

Forensic Accounting a Panacea to Alleviation of Fraudulent Practices in Nigeria.

DADA Samuel O., PhD

Senior Lecturer

Accounting Department, Babcock University, Nigeria
erinpe@yahoo.com

Mobile No: +2347062555414

OWOLABI Sunday Ajao, PhD

Associate Professor of Accounting

Department of Accounting, Babcock University, Nigeria
emilagba05@yahoo.com

Mobile No: +2348034097016

OKWU, Andy T. PhD

Department of Economics, Banking and Finance
Babcock University, Nigeria

Abstract

Fraudulent practices among Nigerians are major challenges facing the development of the country. The federal government has been making several efforts by setting up many anti corruption institutions to reduce cases of fraud and other economic crimes but the efforts seemed not to have been effective. This study attempts to look at 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 ($p=0.01$; $\beta_1=0.409$). Since $p=0.01$ is significant at 5%, the hypothesis that said fraud prevention is not significantly related to fraud investigation and detection through the employment of forensic accounting technique was rejected. Since the anticorruption commission did not have a forensic accounting unit at the time of this study, it is therefore recommended that forensic accounting unit be established by the commission and experts should be employed to ensure proper investigation of cases of fraud to assist the courts in effective prosecution of persons accused of fraudulent practices.

INTRODUCTION

One of the major challenges facing the development of the nation is fraudulent practices among the citizens of the country. Pathetically, Nigeria was ranked by Transparency International (TI) 134th in 2010 and 143rd in 2011 out of 183 countries surveyed in terms of public perception of corruption. The negative effect of corruption on development has made Nigerian government to seek for solution on how to combat the menace. This may explain why several such institutions have been established in Nigeria. Among these are the Code of Conduct Bureau, the Independent Corrupt Practices Commission (ICPC) and the Economic and Financial Crimes Commission (EFCC). The key feature here, however, is effectiveness and its lack may be one reason why the existence of these institutions has not, apparently, resulted in significant reductions in the perceived level of corruption in Nigeria. Oyejide (2008), further submitted that where the rules, laws and processes which the government relies upon to influence behaviour and actions lack adequate transparency, a fertile ground for fraudulent practices may be created and sustained rather than being eliminated. It goes without saying that where the top political leaders at every level of government do not provide the right example, it is difficult to expect that the other elements which sustain the quality of bureaucracy and help to keep corruption at bay can be maintained.

Forensic Accounting technique is a viable tool in combating economic crime. Crumbley, Heitger and Smith (2009) said forensic accounting is the action of identifying, recording, settling, extracting, sorting, reporting and verifying past financial data or other accounting activities for settling current or prospective legal disputes or using such past financial data for projecting future financial data to settle legal disputes.

According to Amundsen (1999:1)

Corruption is found almost everywhere, but it is stubbornly entrenched in the poor countries of Sub-Saharan Africa, it is widespread in Latin America, it is deep rooted in many of the newly industrialised countries, and it is reaching alarming proportions in several of the post-communist countries. It is understood as everything from the paying of bribes to civil servants in return for some favour and the theft of public purses, to a wide range of dubious economic

and political practices in which politicians and bureaucrats enrich themselves and any abusive use of public power to a personal end.

In 2002, Nigeria was rated by Transparency International, as the second most corrupt country in the world but moved slightly up to the sixth position in 2006. This perception, no doubt, poses a serious problem towards attracting both local and foreign investors into Nigeria. Corruption is not a new phenomenon and it cuts across human society irrespective of the level of development, that is, whether developed, developing or under developed nation. It is therefore not peculiar to Nigeria.

