
FORENSIC ACCOUNTING AND PREVENTION OF CORPORATE FRAUD: A SURVEY OF SELECTED FIRMS IN DELTA STATE

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ABSTRACT

This study investigated forensic accounting and corporate fraud prevention. The study adopted a survey research design. The population of the study consist public and private firms in Delta state. 500 respondents from 6 companies participated in the study. The study used questionnaire to collect primary data, while the data collected was analyzed using the Z-statistic. The results of the study suggests that there is a significant difference in fraud prevention as a result of the use of forensic accounting in companies in Delta State. The study conclude that the use of forensic accounting by firms in Delta State has reduced cases of fraud, and recommends that the Nigeria government should begin the process of adding forensic audit to the conventional statutory audit of quoted companies. The study also recommends that all limited liabilities companies in Nigeria should establish a forensic accounting unit.

Keywords: Accounting professionals, corporate fraud, fraud prevention, forensic accounting,

INTRODUCTION

The explosion in the number of public liability companies (PLC) with large number of absentee owners across the globe has brought about a new challenge with respect to exercising control to secure the company assets. In Nigeria, the activities of firms are regulated by the corporate Affairs Commission. For examples, the Company and Allied Matters Act (CAMA) require company to keep accounting records of all financial undertaking. This will help in preparing financial statement where it is expected that such companies would make adequate disclosures in line with extant rules and regulations. Such disclosures is expected to give an insight to shareholders on understanding of financial statement.

As it has turned out to be, accounting figures are heavily exposed to fraud due to their influence on numerous important decisions that affect various interest group. In accounting, fraud refers to misrepresentation of transactions in the financial statement in order to derive undue advantage therefrom (Okoye, 2000).

Again, misappropriation of assets refers to deliberate and calculated attempts to convert a firms resources for personal use without authorization (Ojo, 2022). The threat of fraud has worsened since the advent of globalization and increasing use of information and communication technology (ICT), which replaced old way of doing business and advanced the speed of electronically manipulated fraud. According to KPMG (2008), abuse of privilege and fraud has cost businesses in USA more than \$400 billion, annually and on the average, organizations had lost six per cent of their total revenue to fraud and abuses committed by its employees.

One specialty that has sprung up to respond to these challenges is forensic accounting. According to Howard and Sheetz (2006, as cited in Okunbor & Obaretin, 2010), forensic accounting is the process of interpreting, summarizing and presenting complex financial issues succinctly and factually often in a court of law as an expert witness. Simply put, it is an integration of accounting, auditing and investigative skill to obtain or derive a particular result sufficient to give an evidence in court to convict an offender. As an expert witness,

the forensic accountant is to assist the court to reach a conclusion on matters in which the court itself may not have the technical knowledge to decide.

Given the fact that the existing statutory requirement in Nigeria only specify statutory audit for presentation to share holder at the Annual General Meeting, it therefore means that there is an audit expectation gap. This is because statutory audit is not proactive in such a way as to nip fraud in the bud. Therefore forensic accounting practice become a panacea to check the incident of fraud in modern organizations.

Josi (2022), Eme (2021), and Enyi (2008) concluded that forensic accounting can reduce fraud considerably; while Okoye and Okaro (2011) revealed that lack of auditors' independence remains a big challenge and creates audit expectation gap; hence, recommended the practice of forensic accounting to corporate organizations. Also the work of Satyananyan (2015) confirms that in forensic accounting practice reduce fraud and enhance reliance on audited statement by external users; while Owojori and Asaolu (2009) concluded that forensic accounting practice have positive impact on detection of fraud and other white collar crime.

The major problem facing the world today is lack of transparency in financial reporting. By legal provisions, the auditor does not have clear duty to uncover fraud. However with the incorporation of forensic accounting, auditors can act in case of fraud or weak internal control system which management cannot change. The European Federation of Accountants (EFA, 2002) illustrated the role of forensic accounting in Europe by positing that the collapse of a very important company quoted in the stock exchange is going to undermine the credibility and reliability of financial statement put in place to protect investors. A case in point is the Enron scandal (2001) in United States of America.

In Nigeria also, Mgbame and Izedonmi (2010) posited that financial fraud and corruption are likely to present substantial challenges to all stakeholders; and auditing cannot prevent fraud, prevent employees from looting company assets or eliminate corruption in public organizations. Therefore it must be recognized that the complexities of the corporate world, ingenuity of highly educated white collar criminal will always engage in shameful acts that will go undetected until they reach significant levels that could collapse such organizations. Therefore, forensic accounting according to them, should be designed to investigate, prosecute and convict those white collar criminals in order to build investors' confidence in Nigeria's business community.

Evans (2017) studied forensic accounting and the fighting of economic crimes in Ghana and reported that forensic accounting plays an important role in combating of financial crime in Ghana. On their part, Fury and Eka (2013) investigated forensic accounting and fraud prevention in Indonesia public office, and discovered that use of forensic accounting reduces the occurrence of fraud in public sector significantly. Similarly, Basse (2018) investigated effect of forensic accounting on management of fraud in microfinance outfits in Nigeria and observed that the role of forensic accounting professionals and regulatory authorities is very significant to elimination of fraud in micro finance institutions.

