



INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES



The Effect of Forensic Accounting Investigation in Detecting Financial Fraud: A Study in Nigeria

Safiyanu Sule, Saifullahi Shehu Ibrahim, Armaya'u Alhaji Sani

To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v9-i2/5590>

DOI: 10.6007/IJARBSS/v9-i2/5590

Received: 27 Jan 2019, **Revised:** 21 Feb 2019, **Accepted:** 26 Feb 2019

Published Online: 07 March 2019

In-Text Citation: (Sule, Ibrahim, & Sani, 2019)

To Cite this Article: Sule, S., Ibrahim, S. S., & Sani, A. A. (2019). The Effect of Forensic Accounting Investigation in Detecting Financial Fraud: A Study in Nigeria. *International Journal of Academic Research in Business and Social Sciences*, 9(2), 545–553.

Copyright: © 2019 The Author(s)

Published by Human Resource Management Academic Research Society (www.hrmars.com)

This article is published under the Creative Commons Attribution (CC BY 4.0) license. Anyone may reproduce, distribute, translate and create derivative works of this article (for both commercial and non-commercial purposes), subject to full attribution to the original publication and authors. The full terms of this license may be seen at: <http://creativecommons.org/licenses/by/4.0/legalcode>

Vol. 9, No. 2, 2019, Pg. 545 - 553

<http://hrmars.com/index.php/pages/detail/IJARBSS>

JOURNAL HOMEPAGE

Full Terms & Conditions of access and use can be found at
<http://hrmars.com/index.php/pages/detail/publication-ethics>



INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES



The Effect of Forensic Accounting Investigation in Detecting Financial Fraud: A Study in Nigeria

Safiyanu Sule, Saifullahi Shehu Ibrahim, Armaya'u Alhaji Sani

Department of Accounting, Federal University Dutse, 7156, Jigawa State-Nigeria.

Department of Accountancy, Jigawa State Polytechnic, Dutse, Jigawa State-Nigeria.

Centre for Entrepreneurship, Federal University Dutse, 7156, Jigawa State-Nigeria.

Corresponding Author Email. safidut96@gmail.com

ABSTRACT

The need for forensic accounting service has been widely recognized in most developed countries. However, in developing countries, forensic accounting service is still receiving the attention of regulators and professional accounting bodies. This paper discusses whether the use and application of forensic accounting investigation have an effect in detecting financial fraud in Nigeria. The study relied on previous literature on forensic accounting and its application techniques. The review of this paper shows that forensic accounting service has a significant effect in detecting financial fraud. The review also indicated that forensic accounting investigation is a step forward on the discovery of financial fraud and other fraudulent exercises in Nigeria. In view of this, the paper suggests that the professional accounting bodies such as the Institutes of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN) should encourage specialization on forensic accounting service among the professional accountants in practice. This could possibly help to reduce financial fraud and related fraudulent activities in both public and private organizations in Nigeria.

Keywords: Forensic Accounting, Investigation, Fraud, Nigeria

INTRODUCTION

Financial fraud has for long been categorized as a menace that led to the collapse of many reputable institutions in the world. For instance, the high-profile fraud cases such as Enron, Bernie Madoff scandals, WorldCom, Lehman Brothers, Tyco International Ltd, and Adelphia Communications Corporation in the USA, Parmalat crises in Italy and HIH Insurance Ltd in Australia. These cases revealed wide fraud and failures that cause losing a huge amount of investments by investors (Jones, 2011; Kennedy, 2012). Similarly, the fraud cases involving the Bank of Credit and Commerce International (BCCI) and Polly Peck in the UK have considerably affected many investors. The BCCI scandals have received many stakeholders attentions and regarded as the largest banking fraud (BBC News January 13, 2004). In Nigeria, the cases of Cadbury Nigeria Plc; Afribank Nigeria Plc, NAMPAC,

Oceanic Bank Nigeria Plc, and African Petroleum Plc were relatively caused by massive fraud (Bakre, 2007; Okaro & Okafo, 2013).

