

# **Impact of Forensic Accounting Investigation on Public Sector Financial Crimes in Nigeria**

**BANA, Joseph O.**

Department of Accounting  
Bingham University  
Karu, Nasarawa State

E – Mail: bana\_joe@yahoo.com, Phone No: +234 8059311652

## **Abstract**

*Forensic Accounting is an investigative style of accounting used to determine whether an individual or an organization has engaged in any illegal financial activities. Forensic Accounting is a rapidly growing field of discipline which describes the engagement that results from actual or anticipated dispute or litigations. The purpose of this study therefore, is to examine the Impact of Forensic Accounting Investigation on Public Sector Financial Crimes in Nigeria. The study focused on investigation activities of the Independent Corrupt Practices and Other Related Offences Commission (ICPC). The sources of data for the study were both primary and secondary and the study used Five (5) years Investigation Reports of the ICPC (from 2015-2019) to ascertain the Impact of Forensic Accounting Investigation in relation to traditional investigation on Public Sector Financial Crimes in Nigeria. The statistical tool used to test hypotheses was X<sup>2</sup>-square. Out of the cases investigated and prosecuted for the years under review, the Commission secured more convictions on Public Sector Financial Crimes investigated by forensic accountants than hitherto the traditional investigators. On a likert scale of strongly-agreed, agreed, strongly-disagreed and disagreed, 61.7% and 16.7% of the respondents strongly-agreed and agreed respectively that the Forensic Accountants are more result oriented on investigation and prosecution of public financial crimes than the Traditional Investigators. This aligned with actual results of investigated and prosecuted cases of the Commission for the period, where 15% and 6.7% strongly disagreed and disagreed respectively on the impact of forensic accounting investigation on public sector financial crimes. Among the findings was that the Application of Forensic Accounting skills do have a significant impact of forensic accounting investigation on public sector financial crimes in Nigeria and that there is significant difference between Forensic Accountants as Investigators and Traditional Investigators of financial crimes. This therefore means that the use of Forensic Accounting in investigation of financial crimes can be more result oriented than other forms of investigations of financial crimes on public sector in Nigeria. The study therefore recommends that Forensic Accountants be replaced with the Traditional Investigators of financial crimes in Nigeria Public sector; proper training and retraining on forensic accounting should be provided to staff of public sector and proper adherence to forensic accounting standards.*

Keywords: Forensic Accounting, Public Sector, Anti-Graft Agencies, Traditional Investigators, ICPC

## **1. INTRODUCTION**

Government Expenditure world over has always been big business. It has become so massive today that the public through its legislators, civil society groups and the citizenry are demanding to know how the huge outlays of money are being spent and the impact on the economy. Officials and employees who manage Public Sector activities are by virtue of that duty, required to be transparent and accountable to the public, when their activities are not transparent and satisfactory, the public demands further accountability, hence the call for investigation. The incidence of financial crime continues to increase across Private and Public Sector Organizations and across nations. Financial Crime is a universal problem as no nation is immune, although developing Countries and their various States suffer the most pain. Forensic Accounting is a rapidly growing field of discipline which describes the engagement that results from actual or anticipated dispute or litigations. “Forensic” means “suitable for use in a court of law”, and it is to that standard Forensic Accountants generally work. Forensic Accounting is an investigative style of accounting used to determine whether an individual or an organization has engaged in any illegal financial activities. Professional Forensic Accountant may work for government or public accounting firm. Although, forensic accounting has been in existence for several decades, it has evolved over time to include several types of financial information scrutiny. Forensic is the application of investigative and research skills, and an understanding of the legal process for the purpose of identifying, interpreting financial or other data or issues in connection with litigation services. Forensics also provides assistance for actual, pending or potential legal or regulatory proceedings before a trial of fact in connection with the resolution of disputes between parties, or non-litigation services: performing analyses or investigations that may require the same skills used, but may not involve the litigation process. Forensic Accounting non-litigation services are the professional assistance accountants provide that is not related to the litigation Process. These services may involve accounting, financial, auditing, tax, quantitative analysis, and

investigative and research skill as well as an understanding of the legal process to provide assistance in connection with matter or issues not involving the litigation process.

