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Forensic accounting and financial fraud

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Abstract
The objective of the study is to examine the role of forensic accounting in curbing financial crimes in Nigerian banks. The survey research design was employed fir the study with an extensive reliance on primary data retrieved through the use of well-structured Likert scale questionnaire. The chi-square non-parametric statistical technique was utilized for the data analysis procedure. The study findings show that; (i) there is a need for forensic accountants in the Nigerian banking system. (ii) Forensic accounting is an effective tool for addressing financial crimes in the banking system and (iii) there are significant differences between the roles of forensic accounting and that of conventional accounting in curbing financial crimes. In the light of the study findings, the following recommendations are provided; Firstly, there is the need for banks in Nigeria to engage the services of forensic accountants as forensic accounting now appears as a one of the strategic and dynamic tool for the management of all types of financial crimes. Secondly, banks also need to focus on training and up-dating the skills of the internal control and audit staffs especially as a result of the perceived differences between conventional accounting and auditing skills and forensic accounting.

Keywords: Forensic accounting, financial fraud, auditing

1. Introduction
The true and fair view opinion on the financial statements by the statutory auditors is designed to give credibility to such financial reports. This, in turn, is expected to induce confidence in the users of financial statements that wish to make an investment decision. But going by the growing spate of corporate scandals and collapse of corporate organizations, one has had to argue the relevance and the credibility-building clause of the true and fair view opinion of the statutory auditor. Today, modern organized financial crimes have appeared. Corruption and other financial and economic crimes are the bane of Nigerian development efforts (EFCC, 2004). With an upsurge in financial accounting fraud in the current economic scenario experienced, financial fraud has become an emerging topic of great importance for academic, research and industries (Sharma and Panigrahi, 2012). Fraud in accounting has been discoursed along two main dimensions viz fraudulent financial reporting and misappropriation of firm resources. Fraudulent financial reporting refers to deliberate and calculated activities and attempts to misrepresent transactions in the financial statement in order to derive or take undue advantage. On the other hand misappropriation of assets refers to deliberate and calculated activities to take firms resources without authorization, this includes stealing.

According to the US General Accounting Office (GAO) (1996), there is now a strong emphasis on fraud prevention and detection during statutory audits. In fact the United States and international standards setters have increased the responsibility of auditors to consider the risks of fraud while conducting audits of financial statements. There is even a call for stronger forensic skills in those who perform these audits. This has been collaborated by Enyi (2009) who submits that all normal statutory audits should contain some elements of forensic enquiry as the evidence of fraudulent activities can be easily discovered if a thorough evaluation of the adequacy and compliance of the internal control mechanism is made.

Dhar and Sarkar (2010) said forensic accounting is the application of accounting concepts and techniques to legal problems. It demands reporting where fraud, bribery or embezzlement is established and the report is considered as evidence in the court of law or in administrative proceedings. It is concerned with the use of accounting discipline to help determine issues of facts in business litigation (Okunbor and Obaretin, 2010). Forensic accounting has also been defined as the science of gathering and presenting information in a form that will be accepted by a court of jurisprudence against perpetrators of economic crime (Stanbury & Paley-Menzies, 2010).Forensic Accounting is the study and practice of rigorous data collection and analysis in the areas of litigation support, consulting, expert witnessing, and fraud examination.

It touches almost all disciplines especially, Accounting, Auditing, Investigation, Law and Psychology (Boleigha, 2011).

Centre for Forensic Studies (2010) report in Nigeria states that if well applied, forensic accounting could be used to reverse the leakages that cause corporate failures. This is because of the fact that forensic accounting is a technique that encapsulates accounting, auditing and investigative skills to address issues relating to financial fraud. The tripartite arrangement of accounting, auditing and investigation in forensic accounting makes it a form of accounting that suitable for legal review and offering the highest level of assurance (Apostolou, Hassell, and Webber, 2000).

