

## EFFECT OF FORENSIC ACCOUNTING SERVICES ON FRAUD RATE MANAGEMENT OF LISTED BANKS IN NIGERIA

BY

<sup>1</sup>EFFIOM, Okoi Asuquo AND <sup>2</sup>AKPAN, B. M Ph.D

<sup>1</sup>Faculty of Business Management Cross River University of Technology, Calabar, Cross River State

<sup>2</sup>Department of Accountancy, Faculty of Management Sciences University of Calabar, Calabar Cross River State  
1&2 Nigeria

### ABSTRACT

The study examined the effect of forensic accounting services on fraud rate management among listed banks in Nigeria. In the course of the study, five research questions and TWO hypotheses were answered and tested respectively. The study adopted the descriptive survey research design with a population of 125 staff of forensic accounting and internal control departments of 25 listed banks. A sample of 98 respondents drawn from 12 listed banks in Nigeria was used in the study. A researcher's developed instrument titled "Forensic Accounting Services, Fraud Rate Management Questionnaire (FASFRMQ)" was used for data collection. The instrument was validated by three (3) experts, two in Accounting and one in Measurement and Evaluation in Cross River University of Technology, Calabar and Ogoja campuses respectively. The data were analyzed through analysis of variance using Statistical Package for Social Sciences version 21 (SPSS 21). The hypotheses were tested at 5% level of significance. The study revealed that the application of forensic accounting services by banks has significantly affected fraud rate management in the listed banks. It also showed that expert consultancy, dispute resolution, business advisory services, fraud investigation and litigation support services significantly aided fraud rate management among the listed banks. It was recommended that banks should take advantage of forensic accounting services to ensure the operational efficiency and effectiveness of their fraud rate management functions. The establishment and enhancement of forensic accounting and auditing functions in banks as separate departments in order to reduce fraud rates were equally recommended.

**Keywords:** effect of forensic, accounting services, fraud rate, management

### INTRODUCTION

Forensic accounting (FA) has come into limelight due to rapid increase in financial frauds and white-collar crimes. The integration of accounting, auditing and investigative skills creates the specialty, known as forensic accounting. Forensic means suitable for use in a court of law, and it is to that standard and potential outcome that forensic accountants generally have to work (Crumbley, Heitger & Smith, 2007). The word forensic underscores the application of scientific methods and techniques to the

investigation of crime, as much as it is concerned with courts of law. In effect, forensic accounting refers to the application of accounting principles, theories and discipline to facts and hypotheses at issue in a legal context, embracing litigation or any other form of dispute resolution such as arbitration. Forensic accounting (FA) is an umbrella term which consists of accounting, auditing and investigative skills. It is a type of accounting suitable for legal review and blended with services like providing the highest level of assurance gathered through legal documentation of latest scientific fashion, core knowledge of generally accepted accounting principles (GAAPs), standards and codes. According to Webster's Dictionary, Forensic Accounting means Belonging to, used in or suitable to court, of judicature or to public discussions, debate and ultimately dispute resolutions. It is also defined as an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution in the banking sector.

The banking sector plays a very significant role in the development of any economy. Banks in most economies are the principal depositories of the public's monetary savings, the nerve centre of the payment system, the vessel endowed with the ability of money creation and allocation of financial resources and conduit through which monetary and credit policies are implemented (Idolor, 2010 ; Akindele, 2011). The success of monetary policy, to a large extent, depends on the health of the banking institutions through which the policies are implemented (Adeyemo, 2012; Godwin, 2009; Oye, 2003). Whatever problems that militate against the proper functioning of the banking sector will invariably have multiplier effects on the other sectors of the economy. Fraud has been identified as a major threat to the growth and development of the banking sector, not only in Nigeria but globally. This is one of the reasons why it is essential to effectively manage the rate of fraud occurrence in banks to forestall its negative effect on the smooth functioning of the banking sector.