Also Okafor and Aigbiogwu (2016) studied the effect of forensic accounting skills on fraud prevention among deposit money Banks in Nigeria and revealed that mere possession and deployment of forensic Accounting skills significantly reduces the occurrences of fraud cases in the banking sector; while Ogundana et al. (2018) examined forensic accounting and fraud detection in Nigeria's banking industry and discovered that the use of forensic account has a positive impact on fraud prevention and detection in Nigerian banks.

The objective of this paper therefore, is to find out if forensic accounting can reduce the occurrence of corporate fraud in Delta State of Nigeria. The following hypothesis guided the study:

H₀₁: No significant difference exists in fraud prevention as a result of the use of forensic accounting among companies in Delta State.

METHODOLOGY

This research used survey design. For the purpose of the research, Delta State was broken into two zones. Zone A made up of North senatorial district and Northern part of Central District, and Zone B Comprising Southern Senatorial district and Southern part of Central Senatorial district. The following companies were selected from different industries under zone A. Asaba Aluminum Company, Union Bank Plc. Setra Co Ltd. From Zone B, we have the following: RT Brisco Co. Plc. Nigeria Gas Co. Ltd and First Bank Plc.

There was a total of 250 respondents from Zone A and another 250 respondents form Zone B. From this number, 70% and 56% agreed that using forensic accounting can check fraud in their companies respectively in their various zones. The Z statistics was therefore adopted to test our hypothesis which states that, there is no significant difference in fraud prevention as a result of the use of Forensic Accounting between companies in Zone A and Zone B.

RESULTS

Table 1: Distribution of Respondents

Zone A		
Name of Company	No. of Respondents	No. that Favour Forensic Accounting
RT. Brisco Plc	80	78
First Bank Plc	70	40
Nig. Gas Ltd	50	22
Total	200	140

Zone B		
Name of company	No. of respondents	No. that favour Forensic Accounting
Asaba Aluminum Company Ltd	70	40
Union Bank Plc	60	20
Setraco	120	80
Total	250	140

$$Z = \frac{PS_1 - PS_2}{P_1q \left\{ \frac{1}{N_1} + \frac{1}{N_2} \right\}}$$

$$\text{Where } P_1 = \frac{N_1 PS_1 + N_2 PS_2}{N_1 + N_2}$$

PS_1 = Proportion of sample one

PS_2 = Proportion of sample two

Therefore H_0 : = $P_1 = P_2$

H_A : = $P_1 \neq P_2$

From the data in the table above:

$PS_1 = 0.70$

$$PS_2 = 0.56$$

$$N_1 = 200$$

$$N_2 = 250$$

Therefore:

$$P_1 = \frac{200(0.70) + 250(0.56)}{200 + 250}$$

$$= 0.62$$

Therefore:

$$q = 1 - 0.62$$

$$q = 0.38$$

$$Z = 0.70 - 0.56$$

$$\frac{(0.62) - (0.38)}{\sqrt{\frac{(0.62)(0.38)}{200} + \frac{(0.38)(0.62)}{250}}}$$

$$= 66.025$$

Decision: Since Z computed 66.025 is greater than the Z critical i.e. the table value of 1.96, we reject the null hypothesis and conclude that there is a significant difference in fraud prevention as a result of the use of forensic accounting in companies in Delta State.

DISCUSSION OF RESULTS

The result of this study is in consonance with the study by Eme (2011) Enyi (2018) where they concluded that the use of Forensic Accounting can check fraud at the barest minimum in their various countries. Again the findings of Saryyananyan (2005) affirm the fact that forensic accounting practice enhances the chances of fraud detection and this can go a long way to bridge the audit expectation gap.

The findings of this study is also in line with the introduction of the International Standard Audit Number 240 (ISA 240) which has its local equivalent in Nigeria standard on Audit No. 5, (NSA 5) This standard states that sampling as an audit technique will no longer suffice. The ISA 240 in like manner requires the auditor to identify and assess the risk of material misstatement due to fraud at financial level and with respect to the ones that could lead to material fraud, the auditor should evaluate the important contra activities of the organisation and find out whether they have been complied with.

This implies according to Asein (2004) cited in Enyi (2009) that it is now the duty of the auditor not only to prevent but also detect fraud. This has made every audit exercise to be treated as fresh assignment and not paying attention to previous confidence on the integrity of management there ensuring that forensic investigation which is an arm of forensic accounting must now narrow or close the statutory audit expectation gap.

CONCLUSION AND RECOMMENDATIONS

This study focused on the use of forensic accounting in the prevention of fraud among firms in Delta State. The birth of forensic accounting in many modern economies is with a view to preventing and detecting corporate fraud. This study is therefore an awareness creating exercise for government and policy makers to drive the process of fraud-free environment. The results of our analyses shows that there exist a significant difference result of the practice of forensic accounting in companies where forensic accounting was adopted and those where it was not. We therefore conclude that the use of forensic accounting by firms in Delta State has reduced cases of fraud.

Based on the conclusion above, we recommend that the Nigeria government should begin the process of adding forensic audit to the conventional statutory audit of quoted companies. We also recommend that all limited liabilities companies in Nigeria should establish a unit of forensic accounting. This will fast track the prevention of fraud rather than waiting for fraud to take place before investigation and prosecution is carried out. We further recommend that various Accounting professional organizations should not only include forensic accounting in their curriculum but also ensure that they harmonies in order to come out with the one strong professionally recognized body to practice forensic accounting as it is other advanced economics.

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