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CONTENTS

Editorial note.....ii

Preface.....iii

Contents.....iv

CHAPTER 1 - Corporate Governance And Financial Distress: Evidence From Listed Companies in Nigeria 1-15
Okun . O. Omokhudu & Christian Iyafekhe

CHAPTER 2 - Governance Disclosure Readability and Corporate Value of Pension Fund Administrators in Nigeria.....16 - 31
Victor Oba & Musa Inuwa Fodio

CHAPTER 3 - Board Characteristics and Firm Performance: a Canonical Correlation Analysis of Listed Companies in Nigeria.....32 - 41
Ahmed Abdullahi Ibrahim & Mohammed Mahmuda

CHAPTER 4 - Impact of Public Debt Stock on Real Sector Stability in Nigeria 42-57
Isiaku Mohammed & S.A.S. Aruwa

CHAPTER 5 - Effect of Firm Size on The Likelihood of Financial Distress: Evidence from Nigeria.....58 -73
Okun . O. Omokhudu & IziIbadin Okaiwele

CHAPTER 6 - Comparative Analysis of The Effects of Active and Passive Dividend Policies on Share Price of Listed Firms in Nigeria.....74 -82
Hassan Lanre Bamigbaye, Doshuru Musa Umar & Abdullahi Musa Abdullahi

CHAPTER 7 - Impact of Financial Leverage on Performance of Quoted Cement Companies in Nigeria.....83 - 93
Samuel Abu Amana, Bala Ali Yusuf & Oloshu Alanana Ibrahim

CHAPTER 8 - Analysis of Quoted Banks' Performance: Pre and Post Political Transition in Nigeria .....94 -103
Abdul ADAMU, PhD & Zainab Husseni ABDUL, PhD

CHAPTER 9 - Effects of Audit Fees on Financial Reporting Quality of Listed Construction/Estates Firms in Nigeria.....104 - 113
Solomon Mangba Aza Ph.D & Doshiro Musa Umar Ph.D

CHAPTER 10 - Value Relevance of Cash Flow Pattern: Evidence from Listed Nigerian Companies.....114 - 126
Izi Ibadin Okaiwele & Okun Omokhoje Omokhudu

CHAPTER 11 - Inflation rate and Market Capitalization: A Critical Analysis of Performance in the Nigerian Stock Market.....
John Dollay Adigizey Ph.D, John Toro Gimba and Veronica W...

SCAN AnyScanner

CHAPTER 12 - Mutual Fund Attributes and Investment Performance of Mutual Funds in Nigeria .....143 - 155
Barnabas Embugushiki Barde and Mohammed Mahmuda

CHAPTER 13 - Effect of Monetary Policy on Agricultural Development In Nigeria: Evidence from ARDL co-integration approach.....156 - 164
Dele Olaolu and Maurie N. Nwala

CHAPTER 14 - Impact of Accrual And Real Earnings Qualities Of Financial Reports on Information Asymmetry Of Firms In Nigeria .....165 - 178
Uche J. Uwaleke, James R. Adeleye Adefiranye and Funsho Adisa Kamaluddeen Ibrahim

CHAPTER 15 - Effect of Inventory Management on the Profitability of Selected Companies In Nigeria .....179 - 191
Peter Iduh Ogwuche, Ph.D, Ahmed Ibrahim Abdullahi and Emilia Vann Yaroson

CHAPTER 16 - Impact of Forensic Accounting Expert Consultation on Employee Fraud Detection in the Nigerian Deposit Money Banks .....192 - 204
Uche J. Uwaleke, Kamaluddeen Funsho Adisa Ibrahim and James R. Adeleye Adefiranye

CHAPTER 17 - Effect of Forensic Auditing on Fraud Prevention and Detection in Public Sector Organizations in Nigeria .....205 - 212
Tajudeen Lawal ,Dr. Lukman Lawal and Eunice Oluganna

CHAPTER 18- Relationship Between Budget And Effective Management In Abc Transport .....213 - 222
Emmanuel Umo Abianga and Ofe Iwiyisi Inua (Ph.D.)

CHAPTER 19 - Interrogating Strategic Human Resource Management of Organizational Culture and Post-Consolidation Performance of Deposit Money Banks in Nigeria.....223 - 235
J. E. I. Abbah. Esq.

