

ROLE OF THE FORENSIC ACCOUNTANT AND FRAUD IN NIGERIA

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ABSTRACT

Based on the findings of the study; it was found that firm size intervenes in the relationship between forensic accounting and fraud in Nigeria moderately and firm size significantly moderate the relationship between forensic accounting and financial statement fraud minimization in food and beverages manufacturing companies in Nigeria. Thus, these findings points to the fact that firm size moderately intervenes in the relationship between forensic accounting and financial statement fraud minimization in food and beverages manufacturing companies in Nigeria, as reflected in the result of this study.

Keywords: Forensic Accounting, Fraud, Nigeria

INTRODUCTION

One of the research papers that deals with the issue of fraud, examined how the rapid advancements in the information and communications technologies (ICTs) would require proactive approaches to deal with the increased rate of fraud frequency and losses (Simeunovic, Grubor & Ristic, 2016). Consequently, the authors found that the combined use of fraud auditors and digital investigators, whose abilities differ greatly from those of traditional financial auditors, are a beneficial pro-active fraud approach that counteracts the concerning trend of fraud. This has led to an observed shift from a focus on a reactive approach, for example through investigations during the audit process, to a proactive approach, by utilizing adequate controls and an appropriate workplace culture (Nigrini, 2011; Özkul & Pamukçu, 2012). On the one hand, this change can be explained by the findings of the ACFE (2016) as they demonstrate that companies, which use proactive data analytics, would halve the time of frauds from 24 to 12 months as well as lower the median loss by 60%. On the other hand, data shows according to Simeunovic, Grubor and Ristic (2016) that proactive control measures would detect fraud more than twice as often as financial auditors would during their audit procedures.

The reduction of the cost caused by fraud is coherent with idea that it is easier and more efficient to stop fraudulent activities in their track as the actual loss is reduced or does not even occur. Nevertheless, as Simeunovic, Grubor and Ristic (2016) argue it appears that the knowledge of financial auditors is not sufficient anymore to ensure a secure internal control system that proactively deals with fraud. The authors claim that this is because the anti-forensic activities also become more sophisticated which requires constant adaptations by the forensic accounting profession. If a fraud has already occurred and damages are already irreversible, forensic accountants are likewise indispensable as they are well equipped for conducting thorough investigations, which constitute the reactive approach. Compared to forensic accountants, it can be difficult for traditional accountants to fully comprehend in what sequence the fraud took place and who was involved, especially if a fraud is covered up well and hidden within the organization. Once the forensic accountants have gathered sufficient information they can serve as expert witnesses in court and, hence, improve their client's chance of winning the lawsuit (Ponemon, 2015).

Role of Forensic Accounting in Nigeria

A Forensic Accountant is usually involved in the investigative analysis of financial evidence, development of computerized application to assist in the analysis and presentation of financial

evidence, communicating their findings in the form of reports, exhibits and collection of documents and assisting legal proceedings including testifying in the court as eye witness and preparing visual aids to support trial evidence (Ezugwu 2010).

Owojori et al (2009) proposes the following ways by which a forensic accountant can be of assistant to the society.

- i. Giving preliminary advice as an initial appraisal of the pleading and evidence available at the start of the proceedings.
- ii. Identifying the key documents which should be made available as evidence. This is important when the forensic accountant is acting for the defence and lawyer for the client.
- iii. Preparing a detailed balanced report on quantum of evidence, written in a language easily understood by a non- client.
- iv. Reviewing expert accounting report submitted by the other party which may have impacted on the quantum of evidence and advising lawyers in these regards.
- v. Briefing legal councils on financial and accounting aspects of the cases during pre-trial preparation.
- vi. The forensic accountant can initiate measures for introduction of environmental accounting to highlight the damage done on the environment by the purported fraud.

While the forensic accountants serve as witnesses, it is not their responsibility to testify whether fraud has occurred or not, but solely to provide evidence for a court's decision (Ozkul & Pamukçu, 2012). Moreover, the testimony can be challenged if it is believed that it does not meet certain requirements such as overall reliability and relevance (Ponemon, 2015). In this regard, PricewaterhouseCoopers (2013) found that although many financial expert's, economist's and accountant's testimonies are challenged, less than half are excluded for their lack of reliability or relevance. Thus, it appears that forensic accountant's services can postulate significant value by not only effectively preventing the occurrence of crime but also enabling and supporting the legal procedures for compensation of the concerned company.

