Forensic Accounting and Fraud in the Public Sector (A Case of Imo State Ministry of Finance)

Ozuomba C.N.1*, Ofor T.N.3 and Okoye P.V.C.3
1Department of Accountancy, Gregory University Uturu, Abia State Nigeria
2Department of Accountancy, Anambra State University Igbariam, Nigeria
3Department of Accountancy, Nnamdi Azikiwe University Awka, Anambra State Nigeria
chidinmaozuomba@hotmail.com
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Abstract
This study examines forensic accounting and fraud in the public sector. Primary data was used. 140 questionnaires were administered to staff of Imo state ministry of finance, Nigeria, interviews were conducted with those ministries out of which 90 were filled and returned. Tables and simple percentages were used to analyze data collected. The statistical tool used to test hypotheses was Analysis of Variance (ANOVA). Among the findings was that the fraud occurrences can be reduced using Forensic Accounting skills. The Forensic accountant can help to detect and prevent fraud in the public sector. The Forensic Accountants are significantly different from the External Auditors. It was recommended that adequate training of staff as well as good orientation and induction should be adopted by the Imo State Government, the practice of Forensic Accounting should be embraced.

Keywords: Forensic accountant, Fraud prevention and detection, Public sector, Ministry of finance.

Introduction
Forensic accounting is perceived to have evolved in response to certain emerging fraud related cases. The Enron and WorldCom scandals for example have introduced the field forensic accounting to the limelight. Forensic accounting is seen as the utilization of accounting, auditing and investigative skills to assist in legal matters and applies specialized body of knowledge to the evidence of economic transaction and reporting suitable for court proceedings and accountability. Sophistication of financial related fraud and increase in financial crime has led to the need of forensic according in order to aid investigation and prosecution of the syndicates of financial crimes.

Forensic accounting is a specialized field of accounting that encompasses financial expertise, fraud knowledge as well as stored knowledge and understanding of business reality and working of the legal system. Forensic accounting can, therefore, be seen as an aspect of accounting that is suitable for legal review and offering the highest level of assurance. Forensic accountant receives a special training in order to assist in legal process in the court of law as well as in dispute resolution.

The high increase in cases of fraud and fraudulent activities in Nigeria is alarming and requires the visible presence of forensic accounting services. The Centre for Forensic Studies report in Nigeria opined that the increasing need for forensic and investigative accounting in the banking sector results from the complexities of modern day banking with large volume of complex data. This makes monitoring of transactions, tracing of errors, auditing manually difficult and internal auditing processes ineffective. This has posed a problem for the banking industries since the policy of banks consolidation by the Central Bank of Nigeria (CBN). The general expectation is that the investigative skills of forensic accounting may come into play in unraveling and reversing this menace of fraud scheming that has eaten deep into the financial system of banks hereby, questioning the safety of customer’s monies and the general expectation of the masses. The Centre for Forensic Studies report in Nigeria remarked that the application of forensic accounting can be used to reverse the leakages that cause corporate failure. This is because forensic accounting seeks to find errors, detect red flags of fraud and suspicious transactions before it transcends into fraud. This study therefore, seeks to investigate the role of forensic accounting in the face of increasing financial crime and fraudulent activities, especially in the banking sector Nigeria.

Statement of the Problem: Fraud and fraudulent activities in Nigeria in on an alarming increase, this emphasizes the visibility of forensic accounting services. The increasing incidence of fraud and fraudulent activities in Nigeria and these studies have argued that in Nigeria, financial fraud is gradually becoming a normal way of life. There is a general notion that the forensic accounting skills and expertise may come into play in unraveling and reversing this menace of fraud scheming that has eaten deep into the financial system of banks hereby, questioning the safety of customer’s monies and the general expectation of the masses. The Centre for Forensic Studies report in Nigeria opined that the increasing need for forensic and investigative accounting in the banking sector results from the complexities of modern day banking with large volume of complex data. This makes monitoring of transactions, tracing of errors, auditing manually difficult and internal auditing processes ineffective. This has posed a problem for the banking industries since the policy of banks consolidation by the Central Bank of Nigeria (CBN). The general expectation is that the investigative skills of forensic accounting may come into play in unraveling and reversing this menace of fraud scheming that has eaten deep into the financial system of banks hereby, questioning the safety of customer’s monies and the general expectation of the masses. The Centre for Forensic Studies report in Nigeria remarked that the application of forensic accounting can be used to reverse the leakages that cause corporate failure. This is because forensic accounting seeks to find errors, detect red flags of fraud and suspicious transactions before it transcends into fraud. This study therefore, seeks to investigate the role of forensic accounting in the face of increasing financial crime and fraudulent activities, especially in the banking sector Nigeria.

