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# Original Research Article

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Quoted Commercial Banks

Chima *et al.*

# Forensic Auditing and Fraud Detection in Nigeria: Evidence from Publicly Quoted Commercial Banks

Lilian U Madu-Chima<sup>1</sup>, Amaechi P Egbunike<sup>1</sup>, Edesiri G Okoro<sup>2\*</sup>

<sup>1</sup>Unizik Business School, Department of Accountancy, Faculty of Management Sciences, Nnamdi Azikiwe University, Awka, P.M.B. 5025, Anambra State, Nigeria.

<sup>2</sup>Department of Accounting and Finance, Faculty of the Social Sciences, Delta State University, Abraka, P.M.B. 1, Delta State, Nigeria.

\*Correspondence: egokoro@delsu.edu.ng

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## Abstract

This article examines the nexus between forensic auditing and fraud detection among Nigerian banks. A survey of professional auditors and accountants of Nigerian deposit money banks was done and data obtained via the questionnaires was analyzed using both descriptive (mean and SD) and inferential (Lawley's Correlation) statistical tools. Findings indicated that there exists a nexus between forensic auditing and fraud detection among Nigerian banks. This implies that forensic auditing serves as an antidote for detecting fraud in the Nigerian banking subsector. The study recommends that bank management should employ forensic auditing by amending the existing laws such that the forensic auditors are integrated in the audit team or committee.

**Keywords:** Litigation support services; Forensic audit report; Expert consultancy; Fraud investigation; Fraud detection; Forensic accounting; Forensic auditing.

## 1. INTRODUCTION

In developing countries, fraud and other financial and economic crimes have made it cumbersome for most companies to meet their financial obligations to stakeholders, particularly, the banking subsector. This "monster" called fraud has become the order of the day in banks such that it has assumed an alarming proportion via persistent mismanagement of resources (Okunbor and Obaretin, 2010). Fraud has become pervasive in the banking subsector and the likelihood of it occurring has become more severe, especially, with the trend in information and communication technology. The severity and trend in financial abuse has hindered tax collections, discouraged foreign investments, and perhaps, is linked with the series of bank failures experienced in Nigeria.

Perhaps the widespread of fraud have made traditional auditing and investigation inept and futile in the detection of diverse types of fraud confronting the Nigerian banking subsector (Onuorah and Appah, 2012). This has made the incidence of fraud to continually increase in this sector—a sector that is characterized as one of the engines of economic growth. Fraud manifests in form of employee and management thefts, fraudulent billing, embezzlement, bribery (EFCC, 2010), etc. These forms of fraud have occupied the epicenter in scheme of things and on the scale of governmental and management preference.

Currently, fraud has grown wide, coupled with the advent of advanced digital facilities, which has compounded the problem of fraud detection and prevention in most developed and developing nations (Izedomin and Ibadin, 2012). The detection of fraud remains outside the ambit of statutory auditor to report, except he or she is placed on inquiry. Thus, the inability of statutory audit, constrained by relevant statutes

and standards to deal with fraud, has brought to fame the forensic auditing in the detection and prevention of fraud.

Okunbor and Obaretin (2010) asserted that the spates of corporate failures have placed greater task on accountants to equip themselves with skills aimed at identifying and acting upon frauds, irregularities, and other wrong doings (Modugu and Anyaduba, 2013). Hence, fraud requires more sophisticated method from prevention to detection; one of the modern methods that can be used in the detection of fraud is called “forensic auditing.”

Okoye and Gbegi (2013) emphasized that forensic means “suitable for use in a court of law.” Forensic auditing is a fact-finding style of accounting employed to ascertain whether an entity has engaged in any form of illegal financial activities. Although forensic auditing has been in existence for numerous years, it has developed over time to encompass quite a few forms of financial information investigation. Also, forensic auditing includes three vital areas—investigation, litigation support, and dispute resolution (Okoye and Gbegi, 2013). However, this study focused on one area of forensic auditing—investigation.

Consequent upon the above, detection as well as prevention of fraud cannot be undermined in the Nigerian banking subsector, given the numerous fraud cases that have characterized this sector in the past and present. Owing to the pivotal role played by forensic auditing in fraud concerns, there is the need to carry out an examination so as to see if forensic auditing, aside the ambit of traditional auditing, can serve as an antidote in prevention of fraud in the banking subsector.

### 1.1. Exploring Forensic Auditing

In 1946, Peloubet coined the concept of forensic auditing. According to Kasum (2014), forensic auditing is the use of accounting and investigative skills to ascertain and resolve legal issues relating to financial and economic crimes. The skills can be instrumental for fraud and forensic investigation. According to the Association of Certified Fraud Examiners, forensic auditing is the use of skills in potential or criminal disputes, comprising generally accepted accounting and auditing principles; establishing losses/profits, incomes, properties, or damages; estimations of internal controls, frauds, and others that involve inclusion of accounting expertise into the legal system.

