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THE IMPACT OF FORENSIC ACCOUNTING IN COMBATING CORRUPTION IN NIGERIA

BY

DAUDA HAKEEM OLUSEGUN PhD, FCIIFP, CFA, CNA, CPA.

ABSTRACT

This paper is set out to evaluate the impact of forensic accounting in combating corruption behavior in order to ensure good corporate governance practice in the management of public fund. It is observed that the non-availability of the appropriate litigation support services in the court leading to misjudgment, loss of financial crime cases in our court system, poor corporate governance, weakness in traditional auditing and battered image of Nigeria in the international community, as major problems. The objective of this paper is to evaluate forensic accounting as antidote to curb corruption and other economic and financial crimes in Nigeria. The study will found amongst others that Forensic accounting is an effective tool to curtail corruption and other economic and financial crimes in the public sector, also that the forensic audit is an essential tool in ensuring corporate governance and appropriate litigation support in the prosecution of any corrupt practices. Based on this, the study would recommend among others, that government need to engage the service of forensic accounting to compliment efforts of other professionals, in combating corruption and other economic and financial crimes, in order to ensure good corporate governance in public sector in particular and Nigeria economy at large.

INTRODUCTION

The collapse of big business houses and numerous accounting scams plaguing the corporate world have necessitated the need for a new perception of accounting and auditing that goes beyond numbers. Detecting fraud was considered to be a function of conventional accountants and auditors, till recently. Thus, the need for a new strategy in accounting was felt to detect the fraud in organizations /suspected fraudulent transactions. This area of accounting came to be known as **"Forensic Accounting"**.

Forensic accounting is not an entirely new area in accounting. It has been there for years. Sherlock Holmes is considered to be the first ever forensic accountant. Some of the major corporate scandals like Enron; WorldCom cost the stakeholders trillions of dollars when the stock prices plummeted down badly affecting investor's confidence. These called for stricter financial governance. This led to the enactment of the Sarbanes-Oxley Act of 2002, also known as the "Public Company Accounting Reform and Investor Protection Act" in USA. This act is more commonly known as Sarbanes-Oxley, Sarbox, or SOX. The act covers issues such as auditor independence, corporate governance, internal control assessment, and enhanced financial disclosure. Sarbanes-Oxley began to draw the public's attention to what forensic accountants can do to uncover financial irregularities and track illegal financial activities. Since 9/11, forensic accountants have been playing a major role in tracking terrorists around the world. SOX-type laws have been subsequently enacted in Japan, Germany, France, Italy, Australia, South Africa, and Turkey.

Forensic accounting is the application of investigative financial skills and investigative mentality to unresolved issues, conducted within the context of the rules of evidence. As a discipline, it encompasses fraud knowledge, financial expertise, and a sound psychological knowledge and understanding of business reality and the working of the legal system (Bologna & Lindquist, 1987). Forensic accounting is the tripartite practice of utilizing accounting, auditing and investigative skills to assist in legal matter (Olola, 2016). It is a specialized field of accounting that describes engagements that result from litigation. Forensic accounting can, therefore be seen as an aspect of accounting that is suitable for legal review and offering the highest level of assurance (Apostolou, Hassell & Webber, 2000). Centre for Forensic Studies (2010) report in Nigeria states that forensic accounting could be used to reverse the leakages that cause corporate failures. This can be attributed to the fact that proactive forensic accounting practice look for errors, engage in operational deficiency and deviant transactions before they crystallize into fraud.

Ojaide (2000) noted that there is an alarming increase in the number of fraud and fraudulent activities in Nigeria, clamouring for the services of forensic accountants. The failure of the major corporate governance mechanism to reduce financial fraud and the increasing sophistication in financial fraud has posed serious threat to investors, government, and general public (Eyisi & Agbaeze 2009). More so, An instance of case of corporate financial statement audit fraud could be drawn from Enron and WorldCom which has capitalized expenses resulting to increased profit which is not in existence by their auditors, Andersen and yet such companies audit was unqualified by their auditors resulting to corporate failure of two big companies in USA (Zimbelman 2012). Modugu and Anyaduba (2013), Onuorah and Ebimbowei (2012), Enofe, Okapor and Atube (2013), Okoye and Gbegi (2013), Gbegi and Adebisi (2014), acknowledge in their separate studies the increase incidence of fraud and fraudulent activities in Nigeria.

The issue of forensic accounting and fraud continually being debated for the past few years as companies in developed countries such as Enron Corp, WorldCom Inc, and Kmart Corp have been detected and proved of fraudulent conducts (Shaikh & Talha, 2003). These are still an issue to be addressed in the business sectors as fraud cases have only been detected after massive funds have disappeared from the coffer (Adrian, Lawrence & Cristal, 2009). Owojori and Asoula (2009) states that the failure of statutory audit to prevent and reduce misappropriation of corporate fraud and increase in corporate crime has put pressure on the professional accountant and legal practitioner to find a better way of exposing fraud in business world.

