FORENSIC ACCOUNTING: AN ANTIDOTE TO FRAUD IN NIGERIA DEPOSIT MONEY BANKS

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Abstract

The study examined the influence of forensic accounting on fraud detection and prevention in deposit money banks in Nigeria. The study sample was made up of all twenty- one (21) money deposit banks in Nigeria. Structured questionnaire designed by the researchers was used to collect data from branch manager, operation manager and accountant in each bank respectively in Lagos, totalling sixty (63) respondents through purposive technique method. Linear Regression Analysis was used to analyse the data collected. The result revealed that use of forensic accounting is a major mechanism in detecting and preventing fraud in banking sector. Paper recommended that forensic accounting should be embraced by management of Nigeria money deposit banks and public sector. Also, staff should be encouraged to attend conferences and seminars within and outside the country on forensic accounting. Moreover, Anti-corruption agencies in Nigeria such as EFCC, ICPC should be restructured by the government for better performance.

Key words: Forensic Accounting, Fraud, Deposit Money Bank, EFCC, ICPC

Introduction

Financial institutions are the pillars of economic growth and development in both developed and developing countries. Owolabi (2010) concluded that for any economy to develop and grow, the financial sector must be strong, solid, effective and efficient. Banks play intermediaries role to both suppliers and users of funds, banks are effectively situated in a continuum that determines the pulse of the economy. According to Eseoghene (2010), banking sector in any country plays a fundamental role in increasing the level of economic activity. Despite the significant roles of banking industry in economic growth and development, its failures are becoming well pronounced in Nigeria due to financial scandals. Bhasin, (2013) concluded that the rise in financial scandals at the beginning of the twenty-first century was associated with increased fraud incidence and awareness, thereby questioning the role of auditor in fraud prevention and detection. Fraud which literarily means a conscious and deliberate action by a person or group of persons with the intention of altering the truth or fact for selfish personal gain is now by far the single most veritable threat to the entire banking industry.

Gbegi and Adebisi (2014) affirmed that Fraud is an endemic that are gradually becoming a normal way of life in both public and private sectors, from the presidential cabinets, down to the political officer, to the ward councillors, from managing directors of companies, through middle management cadre and to lower managers in Nigeria. Several legislations were put in place to reduce, alleviate and if possible eliminate the occurrence and incidences of fraud in the industry most popular and prominent among them are Economic and Financial Crime Commission (EFCC) and Independent Corrupt Practices and other related offences Commission (ICPC), Banking and other financial institutions Act, (BOFIA) 1990, Financial Reporting Council of Nigeria. Despite of these arrangements put in place, it is worrisome that incidences of fraud have become so widespread that it is fast assuming an epidemic proportion in banking industry. This situation is making it difficult for banks to perform as expected.

Forensic accounting has been identified as tool for detecting and implementing white-collar investigations (Hansen, 2009). Degboro and Olofinsola (2007) described forensic accounting as the application of criminalist methods, and integration of accounting investigative activities and law procedures to detect and investigate financial crimes and related accounting misdeeds. Dhar and Sarkar (2010) also defined forensic accounting as the application of accounting concepts and techniques to legal problems. It demands reporting, where accountability of the fraud is established and the report is considered as evidence in the court of law or in administrative proceedings. Gbegi and Adebisi, (2014) concluded that the forensic accounting skills and techniques could help to investigate fraud occurrence since the external auditors do not or may not have the required training to be able to tackle modern frauds like white collar crimes such as security fraud, embezzlement, bankruptcy, contract disputes, and possible criminal financial transactions.

A forensic accounting practice is becoming more popular in the private and public sectors of Nigeria economy as a tool for mitigating and investigating frauds occurrences. This study, therefore, attempts to examine the influence of forensic accounting on fraud detecting and preventing in money deposit banks in Nigeria.

Research Question

To what extent does forensic accounting influence fraud detection and prevention in money deposit banks in Nigeria?

Hypothesis

H0: Forensic accounting is not significantly influence fraud detecting and prevention in deposit money banks in Nigeria.