1.2 Statement of the Problem

The last decades has been marked by financial instability, economic crises, financial scandals and lack of trust in capital markets, have lead to an economic downfall and have brought back into light the analysis of the responsible factors. Of these, financial fraud is a significant element regarded as a disastrous phenomenon difficult to pin under safe touchlines. Economically, financial fraud is becoming an increasingly serious problem. The detection of accounting fraud using traditional internal audit procedures is a difficult or sometimes an impossible task

Forensic accounting is professed to have advanced in reaction to certain emerging fraud connected cases. KPMG's Fraud Survey (2003) reveals that more companies are recently experiencing incidents of fraud than in prior years and looking for measures to combat fraud. Ojaide (2000) notes that there is an alarming increase in the number of fraud and fraudulent activities in Nigeria, requiring the visibility of forensic accounting services. Consequently, there is a general expectation that forensic accounting may be able to stem the tide of financial malfeasance (Emeh and Obi, 2013).

1.3 Objectives of the Study

The study objectives are to examine; (i) if there is a need for forensic accountants in the Nigerian banking system. (ii) to what extent is Forensic accounting is an effective tool for addressing financial crimes in the banking system and (iii) if there are significant differences between the roles of forensic accounting and that of conventional accounting in curbing financial crimes.

2. Literature review

2.1 Concept of Forensic Accounting

The most primitive recognized evidence of forensic accounting has been traced to an advertisement in a newspaper in Glasgow, Scotland, appearing in 1824. At that time, arbiters, courts, and counsels, used forensic accountants to investigate fraudulent activity. However, it was not until the early 1900s in the United States and England, when articles providing guidance on giving expert testimony appeared (Crumbley, 2003). Although the coining of the term Forensic Accounting by Peloubet is said to date back to 1946, however, the practice is relatively new in Nigeria (Kasum, 2009). Forensic accounting has been variously defined by several researchers Forensic Accounting is an amalgam of forensic science and accounting. Forensic science according to Crumbley (2003) may be defined as application of the laws of nature to the laws of man." He refers to forensic scientists as examiners and interpreters of evidence and facts in legal cases that also requires expert opinions regarding their findings in court of law. The science in question here is accounting science, meaning that the examination and interpretation will be of economic information. Bologna and Lindquist (1995) defined forensic and investigative accounting as the application of financial skills and an investigative mentality to unresolved issues, conducted within the context of the rules of evidence. As a discipline, it encompasses financial expertise, fraud knowledge, and a sound knowledge and understanding of business reality and the working of the legal system. Its development has been primarily achieved through on-the-job training as well as experience with investigating officers and legal counsel.

In many quarters, forensic accounting is equated to financial audit but they are miles apart. According to Kranacher *et al* (2008) Forensic accounting is likely to be similar in many ways to a statutory audit of financial information, in that it will include a planning stage, a period when evidence is gathered, a review process, and a report to the client. The difference would be to discover if a fraud had actually taken place, to identify those involved, to quantify the monetary amount of the fraud (i.e. the financial loss suffered by the client), and to ultimately present findings to the Board of client and potentially to court. Forensic accounting is usually described as the integration of accounting and auditing skills with investigative techniques and professional skepticism. Also, Manning (2002) stated that forensic accounting is the combination of accounting, auditing and investigative skills to a standard that is required by a court of jurisdiction to address issues in dispute in the context of civil and criminal litigation. Forensic accounting can invariably be defined as the practice of rigorous data collection and analysis in the areas of litigation support consulting, expert witnessing, and fraud examination (Rezaee, Crumbly and Elmore, 2003; 2004). Forensic Accounting is the applications of specialized knowledge and specific skills to stumble up on the evidence of economic transactions

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).

Coenen (2005) stated that forensic accounting involves the application of accounting concepts and techniques of legal problem. Howard and Sheetz (2006) opined that 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. Mehta and Mathur, (2007) posited that forensic accounting involves a financial detective with a suspicious mind, a financial bloodhound, someone with a 'sixth sense' that enables reconstruction of past accounting transactions and an individual who looks beyond the numbers.

In the view of Damilola and Olofinsola (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. They further assert that it is not every forensic accounting engagement that ends up in the court of law. The integration of accounting, auditing and investigative skills results in the special field known as forensic accounting (Crumbley, 2008).

2.2 literature of literature

Modugu and Anyaduba (2013) carried out a study to examine forensic accounting and financial fraud in Nigeria. The study specifically examined if there is significant agreement amongst stakeholders on the effectiveness of forensic accounting in financial fraud control, financial reporting and internal control quality. The survey design was used in the study with a sample size of 143 consisting of accountants, management staffs, practicing auditors and shareholders. The simple random technique was utilized in selecting the sample size, while the

binomial test was employed in the data analysis. The findings of the study indicated that there is significant agreement amongst stakeholders on the effectiveness of forensic accounting in fraud control, financial reporting and internal control quality.