According to Idowu (2009), fraud can be seen as the deliberate falsification, camouflage, or exclusion of the truth for the purpose of gaining unfair advantage and thereby causing financial damage to an individual or an organization. It is dishonesty or an act of cheating aimed at causing a person or business to give up possessions or some lawful right. The Association of Certified Fraud Examiners further defines fraud as the use of one's profession for personal enhancement through the conscious misuse, misapplication or employment of organizational possessions or property. Also, Fadipe-Joseph and Titiloye (2012) looked at fraud as any action(s) by which one person intends to gain a deceitful advantage over another. In other words, fraud is an act of commission which is planned to cause unlawful gain to one person and criminal loss to the other, either by way of concealment of information or otherwise.

Chilvers (2000) defines forensic accounting as the use of investigative techniques, integrated with accounting and business skills, to develop information and opinions for evidence in court and for use by expert witnesses. Dhar and Sarkar (2010) defined Forensic Accounting as the application of accounting concepts and techniques to legal problems. It demands reporting, where accountability of the fraud is established and the report is considered as evidence in the court of law or in administrative proceedings. Forensic accounting services cover the areas of litigation services, fraud investigation and preparing court ready evidence all of which are of great importance to the banking industry. Forensic accounting may be one of the most effective and efficient ways to reduce and prevent fraudulent activities as it is concerned with the evidentiary nature of accounting data, and as a practical field

concerned with accounting fraud and forensic auditing; compliance, due diligence and risk assessment; detection of financial misrepresentation and financial statement fraud (Skousen & Wright, 2008) .

The forensic accountants draw conclusions, calculate values and identify irregular patterns or suspicious transactions trends by critically analyzing the financial data. They provide an accounting analysis to the court for dispute resolution in certain cases and also provide the courts with explanation about the fraud that has been committed (Adrian, 2009). This is the reason why forensic accounting may play a vital role in managing and reducing financial misappropriation (fraud rate) in the banking sector.

Financial misappropriation and irregularities have been a very big problem of concern all over the world. It is so common both in private and public sector organizations that almost every individual cannot wash his/her hand clean of it. This form of fraud is widely committed ranging from the presidency through the state government to the lowest that is local government. In private company it ranges from the managing directors of a company, through middle management cadre and as low as messengers. Individual perpetrates fraud and corrupt practices according to the capacity of the office. Accounting fraud is an act of knowingly falsifying accounting records, such as sales or cost records, in order to boost the net income or sales figure. The magnitude of public office fraud, together with the extent to which citizens are affected is a call for alarm. Accounting fraud is illegal and subjects the company and the executive involved to civil lawsuit, company officials may resort to accounting fraud to reverse loss or to ensure that they meet expectation from shareholders or the public. David (2005) states that fraud can be better prevented if decisions are made by a group and not an individual. Presently in Nigeria the attempt by the government to fight fraud is being frustrated by fraud fighting back through judicial system.

In 2008 the Central Bank of Nigeria (CBN), commissioned special examinations on all 24 banks in Nigeria. These examinations highlighted significant deficiencies in capital adequacy and liquidity requirements, and illustrated major weaknesses in corporate governance and risk management practices.

The examination showed clearly that 9 banks were in a 'grave Situation', i.e.: Oceanic Bank International Nigeria Plc, Union Bank of Nigeria Plc, Intercontinental Bank Plc, Bank PHB Plc, Afribank Nigeria Plc, FinbankPlc, Equitorial Trust Bank Ltd, Spring Bank Plc and Wema

Bank Plc. The CBN commissioned accounting firms to prepare: (i) forensic reports to further look into the management and corporate governance of each bank, and (ii) diagnostic reports to ascertain the true financial state of each bank. Both the forensic and diagnostic reports on each of the banks confirmed a pattern of bad corporate governance and a suspicion of fraudulent activity in the banks by the then Chief Executives.