This may be connected with the position of Transparency International which defined corruption as misappropriation of assets and financial statement. Corruption in form of fraudulent practices is seen as the abuse of entrusted power for private gain (Golden, Skalak, and Clayton, 2006)

Corruption is anti-social behaviour conferring improper benefits contrary to legal and moral norms, which undermines the authorities' capacity to secure the welfare of all citizens. The decline of traditional society and values was a function of rapid urban development in the late forties coupled with the bitterly fought Second World War that made survival of the fittest the order of the day. This gave birth to rapid economic growth bringing in its trail, new tastes, new aspirations and a new social order. According to Okonkwo (2007: 1-2),

From as early as 1947, commissions of inquiry were set up to investigate cases of corruption. The purpose of the inquiries was to expose wrong doing and to punish the culprits. In 1955, the colonial government held an inquiry into the affairs of a district council, (Igbo-Etiti District Council). The inquiry judged that the "conduct of the Council's affairs had become a public scandal. The report revealed that there was systematic corruption in the appointment and promotion of staff and in the award of contracts. Bribes of £80 to £100 were demanded for unnecessary appointments....."

The First Republic was marked by widespread corruption. Government officials looted public funds with impunity. Federal Representative and Minister of Aviation, K.O Mbadiwe, built a palace in his hometown. When asked where he had gotten the money to build such a mansion, said, "From sources known and unknown". Minister of Finance, Chief F.S Okotie- Eboh responded to charges of accumulation of wealth by government officers by quoting from the Bible, "To those that have, more shall be given, from those that do not have, shall be taken even the little they have".

According to Erubami and Young (2003), tales of "ghost workers" on Nigerian employment rolls are legion, the Accountant General for the Federation once reported that the government had discovered forty thousand (40,000) staff members listed on the payroll who were no longer in employment of the government.

From a business perspective, the possibility for fraud and extortion typically impinges on the regulatory gates, transactions with public officials; obtaining import/export permits and visas, paying for public utilities and taxes, loan applications, award of public contracts, influencing laws and regulations, and getting favourable judicial decisions (Kaufmann, 2003). From a public institutional perspective, acts of corruption (fraudulent practices) can compromise optimal delivery of infrastructure for the general well-being of the societies they are mandated to serve because a contracted firm may reduce the quality of goods and services to cover the cost of the bribe (Windsor and Getz, 2000).

Forensic accounting technique is fast becoming popular in providing evidence in the prosecution of corruption and as well assist in disputes resolution. It provides an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution. Forensic Accounting encompasses both litigation support and investigative accounting. The integration of accounting, auditing and investigative skills yields the specialty known as Forensic Accounting. Forensic, according to the Webster's Dictionary, means belonging to, used in or suitable to courts of judicature or to public discussion and debate.

Okoye and Akamobi (2009) commented that forensic accounting is the practice of utilizing accounting, auditing and investigative skills to assist in legal matters. It is a special practice area of accounting that describes engagements that result from actual or anticipated disputes or litigation. It comprises litigation support, investigation and dispute resolution. The increase in number of fraud and fraudulent activities in Nigeria and around the world has emphasized the need for forensic accountants. This technique can be employed to effectively investigate and detect cases of corruption in Nigeria

Statement of the Problem

The Central Bank of Nigeria in 2009 employed the services of forensic accountants from three professional firms to investigate the Chief Executive Officers of five banks, including Oceanic Bank whose chief executive officer has been sentenced to eighteen (18) months imprisonment while others are still being tried in court. Employment of forensic accounting technique may have had positive impact on such investigation.

Summary of High Profile Fraud cases as at 2010 with Economic and Financial Crimes Commission (EFCC) showed that a total of about fifty four (54) cases involving over one trillion (N1.3 trillion) naira before various courts

in Nigeria from 2007 – 2010. Some of these cases have been in court for more than four years with incessant adjournment (<http://www.efccnigeria.org>).

