

The Growing Relevance of Forensic Accounting as a Tool For Combating Fraud and Corruption: Nigeria Experience

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Abstract

The relevance of Forensic accounting has been of growing interest to various stakeholders that include the government, investors, practitioners and to regulatory bodies. While corporate failures like the often cited Enron and WorldCom cases have globally brought forensic accounting to the limelight, the growing relevance of forensic accounting is largely derived from the ever growing spates of fraud and official corruption that constitute the greatest threat to the socio-economic development of Nigeria. This exploratory study portrays the current views of Nigerian accounting practitioners and academics on the current development and relevance of forensic accounting in Nigeria. Their views were obtained through structured interviews and evaluated against known research findings on the practice of forensic accounting in Nigeria. The key findings of this study are that: Forensic accounting practice is largely considered to be at its infancy stage and lacking statutory support, and that although its relevance in unraveling complex official corruption is on the increase in Nigeria, it nevertheless has no statutory backing and has no significant impact against corruption, fraud and financial crime in Nigeria. The study recommends among others the need to accord forensic accounting statutory role and distinct professional recognition by the government and professional bodies in Nigeria.

Key Words: Forensic accounting; Corporate failures; Official corruption, Corporate fraud; Financial crime

1. Introduction

Fraud and corruption are fundamental problems of third world countries, particularly Nigeria where official corruption has become endemic. (Akram 2009). The spate of world-wide corporate scandals involving Enron, Worldcom, Global Crossing, Tyco International, Xerox (USA); Parmalat (Italy) and corporate fraud perpetuated in Nigeria by management of Lever Brothers, Union Dicon Salt, Cadbury (Nigeria), and the 14 distressed banks as exposed by audit of the Central Bank of Nigeria has shown the failure of traditional audit techniques in unraveling corporate fraud and have rejuvenated interest in forensic accounting. So also are the increasing government concerns over official corruptions and the doggedness of the various anti corruption agencies at unraveling them through the deployment of forensic accounting methodology. Companies are now beginning to be more determined than ever to ensure that their operations are above board and in no way connected with financial frauds. These have resulted in a steadily growing demand for sophisticated accounting and auditing techniques as provided by forensic accounting in detecting, correcting and preventing fraud as well as deceptive and creative accounting practices. Until recently, the detection of fraud or white collar crimes was generally thought to be part of the conventional accounting and auditing functions. Generally, Fraud was something that internal or external auditors were supposed to guard against through their periodic audits. However, the failure of traditional audit in curtailing the menace of official corruption and white collar crimes is inflaming passion for forensic accounting techniques. The extent to which forensic accounting is gaining relevance in Nigeria in the fight against corruption in Nigeria, the investigative capacity of Nigerian accountants and the pace of development of forensic accounting in Nigeria are among the principal objectives of this paper.

2.1 Concept of Forensic Accounting

To date, various definitions have been given to describe forensic accounting. Thornhill (1995), posits that forensic accounting discipline is relatively new and that up to date, there has been no formal definition that is being accepted as the standard. Webster's Dictionary define forensic as "pertaining to, connected with, or used in the courts of law or public discussion and debate". Hence, forensic accounting is closely related to the legal process and has the potential to be involved in proceedings in the civil and criminal courts. Forensic accounting provides an accounting analysis to assist in legal matters which will form the basis for discussion, debate and

ultimately dispute resolution. Manning (2002) also defined forensic accounting as the application of financial accounting and investigative skills at a standard acceptable by the courts, to address issues in dispute in the context of civil and criminal litigation.

Bologna and Lindquist (1987) provide the definition of forensic accounting as:

.... application of financial skills and 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 council. p.47

In the views of Raze, Crumbley and Elmore (2009), Forensic Accounting is simply a specialty field in Accounting that deals with the identification of financial fraud, and reports in a way that it would be suitable for use in a court of law. Howard and Sheetz (2006) defines Forensic accounting as simply the process of interpreting summarizing and presenting complex financial issues clearly, succinctly and factually often in a court of law as an expert witness. It is concerned with the use of accounting discipline to help determine issues of facts in business litigation. Forensic Accounting is the fastest growing and highest paying field of Accounting, and with the integration and complexity of the global markets and financial institutions, it would be in greater demand within the next few decades. The need of governments , regulatory authorities and courts for high level of expertise for the analysis of intricately devised frauds underlie the importance of forensic accounting (Ramaswamy,2005). Forensic accountants provide services in accounting, auditing investigation, damages claims, analysis valuation and general consultation and also have critical roles in divorce, insurance claims, personal damage claims, fraud claims, construction, auditing of publication right and in detecting terrorism by using financial precedence (Hassan & Morteza, 2012)