Okoye and Gbegi (2013) stressed that forensic auditing is a merger of forensic science and accounting. Joshi (2003) considered forensic auditing as the use of specialized knowledge and skill to stumble upon evidence of economic transactions. Impliedly, those qualified to handle forensic investigation are forensic accountants, which are a combination of an auditor and private investigators (Gray, 2008). Thus, the knowledge and skills of a forensic accountant encompassed investigative skills, law, quantitative methods, finance, auditing, accounting, and law enforcement officers’ insights.

### 1.2. Fraud Detection

In recent times, fraud has continued to be a dire impediment to the survival, growth, and successful operations of organizations in both developed and developing nations of the world, which according to Okoye and Ndah (2019), requires robust measures as much as possible to reduce its occurrence. Fraud has been widely defined in literature; however, Abdulrahman (2019) viewed fraud as a criminal act of deception and intentional misrepresentation by an individual or more individuals or third parties with the primary aim of obtaining unjust advantage of one or more selfish interests in an organization.

Uniamikogbo *et al.* (2019) asserted that fraud does not only undermine the stability of an organization, it also wrecks the organization’s reputation, thereby posing a menace to stakeholders and other investors. According to Abdulrahman *et al.* (2020), there are three vital components of fraud—pressure, opportunity, and justification. These vital components are perceived to exist in order for fraud to occur in an organization; however, pressure is what triggers fraud with other components supporting its actualization. In order to detect fraud and given its alarming rate, detecting fraud becomes a notable emphasis of forensic accounting.

Noteworthy is the fact that fraud detection is an aspect of fraud management, which, according to Bangura (2020), has given organizations the ability to proactively thwart fraud cases or fraudulent activities. Prior studies (Abdulrahman *et al.*, 2020; Bangura, 2020; Okoye, Adeniyi, *et al.*, 2020; Okoye, Nwoye, *et al.*, 2020) suggest that forensic accounting play a significant role in fraud detection; however, forensic accounting is faced with numerous challenges that perhaps limit the extent to which fraud is detected in an organization.

### 1.3. Hypothesis Development

The place of expert consultancy is a way of responding to fraud threat, given the fact that non-traditional investigators such as accountants may not have the skill needed to detect fraud. Hence, there is a need to combat these ills caused by highly skilled fraudsters. With regard to expert consultancy, there is a probability that expert consultancy could be inversely linked with fraud.

In the past, researchers such as Abdulrasheed (2012) and Adebisi *et al.* (2016) have found that the use of expert consultancy by organizations resulted in a decrease in fraud. This view has also been supported by Adeyemo (2012) as well as Akani and Ogbeide (2017). Given the submissions of prior studies on expert consultancy (component of forensic auditing), we therefore hypothesized that:

*H<sub>0</sub>1: There is no relationship between expert consultancy and fraud detection.*

Forensic auditing offers litigation support service with suitable professional services in the law court. Litigation support service is a major constituent of forensic auditing, which ensures that the forensic auditor provides aggravates the legal actions with fraudsters. Given the fundamental role of litigation support services by forensic auditor, it is expected that fraud detection could be improved. According to Abdulrasheed (2012), the litigation support services provided by forensic accountants have made the profession more unique and have helped to efficiently detect fraud.

Litigation support service (component of forensic auditing) is believed to be inversely related to fraud detection. Prior studies such as Abdulrasheed (2012) and Adebisi *et al.* (2016) found that litigation support service have lead to decrease in fraud. In view of the submission of prior studies on litigation support service, we therefore hypothesized that:

*H<sub>0</sub>2: There is no correlation between litigation support service and fraud detection.*

Generally, fraud investigation is one of the most significant aspects of forensic auditing. Adeyemo (2012) opined that fraud investigation (a constituent of forensic auditing), employs accounting, auditing, and investigative skills in conducting forensic investigation. Fraud investigation is one of the squeaky lines that demarcate forensic auditing from traditional auditing; hence fraud investigation is considered a major area in forensic auditing.

Prior studies on forensic investigation were found to be inversely connected to fraud detection (Abdulrasheed, 2012; Adebisi *et al.*, 2016; Akani and Ogbeide, 2017). Given the submissions on fraud investigation, we therefore hypothesized that:

*H<sub>0</sub>3: There is no relationship between fraud investigation and fraud detection.*

### 1.4. Theoretical Framework

In this article, the theoretical framework is anchored on the fraud diamond theory (FDT). Wolfe and Hermanson (2004) first posed the FDT; they stressed that thought he perceived pressure to commit fraud might collaborate with an opportunity and rationalization, it is improbable for fraud to manifest except the fourth element which is capability is present.

