

# Forensic Accounting And Financial Crisis In Nigeria

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## Abstract

*In recent times, there has been a spate of dramatic increase in Economic and financial crimes across the globe. The developing economies have not been left out, especially Nigeria. No day passes without a report of some financial crime or the other. Forensic accounting has become an emerging topic for research in recent time as a panacea for financial crimes. This study examines the significance of forensic accounting in the face of increasing fraudulent practices in Nigeria with a view to advancing some solution. A sample of 98 respondents were selected from a population of 140 using the Taro Yemen formular. 90 questionnaires were returned fully and correctly completed by the respondents. Regression analysis, correlation coefficient, Ordinary Least Squares (OLS) and E-view 7 Geometric software were used to analyze the data. The findings of the study show that forensic accounting is significant in the face of the increasing fraudulent practices in Nigeria. Based on the findings, it is recommended that the government should make forensic accounting compulsory for all accounting majors in the University and create enabling environment for the practice of forensic accounting in the country.*

**Keyword:** *Forensic accounting, fraudulent practices, true and fair value, financial crimes, enabling Environment*

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## Introduction

The unrelenting series of embarrassing audit failure, over the last 50 years has prompted in paradigm shift in accounting. In the mid 20<sup>th</sup> Century when the fight for fraud detection was at its height, a few observers predicted that in future there would be acceptance of general responsibility of the auditors to perform tests to detect material defalcation and errors if they exist (11). *These events led to the hiring of fraud detection experts called forensic accountants.* Forensic accounting is therefore defined as the practice of rigorous data collection and analysis in the area of litigation support, consulting, expert witnessing and fraud examination (22). Forensic accounting therefore refers to the comprehensive view of fraud investigation and includes the interview process of interviewing related parties to a fraud, act of

serving as an expert witness, etc. It is a known fact that financial fraud is gradually becoming a normal way of life in Nigeria. Various authors acknowledge that the increasing incidence of fraud and fraudulent activities in Nigeria has reached a crescendo (20; 14 and 12), all attest to this. There is therefore a general belief that the role of a forensic accountant is very significant in the face of increasing fraud and fraudulent activities in Nigeria. It is a known fact that with the world becoming a global village and the more sophisticated Information Communication Technology (ICT), fraudsters will continue to fine-tune their tactics towards more fraudulent practices. It now becomes paramount that forensic accountants with training and experience in computer programming and customization, litigation support, expert testimony and

investigative skills are the only ones who can help tackle the problem of white collar crime and fraud detection and prevention in organization. The main objective of this study therefore is to examine through an empirical study the relevance of forensic accounting in the face of increasing fraudulent practices in Nigeria. The specific objectives are: To examine the extent to which the application of forensic accounting services can help detect and prevent fraud in Nigeria, and to determine to what degree the use of forensic accounting can validate the true and fair value of audited financial statements in Nigeria.

#### **Hypothesis:**

HO<sub>1</sub>: The application of forensic accounting services cannot prevent and detect fraud in Nigeria

HO<sub>2</sub>: Forensic accounting does not validate the true and fair value of financial statements in Nigeria

HO<sub>3</sub>: Nigerian accountants are not adequately qualified to carry out forensic accounting practice.

#### **Literature Review:**

##### **Conceptual Framework:**

Forensic accounting is one of the oldest professions and dates back to the Egyptians. (13) ascribes the origin of forensic accounting to Kutilya, the first economist to openly recognize the need for the forensic accountant, whom he said mentioned forty ways of embezzlement centuries ago. He, however, stated that the term forensic accounting was carried by Peloubet in 1946. (6), writing on the same issue opined that a form of forensic accounting can be traced back to 1817 court decision and that in 1824, a young Scottish accountant issued a circular advertising his expertise in arbitration support, but Peloubet was probably the first to publish the phrase forensic accounting. Formalized procedures for the practice was not put in place until the

1980s when major academic studies in the field were published. Investigation of fraud and corruption is confirmed thus, not to be new even in Nigeria. It is only gaining prominence because of the growing wave of crime under the seemingly new nomenclature the last five years (5). (3) opines that fraud is rarely seen, maintaining that the symptoms of fraud are usually observed. The symptoms do not necessarily mean fraud is being undergone as it may be caused by mistakes. But the act might also be deliberate. (6), defines forensic accounting as the application of the laws of nature to the laws of man. He describes forensic scientists as examiners and interpreters of legally admissible evidence and facts in cases that also require expert opinions regarding their findings in law court. (4) assert that the primary orientation of forensic accounting is explanatory analysis of phenomenon including discovery of deception, and its effects, introduced into the accounting domain.

