

FORENSIC ACCOUNTING: A MECHANISM FOR MINIATURIZATION OF ORGANIZATIONAL FINANCIAL IMPROPRIETY

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ABSTRACT

Our paper (positional) focused on the utilization of forensic accounting as a mechanism for minimization of organizational financial impropriety. We began our study by according due credit to some scholars whose contributions were very relevant to our study, From our findings, it was apparent that forensic auditing / accounting if well applied could reduce financial crime in an organization but can hardly prevent financial crime completely. We therefore, inter alia recommended that forensic auditing should only be conducted whenever a red flag is raised by the external auditor and only a government-licensed professional accountant with versatility in law and other related discipline should be allowed to practice as forensic auditors/accountants.

Keywords: Forensic Accounting, Financial Impropriety, Audit Trail, Financial Crime Prevention, Management Integrity.

INTRODUCTION

Forensic Accounting is a concatenation of two important concepts – forensic (derived from the Latin adjective “forensis”, meaning: of or before the forum or court and accounting which is the process of , gathering, recording, classifying, summarizing, interpreting and communicating in a systematic manner financial and economic events to management in order for her (management) and other users of such information make informed decisions.

Jointly, forensic accounting is the integration of accounting, auditing and investigative skills in providing accounting analysis that is suitable to court and which will form the basis for discussion, debate and ultimate dispute resolution (Zysman, 2004:15). For Dhar and Sarkar (2010:8), forensic accounting is the application of accounting concepts and techniques to legal problems. It demands reporting where accountability of the fraud is established and the report is considered as evidences in the court of law or in administrative proceedings. Forensic accounting could also be simply called Accounts Experts Witnessing or forensic auditing.

Forensic Accounting and Forensic Auditing are used interchangeably. Bologna and Lind (1995:23) define forensic and investigative accounting as the application of financial skills and an investigative mentality to unresolved issues, conducted within the

context of the rules of evidence. Forensic accounting /Auditing is only expedient whenever a red flag is raised by the external traditional auditor. Note that the red flag raised by the external auditor depicts that a significant flaw or deviation from accounting precepts has been spotted which should necessitated deeper investigation by the forensic auditor.

Study Objective

The main objective of this paper is to determine the extent to which the deployment of forensic accounting cum auditing could not only curb organizational financial fraud but would also unearth fraud no matter how hidden in an organization bearing in mind that forensic accounting assumes zero integrity for the management team.

Activities of Forensic Accountants

Forensic accounting have an inexhaustible list of activities, but Bhasin (2007:19) identified some of these activities as:

- i) Investigating and analysing financial evidence
- ii) Developing computerized applications to assist in the analysis and presentation of financial evidence.
- iii) Communicating their forensic accountants/findings in form of reports, and collections of documents.
- iv) Assisting in legal proceedings, including testifying in courts as an expert witness and preparing visual aids to support trial evidence.

Forensic Accounting has Two Component Parts

They are:

- i) Litigation Support and Investigation Accounting
Zysman (2014:18) explains the two components as under litigation support. Forensic accountant assist in:
 - 1) Obtaining documents necessary to support or refute a claim
 - 2) Reviewing of the relevant documentation to form an initial assessment of the case in an identified area of loss.
 - 3) Examination for discovering, including the formulation of the act regarding the financial residence.
 - 4) Attendance at the examination for discovery to review the testimony, assist with understanding, the financial issues and to formulate additional questions to be asked.

On the other hand, Investigative Accountants

1. Review factual situation and provide suggestions regarding possible coursed of action.
2. Assist with the protection and recovery of assets
3. Co-ordinate other experts (Zysman 2004:18)

Rationale for Development of Forensic Accounting

Innumerable factors facilitate the development of forensic accounting. Some of these include:

- i) The struggling stock market and lack of investors' confidence arising from global financial crisis. The calls for an enquiry into the activities of the stock exchanges and corporate entities;
- ii) A sluggish economy in which citizens are ravaged by high level of poverty provides incentives to commit fraudulent acts, thus requiring the services of an expert investigation;
- iii) The rising wave of cyber-crimes and the seeming incapacity of law enforcement agencies to stem the tide have also contributed to the growth of the profession.
- iv) Many accounting firms believed that the market is sufficiently large to support an independent unit devoted strictly for forensic accounting.
- v) Electoral disputes demand forensic examination
- vi) The rise in the use of complex financial instruments like derivatives and options and using same to conceal frauds calls for forensic accounting services (Brooks, Riley & Thomas, 2005:15)

Who Needs Forensic Accounting?

