

Role of Forensic Auditing in Curbing Fraud in Selected Banks in Nigeria

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Abstract

This study examined 'the role of forensic auditing in curbing fraud in some selected banks in Nigeria'. Accordingly, the aim of this conceptual research work is to examine and ascertain if forensic auditing would serve as a tool to the lapses in internal and external auditing and to ascertain if fraud in Nigerian financial institutions can be reduced through effective forensic auditing. The study adopted survey research design. Three Banks in Nigeria were selected according to Central Bank of Nigeria bulletin April, 2019 on money deposit banks ranking. The research made use of both primary and secondary data. The Chi square techniques and simple correlation techniques were used to test hypotheses one and two respectively. At the end, it reveals that forensic auditing services will serve as a better tool to the lapses in internal and external auditing. It is recommended that the internal control system of every institution should be strengthened so as to be able to check fraud occurrence and the fight against corruption.

Keywords: Forensic Auditing, Fraud, Forensic Auditor and Investigation.

Introduction

The forensic auditing and forensic accounting are interchangeably used. It has been dully pronounced by seasoned authors and scholars. Dahli (2008), stated that forensic comes from the Latin word 'for public and specifically to 'forum'. To him, forum was where the Ancient Romans were taught to do business and settle disputes among other things as cited by Zachariah , Aliyu & Egbong (2014). Dahil 2008) went ahead to say that forensic relates to the application of knowledge to legal problems such as crimes, corruption, etc. the history of forensic auditing and its litigation support has been traced down in the definition. It is now gaining prominence because of increase in both financial and non-financial scandals. Joshi (2003) credited the origination of forensic auditing to Kutilya, the first economist whom he said named 40 days of embezzlement centuries ago. He, however stated that the term forensic auditing was coined by Peloubet in 1946, when he defined the term as the application of accounting knowledge

and investigative skills to resolve legal issues after they have been identified.

The effects of fraud, terrorism, misfeasance, crimes and corruption, are not only on the increase, but also, they have eaten so deep into every sector of our society in part and the globe at large. In every investigation, including terrorism and counter intelligence, the need to identify all sources and use of money in an illegal activity has become very essential.

Through the development of forensic auditing, auditors now have one more tool to effectively and efficiently deal with the challenges faced in detecting financial crimes and racing ill-gotten gains from illegal activities. Fraud is a driving force behind a surge in demand for fraud accountants, trained to perform accounting examination. Thus fraud accountants study financial records and discover the deception of embezzling employees, conniving corporations, sneaky spouses and serve as expert witnesses in resulting trials. According to Adogame (2009) forensic auditing has become a hot profession as a result of the wave of economic crimes, a swarm of corporate scandals, an increase in bankruptcies and occupational fraud. These days, detectives and attorneys have to team-up with forensic auditors to track down clues in financial records or to find victims and suspects. Fraud and forensic auditing affect the accounting profession on a daily basis.

Therefore, forensic accounting draws its name from association with the court of law. It is presumed to accomplish an objective that involves a judicial process. Examples of forensic accounting objectives include: computation of asset values in a divorce proceeding, assessment of damage caused by an auditor's negligence; thorough findings of fact or proof to determine whether embezzlement has actually taken place, the amount involved, whether criminal proceedings are to be initiated against the perpetrators; and the collection of evidence in a criminal proceeding. Forensic accounting is focused upon both the evidence of financial transactions and reporting as contained within an accounting system, and the legal framework which allowed such evidence to be suitable to the purpose of establishing accountability.

Forensic auditors are typically chartered accountants that specialize in those types of cases where there is need for such evidence. Their job is to detect and interpret the evidences of both normal (non fraudulent) and abnormal (fraudulent) transactions in the books and records of an accounting system and subsequent effect upon the accounts, inventories and the presentation thereof. It is imperative therefore, that forensic auditors first understand what normal auditing procedures and processes are –

remember they are first and foremost chartered accountants. Just as forensic professionals in the underlying discipline are specialists in its forensic fields, Forensic auditing in its present state can be broadly classified into two categories comprising of litigation support and investigative accounting. Forensic auditor possesses some qualities which he or she requires for his job, it includes accounting skill, patient and investigating skills.

