Influence of Forensic Accounting Practices on Fraud Prevention among Listed Companies in Nigeria

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Fraud experts noted that it is essential to obtain clear knowledge on the trends of fraudulent activities in all business circles through the measurement and observing the compliance level of organizations. This has made it possible through the utilization of specialized investigative skills which gives an inquiry by assisting in the protection and recovery of embezzled assets through civil action. Therefore, this study examines the effect of forensic accounting knowledge on fraud prevention among listed companies in Nigeria. Questionnaires were administered to 177 Auditors of the listed companies out of which 105 auditors responded. The paper also used the multiple regression model to test the hypotheses formulated. Furthermore, the finding suggests that forensic accounting knowledge and complexity are significantly related with fraud prevention. It is therefore recommended that auditing staff of these companies should have more forensic accounting knowledge so as to serve as a tool to deter and prevent fraudulent activities in companies and Nigeria at large.

Keywords: Forensic Accounting, Auditing, Fraud Prevention, complexity, Knowledge

INTRODUCTION

The world in trying to be free from the frequent rise in white-collar crimes by the introduction of various anti-crimes agencies to fight financial crimes, irregularities and other fraudulent activities in all sectors of the economy (Simeunovic, Grubor & Ristic 2016; Temitope 2016; Sujatha & Gomez 2015). The detection and evidences on it are comparatively more obscure and difficult (Gottschalk 2010). The fraud detection necessitated and equipping auditors with forensic skills, particularly over the recent years (DiGabriele 2009; Ojo 2012; Rezaee, Daniel, Michael & Alexis 2016).

The collapse of companies like the Enron case were seriously a case of concern to many stakeholders (Kleinmann & Anandarajan, 2011; Eyisi & Agbaeze 2014; Rezaee el al 2016). However, authorities responsible for these had made effort for the promulgation of laws that would assist auditors and accountants to detect fraud within the organisations (DiGabriele, 2011; Sujatha & Gomez 2015). These laws for example are the Sarbanes-Oxley Act 2002 and later was promulgated such as the Public Company Accounting Oversight Board and as well as the Accounting standards (DiGabriele 2008; Simeunovic et al 2016).

However, forensic accounting practices comprises of formal use, techniques for collecting, legal processes, analysing, and court presentation of fact and reports from expert (Temitope, Muturi & Nasleku 2016; Simeunovic el at 2016). These processes mentioned requires authentication of the fact, specialized techniques and analysis of data collected for dispute resolution. Therefore, this paper examines the effect of forensic accounting on fraud prevention among listed companies in Nigeria. Fraud alongside with the white-collar crimes which was identified in the 19th and 20th century inter alia corruption, money laundering, tax evasion, externalization currency (foreign) to mention just few have become a parasite, causing weaknesses to the economic strengths of Nigeria, particularly in the business sector (Baron 2006; Claire & Jude 2016). Even the developed countries have experienced a financial turbulence and uncertainties caused by fraud.

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The issues on the corporate world’s scandals, audit fraternity and the society at large; hence, the erosion of investors’ confidence in the financial markets (Levanti, 2001; Alao 2016). Among other possible causes of liquidation in companies today are inadequacy of risk management systems and diversion of the core businesses to speculative activities. Companies perceived the services of Forensic accounting as expensive that only the big once can afford it (Eyisi & Agbaeze 2014). Therefore, these companies would not want to law court instead will rather decide to have their matter resolve outside court to avoid bad corporate image.

LITERATURE REVIEW

The activities and understanding of business reality and the kind of legal system in which it operates. Literatures have shown that; there is dimension shift from accountants focusing on fraud detection to wider forensic activities (Cohen, Crain & Sanders 1996; Baron 2006; Wells 2003; Crumbley, Heitger & Smith 2009). Forensic accounting is that part of accounting which gives justifiable analysis in law court and will be a forum of debate and ultimately disputes resolution (Leech & Dowling 2006). It comprises of specialized investigative accounting skills and body of knowledge to established a suitable report on proceedings (DiGabriele 2009).

