

THE ROLE OF FORENSIC ACCOUNTING IN COMBATING THE MENACE OF CORPORATE FAILURE

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Abstract

Incidents of accounting fraud can be noted in the media on a daily basis. Several instances of corporate scandals and failure in recent past have put the professional accounting bodies into a new perception that goes beyond statutory audit and in some ways even the trend of corporate governance. Forensic accountants must be well trained in the rules of evidence, financial data, Accounting Information System Software, auditing and communication skills to be able to address the global menace of corporate failure. Therefore, the aim of this paper is to conceptually review the impact of forensic accounting toward utilizing professional judgments, accounting skills, auditing and law procedures to fight the dreaded disease of corporate liquidation and the paper concluded that forensic auditing can go a long way to influence financial scandals in corporate organization. The paper needs to be validated empirically by future researcher and can be conducted with specific reference to organizations in another country.

Keywords: Forensic accounting, fraud detection, financial scandals, forensic accountants, corporate failure

INTRODUCTION

Forensic accounting is understood to have developed in response to certain emerging fraud related cases. The scandals that recently rocked the corporate world with classical examples of Enron and World Com cases have brought the field of forensic accounting to the forefront. Forensic accounting is viewed as encapsulating all other investigation on related areas in uncovering financial fraud. The increasing sophistication of financial fraud requires that forensic accounting be added to tools necessary to bring the successful investigation and prosecution of

these individuals involved in criminal activities. Forensic accounting is the tripartite practice of utilizing accounting, auditing and investigative skills to assist in legal matter. It is specialized field of accounting that describes engagements that result from litigation. Forensic accounting can, therefore be seen as an aspect of accounting that is suitable for legal review and offering the highest level of assurance (Apostolou, Hassell and Webber, 2000).

Ojaide (2000) notes that there is an alarming increase in the number of fraud and fraudulent activities in Nigeria, clamouring for the services of forensic accountants. According to the centre for Forensic Studies (2010) report the increasing need for forensic and investigative accounting in the banking sector for the complexities of modern day banking with large volume of complex data. This in turn makes the control utility of auditing ineffective. Virtually all the weakness and challenges identified in the banking industry in Nigeria's post-consolidation involves criminal investigation and prosecution are issues for forensic accounting. The general expectation is that forensic accounting may offer some relieve to the seeming vulnerability of conventional accounting and audit systems to financial fraud. Consequently, the incorporation of modern forensic auditing techniques in audit in Nigeria intend to prepare the accounting profession to deal effectively with the problem of unearthing ingenious fraud schemes arising from audit failure to detect frauds in Nigeria. Centre for Forensic Studies (2010) report in Nigeria states that forensic accounting could be used to reverse the leakages that cause corporate failures. This can be attributed to the fact that proactive forensic accounting practice look for errors, engage in operational vagaries and deviant transactions before they crystallize into fraud.

However, modern organized corporate frauds are sophisticated, and well resources by manager, entrepreneur and politicians to mention but few. There is the need to response to this changing criminal threat and the skills of investigators like accountant and legal experts are needed to combat the corporate ill, this has arouse the call for forensic accountant. The focus of this study therefore is to examine the role of forensic accounting in curbing financial crimes in Nigeria.

STATEMENT OF PROBLEM

Owojori and Asaolu (2009) reveal that there is an alarming increase in the number of fraud and fraudulent activities in Nigeria calling for the use of forensic accounting services. Okoye and Akamobi (2009), Ojaide (2000). Izedomin and Mgbame (2011), Kasum (2009), Modugu and Anyaduba (2013), Onuorah and Ebimbawei (2012), Enofe, Okapor and Atube (2013), Okoye and Gbegi (2013), Gbegi and Adebisi (2014), acknowledge in their separate studies the increase incidence of fraud and fraudulent activities in Nigeria. Kasum (2009) notes the perpetration of

financial irregularities and economic crimes are becoming the common practice of both private and public sector in Nigeria as individual perpetrates fraud and corrupt practices according to the capacity of their office. Consequently, there is general expectation that forensic accounting may be able to stern the tide of financial malfeasance witnessed in most sectors of the Nigerian economy. A nationwide study conducted by Kessler International showed that 39 per cent of organizations have considered the need for a forensic accountant. The study intends to find out how the knowledge of forensic accounting can reduce the incidence of corporate fraud, economic crimes and mismanagement.

METHODOLOGY

The study employs a theoretical analysis of the role of forensic accountant in combating the menace of corporate failure with the use of secondary source of data collection by utilization of available literatures on forensic accounting and its application in modern corporate world.

LITERATURE REVIEW

Definition

Forensic accounting is the integration of accounting, auditing and investigative skills (Zysman, 2004). Dhar and Sakar (2010) define forensic accounting as the application of accounting concepts and techniques to legal problems. It demands reporting, where fraud is established and the report is considered as evidence in the court of law or in administrative proceedings.

