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ISSN (Online): 2455-7838

SJIF Impact Factor : 6.093

EPRA International Journal of

# Research & Development (IJRD)

Monthly Peer Reviewed & Indexed  
International Online Journal

Volume: 4, Issue:2, February 2019



Published By  
EPRA Publishing

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## **CRITICAL ANALYSIS OF THE ROLE OF FORENSIC ACCOUNTING IN MANAGING FRAUD IN THE NIGERIAN BANKING INDUSTRY**

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### **ABSTRACT**

*This study determines critically the role of Forensic Accounting in fighting fraudulent activities in the Nigerian Banking Industry. Basically, secondary data was collected for this study. Data was obtained from different financial regulatory institutions in Nigeria. These include the Central Bank of Nigeria, Nigerian Deposit Insurance Corporation, Inter Bank Settlement System and other web related materials. The study found among others that fraud in the banking industry has been on the increase in the last four years. Also Forensic Auditing is necessary in curbing this menace. Based on this, the study recommended among others the need for commercial banks to engage the services of Forensic Auditors to complement the efforts of other fraud fighting profession in reducing fraudulent activities in the Nigerian Banking Industry.*

**KEYWORDS:** *Forensic Accounting, Financial Fraud, Banking Industry.*

### **INTRODUCTION**

Frequent fraudulent activities in the bank in this twenty first century has undermined stakeholder's confidence in their daily financial activities and raised serious concerns over the effectiveness of internal control measures of banks, financial reporting system and accountability. These concerns has made Forensic Accounting an attractive career opportunity in recent years and increased the demand for Forensic Accounting services as a means to combat fraud and misappropriation of financial statements and as a result, restore confidence in financial reports. This suggests a critical need for Forensic Accounting

services in the Nigerian Banking Industries. (Ajulo, 2016)

Forensic Accounting is the act of identifying, recording, settling, subtracting, sorting, reporting and verifying past financial data on other accounting activities, for settling current or future legal disputes, or using such past financial data for projecting future financial data to settle future financial disputes (Ogundana, Okene, Ogunleye&Oladip, 2018.)

In the past few years, the magnitude of corporate financial fraud has led to failure of several banks in Nigeria. These failures were mostly attributed to situations where management has fraudulently given

loans without board approvals and yet such bank annual report has been unqualified (Raymond, Nkiru and Jane, 2016). Though it is evident that the application of Forensic accounting services is not yet common in Nigeria, the level at which financial crimes in Nigeria is growing in the banking industry has beamed the search light on the need for Forensic accounting skills to be utilized.

### **STATEMENT OF PROBLEM**

The Nigeria society expects higher accountability, fairness and transparency from banks as they carry out their functions with integrity in order to continuously earn public trust and goodwill. The banking business in Nigeria has become more advanced with the development in the field of information technology which has turned around the systems of banks fraud and fraudulent mal-practices.

In Nigeria, dispute having several regulatory agencies like central bank of Nigeria, Institute of Chartered Accountants of Nigeria, Nigeria Insurance Deposit Corporation etc, there is still great concern for the escalation of fraud and other unethical practices in the Nigeria banking industry.

Evidences from successive NDIC reports revealed that financial fraud is one of the factors impeding the growth of banks in Nigeria. Okpara (2009) reported that one of the factors that impacted most on the performance of the banking industry Nigeria was financial fraud and fraudulent malpractices.

This study thus, critically analysis the role of Forensic Accounting in managing fraud in Nigerian banks.

### **OBJECTIVES OF THE STUDY**

This paper aims at examining the present position of the application of Forensic accounting and its critical role in curbing frauds and financial scams in banks operating in Nigeria.

### **METHODOLOGY**

The methodology for data acquisition in this article is based on secondary data from various available resources like reports of Nigeria Deposit Insurance Corporation (NDIC), reports and documents from the Central Bank of Nigeria (CBN); and reports from the Nigerian Inter-Bank Settlement System(NIBSS),journals, books and web materials related to the study. Simple tabular analysis and graphical presentation has been employed for the analysis.