Statement of the Problem

Until recently, detecting fraud or white-collar crimes was to be part of the conventional accounting function. Fraud was something the internal or external auditors were supposed to guard against through their periodic audits. With the increasing fraud cases in banks in Nigeria, one may ask, does it mean that the internal as well as the external auditors do not perform their functions well or is there any limiting factor hindering them from doing so? For instance, laundering, some staff in banks make away from the bank vault on daily basis what an armed robber cannot escape with thus encouraging occupational fraud. The result of these irregularities is that bank customers will always question the future of their banks since these actions will gradually lead to bank distress.

According to Abiola (2009), the need for forensic accountant arose because of the failure of audit system in the organization, as the organizational internal and external audit failed to find certain errors in the managerial system. Experts in the field pointed out that the intense economic pressure, with more companies facing bankruptcy, jobs and careers are at risk and employees feel pressured to maintain and support performance levels, forcing many to commit fraud and whatever the reasoning may be, more and more forensic accountants are being called up to meticulously search through documents, discover new information and help in putting together the irregular pieces of company's financial puzzle to solve the problems. Also, Abiola (2009), opined that internal audit and audit committee as a part of the management function could not throw light on the different fact and other hidden aspects of corporate fraud. The failure of statutory audit to prevent and reduce misappropriation of corporate fund and an increase in corporate crimes has put pressure on the professional accountant and legal practitioner to find a better way of exposing this evil frame in business world such as; the problems of loss of customers/depositors, the persistent increase in business failure fuelled or encouraged by frequent incessant fraudulent activities in our financial institutions, the problem of lack of confidence on the part of the investing public to commit their resources to financial institutions due to fraud, the

problem of how financial institution will embrace forensic audit as a useful tool in prevention and detection of fraud.

Rotation of the statutory auditors is a welcome development that needs to be encouraged. The method adopted in appointing the statutory auditors is not foolproof as it brooks collusion and lobbying. The certificates of the auditors are hardly scrutinized carefully especially when the reports are unclear and qualified. The internal auditors can surely detect what was happening but they are hardly in a position to initiate proper action in proper time. In view of the above, it became very necessary for the researcher to look into these forensic services to explore if auditing could actually be used as a tool for fraud detection. Such as money laundering, occupation fraud and other irregularities to ensure a sanitized banking sector in Nigeria.

Purpose of the Study

The primary purpose of this study was to determine the role of forensic auditing in curbing fraud in Nigerian banks. Specifically, the study sought to:

1. To determine the extent to which forensic auditing would serve as a tool to the lapses in internal and external auditing.
2. To find out how fraud in Nigerian financial institutions can be reduced through effective forensic auditing.

Research Questions

The following research questions were asked to guide the study:

1. To what extent does forensic auditing serve as a better tool to the lapses in internal and external auditing?
2. How can fraud in Nigeria financial institutions be reduced through effective forensic auditing?

Hypotheses

The following hypotheses were formulated for the study:

1. Forensic auditing will not significantly serve as a better tool to the lapses in internal and external auditing.
2. Fraud in Nigeria banks will not significantly be reduced through effective forensic auditing services.

Theoretical Review

White Collar and Blue Collar Theories

The basic theory that has been established in this work is white collar crime theory by Sutherland (1940) as cited in Okoye and Gbebi (2013). Sutherland also noted that in his time, less than two percent of the persons committed to prison in a year belong to the upper class. 'His aim was to prove a relation between money, social status and the likelihood of going to jail for a white collar crime, compared to more visible, typical crimes, although, the percentage is a bit higher today.

Sutherland's work was to separate and define the difference in blue collar street crimes, such as theft, arson, rape which are often blamed on psychological, associational and structural factors. Instead, white collar criminals are opportunists, who over time learn they can take advantages of their circumstances or trusts to accumulate financial gain for themselves.

