

EFFECTS OF FORENSIC ACCOUNTING SKILLS ON THE MANAGEMENT OF BANK FRAUD IN NIGERIA

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ABSTRACT: *The role of professional Accountants cannot be overemphasized especially in the banking sector where fraud cases are rampant. The study therefore focuses on the effects of forensic accounting skills on management of bank fraud in Nigeria. Both primary and secondary data were appropriately used. 140 questionnaire were administered to the staffers of the five (5) selected Banks in Imo state. The statistical tool used to test hypotheses was ANOVA (Analysis of Variance). The study revealed among other things that possession of enhanced skills aid the forensic Accountant in discharging his duties. The paper therefore recommended among other things that the management of banks should make use of the forensic Accountants skills.*

KEYWORDS: Forensic Accountant, Fraud and Fraud Reduction.

INTRODUCTION

Background of the study

Prior to the latest economic downturn the accounting profession had already undergone radical changes as a result of the Enron and Worldcom debacles as well as other accounting scandals. With the spotlight on the accounting profession, a new market with a breed of accountants – forensic accountants has emerged. This has led to an increase in demand for forensic accounting services as the public deals with financial collapses. There is also increase in white collar crime and growing occurrences of occupational fraud.

The Association of Certified Fraud Examiners ACFE (2008) estimates that occupational fraud losses cost organizations nine hundred and ninety-four billion dollars (\$9946) annually. The various organized and sophisticated frauds witnessed recently in the corporate world, posed a major threat in the trust and confidence shareholders, investors and the general public had in the published financial statements. In Nigeria for example, (James and Seipal 2009) stated that Cadbury Nigeria PLC was said to have lost about fifteen million naira (N15m) to manipulations which were ironically certified by the company's auditors for the past four years. The above case has shown that the auditors and financial accountants have failed in their statutory responsibilities. This has equally led to the increase in corporate crime and as such a pressure on the professional accountants and auditors.

There is need to overhaul the accounting profession in order to equip them with the new skills that will help restore the lost confidence of shareholders and investors over financial statements. In order to sanitize the accounting profession there should be need for skilled professionals that can identify, expose and prevent weaknesses in the areas of poor corporate governance, poor internal control and fraudulent financial reports. In a bid to overcome

weaknesses above, a new breed of accountants called Forensic Accountants has come up. It is expected that the forensic accountants will help to solve the problem of fraud in the corporate world and to bring to bear versed knowledge of accounting, law, finance investigation and skills necessary to sanitize the corporate world. It is in the light of the above that the research tries to examine the effect of forensic accounting skills on the management of Bank fraud.

The statement of the problem

The various fraud cases experienced in the recent past especially in the banking sector in Nigeria has opened the eyes of many investors and the stakeholders in the country and corporate world generally. This is in line with Bayo (2008) where he stated that a good number of banks in Nigeria have credibility problems. He further pointed out how some non -banking institutions manipulated their share prices in Nigerian stock market. Also, the Nigerian Deposit Insurance Corporation (NDIC) in 2010 reported that frauds and forgeries involved in the banking sector amounted to N21 billion.

The problem of this research therefore lies on how can the Bank sector strive or wax stronger without the involvement of Forensic Accountants. It is in the light above that the paper tries to address the extent Forensic Accountants can aid in reducing Bank fraud in Nigeria.

Purpose of the study

The main purpose of this study is to examine the effect of basic forensic skills on fraud management of banks.

To this end, the following specific objectives are set out below:

- i) To determine the extent possession of basic Forensic skills can assist the forensic accountants in reducing bank fraud.
- ii) To determine whether there is significant difference between the services of Forensic Accountants and external Auditors.

Research Questions

The following are the research questions for this study:

- i) To what extent possession of basic skills by forensic accountants can assist in managing bank frauds?
- ii) To what extent is there significance difference between the services of Forensic Accountants and external Auditors?

Hypothesis

The following hypotheses have been formulated for this research.

HI (1) Possession of basic skills by Forensic Accountants has no significant effect on reducing bank fraud.

HI (2) There is no significant difference between the services of Forensic Accountants and external Auditors.

REVIEW OF RELATED LITERATURE

Conceptual Framework

In the words of (Owojori and Asaolu 2009), Forensic Accounting can be seen as the integration of accounting, auditing and investigative skills to obtain a particular result.

Rassey (2001) is not left out hence, he sees forensic accounting as the "use of accounting principles and investigative techniques ferret out fraud and theft".

