

Impact of Forensic Accounting and Traditional Auditing on Failure of Selected Commercial Banks in Nigeria

Adetosó, Jonathan Adegóke(PhD)¹

1. Department of Financial Studies, Redeemer's University, Pmb 230, Ede, State of Osun, Nigeria.

*Email of corresponding author: adetosoja@gmail.com

Akinselure, Oluwafemi Philip(Msc)²

2. Department of Accounting, Joseph Ayo Babalola University, Ikeji - Arakeji. State of Osun, Nigeria

Email of second author: femmyakns@gmail.com

Abstract

This study focuses on the impact of Forensic accounting and Traditional Audit on Failure of Selected Commercial Banks in Nigeria. The study is based on primary data obtained from ten(10) commercial banks considered in this study. Furthermore, the study used the purposive sampling technique, in selecting the quoted Nigeria banks considered in this study and information about these companies were obtained by distributing 100 questionnaires. This questionnaires were then analysed using regression analysis in SPSS (statistical package for social sciences) and the result of the analysis shows that forensic accounting have significant influence on creative accounting in the selected banks, because the P-value obtained was lesser than the 5% specified in SPSS. Therefore, based on this result the study recommends that commercial banks should ensure that significant number of their employees are regularly trained on forensic accounting so as to be able to curb the menace associated with creative accounting.

Keywords: Forensic accounting, Traditional Auditing, Fraud, Financial Statement

Introduction

The expression of professional opinion on the financial statements by the statutory auditors is designed to give credibility to financial reports, this, in turn, is expected to induce confidence in the users of financial statements, however, the recent collapse of the most organisation in Nigeria, has increase the doubts in mind of many users of the financial Statement. Adesola (2008) states that the threat of fraud to the global economy is better illustrated by the statistics released by criminologists at a consultancy forum: according to this statistic, over two hundred thousand cases of online frauds were committed in the United Kingdom in 2006, and this, could be said to double the amount of real world robberies in that same year. The study also revealed that 75% of this fraud, were committed Online in 2006. Okunbor and Obaretin (2010) reported that the spates of corporate failures have placed greater responsibility and function on accountants to equip themselves with the skills to identify and act upon indicators of poor corporate governance, mismanagement, frauds and other wrong doings. It has become imperative for accountants at all levels to have the requisite skills and knowledge for identifying, discovering as well as preserving the evidence of all forms of irregularities and fraud.

This study is significant and relevant because it will assist both potential and current investors to have more information on causes of fraud in the selected companies. It will also provide information about the importance of forensic accountants and some challenges facing the forensic accountant.

2. Statement of the Problem

The failure of statutory audit to prevent and reduce mis-appropriation of corporate fund and an increase in corporate crime has made it difficult for professional accountants and legal practitioners to develop new way of exposing fraud in business world. Furthermore, the financial crisis in banks like the former Oceanic Bank Plc, and Afri-Bank, as exposed, by the audit conducted by the Central Bank of Nigeria, has shown that traditional

audit techniques in most of this quoted companies can never reduce corporate fraud, Infact, according to Waziri,(2009) depending on the outcome of traditional audit is an essential ingredient required by all auditors. but, because of the several crimes left undetected until billions of naira were lost through insider trading by some prominent chief executive officers(CEO) of some Nigeria commercial banks such as; Afribank Plc., Oceanic Bank International Plc., and First Inland Bank, it become unrealistic to rely on the traditional audit of most commercial banks. This problem of this study is to findout why most of the traditional audit procedure adopted by most organisations have for long time remain ineffective and unable to combat corporate fraud.

3. Objectives of the Study

This main objective of this study is to examine the assessment of Forensic accounting and Traditional Audit on Failure of Selected Commercial Banks while the specific objectives are as follows:

- To ascertain whether forensic accounting can prevent and minimize creative accounting in quoted Nigeria banks.

