

An Overview of Forensic Accounting in Nigeria

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Abstract

Forensic accounting may not be a new field in accounting. However it becomes so important recently and has been of interest to various stakeholders, from the government, investors, and practitioners to regulatory bodies. Corporate failures like the often cited Enron and WorldCom cases have placed forensic accounting into the limelight. The objective of this study is to present the views of practitioners regarding forensic accounting and its current development in Nigeria. For the purpose of this study, practitioners from the big and medium accounting firms and regulatory bodies in Nigeria were interviewed regarding the subject matter and unstructured interviews were used in the study.

Keyword: Forensic Accounting, Auditing and Investigation.

1.0 Introduction

Corporate financial scandals like the often cited *Enron* and *WorldCom* cases of the last few years is a wake-up call to the accounting profession and has rejuvenated the interest in forensic accounting. Increasing government regulations and pressures from other stakeholders have made businesses acutely aware of the consequences of employees' misdeeds and inadequate internal controls. Companies are now beginning to be more determined than ever to ensure their operations are above board and in no way connected with illegal activities. This resulted in a steadily growing demand for professionals trained in the art of detecting, correcting and preventing fraud as well as deceptive accounting practices.

In the US, the considerable growth of forensic accounting careers can be seen when many universities started offering forensic accounting related courses. Also, many professional organisations and associations are promoting fraud examination and forensic accounting. Further, the three of the top six accounting niche services fall within the forensic accounting area: business valuations, litigation support and forensic/fraud (Covaleski, 2003). To the knowledge of the author so far, Forensic accounting is yet to be fully deployed by the government and the private sector in Nigeria despite the alarming increase in complex financial crimes and lack of adequately trained professionals to investigate them. The Institute of Chartered Accountants of Nigeria, not quite long ago created its Forensic Accounting Faculty and has taken the challenge to jump start the training of some Chartered Accountants as specialist in this all important field.. This challenge is yet to be embraced by our Universities and Polytechnics. At present, none of the academic institutions in Nigeria offers a full course on forensic accounting, either at undergraduate or graduate level despite the high need for this category of professionals.

Growing financial fraud cases, bank failures, despite regular inspections, recent stock market scams, failure of non banking financial institutions, and failure of the regulatory mechanism to curb it require extra investment in forensic accounting skills. However, the main important law enforcement agency involved directly in combating white-collar crimes is the Police Special Fraud Unit, EFCC and ICPC. I am not sure these laws enforcement agencies do train their investigators in the specialized usage of forensic accounting. It is very common that investigation of major financial crimes is handled by ordinary investigating officers who after spending some time in investigation of conventional crimes are transferred to the economic offence wing and they are expected to handle financial crime

cases involving complex and intricate financial records which must be analysed to unearth crime or unique modus operandi adopted by the white-collar criminals. The result is obvious; the case dies a natural death and the criminals roam freely on our streets, as the Investigating Police Officer soon get bored with cumbersome financial records, given his lack of specialized knowledge and qualification.

This study therefore attempts to seek views from practitioners regarding the development and future prospect of forensic accounting career in Nigeria. The remainder of this paper is structured as follows. The next section will explain the background of forensic accounting. The third section discusses the research methodology in the study. The forth section presents the findings and followed by the conclusion in the final section.

2.1 Background of Forensic Accounting

2.1.1 History of Forensic Accounting

Forensic accounting is certainly not a new field. Evidences showed that the profession has been in existence a long time ago, though during that time the profession was not yet being called forensic accounting. In ancient Egypt, forensic accountants (scribes) who inventoried the Pharaohs' grain, gold and other assets were called the 'eyes and ears' of the Pharaohs. These scribes worked in Pharaoh's courts and were charged with fraud prevention and detection. Their role stayed much the same until the turn of the 20th century. Another evidence of the existence of forensic accounting can be traced back to the year 1817 when the accountant who examined the bankrupt's account was required to testify in the court case (Crumbley, 2001).

Some sources traced the practice's origin back as far as 19th century Scotland when a young Scottish accountant issued a circular advertising his expert in arbitration support in 1824. In the late 1800's and 1900's articles began to appear discussing expert witnessing, evidence arbitration and awards. It has been said that the phrase 'forensic accounting' was first published in an article in 1946 by *Maurice E. Peloubet*, a partner in a New York accounting firm. He stated that, "during the war both the public and industrial accountant have been and now engaged in the practice of forensic accounting" (Peloubet, 1946).

2.1.2 Definition of Forensic Accounting

To date, various definitions have been given to describe forensic accounting. According to Thornhill (1995), the forensic accounting discipline is relatively new that up to now, there has been no formal definition being accepted as the standard. Webster's Dictionary defined forensic as "pertaining to, connected with, or used in the courts of law or public discussion and debate". Hence, forensic accounting is closely related to the legal process and has the potential to be involved in proceedings in the civil and criminal courts. Forensic accounting provides an accounting analysis to assist in legal matters which will form the basis for discussion, debate and ultimately dispute resolution.