Call For Articles/Guidelines For Contribution.....236 - 237

Call for Formation of Research Interest Groups.....238 - 241

Journal of Governmental and Financial Accounting Research (JGAFAR)

EFFECT OF FORENSIC AUDITING ON FRAUD PREVENTION AND DETECTION IN PUBLIC SECTOR ORGANIZATIONS IN NIGERIA

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Abstract
This study is aimed at assessing the impact of forensic auditing in the detection and prevention of fraud in public sector organizations in Nigeria. Two hypotheses were formulated in line with the specific objectives of the study. This was tested with the use of questionnaire administration to the corporate affairs commission. The question raised from the hypothesis was then tested with the use of statistical data to test the level of significance. In essence, the regression model was used on the response of the respondents. Based on the findings of the research which have already been summarized, the research work concluded that forensic auditing has a great impact in prevention and detection of fraud in Nigerian public sector organizations and therefore, the skills and experience of forensic auditor should be employed in public sector organizations in Nigeria so as to reduce the occurrence of fraud and to detect any form of fraud perpetrated.

Keywords: Forensic Auditing, Fraud, Fraud Detection, Fraud Prevention

1. Introduction

Forensic auditing is a fusion of traditional accounting, auditing and financial detective work which helps to detect and investigate exploitation of funds in order to produce evidence for use in legal proceedings. 'Forensic' which means evidence or material to be used in court has been incorporated into accounting and finance as a result of increase in white collar crimes. Unlike auditing which is basically about ascertaining if the financial statements show a true and fair view of the book of accounts, forensic auditing actually digs deeper into the books of account to detect fraud. Generally, forensic auditing is used to identify and to gather evidence as proof of malpractice. As organizations' structures and controls become ever more complex, so does the scope of employees with specialized knowledge of the way the control systems works, look for avenues to bypass them. Also, it is important to note that errors is one of the controversial issues in auditing and has been one of the most frequently debated areas amongst

auditors, politicians, media, regulators and the general public. Forensic auditing is a veritable tool used for fraud detection in public sectors in Nigeria. Public sector organizations are those organizations owned and managed by the government.

Fraud is a deliberate deception to secure unfair or unlawful gain. It is a major concern in developing nations, which is gradually becoming a normal system of operation in public sector organizations. Fraud can be internal or external. Internal fraud involves the use of fictitious invoices to cover supplies made in public offices. Payments made to staff and contractors could be equally duplicated; theft of stock provided in an organization, tampering with system data without due authorization, leaking of secrets of an organization to a third party. External fraud on the other hand involves the fraud committed against an organization by person(s) who are not employed by the organization to have financial gain or to use a service or product without authorization or payment.

Although fraud affects the whole world, the magnitude of fraud in Nigeria and the extent to which the economy is negatively affected is alarming. Apart from the effect on the economy, fraud has also created negative perception of Nigerians as people who are not trust worthy. Forensic auditing is said to bring significant improvement in the quality of fraud detection and prevention.

Financial fraud is gradually becoming a normal way of life. (Modugu and Anyaduba 2013) submitted that financial irregularities have become the specialty 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 a general expectation that forensic auditing may be able to stem the tide of financial malfeasance witnessed in the public sector of the Nigerian economy.

It has now become pertinent that forensic auditing be introduced and practiced since the external auditors do not or may not have the required training to be able to tackle modern frauds like white collar crimes such as security fraud embezzlement, bankruptcies, contract disputes and possibly criminal financial transactions; including money laundering by organized financial criminals. Forensic auditors play an increasingly important role in litigation support and other legal disputes formed by these recent frauds and failures.

However, there has not been adequate emphasis on how forensic auditing can help curtail financial crimes in Nigerian public sector beyond the several unreliable views that abound. Consequently, this study seeks to fill this gap by examine the impact forensic Auditing play in preventing Fraud in public organisations in Nigeria.

The general objective of the study is to assess the impact of forensic auditing in the detection and prevention of fraud in the Nigerian public sector. The specific objectives of the study are as follows:

i. To examine the roles of forensic auditors in uncovering fraud in public sector organisations in Nigeria.

ii. To examine the possibility of reducing the occurrence of fraud cases in public sector organisations in Nigeria using forensic auditing.

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The formulated research hypotheses for the study are stated below:

H_{01}: Forensic Auditing has no significant effect on fraud detection in public sector organisations in Nigeria.
H_{02}: the use of forensic auditing does not significantly reduce the occurrence of fraud cases in public sector organisations in Nigeria.

2. Literature Review

Forensic auditing is suitable for legal view, offering the highest level of assurance and including the now generally accepted connotation of having been arrived at a scientific fashion, (Crumbley 2003). Manning (2002), also defined forensic auditing as the application of financial accounting and investigative skills to a standard, acceptable by the court to address issues in dispute in the context of civil and criminal litigation.

Cutis (2008) argues that fraud can be a subject to forensic auditing since fraud encompasses the acquisition of property or misrepresentation or concealment. He also argued that an accountant without forensic accounting knowledge can prepare valid evidence from accounting records and financial statement used against prosecutors in the court of law.