Empirical Review

Njanike, Dube and Mashayanye (2009) in their study sought to find out the level at which forensic auditors are able to fulfill this mandate and investigate problems that hinder forensic auditors to make progress in their operations in developing countries. It also established the role of forensic auditing in banking operations. It was found that the forensic auditing departments suffer from multiple challenges, amongst them being the lack of material resources, technical know-how, interference from management and unclear recognition of the profession.

Islam, Rahman and Hossan (2011) in their work titled 'Forensic Accounting as a tool for Detecting Fraud and Corruption: An Empirical study of Bangladesh'. The paper examines the present status of application of forensic accounting in Bangladesh and recommends steps that should be taken for the enhancement of the utilization of forensic accounting as an effective tool for combating fraud and corruption in Bangladesh.

Enofe, Okpako and Atube (2013) who did a study on the impact of Forensic Accounting on Fraud detection examine the effect of forensic accounting on fraud detection in Nigerian firms. The aim of the study is to determine the relationship between fraud detection and forensic accounting. The study revealed that the application of forensic accounting services on firms affects the level of fraudulent activities.

Akenbor and Ironkwe (2014) on Forensic Auditing Techniques and Fraudulent practices of public institutions in Nigeria examined the relationship between forensic auditing and fraudulent practices in Nigeria public institutions. The findings suggest that proactive and reactive

forensic auditing techniques have a negative significant relationship with fraudulent practices in Nigerian public institutions.

Zachariah, Aliyu and Abba (2014), Application of Forensic Auditing in reducing Fraud cases in Nigeria Money deposit banks. The study analyze the trend in fraud cases from 2001-2012, included are the amounts involved in frauds, the most frequent types of fraud and the losses sustained by banks. The study adopted descriptive analysis. Fraud types, trend of frauds suffered by banks, losses sustained by banks for twelve years were analyzed using this method of data analysis from which conclusion was drawn. The study suggests employment of forensic auditors in Nigerian banks by including them in their Audit team.

Francis, Marvel and Ojo (2016), did a study on Curtailing corruption in the Nigerian public sector Organizations: Adoption of the Forensic Accounting Approach. It was a survey design work and the findings revealed that majority of respondents believe that there is a relationship between the level of corruption in the country and its effects on the economy.

Arowoshegbe and Agbaje (2016), On the impact of forensic investigations on financial crimes in Nigeria. Survey design was used and the findings revealed that Government will have to play their parts by enforcing the decisions of forensic investigations in financial crime and fraud detection in Nigeria.

Research Method

The survey method of research design was adopted for the study and the research instrument was the questionnaire. The study was carried out in three commercial banks in Onitsha, Anambra state, Nigeria. The population of the study was 150 staff of the accounts and audit department. The sample size for this study was the whole 150 staff since the size is manageable. A total of 150 copies of questionnaire were distributed and collected. The questionnaire was structured in such a way that close ended questions with scale measurement options were used as follows: Strongly Agreed (SA) 4 points, Agreed (A) 3 points, Strongly Disagreed (SD) 2 points and Disagreed (D) 1 point. Data collected were analyzed using tables and percentages. The statistical tools used were Chi-square and Simple correlation regression model in testing hypotheses.

Table 1:

Population of Account and Audit Staff of First Bank Plc. GTB Plc. And Zenith Bank Plc.

Option	Population	Account Department	Audit Department
First Bank	58	34	24
GTB	48	25	23
Zenith	44	25	19
Total	150	84	66

Sources: Field survey 2019 from First bank plc, GTB PLC AND Zenith Bank Plc Onitsha

Decision rule: The cut-off point is 3.00 which means that any mean score that is above or equal to 3.00 was regarded as accepted while mean score less than 3.00 was regarded as rejected.

The result of the study is presented as follows:

Research Question one

To what extent does forensic auditing serve as a tool to the lapses in internal and external auditing?

Table 2. Mean Response on what extent does forensic auditing serve as a tool to the lapses in internal and external auditing?