Forensic accounting is the action of identifying, recording, settling, extracting, sorting, reporting, and verifying past financial data or other accounting activities for settling current or prospective legal disputes or using such past financial data for projecting future financial data to settle legal disputes and when the death of a company occurs under mysterious circumstances, forensic accountants are essential. Other accountants look at the charts but forensic accountants actually dig into the body. Financial irregularity is a severe problem of concern globally. It is the major concern to developing nations. It is so endemic that fraud and corruption is gradually becoming a normal way of life. Financial irregularities are so common that almost every individual cannot wash his or her hands. This exists in the Public and Private sectors; in the Presidential Villa of the nation, the political office-holders, in the academics, amongst Managing Directors of Companies, through middle management cadre and to as low as Messengers. Individuals commit financial crimes and corrupt practices according to the capacity of their office. Although financial irregularities affect Private and Public Sectors, the magnitude of Public Office financial crimes, together with the extent to which citizens are affected, calls for alarm. No money is entirely free, every Naira and Kobo has its legal use, and consequently, if any amount is misused, it impacts negatively on the citizenry and the economy. Hence, if not checked, directly or indirectly, it may further affect the nation's facilities and infrastructural development which would have been beneficial to all concerned. In the course of this study, financial crime will be used interchangeably with fraud and fraudulent activities.

## **2. LITERATURE REVIEW**

### **2.1 Conceptual Framework**

#### **2.1.1 Concept of Forensic Accounting**

Forensic Accounting is the integration of accounting, auditing and investigative skills (Zysman, (2004). 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. Degboro and Olofinsola (2007) noted that forensic investigation is about the determination and establishment of fact in support of legal case. That is, to use forensic techniques to detect and investigate a crime is to expose all its attending features and identify the culprits. In the view of Howard and Sheetz (2006), forensic accounting is the process of interpreting, summarizing and presenting complex financial issues clearly, succinctly and factually often in a court of law as an expert. It is concerned with the use of accounting discipline to help determine issues of facts in business litigation (Okunbor and Obaretin; 2010).

Forensic accounting is a discipline that has its own models and methodologies of investigative procedures that search for assurance, attestation and advisory perspective to produce legal evidence. Wikipedia dictionary describes Fraud as crimes against property, involving the unlawful conversion of property belonging to another to one's own. Williams (2005) incorporates corruptions to his description of financial crimes. Other components of fraud cited in Williams (2005) description include bribes cronyism, nepotism, political donation, kickbacks, artificial pricing and frauds of all kinds. The array of components of financial crimes, some of which are highlighted above, is not exhaustive. The Economic and Financial Crimes Commission (EFCC) Act (2004) attempts to capture the variety of economic and financial crimes found either within or outside the organization. The salient issues in EFCC Act (2004) definition include "violent, criminal and illicit activities committed with the objective of earning wealth illegally... in a manner that violates existing legislation... and these include any form of fraud, narcotic drug, trafficking, money laundering, embezzlement, bribery, looting and any form of corrupt malpractices and child labour, illegal oil bunkering and illegal mining, tax evasion, foreign exchange malpractice including counterfeiting currency, theft of intellectual property and piracy, open market abuse, dumping of toxic waste and prohibited goods, etc. This definition is all-embracing and conceivably includes financial crimes in corporate organization and those discussed by William, 2005 and Khan, 2005. 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); tax evasion; bankruptcy and valuation studies; violation of accounting regulation (Dhar & Sarkar, 2010).

Curtis (2008) argues that fraud can be subjected to forensic accounting, since fraud encompasses the acquisition of property or economic advantage by means of deception, through either a misrepresentation or concealment. Bhasin (2007) notes that the objectives of forensic accounting include: assessment of damages caused by an auditor's negligence, fact finding to see whether an embezzlement has taken place, in what amount, and whether criminal proceedings are to be initiated; collection of evidence in a criminal proceedings; and computation of asset values in a divorce proceedings. He argues that the primary orientation of forensic accounting is explanatory analysis (cause and effect) of phenomenon- including discovery of deception (if any). According to Bhasin (2007), Forensic Accountants are trained to look beyond the numbers and deal with the business realities of situations. Analysis, interpretation, summarization and the presentation of complex financial business related issues are prominent features of the profession. He further averred that the activities of forensic accountants involve: investigating and analyzing financial evidence; developing computerized applications to assists in the analysis and presentation of financial evidence; communicating their findings in the form of reports, exhibits and collections of documents; and assisting in legal proceedings, including testifying in courts as an expert witness and preparing visual aids to support trial evidence.