Crumbley (2003) viewed fraud as enriching oneself by intentionally realizing the value or worth of an asset in secret. Okafor (2004) reported that fraud is a forensic term and embraces all multifarious means which human ingenuity can devise, which can resort to by one individual to get advantage over another in false representation. Oyejide (2008) opined that fraud is a subject matter that has received a lot of attention both globally and in Nigeria.

Albrecht, (2005) argued that fraud is rarely seen. Noting that symptoms of fraud are usually observed. The symptoms do not necessarily mean fraud is being undergone as it may be caused by mistakes. The researcher recommends caution when fraud is reported as it may be false allegations. Fraud is not easily proven since frauds have themselves at a safe line where authority could not convict them. This has made detecting and proving fraud a hard work for a forensic auditor. There is a need for deeper understanding on how these defaulters work their fraudulent act. Without constant involvement of the public and improvement in forensic auditing, fraud cases will be hard to detect and thus lead to greater success in financial fraud, which also translates into the failure to meet the expectations of the public, shareholders or even other stakeholders.

In their own work titled "Forensic auditing techniques and fraudulent practices of public institutions in Nigeria", Akenbor and Ironkwe (2014) examined the relationship between forensic auditing and fraudulent practices in Nigerian public institutions. The survey method of research design was adopted in generating the necessary data. Population of the study consisted of 12 public institutions in Rivers State, Nigeria. In order to gather the data for the study, a structured questionnaire was administered on the internal auditors and chief accountants of the selected public institutions. The data generated for the study were analyzed with frequencies and percentages, while the stated hypotheses were statistically tested with the Pearson Product Moment Correlation Coefficient, which was

computed with the aid of the Statistical Packages for Social Sciences (SPSS) Version 17. The findings suggested that both the proactive and reactive forensic auditing techniques have a negative significant relationship with fraudulent practices in Nigerian public institutions. Based on the above, it was recommended that: (1) The Economic and Financial Crime Commission (EFCC), the Independent Corrupt Practices and other related offences Commission (ICPC), and other anti-corruption bodies in Nigeria should have, in their payroll, internal forensic auditors to supplement the duties of the internal auditors; (2) Forensic auditors should regularly undergo training and development programs to acquaint them with relevant knowledge and skills for effective forensic auditing; and (3) Forensic auditing should be made mandatory for public institutions by regulatory authorities rather than being voluntary.

Ramazani & Refiie (2010) studied the accountants' perception of preventive methods of fraud. In this research they examined accountants' perception of forensic auditing which demonstrates a low extent of accountant's perception of forensic auditing.

Srivastava, Mock & Turner (2003) in their study found that forensic audit procedures significantly lowered fraud risks. Furthermore, research has also proven that proactive forensic data analysis using computer based sophisticated analytical tests can detect fraud that may remain unnoticed for years (Brown, Aiken, & Visser 2007). In the works of Dada, Owolabi and Okwu (2013), they attempted to look at the relevance of forensic auditing in effective reduction of fraudulent practices in Nigeria. The results of the study revealed that fraud reduction is significantly and positively related to fraud investigation and detection through forensic auditing.

Theoretical Framework

Social Control Theory

This theory proposes that people's relationships, commitments, values, norms and beliefs encourage them not to break the law, and that if morals codes are internalized, individuals will voluntarily limit their propensity to commit deviant acts. As this acts are undertaken in the pursuit of self-interest and self-control.

3. METHODOLOGY

The research method adopted by this study is survey. This was done through the systematic collection of data by administering questionnaires which include varieties of randomly selected questions relevant to the study in order to assess the impact of forensic auditing in the prevention and detection of fraud. This method was used to acquire primary data and was chosen because it involves a systematic and scientific collection of data from a large population.

The study population of this research consists of staff members of the audit and accounting department of the Corporate Affairs commission and limited to them alone. The sample for this research work is drawn from staff members of the accounting and auditing department of the Corporate Affairs commission. Considering the objectives of the study, it is expedient to ensure that the sample identified is a statistical representation of the population and stands clear of bias as much as possible. The sampling technique that was employed is the non-

probability sampling techniques. Seventy (70) respondents were selected randomly from the population as sample size. The source of data used in this research work is primary.

A questionnaire was designed to obtain the data needed for the purpose of the research. The questionnaire rating scale was a five likert-summated rating scale. Data was collected through the administered structured questionnaire. The data collected from the research instrument [questionnaire] used is analyzed using linear regression model. The study examines forensic auditing as a tool in preventing and detecting fraud in public sector organisations

4. Results and Discussions

Forensic Auditing and Fraud Detection:

The results of effect of forensic auditing in fraud detection are presented in table 1 and 2

Table 1: Model Summary I

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.743[a]	.552	.535	.41912

a. Predictors: (Constant), forensic auditing

Adjusted Coefficient of Determination: This gives an idea of how much of the variance in the dependent variable (fraud prevention and detection) is explained by the model (which includes the variables of forensic auditing).

