be known or as yet uncovered. Some key areas of litigation support services include engagements in both professional liability claims as well as a variety of civil claims.

**Investigative functions:** In this area the accountant may have to become an investigator of sorts, and on some occasions prepare information as a model on how things should look if done correctly. It is recent trend in forensic accounting to seek out evidence of criminal conduct and dispelling or supporting of damages. Here, the forensic accountant is called upon to review the factual situation and provide suggestions regarding possible courses of action. The accountant equally provides assistance in the protection and recovery of assets.

According to Ansari (2005), there are two types of investigative accounting: Business investigation which can involve funds tracing, asset identification and recovery, forensic intelligence gathering and due diligence reviews. The second aspect is the employee fraud investigation which involves procedure to determine the existence, nature and extent of fraud and may equally be concerned with the identification of the perpetrators. It might involve the interview of personnel who had access to the fraud and a detailed review of documentary evidence.

### 2.1.2. Typical approach to forensic accounting assignment.

KPMG (2008) states that forensic accountants must be discrete when conducting their investigations. They must be independent and impartial; taking into account both the financial records and the conduct of employees of a business. Unlike other accountants, when a forensic accountant conducts an audit, he is actively looking for red flags due to the fact that fraudsters have hidden the evidence of their crimes. A forensic accountant must look beyond the numbers and anticipate criminal actions.

Wallace (1991) opines that forensic accountant must systematically pass through some identifiable procedures in conducting an investigation. The procedure includes the following:

**Meet the client:** The forensic accountant meets with the client such as government representatives or the concerned institutions to understand the specifics of the alleged fraud. Thereafter, he begins an initial research and plans the logistics of the investigation.

**Perform a conflict check:** Once the relevant parties are established, a conflict check is performed immediately.

**Perform an initial investigation:** To get a more complete understanding of the issue, an initial investigation is performed. This is to enable the forensic accountant develop a detailed useful plan of action.

**Develop an action plan:** This is aimed at setting out the objectives to be achieved and the methodology to be utilized to accomplish them. While developing such action plan, it will always take into account the knowledge gained by meeting with the client and carrying out initial investigation.

**Obtain relevant evidence:** Obtaining the relevant evidence will likely involve locating documents, economic information, asset, a person or company, another aspect or proof of the occurrence of an event.



**Perform the analysis:** This may involve:

1. Calculating economic damages
2. Summarizing large number of transactions
3. Performing a tracing of assets
4. Performing present value calculations utilizing appropriate discount rates.
5. Performing a regression or sensitivity analysis.
6. Utilizing a computerized application such as spread sheet, data base or computer model and utilizing charts and graphics to explain the analysis.

**Prepare the report:** At the end, a report is usually prepared. It may include sections of the nature of the assignment, scope of the investigation, approach utilized, limitation of scope and findings and / or opinions. The report will include schedules and graphics necessary to properly support and explain the findings. Oduala (2005) states that the job demands reporting, where the accountability of the fraud is established and the report is considered as evidence in the court of law or in the administrative proceedings.

## 2.2. Theoretical Framework

This study is anchored on fraud triangle theory. The theory proposed by Donald Cressy in 1953 centered on reason behind everything people do. He was particularly concerned on why people who initially accepted responsibility of trust in good faith would turn round to violate such trust. He concluded that the reasons stem from pressure, opportunity and rationalization (see figure below)

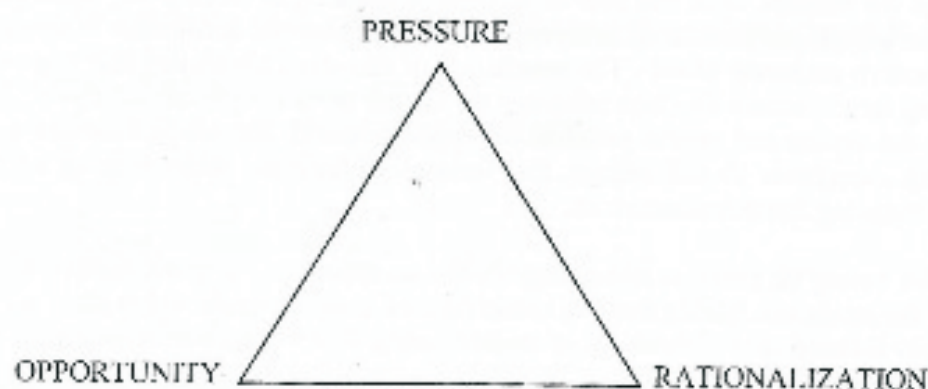


Figure 1: Fraud Triangle  
Source: Cressy (1953)