(15), defines forensic accounting as the combination of accounting, auditing and investigation skills to a standard that is acceptable by a court of jurisdiction to address issues in dispute in the context of civil and criminal litigation. (1) sees forensic accounting as the practice of utilizing accounting, auditing and investigation skills to assist in legal matters and the application of specialized body of knowledge to evidence of economic transaction and reporting suitable for the purpose of establishing accountability or valuation of administrative proceeding. Forensic accounting as documented in literature is an offshoot of forensic science and accounting (23). Forensic accounting provides an accounting analysis that is suitable to the organization in the resolution of dispute and in this vein differ from the orthodox accounting practice.

##### **Theoretical Framework**

##### **White-Collar Crime:**

Sutherland, 1949 cited in Michael, (2004) defined White collar Crime as crime committed by a person of respectable and high social status in the course of his occupation. He noted that in his time, less than 2 percent of the persons committed to Prison in a year belong to the upper class. He tried to establish a relationship between money, social status, and the likelihood of going to jail for a white collar crime with a more visible, typical crime. He tried to separate and define the difference between the blue collar street crimes like burglary, theft, rape, arson and vandalism which are often blamed on psychological, associational and structural factor with white collar crimes committed by criminals who are opportunists who overtime learn that they can take advantage of their circumstances to accumulate financial gains. These criminals are educated, intelligent, affluent individuals who can get a job which allows them unfettered and unmonitored access to often large sum of money. White collar crimes include such illegal acts which are characterize by deceit, concealment, or violation of trust and which are not dependent on the application of physical force or violence. This study will be anchored on white collar crime.

### **Empirical Studies:**

(7) states that Kessler International experts said that the forensic accounting field's popularity has attracted many inexperience accountants who lack skills to carefully and cost effectively conduct enquiries. However, forensic accounting as a panacea to organizational dispute arising out of financial mismanagement has come to stay. (10) undertook a study on how to apply forensic accounting in investigating variances and suspected fraudulent activities in manufacturing processes. He finally opined that the application of forensic accounting applies to all scenes where fraud is a possibility. (20) in their study on the

application of forensic accounting in developing economics like Nigeria notes that forensic accounting is faced with so many bottlenecks. (6) dwelt on the challenges confronting the application of forensic accounting (18) dwelt on economic and financial crime and forensic accounting: an antidote. They noted that lack of adequate litigation support services by forensic accountants has been the bane of Nigerian development process. (9) studied the impact of confidential privilege on forensic accountant in litigation services and were of the opinion that confidentiality of information influences forensic accountants effectiveness during litigation support services. (8) noted that an important challenge to the application of forensic accounting in financial fraud control in Nigeria is that the law is not always up to date with the latest advancements in technology. (17), in their study on forensic accounting and financial fraud in Nigeria: An empirical approach using binomial test noted that there is significant agreement amongst stakeholders on the effectiveness of forensic accounting in fraud control, financial reporting and internal control quality. (2), in their exploratory study on the growing relevance of forensic accounting as a tool for combating fraud and corruption: The Nigeria Experience, noted that though the relevance of forensic accounting in unraveling complex official corruption is on the increase in Nigeria, despite the fact that the practice is largely considered to be at its infancy stage and lacking statutory support, it nevertheless has no significant impact on corruption, fraud and financial crime in Nigeria. (19) in their theoretical research on the relevance of forensic accounting in the detection and prevention of fraud in Nigeria found out among others, that their services would assist audit committee members in carrying out their oversight functions by

providing them assurances on internal audit report.