4. Conceptual Framework

4.1 Concept of Forensic Accounting

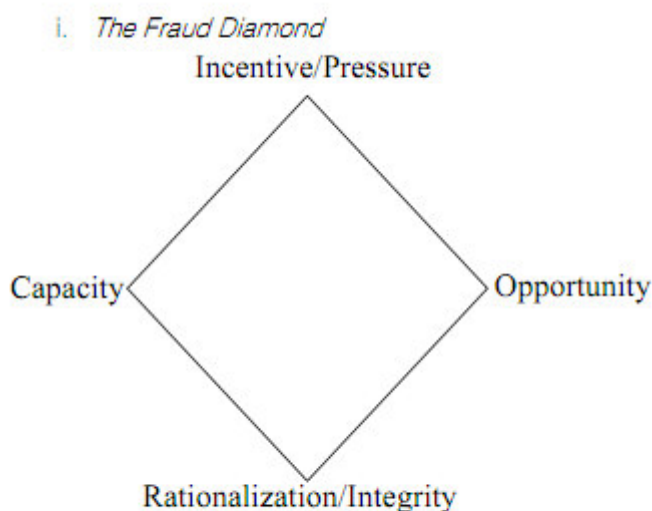
Despite the recent spotlight, forensic accounting is not a novel phenomenon. Its roots have been traced as far back as the early 1800's in Glasgow, Scotland, That notwithstanding, forensic accounting as a profession remained relatively unknown until the plethora of high-profile corporate scandals and stricter reporting and internal control regulations which brought to light its importance to the business world (Wallace, 2002).

Joshi (2003) argues that the origin of forensic accounting can be traced to Kutilya, the first economist to openly recognise the need for the forensic accountant and mentioned ways of embezzlement centuries ago. He however noted that the term forensic accounting was first used by Maurice E. Peloubet who coined the term Forensic Accounting in 1946 period he submitted that, during the war both the public and industrial accountants have been and now engaged in the practice of forensic accounting. Another noteworthy person in this context is Birbal who was one of the famous Navaratnas of the Moghul Emperor, used various forms of tricks to investigate crimes (Ghosh and Banerjee 2011). Recent history indicates that Maurice E. Peloubet is credited with developing the term Forensic Accounting in his 1946 essay "Forensic Accounting: Its Place In Today's Economy." By this time, Forensic Accounting had proven its worth during World War II, however formalized procedures were not in place until the 1980's when major academic works were published (Joshi, 2003).

5. Theoretical Framework.

5.1. The Fraud Diamond Theory

Wolf and Hermanson (2004), cited by Crumbley et al, (2007), proffered the Theory of the Fraud Diamond, in place of the triangle. They argue that the diamond offers a better view of the factors leading to fraud. They add a fourth variables, capacity, to the three-factor theory of Cressey. The fraud perpetrator must have the necessary traits, abilities, or positional authority to pull off his crime.



Source: Crumbnley D. L., Heitger L. E., and Smith G.S. (2007), Forensic and Investigative Accounting, 3rd Ed, Chicago, CCH

6. EMPIRICAL REVIEW

Okoye and Gbegi (2013) conducted a research titled “An Evaluation of Forensic Accountants to Planning Management Fraud Risk Detection Procedures”. Their paper was aimed at investigating the relative merits of involving Forensic Accountants during the planning stage of developing an audit plan that will effectively identify Management fraud. Using both primary and secondary sources of data, they employed the use of simple percentages, mean, standard deviation, multivariate analysis of variance (MANOVA) and Analysis of Variance (ANOVA). The findings of their research was that, Forensic Accountants effectively modify the extent and nature of audit test when the risk of Management fraud is high, Forensic Accountants propose unique procedures that are not proposed by auditors when the risk of Management fraud is high, Forensic Accountants can make to the effectiveness of an audit plan when the risk of Management fraud is high, involving Forensic Accountants in the risk of Management Fraud assessment process leads to better results than simply consulting them. The study recommended that Forensic

7. Methodology

This study is based on survey research approach and the population of the study comprises of all the quoted companies on Nigeria stock exchange which are 192 in number according to Nigeria stock exchange website, however for the purpose of this study only ten(10) quoted banks will be used. These banks includes Access Bank, Diamond Bank, Fidelity Bank of Nigeria, First bank of Nigeria Holding PLC, First City Monument Bank, Guaranty Trust Bank, Skye Bank, Sterling Bank, Union Bank of Nigeria, United Bank of Africa, These commercial banks were selected using purposive sampling techniques. Furthermore, the analysis for this study is based on primary data obtained from some employees in the selected quoted Nigeria banks, by distribution of 100 structured questionnaire. Also, the data obtained were analysed using multiple regression in Social Package for Social Sciences (SPSS).