### **REVIEW OF RELATED LITERATURE**

#### **Conceptual Framework**

#### **Forensic Accounting and Accountants:**

Different writers and researchers on financial crime and fraud have come up with various definitions of the term “Forensic Accounting”. Ogundana, Okere, Ogunleye and Oladapo (2018) believed that Forensic

Accounting which is also called investigative accounting or fraud audit is a merger of forensic science and accounting. In their view, forensic science may be defined as application of laws of nature to the laws of man. The Association of Certified Fraud Examiners defined Forensic Accounting as the use of skills in potential or real civil or criminal disputes, including generally accepted accounting and auditing principles in establishing losses of profit, income, property or damage, estimations of internal controls, frauds and others that involve inclusion of accounting expertise into the legal system. Therefore, it should be noted here that Forensic Accounting involves the application of auditing techniques and accounting concepts and investigative procedures in resolving legal disputes.

Zysman (2004) defined Forensic Accounting as the combination of accounting, auditing and investigative skills. That is for a successful forensic accountant to succeed, there must be fusion of the skills of auditing and investigation. In the view of Degboro and Olofinsola (2007), Forensic Accounting is all about the determination and establishment of facts to settle legal dispute. This means that the end result of all forensic investigation is to help in the settlement of legal disputes through the presentation of facts. However, Howard and Sheetz (2006), defines Forensic Accounting as the process of exercising expert witness skills in the court of law. That is, a forensic accountant must be skillful enough to clearly interpret, summarize and present complex findings on financial issues in a court of law.

According to Balogna and linguist (1987), forensic and investigative accounting is the use of financial skills and investigative mentality to unresolved issues, applied within the content of the rules of evidence. That is, a forensic accountant must have financial skills and reason and think like a detective.

Bhasin (2007), described a forensic accountants as professionals who are trained to look beyond the numbers and deal with the realities of the business situations. The major features of the profession include analysis, interpretation, summary and presentation of financial business related issues. This can be achieved through the acquisition of evidence, analyzing the evidence and communicating their findings in the form of reports.

Curtis (2008) believed that fraud can be subjected to Forensic Accounting since fraud encompasses the acquisition of property or economic advantages by means of deception, through either a misinterpretation or concealment.

#### **Forensic Accounting versus Traditional Accounting**

Forensic Accounting has been recognized as having “identifiable attributes which include rationality,

neutrality and independence” (Jagun, 2016 cited in Williams, 2002). Moreover, there are obvious and discrete difference between Forensic Accounting and Traditional Accounting. (Hopwood, Leiner and Young 2012) revealed the following differences between Forensic Accounting and Traditional Accounting.

- I. Forensic accountant approach their job with investigative intuition. Intuition here refers to inherent ability one has to know exactly what to do at any given time. This investigative intuition is not found in Traditional Accounting.
- II. Forensic accountants apply a more holistic approach in their work where as traditional accountants are narrower in approach to their work.
- III. Traditional accountants focus on error identification and prevention. The forensic accountant focuses on detection and prevention of fraud.
- IV. Forensic accountants can serve as expert witness in the court of law; whereas the traditional accountant does not possess this quality.

Forensic accountants are also increasingly playing more proactive risk reduction roles by designing and performing extended procedures as part of the statutory audit, acting as advisers to audit committees, fraud deterrence engagements, and assisting in investment analyst research. Whilst traditional auditor follows the reactive approach during the audit process. (Jagun, 2016)

### **Concept and Definition of Financial Fraud**

Financial fraud is an acronym that is synonymous with fraud that is perpetuated in the financial sector. This specific species of frauds have been given various definitions by different authors and writers, the oxford Advanced Learners Dictionary defined financial fraud as a crime of deceiving somebody in order to get money or goods illegally. In the view of the Wikipedia dictionary, fraud is defined as crimes against property involving the unlawful conversion of property belonging to another person. The Association of Certified Fraud Examiners (ACFE), (1999) further describes fraud as the ability of one using his occupation for personal enrichment through the deliberate misuse, misapplication or employment of organizational resources or assets.

According to Eseoghene (2010), fraud usually requires theft and manipulation of records, often accompanied by concealment of the theft. It also involves the conversion of the stolen assets or resources into personal assets or resources. In legal terms, fraud is seen as the act of depriving a person dishonestly of something, which such an individual would or might be entitled to, but for the perpetuation of fraud, in its lexical meaning, fraud is an act of

deception which is deliberately practiced in order to gain unlawful advantage (Taiwo, 2016). EFCC Act (2004) defines fraud as illegal act that violates existing legislature and these includes any form of frauds: Narcotic drug, trafficking, money laundering, embezzlement, Burberry looting and any form of corrupt malpractice and child labor, 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.