Most of the developed countries set up strong mechanism to deal with occurrences of fraud. For example, the Association of Certified Fraud Examiners (ACFE) in the U.S was founded in 1988 for the purpose of reducing financial fraud (Vanasco, 1998). The ACFE run a program that allows an individual to qualify as a Certified Fraud Examiner (CFE). Therefore, the CFE members are peoples with certain accounting and auditing skills and knowledge to detect or investigate financial fraud and they are referring to a forensic accountant. According to Vanasco (1998), CFEs members are expected to undertake responsibilities in four specific areas namely; investigating fraud, legal principal involving the proof of fraud, activities involved fraudulent financial transaction and investigating criminal behavior concerning fraudulent conduct in an organization. This indicated that CFEs members gain an advantage in producing fraud information that can serve as a determination in discovering of financial fraud.

The mounting list of fraud in Nigeria has also stirred the attention of the government to set agencies such as the Economic and Financial Crimes Commission (EFCC) Act of 2004 and Independent Corrupt Practices Commission (ICPC) Act of 2000 to investigate the occurrences of financial fraud. Despite the effort, the prevalence of financial fraud is yet at the increases (Popoola, Che-Ahmad, Samsudin, Salleh, & Babatunde, 2016). For example, a former Central Bank of Nigeria (CBN) Governor Sanusi Lamido Sanusi in 2013 pointed out that there was a fraud of USD20 billion under Nigerian National Petroleum Corporation (NNPC) from oil sales proceeds to the state (Premium Times May 14, 2015). For this case, the PwC Nigeria was assigned to conduct the review on behalf of the Federal Government and their report indicates that there were mismanagements of 294. 5 billion Naira (USD965 million) among the management. Various authorities have discussed the issues concerning the frequency of financial fraud and its negative consequences to the Nigeria economy. For examples, World Bank report (2011) revealed that causes of fraud has resulted to the Nigerian banking failures and cost the government to lose around 1.5 to 2 trillion Naira (USD4.9 billion to USD6.6 billion) respectively. Correspondingly, the Nigerian Deposit Insurance Corporation (NDIC) reports (2012, 2014) indicate that the series of banking fraud cases have raised from 1,532 in 2010 to 10,612 in 2014 which cost banking sector businesses losing about 31.110 billion Naira (USD102 million) which is a massive loss to the national economy. Table 1.1 indicates a sequence of banking sector financial fraud from 2010-2014.

Table 1.1

Banking Sector Financial Fraud 2010-2014

Year	Number of Fraud Cases	Amount Involved (USD' M)
2010	1,532	38
2011	2,352	12
2012	3,380	14
2013	3,786	18
2014	10,612	20
Total	21,662	102

Source: NDIC Report (2012, 2014).

Therefore, the study aim is to discuss whether a forensic accounting investigation has an effect in detecting financial fraud in Nigeria. To achieve this goal, the paper is divided into four (4) part. The next section discusses the research problem statement, then, the definition of forensic accounting. This is followed by a review of related literature and finally, the conclusion and recommendations were offered.

PROBLEM STATEMENT

According to AICPA (2014), the cases concerning financial fraud, management fraud, bankruptcy fraud, money laundering, securities fraud, and tax fraud have continued increasing in number. The issue of fraud is not isolated to the Nigerian business environment based on the evidence from Ernst and Young (EY) global fraud survey (2016) has identified Nigeria as victims of fraud in corporate investments and ranked 4th most fraudulent country in business practice. Considerably, the existence of fraud has affected corporate investments, public finances, the standard of living and the Gross Domestic Products (GDP) in Nigeria (Vanguard News October 19, 2016). More recently, Suleiman, Dalhat and Sule (2018) their study revealed that fraud obstructs sustainable development in Nigeria and threatens good corporate governance and compatible business practice. Also, Bakre (2007) acknowledged that the incidence of fraud cases and manipulation of the firm's account to inflate profit both in public and private organizations have made various Nigerian businesses to either be declared suffering from low performing or have absolutely collapsed. In the same vein, Cadbury Nigeria plc scandals exhibited massive financial fraud which caused shareholders accused the Managing Director (MD) with fraud of stocks buybacks, cost deferrals, false suppliers stock certificate and manipulation of financial reports (Proshare December 19, 2006). The external auditor of Cadbury Akintola Williams Deloitte (AWD) was indicted for fraud by inflating the company profit which sanction to pay fine of 20 million Naira (USD65.6 thousand)¹ by the Securities and Exchange Commission (SEC).