Eze (2015) noted that Forensic accounting, involve investigative accounting and litigation that have to do with any wrong doing found during or after activities involved in organizations. Dispute or litigation anticipated are part of a specialized areas of accounting particularly the forensic (Baron 2006). Forensic accounting can be explain as a guide use in law court or procedures undergo during investigation of fraud or any misappropriation (Crumbley, Heitger & Smith 2005; Razaae et al 2016). According to Albrecht, Albrecht and Albrecht (2006) reported that the identification of the causes of fraud is very difficult. The Authors added that the trend of fraud these days are characterized by tedious web conspiracy which deviate from the genesis of the problems. It was established that fraud is characterized by illegal act and irregularities intentionally perpetrated by theses culprits (DiGabriele, 2009).

Auditors with forensic accounting knowledge and skills have important role to deter fraudulent activities in companies especially organized business institution like the listed companies. The ability of the companies to have skilled and qualify auditors with forensic knowledge would prevent fraud in the environment.

In addition, these companies prefer the use of computer for software for their activities. These companies normally keep on to the use of electronic paper work to facilitate documentation and other process within and outside the environment. However, big companies or organizations deployed the use of robots computerised gadgets to facilitate their activities and avoid irregularities (Leech & Dowling 2006; Eyisi & Agbaeze 2014).

Even small audit companies are encouraged to adopt modern technology such as electronic paper work. Information Technology usage could reduce the time auditors spend performing computerised, clerical tasks and improve the quality of audit judgments by structuring audit decision processes (Manson, McCartney & Sherer 1997; Modugi & Anyaduba 2013). These Information and Technology gadgets of the 21st century appears to increase audit quality and productivity through audit automation, eliminating certain audit procedures, and enhancing knowledge and information sharing capabilities (Ojo 2012; Eliezer Balogun 2015). The combine knowledge of forensic accounting and information technology would go a long way to prevent fraud in most listed companies.

Mohay, Anderson, Collie, De Vel & McKemmish (2003) contend that a different characteristic of forensic (computerized) have to be with application of technology which with due regard to the requirements of the law. If not adhere to, it can result in digital evidence being ruled as inadmissible or as tainted. When presented the evidence in law court with regard to computer forensic audit the court only recognizes forensic technology evidences which comprises of authenticity, completeness, reliability and believability.

Forensic investigation involves large categories of careful monitoring, assessments and evaluations of financial data to avoid or detect irregularities (Efosa & Kingsley 2016; Alao 2016). When it comes to most real, accurate process of investigation and implies to most risky and delicate crime scenarios calling for forensics to take charge of every possible steps (Claire & Jude 2016; Temitope 2016). This leads to crime resolutions and further comprehensive research territory of forensic studies. Technology brings specialized security with computer as a form of defense against unauthorized and malicious intrusion and computer forensics allows for identification of incidents, collating records of evidences as there has been different types of computer forensic which extends to records management (Eze 2015; Sujatha & Gomez 2015; Temitope et al 2016).

Fraud prevention and detection in organization has been found to be curtailed through the mean of sound internal control systems (Adedebi, Thinewz and Emmanuel 2016; Wells, 2008). Internal control system can be effective through the establishment of knowledge, research and development. The basic constant training of staff contributes a lot in having a sound internal control system in companies. Okafor & Andrew (2016) found that knowledge of forensic accounting had been a means of effective internal control system thereby reducing the fraud in companies.
However, Barra (2010) and Ozili (2018) stressed that forensic accounting knowledge driven prevent fraud in organization. Moyes and Baker (2003) noted that auditors’ high skilled knowledge of forensic accounting is most likely to detect and prevent fraud in companies. Also, in another study Bierstaker, Burnaby and Hass (2004) found that fraud detection and prevention tools is as a result of effective and knowledgeable internal auditor.

The authors went ahead to report that the familiar used tools in preventing fraud in companies are operational audit, reference supervision on staff, internal control review and development. The uncommon mechanism used to as describe by the study are software and digital analysis. ACFE (2008) stressed that operational tools such as internal control and internal audit has been found to detect and prevent fraud.

Nevertheless, literatures have found that most mechanism used by organization to detect and prevent fraud in their domain are said to be informal (ACFE, 2008; Drew and Drew, 2010). There are arguments that prevention of fraud in not as a result of sound internal control system. However, a study conducted by Muslimat and Hamid (2012) found that employees of the internal audit unit of a government owned hospital do not have basic skills and knowledge of fraud prevention which prone to danger of fraudulent activities.

