

Effect of Forensic Accounting on the Performance of Nigerian Banking Sector

Okoroyibo Eloho Elizabeth¹, Dr. Omoregie Nosa Alfred Edobor²

¹eloholizzybetty@gmail.com

Lecturer, Department of Accountancy, Delta State Polytechnic Ozoro, Delta State, Nigeria.

²mobendexcel@gmail.com

Lecturer, Ambrose Ali University, Ekpoma, Edo State

Abstract: *The research paper examined the effect of forensic accounting on the performance of Nigerian banking sector. Data were gathered from sample of First Bank and United Bank of Africa (UBA) Plc's annual reports and accounts for (12) twelve years (2007-2018). The research work made use of multiple regression method. Forensic audit (FAUD) was used as proxy for forensic accounting and as the dependent variable, while net profit margin (NPM), profit after tax (PAT) and dividend per share (DPS) were used as independent variables using multiple regression technique, E-view 9.0 software package as tool for data analysis. The result of the analysis shows that forensic audit has significant effect on the net profit margin of selected Nigerian banks. It was also observed that forensic audit influences profit after tax of Nigerian banks. The study also revealed that forensic audit has significant effect on retained earnings and dividend per share of Nigerian banks. Based on the findings of this study, the researchers recommends that the management of the commercial banks should emphasize and enhance use of forensic financial information as this will help in increasing their profitability.*

Keywords: Forensic accounting, Performance and Nigerian Banking Sector

1. INTRODUCTION

Forensic accounting operates the practice of rigorous data collection and analysis in the areas of litigation support consulting, expert witnessing, and fraud examination (Ogunyemi 2014). Forensic Accounting provides an accounting analysis suitable to the court and forms the basis for discussion, debate and ultimately dispute resolution (Aburime 2008).

Agbaje *et al* (2014), noted that the recent banking reforms in Nigeria arose mainly out of the need to address threat of systemic market failure occasioned by inadequate prudential management, fraud and other credit related issues. It is generally believed that one of the major causative factors in this regard is the inadequate use of relevant forensic accounting services.

Forensic accounting is a science dealing with the application of accounting facts and concepts gathered through auditing methods, techniques and procedures to resolve legal problems which requires the integration of investigative, accounting, and auditing skills (Arokiasamy and Cristal, 2009; Dhar and Sarkar (2010).

Forensic accounting is rapidly becoming a growing aspect of accounting in Nigeria financial system. Owojori and Asaolu (2009), asserts that integration of accounting, auditing, and investigative skills combined together resulted in the specialty known as Forensic Accounting, which focuses very closely on detecting or preventing economic and financial crimes. It is also referred to as financial fraud investigation which includes the analysis of accounting records to prove or disprove financial fraud and serving as an expert witness in Court to prove or disprove same. Thus, basically, forensic

accounting aims at using accounting report in a form suitable for legal purposes.

Statement of the Problem

Fake exercises in a business bank setting may negatively affect the reasonability, execution, maintainability and notoriety of advertisements banks. Cheats in Nigerian business banks have displayed a lasting issue to the business saving money administration and controllers alike. The event of false exercises in the business saving money area has been archived in different examples.

Managing an account misrepresentation is an issue to different partners. In the first place, it lessens the gainfulness of a bank and this may prompt decreased firm esteem emerging out of low profits to investors. In the extraordinary case, it might debilitate the going worry of the business bank and this may affect adversely on investor riches. The contributors might be contrarily influenced by bank misrepresentation particularly in the event that it prompts a bank run. This may prompt colossal misfortunes on client stores. Because of banking extortion, some staff in the business has either been rejected, or has their arrangement ended or rashly resigned. This implies some accomplished delivers the segments are lost because of their contribution in fakes and fabrications. The workers might be influenced by losing their activity if there should be an occurrence of twisting up or liquidation of a bank because of extortion

Research on misrepresentation in business banks has gotten a great deal of academic consideration. A string of studies (Akindele, 2011); (Chi-Chi and Ebimobowei, 2012), Famous and Okoeguale, (2012), (Odi 2013), have concentrated on the effect of extortion on business banks execution while another string has concentrated on the components affecting or

fueling the event of misrepresentation (Ogunleye, 2010). In any case, none of these investigations have offered Forensic accounting as an answer for managing an account execution. This investigation contends that forensic accounting may have a part to play in keeping money execution. Along these lines, this investigation goes for inspecting the impact of legal accounting on the execution of Nigerian saving money segment.