Bologna and Lindquist (1987) provide the definition of forensic accounting as follows:

"Forensic and investigative accounting is the application of financial skills and investigative mentality to unresolved issues, conducted within the context of the rules of evidence. As a discipline, it encompasses financial expertise, fraud knowledge, and a sound knowledge and understanding of business reality and the working of the legal system. Its development has been primarily achieved through on-the-job training as well as experience with investigating officers and legal council."

(Crumbley and Apostolou, 2002) describes a forensic accountant as "someone who can look behind the façade-not accept the records at their face value- someone who has suspicious mind that the documents he or she is looking at may not be what they purport to be and someone who has the expertise to go out and conduct very detailed interviews of individuals to develop the truth, especially if some are presumed to be lying". According to Crumbley, Heitger, and Smith (2005) forensic accounting, forensic accountancy or financial forensics is the specialty practice

area of accountancy that describes engagements that result from actual or anticipated disputes or litigation. “Forensics” means “suitable for use in a court of law” and it is to that standard and potential outcome that forensic accountants generally have to work. Forensic accountants also referred to as forensic auditors or investigative auditors often have to give expert evidence at the eventual trial.

Forensic accountants are experienced auditors, accountants, and investigators of legal and financial documents that are hired to look into possible suspicions of fraudulent activity within a company; or are hired by a company who may just want to prevent fraudulent activities from occurring. They also provide services in areas such as accounting, antitrust, damages, analysis, valuation, and general consulting. Forensic accountants have also been used in divorces, bankruptcy, insurance claims, fraudulent claims, royalty audits and tracking terrorism by investigating financial records. Many forensic accountants work closely with law enforcement personnel and lawyers during investigations and often appear as expert witnesses during trials.

Some forensic accountants specialise in forensic analytics which is the procurement and analysis of electronic data to reconstruct, detect, or otherwise support a claim of financial fraud. Forensic analytics might be used to review the invoicing activity for a vendor to identify fictitious vendors, and these techniques might also be used by a franchisor to detect fraudulent or erroneous sales report by the franchisee (Nigrini, 2011).

3.0 Research Methodology

This study employs both primary and secondary data which involves the archives research and interviews. Accounting practitioners from the big accounting firms, professional bodies and regulatory bodies in Nigeria were approached to be interviewed either in person or over the phone. Finally, there were 12 respondents that agreed to be interviewed for this study, which consist of partners and senior managers from the big and medium accounting firms and senior executives from Nigeria, Securities and Exchange Commissions, Institute of Chartered Accountants of Nigeria, University Senior Academia in Accounting and Company Directors. The respondents were assured that their names will be kept anonymous and their answers were their own personal views or opinions and do not represent their organisation. The interviews were unstructured whereby the respondents were asked about the development and future prospect of forensic accounting in Nigeria. Basically, the respondents were asked the following questions:

1. How do they perceive the development of forensic accounting in Nigeria?
2. In their opinion, what are the skills needed or minimum requirements to be a forensic accountant?
3. What do they think of the future prospect of forensic accounting in Nigeria?

4.0 Findings

4.1 The Development of Forensic Accounting in Nigeria

Based on the interviews, it was found that all respondents were of the opinion that forensic accounting in Nigeria is still in its infancy stage as compared to the developed countries. According to one of the respondents, there seemed to be some misconceptions of forensic accounting among Nigerians that need to be clarified. Most of them assumed that forensic accounting and auditing are the same whereas these two accounting disciplines are different in terms of their objectives and requirements. Auditing is the persistent process engaged by the company to give an opinion on the true and fair view of the financial statements. On the other hand, forensic accounting is aimed at detecting any fraud or irregularities that happen in the company and is carried out on demand by the company. According to the respondents, there are few factors that may affect the current level of forensic accounting development in Nigeria.

Firstly, forensic accounting is seen as an expensive service that only big companies can afford. Besides, it will be quite costly if the issues were brought to court and where it involve forensic accountant as an expert witness. Thus, most companies prefer to settle the issue outside the court to avoid the expensive cost and the risk of bad publicity

on their corporate image. Secondly, there is no mandatory requirement set by the regulatory authorities on the companies to conduct forensic accounting, even for distress companies. To date there is no specific act or guidelines on forensic accounting practices in Nigeria. On this matter, some of the respondents suggested that Nigeria should have a specific act to govern forensic accountants. They believe that the act will not only govern the forensic accountant but also create awareness to the victims and society as a whole.

Okoye and Akenbor (2009) commenting on the application of forensic accounting in developing economies like Nigeria, notes that forensic accounting is faced with so many bottlenecks. Degboro and Olofinola (2007) note that an important challenge to the application of forensic accounting in financial fraud control in Nigeria is that the law is not always up to date with the latest advancements in technology. Nonetheless, the role of whistleblower is important to divulge the corruption in the organisation. Moreover, forensic accountant needs cooperation from the whistleblower to clarify certain issues. Also, some believed that corruption can only be fought if many people are charged in court but before punitive action can be taken, wrongdoings must be reported and properly investigated. However, the fact is few people will blow the whistle if they believe that by doing so will put them in a spot.