Babatunde (2009) maintained that opportunity unlocks the door to fraud and incentives in the form of pressure and rationalization leads an individual to the door. Moreover, the capability instigates the individual to acknowledge the open door as an opportunity and to take undue advantage of it by walking through the door continually. To Idowu (2009), position held by an individual, his or her level of intelligence, self-esteem, pressure, deception, and stress are the supporting elements of capability.

Akinyomi (2010) asserted that not every individual who have the opportunities and realization may engage in fraud because of lack of capability to engage in it or conceal it. Adewumi (2007) opined that this element is of actual importance when it involves a large-scale or long-term fraud. Similarly, Ajisebutu (2006) disclosed that capability and rationalization are all intertwined and the potency of each element influences each other.

## 2. METHOD(S)

The survey research design was used via administration of questionnaire to 100 professional accountants and auditors in Nigeria. The study sample comprised of professional 33 accountants and 67 auditors.

The questionnaire was designed on a 5-point Likert scale of strongly agree (SA), agree (A), undecided (UD), disagree (D), and strongly disagree (SD) while the Cronbach Alpha reliability test of internal consistency of the instrument yielded a reliability index of 0.75.

The study used descriptive (mean and standard deviation) and inferential (Lawley's Correlation) statistics in analyzing the data obtained in the field survey. This was done with a view to establish whether there is a relationship between forensic auditing and fraud detection metrics. The statistical analysis was done via Microsoft Excel and STATA 13.0.

### 3. RESULTS AND DISCUSSION

Table 1 presents the descriptive statistics of the extent to which expert consultancy influence the detection of fraud. From the table, it is clear that item 5 has the highest mean score (mean = 4.59) while item 4 has the lowest mean score (mean = 4.12). However, all the 5 items have their mean ratings within the range of 2.50–4.59, which is above the benchmark of 2.50. This implies that all the questions raised on expert consultancy are valid in explaining fraud detection. More importantly, the result suggests that expert consultancy to a large extent influences the detection of fraud.

Table 2 captures the descriptive statistics of the level of litigation support services in the detection. The table shows that item 8 has the highest mean score (mean = 4.58) while item 9 has the lowest mean score

**Table 1. Descriptive Statistics for Expert Consultancy.**

Stats	Q1	Q2	Q3	Q4	Q5
Mean	4.3400	4.2200	4.2041	4.1200	4.5918
SD	0.6547	0.81128	0.7593	0.8442	0.7843
Max	5	5	5	5	5
Min	2	1	2	1	1

Source: Computed by Researchers via Field Survey, 2019.

**Table 2. Descriptive Statistics for Litigation Support Services.**

Stats	Q6	Q7	Q8	Q9	Q10
Mean	4.4800	4.5102	4.5800	4.1800	4.4600
SD	0.8100	0.8154	0.6989	0.9361	0.5759
Max	5	5	5	5	5
Min	1	1	1	1	3

Source: Computed by Researchers via Field Survey, 2019.

**Table 3. Descriptive Statistics for Fraud Investigation and Fraud Detection.**

Stats	Q11	Q12	Q13	Q14	Q15
Mean	4.5400	4.4800	4.1277	4.0200	4.2200
SD	0.92573	0.7314	0.8705	0.9318	0.6754
Max	5	5	5	5	5
Min	1	2	2	1	2

Source: Computed by Researchers via Field Survey, 2019.

(mean = 4.18). However, items 6, 7, 8, 9, and 10 have their mean ratings within the range of 2.50–4.58, which is above the benchmark of 2.50. This implies that all the questions raised on litigation support services are valid in explaining fraud detection. More importantly, the result suggests that litigation support services to a large extent influence the detection of fraud.

Table 3 reflects the extent to which fraud investigation affects fraud detection among listed banks in Nigeria. The table shows that item 11 has the highest mean score (mean = 4.54) while item 14 has the lowest mean score (mean = 4.02). However, items 1, 12, 13, 14, and 15 have their mean ratings within the range of 2.50–4.54, which is above the benchmark of 2.50. This implies that all the questions raised on fraud investigation are valid in explaining fraud detection. More importantly, the result suggests that fraud investigation to a large extent influence the detection of fraud.