**Methodology:**

The survey research design is used in the study. The population of the study consists of 130 staff drawn from key government parastatals like the Central Bank of Nigeria (CBN) Federal Inland Revenue, Accounting Firms and Economic and Financial Crimes Commission (EFCC). A sample size of 98 was calculated using the YaroYamenformular. The respondents were directors of finance, audit and assurance services, accounting technicians, IT directors and those identified as having justifiable views on forensic accounting and fraud detection in Nigeria and are involved at one stage or another in the preparation, analysis and usage of financial reports. They are therefore expected to be knowledgeable about the thrust of the study. A well-structured 5 point likert scale questionnaire was used to elucidate information from the respondents. These results were analysed using the simple regression, ordinary least square (OLS) and the E view 7 econometrics software including the correlation coefficient.

**Model Specification**

$$FDP = f(FAS, FAV, FAP) \text{-----}$$

$$- (1)$$

$$FDP = a_0 + b_1FAS + b_2FAV + b_3FAP$$

Where

FDP = Fraudulent Practices

FAS = Forensic Accounting Services

FAV = Forensic Accounting Validation

Ut = Stochastic error term

$a_0$  = Regression constant

$b_1, b_2, b_3$  = Regression coefficient

Apriori expectation:

$$b_1, b_2, b_3 > 0$$

**Data presentation, analysis and interpretation:**

A total number of 98 copies of likert scale questionnaire were distributed to respondents who were identifies as having separate views on forensic accounting and fraud detection in Nigeria and are involved at one stage or the other in the preparation, analysis and usage of financial reports but 90 were returned duly and correctly completed, hence 90 was used for data analysis. Selected questions in the questionnaire which are closely related to the purpose of the study are tabulated and analyzed below

**Description Statistics of Variables**

	<b>FAS</b>	<b>FAV</b>	<b>FAP</b>
Mean	12.8090 4	12.4383 7	12.9880 5
Sta. Dev.	1.85609 3	1.75160 4	1.78810 7
Probability	0.03045 5	0.01440 6	0.03480 4
Observations	90	90	90

Source : Researcher's computation

The above table shows the descriptive statistics of the understudied variables in terms of numbers. The mean values for FAS, FAV, and FAP are 12.81, 12.4 and 13.0 respectively while their respective

standard deviation are 1.9, 1.8 and 1.8 respectively. The probability values of the statistics of FAS (0.3), FAV (0.01) and FAP (0.03) are normally distributed.

### Correlation Matrix of Variables

VARIABLES	FAV	FAP	FAP
FAS	0.013033 5		
FAS	0.40264 4	1	
FAV	0.012899 6		1

Source : Researcher's computation

The above tables shows the correlation matrix of the variables FAS/FAV (0.013), FAS/FAP (0.040), FAV/FAP (0.013) (significant at 5%). All these have positive relationship with FDP. Therefore, as FDP

decreases, FAS, FAV and FAP increases. Since the numeric strength of the correlation coefficient of all the variables observed is lower than 0.5, then we accept the alternative hypothesis

### Regression Result: Estimation of variables

Variable	Coefficient	Std. Error	Z-Statistic	Probability
FAS	0.013033	0.12327 5	0.41	0.03045
FAV	0.040264	0.12624 4	0.22	0.01440
FAP	0.012899	0.11935 6	0.20	0.03480
R <sup>2</sup>	0.9484	0.9484	0.9484	0.9484

Source : Researcher's computation

The R<sup>2</sup> value of 0.9484 shows a high correlation between the variables under study. We therefore reject the null hypothesis and accept the alternative hypothesis.

#### Conclusion And Recommendations:

The increasing rate of fraudulent activities in Nigeria has become so wearisome that there need to be put in place a means of curbing or if need be, eradicating it. Forensic accounting, though, a new branch of accounting can be an effective tool in combating fraudulent activities within and outside the organization. Based on the above result, we conclude that the application of forensic accounting practice

in Nigeria can help to detect and prevent fraud, validate the true and fair view of audited accounts and that Nigerian accountants are well equipment to use forensic accounting to combat fraud if well designed legislation is put in place. We therefore recommend that government should make the study of forensic accounting as a compulsory course for all accounting majors and put in place well-structured legal system to facilitate the administration of forensic accounting



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