Taiwo (2016) reported that cases of fraud in the banking systems could be attributed to unskilled employees who are not professionals; our legal systems that prolong cases of fraud in two long making room for undue interference. Achibong (1993) assented that the long term seminal and growth of any organization depends on how the issue if frauds and fraudulent practices is handled

### **THEORETICAL FRAMEWORK**

#### **Theory of demand and supply**

The theory of demand and supply as propounded by Adam Smith is one of the theoretical framework that guided this study. This theory of demand and supply is extensively employed in the accounting literature to explain and predict the demand of forensic accountants and consultants in curbing and reducing financial frauds in the banking industry.

The demand for the availability (supply) of forensic accountants can be compared to the economic demand for and supply of goods and services and can be explained by the same theory. Carnes and Gierlasiuki (2001) applied the theory of demand and supply in examining the mismatch between the demand and supply of forensic accountants. They noted that Universities in the United States have been slow in responding to courses developed to enhance students understanding of fraud and the capacity to detect it “it is clear from various literatures that accountants are held in higher esteem in the ability to understand and find fraudulent activities within organizations” (Carnes and Gierlasiuki (2001).

Forensic accountants, no doubt are in very high demand to help in dealing with the issues of fraud which have ravaged the Nigerian society. The University could be likened here as the firm or bank who supplies these goods or services (forensic Accountants) to the society. The theory of demand and supply therefore has relevance in this study as it is explained that banks demand for the services of forensic experts in preventing and detecting fraud which has continuously affected the contemporary Nigerian bank.

## EMPIRICAL REVIEW

A whole lot of researchers have tried to examine the effects of Forensic Accounting on fraud detection, for instance, Madugu and Anyaduba (2013) carried out a study on Forensic Accounting and financial fraud in Nigeria. An Empirical approach, using a sample of 143 respondents which consists of companies, accountants, internal and external auditors as well as top management staff. The findings of the study indicate that there is significant agreement amongst stakeholders on the effectiveness of Forensic Accounting in fraud control, financial reporting and internal control quality.

Ogundaua, Okere, Ogunleye and Oladapo, (2018), examined the role of the forensic accountant in the prevention and detection of fraud in the Nigerian banking system. The study adopted survey research design. Three hypotheses were formulated and tested and the findings revealed that Forensic Accounting has a significant impact on fraud prevention and detection. The findings further revealed that the Government should provide the enabling environment for Forensic Accounting profession to thrive in the country by strengthening the legal, educational and political framework in the country.

Jagun (2016) in a study examined the application and importance of Forensic Accounting skills and techniques in economic and financial crime investigation in Nigeria. Survey method and co relational design was employed in collecting data. The findings of the study revealed that professional opinions, skills and techniques impact positively on fraud prevention and detection whereas delay in court processes has a negative impact on the same.

Enofe, Utomen and Danjuma (2015) adopted a survey research designed method in their study to examine the role of Forensic Accounting in curbing financial crimes. The population of the study comprised of staffs of selected banks. The hypotheses were tested via Regression analysis; and the findings reveals emphasized the need for forensic accountants in the banking system. The findings further revealed that Forensic Accounting is an effective tool for addressing the menace of financial crimes in the Nigerian banking system.

Aduwo, (2016) in a paper presentation on the impact of Forensic Accounting towards utilizing professional judgments, auditing, law procedures and accounting skills to combat the menace of corporate liquidation, concluded that Forensic Accounting can have fundamental effects in reducing financial scandals in corporate organizations.

Okunbor and Obaretin (2010) adopted a sample of ten companies quoted in the Nigerian Stock Exchange in a study aimed at examining the

effectiveness of the application of forensic services in Nigerian corporate organizations. The study employed simple regression model for the test of hypothesis. The findings of the study reveal that the application of Forensic accounting services by corporate organizations in Nigeria is effective in deterring fraudulent activities.

Adegbie and Fakile (2012) examined the role of Forensic accounting as antidote to economic and financial crime in Nigeria. The study employed chi-square and statistics packages for social sciences (SPSS) to evaluate its data. Four hypothesis were tested and the findings of the study revealed that Forensic accounting is a financial strategy to curb and resolve economic and financial crime in Nigeria.

It is evident from the above, that a great number of studies have been carried out on the efficacy of Forensic accounting in the Nigerian corporate world. The current study is aimed at refocusing in the critical role expected of the Forensic accountant in managing the various categories of fraud in the Nigerian banking sector.