As a result of corruption in Nigeria, many foreign investors have lost several billions of dollars to fraudsters thereby leading to reduction or even dis-investment from Nigeria and its attendant negative consequences on economic growth and development. In the same vein, billions of dollars invested in power generation by the government has failed to yield the desired result and many multinational companies had moved their operations to either Ghana or South Africa where cost of doing business is less and which also have lower risk of losing their investment to fraudsters. (<http://www.nigeriavillagesquare.com/forum/archive/index.php/t-29404.html>)

This study therefore looks into the relevance of forensic accounting in the effective reduction of fraudulent practices in Nigeria.

Objective of the study is to assess the relevance of forensic accounting in the effective reduction of fraudulent practices in Nigeria.

Statement of Hypothesis

Forensic accounting is not significantly related to fraud investigation and detection in Nigeria.

Concept of Fraud

Ojaide (2000) stated that fraudulent practices include frauds and all other illegal means of acquiring and possessing an asset to the disadvantages of another person. Frauds are acts of dishonest, deceit, falsifications and manipulations perpetrated to gain either monetary and or non-monetary benefits.

Fraud has been defined by EFCC (2004:46) as “. . . the non-violent criminal and illicit activity committed with objective of earning wealth illegally either individually or in a group or organized manner thereby violating existing legislation governing the economic activities of government and its administration . . .”

Nwaze (2012) defined fraud as a predetermined as well as planned tricky process or device usually undertaken by a person or group of persons with the sole aim of cheating another person or organisation to gain ill-gotten advantage which would not have accrued in the absence of such deceptive procedure.

Ramamoorti (2007) argued that fraud is a human endeavor, involving deception, purposeful intent, intensity of desire, risk of apprehension, violation of trust, and rationalization. It is therefore important to understand the psychological factors that might influence the behavior of fraud perpetrators. The rationale for drawing on behavioral science insights is evident from the intuition that one needs to think like a crook to catch a crook.

It can be summarized that corruption is any form of unethical behavior that confer undue advantage on people in authority or their relations, efforts to secure wealth or power through illegal means. This includes bribery, fraudulent practices, embezzlement, favouritism and other sharp practices

Concept of Forensic Accounting

The integration of accounting, auditing and investigative skills yields the specialty known as forensic accounting. Forensic, according to the Webster's Dictionary, means belonging to, used in or suitable to courts of judicature or to public discussion and debate. According to the Association of Certified Fraud Examiners (ACFE) forensic accounting is the use of skills in potential or real civil or criminal disputes, including generally accepted accounting and auditing principles; establishing losses or profit, income, property or damage, estimations of internal controls, frauds and others that involve inclusion of accounting expertise into the legal system (www.forensicaccounting.com/there.htm.)

Dhar and Sarkar (2010) 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.

The utilization of specialized investigative skills in carrying out an inquiry conducted in such a manner that the outcome will have application to a court of law is called forensic investigation. A forensic investigation may be grounded in accounting, medicine, engineering or some other discipline. Forensic audit is an examination of evidence regarding an assertion to determine its correspondence to established criteria carried out in a manner suitable to the court.

Gray (2008) analyzed forensic accountants as a combination of an auditor and private investigators. Knowledge and skills include investigative skills, research, law, quantitative methods, finance, auditing, accounting and law enforcement officer insights. He confirmed that forensic accountants have been employed by the Federal Bureau of Investigation (FBI), Central Intelligence Agency (CIA), Internal Revenue Service (IRS), Federal Trade Commission (FTC) and other government agencies to deal with fraudulent practices.

A forensic accountant's primary duty is to analyze, interpret, summarize and present complex financial and business-related issues in a manner that is both readily understandable by the layman and properly supported by

evidence. The forensic accountant's activities are relevant to various types of business and personal legal disputes. Much of the work is connected with an evaluation of past and projected profits as well as appraising and preparing business valuations. Forensic accounting expertise is useful in litigation involving loss of profits, breaches of contract, fraud, tax investigations and professional negligence.