This indicates that our model explains 53.5% of the variance in organizational fraud. About 46.5% is left unaccounted for which is attributed to error term. From the stated, the model explains 53.5% of any change in the dependent variable, thus making it significant.

Coefficient of Determination (R2): In this case, we have 70 observations which is large, thus the adjusted R squared value is better off at 53.5% shared variance over the R square at 55.2% shared variance.

The coefficient of determination between (forensic auditing) and (fraud prevention and detection) is 0.552, indicating a shared variance of 55.2% between the two variables.

Table 2. Coefficient I

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.261	.203		1.284	.000
	forensic auditing	.650	.111	.743	5.868	.000

a. Dependent Variable: fraud prevention and detection

The table shows that the beta coefficient relating forensic auditing to fraud prevention and detection is 0.650. The results offer a strong evidence of a positive relationship between forensic auditing and fraud prevention and detection. The positive regression coefficient for forensic auditing is significant (Sig. value = 0.000). This implies that a firm that employs forensic auditing technique is more likely to prevent and detect fraud. Therefore, carrying out forensic auditing is a potential way for the firm to prevent and detect fraud.

In the first hypothesis, H0, It was assumed that Forensic Auditing has no significant effect on fraud detection in public sector organisations in Nigeria. Based on the results from the regression analysis (Table) which showed that the coefficient of forensic audit is positive and significant at B = 0.650 and a P-value of 0.000. On the basis of this result, we retain the alternative hypothesis and conclude that Forensic Auditing has significant effect in uncovering fraud in public sector organisations in Nigeria.

Forensic Auditing and Fraud occurrence

Table 3 and 4 present results on the effect of forensic auditing on occurrence of fraud in public sector organisation in Nigeria.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.755[a]	.570	.555	.87071

a. Predictors: (Constant), forensic auditing

Adjusted Coefficient of Determination: This gives an idea of how much of the variance in the dependent variable (fraud prevention and detection) is explained by the model (which includes the variables of forensic auditing).

This indicates that our model explains 55.5% of the variance in organizational fraud. About 44.5% is left unaccounted for which is attributed to error term. From the stated, the model explains 55.5% of any change in the dependent variable, thus making it significant.

Coefficient of Determination (R2): In this case, we have 70 observations which is large, thus the adjusted R squared value is better off at 55.5% shared variance over the R square at 57% shared variance.

The coefficient of determination between (forensic auditing) and (fraud prevention and detection) is 0.570, indicating a shared variance of 57% between the two variables.

Table 4 Coefficient II

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.578	.393		1.470	.000
Forensic auditing	1.602	.263	.755	6.092	.000
a. Dependent Variable: fraud prevention and detection					

The table shows that the beta coefficient relating forensic auditing to fraud prevention and detection is 1.602. The results offer a strong evidence of a positive relationship between forensic auditing and fraud prevention and detection. The positive regression coefficient for forensic auditing is significant (Sig. value = 0.000). This implies that a firm that employs forensic auditing technique is more likely to prevent and detect fraud. Therefore, carrying out forensic auditing is a potential way for the firm to prevent and detect fraud.

Based on the results from the regression analysis (Table 4) which showed that the coefficient of forensic audit is positive and significant at B = 1.602 and a P-value of 0.000. On the basis of this result, we retain the alternative hypothesis and conclude that the use of forensic auditing significantly reduce the occurrence of fraud cases in public sector organisations in Nigeria

5. Conclusion and Recommendations

There is a need to provide a comprehensive framework involving the use of forensic auditing methodology particularly in the areas of audit planning and execution, and for a uniform reporting practice that would spread out the implementation control failures including failure of senior management in implementing prescribed controls.

Fraud and white collar crime have increased considerably over the past years, and experts believe that the trend is likely to keep on growing if adequate measures are not taken to curb this perfidy. So in the quest to combat this economic monster (fraud), the concept of forensic auditing was introduced. After carrying out this research study, the following conclusion was arrived at; that forensic auditing can provide panacea to fraud detection. The importance of forensic audit in public sector cannot be measured; it helps in detecting cases of financial fraud and also preventing fraud thereby ensuring that the fraud rate in the public sector is of a minimal level.

The engagement of forensic auditing in public sector organisations serves as a road map for transparency in detecting and preventing fraud. Thus, Forensic auditors should be employed in public sector to go through the books of accounts in order to detect any form of fraud. In addition, the internal controls and management should be educated and informed of the most common type of fraud and the department responsible so that unreasonable loss of money and fraudulent practices could be addressed. Also, Forensic audit should be used in place of conventional audit.

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