Furthermore, a report from the SEC Nigeria (2017) shows alarm over fraud occurrence in the Nigerian capital market. For example, the SEC investigation into Oando Nigeria Plc fraud scandals blamed PwC the firm external auditor for failure to report false financial reports from 2013 to 2014 (Vanguard News December 4, 2017). This caused many of the shareholders of the company demand for a comprehensive investigation into the affairs of the firm financial irregularities from the SEC. At present, the matter was still under investigation by various authorities such as the EFCC, ICPC and SEC demand for full scrutiny into the matter. Most of the previous studies in Nigeria have expressed concern about forensic accounting service in detecting financial fraud (Enofe, Okpako, & Atube, 2013; Eliezer & Emmanuel, 2015; Efosa & Kingsley, 2016). However, forensic accounting investigation has a limited focused as a specialization in Nigeria. The only authorized and legal financial reporting practice in the country is the statutory audit which has some limitation from fraud investigation as acknowledged by International Standards of Auditing (ISA 240) and Nigerian Standards on Auditing (NSA) No 5. Therefore, the need for forensic accounting investigation is in the limelight in order to highlight details in financial fraud or any fraudulent activities.

¹ The Nigerian Currency Symbol is Naira and the official dollar exchange rate is 305 Naira per USD1 (305 Naira=USD1) Source: Central Bank of Nigeria (CBN). Retrieved on 03/01/2017

FORENSIC ACCOUNTING

Forensic accounting is widely regarded as a specialty practice of accounting, auditing practice where investigative skills are used to analyze information that is suitable for use in a court of law. In support of this, Popoola et al. (2016) consider forensic accounting as a process of using accounting skills and knowledge to investigate fraud or misappropriation of fund and to analyze the financial information for use in legal proceedings. Another empirical evidence documented by Singleton and Singleton (2010) who consider forensic accounting as a form of comprehensive fraud investigation and analyzing anti-fraud control through an audit of accounting records in search of evidence of fraud. The authors further emphasized that forensic accounting investigation include writing a report to management or court of law to determine certain evidence and the forensic accountant should serve as an expert in a court. In most of the corporate organizations, forensic accounting investigation is widely believed as a mechanism that provides more comprehensive details information concerning financial fraud (Eliezer & Emmanuel, 2015; Efoosa & Kingsley, 2016). This indicates that forensic accounting investigation deals with the application and use of accounting knowledge and skills to determine financial facts and evidence to legal problems.

In the same way, the view of Modogu and Anyaduba (2013) consider forensic accounting as the special investigation process through the utilization of accounting skills, auditing skills, and investigative skills to determine the extent of financial fraud in legal matters. The importance of forensic accounting should also consider as details form of investigating fraud and trying to determine why fraud has occurred (Crumbley, 2009). In view of that, the process by which forensic accounting to be conducted is through a forensic accountant. Therefore, a forensic accountant should be a professional accountant with certain knowledge, skills and capability requirement in fraud investigation. Investigation categorized forensic accountants as being trained, knowledgeable and experienced in the various process of fraud investigation procedure (Singleton & Singleton, 2010). Importantly, most of the previous scholars have acknowledged relevant in accounting knowledge and skills into forensic accounting investigation. For example, the studies of Pedneault, Silverstone, Rudewicz and Sheetz (2012) and Popoola et al. (2016) have emphasized that no fraud investigation should be undertaken without certain accounting knowledge, skills, experienced and basic accounting principle. Forensic accounting investigation reflects the shifting of the scope, characteristics, traits and the skills of the forensic accountants (Popoola et al., 2016). This indicates that a forensic accounting investigation has put the accounting profession go beyond the traditional statutory audit.