S/N	Items/Statement	N	X	SD	Remark
1	Forensic auditing could be used to handle Hi-tech crimes (internet scan activities) within the Nigerian banking system more effectively?	150	3.57	0.82	Accepted
2	Banks cannot afford the forensic auditing service because of their cost implication.	150	2.33	1.54	Rejected
3	Forensic audit could be utilized in strengthening the weak areas of internal and external audit?	150	3.51	0.90	Accepted
4	Forensic auditing services are actually more reliable than the external auditing services?	150	3.25	1.13	Accepted
5	Majority of Nigerian banks incorporate forensic auditing services in the last decade?	150	3.64	0.82	Accepted

Sources: Researcher computation 2019

qResult in Table 2 show the mean response of bank account and audit staff on to what extent does forensic auditing serve as a tool to the lapses in internal and external auditing. The respondents agreed with the items 1, 3,4 and 5 with mean score of 3.57,3.51,3.25 and 3.64 respectively. The item 2 was rejected as forensic auditing cost of servicing cannot be affordable by the banks with mean score of 2.33 for being lower than 3.00 benchmark. The findings show that forensic auditing services are tools to the lapses in internal and external auditing.

Research Question 2

How can fraud in Nigeria financial institutions be reduced through effective forensic auditing?

Table 3. Mean Response on how can frauds in Nigeria financial institutions be reduced through effective forensic auditing?

S/N	Items/Statement	N	X	SD	Remark
6	Possible future financial crimes could be realistically determined by Forensic auditing services?	150	3.54	0.85	Accepted
7	The bank’s excessive risks to Fraud could be uncovered through Forensic auditing services?	150	3.41	0.96	Accepted
8	The bank’s yearly experience of financial scandals and fraud, could be reduced through Forensic auditing services?	150	3.80	0.53	Accepted
9	Forensic auditing services should be purchased whenever there are signs of fraud in the bank’s operating system?	150	3.05	1.27	Accepted
10	Several fraud attempts have been discovered by forensic auditors in the bank lately?	150	3.24	1.05	Accepted

Sources: Researcher computation 2019

Results in Table 4.2 above show the mean response of bank account and audit staff on how can frauds in Nigeria financial institutions be reduced through effective forensic auditing. The respondents agreed with all the items 6, 7, 8 9 and 10 with mean score of 3.54, 3.41, 3.80, 3.05 and 3.24 respectively. They were accepted because they are greater than 3.00 which is the benchmark. Findings revealed that forensic auditing is effective tool in reduction of frauds in Nigeria financial Institutions.

Test for Hypothesis

Accept null hypothesis if the calculated value is greater than the table value and reject alternate hypothesis if the calculated value is lesser than the table value.

Hypothesis one

H₀: Forensic auditing will not serve as a better tool to the lapses in internal and external auditing.

Table 4: Chi Square analysis used to analyzed question 1, 2, 3, 4, and 5

	NO OF STAFF	DF	X-CRIT	X-CAL
BANK	150	12	21.03	19.98

Source: Researcher Computation 2019.

Decision Rule: Since the calculated value of 19.98.21 is lesser than the table value of 21.03, the alternate hypothesis (H₁) is rejected and the null hypothesis (H₀) is accepted. Therefore, it is concluded that there is a significant difference between forensic Auditing and both internal and external auditing which means that forensic Auditing will serve as a better tool to the lapses in internal and external auditing.

Hypotheses Two

H₀: Frauds in Nigerian banks cannot be reduced through effective forensic auditing services.

To test hypothesis two, the researcher used simple correlation to analyze question no 6,7,8,9 and 10

Table 5: CORRELATION COEFFICIENT TABLE FOR FORENSIC AUDITING SERVICES AND FRAUD.