## **2.2 Empirical Literature**

Enyi (2009) undertook a study to offer suggestions using real case problem on how to apply forensic accounting in investigating variances and suspected fraudulent activities in manufacturing processes and thus suggests that the application of forensic accounting applies to all scenes where fraud is a possibility. Okoye and Akenbor (2009) commenting on the application of forensic accounting in developing economies like Nigeria, notes that forensic accounting is faced with so many bottlenecks. Crumbly (2001), Grippo and Ibex (2003) reveal that the challenges confronting the application of forensic accounting include the task of gathering information that is admissible in a court of law; the admissibility of evidence in compliance with the laws of evidence is crucial to successful prosecutions of criminal and civil claims; globalization of the economy and the fact that a fraudster can be based anywhere in the world has led to the problem of inter-jurisdiction. Degboro and Olofinsola (2007) note that an important challenge to the application of forensic accounting in the investigation of financial crimes in Nigeria is that the law is not always up to date with the latest advancements in technology. Also, forensic accounting is seen as an expensive service that only blue chip companies can afford. Even the public sector can hardly afford the cost implications of forensic accounting investigators. Thus, most companies and government bodies prefer to settle the issue outside the court to avoid the expensive cost and the risk of bad publicity on their corporate image. In addition, forensic accounting is still being seen as a new trend particularly in developing economies. Hence, accountants with adequate technical know-how on forensic issues are hardly available. With an upsurge in financial crimes in Nigeria Public sector, Financial Accounting Fraud Detection (FAFD) has become an emerging topic of great importance for academic, research and industries. The failure of internal auditing system of the public sector to identify these crimes or frauds has led to the use of specialized procedures to detect, investigate and prosecute these crimes, known as Forensic Accounting. Financial fraud in Nigeria has witnessed highly publicized cases especially in the banking system.

## **2.3 Theoretical Framework**

### **2.3.1 White Collar Crime Theory**

The basic theory that has been established in this research work is "white collar crime theory by Sutherland (1949) as cited in Michael (2004). The term white-collar crime dates back to 1939. Sutherland (1949) was the first to coin the term. He attributed different characteristics and motives than typical street criminals. Sutherland originally presented his theory in an address to the American Sociological Society in attempt to study two fields, crime and high society which had no previous empirical correlation. He defined his idea as "crime committed by a person respectability and high social status in the course of his occupation. Sutherland noted that in his time, less than two (2) percent of the persons committed to prison in a year belong to the upper class." His goal was to prove a relation between money, social status, and likelihood of going to jail for a white-collar crime, compared to more visible, typical crimes, although, the percentage is a bit higher today. Much of Sutherlands work was to separate and define the difference in blue collar street crimes, such as arson, burglary, theft, assault, rape and vandalism which are often blamed on

psychological, associational and structural factors. Instead, white-collar criminals are opportunists, who over time learn they can take advantage of their circumstances to accumulated financial gain. They are educated, intelligent, affluent, individuals who are qualified enough to get a job which allows them the unmonitored access to often large sum of money. However, the federal Bureau of Investigation (FBI) has adopted a narrow approach defining white-collar crime as those illegal acts which are characterized by deceit, concealment, or violation of trust and which are not dependent upon the application or threat of physical force or violence. Fredrichs (2007) stated that the only way one crime differs from another is in the backgrounds and characteristics of its perpetrators. Most, if not all white-collar offenders are distinguished by lives of privilege, much of it with origins in class inequality. It is estimated that a great deal of white-collar crimes is undetected or if detected, it is not reported. Because of the high status of the perpetrators of these crimes, a highly trained and experienced examiner or investigator like the Professional Forensic Accountant is needed to forestall the occurrence of such high profile fraud.