In this manner, Ramaswamy (2007) sees Forensic accounting as accounting analysis that can uncover possible fraud that is suitable for presentation in court; he maintained that such analysis will form the basis for discussion, debate and dispute resolution".

To Owen and Hussey (2005) forensic accounting is undertaken in relation to proceedings in a court of law. In such circumstances, accountants may be called on to provide expert investigations and evidence. They further see forensic accounting as that set out to determine the nature of past business activity, often on the basis of incomplete documentation.

Forensic accounting to Okoye and Gbengi (2013) includes the use of accounting auditing and investigative skills to assist in legal matters. It consists of two major components. Litigation services that recognised the role of an accountant as an expert consultant, and investigative source that uses forensic accountant's skills and may require possible court room testimony. They further reiterated that forensic accounting may involve the application of special skills in accounting, auditing, finance, quantitative methods, the law and research. It also involves qualitative skill to collect, analyse and evaluate financial evidence, as well as the ability to interpret and communicate findings.

In a bid to differentiate the role of forensic accountants from that of the regular auditor, Crumbley and Apostolou (2005) see forensic accountant as someone who can look behind the faced-out, accept the record at their face value - someone who has a suspicious mind that (considers that) the documents, he/she is looking at may not be what they purport to be and someone who has the expertise to go out and conduct very detailed interviews of individuals to develop the truth, especially if some are presumed to be lying.

On the other hand, Fraud according to Black law Dictionary 1997 in Okoye and Gbengi (2013), includes all the multifarious means human ingenuity can devise that are resorted to by the individual to get an advantage over another by false suggestions or suppression of the truth. It includes surprises, tricks, cunning or dissembling and unfair ways by which another is cheated.

The incidence of fraud continues to increase across private and public sector organizations across nations. Fraud is a universal problem as no nation is immune although, developing countries and their various states suffer the most pain.

Fraud is an activity that takes place in a social setting and has severe consequences for the economy, corporations and individuals. It is an opportunistic infection that bursts forth when greed meets the possibility of deception.

The Association of Certified Fraud Examiners (2004) defines occupational fraud as "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets".

Finally, Fraud management is a system where corporate bodies seek tools that will help them to proactively prevent, detect and stop fraudulent activities on their network (Paul, 2002).

To Koh (2009) when a company undergo severe financial problems and end up in bankruptcy, fraud, by senior management may be involved. Fraud management detects known fraud types and patterns of unusual behaviour, helps investigate these unusual patterns for potential fraud, and uses the knowledge thus generated to upgrade and protect against future intrusion.

From the above definitions of Fraud management, it implies that Fraud management involve both manual and automated actions aimed to curb fraud losses and to protect card holder (for Automated Teller Machine –ATM users) from unauthorized use of their accounts. The present economy therefore calls for the use of higher technology to combat fraud by management.

Causes and effects of bank frauds

Nwaeze (2006), identify the following causes of fraud:

- Frustration
- Staff experience
- Inadequate training
- Poor internal control
- Inadequate arrangement for security documents and
- Recruitment error

He further itemized the effects of frauds on the Banks and society as a whole.

- Lost income –by the entity
- Basic societal value system of defining respectability by the money one is able to throw about.
- Poor security arrangement for security documents
- Slow investigation system
- Outright corruption (settlement syndrome)
- Delay in prosecuting fraudster.

Theoretical framework

Prior studies have employed several theories to explain why corporate bodies may use forensic accounting skills to manage frauds and crimes. However, for the purpose of this paper, the relevant theories are the fraud diamond and fraud management lifecycle.

The fraud diamond theory

This theory considers the four elements of fraud by Wolfe and Hermanson (2004). This theory is an improvement in the existing fraud triangle. They believe that the fraud triangle could be enhanced to improve both fraud prevention and detection by considering a fourth element. In addition to addressing incentive, opportunity and rationalization, the Wolfe and Hermanson's four sided fraud diamond" also considers an individual's capability personal traits and abilities that play a major role ion whether fraud may actually occur even with the presence of the other three elements.

Many frauds especially some of the multibillion-dollar ones would not have occurred without the right person with the right capabilities in place. Opportunity opens the doorway to fraud and incentive. Using the four-element fraud diamond, a fraudster thought process might proceed as follows:

Incentive: I want to, or have a need to commit fraud

Opportunity: There is a weakness in the system that the right person could exploit fraud is possible.

Rationalization: I have convinced myself that this fraudulent behaviour is worth the risks.