METHODOLOGY

Survey research design has been chosen in this study to ensure that reliable empirical data is obtained to test the relationship that exist between forensic accounting and fraud investigation and fraud detection to reduce fraudulent practices. Cases of fraud and the techniques of its investigation and detection can best be studied using this design to generate data that are analysed to arrive at reasonable conclusions that will be of practical application in dealing with fraudulent practices among Nigerian. This study was carried out on the application of forensic accounting in the investigation and detection of cases of fraud in Nigeria, using all the staff of the selected anti-corruption agent (EFCC) and three of the major professional accounting firms in Nigeria for the period 1999 to 2010.

Two sets of questionnaire were designed to collect information from the staff of EFCC and the professional firms respectively. Copies of questionnaire were administered on the various cadres of staff of the selected organizations. Oral interview was also conducted on staff of EFCC that were carrying out investigation on cases of corruption and the staff of the professional accounting firms with forensic accounting investigation technique. To assess the effect of forensic accounting in the investigation and detection of corruption in Nigeria, multiple regression analysis using Statistical Package for Social Sciences (SPSS) was employed. Correlation analysis was also carried out to confirm the kind of relationship that exists between the dependent variable (fraud reduction) and the independent variables (fraud investigation and fraud detection).

Model specification:

FRAR = f(FRAI, FRAD)..... (1)

FRAD = $\beta_0 + \beta_1$ FRAI + β_2 FRAD + μ (2)

a priori expectation: $\beta_0 > 0$; $\beta_1 > 0$; $\beta_2 > 0$;

Where:

FRAR = Fraud Reduction

FRAI = Fraud Investigation

FRAD = Fraud Detection

β_0 = intercept/ autonomous variable. It depicts the degree of the need for forensic accounting even without the existence of fraud.

β_1 = coefficient of investigation of fraud. It depicts the degree of the need for investigation of fraud by applying forensic accounting technique.

B_2 = coefficient of detection of fraud. It depicts the degree of the need for detection of fraud using forensic accounting technique.

DISCUSSION OF FINDINGS

Summary of regression analyses for the testing of Hypothesis

Variables	β_0	β_1	β_2	F	R ²	P-value	Comment
Fraud Reduction	3.000	0.409	-0.432	5.200	0.206	0.010	Sig

Source: Regression analysis from the researcher's field survey 2012

The estimated model affirms the proposition of a positive relationship between application of forensic accounting and fraud reduction. This is indicated by the positive value of the coefficient of fraud investigation and fraud detection using forensic accounting technique ($\beta_1 = 0.409$). The implication is that forensic accounting has positive effect on fraud detection therefore the more forensic accounting is applied in an organization, the better its efficiency in fraud detection. Consequently, the estimated model is consistent with the a priori expectation of the study. There is however a negative relationship between the involvements of forensic accountant in the investigation of fraud cases by the EFCC ($\beta_2 = - 0.432$). This is a confirmation that as at the time of this study, forensic accountants were not involved in investigation by the commission. Of the three biggest professional accounting firms selected for this study, only KPMG has forensic accounting unit and it is not presently directly involved in investigation by the EFCC or other anti corruption agencies. Also the Institute of Chartered Accountants of Nigeria that is in the fore front of training professional accountants just began training of forensic accountants and inducted, for the first time ever in Nigeria, only sixteen forensic accountants in 2010. Though 90.62% of all the respondents in EFCC and professional accounting firms agreed that forensic accounting is needed, EFCC has not employed the technique nor engaged the professional firms to carry out fraud investigation to reduce fraudulent

practices. This is not the case in the developed countries and some developing countries, (South Africa for example) where forensic accounting technique has been employed for detection of fraud as confirmed by Nevin (1998) Pacini (2002), Peterson and Barnhill (2003), and Indiaforensic Research Foundation, (2007).

From the result of the regression analysis, the null hypothesis which says "fraud reduction is not significantly related to fraud investigation and detection through the employment of forensic accounting technique" has been rejected because the p-value of 0.010 is significant. This indicates that forensic accounting is positively related to the investigation and detection of corruption but presently has not been applied in the investigation and detection of corruption especially by the major anticorruption agency (EFCC) in Nigeria.