Objectives of the Study

The aim of this paper is to evaluate the effect of forensic accounting on the performance of Nigerian banking sector. The specific objectives of this study include the following;

1. To examine the effect of forensic audit on the net profit margin of selected Nigerian banks.
2. To evaluate the effect of forensic audit on profit after tax of Nigerian banks.
3. To ascertain the effect of forensic audit on retained earnings and dividend per share of Nigerian banks.

Research Questions

1. To what extent does forensic audit affect the net profit margin of selected Nigerian banks?
2. What are the effects of forensic audit on profit after tax of Nigerian banks?
3. To what extent does forensic audit affect retained earnings and dividend per share of Nigerian banks?

Statement of Hypotheses

Ho₁: Forensic audit does not have any significant effect on the net profit margin of selected Nigerian banks.

Ho₂: Forensic audit does not have significant effect on profit after tax of Nigerian banks.

Ho₃: Forensic audit does not affect retained earnings and dividend per share of Nigerian banks.

2. REVIEW OF RELATED LITERATURE

Conceptual Framework

Forensic accounting is widely regarded as a specialty practice of accounting, auditing practice where investigative skills are used to analyze information that is suitable for use in a court of law. In support of this, Popoola et al. (2016), consider forensic accounting as a process of using accounting skills and knowledge to investigate fraud or misappropriation of fund and to analyze the financial information for use in legal proceedings. Another empirical evidence documented by Singleton and Singleton (2010), who consider forensic accounting as a form of comprehensive fraud investigation and analyzing anti-fraud control through an audit of accounting records in search of evidence of fraud. The authors further emphasized that forensic accounting investigation include writing a report to management or court of law to determine certain evidence and the forensic accountant should serve as an expert in a

court. In most of the corporate organizations, forensic accounting investigation is widely believed as a mechanism that provides more comprehensive details information concerning financial fraud (Eliezer & Emmanuel, 2015; Efosa & Kingsley, 2016). This indicates that forensic accounting investigation deals with the application and use of accounting knowledge and skills to determine financial facts and evidence to legal problems.

In the same way, the view of Modugu and Anyaduba (2013) consider forensic accounting as the special investigation process through the utilization of accounting skills, auditing skills, and investigative skills to determine the extent of financial fraud in legal matters.

Forensic accounting operates the practice of rigorous data collection and analysis in the areas of litigation support consulting, expert witnessing, and fraud examination (Odunayo 2014). Forensic accounting could be used to reverse the leakages that cause corporate failures in the public sector because a proactive forensic accounting practice seeks out errors, operational vagaries and deviant transactions before they crystallize into fraud. Nigeria's ability to realize its potentials and emerge as one of the 20 leading global economies in the world by 2020 will require forensic accounting enforcements. Specifically, forensic accountants will be valuable in urgently and immediately addressing the most serious domestic and external constraints to the country's growth and competitiveness. These constraints that would be addressed include: poor and decaying infrastructure; epileptic power supply; weak fiscal and monetary policy co-ordination; fiscal dominance and its implications for inflation and private sector financing; pervasive rent-seeking behaviour by private and public agents, including corruption; weak institutions and regulatory deficit; policy reversals and lack of follow-through; inordinate dependence on the oil sector for government revenue/expenditure; disconnect between the financial sector and the real sector; high population growth which places undue stress on basic life-sustaining resources and eventually results in diminished well-being and quality of life; insecurity of lives and property; threats of climate change, especially in relation to food production; and vulnerabilities in the global economic environment, in particular, the global economic crisis and disturbances in the international oil market (National Planning Commission, 2010).

Fraud Detection and Forensic Accounting

Accounting fraud is a demonstration of purposely distorting bookkeeping records, for example, deals or cost records, keeping in mind the end goal to help the net wage or deals figures; accounting fraud is unlawful and subjects the organization and the administrators required to common claims (Arokiasamy and Cristal, 2009). Organization authorities may depend on accounting fraud to turn around misfortune or to guarantee that they meet acquiring desires from investors or the general population.

The Need for Forensic Accounting

The need for forensic accounting arose as a result of failure of audit system in organization to detect fraud and other fraudulent activities. Professionals in the field have observed that intense economic pressures have lent so many into fraudulent activities in most organization. These great challenges have led to hindrances in National developments which result to the introduction of forensic accounting. Forensic accounting programme was designed to help Accountant develop an investigative eye toward both internal and external fraud and provide crucial information to cope with it when discovered. Forensic accounting is a new and rapid growing area in accounting which is like a bridge connecting accounting system to legal system. (Mayunge, 2012).