Capability: I have the necessary traits and abilities to be the right person to pull it off. I have recognised this particular fraud opportunity and can turn it into reality.

They further stated that while these four elements certainly overlap, the primary contribution of the fraud diamond is that the capabilities to commit fraud are explicitly and separately considered in the assessment of fraud risk. By doing so the fraud diamond moves beyond viewing fraud opportunity largely in terms of environmental or situational factors, as has been the practice under current and previous auditing standards.

The fraud diamond theorists were of the opinion that when people perform a certain function repeatedly, such as bank reconciliations or setting up new vendor accounts, their capability to commit fraud increased as their knowledge of the function's processes and controls expands over time. Secondly, the right person for a fraud is smart enough to understand and exploit internal control weaknesses and to use position, function or authorized access to the greatest advantage.

Theory of fraud management life cycle

This theory states that the existence and effective management of the entire fraud management lifecycle is what provides the opportunity for significantly reduced fraud losses. It is made up of eight stages;

Deterrence , prevention, monitoring programmes, mitigation, analysis of losses, activities to evaluate, communicate and deployment of policies to reduce occurrence of fraud, investigation and prosecution.

Empirical review

A similar study was conducted by Davis, Farrel and Ogil (2009) titled "Characteristics and skills of the Forensic Accountant. With the use of online, a total of seven hundred and seventy-nine (779) respondents were drawn as sample. The major instrument for data collection was questionnaire and the instrument used in analyzing the data was Ranking method. It was discovered that analytical characteristics remain the foremost trait that forensic accountants are expected to possess. The study revealed that communication skills, the ability to simplify the complex and the ability to prevent opinions in a legal setting are critical to the effectiveness of the forensic accountant.

Similarly, Okoye and Gbegi (2013), conducted a research titled "Forensic Accounting : A tool for fraud detection and prevention in the public sector of Kogi state". The population consist of 5 ministries with a total of 5015 respondents of which 370 formed the sample size. The use of ANOVA was used in testing the hypotheses. It was discovered that Forensic Accounting significantly reduces occurrence of fraud in the public sector and there is significant difference between Professional forensic Accountants and traditional Auditors.

METHODOLOGY

In this research work, survey design was used in collecting data from the population.

The population of this research comprises five (5) commercial banks in Imo State of Nigeria. The commercial banks and various population (Senior and Management staff) are tabulated below:

Table 3.1: Population

s/no	Name of bank	Population in person
1	First Bank Nig PLC	49
2	Union Bank Nig. PLC	46
3	UBA Nig. PLC	43
4	Zenith Bank Nig. PLC	45
5	Diamond Bank Nig. PLC	32
	Total	215

Source: Field Survey 2015

Sample Size and sampling techniques

For the purpose of this study, the researcher adopted non-probability sampling technique (purposive sampling) to select the five (5) commercial banks used as population for the study. The use of purposive sampling was based on the fact that Imo State has a total of ten commercial banks which the population were selected, also the nature of fraud committed in all the banks appears to be the same and therefore may serve a good representation of the whole banks. Hence, the researcher used random sampling on the staff population in the five (5) selected banks.

The use of arithmetic formula was adopted to arrive at the sample size 'n' with 5% level of significance (Adefila 2008).

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

Where n = sample size
N = population size
E = level of significance

$$\begin{aligned} n &= \frac{215}{1+215(0.05)^2} \\ &= 140 \end{aligned}$$

The sample size of 140 senior and management staff were drawn from the five commercial banks were tabulated below: Table 3.2 : Sample size

s/no	BANKS	Sample size
1	First Bank Nig PLC	28
2	Union Bank Nig. PLC	28
3	UBA Nig. PLC	28
4	Zenith Bank Nig. PLC	28
5	Diamond Bank Nig. PLC	28
	Total	140

Source: Field Survey 2015

SOURCES OF DATA COLLECTION

In the course of this research, the researcher adopted both primary and secondary data.

Method of data analysis

Tables and percentages were used in the analysis of the data collected from the respondents. The statistical tool used for testing of hypothesis one and two is

the Analysis of Variance (ANOVA).