Okoye and Gbegi (2013) carried out a study to examine 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 utilized for the purpose of the study. Tables and simple percentages were used to analyze the data. The statistical tool used to test hypotheses was Analysis Of Variance (ANOVA). Among the findings was 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.

Adegbie and Fakile (2012) carried out a study to evaluate forensic accounting as antidote to economic and financial crime in Nigeria. The population is the government parastatals. The sample representatives the following key government institutions: Economic and Financial Crimes Commission (EFCC), Independent Corrupt Practices Commission (ICPC), Lagos State Ministry of Finance, Power Holding Company of Nigeria(PHCN) and Federal Inland Revenue Service(FIRS). The statistical model applied is Chi-Square and Statistical Package for Social Statistics (SPSS) was applied to compute the data. The results show that Forensic Accounting is a financial strategy to curb and resolve economic and financial crimes in Nigerian economy

Emeh and Obi (2013) in a study examined the correlations of Presence of forensic accountant (PFA), Number of accountants with forensic accounting skills (NAFT) and Extent of forensic accounting practices with Extent of employee theft (EET), Extent of financial fraud (EFT) and extent of top management fraud (ETMF). The survey research design was utilized for the study. The population of the study comprises of management staffs of selected financial institutions. The choice of financial institutions is because the sector amongst others has been bedeviled with cases of financial fraud. A sample of one hundred and five (105) respondents was adopted. The sampling was done using simple random sampling. The data was generated using well-structured likert scale questionnaire. The study employed the spearman rank correlation as the data analysis method. Result from the study show that there is evidence of significant negative correlations between PFA, NAFT and EFAP with EFR.

Dada, Owolabi and Okwu (2013) carried out a study that looked 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 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. The results of the hypotheses tested revealed that fraud reduction is significantly and positively related to fraud investigation and detection through forensic accounting, the hypothesis that said fraud prevention is not significantly related to fraud investigation and detection through the employment of forensic accounting technique was rejected.

3. Methodology

The research design for this study is the exploratory research design. The exploratory design advocated by Petty (1991) relies on observing phenomena in their natural setting and deriving theories that fit the analysis of the data. It is employed when the researcher is concerned with surveying responses from a sample of the population without any control on the elements of the sample and as such it is used extensively to collect information on numerous subjects of research (Nachmias and Nachmias, 2009). The population of the study comprises of Accounting and audit staffs of banks in Nigeria. However, resulting from the practical difficulties of accessing the population, a subset regarded as a sample will be utilized. We adopted a sample of 143 respondents. Primary data was used as the data source while the chi-square statistical technique was employed as the data estimation technique.

4. Data presentation and hypotheses testing

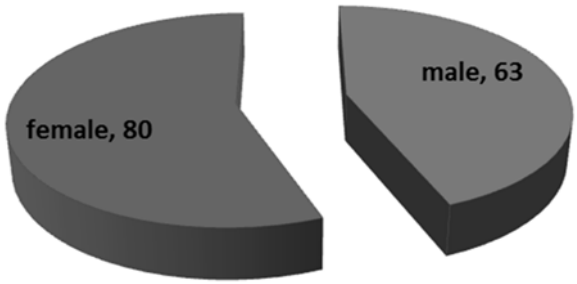

Fig 1: Sex Distribution of the respondents

Source: Researchers survey, 2015.

From the analysis of the responses retrieved, of the 143 bank staffs whose responses were used for the analysis, 80 of the respondents were female which represents 55.9% of the sample while 63 of the respondents were males which represent 45.1% of the sample.

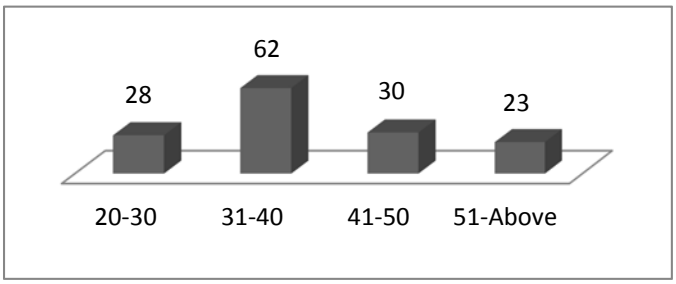

Fig 2: Age Distribution of the respondents

Source: Researchers survey, 2015.