### **Needs of Forensic Auditing or Accounting in Nigeria Banks**

#### **I. Needs of Forensic accounting in Nigeria banking Transactions.**

The importance of Forensic accounting in banking transactions can be understood in two perspectives. One of it is that Forensic accounting philosophies are needed because there is doubt of occurrence of probable loses or unlawful activities in the banks. The second perspective is that Forensic accounting activities are needed to positively validate that all banking activities are in fact performed correctly.

While business in others sectors have inventory, products, patents and assets which are converted to money for accounting purposes. In the banking sector, their inventory is money. This money as inventory systems of banking makes the accounting easier since values of widgets and other things need not to be converted to money. However, accounting adjustments like revaluing inventory are very difficult. Consequently, the existence of inaccuracy is eminent, whether planned manipulations in open errors will always consume money not merely paper representations. That is why it is important for all banks to adopt and precede with the practices of Forensic accounting.

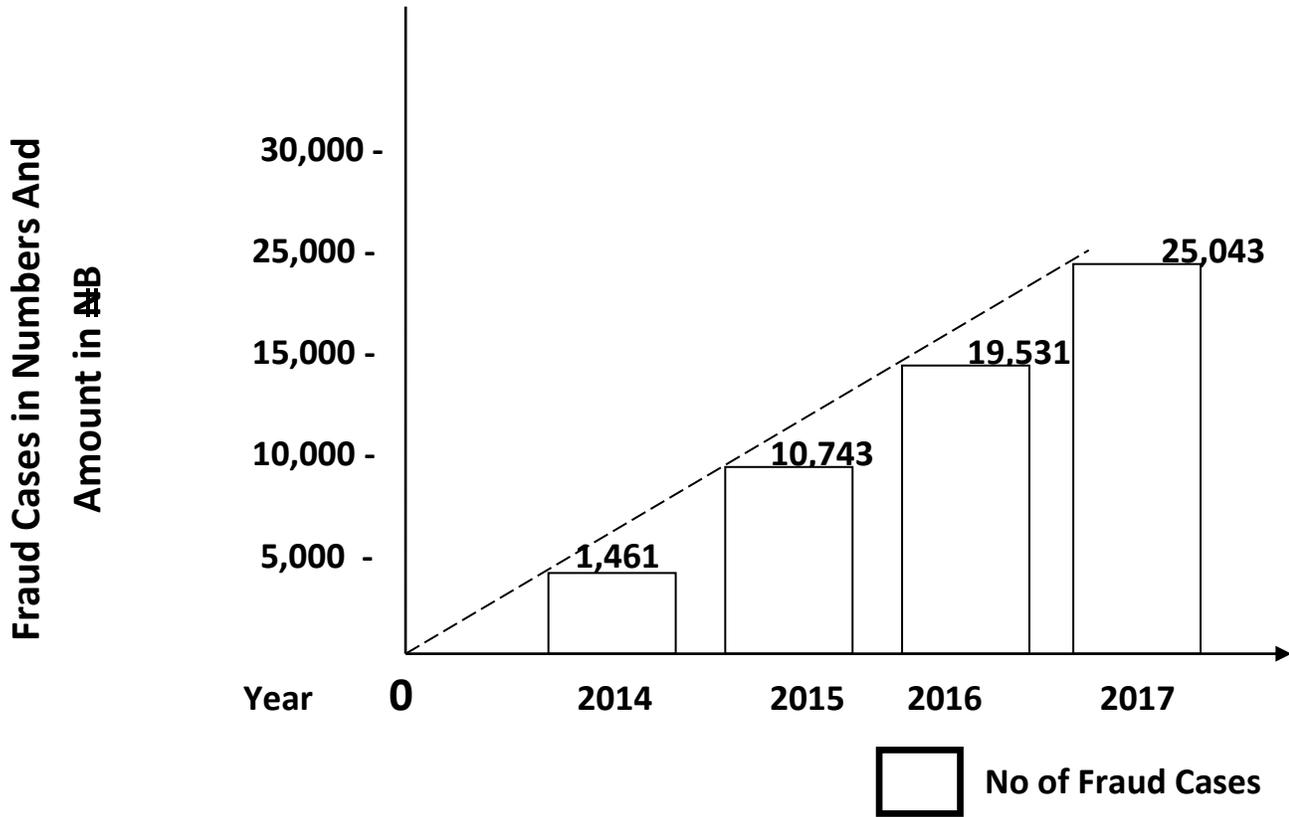
Some statistics on fraud and scams in the Nigerian banking sector from 2014-2017.