Although, forensic accounting appears to provide already significant benefits Huber (2012) notes that it still lacks the necessary standards and regulatory bodies to finally establish forensic accounting as a sole profession. For this reason, the developed countries have already reacted by establishing institutions that provide the presumed essential education that is important for discovering and investigative fraud. Colleges and universities have started to integrate forensic accounting into their traditional accounting curriculums that have previously been lacking this critical aspect (Huber, 2012). According to Seda and Kramer (2014), the primary facilitators for this inclusion of forensic accounting topics into the accounting curriculums have been the "corporate fraudulent financial reporting scandals, such as Enron" (p.3). However, Huber (2012) notes that the most essential skills for forensic accountants are developed on the job and, hence, the field's certifications also require sufficient amounts of practice. As more forensic accountants are utilized by agencies of the government and the private sector, it is likely that the financial reporting efforts improve in faithfulness, relevance and understandability.

Comparably to Huber (2012), the authors likewise indicate that the profession is still lacking an appropriate oversight from an accounting body. It was also postulated that forensic accounting is an effective tool to combat the financial crimes of the Nigerian banking sector. Nevertheless, to ensure that the forensic accountants can effectively contribute to an improvement in quality assurance of financial reporting, it is advised to first complete a forensic training as the accountants are otherwise not adequately equipped with the necessary skills and knowledge.

Need for Forensic Accounting

Forensic accounting needs arise as a result of the failure of audit system to address the expectations of the financial statement users mainly investors. Asaolu et al (2009) assert the following as the reasons for the growth of forensic accounting:

- i. Internal audit and audit committee could not throw light on the different fact and other hidden aspects of corporate and occupational fraud,
- ii. Rotations of statutory auditors form the problem. These auditors actually needs longer duration of time to enable them do a more thorough job,
- iii. The certificate of the auditors are hardly scrutinized carefully especially when the reports are unclear and qualified
- iv. The internal auditor can surely detect what was happening but they are hardly in a position to initiate proper action in time.

Qualities and Characteristics of Forensic Accountants

While the researchers in the field of forensic accounting agree that a forensic accountant's skills and abilities differ greatly from that of an accountant, as they have unlike responsibilities, they still lack a consensus on the most essential attributes. For example, Davis, Farrell and Ogilby (2013) found that while attorneys, CPAs and professors would agree on 'analytical' as the key characteristic, they would disagree on the core skill between the 'oral skills' and the 'forensic ability to simply information'. Nevertheless, all respondents would agree that the possession of relevant credentials would be important, although they would not draw a difference between the new 'Certified in Financial Forensics' (CFF) credential, which is issued by the Association of Certified Public Accountants (for CPAs), or the old 'Certified Fraud Examiner' (CFE) credential.

Other researchers have taken a broader approach. For example, Prabowo (2013) sorted the attributes into 3 broader categories, namely; mentality, method and experience, whilst investigative the educational requirements for the 'problem-based' competence of a forensic accountant. The experience part is an essential addition as this attribute coincides with Huber's (2012) statement, that the most essential skills are not necessarily developed during the education phase but more likely during the performance of actual forensic accountant activities. These comments about the necessity of practical work would also explain, why most forensic accounting professionals, It furthermore, recommend interested graduates to first gather work experience in an audit department before applying for a forensic accountant position. However, in addition to that most the survey respondents likewise stated that a bachelor degree would suffice for finding a job in the forensic accounting field. Due to this demand for practical abilities we, therefore, question if forensic accounting degrees, regardless if bachelor or master, can actually provide the prerequisites for a forensic accountant job.

One aspect that researchers and professionals seem to agree about regarding the education for forensic accountants, is that the traditional classroom setting is superior over an online educational program (Davis, Farrell & Ogilby, 2013). As the West Virginia University (2007) concludes in its curriculum analysis, the "hands-on experience is the most effective manner to teach students the required skills" (p.46). Thus, the university would propose to include compulsory forensic accounting internships or other practical activities such as case studies in a university's curriculum. Correspondingly, Van Akkeren, Bucksby and MacKenzie (2013) found that the Australian forensic services firms would likewise require practical skills in addition to the standard accounting qualification that is part of the bachelor or master degree. While the researchers appear to agree on the necessity of work experience or at least practical abilities, McMullen and Sanchez (2010) concluded after surveying 150 fraud and forensic professionals that the highest level of education necessary would only be the bachelor's degree. Thus, for the theoretical background it may not be necessary to acquire a master but it could be crucial to get work experience in a similar profession, for example auditing, as suggested by professionals (McMullan & Sanchez, 2010).