From the analysis of the responses retrieved, of the 143 bank staffs whose responses were used for the analysis, 28(19.58%) of the respondents were within the age range of 20-30 while 62(43.4%) of the respondents were in the age range of 31-40 years. Furthermore, 30 (20.97%) of the respondents were in the age range of 41-50 while 23(16.08%) were in the range 51-above.

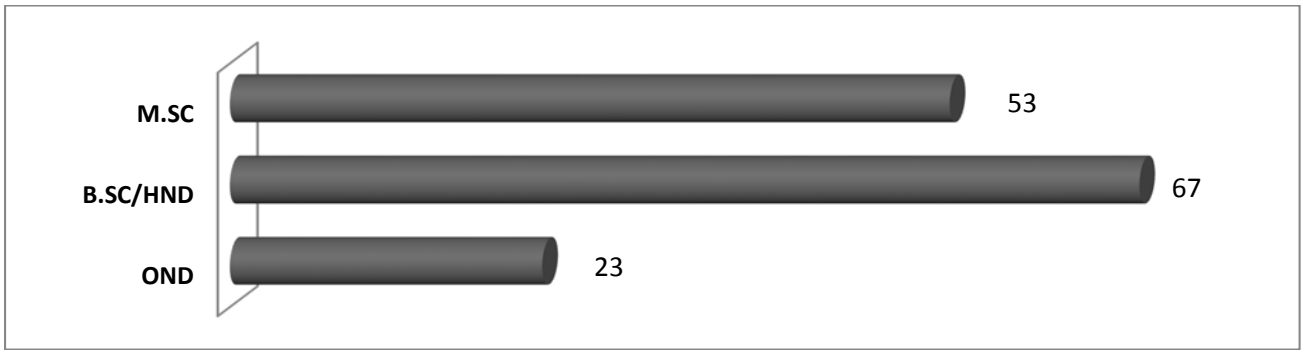

Fig 3: Educational Qualification of the respondents

Source: Researchers survey, 2015,

From the analysis of the responses retrieved, of the 143 bank staffs whose responses were used for the analysis, 53(37.06%) of the respondents have M.sc qualifications. 67(46.85%) of the respondents have B.SC/H.ND qualifications while 23(16.08%) of the respondents had the ordinary national diploma (O.N.D)

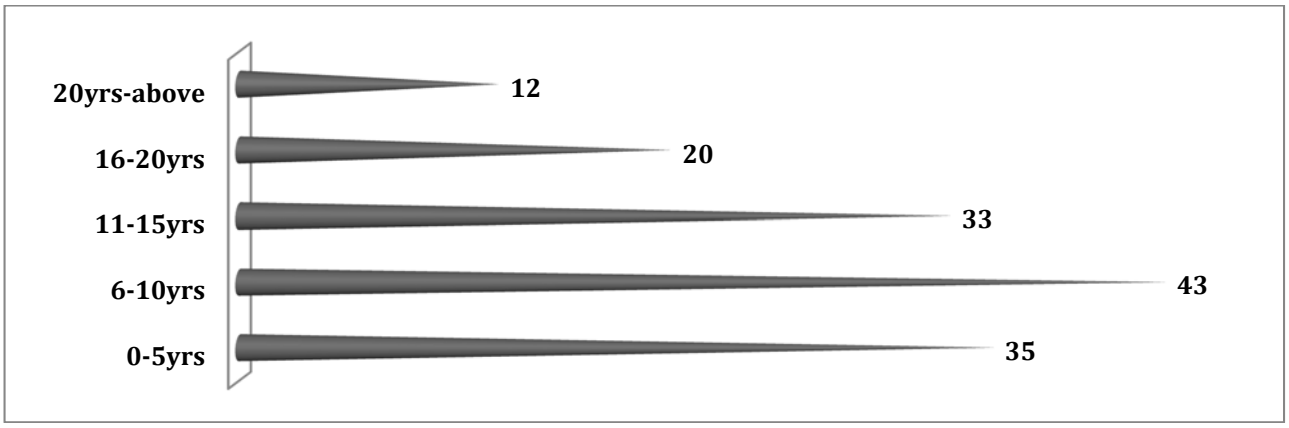

Fig 4: Number of years working experience.

