

THE ROLE OF FORENSIC ACCOUNTING IN FRAUD DETECTION AND NATIONAL SECURITY

By

Dickson O. Mukoro¹ PhD, Ogijo Yamusa² and Samuel O. Faboyede*¹

¹Department of Accounting, Covenant University, Canaanland, Ota, Ogun State, Nigeria

²Department of Banking & Finance, Federal Polytechnic, Ilaro, Ogun State, Nigeria

✉ **Correspondence e-mail:** shollyte2001@yahoo.com

Abstract

This study aims at exploring the relevance of forensic accounting in curbing crime and corruption in public sector. The objective of the research work is to explore the role forensic accounting can play in the fight against corruption via the application of investigative skills, in addition to provision of litigation support services, documentation, and reporting. The population used in the research was the Federal Inland Revenue Service (FIRS). The research design employed was the survey research. Data was majorly collected from primary sources. The hypothesis testing in this research work was done using regression analysis. The result of the empirical findings shows that forensic accountants are relevant in investigating crime and corruption in the public sector. Forensic accountants play a role in litigation support services in the public sector and are relevant in documentation and reporting. It was observed that forensic accounting plays a significant role in curbing crime and corrupt practices in any public sector since it provides a mechanism to hold people accountable, such that those who manage resources in a fiduciary capacity do not easily abuse that trust without detection. The paper recommends, among others, that: accounting professionals should always act proactively such that members are kept abreast of emerging technologies, especially in the area of forensic accounting; the legislature should see to it that the executive grants full autonomy to the agents of government that are charged with enforcing accountability; and that the office of the Auditor-General of the Federation, the Economic and Financial Crime Commission, Independent Corrupt Practices Commission, and Code of Conduct Bureau should be fully independent entities free to do their job without undue meddling and interference.

Keywords: FIRS, Forensic Accounting, Regression, Crime, Corruption

Introduction

The trend of falsehoods involving all levels of the society is increasing on a daily basis. The rich, the poor, the young and the elderly, the male and the female all are neck deep in fraud and fraud related activities that say a lot about our moral and family situations. From the politicians to the bank directors/executives, from the legal officers to the law enforcement personnel, from the civil servants to the school teacher, from the trader in the market to the hawkers on the street, the tendency for fraud and fraud related crimes is endless.

For instance, if one may ask; what compels the senior level manager, the low level employee or the longtime middle manager to ultimately risk everything, convinced that their crimes will go undetected? The characters in fiction on frauds and financial crimes, as in the real world, are frequently motivated by financial need caused by avarice, gambling debts, business reversals, poor investments or trying to maintain a lifestyle well beyond their means

The first and most sophisticated way of carrying out the fraudulent activities in many organizations is through the accounting and financial records. It is a recognized fact that the management of Enron - the celebrated energy company in USA defrauded by her top management - used creative accounting to make the company look good and powerful on paper than it really was using special purpose subsidiaries that have a single purpose and that did not need to be included in Enron's balance sheet to hide risky investment activities and financial losses. However, forensic accounting helped subsequently to determine that many of Enron's recorded assets and profits were inflated, and in some cases, completely fraudulent and nonexistent. Some of the company's debts and losses were recorded in offshore entities, remaining absent from Enron's financial statements. (Folger, 2011)

In many quarters, forensic accounting is equated to financial audit but they are miles apart. Forensic accounting is usually described as the integration of accounting and auditing skills with investigative techniques and professional skepticism. Alan Zysman, a noted forensic accountant since 1987, states, "Forensic accounting provides an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution." (Hecht and Redmond, 2012). One area of similarity is the provision in the Statement of Auditing

Standard (SAS 1) that requires an auditor to approach his assignment with ‘professional skepticism’ which requires auditors to adopt a questioning mind and a critical assessment of audit evidence in assessing audit risk of fraud. (Ojo, 2012)

Objective verification is the primary goal of forensic accounting. For this reason, many forensic accountants are asked to testify in court cases as expert witnesses for either the prosecution or the defense. It can be said therefore that forensic accounting is not limited to fraud detection but also assisting in litigations with the hope of recovering any losses; hence a forensic accountant’s assignment must be of such a quality that it can withstand scrutiny by attorneys, judges and juries.