### **3. METHODOLOGY**

This study focuses on the Independent Corrupt Practices and Other Related Offences Commission (ICPC) as sources of information to ascertain and establish the impact of forensic accounting investigation on public sector financial crimes in Nigeria. In carrying out this study, both primary and secondary data was employed. The secondary data is derived from library documents, publications and Internet, and other relevant materials. The primary data are obtained through questionnaires and interviews for the five (5) year periods (2015-2019). The study incorporates both sources of data to enhance a balance between the research observations and available literature on the matter under consideration. As a Survey research, questionnaire and personal interview were used as instruments to retrieve information from respondents. The population of this study comprises staff of ICPC, working in Investigation Arms of the Commission. The simple random sample was used in the study where sixty (60) out of seventy (70) Investigators was selected for the survey. Questionnaire used as a major tool for the collection of data was divided into two sections (section 'A' Bio-data of the respondents and 'B' information used in the analysis and test of hypothesis formulated for the study). Interview was adopted in order to increase the depth of the study as well as obtain sensitive and salient information about the issue under consideration which could not be obtained via the questionnaire. In short, the interview provided an opportunity for meeting with some of the respondents and discussions helped supply other pertinent information which greatly assisted in the findings herein.

#### **3.1 Model Specification**

The sample size (60) was taken from the 70 Investigative Staff of ICPC, Abuja. The sample size was calculated using 95% confidence interval.

$$n = \frac{N}{1 + N(e)^2}$$

**Where:**

N=Population  
n=Sample size  
e = (0.05)<sup>2</sup>

$$n = \frac{70}{1 + [70 (0.0025)]}$$

**Sample size = 60**

The data collected in this study was analyzed statistically by the use of frequency tables and percentage and Chi Square method.

$$X^2 = \frac{\sum (o - e)^2}{e}$$

Where  $X^2$  = Chi - Square

**F<sub>o</sub>** = Frequency Observed

**F<sub>e</sub>** = Frequency Expected.

The hypothesis formulated is tested by means of the  $X^2$  – Chi - Square. As a decision rule, if the computed value of  $X^2$  – Chi - Square is greater than the critical value of  $X^2$  – Chi - Square at 5% level of significance, the null hypothesis (**H<sub>0</sub>**) is rejected, while the alternative hypothesis (**H<sub>1</sub>**) is accepted. The reverse is however the case if the computed value of  $X^2$  – Chi - Square is greater than the critical value at the chosen level of significance.

#### 4. RESULTS AND DISCUSSION

On the impact of forensic accounting investigation on public sector financial crimes being more result oriented than traditional investigators, the study reveals as follows:

TABLE 1

Likert scale	Frequency	Percentage	Valid Percent	Cumulative Percent
STRONGLY AGREE	37	61.7	61.7	61.7
AGREE	10	16.7	16.7	78.3
DISAGREE	9	15.0	15.0	93.3
STRONGLY DISAGREE	4	6.7	6.7	100.0
TOTAL		100.0	100.0	

The Table shows that thirty seven (37) respondents representing 61.7% strongly-agreed that the involvement of Forensic Accountants in investigation of public sector Financial Crimes are more result oriented in prosecution than that of Traditional Investigators. Ten (10) respondents representing 16.7% also agreed, while nine (9) and four (4) respondents representing 15% and 6.7% strongly-disagreed and disagreed respectively. This means that the services of Forensic Accountants in investigation of public sector financial crimes are more result oriented in prosecution than of Traditional Investigators.

The study further sought and obtained responses on some comparative basis, using both Null and Alternative Hypotheses:

#### Test of Hypothesis II

**H<sub>0</sub>**: The Application of Forensic Accounting skills do not have a significant impact on investigation of public sector financial crimes.

Table II

RESPONSES	STRONGY AGREED	AGREED	STRONGLY DISAGREED	DISAGREED	TOTAL
QI	22	17	10	11	60
QII	38	11	8	3	60
<b>TOTAL</b>	60	28	18	14	120

$$X^2 = \frac{\sum (o - e)^2}{e}$$

To ascertain the expected values (e),

$\frac{1^{st} \text{ Roll total}}{\text{Overall Total}} \times \frac{X1^{st} \text{ Column Total}}{\text{Overall Total}} \times \text{Overall Total}$ . This is applicable to all the rows

