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COMBATING FINANCIAL CRIMES THROUGH FORENSIC AUDIT: EVIDENCE FROM NIGERIA

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ABSTRACT: *Curbing the menace of financial crimes through forensic audit is imperative due to the global failure of statutory audit. This study therefore examined curbing Financial Crimes through Forensic Audit: Evidence from Nigeria. This study employed a survey research method and obtained primary data sources collated through the questionnaire. The data collected was analyzed using regression models. The research discovered that P-value = 0.00<0.05 level of significance and the regression line is CFCs = 0.335 + 0.746β_1 + 0.042β_2-0.078β_{3+}ut. The study also found that data based collection and data mining are effective enough and capable of curbing financial crimes in Nigeria, although ratio analysis is weak in doing that. The research concluded that forensic audit techniques are effective in combating financial crimes in Nigerian private sector. This study recommended that forensic audit courses should be given more spaces in the academic curricula of Universities to increase its awareness in Nigeria.*

KEYWORDS: Combating Financial Crimes, Forensic Audit Techniques, Nigerian Private Sector.

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INTRODUCTION

The spread of financial related crimes in these emerging economies is worrisome and disastrous as many business organizations have collapsed due to financial fraud incidences and funds misstatement. Continuous fight against the spread of financial crimes should be a concern of researchers and business owners all over the world. Just like the public sector, the Nigerian private sector also needs forensic auditing due to statutory audit failure, as a way of investigating any reported case of fraud allegations or assets misappropriation. The various financial crimes being committed by the people in the organizations or ordinary individuals include different financial frauds, laundering of money, bribery, embezzlement, extortion, tax evasion and popularly corruptions. Detecting some of these crimes through statutory audits is a difficulty and those incidentally are not usually reported for the fear of unwanted publicity (Adeniyi & Obidi, 2019). Corruption and other related financial crimes are global phenomena but their menace rates in developing countries just like Nigeria call for alarm (Williams, 2004). The operation of internal controls and statutory audits are inadequate to fight their spread. The application of suitable forensic audit techniques could help a lot in curbing the global financial vice and prosecute their perpetrators (Gbegi & Habila, 2017). The upsurge in economic crimes in the world necessitated the use of forensic audit techniques for fraud detection.

In Nigeria, despite that forensic audit is as old as ordinary auditing, its application has not been given enough space in business environments. Embezzlement and other financial crimes are still the obstacles to the progress of firms in the private sector of Nigeria economy. Thus, efforts should be intensified to wage war against these social vices through continuous research on how to curb the spread of the crimes. The increase in financial crimes around the twentieth century was attributed to the increase in financial crisis, which recently served as a challenge to forensic auditors on fraud prevention and detection (Jephitha, Gillian & George, 2019). Besides that, the collapse of many businesses like Enron, WorldCom, Tyco, and Adelphia were also attributed to financial frauds. For instance, $460 billion was recently lost by these companies (Anuolam, Onyema, & Ekeke, 2016). Cadbury Nigerian plc sustained a loss up to $15 million in Nigeria when its financial records were recently manipulated criminally by its management (Akenbor, & Oghoghomeh, 2013). History tells that trillions of naira have been lost and are continually being losttt into the hand of fraudulent politicians and government officials annually in Nigeria (Ifeaniyi & Joseph, 2013). To arrest these situations, it is imperative to follow the pace of the American Institute of Certified Public Accountants (AICPA) suggesting that effective forensic audit techniques and procedures should be applied to detect and stop the menace of financial frauds because the statutory auditors and forensic auditors possess no similar auditing skills, training and mindsets (Abuh & Acho, 2018). Forensic audit is suitable for bridging existing gaps of statutory audit concerning fraudsters' detection and prosecution. It has been expected to have gained dominance in fraud and other economic crimes fighting than its present position. The technique is far better in prosecuting white collar criminals than statutory audit.