8. Data Analysis and Interpretation

Decision Rule: Accept Null hypothesis if the P-Value obtained using SPSS is greater than 0.05 which is the alpha level or significance value specified for SPSS. But, if, otherwise, reject it and accept the Alternate Hypothesis.

- **Hypothesis 1**

H₀₁: There is no significant relationship between forensic accounting and creative accounting in quoted Nigerian companies.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.827 ^a	.684	.683	1.57679

(Table showing to what extent are selected to each other.)

The model summary above explains the percentage of the dependent variable (i.e. fraud) that can be determined by the independent variable (i.e. Forensic accounting). According to this Table, the independent variables account for 68% (R Square, 0.684) of the dependent variable(creative accounting). While the remaining 32% can be explained by other factors outside the scope of this model. This also means that adequate knowledge of forensic accounting will certainly lead to reduction of creative accounting and vice versa.

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1066.198	1	1066.198	428.834	.000 ^a
	Residual	492.282	198	2.486		
	Total	1558.480	199			

(Table showing the result of Anova Statistic on the selected variable)

The study also conducted ANOVA (i.e. analysis of variance) to determine the extent of relationship between the Independent and dependent variable and the result established that p- value, which is 0.00 of the variables, are lower than the acceptable level of significance or alpha value of 0.05 specified in SPSS for this analysis, therefore according to the decision rule above, the Alternate hypothesis will be accepted while the Null hypothesis will be rejected. This also implies that there is strong relationship between Forensic accounting and corporate creative accounting in Nigeria quoted companies. This also means that any improvement in forensic account will significantly affect creative accounting.

Multiple Regression analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	4.602	.836		5.505	.000
Forensic accounting	.795	.038	.827	20.708	.000

(Table showing multiple regression analysis of the selected variable (i.e. their proxies)

Multiple Regression analysis was also conducted to determine if the result generated by ANOVA Statistic can be relied upon. According to the table above, it can be clearly seen that that the p-value, which is 0.000 was also lower than the alpha value of 0.05 specified in SPSS for this analysis. Thus, according to the decision rule above, in this kind of situation, the Alternate Hypothesis is accepted while the Null Hypothesis rejected. This implies that there is proportional relationship between forensic accounting and creative accounting in the selected quoted banks in Nigeria, therefore, if the organisation spends any money to train its staff in forensic accounting, it will also notice a significant reduction in the creative accounting practices which is known to be on the increase in most commercial banks because both of them have significant relationship with each other.

9. Conclusion and Recommendation

This study considers majorly how forensic accounting and traditional auditing can be used to reduce the failure and collapse of selected commercial banks in Nigeria. It concluded that for Nigeria quoted banks to able to fully regain the investor's lost confidence, there is need for adequate application and knowledge of forensic accounting because the statistical analysis has established that forensic accounting have significant relationship with creative accounting, Base on this conclusion the study recommends that managements of commercial banks should develop training programmes that will equip significant number of their employee with relevant skill related to forensic accounting so that they can be able cut down the increasing trend of creative accounting scandals in the banking sector.

References

Adesola, A., (2008). Government's anti-corruption initiative: The role of computer assisted audit techniques in fraud detection and prevention. *Niger.*, 41(1): 16-19.

Ghosh, I., & Banergie, K.K. (2011). Forensic Accounting - Another Feather in that hat of Accounting. *The Chartered Accountant*, October, 60 – 63.

Joshi, M.S. (2003). Definition of Forensic Accounting; <http://www.forensicaccounting.com>

Okunbor, J.A. and O. Obaretin, (2010). Effectiveness of the Application of Forensic Accounting Services in Nigerian Organisations. *AAU J. Manage. Sci.*, 1(1), 171-184.

Wallace, A. (2002): The Role of the Forensic Accountant. Retrieved from: www.ssrn.com