OBJECTIVES OF FORENSIC ACCOUNTING

Increasing instances of misappropriation of corporate funds and the failure of statutory audit to prevent them, along with an increase in corporate crimes and frauds have put pressure to find a better way of exposing fraud in business world. A nationwide study conducted by Kessler International showed that 49% of organizations in Nigeria have considered the need for a forensic accountant. The following are some of the factors that have given rise to forensic accounting:

1. The existing conventional accounting or auditing practices are incapable of going beyond numbers and analyzing other hidden aspects of corporate fraud;
2. There is no proper method to overcome issues of lobbying and collusion;
3. There is no alternative mechanism to review auditor reports to ensure full authenticity and fairness;
4. The inability of internal auditors to initiate action or to detect frauds in advance.

SCOPE OF FORENSIC ACCOUNTING

Forensic accounting involves two major components: litigation support and investigative accounting. Forensic accountants generally specialize at least in the two areas. “Litigation services” recognize the role of an accountant as an expert consultant. “Litigation support” is primarily in the nature of accounting assistance for existing or pending litigations. It is mainly concerned with issues regarding the quantifying economic damages. It involves estimating the economic loss resulting from a breach of contract.

"Investigative accounting" is often associated with investigations of criminal matters. It would normally involve an investigation of employee theft, securities fraud, insurance fraud, kickbacks and proceeds of crime investigations.

In a nutshell, a forensic accountant investigates and scrutinizes financial evidence, develops computerized applications to help analyze and present financial evidence, consolidates the findings in the form of reports, exhibits and collections of documents, and assists in legal proceedings, including testifying in court as an expert witness and preparing visual aids to support trial evidence.

MEANING OF 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 American Institute of Certified Public Accountants and International Institute of Forensic Accountant of Canada, "Forensic accounting is the application of accounting principles, theories, and discipline to facts or hypotheses on issues in a legal dispute and encompasses every branch of accounting knowledge".

Forensic accountants are trained to look beyond the numbers. They deal with the business reality of the situation. Forensic accountants often have to testify in an eventual trial in courts and have to provide an analysis of the accounting system comprehensively to the court which will form the basis for discussion, debate, and ultimately dispute resolution. Forensic accountant should have in-depth knowledge of not only financial accounting, but also internal control systems, laws of the land, other institutional requirements, investigative proficiency, and interpersonal skills.

In short, forensic accounting integrates accounting, auditing, and investigative skills used for unearthing possible frauds in accounting, Insurance companies, banks, police forces, companies, and government agencies are major potential beneficiaries of forensic accounting.

CONCEPTUAL FRAMEWORK

FORENSIC ACCOUNTING AND ACCOUNTANTS

Several scholars have come with various definition of the term 'Forensic Accounting'. Rezaee *et al* 2004, defined forensic accounting as the practice of rigorous data collection and analysis in the areas of litigation support consulting, expert witnessing, and fraud examination. Degboro and Olofinsola (2007) believe that forensic investigation is about the determination and establishment of fact in support of legal case. That is, to use forensic techniques to detect and investigate a crime in order to expose all its attending features and identifies the culprits. In view of Howard and Sheetz (2006), forensic accounting is the process of interpreting, summarizing and presenting complex financial issues clearly, succinctly and factually in a court of law as an expert. Forensic accounting is sufficiently thorough and complete so that an accountant, in his considered independent professional judgment, can deliver a finding as to accounts, inventories, or the presentation thereof that is of such quality that it would be sustainable in some adversarial legal proceeding, or within some judicial or administrative review"

Forensic accounting is the integration of accounting, auditing, psychology and investigative skills (Zysman, 2004). Dhar and Sakar (2010) define forensic accounting as the application of accounting concepts and techniques to legal problems. It demands reporting, where fraud is established and the report is considered as evidence in the court of law or in administrative proceedings.

According to Williams (2002), forensic accounting is recognized as a particular form of professional expertise and endowed with specific attributes. The recognition is ascertained by possessing a formal certification in forensic accounting which provides symbolic value. It concerns with the use of accounting discipline to help determine issues of facts in business litigation (Okunbor & Obaretin, 2010).

FORENSIC AUDITOR AND/ FORENSIC ACCOUNTING

The term forensic means "relating to the application of scientific knowledge to legal problems or usable in a court of law" (Bolgana and Robert 1985) Webster dictionary defines forensic as belonging to; used in, or suitable to courts of judicature or to public discussions and debate. Thus, from the above definition it could be said that forensic Auditors are experts in financial matters who are trained in detecting, investigating and deterring fraud and white collar crimes which are to be presented to court for legal action or to public discussion and debate.