First Row/Column =  $\frac{60}{120} \times \frac{60}{120} \times 120 = 30$

**Table III**

O	E	O-E	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
22	30	-8	16	0.533
17	14	3	9	0.6429
10	9	1	1	0.111
11	7	4	16	2.286
38	30	8	64	2.133
11	14	-3	9	0.6429
8	9	-1	1	0.111
3	7	-4	16	2.286

$X^2 = 8.7458$

The hypothesis formulated is tested by means of the Chi-square. The chi-square is 8.7458, which shows that the chi square calculated is greater than the chi-square tabulated (3.84). As a decision rule, if the computed value of Chi-square is greater than the critical value of  $X^2$  at 5% level of significance, the null hypothesis ( $H_0$ ) is rejected, while the alternative hypothesis ( $H_i$ ) is accepted. The reverse is however the case if the computed value of  $X^2$  is greater than the critical value at the chosen level of significance. Conclusion: since the computed value of chi - square (8.7458) is greater than the critical value (3.84), therefore we reject Null hypothesis ( $H_0$ ) and accept the alternative hypothesis that “The Application of Forensic Accounting skills has a significant impact on investigation of public sector financial crimes.

**Test of Hypothesis II**

**HO:** There is nosignificant difference between Forensic Accountants as Investigators and Traditional Investigators on the investigation of public sector financial crimes.

**H1:** There is significant difference between Forensic accountants and Traditional on the investigation of public sector financial crimes.

**Table IV**

RESPONSES	STRONGY AGREED	AGREED	STRONGLY DISAGREED	DISAGREED	TOTAL
Q III	23	18	8	11	60
Q IV	37	10	9	4	60
<b>TOTAL</b>	60	28	17	15	120

$$X^2 = \frac{\sum (o - e)^2}{e}$$

**Table V**

O	E	O-E	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
23	30.0	-7	49	1.63
18	14.0	4	16	1.14
8	8.5	0.5	1	0.11
11	7.5	4.5	20.25	2.70
37	30.0	7	49	1.63
10	14.0	-4	16	1.14
9	8.5	1	1	0.12
4	7.5	-3.5	12.25	1.63

$$X^2 = \underline{10.1}$$

The hypothesis formulated is tested by means of the Chi-square. The chi-square is 10.10, which shows that the chi-square calculated is greater than the chi-square tabulated (3.84). As a decision rule, if the computed value of Chi-square is greater than the critical value of  $X^2$  at 5% level of significance, the null hypothesis ( $H_0$ ) is rejected, while the alternative hypothesis ( $H_1$ ) is accepted. The reverse is however the case if the computed value of  $X^2$  is greater than the critical value at the chosen level of significance. Since the computed value of chi - square (10.10) is greater than the critical value (3.84), therefore we reject Null hypothesis ( $H_0$ ) and accept alternative hypothesis that “There is significant difference between Forensic accountants and Traditional on the investigation of public sector financial crimes.

## **5. CONCLUSION AND RECOMMENDATIONS**

This study sought to know the impact of forensic accounting investigation on public sector financial crimes in Nigeria. It was revealed that financial crimes/fraud and corrupt practices are common in developing countries and have negative impact on the economy. That financial crime in third world Countries is alarming and is not only crumbling their economy but also affecting innocent nationals’ standard of living and their image. Empirically people are of the opinion that since financial crimes have taken deeper and sophisticated platforms in public sector, the services of forensic accountants are urgently required to tackle the high-dreaded monster of financial crimes in Nigeria. Based on the result of the library study and empirical investigation we conclude as follows. Forensic accounting investigation is a vital tool for fraud detection and fraud prevention in public sector and the services, of the experts (forensic accounting application) are more required in developing economy, and more especially in the public sector, than developed economies. In line with the above conclusions this study recommends that:

- i. The Anti-Graft Agencies is encouraged to formalize and specialize in the field of Forensic Accounting application in the investigation of Public sector Financial Crimes.
- ii. The government should develop interest in Forensic Accounting for monitoring, investigation and prosecution of suspected and confirmed corruption cases.
- iii. Also, practicing accountants should work towards specialization and possibly establish firms for forensic accounting practice.
- iv. The Nigerian Legal System is structured to encourage the entertainment of Forensic Accounting Reports/ Expert opinion in the public sector financial crimes.
- v. The academia should emphasis skill development in the field of forensic Accounting application.

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