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The issue of corruption - misappropriation of funds, money laundering, embezzlement, bankruptcy, security fraud, breach of contract and poor internal control has necessitated forensic and investigative accounting. Independent auditors examine the financial statement of an entity to see whether they show a true and fair view. Even with the presence of internal and external auditors, financial statement fraud is still perpetrated in the public sector. The independent auditors check whether there is uniformity in the preparation of financial statement, can report fraud warning signs and does not go in-depth or in detail to detect fraud. The increase in white collar crime in the corporate world among public servants has been an ongoing issue for thousands of years and continues to be a problem today. Law enforcement personnel in recent years have become aware of white collar crimes, but lack expertise and training in combating such crimes.

The huge amount of money melted out by government on daily basis without much development in the society has left the public through its legislators demanding to know how this huge amount are spent and yet there is little or no development in the society today. This huge amount of money carted away in the public sector is done under the supervision of internal auditors, some are of the opinion that internal auditors as employees of the public sector cannot give an unbiased opinion and external auditors fail to detect this fraud warning signs because of the increase in more sophisticated technology which has created opportunities for organized crime syndicates to groo their tactics and means of perpetrating crime.

The accounting scandals at Enron, WorldCom and other companies shocked the world and exposed corporate deceit and greed embedded in human minds. More recently, Enron WorldCom financial crisis has exposed a great number of fraud schemes, such as Bernie Madoff's multi-billion dollar Ponzi scheme.

Forensic accountants are tasked, among other things, with piecing together the financial puzzle after the fallout of such scandals. They rebuild entire financial systems, uncover financial statement fraud, trace funds, discover hidden assets, and more. These scandals, and the subsequent investigations and trials that have followed, have given the general public a glimpse into just one of many areas of forensic accounting.

The general objective of this study is to examine how forensic accountants can help to reduce fraud in the public sector of Imo State. The specific objectives are: i. To examine how fraud cases can be reduced using forensic accountants in the public sector of Nigeria. ii. To examine what the accountant can do that the external auditors cannot do. iii. To investigate the effect of forensic accounting on the detection and prevention of fraud in the public sector.

**Literature Review:** Forensic and investigative accounting is the application of financial skills and investigative mentality to resolve issues connected with the contacts of the rules of evidence. Forensic accounting can be seen as the science of gathering and presenting financial information in a form that will be accepted by a court. A forensic accountant is called upon when there is a specific allegation of fraud in an organization. A forensic accountant has the knowledge of criminology and law, fraud detection and litigation support. He does his work according to the demands of the organization which is to detect the alleged fraud, its perpetrators.

As a discipline, it encompasses financial expertise and understanding of business reality, working of the legal system. Forensic accounting is the integration of accounting, auditing, and investigative skills. However, in a forensic accounting investigation materiality is not a factor and does not affect the scope; sample testing is generally not done. A review of all records for a time period is typically performed to determine trends and identify patterns. Transactions of all sizes can be reviewed. In fact, even the smallest transactions can lead a fraud examiner to a potential fraudulent scheme.

Forensic accountants possess a strong sense of professional skepticism and require original documentation to substantiate facts and circumstantial evidence to form opinions. In forensic accounting, the focus of concentration is on crimes and anomalies as well as their detection and unraveling. This includes any indications of fraud presented by errors and deviations, since the main objective is to gather evidence for litigation purposes. The forensic accountant’s scope of responsibility is broader because it includes public interests.

**Theoretical framework**

Due to the expansion and complexity of the scope of commerce and industry in Nigeria and the world over, the need to track money and financial information has grown. The origination of forensic accounting to Kutilya, the first economist to openly recognize the need for the forensic accountant whom he said, mentioned 40 ways of embezzlement centuries ago. He however stated that the term "forensic accounting was coined by Peloubet in 1946. He said, forensic accounting is the application of accounting knowledge and investigative skills to identify and resolve legal issues. It is the science of using accounting as a tool to identify and develop proof of money flow These tools and/or techniques, skills and knowledge can be invaluable for fraud and forensic accounting investigators." "White collar crime theory by Sutherland (1949) as cited in Okoye and Gbegi (2013). Sutherland was the first to coin the term, and hypothesis white-collar criminals, he attributed different characteristics and motives of fraudulent corporate workers than typical street criminals. According to Modugu and Anyaduba (2013); in their work, Forensic accounting and financial fraud in Nigeria using binomial test in their data analysis, found out that there is significant agreement amongst stakeholders on the effectiveness of forensic accounting in fraud control, financial reporting and internal control quality.
Methodology

The structural framework of this study is based on survey design, data was collected from primary; Questionnaire and interview. The population of this research is the Imo state ministry of finance. The respondents of these firms are the chartered accountants, accountants, practicing auditors and other staff of the ministry.