FINANCIAL FRAUD

Financial fraud has various definitions in the literature. According to Oxford Advanced Learner`s Dictionary, fraud can be defined as the crime of deceiving somebody in order to get money or goods illegally. Wikipedia dictionary describes fraud as crimes against property, involving the unlawful conversion of property belonging to another to one`s own. Williams (2005) describe fraud to include bribes, cronyism, nepotism, political donation, kickbacks, artificial pricing and frauds of all kinds. The array of components of financial crimes, some of which are highlighted above is not exhaustive.

The EFCC Act (2004) attempts to capture the variety of economic and financial crimes found either within or outside the organization. EFCC Act (2004) defines fraud as illegal act that violates existing legislation and these include any form of frauds, narcotic drug, trafficking, money laundering, embezzlement, bribery, looting and any form of corrupt malpractices and child labour, illegal oil bunkering and illegal mining, tax evasion, foreign exchange malpractice including counterfeiting, currency, theft of intellectual property and piracy, open market abuse, dumping of toxic waste and prohibited good etc. This definition is all-embracing and conceivably includes financial crimes in corporate organization and those discussed by various authors (William, 2005 and Khan, 2005).

FORENSIC ACCOUNTING AND FINANCIAL FRAUD

Forensic accountants have been described as experienced auditors, accountants and investigators of legal and financial documents that are hired to look into possible suspicions of fraudulent activity within a system; or are hired by a company/ state, who may just want to prevent fraudulent activities from occurring (McKittrick, 2009). Manning (2005) notes that the services of forensic accounting are utilized in areas such as accounting, antitrust, damages, analysis, valuation, and general consulting. Forensic accountants have also been used in divorces, bankruptcy, insurance claims, personal injury claims, fraudulent claims, construction, royalty audits, and tracking terrorism by investigating financial records.

THEORETICAL FRAMEWORK

AGENCY THEORY

Agency theory and the internal audit as propounded by Adams (1994) is one of the theoretical framework that guided this study. Agency theory is extensively employed in the accounting literature to explain and predict the appointment and performance of external auditors and financial consultants. He argued that, agency theory also provides a useful theoretical framework for the study of internal auditing function. He also proposed that agency theory not only helps to explain and predict the existence of internal audit but that is also helps to explain the role and responsibilities assigned to internal auditors by the organization and that agency theory predicts how the internal audit function is likely to be affected by organizational change. He concludes that agency theory provides a basis for rich research, which can benefit both the academic community and internal auditing profession. This theory no doubt relates to this study as it helps to explain the role and responsibilities of internal auditors which if methodically applied would help to improve financial performance in tertiary institutions in Nigeria.

EMPIRICAL REVIEW

Many researchers have attempted to examine the effect of forensic auditing on fraud detection, for example, Madumere and Onumah, (2013) examined the effect of forensic accounting on corporate fraud and performance outcome in the Nigeria Public Sector. Using a match sample of 106 manufacturing firms registered with the Manufacturing Association of Nigeria (MAN). Three hypotheses proposed and tested and the findings revealed that corporate fraud is on the increase in this sector of the economy, and the reason is that most managers want to be independent at the expense of their employers. That most managers incorporate firms that supply goods to their company at very high prices thereby increasing cost of production.

CONCLUSION:

The government of the federal republic of Nigeria agreed that anti-corruption programme must not be approached in an ad hoc manner, but addressed as part of a national economic reform programme. They have enacted appropriate legislation to criminalize all corrupt conducts including unjust enrichment. They enacted ICPC Act, 2000, EFCC Act, 2004, Money laundering (Prohibition) Act, 2004, Fiscal Responsibility Act, 2007.With all these, economic and financial crime remain unabated. The issue of crime is politicized, there is constitutional immunity, there is public apathy and doubtful attitudes towards anti-corruption work, there is slow justice system because of poor documentation and representations, there is insufficient commitment by other arms of government to curb crimes in the system. All these have created a gap in the resolution to financial crime in Nigeria .With the expected result of this research work, the gap can be filled by introducing and adapt forensic accounting as financial strategy to curb economic and financial crime: (i)Forensic Accounting will provide litigation support service with appropriate provision of professional services in the law courts (ii)Forensic Accounting will institute good corporate governance in the public sector which will instill public confidence in the government and the entire system.(iii) The traditional auditing has limitation in detecting fraudulent practices which the forensic accountants will effectively fill. They have the professional ability back up by law to break into the organization system and examine the books, make discoveries and present the documentary evidences in the law courts. (iv) The image of Nigeria in the international community has discouraged foreign direct investment because of economic and financial crime. This has effect on development, employment and the standard of living of the people. Eradication of economic and financial crime through the adoption of forensic accounting in the system will improve the image of Nigeria. Crime free environment will attract foreign direct investment.

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