

THE EFFECT OF FORENSIC ACCOUNTING AND FINANCIAL STATEMENT FRAUD MINIMIZATION IN NIGERIA

Nwanaka, Chigozie
Department of Accounting, Faculty of Business Studies
Ignatius Ajuru University of Education, Rumuolumeni, Port Harcourt, Rivers State, Nigeria

ABSTRACT

The main purpose of this paper was to ascertain the effect between forensic accounting and financial statement fraud minimization in Nigeria. The various concepts were discussed. The paper concluded that forensic investigation practices are very important for the minimization of financial statement fraud in food and beverages manufacturing companies, this is because the prospect of forensic investigation acts as deterrence for fraudulent activities. The paper recommend that, the extent of investigative service in checking fictitious revenues fraud was found to be moderate. Hence, management of food and beverages companies in Nigeria should employ competent forensic accountants in order to effectively investigate fictitious revenue fraud.

Key words: Forensic Accounting, Financial Statement, Fraud Minimization, Nigeria

INTRODUCTION

In the present time of tricks, budget report extortion speaks to tremendous expense to the economy universally. Crumples of prominent organizations have left a messy smear on the viability of corporate administration, nature of money related reports, and believability of review capacities. An exponential increment in the utilization of innovation has additionally irritated the problem in 21st century and provided opportunities for crimes to be committed across borders. It has become a critical issue in the businesses around the world, which has significantly dampens the confidence of the investors. The purposeful error of numbers in the accounting books with the assistance of well-arranged plan by a keen squad of educated culprits so as to mislead the capital market members is named as fiscal summary misrepresentation.

It is so worrisome that the ability of auditors (both internal and external) and traditional auditing method meant to checkmate these maladies called fraud and corruption has attracted public concern over the unqualified audit report and manipulation of financial statements not been satisfied certified by external auditors, which in turn are found to lead to serious financial crisis resulting to bankruptcy and most times liquidation, thereby thrive investors lost. The disappointment of inward examining arrangement of association in distinguishing bookkeeping extortion has prompted the utilization of particular methods to identify monetary bookkeeping misrepresentation, aggregately known as forensic accounting. Thus, there is a general desire that forensic accounting might have the option to stem the tide of monetary misstatements witnessed in the major sectors in Nigeria.

However, previous works related to the subject under study had been carried out, such works identified were that of: Manurung and Hardika (2015). They examined with empirical evidence how to detect financial statement fraud using fraud perspective diamond in banking industry. In the study pressure was proxy by financial stability,

external pressure, and financial targets. Also, opportunity was proxy ineffectual checking and nature of the business; Rationalization was intermediary by the turn of the reviewer and ability intermediary by the difference in chiefs. The study utilized secondary sourced data in carrying out the study. The consequences of this exploration demonstrated that the variable weight intermediary by money related security, outside weight, and budgetary targets, Opportunity intermediary by incapable checking and nature of the business, Rationalization intermediary by the turn of the inspector doesn't influence the fiscal report misrepresentation yet Capability intermediary by the difference in executives gave a positive and huge impact on the Financial Statement Fraud.

Okoye and Gbegi (2013) did an examination to analyze forensic accounting as an instrument for misrepresentation recognition and aversion in the open area associations with specific reference to Kogi State. Both essential and optional wellsprings of information were properly utilized. Among the discoveries was that the utilization of Forensic Accounting do altogether diminishes the event of extortion cases in the open part, and that there is centrality distinction between Professional Forensic Accountants and Traditional External Auditors, in this manner the utilization of Forensic Accountants can help better in distinguishing and forestalling misrepresentation cases in the open area associations.

Furthermore, Osioyenoya (2018) investigated the impact of financial reporting on financial performance of quoted companies in Nigeria. The study determined the relationship between the quality of financial reporting and profit after tax, return on asset, and return on equity. The variables considered in the study were financial reporting and financial performance, which were represented by quality of financial reporting, return on equity, return on asset and profit after tax. The study utilized secondary sourced data in carrying out the study. The discoveries show that there is a significant connection between the nature of money related to detailing and benefit after tax. It also established that quality of financial report has significant effect on return on asset.

Also, Okoye, and Ndah, (2019) investigated the relationship between forensic accounting practices and the prevention of fraud in manufacturing companies in Nigeria. Forensic accounting was proxy by fraud litigation practices, while the dependent variable remained prevention of fraud. Data were collected from primary sources through the use of a structured questionnaire to the accounting staff of the manufacturing companies. The findings of the research showed that there is a positive and statistically significant relationship between fraud investigation practices and the prevention of fraud in manufacturing companies. The findings also showed that there is a positive and statistically significant relationship between fraud litigation practices and the prevention of fraud in manufacturing companies.