A total number of 140 questionnaires were distributed and 90 were filled and returned. Tables and simple percentage were used in the analysis of the data collected from the respondents and hypotheses were analysed using the Analysis of Variance (ANOVA). The formula is as follows:

Between group sum of square

\[ \frac{\sum (\sum x)^2}{n} - \frac{\sum (\sum x)^2}{n} \]

Formula for within group sum of squares

\[ \sum \sum x^2 - \frac{\sum (\sum x)^2}{n} \]

Test of hypothesis 1: \( H_0 \): the use of forensic accounting does not significantly reduce the occurrence of fraud cases in the public sector.

\[ \sum \sum x = 401 = (\sum \sum x)^2 \cdot \frac{1}{n} = 13185/20 = 8040.05 \]

Formula for between groups sum of squares

\[ \sum (\sum x)^2 - \frac{\sum (\sum x)^2}{n} \]

\[ 2637 - 8040.05 = 5403.05 \]

Formula for within group sum of squares

\[ \sum \sum x^2 - \frac{\sum (\sum x)^2}{n} \]

\[ 13185 - 8040.05 = 5144.95 \]

Degree of freedom (df) = K – 1 (number of groups minus one)

\[ 4 - 1 = 3 \]

Degree of freedom (df) for within groups = N – K (total number of respondents in the groups minus number of groups)

\[ 20 - 4 = 16 \]

Degree of freedom (df) for total variance = N – 1 (total number of respondents in the groups minus one).

\[ 20 - 1 = 19 \]

Mean sum of squares (variance estimate)

\[ \frac{5403.05}{3} = 1801.02 \]

Within group mean square

\[ \frac{5144.95}{16} = 321.56 \]

\[ F - ratio = \frac{1801.02}{321.56} = 2.05 \]

Table-1

<table>
<thead>
<tr>
<th></th>
<th>Chartered Accountants</th>
<th>Accountants</th>
<th>Practicing Auditors</th>
<th>Management Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
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<tr>
<td>( \sum x )</td>
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<td>201</td>
</tr>
<tr>
<td>( \sum x^2 )</td>
<td>690</td>
<td>1622</td>
<td>1860</td>
<td>9013</td>
</tr>
<tr>
<td>( \sum x^2/n )</td>
<td>138</td>
<td>324.4</td>
<td>372</td>
<td>1802.6</td>
</tr>
<tr>
<td>( \sum n=20 )</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>( \sum \sum x=401 )</td>
<td>( \sum (\sum x)^2 \cdot \frac{1}{n} = 13185/20 = 8040.05 )</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source: author’s computation</td>
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<td></td>
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</tbody>
</table>

Table-2

<table>
<thead>
<tr>
<th>Source of variation</th>
<th>Sum of squares</th>
<th>Degree of freedom</th>
<th>Mean sum of squares</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between groups</td>
<td>5403.05</td>
<td>3</td>
<td>1801.02</td>
<td>5.60</td>
</tr>
<tr>
<td>Within groups</td>
<td>5144.95</td>
<td>16</td>
<td>321.56</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: author’s computation
F table at 5% level for $V_1 = 3$
$V_2 = 16 = 3.24$

$H_0 : X_1 = X_2 = X_3$
$H_1 : X_1 = X_2 = X_3$

decision rule
if $F_{cal} > F_{table}$ reject $H_0$ and accept $H_1$
if $F_{cal} < F_{table}$ accept $H_0$ and reject $H_1$

5.60 > 3.24 we accept the alternate ($H_1$) the use of forensic accounting reduces the occurrence of fraud cases in the public sector.

**Test of hypothesis 2:** $H_0$: forensic accountant cannot help in detecting and preventing fraud in the public sector.

$$\sum \sum x = 441 = (\sum \sum x)^2 = 194481 \Rightarrow (\sum \sum x)^2/n = 194481/20 = 9724.05$$

Formula for between groups sum of squares
$$\sum (\sum x)^2/n - (\sum x)^2/n$$
\[= 3005 - 9724.05 = 6719.05\]

Formula for within group sum of squares
$$\sum x^2 - \sum (\sum x)^2/n$$
\[= 15025 - 9724.05 = 5300.95\]

Degree of freedom (df) = $K - 1$ (number of groups minus one).
\[= 4 - 1 = 3\]

Degree of freedom (df) for within groups = $N - K$ (total number of respondents in the groups minus number of groups).
\[= 20 - 4 = 16\]

Degree of freedom (df) for total variance = $N - 1$ (total number of respondents in the groups minus one).
\[= 20 - 1 = 19\]

Mean sum of squares (variance estimate)
\[= 6719.05 \div 3 = 2239.68\]

Within group mean square
\[= 5300.95 \div 16 = 331.31\]

$F$ – ratio
\[= 2239.68 \div 331.31 = 6.76\]

$F$ table at 5% level for $V_1 = 3$
$V_2 = 16 = 3.24$

if $F_{cal} > F_{table}$ reject $H_0$ and accept $H_1$
if $F_{cal} < F_{table}$ accept $H_0$ and reject $H_1$

6.76 > 3.24 we accept the alternate ($H_1$) that is, forensic accountant can help in detecting and preventing fraud in the public sector.