*H<sub>0</sub>1: There is no relationship between expert consultancy and fraud detection.*

Table 4 reports the Lawley correlation result for hypothesis I, which is between expert consultancy and fraud detection. The decision rules of the Lawley statistics is that if the  $\chi^2 > P$ , the null hypothesis is rejected while the alternative hypothesis is accepted and vice versa. Based on the Lawley statistics ( $\chi^2 = 112.87 > P = 0.0000$ ), the null hypothesis was rejected while the alternative hypothesis was accepted, suggesting that there is a relationship between expert consultancy and fraud detection.

*H<sub>0</sub>2: There is no correlation between litigation support services and fraud detection among Nigerian banks.*

Table 5 reports the Lawley correlation result for hypothesis II which is between litigation support services and fraud detection. Based on the Lawley statistics ( $\chi^2 = 142.18 > P = 0.0000$ ), the null hypothesis was rejected while the alternative hypothesis was accepted, suggesting that there is correlation between litigation support services and fraud detection.

*H<sub>0</sub>3: There is no relationship between fraud investigation and fraud detection.*

Table 6 reports the Lawley correlation result for hypothesis III which is between fraud investigation and fraud detection. Based on the Lawley statistics ( $\chi^2 = 146.98 > P = 0.0000$ ), the null hypothesis was rejected while the alternative hypothesis was accepted, suggesting that there is relationship between fraud investigation and fraud detection. The findings corroborate prior studies done by Okoye and Gbegi (2013), Onodi *et al.* (2015), and Akani and Ogbeide (2017).

**Table 4. Lawley Correlation Result for Hypothesis I.**

Variables	Lawley $\chi^2$ (44)	P > $\chi^2$
Expert consultancy	112.87	0.0000

Source: Computed by Researchers via Field Survey, 2019.

**Table 5. Lawley Correlation Result for Hypothesis II.**

Variables	Lawley $\chi^2$ (44)	P > $\chi^2$
Litigation support services	142.18	0.0000

Source: Computed by Researchers via Field Survey, 2019.

**Table 6. Lawley Correlation Result for Hypothesis III.**

Variables	Lawley $\chi^2$ (44)	P > $\chi^2$
Fraud investigation	146.98	0.0000

Source: Computed by Researchers via Field Survey, 2019.

#### 4. CONCLUSION

In this article, we examined the nexus between forensic auditing and fraud detection so as to see if litigation support services, forensic investigation, and expert consultancy are antidotes to fraud detection in the Nigerian banking subsector. In view of the analysis of data, it was concluded that forensic auditing is pivotal to fraud detection and hence a veritable tool that can be employed if fraud must be detected and prevented; this implies that forensic auditing is pivotal to enhance the ability of forensic auditors in detection of fraud.

Given the findings of the study, it was recommended that bank management should employ forensic auditing by revising the existing laws such that the forensic auditors are integrated in the audit team or committee; with this, the auditors will have more tools to effectively carry out fraud detection. In addition, forensic auditors should take advantage of the modern accounting and auditing software to enhance efficiency and smooth operation of forensic auditing, as it will help enhance investigative services. As a matter of fact, the professional accounting bodies globally and locally are encouraged to get specialized in the field of forensic accounting while at the same time academia should place emphasis on skill development in the field of forensic accounting.

#### Conflict of Interest

None.

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Appendix

**Questionnaire**

SA: Strongly Agree; A: Agree; UD: Undecided; SD: Strongly Disagree; D: Disagree

S/N	Items	SA	A	UD	SD	D
<b>A</b>	<b>EXPERT CONSULTANCY</b>					
1	My organization engages in expert consultancy					
2	Expert consultancy assists in legal matters					
3	Expert consultancy is related to fraud prevention					
4	Reduction in fraud is the result seeking expert consultancy					
5	Expert consultancy correlates with fraud detection					
<b>B</b>	<b>LITIGATION SUPPORT SERVICES</b>					
1	I am aware of the litigation support services of clients					
2	Litigation support services have helped reduce fraud					
3	My organization encourages litigation support services					
4	Litigation support services is a major side of fraud detection					
5	Litigation support service correlates with fraud detection					
<b>C</b>	<b>FRAUD INVESTIGATION</b>					
1	In my organization, we engage in fraud investigation					
2	My organization encourages fraud investigation					
3	Fraud investigation has further helped to curb fraud					
4	Fraud investigation is the major side of fraud detection					
5	Fraud investigation correlates with fraud detection					



S/N	Items	SA	A	UD	SD	D
<b>D</b>	<b>FRAUD DETECTION</b>					
1	I am aware of fraud detection in my organization					
2	In my organization, we carry out fraud detection					
3	In my organization, fraud detection is done regularly					
4	In my organization, fraud detection is done independently					
5	Fraud detection is a <i>sine qua non</i> in my organization					