**Table 1: No of cases in absolute terms and amount involved in Naira**

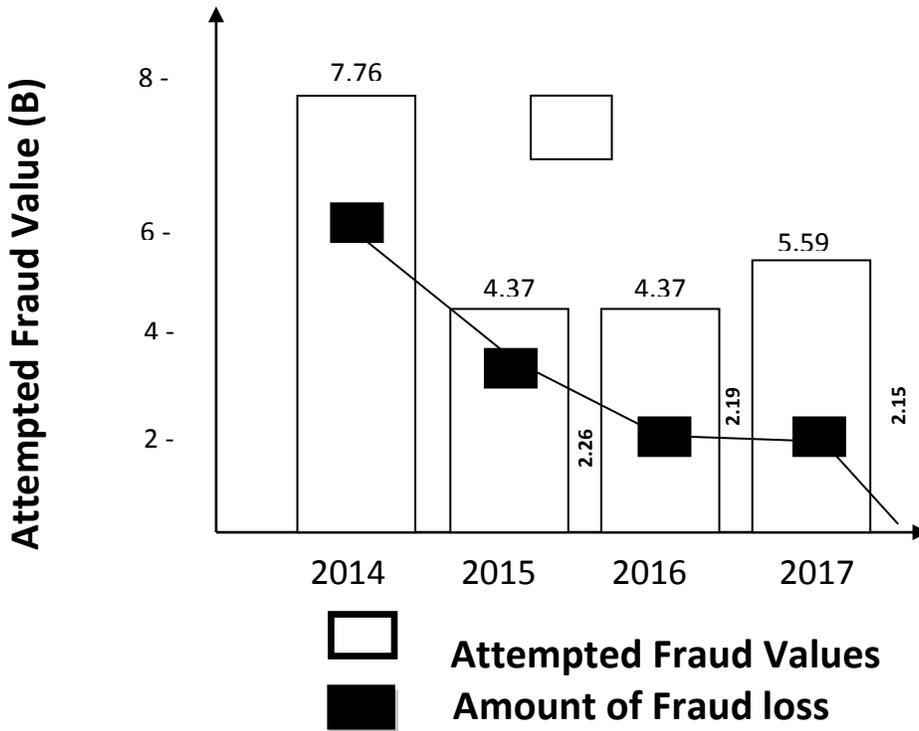
Year	Number of cases	Attempted fraud value ₦(B)	Amount Loss ₦(B)
2014	1,461	7.76	6.22
2015	10,743	4.37	2.26
2016	19,531	4.37	2.19
2017	25,043	5.59	2.15

Source: Speech of Mr. A. Shonubi, M.D Nigeria inter-bank settlement system, June, 2018