A review related studies on financial crimes such as Ezejiofor, Nwakoby and Okoye (2016); Igweonyia (2016); Anuolam, Onyema and Ekeke (2016); Adeniyi (2016); Aduwo (2016); Gbegi, and Habila (2017); Evans (2017); Gbegi and Habila (2017); Abuh and Acho (2018); Ifeanyi and Joseph (2018); Ile and Odimmega (2018); Abuh and Acho (2018); Okoye, Adeniyi and James (2019); Jephitha, Gillian and George (2019); Adeniyi and Obidi (2019);

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Eze and Okoye (2019) and a host of other researchers indicated that financial crimes are growing global problems which have a negative effect on the world's economy. The review also detected a significant increase in the menace of these crimes in both private and public sectors of Africa's economy that have threatened the survival of many African countries' economies. The use of forensic audit techniques up till now in Nigeria has not had enough space in the government circle and private sector necessitating continuous campaigns through the studies of this nature. It is therefore believable that the techniques are still needed in these increased fraudulent activities in the country to detect and prosecute the perpetrators for legal consequences. It is based on this background that this research is examining combating financial crimes in the emerging economies through forensic audit.

Objectives of the Study

The main objective of this research is to investigate the effectiveness of forensic audit in combating financial crimes in Nigeria. The study specifically:

a. Evaluates the effectiveness of data base collection in curbing financial criminals in Nigerian public services.

b. Determines the effectiveness of data mining in curbing financial crimes in Nigeria.

c. Assesses the effectiveness of ratio analysis in curbing financial crimes in Nigeria.

Research Hypotheses

This research hypothesized that:

a. Data base collection is effective in curbing financial crimes in Nigeria.

b. There is no effectiveness of data mining in curbing financial crimes in Nigeria.

c. Ratio analysis is not effective in curbing financial crimes in Nigeria.

LITERATURE REVIEW

Financial Crimes

Different definitions have been given to financial crime in literature. Financial crime is an unlawful conversion of a property that belongs to another to one‘s possession. Financial crimes are the "violent, criminal and illicit activities committed with the objective of earning wealth illegally in a manner that violates existing legislation" (Ezejiofor, Nwakoby & Okoye, 2016). Financial crimes include but are not limited to bribery and corruption, tax evasion, treasury looting, illegal oil bunkering, theft of intellectual property, illegal mining, financial child labour, prohibited goods, money laundering, counterfeiting currency, drug trafficking and other illicit activities of gaining illegal wealth (Joseph, Okike & Yoko, 2016). Embezzlement is a form of financial crimes involving improper stealing of money from someone whom one owes the duty of responsibilities. Corruption is stealing from the poor. Money laundering is the illicit flying of funds to another country. Bribery is when money or

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other valuable things are offered to influence a person or a situation. Extortion is demanding for money or other material things to do a favor.

Forensic Audit

Forensic means searching, examining, tracking and gathering factual information applicable to the court. On the other hand, forensic audit is a viable weapon for investigating financial frauds, embezzlement, corruption, money laundry and the likes. Forensic audit is all about using specific investigative and audit procedures and accounting principles to obtain evidence applicable to the court (Lawan, Magaji & Naziru, 2018). Forensic audit is the application of auditing principles, investigative techniques and legal procedures to establish damages, loss or gain on properties, and collecting evidence which is suitable for court purpose (Mohammed & Peter, 2016). Forensic auditing emerged due to the high incidence of fraud. It originated around the 1800s and was coined by Peloubet in 1946 (Manas, 2014). It is a specialized area of auditing practices employed to provide suitable evidence that is relevant to legal issues (Okoye, Adeniyi, & Obidi, 2019). Forensic audit is capable of prosecuting the fraudsters, embezzlers and other financial criminals or suspects. The techniques of forensic audit include business intelligence, forensic analytics, data base collection, whistle blowing and background investigation (Nenyiaba, Osisioma & Okoye, 2015). Data mining is the searching and analyzing of data in the gigabytes of systems to root out already buried useful information due to the passage of time. Ratio analysis may be computed to determine the well being and to check on the financial health of a firm which could also point to waste and abuse of funds and fraud. In ratio analysis results, if the highest value to the lowest value is close to 1, then no much accounts doctoring exists but if it large, it indicates the possibility of fraud (Onodi, Okafor, & Onyali, 2015).

Theoretical Review

White Collar Crimes Theory (WCCT)

This study is pinned in the WCCT. The theory is a general theory of financial crimes coined by Ross in 1907 but further developed by Sutherland in 1938. This theory established that the majority of financial crimes (FCs) are undetectable. However, Ross used a term called "Crimanoloid" to mean a person who uses illegal opportunities for public stealing from the poor (Izedonmi, F. & Ibadin, 2012). Sutherland referred to FCs as the carefully as well as intentionally perpetrated financial crimes (Egbunike & Amakor, 2013). Sutherland claimed that poverty is not a driving force for committing WCCs; it is rarely committed by the poor (Egbunike & Amakor, 2013). The WCCT discusses the issues relating to how various financial crimes are being perpetrated with the kings of FCs falling into this category. Thus, the theory fits into this research.