Literature Review

Concept of Forensic Accounting

Forensic accounting is specialty practice area of accounting that 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. Forensic accountants, also referred to as forensic auditors or investigative auditors, often have to give expert evidence at the eventual trial. According to Nigrini (2011), financial forensic engagements may fall into Economic damages calculations, whether suffered through tort or breach of contract; Post-acquisition disputes such as earnouts or breaches of warranties; Bankruptcy, insolvency, and reorganization; Securities fraud; Business valuation; and Computer forensics/e-discovery. Degboro and Olofinsola (2007) described forensic accounting as the application of criminalist methods, and integration of accounting investigative activities and law procedures to detect and investigate financial crimes and related accounting misdeeds. Dhar and Sarkar (2010) also defined forensic accounting as the application of accounting concepts and techniques to legal problems. It demands reporting, where accountability of the fraud is established and the report is considered as evidence in the court of law or in administrative proceedings. Joshi (2003) saw forensic accounting as the applications of specialized knowledge and specific skills to stumble up on the evidence of economic transactions Owojori and Asaolu (2009) analyzed that forensic accounting through forensic accountants provide litigation support service which is the provision of assistance of an accounting nature in a manner involving existing or pending litigations in the areas of quantification of economic damages, calculating economic loss resulting from a breach of contract. Litigation support service provides real value to the client-attorney relationship because forensic accountants help win lawsuits and earn settlements. Zysman (2004) puts forensic accounting as the integration of accounting, auditing and investigative skills. Simply put, forensic accounting is accounting that is suitable for legal review offering the highest level of assurance and including the now generally accepted connotation of having been arrived at in a scientific fashion (Crumbley, 2006). Association of Certified Fraud Examiners (ACFE, 2010) defined forensic accounting as the use of skills in potential or real civil or criminal disputes, including generally accepted accounting and auditing principles in establishing losses of profit, income, property or damage, estimations of internal controls, frauds and others that involve inclusion of accounting expertise into the legal system . Hence, forensic accounting involves the application of accounting concepts, auditing techniques and investigative procedures in solving legal problems

Concept of Fraud

Different scholars have defined fraud, forgeries and errors in various ways. Fraud is the 'abuse of position, or false representation, or prejudicing someone's rights for personal gain'. According to Wikipedia (2014) fraud is an act of deception intended for personal gain or to cause a loss to another party. The general criminal offence of fraud can include; deception whereby someone knowingly makes false representation, or they fail to disclose information, or they abuse a position. Fraudulent

Practice" means any action or omission, including misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial benefit or to avoid an obligation. Kasum (2012) defined fraud as a false representation by means of a statement or conduct, in order to gain a material advantage. According to Arzova (2003), fraud is "to create a misjudgement or maintain an existing misjudgement to induce somebody to make a contract".

The Association of Certified Fraud Examiners (2008) defined fraud as the use of one's occupation for personal enrichment through deliberate misuse or misapplication of the employing organisation's resources or assets. It is therefore any act of misappropriation, theft or embezzlement of corporate assets in a particular economic environment. It has been considered as is any act of deception performed by somebody to cheat or deceive another person to his detriment or the detriment of any other, or to cause injury or loss to another person while the perpetrator has a clear knowledge of his intension to deceive, falsify or take advantage over the unsuspecting and innocent victim resulting to suffering loss or damage. Fraud is any action, behaviour or oral expressions deliberately aimed at deception and /or misinformation. It is a sequence of activities perpetrated to obtain money, property or services, to avoid payment or of services or to secure personal or business advantages. These acts are not dependent upon the application of threat of violence or of physical force (International Standards for Professional Practice of Internal Auditing, 2002). Wikipedia (2008) defined bank fraud as whenever a person knowingly executes, or attempts to execute, a scheme or artifice (1) to defraud a financial institution; or (2) to obtain any of the moneys, funds, credits, assets, securities, or other property owned by or under the custody or control of, a financial institution, by means of false or fraudulent pretences, representations, or promises. Idowu (2009) confirmed that frauds are committed in all spheres of human activities such as business, public and financial sectors. According to the author, it is a strategy to achieve a personal or organisational goal or to satisfy human needs.

Empirical Review

Ifeanyi and Joseph (2013) investigated the effect of forensic accounting on corporate fraud and performance outcome in the Nigerian manufacturing sector. Using a match sample of 306 manufacturing firms registered with the Manufacturing Association of Nigeria (MAN). Result revealed that use of forensic accounting has significant effect on corporate fraud reduction. Dada, Owolabi and Okwu (2013) also investigated the relevance of forensic accounting in the effective reduction in fraudulent practices in Nigeria. The study employed multiple regression technique to analyze the empirical data collected through questionnaire and oral interview and the hypothesis formulated was also tested. The results of the hypotheses tested revealed that fraud reduction is significantly and positively related to fraud investigation and detection through forensic accounting.