The list of users of forensic accounting is endless but we shall enumerate the following for the purpose of this paper:

1. Major accounting firms
2. Firms in mergers and acquisitions
3. Tax authorities
4. Anti-graft agencies
5. Security agencies
6. Individuals
7. Political parties
8. Government

Services Rendered by Forensic Accountants

The services rendered by the forensic accountants are inexhaustible, but Zysman, (2004:20) acknowledged that the forensic accountant renders expert witnessing services as well as other services in:

- i) Criminal Investigation
- ii) Shareholders and partnership disputes
- iii) Personal injury / claims / motor vehicle accidents
- iv) Business interruption/other type of insurance claims
- v) Business/employee fraud investigation
- vi) Matrimonial disputes
- vii) Business Economic losses
- viii) Professional Negligence
- ix) Mediation and Arbitration

Dissimilarities between Forensic Auditor and Financial Auditor

Some of the differences between the forensic accountant / auditor and the financial auditor are as tabulated below:

Table A: Differences Between Forensic Auditor and Financial Auditor

No		Forensic Auditor	Financial Auditor
1	Area	To resolve allegations and detect or prevent fraudulent activities suspected or envisaged in the organization. Thus the forensic auditor investigates to resolve allegations on fraudulent financial matters through the court	To undertake a statutory audit. The financial audit usually carried out to satisfy statutory requirements and ensure that accounts prepared /maintained are in conformity with IFRS; to provide only reasonable assurance that the statements are free from material errors.
2	Nature	Voluntary and Investigative of specific allegations	Compulsory and not investigative of specific allegation
3	Use of Evidence	Required in a law court or administrative proceedings, in case of disputes	Not required in the law court or administrative proceedings
4	Scope	The coverage of forensic accounting is wider than audit, dealing with both financial and non-financial issues	Limited to all issues relating to accounting as the financial statement under examination
5	Procedure	Detailed analytical study of accounts and any other documents	Examine accounts on test basis

Qualities of a Good Forensic Accountant

Indisputably, the forensic accountant should exhibit a high level of competence in multi-disciplinary areas like auditing, accounting, investigation, information and communication technology (ICT), criminology, sociology and corporate governance.

The forensic auditor should also be of high integrity. In addition, Okereke (2018:20) posited that the forensic accountant should be analytical, detailed-oriented, ethical, responsive and insightful. Others are that he should be inquisitive, intuitive, persistent, evaluative and able to function well under pressure. He should be able to generate new ideas and scenarios. Able to make people feel at ease, team playing and adaptive

Challenges of Forensic Accounting in Nigeria

Forensic accounting faces tremendous challenges, especially in Nigeria. Some of them are:

1. Absence of legally-recognized professional forensic association.
2. The culture of secrecy makes forensic data gathering herculean.

3. The near absence, inadequate or epileptic supply of infrastructure like power makes forensic information data gathering very tedious and cumbersome.
4. The snail speed procedure in dispensing justice in courts is a major bottleneck to advancement of forensic accounting.
5. The inapplicability of law of electronic evidence in Nigeria is a hindrance to the advancement of forensic accounting.
6. High level of corruption, especially in high places results in miscarriage of justice and impacts negatively on forensic accounting practice in Nigeria.
7. Problem of inter-jurisdiction hampers successful prosecution of fraudsters.
8. Nigeria public sector institutional weaknesses and political interference frustrates forensic accounting practice.

Can Forensic Accounting Curb Financial Crime especially in Nigeria

The answer is YES provided the challenges (and others yet to be highlighted) above are remedied. Studies by Enofe, Okpako and Atube, (2013:5), Modugu and Anyaduba, 2013:17 and others have shown that forensic accounting could constrain fraudulent activities in Nigeria.

The most popular of forensic audit is the investigative forensic audit into the allegation of unremitted funds into the federation accounts by the NNPC in 2015 as conducted by Price Water House Company (PWC).

CONCLUSION

Conclusively forensic accounting practice in Nigeria would go a very long way in curbing financial crime but would hardly stem or obliterate fraud because high level poverty and corruption instincts are still being misconstrued as Nigeria culture.

RECOMMENDATIONS

Based on our findings above, we recommended, inter alia, that:

1. Forensic audit should only be conducted whenever a red flag is risen by the external auditor
2. Only a Government-licensed accountant should be allowed to conduct a forensic audit.
3. The accounts expert witness should have versatility of law and other related disciplines.

We are very confident that if our recommendations are absorbed prior to conduct of forensic audits, the objectives highlighted above must be achieved reasonably,

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