**Figure 1**



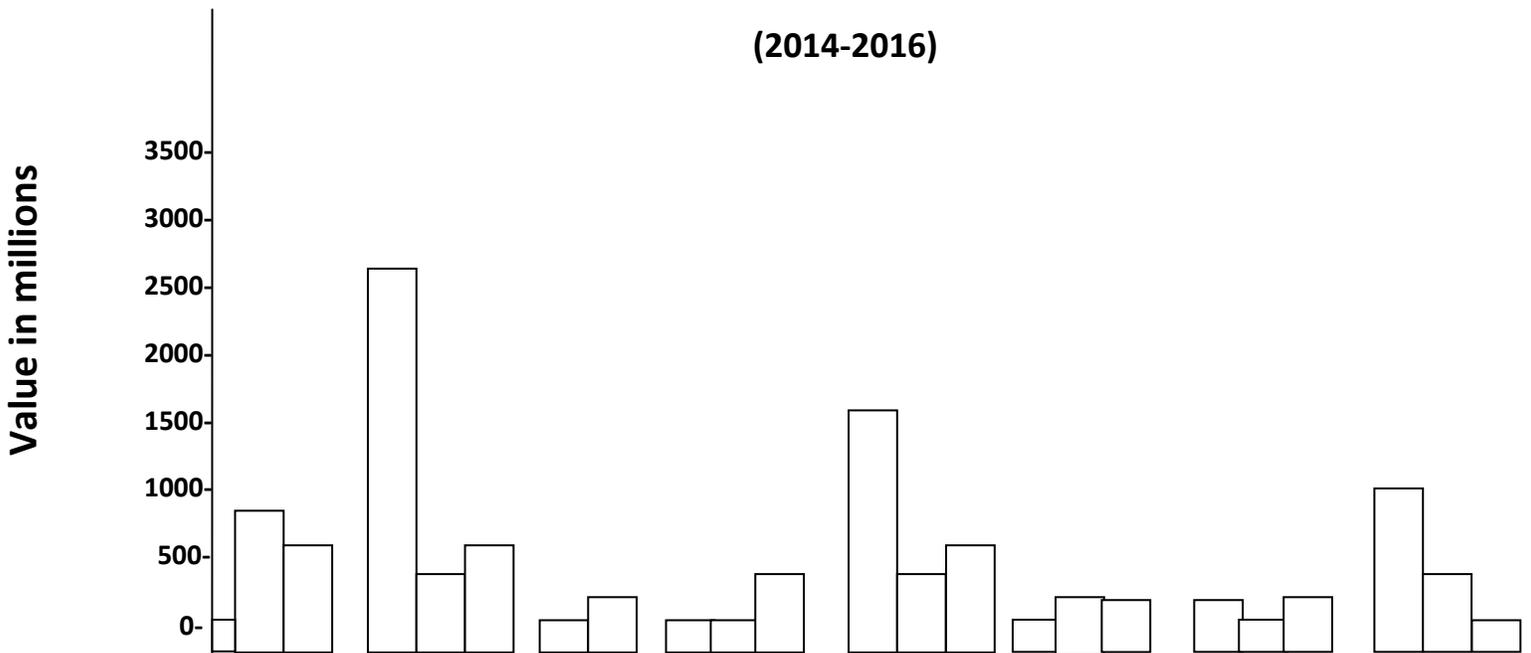
**Figure 2**



Source for fig. 1 & 2: NIBSS report, 2018.