The study further suggests that some internal audit staff in the hospital tried to prevent fraud on their own. This has showed that if these staff can be educated with forensic accounting knowledge they can be a mechanism for the detection and prevention of fraud in the establishment. Moreover, accounting studies indicated that sound internal control system can prevent fraud (Nwaiwu & Aaron 2018; Barra and Griggs, 2007). It is therefore, paramount to have knowledge of forensic accounting skill. On this note the study hypothesized that:

H1: Forensic Accounting knowledge has significant relationship with Fraud Prevention.
H2: Forensic Accounting Complexity has significant relationship with Fraud Prevention.

These hypotheses formulated and conceptual model are being depicted in the figure below.

**Conceptual Framework**

![Conceptual Framework](image)

**Figure 1: Conceptual Framework**

In the conceptual model presented above, the paper discussed on the variables in the study and their relationship which comprises of the independents and the dependent variables. The dependent is the Fraud prevention while the independents are Forensic Accounting knowledge and Forensic Accounting Complexity. The two sub independent variables have relationship with the dependent variable.

**Theoretical Framework**

The theoretical framework of this study is based on the theory of fraud triangle and fraud diamond. The two underpinned theories are geared towards comprehensive explanation on fraud and all the ways in which perpetrators used in achieving their objectives (Enofe, Okpako, and Atube, 2013). FBI (2014) define fraud as any means of deceit and misused of trust by the perpetrators, it is also found to be criminal act of deliberately violation of the law and polices with the intention of achieving financial benefits (Bansal, Suman, and Sonepat, 2014). These theories focus on the reasons of frauds in companies and other establishments. They provide ways of understanding fraud in companies. The theory of fraud triangle comprises of three cardinal point which are perceived pressure, perceived opportunity and rationalization that was developed by (Cressey 1953). Cressey (1953) stressed that these three factors or element of fraud triangle are the motive behind committing fraud in any establishment. The perceived pressure is as a result of financial needs of individuals that would not be shared. The second element which is the perceived opportunity is when an individual has access to fund or a custodian of fund and misused the opportunity. The last element is the rationalization which has to do with the personal justifications of what an individual does in the act.

![Fraud Triangle](image)

**Figure 2: Fraud Triangle**

**Source:** Cressey (1953)

The above model depicted the three element of Cressy (1953) triangle fraud theory. The top pic of the model represents the perceived pressure and the two-bottom level of the model represent the perceived opportunity and rationalization (Wells 2011 cited in Abdullahi and Mansor, 2015). This theory of fraud triangle has been expanded to fraud diamond theory.

The expansion theory of fraud triangle is known as fraud diamond theory which was introduced by Wolfe and Hermanson (2004). The authors introduced a fourth variable which known as capabilities, in their opinion fraud
occurrences in most cases happened when individual used their right capabilities to commit fraud (Wolfe and Hermanson, 2004). These individual normally would have the tricks and skills of to commit fraud in organisations and another establishment. Wolfe and Hermanson (2004) cited in Abdullahi and Mansor (2015), found that perceived opportunity give way in committing fraud while perceived pressure (incentive) and rationalization lead perpetrators to commit fraud. However, capability allows an individual to identify the way an opportunity and used it often.

Figure 3: The Fraud Diamond

RESEARCH METHODOLOGY

The research design adopted in this paper is the survey method with a quest to assess forensic accounting knowledge and complexity on fraud prevention among the listed companies in Nigeria. The research work was conducted to covers the appropriate area of study. The questionnaire was sent to one hundred and seventy-seven (177) Auditors of the listed companies drawn from each industry in Nigerian out of which 105 auditors responded. The data collected were analysed using multiple regression analysis. Hence, the hypotheses were tested from the regression outcome. The five-point likert scale was used to measure the degree to which respondents agree or disagree with the statement provided in the questionnaire, given thus: strongly disagree; disagree; undecided; agree and strongly agree.

Reliability Test

In assessing the reliability of the data all the variables’ internal consistency was properly scrutinized with the aid of a Cronbach’s alpha coefficients. Having examined each fraud prevention variable’s underlying dimensions. Field (2013) stressed that reliability measurement of scale produce consistent results when the same entities are measured under different conditions.

Therefore, the internal consistencies calculated have exceeded the recommended threshold of 0.70. In a nutshell, the FAK has a reliability value of 0.751, FAC has 0.887 and FRP has a value of 0.732 which are above the recommended value of Hair, Black, Babin, Anderson & Tatham (2005). The table below show presents.