On the other hand a forensic accountant may be asked to calculate economic damages that occurred as a result of a breach of contract or provide insight into a case based on a claim of professional negligence. In Nigeria for instance, businesses are faced with breach of contracts which may be reasons for many abandoned projects, mainly the government sponsored, by contractors who might have collected more than fifty percent of the contract sum. The application of forensic accounting can bring such fake contractors to book by providing appropriate financial evidence that can aid legal actions against them. Also, forensic accounting is considered to be a mechanism for global war against money laundering, terrorism financing, as well as other fraudulent and social vices that have impeded the nation’s march to development (Oguma, 2011)

Literature Review

According to Jafaru (2011), forensic and investigative accounting should be seen as the application of financial skills and investigative mentality conducted within the context of the rules of evidence to resolve unresolved issues.

Bologna and Lindquist (1995) as quoted by Chariri (2009) stated that as an investigator, a forensic accountant can be seen as those who are specialists in fraud detection, and particularly in documenting exactly the kind of evidence required for successful criminal prosecution; able to work in complex regulatory and litigation environments; and with reasonable accuracy, can reconstruct missing, destroyed, or deceptive accounting records.

Meanwhile, as economists, forensic accountants are particularly effective at economic loss, damage, and social harm estimates; familiar with the assumptions, algorithms, and calculations in econometric models and opportunity cost scenarios; they can measure and quantify such things as loss of goodwill and reputation.

Finally, as appraisal experts, forensic accountants should be able to reliably express informed opinion on matters of business value, based on generally accepted theory; effective at evaluating the historical and projected degrees of risk and return of any going concern as well as any and all financial transactions involving assets, property, taxes, and equities

Forensic Accounting, Crime, and Corruption

To be successful as a forensic accounting professional, one must be detail oriented, persistent, ambitious, and highly organized. Forensic accounting also requires a great deal of creativity, since one must often explain complex financial concepts to an audience that lacks basic accounting knowledge. It is not surprising that the American agency, the Federal Bureau of Investigation (FBI) confirmed that ‘one key element was the creation of a standardized, professional investigative support position known as the forensic accountant in 2009’. The forensic accountant at FBI conducts the financial investigative portion of complex cases across a wide variety of Bureau programmes including investigating terrorists, spies, and criminals of all kinds who are involved in financial wrongdoing. The agency lists the responsibilities of forensic accountants to include:

- Conducting thorough forensic financial analysis of business and personal records and developing financial profiles of individuals or groups identified as participating in suspicious or illegal activity;
- Participating in gathering evidence and preparing search warrants/affidavits associated with financial analysis;
- Accompanying case agents on interviews of subjects and key witnesses in secure and non-confrontational settings;
- Identifying and tracing funding sources and interrelated transactions;
- Compiling findings and conclusions into financial investigative reports; and

- Meeting with prosecuting attorneys to discuss strategies and other litigation support functions and testifying when needed as fact or expert witnesses in judicial proceedings.

The agency concludes that ‘today around 15 percent of agents employed by the bureau are forensic accountants’ (FBI, 2012) In essence therefore forensic accounting can be used to investigate and curb all manner of financial crimes and terrorism sponsorship.

Corruption and Forensic Accounting

Most civilized societies are dependent upon people doing the right thing. Despite rewards, punishment, and deterrence, the resources required to fully enforce all the laws would be astronomical. Even deterrence is costly to implement and does not guarantee an adequate level of compliance. The bottom line is that a person’s normative values of right and wrong dictate his behavior and determine compliance or noncompliance with the law.

Corruption as a concept is usually difficult to define, because of its relativity but one can put it in a perspective when it is identified for the purpose of outlining ways and means of combating it. According to Nye (1967), corruption is a behavior which deviates from the normal duties of a public role because of private – regarding family, close private clique, pecuniary or status gain, or violates rules against the exercise of private-regarding influence. This includes such behavior as bribery (use of reward to prevent the judgment of a person in a position of trust); nepotism (bestowal of patronage by reason of inscriptive relationship rather than merit); and misappropriation (illegal appropriation of public resources for private-regarding use).