LITERATURE REVIEW

The word fraud referred as a deliberate act by one or more individuals among employees, management, those charged with governance or third parties connecting the use of fraudulence act to obtain an unjust or unlawful benefit (ISA 240; NSA, 2013). According to CIMA (2009), and Suleiman et al. (2018), word fraud usually consists of actions such as partaking in stealing, collusion, money laundering, dishonesty, bribery, extortion, abuse of office, insider trading and misappropriation of the assets. Many of the previous studies recognized that fraud can be reduced through the influence of forensic accounting investigation (Enofe, Okpako, & Atube, 2013; Eliezer & Emmanuel, 2015; Efoosa

& Kingsley, 2016). Furthermore, according to the American Institutes of Certified Public Accountants (AICPA) (2014), forensic accounting investigations considerably provide the following objectives.

- Evaluating the risk of fraud and other illegal acts
- Assessing the adequacy of the internal control systems
- Evaluating company codes of business ethics and conduct
- Substantive testing of transactions during an attest

The need for forensic accounting investigation is important and received many scholars attention. For examples, Efoosa and Kingsley (2016) examine the impact of forensic accounting and fraud management in Nigeria. The study analyzed 29 quoted companies enlisted in the Nigerian Stock Exchange (NSE). The finding of the study indicates that forensic accounting has a significant effect on reducing financial fraud in corporate organizations. The finding of this study has a positive relationship with the result of Enofe et al. (2013) who also found forensic accounting has the impact of detecting fraud. Another work by Alabdullah, Alfadhl, Yahya and Rabi (2013) also investigate the role of forensic accounting in reducing financial fraud in Iraq. Using correlation research design through administrating interviews and questionnaires. The findings of the study revealed that the forensic accounting method is effective in the control of financial fraud cases. The study also indicates fraud is easy to be narrowed and detected using forensic accounting service. The study further shows the need for forensic accounting investigation as a result of widespread of false accounting information, Weakness in traditional accounting and auditing which limited fraud detection and lack of professional institutions to provide forensic accounting consultation.

Another empirical study by Popoola et al. (2016) examines whether forensic accountants knowledge, skills and competence are basically required for fraud prevention and detection in Nigeria. The study use survey research design and 400 questionnaires distributed among two groups of respondents comprise forensic accountants and auditors in the office of the Auditor General of Federation and Accountant General of the Federation in Nigeria respectively. The findings of the study revealed that forensic accountants have a high level of knowledge, skills, and experience in fraud prevention and detection. The findings of the study highlight the impact and influence of forensic accounting service towards fraud prevention and detection in both public and private organization. In the same context, the study of Suleiman, Othman and Ahmi (2018) analyzed the expert perception on the impact of forensic accounting investigation techniques in mitigating corruption in Nigeria. Using in-depth interviews among 24 participants from anti-corruption bodies in Nigeria such as EFCC and ICPC the study finds forensic accounting investigation as more appropriate in fraud investigation and is suitable for use for court purposes.

Furthermore, a study by Nwaiwu and Aaron (2018) have also documented empirical evidence about the impact of a forensic accounting investigation. The authors found that forensic accounting is the best mechanism for fraud detection and prevention in an organization. Also, the findings of the study show that forensic accounting service improves the company overall performance. Additionally, Akhidime (2018) has also found that forensic accounting service produces appropriate outcomes in terms of fraud prevention and detection capability. The study indicates that forensic accounting provides a more desirable process in understanding fraud has occurred. These studies highlighted the needs of forensic accounting investigation towards uncovering fraud issues. Similarly, Mukherjee (2018) examine fraud in banking industries and the role of forensic accounting in India. The study

found widespread banking fraud in Indian corporate banking. The study indicates that fraud is a growing concern to the business organization. Furthermore, the study shows that the application of forensic accounting is a much-needed area in reducing and detecting corporate baking fraud and other related fraudulent activities in today's business world.