Although, previous empirical studies had investigated cases of forensic accounting and financial statement fraud in many sectors, like: banking sector and manufacturing companies in general but there has not been much emphasis on food and beverages manufacturing companies in Nigeria. Consequently, the researcher decided to lay more emphasis on this sector in order to fill the gap in knowledge.

Also, previous empirical studies had used the dimensions of forensic accounting employed in the study, but there has not been adequate emphasis on the use of the dimensions of financial statement fraud as used in this study and this thus, has filled the gap in knowledge in this perspective.

Concept of Forensic Accounting

As indicated by Hopwood, Leiner and Young referred to in Ramadhan (2015), forensic accounting is characterized as an accounting specialization where examination and expository abilities are applied to determine money-related issues in a way that fulfils guideline required by the official courtroom. In the perspective on Dhar and Sarkar referred to in Sorunke (2018) scientific accounting is the utilization of accounting ideas and procedures to lawful issues. It requests revealing where extortion, remuneration or misappropriation is built up and the report is considered as proof in the official courtroom or in authoritative continuing.

Okoye and Gbegi, (2013) agrees that forensic accounting likewise called insightful accounting or misrepresentation review is a merger of forensic science and accounting. Scientific science as indicated by Crumbley (2013) "might be characterized as utilization of the laws of nature to the laws of man." He alludes to forensic scientist as analysts and mediators of proof and certainties in legitimate cases that additionally requires master sentiments with respect to their discoveries in an official courtroom. The science being referred to here is accounting science, implying that the assessment and understanding will be of monetary data. Joshi (2003) further noticed that legal accounting as the utilization of particular information and determined ability to falter upon the proof of monetary interpretations. .

Dhar and Sarkar (2010) characterized forensic accounting as the utilization of accounting ideas and methods to legitimate issues. While Degboro and Olofinsola (2017) in their view noticed that scientific examination is about the assurance and foundation of truth on the side of the lawful cases. That is, to utilize scientific strategies to distinguish and research wrongdoing is to uncover all it's going to highlights and recognize the offenders. In the perspective on Howard and Sheetz (2016), forensic accounting is the procedure of deciphering, condensing and introducing complex money related issues unmistakably, concisely and accurately regularly in an official courtroom as a specialist. It is worried about the utilization of accounting control to help decide issues of certainties in the business case (Okunbor & Obaretin, 2010).

Forensic accounting is a control that has its own models and strategies of insightful methodology that quest for affirmation, confirmation and warning viewpoint to create a lawful proof. A forensic examination might be grounded in accounting, drug, designing or some other order. Forensic audit is an assessment of proof with respect to a declaration to decide its correspondence to set up criteria did in a way appropriate to the court. It is concerned about the evidentiary idea of accounting information, and as a common-sense field worried about accounting extortion and forensic inspecting; consistency, due ingenuity and hazard appraisal; location of money related distortion and fiscal summary misrepresentation (Skousen and Wright, 2008); tax avoidance; liquidation and valuation ponders; infringement of accounting guideline (Dhar and Sarkar, 2010).

Gray (2008) accentuated that those certified to deal with the scientific examination is legal bookkeepers which are a blend of auditors and private specialists. Information and aptitudes incorporate analytical abilities, explore, law, quantitative techniques, money, inspecting, accounting and law requirement official bits of knowledge. A measurable bookkeeper's essential obligation is to break down, decipher, outline and present complex budgetary and business-related issues in a way that is both promptly reasonable by the

layman. The Association of Certified Fraud Examiners (ACFE) is one of the largest anti-fraud organisations responsible for providing anti-fraud training and education worldwide. In the ACFE's 2015 Fraud Examiners Manual, accounting fraud is characterized as "the conscious deception of the budgetary state of an undertaking achieved through the purposeful error or oversight of sums or exposures in the financial reports to misdirect budget report users". Several equivalent words of accounting extortion exist in the writing, including the purported financial statement misrepresentation, corporate extortion, and the executive's extortion.