Mukoro, et al (2011:235) quoting Edafehirhaye and Edafehirhaye (2008:59) defines corruption as tendency and propensity to do what is wrong, evil or harmful to one’s neighbor in spite of the knowledge of what is good. It is an attempt of subverting the rule of the game using trick to take public fund and using them for one’s personal interest

The dishonest and illegal behavior exhibited especially by people in authority for their personal gain is corruption. (Ayobami, 2011) According to the Independence and Corrupt Practices Commission (ICPC) Act (section 2), corruption includes vices like bribery, fraud, and other related offences. Corruption is the abuse or misuse of power or position of trust for personal or

group benefit (monetary or otherwise). The growing corruption in Nigeria can be traced to people holding power at the federal, state, and local government levels. Corruption does not involve just people in government, but also people in both private and public positions and even traditional rulers.

Abayomi (2011) opined that Nigeria's colonial heritage has altered her values and perception of morality; and listed some of the causes of corruption as follows:

- Trade Restriction. This is Government-induced source of rent seeking/corruption. The restrictions on importation of foreign automobiles are examples of how government officials and politicians can make quick money via rent seeking/corruption.
- Government subsidies. When government allocates scarce resources to individuals and firms are using legal criteria other than the ability or willingness to pay, corruption is likely to be the result. Corruption can thrive under industrial policies that allow poorly-targeted subsidies to be appropriated by firms for which they are not intended.
- Price controls. The purpose is to lower the price of some goods below market value. For social and political reason, these are also a source of corruption.
- Low wages in civil service. When public wages are low, public servants may be compelled to use their official positions to collect bribes as a way of making ends meet, particularly when the chances of being caught are low.
- Sociological factors. Multi-ethnic societies may be more likely to fall prey to corruption as a result of failure to manage ethnic conflict in a way that is fair to everyone.

In proffering solutions to the corruption cancer, Abayomi (2011) advised that Nigerians should emphasize transparency, integrity, and accountability in all their private and public transactions.

But the situation in Nigeria now is far more serious for the above suggested solutions. In Businessday publication of May 9 2012, Agbaje wrote 'Everyone knows, or ought to know the features and consequences of cancer – it spreads very rapidly through the host, destroying cells, weakening the body and, in due course, killing its victim. A cure from an advanced form of cancer, such as Nigerian corruption has become, is a rarity, and in the few cases in which that happens, it requires decisive surgical and other scientific or medical intervention, and some large

dose of divine grace. Where cancer is treated with levity, the patient is a living dead. God forbid that Nigeria is just enjoying its last stages of mobile morbidity! But if we don't engineer a quick and decisive onslaught on corruption, it will destroy Nigeria – sooner than later.

The pension probe is not the only parade of unmitigated graft and brigandage on display in these times. The oil subsidy probe also shows, as we have all suspected, that the subsidy, rather than a mechanism to smoothen oil prices for the benefit of the poor, had become oil industry bureaucrats' (together with their allies and contractors') source of massive enrichment. Though it seems clear enough that the House committee's limited knowledge of public finance, banking, international trade and shipping, and oil and gas transactions (as well perhaps as a little exuberance) meant figures may have been somewhat exaggerated, but it is still apparent that significant impropriety took place within the oil subsidy regime, particularly during the Yar'Adua and Jonathan regimes. It is a mystery that the lesson Nigerian people learnt from these is that subsidy must stay! (Agbaje, 2012)

Nigeria's anti-corruption agency has made feeble attempts to clean up Nigerian politics. Since 2005, it has charged 19 former state governors with corruption. But none has gone to jail despite the charges. Recently, a former state governor, quarreled with the president and was sacked. The Economic and Financial Crimes Commission (EFCC) then said he had embezzled millions of dollars and promptly declared him a fugitive. Corruption, it seems, is only a problem when somebody falls from grace.