2.1.2 Forensic Accountants and Auditors.

Forensic accountants and traditional auditors, though have different roles, knowledge and skills, share some common goals that includes the detection of fraud.. However, unlike financial audit which, as illustrated in Table 1 below, aims mainly at uncovering (identifying and preventing) material deviation (errors) in financial data and significant variances from acceptable accounting and auditing standards, forensic accounting looks beyond the transactions and audit trail to focus on substances of the transaction instead, with a view to identifying fraud.

Forensic accounting investigations include litigation services related to a variety of situations including business purchases, valuation of divorce assets, property damage, lost profits due to embezzlement and other illegal acts, tax evasion, and money laundering schemes. (Gray 2008).

Table 1:Differences Between Auditors and Forensic Accountants Regarding Error Identification ,Error Prevention and Fraud Identification.

Auditor	Error Identification	Error Prevention	Fraud Identification
	X	X	
ForensicAccountants			X

Source: Gray(2008):Forensic Accounting and Traditional Auditing compared.

2.1.3 History of Forensic Accounting

Forensic accounting is by no means a new field as evidences prove that the profession has been in existence for a long time despite the fact that the profession was not yet recognised as a distinct one or called forensic accounting (Grippa,2003). Forensic accountants in ancient Egypt who inventoried the grain, gold and other assets of Pharaohs were called the ‘eyes and ears’ of the Pharaohs. Another evidence of the existence of forensic accounting is traceable to the year 1817 when the accountants who examined the bankrupt’s account was required to testify in the court (Crumbly, 2001). Other sources traced the origin of forensic accounting practice to as far back to the 19th century Scotland when a young Scottish accountant issued a circular advertising his expert in arbitration support in 1824. It was from the late 1800’s and 1900’s that articles began to appear discussing expert witnessing, evidence arbitration and awards. The phrase ‘forensic accounting’ was said to have been first published in an article in 1946 by Maurice E. Peloubet, a partner in a New York accounting firm. Peloubet, (1946) explained that, during the war both the public and industrial accountant have been engaged in the practice of forensic accounting.

2.1.4 Forensic Accounting Practice, fraud and corruption from global and Nigeria perspectives

KPMG's Fraud Survey (2003) reveals that more corporate entities are experiencing incidents of fraud than in prior years; while more sophisticated measures are being adopted to combat fraud through the launching of new antifraud initiatives and programs that include the deployment of forensic accounting techniques in response to the Sarbanes-Oxley Act of 2002. Pricewaterhouse Coopers' (PWC, 2003) Global Crime Survey showed that 37 percent of respondents in 50 countries reported significant economic crimes with the average loss per company of \$2,199, 930. These survey results underscore the importance of forensic accounting practice and education.

Corruption is considered the bane of the Nigerian society which has dogged the country and plagued all attempts to improve the lives of the citizens (Oyewole, 2007; Nwachukwu, 2010). Although, corruption is by no means exclusive to Nigeria, the prevalence and the amounts involved in Nigeria is mind boggling. (Nwachukwu, 2010). The 2010 Corruption Perception Index of Transparency International which placed Nigeria in the lower quartile of the corruption index with a score of 2.4 on a scale of 0 to 10 seems to have corroborated these views. Ibid. In a very legitimate sense, corruption auditing is expected to remain a major concern of government auditors just as in the same way fraud auditing is to auditors of private establishments. But unfortunately, government auditors have remained significantly dormant in corruption audit methodology development (Khan, 2009). It is the belief of some experts in the financial industry that forensic accounting will increase risk control mechanism and limit 'fraud vulnerability of companies and corruption in the public sector.

There is a gradual rise in the application of forensic accounting in the investigation of corporate fraud as it took the application of forensic accounting by the Economic and Financial Crimes Commission (EFCC) to unravel the corruption mess in the Nigerian Securities and Exchange (NSE), which was allegedly claimed to have been laden with numerous instances of over-invoicing, gross breaches of financial guidelines, multiple payments, falsification of accounts, illegal sharing of funds and blatant disregard for budgets and expenditure limits. However, while most other countries have been able to reduce the occurrence of financial fraud in both the private and public sectors, the menace is rather on the increase in Nigeria, despite the establishment of the Independent Corrupt Practices and Other Related Offences Commission (ICPC) and the Economic and Financial Crimes Commission (EFCC), (Efiog, 2012). Nigeria is still ranked very low by the Transparency International Corruption Index. The 2010 survey places Nigeria at the 134th position out of 178 countries that were sampled (http://www.transparency.org/policy_research/surveys_indices/cpi/2010).