CONCLUSION AND RECOMMENDATIONS

The prevalent increases in financial fraud have affected many corporate organizations in the world. This stirred the need for forensic accounting investigation to uncover fraud and any other corporate financial irregularities. The review of this paper shows that forensic accounting service has a significant effect in detecting financial fraud in Nigeria. Therefore, the results strongly support the use and application of forensic accounting investigation towards detecting financial fraud in Nigeria. In view of this, the paper suggests that the ICAN and ANAN as the professional accounting bodies should encourage specialization on forensic accounting service among the professional accountants as provided in the U.S. by incorporating the service of CFEs members to deliver forensic accounting services. The Universities and Polytechnics in Nigeria should include a forensic accounting course in their curriculum to educate the undergraduate for the development of forensic accounting education. This could possibly help to improve their skills and learning objectives about the forensic accounting investigation process. The government should also develop an interest to encourage forensic accounting specialization and awareness on the effect of fraud as this could allow strong monitoring of any fraudulent activities in both public and private organizations.

The implication of this study might awaken the regulators and professional accounting bodies towards encouraging specialization on forensic accounting service among the professional accountants as provided in most developed countries. May also serve as a basis of creating awareness amongst the accounting and auditing system management in Nigeria and other similar developing countries which has similar financial reporting guideline. The adoption of a forensic accounting service will be significant and positively ensures the successful detection of fraud.

References

- AICPA (2014). Forensic accounting-fraud investigation. Retrieved from <https://www.aicpa.org/membership/downloadabledocuments/forensic-accounting-fraud-investigations-chapter1.pdf>
- Akhidime, A. E. (2018). Bridging audit expectation gap with the integration of forensic accounting: A review. *Aefunai Journal of Accounting, Business, and Finance*, 72-82.
- Alabdullah, T. T. Y., Alfadhil, M. M. A., Yahya, S., & Rabi, A. M. A. (2013). The role of forensic accounting in reducing financial corruption: A study in Iraq. *International Journal of Business and Management*, 9(1), 26.
- Bakre, O. M. (2007). The unethical practices of accountants and auditors and the compromising stance of professional bodies in the corporate world: Evidence from corporate Nigeria. *Accounting Forum*, 31(3), 277-303.
- BBC News. (13 January, 2004). Britain's biggest banking scandals. Retrieved from <http://news.bbc.co.uk/2/hi/business/3391379.stm>

- CBN (2017). Exchange Rate –US Dollar Retrieved January 3, 2017 from [www.cbn.gov.ng/rates/ExchRateByCurrency.asp?beginrec=4701&endrec=4800¤cytype=\\$USD](http://www.cbn.gov.ng/rates/ExchRateByCurrency.asp?beginrec=4701&endrec=4800¤cytype=$USD)
- CIMA (2009). Corporate Fraud. *Gateway Series*, 1-17. Retrieved May 20, 2017 from http://www.cimaglobal.com/documents/importedddocuments/cid_tg_corporate_fraud_may_09.pdf.pdf
- Crumbley, D. L. (2009). So what is forensic accounting? *The ABO Reporter*, 9. Retrieved from <http://abfa.us/wp-content/uploads/2018/03/So-What-is-Forensic-Accounting-SITE.pdf>
- Efosa, E. E., & Kingsley, A. O. O. (2016). Forensic accounting and fraud management: Evidence from Nigeria. *Igbinedion University Journal of Accounting*, 2(8), 245-308.
- Eliezer, O., & Emmanuel, B. (2015). The relevance of forensic accounting in the detection and prevention of fraud in Nigeria. *Historical Research Letter*, 23, 17-20.
- Enofe, A. O., Okpako, P. O., & Atube, E. N. (2013). The impact of forensic accounting on fraud detection. *European Journal of Business and management*, 5(26), 61-72.
- EY (2016). Corporate misconduct- individual consequences. 14th Global Fraud Survey. Retrieved July 16, 2016 from [http://www.ey.com/publication/vwLUAssets/EY-corporate-misconduct-individual-consequences/\\$FILE/EY-corporate-misconduct-individual-consequences.pdf](http://www.ey.com/publication/vwLUAssets/EY-corporate-misconduct-individual-consequences/$FILE/EY-corporate-misconduct-individual-consequences.pdf)
- ISA 240 (2009). The auditor responsibilities relating to fraud in an audit of financial statements. Retrieved August 20, 2016 from <http://www.ifac.org/system/files/downloads/a012-2010-iaasb-handbook-isa-240.pdf>
- Jones, M. J. (2011). Creative accounting, fraud and international accounting scandals. John Wiley & Sons, Ltd., England
- Kennedy, K. A. (2012). An analysis of fraud: Causes, prevention, and notable cases. *Honors Thesis Paper*. Retrieved from <http://scholars.unh.edu/cgi/viewcontent.cgi?article=1099&context=honors>
- Modugu, K. P., & Anyaduba, J. O. (2013). Forensic accounting and financial fraud in Nigeria: An empirical approach. *International Journal of Business and Social Science*, 4(7), 281-289.
- NDIC (2012). Annual Report. Retrieved March 21, 2017 from <http://www.ndic.gov.ng/files/Links/NDIC%20Report%202012.pdf>
- NDIC (2014). Annual Report. Retrieved March 21, 2017 from <http://ndic.gov.ng/wp-content/uploads/2015/07/Links/NDIC%202014%20Combined.pdf>
- NSA (2013). Retrieved June 11, 2017 from <http://icanig.org/ican/documents/NSAs.pdf>
- Nwaiwu, J. N., & Aaron, F. C. (2018). Forensic accounting relevance and fraud detection process and financial performance in Nigeria. *International Journal of Advanced Academic Research/Accounting and Economic Development*, 4(2), 16-35.
- Okaro, S. C., & Okafor, G. O. (2013). Drivers of audit failure in Nigeria-evidence from Cadbury (Nigeria) PLC. *Research Journal of Finance and Accounting*, 4(6), 14-17.
- Okike, E. (2004). Management of crisis: The response of the auditing profession in Nigeria to the challenge to its legitimacy. *Accounting, Auditing & Accountability Journal*, 17(5), 705-730.
- Pedneault, S., Silverstone, H., Rudewicz, F., & Sheetz, M. (2012). *Forensic accounting and fraud investigation for non-experts*. John Wiley & Sons.