According to Van Vlasselaer (2015), there are five key characteristics that clearly distinguish between a genuine mistake and a fraudulent activity. They state that fraud is an "uncommon, well-considered, imperceptibly concealed, time-evolving and often carefully organised crime" that needs to be meticulously understood so as to accomplish its early detection. Furthermore, they said that by all means, fraud offences are not crimes that happen fortuitously but carefully planned instead. Fraudsters are not impulsive individuals; they are constantly adapting and perfecting their methods in order to maintain illicit moves undetected. The use of complex and organised schemes is very common when committing fraud, so the analysis should never be performed considering isolated events but rather the phenomenon as a whole.

Bolgna and Linquist, (2015) characterized Forensic Accounting as the use of money related abilities and an analytical attitude to uncertain issues, led inside the setting of the principles of proof. Keeping an eye on (2002) additionally characterized Forensic accounting as the utilization of budgetary accounting and analytical aptitudes, to a standard satisfactory by the courts, to address issues in question with regards to common and criminal cases. In the perspective on Damilola and Olofinsola, (2007), Forensic accounting is the utilization of culpabilities techniques and mix of the accounting insightful exercises and law methodology to recognize and research money related violations and related monetary offenses. To them, Forensic accounting is an exceptionally specialized and concentrated zone of training inside the standards and morals of accounting calling. They further stated that it isn't each Forensic accounting commitment that winds up in the courtroom. As indicated by Bhasin (2007), Forensic accountants are prepared to look past the numbers and manage the business substances of circumstances. The investigation, translation, synopsis and the introduction of complex budgetary business-related issues are noticeable highlights of the calling. He further announced that the exercises of Forensic accountants include: insightful and dissecting monetary proof; creating automated applications to aid the investigation and introduction of money related proof; conveying their discoveries as reports, displays and assortments of records; and aiding legitimate procedures, incorporating affirming in courts, as a specialist witness and getting ready visual guides to help preliminary proof.

Concept and nature of fraud

The definition of fraud varies from one profession to the other and from one organization to the other. Fraud envelops a wide scope of unlawful practices and illicit acts including purposeful double-dealing or distortion. The Institute of Internal Auditors' International Professional Practices Framework (IPPF, 2012) characterizes misrepresentation as: "Any illicit demonstration described by duplicity, covering, or infringement of trust. These demonstrations are not needy upon the danger of savagery or physical power.

Frauds are executed by gatherings and associations to acquire cash, property, or administrations; to stay away from instalment or loss of administrations, or to verify individual or business advantage. Monetary extortion has been differently depicted in writing. Nobody's portrayal does the trick. Wikipedia word reference portrays Fraud as wrongdoings against property, including the unlawful transformation of property having a place with another to one's own.

Williams (2015) consolidates debasements to his depiction of monetary wrongdoings. Different segments of extortion portrayal incorporate fixes cronyism, nepotism, political gift, kickbacks, counterfeit valuing and cheats of various types. The variety of segments of monetary violations, some of which is featured above, isn't thorough.

The EFCC Act (2004) endeavors to catch the assortment of monetary and money related violations found either inside or outside the association. The notable issues in EFCC Act (2004) definition incorporate "rough, criminal and unlawful exercises carried out with the goal of procuring riches wrongfully in a way that disregards existing enactment and these incorporate any type of extortion, opiate sedate, dealing, tax evasion, misappropriation, pay off, plundering and any type of degenerate acts of neglect and youngster work, illicit oil bunkering and illicit mining, tax avoidance, remote trade misbehavior including forging, cash, robbery of licensed innovation and theft, open market misuse, dumping of poisonous waste and disallowed merchandise, and so on. This definition is sweeping and possibly remembers money related wrongdoings for the corporate association and those talked about by arrangement creators (William, 2015 and Khan, 2015). At the degree of corporate associations, budgetary violations were known to have prompted the breakdown of such associations. Cotton (2013) properties the breakdown of Enron, WorldCom, Tyco, Adelphia, to corporate misrepresentation. \$460 billion was said to have been lost.

In Nigeria, Cadbury Nig Plc whose books were criminally controlled by the executives was credited to have lost 15 billion Naira. On account of the nine fallen business banks in Nigeria, around one trillion nairas was accounted for to have been lost through various budgetary negligence. This is as yet being examined by EFCC under the EFCC Act (2004). By and large, money related misrepresentation is differed and submitted by people and foundations. Karwai (2012), Ajie and Ezi (2010) are of the view that monetary misrepresentation in associations fluctuates broadly in nature, character, and technique for activity by and large. Extortion might be characterized into two expansive ways: nature of fraudsters and strategy utilized in doing the misrepresentation. Based on the idea of the fraudsters, extortion might be ordered into three gatherings, to be specific; inward, outside and blended cheats.