**Pressure:** Pressure is seen as the totality of factors that induce unacceptable behavior in the society. Abdullahi and Mansor (2015a) contends that fraud perpetrators face some pressures to commit unethical behavior. These pressures may be financial or non-financial. Most often financial pressures appear overwhelming and irresistible in susceptible individuals. Little wonder therefore Albredit et al (2006) state that about 955 of all fraud cases have been perpetrated due to fraudster's financial pressures while Lister (2007) acknowledged that pressure is a significant factor in fraud commission.

Murdock (2008) extended the scope of pressure beyond financial and non-financial to include political and social pressure. According to him, political and social pressures manifest whenever somebody believes he must not fail due to his status or societal reputation.

**Opportunity:** Opportunity as a reason to commit fraud may sometimes result from absence of corporate governance or ineffective internal control system. Wilson (2004) sees opportunity as the ability to override fraud controls. In fact, the looser an internal control system of an organization is, the more opportunity for fraud perpetration it presents. Cressy (1953) puts it thus, the lower the risk of being caught, the more likely it is that



fraud will take place. Some people opine that opportunity ranks higher than pressure for commission of fraud in organizations. It is in line with this that Srivastava, Mock and Turner (2005) and Hooper and Pornelli (2010) contend that even in the presence of extreme pressure, financial fraud cannot occur unless an opportunity is present. Opportunity to commit fraud is inevitably intertwined with lapses in financial and administrative controls.

**Rationalization:** This is an attempt to justify an unethical behavior in relation to fraud. Hooper and Pornelli (2010) argue that individuals who commit fraud have a mindset that enables them to justify their fraudulent actions. Under rationalization, individuals who commit fraud, tend to 'package' the act in a manner that will show the behavior as not being dishonest.

### 2.3 Empirical and Academic Review

Nweze (2011) evaluated the positive impact of forensic accounting. In the study he tried to show or highlight the benefits and relevance of forensic accounting in adducing scientific evidence to assist in deducing who did what in a highly sophisticated scam. He employed secondary source of data collection by making use of related literature. The result of the study indicated that the mindset of the forensic accountants is technically higher than traditional accountants. This implies that there is a positive impact of forensic accounting on fraud-related judgments.

Owojiri (2009) in his study entitled "The role of forensic accounting in solving the vexed problem of corporate world" discussed the concept, need and role of forensic accounting in solving the vexed problem of corporate world. The authors employed theoretical analysis of the role of forensic accountant in solving the vexed and its application in modern corporate world. The conclusion of this study concluded that forensic accounting is the best ever growing area in accounting as it enhances the chance of success in day to day life of corporate firm by surmounting all the vexing and critical problem of corporate world. The study therefore suggests that various agencies fighting corruption should engage the services of forensic accounting to compliment efforts of professionals in reducing fraudulent activities.

Adrain (2009) did a study on Forensic accounting: Public acceptance towards occurrence of fraud detection. The work examined the public acceptance towards occurrence of fraud detection which plays a vital role in business growth. The study focused on improvement of understanding in detecting and reducing accounting fraud cases in different companies.

The researcher used the auditors, management and accounting staff of Power Holding Company of Nigeria. The study provided evidence based new dimensions into forensic accounting functions, expectation gap and forensic accounting education.

### o Materials and Methodology

The study adopted a survey research design. Simple random sampling technique was employed to select a sample size of 140, made up of 80 professional accountants and 60 practicing auditors in the Enugu state civil service. While mean and standard deviations were used to analyze the research questions posed for the study, students' t-test statistic was employed in the test of hypothesis.