Record of Cases Under prosecution by EFCC as at March, 2011

Classes of Cases	Convictions	Under Trial	Under Investigation
Politically Exposed Persons	36	75	105
Advance Fee Fraud	428	789	445
Money Laundering	15	163	26
Cybercrime/ Internet Fraud	137	476	186

Source: Waziri (2011)

Above is the score card of EFCC as at March, 2011 as given by its former chairman, Waziri in a paper entitled "EFCC'S Critical Role in Growing the Economy" presented to the Nigeria – British Chamber of Commerce in March, 2011.

Similar statistics displayed on the notice board of EFCC at the Ikoyi zonal office in Lagos as at March, 2012 showed that 540 cases were under prosecution involving about 671 persons. Out of these cases, 296 persons had been convicted, 340 persons were under trial in courts, 23 persons were discharged and 6 persons acquitted, 4 persons had been extradited to face trial abroad, 4 cases had been terminated due to natural death of the accused, and 2 cases were under appeal in the Appeal court while 2 cases had been stalled. Efforts to get the list of persons involved in those cases did not yield results as the EFCC officials said it is confidential.

It can be observed that advance fee fraud and cybercrime / internet fraud top the list of fraud cases but the rate of success was also high due to the fact that many of those cases involved individuals and corporate organizations where evidences are easily obtained and presented to the court. According to EFCC officials, cases of fraud, bribery, and embezzlement usually involve huge amount of money and normally involve politically exposed persons and government officials. These are cases that are difficult to deal with which require digging out reliable evidences that will be sufficient to convince the courts that the accused actually committed the crime. These are cases where the services of forensic accountants are mostly needed to ensure that sufficient and reliable evidences are brought to court as recommended by Houck (2006) and Asaolu and Owojori (2009). This also agreed with the recommendation of Ramamoorti (2012) in the theory of the Triangle of Fraud Action where the services of experts are required to unravel fraud cases.

CONCLUSION

From the above discussions, it is clear that non involvement of forensic experts (accountants) in investigation as well as prosecution where the expert will serve as witness in court, as confirmed by Ribadu (2006) is one of the challenges of the anti corruption commission. Proper investigations were not carried out and adequate evidences not presented in courts for effective prosecution of accused persons leading to dismissal of cases brought by EFCC such as those of James Ibori, Erastus Akingbola and Ndudi Elumelu. Professional accounting firms with expertise investigative skills using forensic accounting technique are not also involved in the commission's operations. Nigerians have seen corruption as part of life hence. fraud cannot be eradicated. This is in agreement with the concept of rationalization in Fraud Triangle resulting from the belief that everybody is doing it. There is seemingly ineffective system to track activities of fraudsters. Though the result of the study showed that forensic accounting is positively related to the investigation and detection of fraudulent practices, it has not been applied in the investigation and detection of fraud, especially by the major anticorruption agency (EFCC) in Nigeria. There is low awareness of the forensic accounting technique as an effective tool for investigating and detecting fraud cases presently in Nigeria and as at the time of this study, EFCC does not have forensic accounting unit.

RECOMMENDATIONS

- *EFCC should set up a forensic accounting unit where trained expert will be employed to carry out investigation of cases of fraud to ensure that enough evidence and facts are presented in courts to eliminate technical issues that could lead to dismissal of clear cases of fraud.
- *Forensic accounting experts from the professional accounting firms should be retained by EFCC to carry out investigation and serve as expert witness that will assist the court reach a conclusion on issues which the court itself may not have the knowledge to decide.
- *Forensic Accounting should be included in accounting programme of Nigerian universities and colleges to ensure proper training of professionals and as well create more awareness.
- * Professional accounting firms should embark on training of their staff in forensic accounting to make sure that EFCC and other clients can rely on their expertise to act as expert witness in courts.