Empirical Review

Numerous works of literature were reviewed on financial crimes and forensic audit as follows to determine existing gaps. However, Eyisi et al. (2009) investigated the effectiveness of forensic auditing in detecting, investigating, and preventing bank frauds. The study used primary data and found that forensic auditors need to be equipped technically and materially to ensure effective performance. Akenbor et al. (2013) conducted a research on "Forensic Auditing and Financial Crime in Nigerian Banks: A Proactive Approach." The study used

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primary sources of data which were analyzed using percentages, frequencies, and Pearson Product Moment Correlation Coefficient. The study discovered that proactive approach to forensic auditing has helped in reducing the menace of financial crimes in Nigerian banks. Onodi et al. (2015) examined “the effect of forensic investigation methods in corporate fraud deterrence in Nigerian banks.” A survey research design was adopted. The study used primary data analyzed using Z-test, descriptive analysis and regression analysis. The study discovered that forensic audit is needed to prosecute fraudsters in Nigeria. Adeniyi (2016) researched into the “Effect of forensic auditing on financial fraud in Nigerian deposit money banks.” Primary data were collected and analyzed using a logistic regression analysis. The study discovered that forensic audit can curb financial fraud issues in Nigeria. Evans (2017) examined the relationship between forensic accounting and combating of economic and financial crimes in Ghana. The study employed a survey research design and used primary data sources. The data was analyzed using a Regression Model. Findings from the research showed that application of forensic accounting technique has a significant impact on the combating of economic and financial crimes in Ghana. The study concluded that anti-corruption agencies and companies should use forensic accounting to help strengthen the firms’ internal controls to prevent and detect financial crimes.

METHODOLOGY

This research employed a survey research design to examine Combating Financial Crimes in the Emerging Economies through Forensic Audit: Evidence from Nigeria. The population of the study was made up of some selected professional accountants and professional auditors across the Southwestern region of Nigeria. A sample size of four hundred (400) accountants and auditors was purposively selected as only those professionally qualified were served the copies of the questionnaire online and personally. All the administered questionnaire copies were completely filled and retrieved for data estimation. The questionnaire copies were collected back the way they were distributed. The questionnaire items were designed using a 4-point Likert scale of strongly agree (SA), agree (A), strongly disagree (SD) and disagree (D) to get the view of respondents. This study used primary data sourced through the distributed questionnaires to respondents. The collated data were analyzed using regression models as recently used by Akenbor, and Ironkwe (2014), Akepe (2015), Ijeoma (2015), Igweonyia (2016), and Adeniyi (2016). The validity of the instrument was determined through thorough checking by the accounting and auditing experts, while Cronbach's Alpha reliability test was conducted for its reliability as previously employed by various researchers such as Aduwo (2016); Evans (2017); Gbegi and Habila (2017); Abuh and Acho (2018); Ifeanyi and Joseph (2018); Ile and Odimmega (2018); Okoye, Adeniyi and James (2019); and Eze and Okoye (2019). The explanatory variables of the study include database collection (DBC), data mining (DM) and ratio analysis (RA), while the dependent variable is combating financial crimes (CFCs).

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Model Specification

This adapted the work of Anuolam, Onyema and Ekeke (2016) specified below:

FDP= $f(FAS, FAV, FAP)$ ……………………………………………………………… (3.1)

where fraudulent practices (FDP) are the dependent variable; and forensic accounting services (FAS), forensic accounting validation (FAV) and forensic accounting practices (FAP) are the explanatory variables. The adapted model was modified to form the model of this study by using combating financial crimes (CFCs) as the dependable variable and database collection (DBC), data mining (DM) and ratio analysis (RA) as explanatory variables. The model is specified below:

$CFCs = f(DBC, DM, RA)$ ……………………………………………………………… (3.2)

DATA AND RESULTS

This section presents the data and results of the analysis.