The spate of financial crime and corruption is enormous. The weak auditing and reporting style and inadequate knowledge of forensic accounting practice and the consequences on the people and the economy of Nigeria prompted this study. The objectives of this paper therefore is to ascertain the relevance of forensic accounting in curbing financial crime and corruption in the public sector by specifically examining the relevance of forensic accountants investigating crime and corruption in the public sector, as well as determining the roles and relevance of forensic accountants in litigations support services, documentation and reporting.

According to Izedonmi (2000), a hypothesis is an educated guess, a logical speculation based on available information relative to a problem or a set of problems under investigation.

We therefore developed the following hypotheses for this study –

1. Forensic accounting is significantly relevant in investigating crime and corruption in the public sector
2. Forensic accounting plays a significant role in litigation support services in the public sector
3. Forensic accounting is significantly relevant in litigation documentation and expert reporting.

Research Methods

Exploratory research design was used in this study. The sample is made up of the staff of Federal Inland Revenue Service (FIRS), Lagos State. A non-probability judgmental method sampling technique was used in selecting the respondents in the establishment selected. The choice of establishment is due to the fact that most other public sector organizations are linked to the Federal Inland Revenue Service by the statute establishing it. Besides, Lagos is the hub of Nigerian businesses with a large spread of offices of the Federal Inland Revenue Service. Primary data collection method was adopted. The questionnaire was designed to generate concise and precise answers from the respondents using close-ended questions. The responses to the questionnaire copies were processed using electronic statistical package (SPSS) via regression analysis as a parameter to determine the effects on the variables under study. A total of 100 questionnaire copies were administered to the selected staff of the Federal Inland Revenue Service, Lagos. The retrieval rate of questionnaire copies was 78 per cent. Data were analyzed using a combination of univariate and multivariate techniques. Hypotheses formulated were specifically tested using linear regression technique.

Results and Discussion

Hypothesis I measures the relevance of forensic accounting in the investigation of crime and corruption in public sector in the study locations. The dependent variable is forensic accounting while criminal conduct, asset recovery, and other experts' coordination are used as the independent variables.

Data were analyzed using a combination of univariate and multivariate techniques. Hypotheses formulated were specifically tested using linear regression technique. The result of the regression analysis showed how much of the variance in the dependent variable is explained by the model. The R square value is 0.41 as indicated in table 1.1; this means that the model explains 41% of the variance in the dependent variable (forensic accounting). Based on the result obtained, it can be concluded that forensic accountants are relevant in investigating crime and corruption in the public sector.

Table 1.1 illustration of significance of the relevance of forensic accounting in the investigation of crime and corruption in public sector in the study locations

Model	Unstandardized Coefficients		Standardized coefficients	t	Sig
Selected Variables	B	Std Error	Beta		
Constant	5.576	0.954		5.847	0.000
Criminal Conduct	0.021	0.118	0.019	0.174	0.863
Asset Recovery	0.051	0.143	0.040	0.361	0.719
Other Experts' Coordination	0.281	0.110	0.284	-2.541	0.013
$R^2 = 0.41$					

Forensic accounting searches for evidence of criminal conduct or assist in the determination of or rebuttal of claimed damages. Forensic accounting provides assistance with the protection and recovery of assets. Investigative accounting enables co-ordination of other experts including private investigators, forensic document examiners, and consulting engineers.

Hypothesis 2 measures the significant role forensic accounting plays in litigation support services in the public sector in the study locations. The dependent variable is forensic accounting while expert witness, examination for discovering, and necessary documents are used as the independent variables.

The result of the regression analysis showed how much of the variance in the dependent variable is explained by the model. The R square value is 0.38 (i.e. 38%) as indicated in table 1.2; this means that the model explained 38% of the variance crime and corruption with a level of significance of less than 5%. Thus, the null hypothesis should be rejected while the alternate should be accepted. Based on the results, it can be concluded that forensic accountants play a role in litigation support services in the public sector.