Internal fraud identifies with those submitted by individuals from staff and executives of the associations while outer extortion is submitted by people not associated with the association and blended extortion includes untouchables plotting with the staff and chiefs of the association. Karwai (2012) revealed that the recognizable proof of the reasons for extortion is exceptionally troublesome. He expressed that cutting edge association's fakes normally include an intricate trap of scheme and trickiness that regularly cover the real reason. Ajie and Ezi (2010) are of the view that reviews have indicated that on the normal out of each 10 staff would search for approaches to take whenever given the chance and therefore no one but 4 could be ordinarily legit.

Okafor (2004) noticed that extortion grasps all the diverse methods which human creativity can devise, which are depended on by a person to get an advantage over another in the bogus portrayal. No clear and perpetual standard can be set down as a general suggestion

in characterizing extortion as it incorporates shock, stunt, shrewd and out of line ways by which another is duped deceitfully. Ramamoorti (2007) contended that extortion is a human undertaking, including double-dealing, deliberate goal, the force of want, the danger of anxiety, infringement of trust, and justification. It is in this manner essential to comprehend the mental variables that may impact the conduct of extortion culprits. The justification for drawing on social science based on clear from the instinct that one needs to adopt the thought process of a convict to get a hoodlum.

Studies on Forensic Accounting Techniques of Financial Statement Fraud Minimization

Adekola and Jimoh (2018) establish a nexus between forensic accounting, litigation support and quality reporting so that appreciable value could be attached to the effort of forensic accountants. The methodology was a time series data of selected concerns on the Nigeria Stock Exchange for 31 years and they performed requisite econometric test on the data. They were able to establish that a more transparent result would be imported into the financial statement based on the proxies for the variables. They concluded on the expertise of a forensic accountant whose invaluable experience would go a long way in enriching the financial statement.

Anuolam, Onyema, and Ekeke (2016) researched forensic accounting and financial crisis in Nigeria. In recent times, there has been a spate of dramatic increase in Economic and financial crimes across the globe. The creating economies have not been forgotten about, particularly Nigeria. No day goes without a report of some money-related wrongdoing or the other. Measurable accounting has become a rising theme for auditing in late time as a panacea for money related wrongdoings. This investigation inspects the essentialness of forensic accounting notwithstanding expanding deceitful practices in Nigeria with the end goal of propelling some arrangement. An example of 98 respondents was chosen from a population of 140 utilizing the Taro Yemen formula. 90 questionnaire was returned completely and accurately finished by the respondents. Regression examination, relationship coefficient, Ordinary Least Squares (OLS) and E-views 7 Geometric programming were utilized to break down the information. The discoveries of the examination show that forensic accounting is significant even with the expanding deceitful practices in Nigeria.

Edori (2018) explored fighting economic and financial crimes in Nigeria using forensic accounting: The moderating effect of technology. Increment in innovation has been helping all divisions of the economy in Nigeria. However, there is no refuting the way that innovation has both its positive and negative sides. While monetary and financial violations culprits control the negative part, forensic accounting utilizes it as an apparatus to uncover culprits. Violations named monetary and money related stay serious issues confronting Nigeria's economy and the population and many accept that forensic accounting is the main panacea in Nigeria. They utilized the review technique with the end goal of this investigation. Four hypotheses (null hypotheses) were tested utilizing the Pearson product moment correlation coefficient (PPMC) measurable instrument. The discoveries demonstrated that forensic accounting has a significant however negative association with monetary and money related violations; innovation has a significant and positive association with both measurable accounting and monetary and financial wrongdoings; and that innovation directs the relationship that exists between forensic accounting and financial and money related wrong-doings.

CONCLUSION

This paper concluded that forensic investigation practices are very important for the minimization of financial statement fraud in food and beverages manufacturing companies, this is because the prospect of forensic investigation acts as deterrence for fraudulent activities. Thus, when staff are aware that forensic accountants will be called upon on any suspicion of fraud, they will be more cautious and avoid activities that will place them at the centre of a financial fraud investigation in the organization. Similarly, forensic investigative practices are important factor in the minimization of fraud as fear of being embroiled in fraud investigation and prosecution will deter certain individuals from getting involved in fraudulent activities especially where the organization makes it a point to ensure that the prosecution of fraudulent staff are publicized to deter others in the future.