Table 4.1 Reliability Test

Cronbach's Alpha	Number of Items
0.994 (99.4%)	05
Minimum standards: 70%	

Source: *Data Analysis, 2023*

Table 4.1 discloses the result of Cronbach's Alpha with a coefficient of 0.994 (99.4%) which is greater than the minimum coefficient of 70% for "Cronbach's Alpha" recommended by George and Malley (2003) as the expected minimum reliability coefficient for the acceptability of an instrument. Thus, the instrument used in this study is reliable.

Table 4.2 Regression Model Summary

Model	R	R-Square	Adjusted R-Square	Std. Error of the Estimate	Sig F-change
1	0.975	0.951	0.950	0.72390	0.000
Predictors: (Constant), DBC, DM, RA, FAUD					

Source: *Data Analysis, 2023*

The result in Table 4.2 shows that the explanatory variables of database collection (DBC), data mining (DM) and ratio analysis (RA) positively and significantly relate to financial crimes investigations in Nigeria. The correlation's coefficient (R) of 0.975 (97.5%) is very large and this implies a linear correlation between the observed variables and the dependent variable. Also, the R^2 value is 0.951 (95.1%) showing a high positive correlation among the study's variables, meaning that about 95.1% changes in combating financial crimes (CFCs) is explained by the DBC, DM, RA and FAUD, the proxies for forensic audit, while the remaining 4.9% explained by other factors outside the model.

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Table 4.3 Analysis of Variances (ANOVA)

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	270.304	4	67.576	1896.678	.000[b]
Residual	14.073	395	.036		
Total	284.378	399			

Source: *Data Analysis, 2023*

Table 4.3 presents the result of ANOVA with an F-statistics value of 1896.678 and probability value of 0.000. This means the effectiveness of the study's explanatory variables—database collection (DBC), data mining (DM) and ratio analysis (RA) on combating financial crimes (CFCs)—in Nigeria is positive and significant.

Table 4.4 Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	0.335	0.038		8.919	0.000
	DBC	0.746	0.062	0.791	12.083	0.000
1	DM	0.042	0.070	0.047	0.606	0.545
	RA	-0.078	0.079	-0.089	-0.989	0.323
	FAUD	0.196	0.058	0.230	3.402	0.001

Source: *Data Analysis, 2023*

The result in Table 4.4 shows the study's explanatory variables of data base collection (DBC), data mining (DM) and ratio analysis (RA), and dependent variable of combating financial crimes (CFCs) where the value of DBC is (8.919) and significant (0.00 < 0.05) at 5% level of significant. The t-value of DM is positive (12.083) and significant (0.00 < 0.05). The t-value of RA is negative (-0.089) and insignificant (0.323 > 0.05). The t-value of FAUD is positive (3.402) and significant (0.001<0.05). The linear equation: $Y = 0.335 + 0.746\beta_1 + 0.042\beta_2 - 0.078\beta_3 + Ut$ depicted that combating financial crimes through forensic audit in Nigeria is possible because a unit increase in the values of each explanatory variables will increase the effectiveness of forensic audit in combating financial crimes through forensic audit in Nigeria.

DISCUSSION OF RESULTS

The R value of 0.975 in Table 4.3 implied a strong effectiveness of the study's explanatory variables on combating financial crimes. The R^2 value of 0.951 means the effectiveness and ability of database collection, data mining and ratio analysis in combating financial crimes is about 95.1% while the remaining 4.9% is explained by the error term. The probability value of 0.00 < 0.05 shows that forensic audit is an effective tool for combating financial crimes in Nigeria. The regression line of CFCs = $Y = 0.335 + 0.746\beta_1 + 0.042\beta_2 - 0.078\beta_{3+} + Ut$ in Table

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4.4 indicated that financial crimes could be combated through database collection and data mining, although ratio analysis is not an enough tool for curbing financial crimes. This study's results are similar to the outcomes of the studies conducted by Moduguetal (2013), Okoye et al. (2013) and Anuolam et al. (2014) which found that forensic audit technique could curb financial frauds in business organizations all over the world, including in Nigeria.

CONCLUSION AND RECOMMENDATIONS

Based on the results, the study concluded that database collection and data mining are capable and effective enough in curbing financial crimes in Nigeria, although ratio analysis is weak in doing so. Thus, establishing a forensic audit unit in every private organization will help combat financial crimes in Nigeria. Therefore, those concerned should train their audit personnel on how to use forensic audit techniques to uncover and prosecute financial crimes. The study therefore recommended that forensic audit courses should be given more spaces in the academic curricula of universities to increase their awareness in Nigeria.

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