The Economic and Financial Crimes Commission (EFCC) and the Honourable Attorney General of the Federation, upon review of the reports on these banks, were also of the firm view that what was disclosed pointed to serious economic crimes. A number of persons in each of these banks were charged with a range of crimes; including theft, fraud and money laundering, before the Federal High Court and the Lagos State High Court. The Securities and Exchange Commission (SEC) also came to the same determination of major infractions of securities regulation, leading to actions at the Investment

and Securities Tribunal. The challenges mirrored in the scenarios enumerated above gave rise to why this research is undertaken to ascertain whether the use of forensic accounting services could affect significantly on fraud rate management.

### **Statement of the problem**

In recent times, series of fraud have been committed both in the public sector and private sector of the economy. These in no doubt are perpetrated under the supervision of the internal auditors of the organization. It suffices to say that the independent of the internal auditor is not guaranteed because he works as an employee of the government or organization. Then come the idea of external auditors, yet frauds are still being committed on a daily basis. The above scenario indicated that as more and more development both in the information Communication Technology (ICT) world and other fields, so fraudsters continue to groom their own tactics towards fraudulent practices. It now become pertinent that forensic accounting be introduced and practices since the external auditors do not or may not have the required training to be able to tackle modern frauds like white collar crimes such as security fraud, embezzlement, bankruptcies, contract disputes and possibly criminal financial transaction; including money laundering by organized criminals, also is the ability of the forensic accountant to provide litigation support and investigative accounting. These areas have become a complex area of concern for the accounting profession.

It now become pertinent that forensic accounting be fully implemented and practices since the external auditors do not or may not have the required training to be able to tackle modern frauds like white collar crimes such as security fraud, embezzlement, bankruptcies, contract disputes and possibly criminal financial transaction; including money laundering by organized criminals, also is the ability of the forensic accountant to provide litigation support and investigative accounting. These areas have become a complex area of concern for the accounting profession.

Despite efforts by the regulatory authorities to curb financial fraud and clean up the banking system, Nigerian banks recorded 20,768 cases costing them N19.77 billion in the first six months of 2018. The Central Bank of Nigeria (CBN) made this known in its economic report for the first half of 2018, released on Friday, November 2, 2018. According to the apex bank, the reported fraud and forgery incidences were perpetrated by both bank staff and non-bank culprits. In the period under review, the actual loss by banks to fraud and forgery, however, amounted to N12.06 billion, compared with the N0.78 billion and \$0.03 million, suffered in the first half of 2017. The problem of this study is: what is the effect of forensic accounting services on fraud rate management among selected banks in the Nigerian banking industry.

### **Research Questions**

For the purpose of this study, the following research questions were drawn:

1. To what extent have expert consultancy services affected fraud rate management by listed banks in Nigeria?
2. What is the extent of the effect of dispute resolution on fraud rate management by listed banks in Nigeria?

## **Statement of Hypotheses**

The following hypotheses were formulated and are to be tested at .05 alpha levels.

1. Expert consultancy services do not have significant effect on fraud rate management by listed banks in Nigeria.
2. Dispute resolution has no significant effect on fraud rate management by listed banks in Nigeria

## **RESEARCH METHODOLOGY**

The main objective of this study is to determine the effect of forensic accounting services on fraud rate management among listed banks in Nigeria. This chapter provides a discussion of the research methods and procedures that were employed to achieve this objective. It discusses the research design especially with respect to the choice of design. It also discusses the population of the study, sample and sampling techniques, data collection methods, data analysis and data presentation methods employed in the study and highlights the sources of information for the research and data validation and integrity so that all kinds of errors could be identified and eliminated during the analysis and interpretation.

### **Research design**

Mathoko (2007) describes a research design as a set of decisions that make up the master plan specifying the methods and procedures for collecting and analyzing the needed information. In this study, a survey design was used. This research problem could best be studied through the

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use of descriptive research. Descriptive survey research portrays an accurate profile of persons, events, or situations (Saunders, Lewis & Thornhill, 2003). Surveys allow the collection of large amount of data from a sizable population in a highly economical way. Therefore descriptive survey was deemed the best strategy to fulfill the objectives of this study.