2.1.5 Forensic accounting education

The prior researches of Rezaee, 2002 and Crumbley 2001 provide evidence that forensic accounting education has evolved from being limited to continuing professional education sessions for practicing accountants to being offered as a credit course by several universities. Buckhoff and Schrader (2000,) posits the addition of forensic accounting course to the accounting curriculum can greatly benefit the three major stakeholders in accounting education academic institutions, students, and employers of accounting graduates."

The study of Efiog, 2012 found that there is a very low level of awareness on forensic accounting among undergraduate students basically because of its complete omission or very insignificant place given to it in the curriculum of both the academic institutions and professional examination syllabi of the professional accounting bodies in Nigeria and contend that the adoption of forensic accounting into the universities accounting curriculum would have a huge potential to enhance students skills and competencies that could be used veritable resources to mitigate fraud. The lack of legal framework and statutory recognition of the role of forensic accounting that is similar to the legal status given to financial audit by the Nigerian Companies and Allied Matters Act 2004, has not made it necessary for traditional statutory auditors to incorporate some measures of forensic enquiries into their audit services for effective fraud detection.

3. Methodology of the study

The study is an exploratory one that is based on both primary and secondary data. The population of the study consist of : (1) the estimated numbers of chartered accountants in practice and employed in public service in Edo State of Nigeria, (2) the estimated numbers of Certified National Accountants in practice and employed in public service in Edo State of Nigeria and (3) the estimated numbers of university teachers of accounting in tertiary Institutions in Edo State of Nigeria.

For the purpose of analysis, the collected data have been tabulated in four tables using percentages to show the results of analysis of experts' views. The analyses are based on the expert opinion survey which was aimed at examining whether their views agreed with, or differed from, the information based on literature survey. The

study adopted simple random sampling (with replacement) technique to draw the samples from the three groups of respondents (population) as shown in Table 1. The overall study sample size is approximately 55 percent of the population. Primary information was collected by administering a brief questionnaire consisting of five questions related to a few relevant issues on Forensic accounting. Almost all the questions were in structured form. The questionnaire was administered to experts that consist of: (i) Thirty six chartered accountants, (ii) twenty certified national accountants (iii) twenty four tertiary Institution accounting teachers in Edo State of Nigeria. Each of the respondents filled in the questionnaire that were personally administered to them. The issues addressed are: (1) how long forensic accounting has been practiced in Nigeria; (2) whether forensic accounting is effective in the fight against corruption in Nigeria (3) capacity of Nigerian accountants to carry out forensic accounting services in Nigeria. (4) pace of development of forensic accounting in Nigeria ; (5) what possible measures could be adopted to enhance the practice of forensic accounting.

4. Analysis and Discussion of Survey findings.

Respondents' views are analyzed in table 2 to 4 below.

Table 2 shows that a substantial majority of chartered accountants (69.44 percent), Certified National Accountants (70 percent), Accounting Teachers in Tertiary Institutions (44.44 percent), that is, overall 65.45 percent of all the respondents taken together are of the view that forensic accounting has not been long in practice by companies in Nigeria, while only 23.64 percent of all the respondents seem to have no idea about how long forensic accounting has been in Nigeria. It follows that the popular view of the respondent is that the practice of forensic accounting in Nigeria could possibly not have been a common practice.

Table 3 shows that an overwhelming majority of chartered accountants (72.2 percent), Certified National Accountants (80 percent) and accounting teachers in tertiary institutions (33.33 percent), and overall aggregate of 67 percent of the respondents agree that forensic accounting has not been effective in the fight against corruption in Nigeria.

Table 4 shows that quite majority of chartered accountants (69.5 percent), Certified National Accountants (75.0 percent) and university teachers of accounting (80.0 percent), an overall 72.73 percent of all the respondents are of the opinion that Nigerian accountants do not have the required capacity to carry out forensic accounting and auditing.

However, with respect to providing suggestions on possible measures that could be adopted to enhance the practice of forensic accounting, 100 percent respondents of all groups under study (chartered accountants, certified national accountants and university teachers of accounting) suggested the following five measures: i). Introduction of forensic accounting in academic institutions and in the training syllabi of the two professional accounting bodies in Nigeria ii) Statutory backing and recognition of forensic accounting iii) Retraining of accountants on modern forensic methodologies.