According to the respondents, the lack of whistleblower protection might be a factor that dissuades people from coming forward to highlight illegal or unethical acts within their organisations. Even though there are efforts taken by Securities Commission (SC) and Central Bank of Nigeria to encourage internal and external whistleblowers to disclose wrongdoings, most of the respondents opine that there is still no laws enacted to protect whistleblowers against retaliation. They believe new legislation will help to create open working environments where individuals can raise concerns without fear of recrimination.

4.1.2 Skills and Minimum Requirements needed by Forensic Accountant

Forensic accounting is a new trend particularly in developing economies; hence accountants with adequate technical know-how on forensic issues are hardly available. As regards to the skills needed by forensic accountant, all the respondents are of the same opinion that working experience is a crucial factor in determining whether a person can become a forensic accountant in Nigeria. In terms of the number of years of working experience needed to be a good forensic accountant, most of the respondents view that a minimum working experience of 3 years is required. However, all the respondents agreed that fresh graduates are not suitable to be recruited as a forensic accountant. Since a forensic accounting team may consist of lawyers, accountants, computer forensic experts and law enforcers like police and customs officers, the name 'forensic accountant' therefore is not necessarily applicable only to a person who holds an accounting degree. Even so, it is advisable to have experience in external audit and internal audit before one becomes a forensic accountant.

In addition, one should have some basic knowledge on psychology to assist in interrogation of the suspect or witness process. While to be a computer forensic expert, one should have strong information technology background particularly when rapid technological changes are common in today business environment. Besides those criteria, other skills that seems important to be a forensic accountant like knowledge of relevant laws and legal system, communication and interpersonal skills to deal with clients, analytical skills and critical mind, common and logic sense relating to criminal behaviours, interviewing and interrogation skills in identifying potential suspects.

In Nigeria so far, The Institute of Chartered Accountants of Nigeria has trained some Chartered Accountants to become Certified Forensic Accountants (CFAs) as an effort to develop expertise in forensic accounting in Nigeria. The Institute has encouraged universities to introduce the forensic accounting subject as a part of their syllabus in accounting or auditing course. The forensic accounting practitioners normally become a Certified Fraud Examiner, an accreditation given by Association of Certified Fraud Examiners in United States.

4.1.3 Future Prospect of Forensic Accounting in Nigeria

Currently, the main government agency to fight corruption in Nigeria is the EFCC and ICPC. Another important government agency that involved directly in combating white-collar crimes is the police. In private sector, the KPMG was the pioneer in the accounting field that established the forensic accounting department in the firm.

According to the respondents, there are good prospects for forensic accounting career in Nigeria. Globalisation, increase of foreign direct investment (FDI) and rapid development in technology are among the factors that will contribute to the demand for forensic accountants. Businesses have become more complex and thus any irregularities or fraud in the transactions is hard to detect by ordinary staff. As a consequence, the auditing processes either by external or internal is insufficient. One should understand that the audit is based on the samples selected and the responsibility of auditor is to express opinion on the true and fair view of financial statements. It is important in today's business environment to issue a transparent financial report in order to convince and regain the trust of investors. Thus, forensic accounting is seen as a suitable tool to offer the highest level of assurance and to add credibility to the financial statements.

4.1.4 The Need to Develop Forensic Accounting in Nigeria

Forensic accounting is seen as an important tool that will assist investigators not only to prosecute crimes such as bribery but also other criminal wrongdoings such as fraud, money laundering and other white collar crimes. As the commercial crimes are becoming sophisticated and organised, there is a need for the police to upgrade themselves with the latest knowledge to tackle such cases. It is important to note as well that the increasing white collar crimes need to be given special attention not only by the police but also other regulatory or authority bodies like the Federal Inland Revenue Services (FIRS) and Central Bank of Nigeria.

5.0 Conclusion

Forensic accounting has been in existence since ancient times but corporate scandals of late had given the profession rejuvenation. In Nigeria, forensic accounting is still in its infancy stage and most Nigerians seem to assume that there is no difference between forensic accounting and auditing. From the study, it can be concluded that the slow progress of forensic accounting in Nigeria may be due to two main reasons. Firstly, forensic accounting is seen as an expensive service where only the big companies can afford it. Moreover, it will also be costly if the suspected wrongdoing is brought to court especially if it involve forensic accountant as an expert witness. Secondly, there is no mandatory requirement for companies to conduct forensic accounting, even for distress companies. Also, there is need for a specific act or guidelines to govern and regulate forensic accounting practices in Nigeria. Another factor brought to light is the importance of the role of whistleblowers to expose wrongdoings within their organisations. However, the lack of protection for whistleblowers prevents people from coming forward to highlight illegal or unethical acts by companies. Most of the respondents believe that new legislation to protect whistleblowers from retaliation will help create an open environment where individuals can raise concerns without fear of recrimination.

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