In addition, the practical skills, such as analytical and problem-solving abilities, which are mostly developed as part of the work experience, are just as important or even more so, depending on the study. Hence, it is interesting for the investigation of the curriculums, to examine how the practical aspects are combined into the degree.

Who is responsible for the detection and minimization of fraud?

There are two principle sees - one expresses that administration has the obligation regarding the location and expansion of misrepresentation. The executives:

1. is answerable for the everyday business tasks;
2. is liable for creating and actualizing controls;
3. has authority over the individuals, frameworks, and records; and
4. has the information, and position to make changes accordingly, extortion aversion and identification is their concern. Audit, then again:
5. has aptitude in the assessment and structure of controls;
6. surveys and assesses activities and controls; and
7. has a necessity to work out 'Due Diligence' consequently, misrepresentation avoidance and identification is audit's concern.

Actually both administration and review have tasks to carry out in the avoidance and discovery of misrepresentation. The best situation is one where the board, representatives, and inward and outside inspectors cooperate to battle misrepresentation. Besides, inside controls alone are not adequate, corporate culture, the demeanours of senior administration and all workers, must be with the end goal that the organization is misrepresentation safe. Tragically, numerous reviewers feel that corporate culture is past their effective reach. Notwithstanding, the audit can find a way to guarantee that senior administration knows about the hazard and materiality of misrepresentation and that all examples of extortion are made known to all workers. Likewise, the review board additionally urge the executives to create Fraud Awareness Training and a Fraud Policy to help battle misrepresentation. At long last, the review can survey and remark on authoritative objectives and targets to diminish the presence of unreasonable presentation measures. Thus, there are various things evaluators can do to help make an extortion safe corporate culture.

Types of Fraud

There are various methods for which specialists have arranged misrepresentation relying upon their points of view and the criteria utilized. Some grouped them into the executives and representatives' extortion; others then again, ordered them on nature and the culprit. Cases of extortion as per culprits as referenced above is at that point separated into two classes – regardless of whether the fraudster is one of the whole staff or include untouchables; and whether the staff fraudsters are in top administration position or non-the executives position. The previous is currently isolated into, internal fraud, External fraud and Mixed fraud. While the later according to Nwankwo (2011) gives rise to Management fraud and Employee fraud.

Internal Fraud

Internal frauds are extortion committed among the part staff of the association. Fakes are the most successive happening, however by a wide margin the most noteworthy regarding number than the sort including both staff and pariahs (NDIC, 2005). The following approaches according to Jenfa, (2011) are characterized as the internal fraud, e.g. unofficial borrowing, Over invoicing, Unauthorized stamps, Fictitious transactions, Committing, Fraudulent use of document, Cash on hand converted to personal use, untimely writing off of assets, Ghost workers and Figures falsification.

External Fraud

There are three types of fraud committed solely by persons and organization external to the organization that is, people and organizations other than or without the involvement of the organization's staff, persons such as these could be company's customers or those who do not do business with these entity such as;

- 1. Over invoicing:** Over invoicing of services rendered to company are done by dubious suppliers and other contractors either, through inflation of normal rates over actual value of services rendered or through remittance with company's employees to get pay for services they already have been paid for (Idowu, 2009).
- 2. Advance fee fraud:** This may involve an agent who approaches a bank with an offer to access large funds at below market interest rates often for long term. The indicated wellspring of such assets isn't explicitly recognized as the best way to approach it. It is otherwise called the path by which the specialist vanishes as the offices occupied with never come through (Idowu, 2009). For the most part, advance charge misrepresentation is executed through Schemes apparently for the dispensing of cash for plants, Contract fakes, Purchase of genuine bequests and Transfer of Fund.
- 3. Loan Fraud:** Loan and another type of credit augmentations to business and people clients comprise conventional elements of monetary organizations. During the time spent credit augmentations, misrepresentation may happen at any stage, from the primary connection between the client and the bank to the last installment of the advance. Advance misrepresentation happens when credit stretched out to non-getting clients or to an acquiring client who has surpassed his credit roof. The deceitful part of this class is that there is an expectation to hide it from the inspectorate staff on the standard check to beguile them with conceivable however distorted proclamations and archives. In certain cases advances are conceded on bogus pledges that don't exist, over-esteemed, taken or duplicated. Inappropriate credits may likewise be allowed to an insider, family members and companions of degenerate bank authorities who gather kickbacks for such exchanges (Idowu, 2009).

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