Source: Researchers survey, 2015

From the analysis of the responses retrieved, of the 143 bank staffs whose responses were used for the analysis, 35(24.48%) of the respondents have working experience between 0-5yrs while 43(30.06%) have working experience between 6-10 yrs. Furthermore, 33(23.07%) have working experience between 11-15yrs, 20 (13.986%) have working experience between 16-20yrs and 12 (8.391) have working experience between 20yrs and above.

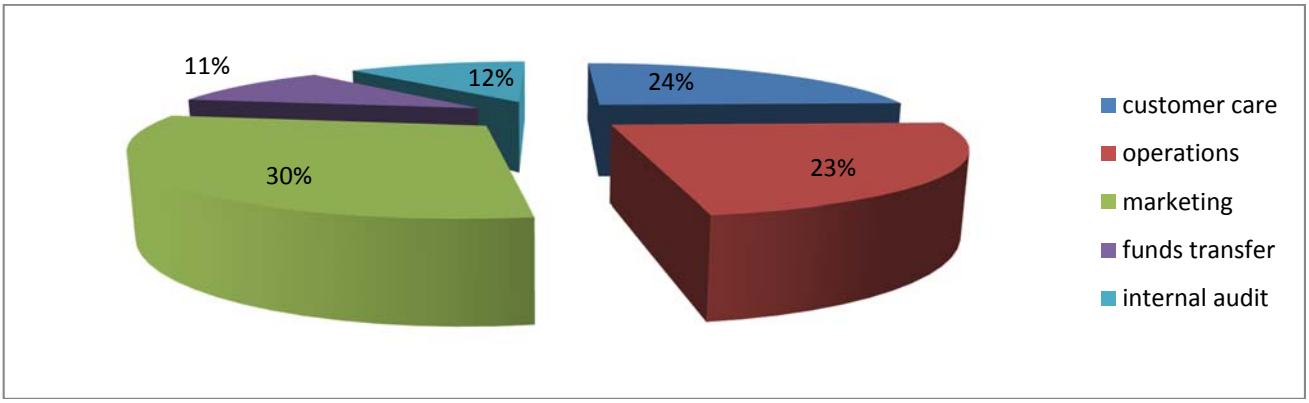

Fig 4: Grouping respondents by departments.

Source: Researchers survey, 2015

From the analysis of the responses retrieved, of the 143 bank staff whose responses were used for the analysis, 43(30%) of the respondents are in marketing department 35(24%) are in customer care department. while 33(23%) are in operations. In addition, 17 (12%) are in internal audit department while 15(11%) are in funds transfer.

Hypotheses Testing

1. HO: There is no need for forensic accountants in the Nigerian banking system.
   H1: There is a need for forensic accountants in the Nigerian banking system.

In testing the hypothesis, we conduct Analysis of the responses for question 14 which is related to the hypothesis. In conducting the analysis, we shall utilize the SPSS statistical package.
Question 14: There a need for forensic accountants in the Nigerian banking system

Table 1: Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
Q14	143	1.3851	.48828	1.00	2.00

Source: SPSS 20.0

The descriptive statistics above shows that the mean response for the sample is 1.3851 which indicates that the average responses to statement 14 seem to cluster around the strongly agree. The standard deviation of .48828 is an indication of the degree of dispersion of the total responses from the mean response. The maximum and minimum values are 2 and 1 respectively.

Table 2: Contingency table for Statement 14

	Observed N	Expected N	Residual
Strongly agree	90	74.0	17.0
Agree	53	74.0	-17.0
Total	143		

Source: SPSS 20.0

The table 2 shows the observed and expected frequencies as well as the residual for the responses. As observed the expected frequency is 74.0 while the residual is 17 and -17.0 respectively.

Table 3: Test Statistics

	Q14
Chi-Square	7.811[a]
Df	1
Asymp. Sig.	.005

Source: SPSS 20.0

Table 3 shows the chi-square test statistics as provided by the SPSS output. As observed the chi-square test statistic is 7.811 which is significant at 5% as the Asymp. Sig value of .005 is less than 0.05. Therefore we accept the alternative hypothesis that there is a need for forensic accountants in the Nigerian banking system and we reject the null hypothesis.

2. HO: Forensic accounting is not an effective tool for addressing financial crimes in the banking system.
   H1: Forensic accounting is an effective tool for addressing financial crimes in the banking system.