**Test of hypothesis 3:** $H_0$: there is no significant difference between professional forensic accountants and traditional external auditors.

<table>
<thead>
<tr>
<th>Chartered Accountants</th>
<th>Accountants</th>
<th>Practicing Auditors</th>
<th>Management Staff</th>
<th>$\sum n = 35$</th>
</tr>
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<td>N</td>
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<tr>
<td>$\sum x$</td>
<td>60</td>
<td>90</td>
<td>90</td>
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<tr>
<td>$\sum x^2$</td>
<td>874</td>
<td>3032</td>
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<td>9013</td>
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<tr>
<td>$\sum x^2/n$</td>
<td>174.8</td>
<td>606.4</td>
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</table>

Source: author’s computation

**Table-4**
Summary of Anova for test of hypothesis 2

<table>
<thead>
<tr>
<th>Source of variation</th>
<th>Sum of squares</th>
<th>Degree of freedom</th>
<th>Mean sum of squares variation</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between groups</td>
<td>6719.05</td>
<td>3</td>
<td>2239.68</td>
<td>6.76</td>
</tr>
<tr>
<td>Within groups</td>
<td>5300.95</td>
<td>16</td>
<td>331.31</td>
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<tr>
<td>Total</td>
<td></td>
<td>19</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: author’s computation
∑x=359= (Σx)^2 = 128881 :. (Σx)^2/n = 128881/20 = 6444.05

Formula for between groups sum of squares
\[
\sum_{n}^{(\Sigma x)^2} - \frac{(\Sigma x)^2}{n}
\]
:. 2554.6 – 6444.05 = 3909.45

Formula for within group sum of squares
\[
\sum \sum x^2 - \sum (\Sigma x)^2
\]
12773– 6444.05= 6328.95

Degree of freedom (df) = K – 1 (number of groups minus one)
:. 4 – 1 = 3

Degree of freedom (df) for within groups = N – K (total number of respondents in the groups minus number of groups)
:. 20 – 4=16

Degree of freedom (df) for total variance = N – 1 (total number of respondents in the groups minus one).
:. 20 – 1 =19

Mean sum of squares (variance estimate)
= 3909.45
3 = 1303.15

Within group mean square
= 6328.95
16 = 395.60

F – ratio = 1303.15
395.60= 3.29

F table at 5% level for V1 = 3
V2 = 16 = 3.24
H0 : X1 = X2 = X3
H1 : X1 ≠ X2 ≠ X3

decision rule
if Fcal > Ftable reject H0 and accept H1
if Fcal < Ftable accept H0 and reject H1
2.61 > 2.44 we accept the alternate (H1) that is, there is significant difference between professional forensic accountants and traditional external auditors.

Conclusion
The main purpose of this research has been to examine how forensic accountants can help to reduce fraud in the public sector of Imo State. This was to establish whether Forensic accountant can help in detecting and preventing fraud in the public sector and to examine if there is a significance difference between a Forensic Accountants and External Auditors. This was accomplished by conducting a survey among the chartered accountants, accountants, practicing auditors and other staff of the Imo State ministry finance. Among the findings was that the use of forensic accounting reduces the occurrence of fraud cases in the public sector. Forensic accountant can help in detecting and preventing fraud in the public sector. There is significance difference between a Forensic Accountants and External Auditors. It was recommended that government of Imo state needs to support induction and work related training, Imo State ministry should embrace the practice of Forensic Accounting.

Table-5
Difference between professional forensic accountants and traditional external auditors

<table>
<thead>
<tr>
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<th>Management Staff</th>
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<tbody>
<tr>
<td>N</td>
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<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Σx</td>
<td>48</td>
<td>72</td>
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<td>159</td>
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<tr>
<td>Σx^2</td>
<td>848</td>
<td>2080</td>
<td>2136</td>
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<tr>
<td>Σx^2/n</td>
<td>169.6</td>
<td>416</td>
<td>427.2</td>
<td>1541.8</td>
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<tr>
<td>Σn=20</td>
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<td>ΣΣx=359</td>
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<tr>
<td>ΣΣx^2=12773</td>
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<tr>
<td>Σ(Σx^2/n)=2554.6</td>
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</table>

Source: author’s computation

Table-6
Summary of Anova for test of hypothesis 3

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<th>source of variation</th>
<th>sum of squares</th>
<th>Degree of freedom</th>
<th>Mean sum of squares</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between groups</td>
<td>3909.45</td>
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<td>1303.15</td>
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<tr>
<td>Within groups</td>
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<td>Total</td>
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Source: author’s computation
References