Question	Y	X	Y-Y	X-X	YX	Y ²	X ²
6	138	12	6.6	-6	1656	19044	144
7	133	17	1.6	-1.3	2261	17689	289
8	147	3	15.6	-15.3	441	21609	9
9	111	39	72	20.7	4329	12321	1521
10	128	22	-3.4	3.7	2816	16384	484
∑	657	93			11503	87047	2447

Source: Researcher computation from Questionnaire 2019.

Using the Formula

$$r = \frac{\sum XY}{\sqrt{(\sum X^2)(\sum Y^2)}}$$

$$r = \frac{11503}{\sqrt{(2447)(87047)}}$$

$$r = 0.7882$$

Decision Rule: The above calculation shows that there is a negative significant relationship between the independent variable (forensic auditing) and the dependent variable (fraud), this is because the value gotten (0.788) is closer to +1, therefore: the null hypothesis is accepted and the alternate hypothesis is rejected. Hence, it is concluded that Forensic Auditing services do significantly reduce the occurrence of Fraud in the bank.

Discussion of Findings

The findings in Table 2 indicates that in the opinions of the respondents, almost all the listed lapses in internal and external forensic auditing including: Forensic auditing could be used to handle Hi-tech crimes within the Nigerian banking system more effectively: Forensic audit could be utilized in strengthening the weak areas of internal and external audit: Forensic auditing services are actually more reliable than the external auditing services: Majority of Nigerian banks incorporate forensic auditing services in the last decade. The findings are in line with Akanbor and Ironkwe (2014) who posits that proactive and reactive forensic auditing techniques have a negative significant relationship with fraudulent practices in Nigerian public Institutions. The findings also gave credence to Zachariah, Aliyu and Abba (2014) who asserts that by employing forensic auditors in Nigerian banks, its seems to be curbing the menace of fraud in the industry.

The findings in Table 3 shows ways in which frauds in Nigerian financial Institutions could be reduced through effective forensic auditing include: Possible future financial crime could be realistically determine by forensic auditing services: The banks excessive risk to fraud could be uncovered through forensic auditing services: The banks yearly experience of financial scandals and fraud could be reduced through forensic auditing services: Forensic auditing services should be incorporated whenever there are signs of fraud in the bank's operating system: Several fraud attempts have been discovered by forensic auditors in the banks lately. The findings are all in agreement with the opinion of Francis, Marvel and Ojo (2016) who maintains that there is a relationship between the level of fraud in the country and its effects on the Economy. The findings is also in line with Enofe, Okpako and Atube (2013) who revealed that the application of forensic auditing services on firms affects their level of fraudulent activities.

The first hypothesis reveals that there is a significant difference between Forensic Auditing and both internal and external Auditing and the result in hypothesis two shows that there was a negative significant relationship between the independent variable (Forensic auditing services) and the dependent variable (Fraud).

Implication for the role of forensic Auditing

Frauds has led to a lots of liquidations in the banking sector of our economy in recent years and it is still causing a lot of havoc to the industry as a whole but through the advent of forensic auditing in the internal and external audit unit or department in the banking sector, it seems to stabilize the trend in the industry.

The role being played by the forensic auditing unit not only seems to be curbing the fraud situation in the banks but seems to wipe it out completely from the answer provided in the questionnaire by the respondents. It is also in line with some researcher who has done research in the related area like Zachariah, Aliyu and Abba (2014) and Francis, Marvel and Ojo (2016).

Conclusion

Based on researcher findings, it is hereby concluded that those who agreed that forensic auditing is a better way to combat fraud in Nigerian banking sector is more than those who disagree that forensic auditing does not help in detecting fraud in banking sector in Nigeria, also It will enhance Nigeria professional success in their fight against corporate fraud and corruption.

Recommendations

1. The internal control system of every institution should be strengthened so as to be able to check fraud occurrence. An example of such internal control system is the segregation of duties so that one person does not have total control over an area of the institution.
2. Employees training should be encouraged so as to equate the over-increasing complexity in technologies over the system.
3. Organizations should have clear lines of authority. Employees should know who they report fraud to, who is next person on the chain of command? Let employees know how complaints about suspicious behaviours are being handled.

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