In testing the hypothesis, we conduct Analysis of the responses for statements 6, 10 and 12 which is related to the hypothesis. In conducting the analysis, we shall utilize the SPSS statistical package.

Statement 6: Forensic accounting can reduce financial fraud
Statement 10: Forensic accounting can be used to locate diverted funds or assets.
Statement 12: Forensic accounting can Identify misappropriated assets and identify reversible insider transactions

Table 4. Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
Statement 6	143	2.1958	1.35967	1.00	5.00
Statement 10	143	2.6713	1.40310	1.00	5.00
Statement 12	143	2.3007	1.30024	1.00	5.00

Source: SPSS 20.0

The descriptive statistics above shows that the mean response for statement 6 is 2.1958. The standard deviation of 1.35967 is an indication of the degree of dispersion of the total responses from the mean response. The maximum and minimum values are 1 and 5 respectively. The mean response for statement 10 is 2.6713 which also indicate that the average responses to statement 10. The standard deviation of 1.40310 also indicates the degree of dispersion of the total responses from the mean response. The maximum and minimum values are 1 and 5 respectively. The mean response for statement 12 is 2.3007 which also indicate that the average responses to statement 12. The standard deviation of 1.300 is lesser than for that for statement 6 and 10 and is an indication of the degree of dispersion of the total responses from the mean response. The maximum and minimum values are 1 and 5 respectively.

Table 5: Contingency table for Statement 6

	Observed N	Expected N	Residual
Strongly agree	60	28.6	31.4
agree	40	28.6	11.4
undecided	13	28.6	-15.6
disagree	15	28.6	-13.6
strongly disagree	15	28.6	-13.6
Total	143		

Source: SPSS 20.0

The table 5 shows the observed and expected frequencies as well as the residual for the responses. As observed the expected frequency is 28.6 for all categories of the responses however, the residual is different for the categories. As observed strongly agree has a residual value of 31.4, agree has a residual value of 11.4, undecided has a residual value of -15.6, disagree has a residual value of -13.6 and strongly disagree has a residual value of -13.6.

Table 6: Contingency table for Statement 10

	Observed N	Expected N	Residual
Strongly agree	35	28.6	6.4
Agree	43	28.6	14.4
Undecided	22	28.6	-6.6
Disagree	20	28.6	-8.6
strongly disagree	23	28.6	-5.6
Total	143		

Source: SPSS 20.0

The table 6 shows the observed and expected frequencies as well as the residual for the responses. As observed the expected frequency is 28.6 for all categories of the responses however, the residual is different for the categories. As observed strongly agree has a residual value of 6.4, agree has a residual value of 14.4, undecided has a residual value of -6.6, disagree has a residual value of -8.6 and strongly disagree has a residual value of -5.6.

Table 7: Contingency table for Statement 12

	Observed N	Expected N	Residual
Strongly agree	45	28.6	16.4
agree	55	28.6	26.4
undecided	13	28.6	-15.6
disagree	15	28.6	-13.6
strongly disagree	15	28.6	-13.6
Total	143		

Source: SPSS 20.0

The table 7 shows the observed and expected frequencies as well as the residual for the responses. As observed the expected frequency is 28.6 for all categories of the responses however, the residual is different for the categories. As observed strongly agree has a residual value of -15.6, agree has a residual value of -13.6, undecided has a residual value of 26.4, disagree has a residual value of -13.6 and strongly disagree has a residual value of -13.6.

Table 8: Test Statistics

	Statement 6	Statement 10	Statement 12
Chi-Square	60.462[a]	13.888[a]	55.217[a]
df	4	4	4
Asymp. Sig.	.000	.000	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 28.6.

Table 8 presents the results for the chi-square test statistics. As observed, all the statements are all significant at 5% level as the asymptotic value of 0.00. Specifically, statement 6 has a chi-square and asymptotic value of 60.462 and .00 respectively. Statement 10 has a chi-square and asymptotic value of 13.888 and 0.00 respectively. Statement 12 has a chi-square and asymptotic value of 55.217. and 0.00 respectively. All the asymptotic values are less than the alpha value of 0.05 at 5% significance level.

In the light of the above, we reject the hypothesis that Forensic accounting is not an effective tool for addressing financial crimes in the banking system and we accept the alternative hypothesis that forensic accounting is an effective tool for addressing financial crimes in the banking system.