REFERENCES:

- Amundsen, I. (1999). Political corruption: An introduction to the issues. Bergen, Chr. Michelsen Institute, Working Paper 1999:7 Downloaded on 24/03/ 2011 www.unifr.ch/.../amundson_inge_2000_%20a_selected_annotated_..
- Asaolu, T.O and O. Owojori (2009). The role of forensic accounting in solving the vexed problem of corporate world. *European Journal of Scientific Research*, 29 (2) 183-187. Downloaded from <http://www.eurojournals.com>
- Crumbley, D.L, Heitger, L. E. and Smith, G. S. (2009). Forensic and investigative accounting. CCH Group: 3-5.
- Dhar, P. and A. Sarkar, (2010). Forensic accounting: An accountant's vision. *Vidyasagar University J. Commerce*, 15(3): 93-104.
- EFCC (2010). <http://www.efccnigeria.org>. Retrieved on 12th April, 2011
- Erubami, M. and Young, I.R. (2003). Nigeria's corruption and related economic behaviour in their global context: *Centre for Human Rights Research and Development Research Review 1*,
- Golden, T.W, Skalak, S.L and Clayton, M.M (2006). A guide to forensic accounting investigation, John Wiley & Sons Inc. New Jersey
- Gray, D.(2008). Forensic accounting and auditing: Compared and contrasted to traditional accounting and auditing, *American Journal of Business Education*. 1(2)
- Houck, M.M (2006): Forensic accounting as an investigative tool. *The CPA Journal, A publication of the New York State Society of CPAs*. 1-3
- <http://www.nigeriavillagesquare.com/forum/archive/index.php/t-29404.html>
- Indiaforensic Research Foundation (2007). Retrieved from <http://www.indiaforensic.com/fraudsinindia.htm> on 15th July, 2011
- Nevin, T. (1998). The fraud detectives: High beam research, african Business. Retrieved from <http://www.highbeam.com/doc/IGI-21276577.html> on July 17, 2011
- Nwaze (2012). Due process and accountability: Advance fee fraud (1) *Zenith Economic Quarterly* 8 (2), April. 24-28
- Ojaide, F. (2000). Frauds detection and prevention: The case of pension accounts *ICAN NEWS* January/March. 8
- Okonkwo, R. (2007). Africa unchained: Corruption in Nigeria. A historical perspective (1947-2002). Retrieved on 15th June, 2011 from corruption-in-nigeria-historical.html
- Okoye, E.I and Akamobi, N.L. (2009): The role of forensic accounting in fraud investigation and litigation support. *The Nigerian Academic Forum* .J 7 (J) November 39-44
- Oyejide, A.T. (2008). Corruption and development: A Nigerian perspective paper presented at the 2008 annual conference of Institute of Chartered Accountants of Nigeria in Abuja
- Pacini, C (2002). The forensic accountant's role in fighting terrorist financing. *Journal of Forensic Accounting* 1524-5586/ III, 289-300.
- Peterson B.K. and Barnhill, D.R. (2003). Accountants as expert witnesses: A primer on meeting daubert challenges: *Journal of Forensic Accounting* 1524-5586/ IV, 113-126 R.T. Edwards,
- Ramamoorti, S. (2008). The psychology and sociology of fraud; Integrating the behavioural sciences component into fraud and forensic Accounting curricula. *Issues in Accounting Education*. 23 (4) 521-533
- Ribadu, N (2006). Nigeria's struggle with corruption: Being a paper presented to the US congressional house committee on international development, Washington DC.
- www.forensicaccounting.com/there.htm.
- Waziri, F. (2009): Zero tolerance magazine of EFCC. 4 (1) February, 2009.
- Windsor, D. and Getz, K.A (2000): Multilateral cooperation to combat corruption: Normative regimes despite mixed motives and diverse values, *Cornell International Law Journal* 33(3) 757.