Table 1.2 illustration of significance of the relevance of forensic accounting in litigation support services in the public sector

Model	Unstandardized coefficent B	Std Error	Standardized coefficients Beta	t	Sig
Constant	3.220	0.874		3.684	0.000
Expert Witness	0.093	0.111	0.096	0.833	0.407
Examination for Discovering	0.157	0.125	0.145	1.254	0.214
Necessary documents	0.054	0.105	0.071	0.614	0.541
R-Square = 0.38					

Forensic accounting provides expert witness in litigation support service. Forensic accounting assists with the examination for discovering, including the formulation of the act regarding the financials. Forensic accounting obtains documents necessary to support or refute a claim.

Hypothesis 3 measures the significance of the relevance of forensic accounting in litigation documentation and expert reporting in the public sector in the study locations. The dependent variable is forensic accounting while audit trail and expert report are used as the independent variables.

The result of the regression analysis showed how much of the variance in the dependent variable is explained by the model. The test of the hypothesis showed an R square value of 42% (as indicated in table 1.3). This implies that there is a strong relationship between litigation documentation, expert reporting, and forensic accounting. The result of the test informed our

conclusion that the forensic accountants are relevant in litigation documentation and expert reporting.

Table 1.3 illustration of the significance of the relevance of forensic accounting in litigation documentation and expert reporting in the public sector

Model	Unstandardized	Std Error	Standardized	t	Sig
	Coefficients		coefficients		
	B		Beta		
1 (Constant)	3.626	0.651		5.568	0.000
Audit Trail	0.215	0.122	0.199	1.759	0.083
Expert Report	0.031	0.085	-0.042	-0.370	0.712
R-Square = 0.42					

The forensic auditor leaves audit trail in carrying out his investigation. The forensic accountant's expert's report is designed to support the client and rebut his opponent if the facts, issues, answers and authorities will lead to these conclusions.

Conclusion and Recommendations

Forensic accounting and the forensic accountants play significant roles in the curbing of crime and corruption in the public sector. The following findings were made arising from this study:

- (a) The relevance of forensic accounting is growing worldwide as rising crimes, corruption, malfunctioning of regulators, security scams and many up-coming issues of this kind all are openly indicating the increasing demand for forensic accountants.
- (b) The causes of corruption in Nigeria are mostly as a result of obsession with materialism, compulsion for a shortcut to affluence, glorification and approbation of ill-gotten wealth by the general public. These reasons, among others, account for the persistence of corruption in Nigeria.
- (c) The forensic accountant plays an important role in litigation support services.
- (d) The forensic accountant, in fighting crime and corruption, has a better advantage within his distinct functions or roles performed compared to the regular auditor.

We hereby recommend that:

(a) If Nigeria desires to be 'deranked' as the most corrupt nation by Transparency International, she must rush to embrace this emerging trend of forensic accounting so that crime and corruption can be combated adequately both in the private sector and most especially the public sector of the nation.

(b) This is the age of knowledge economy and the accountancy professional bodies should increase their effort in providing functional and cutting edge education to their members and develop curriculum that would incorporate forensic accounting with a view to make them globally competitive. Nigeria's educational institutions should lead the way while the legislative arm of government should enact legislations that will make all anti-graft, financial crime and corruption agencies to not only be autonomous, but also effective and efficient in performing their duties. It is not when a corrupt government official has lost face with powers that he should face investigation and trials.

(c) Finally, schools, institutions, societies and organizations should all rally round to tap into the forensic accounting knowledge field application for the betterment of governance and the Nigerian society.

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APPENDIX

Table 1.0 Descriptive Statistics

Question	Frequency	Percentage
Bsc/HND	23	29.5
Msc	34	43.6
Post Grad. Dip	11	14.1
Ph. D	10	12.8
0-5yrs Work Experience	12	15.4
6-10yrs Work Experience	29	37.2
11-15 yrs Work Experience	26	33.3
Above 15yrs W. Experience	11	14.1
Top Mgmt Staff	26	33.3
Middle Mgmt. Staff	32	41.0
Lower Mgmt Staff	11	14.1
Others	9	11.5

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