Degboro and Olofinola (2007) believes 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 in order to expose all its attending features and identify the culprits. In view of Howard and Sheetz (2006), forensic accounting is the process of interpreting, summarizing and presenting complex financial issues clearly, succinctly and factually in a court of law as an expert. It concerns 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. Curtis (2008) argues 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 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. 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 reported that the activities of forensic accountants involve: investigating and analysing financial evidence; developing computerized applications to assist 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.

Forensic Auditing: An Empirical Review

Many researchers have attempted to examine the effect of forensic auditing on fraud detection, for example, Kosmas et al (2009) investigated the effectiveness of forensic auditing in detecting and preventing bank frauds in Harare, Zimbabwe. They employed questionnaires, personal interview and documentary review to obtain information from respondents in thirteen commercial banks, four building societies, and four audit firms. The study revealed that forensic auditing department lacked material resources and technical know-how. It was also found that forensic auditing is confronted with interference from management and the profession has no clear recognition.

In the current empirical study, Modugu and Anyaduba (2013) examined forensic accounting and financial fraud in Nigeria. The study employed survey design in a sample size of 143 consisting of accountants, management staff, practising auditors and stakeholders. The authors employed binomial test for data analysis and found that there is significance agreement amongst stakeholder on the effectiveness of forensic accounting in fraud control, financial reporting and internal control quality. Enofeetal (2013) conducted a study on the impact of forensic accounting on fraud detection in a sample of fifteen firms in Nigeria. They employed ordinary least square and chi square for data analysis. The study revealed that the application of forensic accounting services on firms affect the level of fraudulent activities. In their paper, Okunbor and Obaretin (2010) examined the effectiveness of the application of forensic accounting services in Nigerian corporate organisation in a sample of ten companies quoted in the Nigerian Stock Exchange by employing simple regression model for the test of hypothesis. The study showed that the application of forensic accounting services by corporate organisation in Nigeria is not effective in determine fraudulent activities. Onuorah and Ebimobowei (2011) employed survey design to examine the effect of forensic accounting services in fraud detection in Nigeria banks by the use of Augmented Dickey- fuller, ordinary least square and Granger

Causality test. The result revealed that the application of forensic accounting services affect the level of fraudulent activities of banks. Adegbe and Fakile (2012) employed Chi-square and statistics package for social science to empirically evaluate forensic accounting as antidote to economic and financial crime in Nigeria. They tested four hypotheses. Adegbe and Fakile study revealed that forensic accounting is a financial strategy to curb and resolve economic and financial crimes in Nigerian economy. Owojori and Asaolu (2009) employed conceptual analysis to investigate the role of forensic accounting in reducing corporate fraud and mismanagement and they concluded that forensic accountant will become very useful in public accounting. In their paper Okoye and Gbegi (2013) employed simple mean and standard deviation to investigate forensic accountants to planning management fraud risk detection procedures. They also used multivariate analysis of variance and analysis of variance ANOVA to compare their study with that of Asare and Wright (2004). The authors found that forensic accountants effectively modify the extent and nature of audit test when the risk of management fraud is high. They also found that forensic accountant should be involved in the risk of management fraud assessment process than consulting them. Bressler (2011) studied the perception of attorney and judges in the court system as to what might enhance understanding of the role of forensic accountants in fraud investigation. The researcher employed conceptual analysis and found that forensic accountants must be well trained in the rules of evidence, financial data, accounting information system, software and communication skills.

Financial Fraud

Financial fraud has been various definitions in the literature. According to Oxford Advanced Learner's Dictionary, fraud can be defined as the crime of deceiving somebody in order to get money or goods illegally. Wikipedia dictionary describes fraud as crimes against property, involving the unlawful conversion of property belonging to another to one's own. Williams (2005) describe fraud to 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 EFCC Act (2004) attempts to capture the variety of economic and financial crimes found either within or outside the organization. EFCC Act (2004) defines fraud as illegal act that violates existing legislation and these include any form of frauds, 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 good etc. This definition is all-embracing and conceivably

includes financial crimes in corporate organization and those discussed by various authors (William, 2005 and Khan, 2005). At the level of corporate organizations, financial crimes were known to have led to the collapse of many organizations.

Cotton (2003) attributes the collapse of Enron, WorldCom, Tyco and Adelphia to corporate fraud. In Nigeria, Cadbury Nig. Plc. whose books were criminally manipulated by management was credited to have lost 15 billion naira. The EFCC Act (2004) is charged with the responsibility of investigating the collapsed of nine commercial banks in Nigeria. Generally, financial frauds vary and committed by individuals and institutions.

Karwi (2002) and Ajie and Ezi (2000) are of the view that financial fraud in organizations vary widely in nature, character and method of operation in general. Fraud may be classified into two broad ways: nature of fraudsters and method employed in carrying out the fraud. On the basis of the nature of the fraudsters, fraud may be categorized into three groups, namely; internal, external and mixed frauds. Internal fraud relates to those committed by members of staff and directors of the organizations while the external fraud is committed by persons not connected with the organization and the mixed fraud involves the outsiders colluding with the staff and the directors of the organization. Karwai (2002) reports that the identification of causes of fraud are very difficult. He stated that modern day organizations frauds usually involve a complex web of conspiracy and deception that often mask the actual cause. Ajie and Ezi (2000) are of the opinion that on the average, out of every 10 staff would look for ways to steal if given the opportunity and thus only 4 could be honest.