5. Conclusion

Forensic accounting has been in existence since ancient times but corporate scandals of late had given the profession rejuvenation. In Nigeria, forensic accounting is still in its infancy stage and most Nigerians seemed to assume that there is no difference between forensic accounting and auditing. From the study, it can be concluded that the slow progress of forensic accounting in Nigeria may be due to two main reasons. Firstly, forensic accounting does not form a significant part of the educational and professional curricula of colleges and professional bodies responsible for producing and developing accountants in Nigeria and secondly there does not exist any form of statutory backing for forensic accounting services in Nigeria as does traditional financial audit. There is also no mandatory requirement for companies to conduct forensic accounting, even for distressed companies. There is no need for a specific act or guidelines to govern and regulate forensic accounting practices in Nigeria. Another factor brought to light is the need for the introduction of forensic accounting in Nigerian academic institutions and in the training and continuous education programmes and syllabi of professional accounting bodies in Nigeria.

6. Recommendations

This study has shown that for forensic accounting to serve as an effective tool for combating fraud and corruption in Nigeria, it must be developed beyond its present low pedestal level and given the required prominence. Doing this would involve first, the retraining of existing accountants and auditors, and this training should necessarily involve the two professional accounting bodies in Nigeria who must now place forensic accounting courses as top priority in their continuous professional education programmes in order to enhance

their members' capacity to carry out forensic accounting services. Second, it is recommended that forensic accounting techniques should constitute a significant aspect of the curriculum of educational institutions and professional bodies responsible for accountants' education and training in Nigeria while specialization in forensic accounting at the post-graduate level should also be encouraged. Third, forensic accounting should be given statutory recognition and specific roles by the corporate financial reporting and auditing regulatory statutes of Nigeria.

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Table 1: Breakup of Population and Samples for the Study

Respondent Groups	Population	Sample Size (% of Population)
Chartered Accountants ACA	180	36 (approximately 20%)
Certified National Accountants Accountants ANAN	50	10 (approximately 20%)
University Teachers of Accounting	45	9 (approximately 20%)
Total	275	55 (approximately 20%)

Authors compilation, 2013.

Table 2: Responses as to forensic accounting has long been in practice in Nigeria

Respondents Responses	Chartered Accountants ACA	Certified National Accountants ANAN	Teachers of Accounting in Tertiary Institutions	Total
	f (percent)	f (percent)	f (percent)	
Yes	8 (22.22%)	2 (20%)	3(33.33%)	13 (23.64%)

Source: Author's field work (2013)

Note: f stands for frequency .

Table 3: Responses as to whether forensic accounting is effective in the fight against corruption in Nigeria.

Respondents Responses	Chartered Accountants	Certified National Accountants	University Teachers of Accounting	Total
	f (percent)	f (percent)	f (percent)	
Yes	7 (19.44%)	2 (20%)	6 (16.67%)	15 (27.27)
No	26 (72.20%)	8 (80%)	3 (33.33%)	37(67.27)
Don't know	3 (8.33%)	-	-	03(5.45)
Total	36 (100%)	10 (100%)	9 (100%)	55 (100%)

Source:Author's field work (2013)

Table 4: Responses as to whether Nigerian accountants have the required capacity to carry out forensic accounting and auditing.

Respondents Responses	Chartered Accountants	Certified National Accountants	University Teachers of Accounting	Total
	f (percent)	f (percent)	f (percent)	
Yes	11 (30.5%)	2 (20%)	2 (22.22%)	15(27.27%)
No	25 (69.5%)	8 (80%)	7 (77.78%)	40(72.73%)
Total	36 (100%)	10 (100%)	9 (100%)	55 (100%)

Source: Author's field work (2013)

Table 5: Their perception on the pace of development of forensic accounting in Nigeria.

Respondents Responses	Chartered Accountants ACA	Certified National Accountants ANAN	Teachers of Accounting in Tertiary Institutions	Total
	f (percent)	f (percent)	f (percent)	
Encouraging	17 (47.22%)	4 (40%)	3 (33.33%)	24 (43.64%)
Not encouraging	19 (52.78%)	6 (60%)	6 (66.67%)	31(56.36) (56.36%)
Total	36 (100%)	10 (100%)	9 (100%)	55 (100%)

Source: Author's field work (2013)