### **Population of the Study**

Target population in statistics is the specific population about which information is desired. A population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated (Ngechu, 2004). The target population under study is 125 staff of forensic accounting and internal control units of 25 commercial banks in Nigeria.

### **Sample and Sampling technique**

The sampling frame describes the list of all population units from which the sample was collected (Cooper & Schindler, 2003). Sample of 98 respondents were drawn from a population of 125 staff of forensic accounting and internal control units of 12 commercial banks in Nigeria. In this case probabilistic sampling whose logic lies in selecting a truly random and representative sample that

permits confident generalizations from the sample to a larger population is to be done (Cooper and Schindler, 2003). By the use of this probabilistic sampling, each population member has a known chance of being included. Statistically, in order for generalization to take place, a sample of at least 30 must exist (Cooper and Schindler, 2003). At least 12 commercial banks were randomly selected.

Data collection is gathering empirical evidence in order to gain new insights about a situation and answer questions that prompt undertaking of the research (Kerlinger (2005).A researcher's developed instrument tagged Forensic Accounting Services, Fraud Rate Management Questionnaire (FASFRMQ) was used for data collection.

To establish the validity of the instrument, three (3) experts were involved; two in Accounting and one in Measurement and Evaluation in Cross River University of Technology, who were asked to scrutinize the instrument to ensure that the items were well worded. Their various suggestion, modifications were finally incorporated in the final version of the instrument before administration.

A score for each subject was then calculated based on one administration of the instruments and the index ranged from 0.79 to 0.94 which was found to consistently measure what it was designed to measure.

Completed questionnaire was edited for completeness and consistency. The questionnaire was coded to allow for statistical analysis. According to Mugenda (1999), data must be cleaned, coded and properly analyzed in order to obtain a meaningful report

## **RESULTS AND DISCUSSION**

The main objective of this study is to determine the effect of forensic accounting services on fraud rate management among listed banks in Nigeria. This chapter presents a general description of the research variables and the results of the data analysis in line with the five null hypotheses that were tested in the study. The results and discussions of findings are presented under the following sub headings:

### **Presentation of results**

The results of the data collected are presented hypothesis-by-hypothesis as shown below.

#### **Hypothesis one**

There is no significant effect of expert consultancy services on fraud rate management among selected commercial banks in Nigeria. The independent variable in this hypothesis is expert consultancy which has three levels: high, moderate and low. The dependent variable is fraud rate management which was measured continuously.

**Table 1:** Result of descriptive analysis of effect of experts consultancy on fraud rate management

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N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean	Minimum	Maximum
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					Lower Bound	Upper Bound		
High	22	37.0909	3.82168	2.94679	30.9627	43.2191	18.00	56.00
Moderate	68	36.5735	2.30530	2.21984	32.1427	41.0044	18.00	71.00
Low	8	55.3750	2.45049	2.98770	48.3102	62.4398	46.00	69.00
Total	98	43.0131	2.85915	1.76249	34.7264	41.7225	18.00	71.00

## Hypothesis Two

Dispute resolution has no significant effect on fraud rate management among selected commercial banks in Nigeria. The independent variable in this hypothesis is dispute resolution which has three levels: high, moderate and low. The dependent variable is fraud rate management which was measured continuously.