3. HO: There are no significant differences between the roles of forensic accounting and that of conventional accounting in curbing financial crimes.
   H1: There are significant differences between the roles of forensic accounting and that of conventional accounting in curbing financial crimes.

In testing the hypothesis, we conduct Analysis of the responses for statements 7 and 11 which is related to the hypothesis. In conducting the analysis, we shall utilize the SPSS 20.0 statistical package.

Statement 7: Forensic accounting is significantly different from conventional accounting and auditing.

Statement 11: Forensic accounting is more effective than conventional accounting in detecting fraud.

Table 9: Descriptive statistics

	N	Mean	Std. Deviation	Minimum	Maximum
Q7	143	2.8182	1.49476	1.00	5.00
Q11	143	2.4336	1.51313	1.00	5.00

The descriptive statistics above shows that the mean response for statement 7 is 2.8182 which indicate that the average responses to statement 7. The standard deviation of 1.49476 is an indication of the degree of dispersion of the total responses from the mean response. The maximum and minimum values are 1 and 5 respectively. The mean response for statement 11 is 2.4336 while the standard deviation of 1.40310 also indicates the degree of dispersion of the total responses from the mean response. The maximum and minimum values are 1 and 5 respectively.

Table 10: Contingency table for Statement 7

	Observed N	Expected N	Residual
Strongly agree	41	28.6	12.4
agree	24	28.6	-4.6
undecided	25	28.6	-3.6
disagree	26	28.6	-2.6
strongly disagree	27	28.6	-1.6
Total	143		

The table 10 shows the observed and expected frequencies as well as the residual for the responses. As observed the expected frequency is 28.6 for all categories of the responses however, the residual is different for the categories. As observed strongly agree has a residual value of -2.6, agree has a residual value of -4.6, undecided has a residual value of -3.6, disagree has a residual value of -2.6 and strongly disagree has a residual value of -1.6.

Table 11: Contingency table for Statement 11

	Observed N	Expected N	Residual
Strongly agree	54	28.6	25.4
agree	35	28.6	6.4
undecided	21	28.6	-7.6
disagree	4	28.6	-24.6
strongly disagree	29	28.6	.4
Total	143		

The table 11 shows the observed and expected frequencies as well as the residual for the responses. As observed the expected frequency is 28.6 for all categories of the responses however, the residual is different for the categories. As observed strongly agree has a residual value of 25.4, agree has a residual value of 6.4, undecided has a residual value of -7.6, disagree has a residual value of -24.6 and strongly disagree has a residual value of 4.

Table 12: Test Statistics

	Statement 7	Statement 11
Chi-Square	36.895[a]	47.175[a]
Df	4	4
Asymp. Sig.	.0.00	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 28.6.

Table 12 presents the results for the chi-square test statistics. As observed, all the statements are all significant at 5% level as the asymptotic value of 0.00. Specifically, statement 7 has a chi-square and asymptotic value of 36.895 and 0.00 respectively. Statement 11 has a chi-square and asymptotic value of 47.175 and 0.00 respectively. All the asymptotic values are less than the alpha value of 0.05 at 5% significance level.

In the light of the above, we reject the null hypothesis that there are no significant differences between the roles of forensic accounting and that of conventional accounting in curbing financial crimes and we accept the alternative hypothesis that

there are significant differences between the roles of forensic accounting and that of conventional accounting in curbing financial crimes.

5. Conclusion

Forensic accounting is seen as encapsulating all the other areas in the use of accounting for investigative purposes. The increasing sophistication of certain crimes requires that forensic accounting be added to the tools necessary to bring about the successful investigation and prosecution of those individuals involved in criminal activities. The increasing need for forensic and investigative accounting in the banking sector results from the nature of modern-day banking involves large volume of complex data, which makes it difficult to monitor those transactions by applying manual audit processes. The study findings show that; (i) there is a need for forensic accountants in the Nigerian banking system. (ii) Forensic accounting is an effective tool for addressing financial crimes in the banking system and (iii) there are significant differences between the roles of forensic accounting and that of conventional accounting in curbing financial crimes. In the light of the study findings, the following recommendations are provided; i. there is the need for banks in Nigeria to engage the services of forensic accountants as forensic accounting now appears as a one of the strategic and dynamic tool for the management of all types of financial crimes.

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