### 4.0. Results and Discussion

Results are presented according to research questions arranged in 3 clusters; A, B and C; and research hypotheses.

Research Question One: What is the perception of forensic accounting by accountants and auditors in organizations?

Hypothesis 1: There is no significant difference in the perception of forensic accounting by accountants and



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**Table 1: Perception of forensic accounting**

	N	Mean	Std dev	t	df	sig	Dec.
Cluster A	140	3.35	1.51	-	-	-	-
Hypothesis 1: Accountants	80	3.29	1.55	-.525	138	.382	
Auditors	60	3.42	1.46				

Table 1 shows a cluster mean of 3.35 and a standard deviation of 1.51. this shows that accountants and auditors perceive forensic accounting in the same way. Both groups perceive the items that made up the cluster in the same way.

Furthermore, table 1 revealed a .382 significance level and t value of -.525 at 138 degrees of freedom. Since the calculated t value is less than 0.05 the stated null hypothesis is accepted. This result is in agreement with the views of Damitola and Olofoinsola (2007) that forensic accounting lies within the domain of technical and specialized area of practice within the principles and ethics of accounting profession.

Research Question Two: What are the accountants' and auditors' perceived role of forensic accounting in fraud detection in organizations.

Hypothesis 2: There is no significant difference in perceived role of forensic accounting in fraud detection in organizations by accountants and auditors.

**Table 2: Perceived role of forensic accounting in fraud detection**

	N	Mean	Std. Dev	T	df	Sig.	Dec.
Cluster B	140	3.13	1.32				
Hypothesis 2				-1.516	138	.869	Accept
Accountants	80	2.98	1.31				
Auditors	60	3.32	1.32				

Table 2 above indicates that the mean score for items in cluster B was 3.13. This shows that accountants and auditors perceive the role of forensic accounting in fraud detection from a common stand point.

In addition, the test of hypothesis 2 showed a t-value of -1.516 at .869 significance and 138 degree of freedom. In view of the fact that the t value calculated is less than 0.05, the null hypothesis under test is accepted. This implies that both accountants and auditors believe that forensic accounting has a role in fraud detection in organizations. This result is in consonance with findings in Nweze (2011) and Owojiri (2009) that forensic accounting has positive impact on fraud related issues in corporate world.

Research Question Three: What are the areas of application of forensic accounting to fraud detection by accountants and auditors?

Hypothesis 3: There is no significance difference in the areas of application of forensic accounting to fraud detection by accountants and auditors in organizations.



Table 3: Areas of application of forensic accounting to fraud detection.

	N	Mean	Std. Dev	T	df	Sig.	Dec.
Cluster C	140	3.39	1.35	-	-	-	-
Hypothesis 3							
Accountants	80	3.30	1.39	-9.33	138	.376	Accept
Auditors	60	3.51	1.30				

A cluster mean of 3.39 and standard deviation of 1.35 are shown in table 3 above. This implies that the views of accountants and auditors on the areas of application of forensic accounting are in consonance.

Further examination of the table shows a calculated t value of -9.33 and a significant figure of .376 at 138 degrees of freedom. Since the calculated value of t, -9.33 is less than 0.05, the null hypothesis under test is accepted. This implies that there is no significance difference in the perception of accountants and auditors on the areas of application of forensic accounting to fraud detection. This finding corroborates the outcome of Adrain (2009) study in the areas of forensic accounting functions, expectation gap and education. Forensic accounting has a wide range of useful areas of application which should be harnessed by accountants and auditors.

### 5.0. Conclusion and Recommendations

The study concludes that in spite of the relatively newness of forensic accounting, there is no contradiction in its perception by accountants and auditors. The expected roles of forensic accounting and its areas of application in fraud detection are crystal clear to accountants and auditors.

In view of this, the following recommendations are proffered:

- Forensic accounting should be employed in all cases of fraud in Nigeria.
- Forensic accounting skill should not be limited to post mortem exercises alone. They should be modified and applied in organizations from time to time to deter people from committing fraud.
- Necessary facilities for forensic accounting should be made available by the three levels of government to reduce its cost which often scares people away from its application.

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