RECOMMENDATIONS

Considering the findings, discussion and conclusion of this study, it was recommended generally that manufacturing companies retain the services of qualified forensic accountants who are versed in the use of appropriate fraud deterrence methods in order to minimize fraud. Specifically, the following recommendations were made:

1. The extent of investigative service in checking improper expense recognition fraud was found to be moderate. Hence, food and beverages companies should pay more attention to this aspect of fraud to make sure that all expenses are recorded as they occur in order to avoid abnormal increase in income in the financial statement.
2. The extent of investigative service in checking incorrect asset valuation fraud was found to be very strong. This standard should be maintained as it will enhance effectiveness.
3. The extent that Firm size influences the effect of forensic accounting on financial statement fraud in food and beverages manufacturing companies was found to be moderate. Hence, food and beverages manufacturing companies in Nigeria are to maintain an adequate firm size in order to be able to effectively coordinate forensic accounting practices to minimize financial statement fraud.

REFERENCES

- Adekola, A.A., & Jimoh, O.R. (2018). Forensic accounting, litigation support and quality report of selected quoted Nigerian companies. *4th ICAN International Academic Conference proceedings*, 262-274
- Bhasin, M. (2007). Forensic accounting: A new paradigm for niche consulting. *The Chartered Accountant, Country*, 1000-1010.
- Bolagna, G. Jack, Lindquist, & Robert J, (2015). *Fraud Auditing and Forensic Accounting*, John Wiley & Sons, Inc, Canada.
- Cotton, M.P.(2013). *Corporate Fraud Prevention, Detection and Investigation: A practical Guide of Dealing with Corporate Fraud*, Australia: Price water house coopers Press

- Damilola, D. & Olofinsola, J. (2017). Forensic accountants and the litigation support engagement. *Nigeria Account* 40(2): 49-52
- Degboro, D., & Olofinsola, J. (2017). Forensic accountants and the litigation support engagement. *Nigerian Accountant*, 40(2), 49-52.
- Dhar, P., & Sarkar, A. (2010). Forensic accounting: An accountant's vision. *Vidyasagar University Journal of Commerce*,15(3), 93-104.
- Edori, D. S. (2018). Fighting economic and financial crimes in Nigeria using forensic accounting: The moderating effect of technology. *International Journal of Economics and Financial Research*, 4(7), 235-241.
- Gray, D. (2008). Forensic accounting and auditing: compared and contrasted to traditional accounting and auditing. *American Journal of Business Education*, 1(2), 115-126.
- Khan, A. U. (2015). Real-Time Credit-Card Fraud Detection using Artificial Neural Network Tuned by Simulated Annealing Algorithm. In *International Conference on Recent Trends in Information, Telecommunication and Computing*. Chandigarh, India, 113-121.
- Manurung, D. T.H. & Hardika, A. L. (2015). Influence of financial statement fraud in the perspective fraud diamond: Empirical study on banking companies listed on the Indonesia Stock Exchange year 2012 to 2014. *International Conference on Accounting Studies (ICAS)*, 37(4), 3-5.
- Okafor, T.G. & Agbiogwu,S.H. (2016). Effect of forensic accounting skills on the management of Bank fraud in Nigeria. *Journal of Finance and Accounting*, 2(1), 22-39.
- Okoye, E. I., & Ndah, C. O. (2019). Forensic accounting in developing economies-problem and prospects. *The University Advanced Research Journal*, 1, 1-13.
- Okoye, E.I. & Gbegi, D.O. (2013). Forensic Accounting: A Tool for Fraud Detection and Prevention in the Public Sector. (A Study of Selected Ministries in Kogi State). *International Journal of Academic Research in Business and Social Sciences*. 3(3), 1-19
- Okoye, E.I., & Jugu, O. (2013). An evaluation of forensic accountants to planning management fraud risk detection procedures. *Global Journal of Management and Business Research*, 13(1), 1-17
- Okoye, E.I; & Akenbor, J (2009): "The Role of Forensic Accounting in Fraud Investigation and Litigation Support". *The Nigerian Academic Forum* 17(1), 23-38

Okunbor, J.A., & Obaretin, O. (2010). Effectiveness of the application of forensic accounting services in Nigerian organisations. *Journal of Management Sciences*, 1(1), 171-184.

Ramamoorti S, W (2007) Fraud: The human factor. *Financial Executive*. 53-55.

Van Vlasselaer, B., (2015). Earnings management under German GAAP versus IFRS. *European Accounting Review*, 14(1), 155-180.