**Fig 3**

**Fraud value per channel in 3 years**

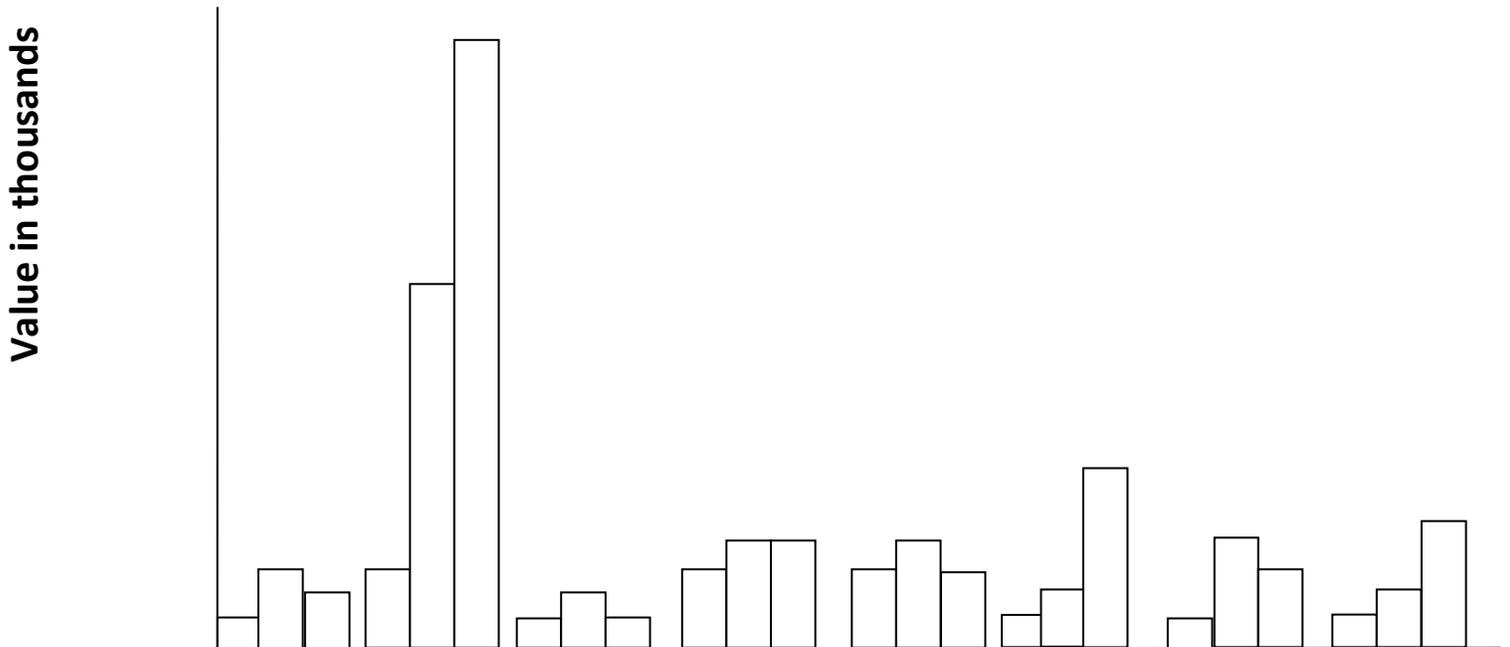


	Across country	ATM	Cheque	E-commerce	Internet banking	Mobile	POS	Web
2014	140,813,927	2,688,669.2	4,448,600	58,994,920	2,120,881.5	13,328,957	157,610,831	1,031,239.2
2015	732,856,77	355,892.20	167,413.69	52,161,394	268,995.25	248,144.13	635,533,467	173,472,36
2016	511,072.86	464,514.68	4,558,897	13,252.11	320,665.95	235,170,72	243,321,81	83,776,994

Source: NEFF, 2016.

Fig 4

Fraud volume per channel in 3 years  
(2014-2016)



	Across country	ATM	Cheque	E-commerce	Internet banking	Mobile	POS	Web
<b>2014</b>	153	491	11	114	287	21	166	218
<b>2015</b>	367	5133	40	499	727	123	1853	1463
<b>2016</b>	325	9522	12	520	698	3832	1659	2677

**Source: NEFF, 2016.**

Figure I show that the number of fraud cases has been on the increase in the last four years. For instance, it moved from 1,461 cases in 2014 to 25,043 cases of frauds in 2017. Also, the attempted fraud values (figure 2) was high (7.76B) in 2014 and declined to 4.37B in both 2015 and 2016. However, it increases a little to 5.59B in 2017.

More so, figure 2 show that the amount loss to fraud related activate was high in 2014 (6.22B) and declined to 2.26B and 2.19B in 2015 and 2016 respectively. The amount of loss further declined to 2.15B in 2017. The implication of this is that impact of attempted fraud valves contributed to the increase in the amount loss by bank due to fraud.

In addition, figure 3 show that among all the fraud channels available in the bank, the ATM and internet banking channel recorded the highest fraud value per channel. They are then followed by fraud on the web and across the counter respectively. Figure 4 show that ATM and mobile banking recorded the highest fraud volume per channel in the three years under consideration. They are followed by fraud on the web.

From the data in figure 1-4, fraudsters are continuously planning newer way of committing frauds and scams by taking advantages of the loopholes in technology system and processes conducted by banks.

**CONCLUSION**

This study concludes with the recognition of the fact that the impact of fraud on bank in monetary term are more significant as their operation involve transition of funds. Altogether, frauds can have potentially weakening effect on self- assurance in banking system and may affect the stability of the economy.

Banks are facing a gradually difficult scenario with increased scams and fraudulent incident, there by directly affecting their annual returns. With increased interbank competition in Nigeria, bank are under pressure to execute best practices, and ensure fraud less business environment which cannot be attained with conventional auditing. In such a situation, Forensic accounting and auditing is therefore not an option but the bank frauds minimizer of the hour.

**RECOMMENDATIONS**

Based on the findings, this study recommends that:

1. Forensic Accounting delivers much benefit in banking activities to expose problems or verify accuracy and true symbols. Thus, it should be introduced in bank.
2. Forensic Accounting can further serve great roles in the banks in the sense that it does not only verify books and records imbalance, special investigative and testing procedures can target probable misdeeds that cannot be morally exposed by classic bank auditing processes.
3. Fraud investigation requires capability in Forensic accounting and audit and also transactional expertise. Therefore, banks should take immediate steps to identify staff with proper aptitude and provide necessary training to them in Forensic accounting and audit so that only such trained staff are organized for investigation of fraud in the banks.
4. Forensic accounting is a precious method in examining and preventing fraud in the banks. This is true because complex banks activities involve irregularities. Thus, Forensic accounting can help to protect the reliability of banking transactions and financial accounts of customers.

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