- Popoola, O., Che-Ahmad, A., Samsudin, R., Salleh, K., & Babatunde, A. (2016). Accountants' capability requirements for fraud prevention and detection in Nigeria. *International Journal of Economics and Financial Issues*, 6(4), 1-10.
- Premium Times (May 14, 2015). Retrieved From <http://www.premiumtimesng.com/news/182926-missing-20-bn-sanusi-faults-alison-madueke-says-audit-report-proves-at-least-18-5bn-lost.html>
- Proshare (December 19, 2006). Cadbury Nigerian scandals. Retrieved from <https://www.proshareng.com/articles/Frauds%20&%20Scandals/Why-Bunmi-Oni,-Auditor-Must-Be-Prosecuted/847>
- Singleton, T. W., & Singleton, A. J. (2010). *Fraud auditing and forensic accounting* (Vol. 11). John Wiley & Sons.
- Suleiman, N., Dalhat, B. S., & Sule, S. (2018). Socially Constructing the Meaning of Public Sector Corruption (PSC) to Depict the Nigerian Situation. *Asian Journal of Multidisciplinary Studies*, 6, 8.
- Suleiman, N., Othman, Z., & Ahmi, A. (2018). Mitigating Corruption Using Forensic Accounting Investigation Techniques. *Indian-Pacific Journal of Accounting and Finance*, 2(1), 4-25.
- Vanasco, R. R. (1998). Fraud auditing. *Managerial Auditing Journal*, 13(1), 4-71.
- Vanguard News (December 4, 2017). Capital Market Scandals. Retrieved from <https://www.vanguardngr.com/2017/12/capital-market-scandal-oandos-inquiry-sec-reveals-breach-isa-act-2007-investigations/>
- Vanguard News (October 19, 2016). Corruption to cost Nigeria up to 37% of GDP reduction. Retrieved from <http://www.vanguardngr.com/2016/10/corruption-cost-nigeria-37-gdp-study/>
- World Bank. (2011). Nigeria- Report on the Observance of Standards and Codes: Accounting and Auditing Washington. D. C.: World Bank. Retrieved from <http://documents.worldbank.org/curated/en/440581468099577387/pdf/691530ESW0ROSC0ng000Auditing00FY110.pdf>