Table: 1 Reliability Test

<table>
<thead>
<tr>
<th>variables</th>
<th>Code</th>
<th>Number of items</th>
<th>Alpha Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forensic Accounting Knowledge</td>
<td>FAK1</td>
<td>7</td>
<td>0.751</td>
</tr>
<tr>
<td>Forensic Accounting Complexity</td>
<td>FAC2</td>
<td>6</td>
<td>0.887</td>
</tr>
<tr>
<td>Fraud Prevention</td>
<td>FRP</td>
<td>6</td>
<td>0.732</td>
</tr>
</tbody>
</table>

RESULTS AND DISCUSSION

The result shows in table below depicts the significant relationship between the one construct which is the fraud prevention and the predictors (independent construct). The tests of this regression assumptions were conducted to indicates the finding by testing the regression assumptions and the outcomes as provided, indicate fraud prevention as (p<0.05), forensic accounting knowledge (p<0.05). Under Standardized Coefficients, each variable has beta coefficients of 0.419 and -0.027 respectively. From the analysis, result indicates that forensic accounting knowledge has positive and significant effect on fraud prevention where it is, 0.419, meaning that there is 42% of the independent variable explaining the fraud prevention in listed companies and also it has (p < 0.05) that is significant. Considering the following Hypotheses:

Hypothesis 1
H1: Forensic Accounting knowledge has significant relationship with fraud prevention.

This hypothesis is therefore accepted. Which is consistent with the studies of (Razae et al 2016; Adebisi et al 2016; Claire & Jude 2016)

Furthermore, forensic accounting complexity is negative and insignificant where it is -0.27 > 0.05.

Meaning that, it has no significant relationship on fraud prevention, considering the following Hypotheses:

Hypothesis 2
H2: Forensic Accounting Complexity has significant relationship with fraud prevention.

This indicated that the hypothesis is negatively related and insignificant, therefore rejecting the hypothesis. This contradict the studies of (Nwaiwu & Aaron 2018; Eliezer & Balogun 2015).

In the discussion, it is found the Knowledge on Forensic accounting is significantly related to the fraud prevention among listed companies. This also manifest that the forensic accounting knowledge is magnitude enough to impact on the fraud prevention among listed companies in Nigeria. However, the Forensic accounting complexity
shows a negative insignificant relationship with the fraud prevention which depicted of too much complexities that relate to forensic accounting in preventing fraud in listed companies. The result is shown below:

<table>
<thead>
<tr>
<th>Table 2: Regression model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
</tr>
<tr>
<td>Forensic accounting knowledge</td>
</tr>
<tr>
<td>Forensic accounting complexity</td>
</tr>
</tbody>
</table>

a; Dependent variable of fraud Prevention
Rsquare = 0.176
R = 0.419
F change = 9.583
Sig. F change = 0.0035.

CONCLUSION AND RECOMMENDATION

The practice of auditing and investigation in forensics accounting includes formal use, techniques for collecting, legal processes, analyzing, and court presentation of fact and reports from expert. These processes mentioned requires authentication of the fact, specialized techniques and analysis of data collected for dispute resolution. This Forensic procedure conducted is a form of auditing which deter illegal activities and irregularities in financial accounts and also involves investigative accounting and litigation.

It is an area of accounting that anticipated issues as it is responsible for the utilization of specialized investigative skills. This specialized area of accounting also finds an inquiry by assisting in the protection and recovery of embezzled assets through civil action. Forensic accounting involves is resolving existing litigation, which concern with primary issue of calculating economic damage.

Fraud investigation is very important but shows very challenging task in daily practice, Fraud prevention is therefore considered as a measuring yard stick to establish level of free companies’ sound internal control system. Fraud experts noted that it is essential to obtain clear view on trends of fraudulent activities in the business circle through constants following and measuring of organizations compliance level and keep a proper and internal control system. Forensic accounting currently being understood by accountants, as an elaborated activity unto itself by which is capable to counter fraud.

The study therefore, recommended that stake holders, authorities or government should impose the use forensic accounting and auditing in ever organisation and other agencies to deter corruption in all sectors of the economy.
The paper also recommends for further study that areas to research on knowledge of Forensic accounting in Ministries and department of government agencies and also a different methodology to be use.

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