Okoye and Gbegi (2013) examined forensic accounting as a tool for fraud detection and prevention in the public sector organizations with particular reference to Kogi State. Both primary and secondary sources of data were appropriately used. The statistical tool used to test hypotheses was Analysis Of Variance (ANOVA). The result showed that the use of Forensic Accounting do significantly reduces the occurrence of fraud cases in the public sector, and that there is significance difference between Professional Forensic Accountants and Traditional External Auditors and therefore the use of Forensic Accountants can help better in detecting and preventing fraud cases in the public sector organizations. Onuorah and Appah (2012) also examined the effect of forensic accounting services on fraud detection in Nigerian banks. Data was collected from primary and secondary sources. The primary data were collected with the help of a well structured questionnaire of three sections administered to twenty four banks in Port Harcourt the capital of Rivers State and the data collected from the questionnaires were analysed with descriptive statistics, Augmented Dickey-fuller, ordinary least square and Granger Causality. The result revealed that the application of forensic accounting services affects the level of fraudulent activities of banks.

Tarig, Moayad, Sofri and Ala (2013) determined the impact of using forensic accounting on financial corruption. This study adopted a correlation research design. Data was collected by using interviews and questionnaires. The study revealed that there is a significant relationship between the forensic accounting methods and effectiveness of the control and auditing bodies to detect financial corruption cases.

Model Specification

The present study estimate one regression model and the model seeks to investigate the influence of forensic accounting on fraud detection and prevention in Nigeria money deposit banks. The specification of this model is given below;

FDP = f(FA)

FDP = $\beta 0 + \beta 1$FA+Ui

where;

the a priori expectation is $\beta 1$, $\beta 2$ >0

FDP = Fraud Detection and Prevention

FA = Forensic Accounting

U = Disturbance Term

β = Intercept

$\beta 1$ = Coefficient of the independent variable.

Research Methodology

The study sample was made up of all twenty- one (21) deposit money banks in Nigeria. Structured questionnaire designed by the researchers was used to collect data from branch manager, operation manager and accountant in each bank respectively in Lagos, totalling sixty (63) respondents through purposive method. Lagos was choosing because all money deposit banks in Nigeria have branch in Lagos. The response format was in Likert format with responses ranging from strongly agree (5) to strongly disagree (1). Reliability of the research instrument was established through a test - retest method and validities of the instrument was also established by given it to experts for verification. Linear regression was employed to analyze the data collected with the aid of SPSS version 20.

Data Analysis and Discussion of Result

Table 1:Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.785[a]	.617	.610	.42192	.638

a. Predictors: (Constant), Forensic Accounting

b. Dependent Variable: Fraud detection and prevention

Table 1 shows the summary statistics of the analysis of the forensic accounting on fraud detection and prevention. The coefficient of correlation (R) = 0.785; the coefficient of determination (R^2) = 0.617; and the standard error estimate of 0.42192, indicating that forensic accounting contribute 61.7% to fraud detection and prevention

Table 2: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.459	1	17.459	98.074	.000[b]
	Residual	10.859	61	.178		
	Total	28.317	62			

a. Dependent Variable: Fraud detection and prevention

b. Predictors: (Constant), Forensic Accounting

Table 2 revealed that the independent variable ($F(1,61) = 98.074$; $P<.01$) contributed significantly on the regression plane.

Table 3: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.135	.329		3.451	.001
	Forensic Accounting	.747	.075	.785	9.903	.000

a. Dependent Variable: Fraud detection and prevention

Table 3 shows that forensic accounting (β = 0.747; t = 9.903; P<.01) has positive and significant influence on fraud detection and prevention. This implies that forensic accounting is an antidote to fraud in public and private sectors. This result is in line with Onuorah and Appah (2012) and Tarig et al (2013).

Conclusion and Recommendations

The study examined the influence of forensic accounting on fraud detection and prevention in deposit money banks in Nigeria. The result revealed that use of forensic accounting is a major mechanism in detecting and preventing fraud in banking sector. This implies that forensic accounting is most important accounting tool that detects and prevents financial malpractices in Nigeria public and private sectors. Therefore, it is recommended that forensic accounting should be embraced by management of Nigeria deposit money banks and public sector. Also, staff should be encouraged to attend conferences and seminars within and outside the country on forensic accounting. Moreover, Anti-corruption agencies in Nigeria such as EFCC, ICPC should be restructured by the government for better performance.

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