Table 2: Result of descriptive statistics with the effect of dispute resolution on fraud rate management

Levels of dispute resolution	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
High	30	41.4333	7.68242	3.22835	34.8306	48.0361	18.00	71.00
Moderate	54	34.2407	7.36504	2.36308	29.5010	38.9805	18.00	68.00
Low	14	46.7143	3.31528	3.55866	39.0263	54.4023	26.00	69.00
Total	98	40.7961	6.12091	1.76249	34.7264	41.7225	18.00	71.00

## Discussion of findings

The findings of the study are presented hypothesis by hypothesis as shown below:

### Effect of expert consultancy services on fraud rate management:

It was gathered from the result of the study that the use of expert consultants has a significant effect on fraud rate management. This finding is very logical because when experts with requisite technical knowledge are deployed to build and supervise controls, the occurrence of fraud will naturally be minimized. This is further pronounced by Okafor and Agbigwu, (2016). Their study focused on the effect of forensic accounting skills on management of bank fraud in Nigeria. It revealed that possession of enhanced skills aids the forensic accountant in discharging his duties effectively. Also, Boritz., Kotchetova and Robinson. (2008) investigated forensic accountants and auditors in terms of the relative merits of involving fraud specialist during the planning stage in assisting auditors by developing an audit plan that will effectively identify fraud. They found that involving the fraud specialists in the risk assessment process leads to better results than simply consulting with them by providing summery risk assessments and asking for input.

The findings also agree with Okafor and Agbiogwu (2016) whose study reveals that use of basic experts' consultancy services significantly reduces the occurrence of fraud cases in the banking sector and that there is a significant difference between services of forensic accountants and external auditors, and that the presence of forensic accountants in Banks can aid in reducing fraud cases. Also, Onodi, Okafor and Onyali (2015) findings revealed that expert services of forensic investigators are normally required in the prosecution of fraud, but majority of the audit and accounting personnel in Nigeria are suffering from poor perception and knowledge of forensic investigative methods.

### **Dispute resolution and fraud rate management:**

The result from this study clearly shows that there is significant effect of dispute resolution on fraud rate management among commercial banks in Nigeria. Dispute resolution gives parties

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in dispute the opportunity to work through disputed issues with the help of a neutral third party. It is generally faster and less expensive than going to court and reduces stress from court appearances, time and cost. Ogbeide, Aribaba and Omeregie (2017) in their study to examine factors influencing organizations' intentions to use forensic accounting services in fraud detection and prevention in Nigeria found out that the perceived benefits and perceived risks of using forensic accounting services were largely significant at influencing organizations' intention to use forensic accounting in fraud detection and prevention in the Nigeria context

### **Conclusion**

From the discussion, the researcher concludes that most commercial banks in Nigeria have adopted various forensic accounting practices which include litigation support, fraud investigation, business advisory services, dispute resolution and expert consultancy services. The study further concludes that there is a positive effect of forensic accounting services on fraud rate management. A firm wishing to grow with reduced frauds must therefore put into place sufficient resources to be able to properly practice forensic accounting in its different departments. The study concludes that in order to sustain effective operations in the bank, cyber fraud and fraudulent expense claims by employees must be monitored since they were the most prevalent type of fraud which occurred in the banking sector. Theft of cash, physical assets and identity theft of confidential information was also affected to a greater extent. Payroll was affected the least.

The study concludes that just as commercial banks use other means of reducing the occurrence of frauds, forensic accounting services provides confidence in financial statements as it had a positive effect on fraud rate management. Among legal strategies utilized in different organizations, personal responsibility has emerged as one of the most preferred strategies of curbing frauds.

### **Policy Recommendations**

The study makes the following recommendations which are in line with the findings. The study recommends that it is important to review the Banks' organizational structure for better alignment with



the workings of forensic accounting services. This is to allow for clear functionality of different departments without conflicting with each other. The creation of a separate Forensic accounting department having sub units for specialist fraud investigation, Litigation support, Business advisory services, Expert consultancy and dispute resolution is highly imperative.

The Banks also need to formulate clear policies to guide the practice of forensic accounting in the banking sector. It was necessary that the internal control staff and management be educated and informed of the most common type of fraud and the department responsible so that unreasonable loss of money and fraudulent practices could be addressed. Such information could be communicated during meetings within banks and in annual general meetings as it could reduce the number of litigations against the auditors since such litigation services are costly and generally damage the reputation of the Banks.

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