The formular is given below

TABLE 3.3**ANOVA Table**

Source	SS	DF	MS	F-Ratio	Remark
Between	SS_B	$t - 1$	SS_B/df_B	MS_B/MS_W	Accept or Reject
Within	SS_W	$N - t$	SS_W/df_w		
Total	SS_T	$N - 1$			

Source: Adefila (2008)

Where N = The total number of scores in all

Q = The grand total of all the data

t = Number of groups

n = Number of elements or cells in each group

SS_T = Sum of the square of each of the individual scores in all the groups

subtract Q^2/N

$$= X_1^2 + X_2^2 + X_3^2 + \dots + X_n^2 - Q^2/N$$

SS_B = square of each group sum divided by the corresponding group (n) then

sum all these and subtract Q^2/N .

The choice of ANOVA for this research is based on the fact that it determines the extent of variance in dependent variables that are caused by independent variables, also used comparing the variation in more than two independent samples that are drawn just once from population with the same variance.

DATA ANALYSIS AND RESULTS

Test of Hypotheses

The researcher used question 1,2,3, and 7 for hypothesis one, while question 4,5, and 6 were used to test hypothesis two.

Test of Hypothesis One

H₀: Possession of basic Forensic Accounting skills do not significantly reduce the occurrence of fraud cases in the Banking Sector

Table 3.4 Combined responses - Questions 1- 7

Variable	Question 1	Question 2	Question 3	Question 7	Total
Strongly Agree	40	65	48	60	213
Agree	70	43	56	52	221
Disagree	20	20	10	10	60
Strongly Disagree	10	12	26	18	66
Total	140	140	140	140	560

Source: Field Summary (2015)

Table 3.5: ANOVA Summary Table

Source	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	5941.500	3	1980.500	23.289	.000
Within Groups	1020.500	12	85.042		
Total	6962.000	15			

Source: SPSS Output (version 20)

Decision Rule

From the table above, the F-statistics was found to be 23.289, which is greater than the critical value of 3.49 at a p-value of 0.05 a significant value of 0.000 was found. Therefore the null hypothesis is rejected and the alternate hypothesis accepted, that is to say that possession of core forensic skills significantly reduce the occurrence of fraud cases in the Banking Sector.

Test of Hypothesis Two

H₀: There is no significant difference between services of Forensic Accountants and External Auditors.

Table 3.6 Combined responses – questions 4-6

Variable	Question 4	Question 5	Question 6	Total
Strongly Agree	41	62	49	152
Agree	67	42	5660	169
Disagree	13	13	1005	31
Strongly Disagree	19	23	2626	68
Total	140	140	140	420

Source: Field Summary (2015)

Table 3.7 :ANOVA Summary Table

Source	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4383.333	3	1461.111	18.712	.001
Within Groups	624.667	8	78.083		
Total	5008.000	11			

Source: SPSS Output (version 20)

Decision Rule

From the table above, the F-statistics was found to be 18.712, which is greater than the critical value of 4.07, at a p-value of 0.05 a significant value of 0.001 was found. Therefore the null hypothesis is rejected and the alternate hypothesis accepted, that is to say that there is a significant difference between professional Forensic Accountants and Traditional External Auditor.

Discussion of Findings

Based on the Analysis of Variance (ANOVA) used for the hypotheses 1 and 2. The findings are stated below:-

The conclusion of Hypothesis one reveals that possession of basic forensic skills significantly reduce the occurrence of fraud cases in the Banking Sector. Where the F-statistics was found to be 23.289, which is greater than the critical value of 3.49 at a p-value of 0.05. (*see table 3.5*)

Hypothesis Two equally reveals that there is a significant difference between services of Forensic Accountants and External Auditors. Where the F-statistics was found to be 18.712, which is greater than the critical value of 4.07, at a p-value of 0.05. (*see table 3.6*) This agrees with okoye and Gbegi 2013.

And finally, That the presence of forensic Accountant in banks can aid in reducing fraud cases.

CONCLUSION

To cap it all, this paper has analysed the reason why attention has to be given to the question of fraud reduction in banking sector using forensic skills such as analytical, Information Technology (IT), Auditing and Accounting. It is therefore the responsibility of management of banks to require the use of forensic Accountant in reducing and preventing fraud in the banking industry.

RECOMMENDATIONS

The study made the following recommendations based on the findings as follows

1. The management of banks should intensify regular training of their staff for the acquisition of the necessary skills.
2. Secondly information Technology (IT) should be seriously taken into consideration. The management should use the advantage of modern accounting and auditing software to enhance efficiency of staff.
3. Thirdly, management should as a matter of fact adhere to strict internal control of the entity in question, thus, this will go a long way in reducing frauds.
4. There should be inbuilt security devices especially within the ATM facilities of the banks.

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