Challenges of Forensic Accounting Application in Nigeria

With an upsurge in financial accounting fraud in the current economic scenario experienced, 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 organization in identifying the accounting frauds has led to use of specialized procedures to detect financial accounting frauds known as forensic accounting (Sharma and Panigrahi 2012).

Okoye and Akenbor (2009) that forensic accounting is faced with so many bottlenecks. Crumbly (2001), Grippo and Ibex (2003) reveal the following challenges confronting the application of forensic accounting. (i) the task of gathering information that is admissible in a court of law. (ii) The acceptance of evidence in compliance with the laws of evidence is crucial to successful prosecutions of criminal and civil claims. (iii) 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 financial fraud control in Nigeria is that law failed to incorporate latest technology in fraud detection. Also, forensic accounting is seen as expensive service that only big companies can afford. Thus, most companies prefer to settle the issue outside the court to avoid the expensive cost and the risk of publicity on their corporate image. In addition, forensic accounting is a new trend particularly in developing economies. Hence, accountants with adequate technical know-how on forensic issues are hardly available.

Need for Forensic Accounting

The need for forensic accountant aroused because of the failure of audit system in organization as the organizational internal and external audits failed to reveal certain errors in the managerial system. Experts in the field pointed out that economic pressure with many companies facing bankruptcy jobs and employees support managers, thereby giving room for employees and managers to commit financial and economic crimes. Forensic accountants are therefore called upon to meticulously search through documents, to discover new information and help in putting together the pieces of company's financial puzzle to solve the financial problems. The following are the important reasons for the growth of forensic accounting:

- Internal audit and audit committee could not throw light on the different fact and other hidden aspects of corporate fraud.
- The method of appointing the statutory auditors involves lobbying and the certificates of the auditors are hardly scrutinized especially when the reports are qualified.
- The internal auditors can surely detect financial frauds but they are in difficult position to initiate proper action on fraud matters.

The Skill Needed by Forensic Accountant

Aderibigbe (2000) suggests that a forensic accountant require high level of competence, integrity and honesty to perform his job. Aderibigbe opine that a forensic accountant must be thoroughly trained and must prove his competence by passing all relevant examinations to become a member of a recognized accountancy body. He maintains that a forensic accountant should always perform his duties with integrity, honesty and probity as well as maintain a professional attitude in the performance of his responsibilities. Wallace (2001) lists the minimum requirement a forensic accountant must possess to include:

- An ability to review a large volume of documents, records, management information systems to memos, correspondence and other less financial data and to extract the key issues quickly.

- A sound understanding of peculiarity of various business methods.
- A sense of urgency and commitment which will ensure prompt response when required however slow civil litigation may appear to the on looker or even to the participant's in a dispute.
- Adherence of strict timetable even when needs arises to work for more hours to meet targeted time.
- An ability to communicate complex theoretical ideas in a manner which is readily understandable by the layman supporting with facts and figures when necessary.

The Role of Forensic Accountant

A forensic accountant is required to analyse, interpret, summarize and present complex financial information in a manner which is understandable. A forensic accountant involved in the investigating and analysing financial evidence, development of computerized application to assist in the analysis and presentation of financial evidence, communicating their finding in the form of reports, assisting in legal proceedings including testifying in court and preparing visual aids to support trial evidence. The Role of Forensic Accounting in Solving the Menace of Corporate Failures includes the following:

- Giving preliminary advice as an initial appraisal of the pleading as evidence available at the start of proceedings.
- Identifying the key documents which should be made available as evidence. This is important when the forensic accountant is acting for the defence and lawyers are preparing lists of documents to tender in court,
- Preparing a detailed balanced report on quantum of evidence written in a language readily understood by a non-accountant.
- Reviewing expert accounting reports submitted by the other party which may have impact on the quantum of evidence and advising lawyers on these reports.
- Briefing legal counsels on the financial and accounting aspects of the case during pre-trial preparation.

The occupational fraud committed by employees usually involves the theft of assets and embezzlement and the involvement of employees in kickback schemes or conversion of corporate assets for personnel use, the forensic accountant on intervene and observe the suspected examination of assets, invigilation, inspection or documents and interview of those involved to control such practices.

SUMMARY AND CONCLUSION

This paper presents conceptual literature review on forensic auditing in combating the menace of corporate failure. The study does not focus on any specific industry, sector or organization. However, despite the limitation of the study, the study contributes to knowledge by extending the existing literature on the forensic auditing effectiveness in minimizing the menace of corporate failure. Thus, various governmental agencies attempting to fight corruption will need to engage the services of forensic accountants to compliment the efforts of other professional to reduce fraudulent activities in corporate organizations. Hence, the role forensic accountant will become very useful in corporate organizations, public sector and private sector.

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