Theoretical Framework

Agency Theory

Agency theory addresses the Agency issue in which one party (the principal) delegates work to another (the agent), who performs that work (Jensen & Meckling, 1976). There is an agency relationship when the actions of one individual affect both his welfare and that of another person in an explicit or implicit contractual relationship. The individual who undertakes the actions is the agent and the person whose welfare (utility), measured in monetary terms, is affected by the agent's actions is called the principal (Akaranga, 2010).

The typical case of agency relationship is the one that exists between an employer (the principal) and his employee (the agent). In an agency relationship, the principal wants the agent to act in the principal's interest. However, the agent is expected to have his own interest and consequently, he may not act in the principal's best interests. An agency relationship is a contract under which one or more persons (the principal), engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationships are utility maximizers, there is a good reason to believe that the agent will not always act in the best interests of the principal (Jensen & Meckling, 1976).

Fraud Preventative Theory

According to Akintoye (2008), forensic litigation support in banking sector provides assistance of a nature in a matter involving existing or pending litigation or represents the factual presentation of economic issue related to existing or pending litigation. It deals primarily with issues related to the qualification of economic damages sustained by parties involved in legal disputes and can assist in resolving dispute and can assist in resolving disputes, even before reaching or getting to the court room. A good example of litigation support assignment would be calculating the economic loss resulting from breach of contract.

Empirical Review

Nwankwo (2013) examined implications of fraud on commercial banks performance in Nigeria. The study revealed that co-efficient of ATM bank fraud, forged cheque fraud and clearing fraud are in conformity with apriori expectations. There is a positive relationship between

performances of banking industry and clearing cheque fraud with the co-efficient of clearing cheque at 4848.487, this implies a unit increase in CF will increase all EPS by 4848.487. The study concluded, it is important to emphasize that the management and regulation of bank fraud was important in the performance of Nigeria commercial banks.

Ehioghiren, and Atu, (2016), studied forensic accounting and fraud management: Evidence from Nigeria. Primary sources of data were used for the study. The findings were that forensic accounting significantly influences fraud detection and control, and also there are significant differences between the duties of professional forensic accountant and that of traditional external auditors.

Olaoye and Dada (2014) investigated Analysis of frauds in banks: Nigeria's Experience. The study revealed that misplaced value judgement and prevailing harsh economic environment, by time frauds are on the increase and banks are losing amounts running into millions of naira to fraudsters almost every day. The study recommended that the staff should be properly screened before they were employed and satisfactorily references must always be obtained. It also recommended steadfastness in punishing offenders and adoption of zero tolerance to corruption.

Another empirical study by Popoola et al. (2016) examines whether forensic accountants knowledge, skills and competence are basically required for fraud prevention and detection in Nigeria. The study use survey research design and 400 questionnaires distributed among two groups of respondents comprise forensic accountants and auditors in the office of the Auditor General of Federation and Accountant General of the Federation in Nigeria respectively. The findings of the study revealed that forensic accountants have a high level of knowledge, skills, and experience in fraud prevention and detection. The findings of the study highlight the impact and influence of forensic accounting service towards fraud prevention and detection in both public and private organization. In the same context, the study of Suleiman, Othman and Ahmi (2018) analyzed the expert perception on the impact of forensic accounting investigation techniques in mitigating corruption in Nigeria. Using in-depth interviews among 24 participants from anti-corruption bodies in Nigeria such as EFCC and ICPC the study finds forensic accounting investigation as more appropriate in fraud investigation and is suitable for use for court purposes.

Furthermore, a study by Nwaiwu and Aaron (2018), have also documented empirical evidence about the impact of a forensic accounting investigation. The authors found that forensic accounting is the best mechanism for fraud detection and prevention in an organization. Also, the findings of the study show that forensic accounting service improves the company overall performance. Additionally, Akhidime (2018) has also found that forensic accounting service produces appropriate outcomes in-terms of fraud prevention and detection capability. The study indicates that forensic accounting provides a more desirable process in

understanding fraud has occurred. These studies highlighted the needs of forensic accounting investigation towards uncovering fraud issues.

3. METHODOLOGY

The research design employed in this research is the *ex-post facto* research design. This is because, the researcher does not aim to control any of the variables under investigation and our pre-disposition is to observe occurrence over a period of time (2007-2018). Another justification for the research design is the desire of the researcher to use secondary data to test the hypothesis formulated. These are already existing data, thus, cannot be manipulated by the researcher. The research is conducted in Nigeria with specific reference to Nigerian banking sector. The population of this study was twenty-two (22) banks in Nigeria. The sample size of two selected banks in Nigeria as at December, 2018 was used. The sample includes First Bank Plc. and United bank of Africa Plc. This study made extensive use of secondary sources of data. The secondary sources used in this study includes: journals, annual reports of the two selected banks and CBN statistical bulletin.

Model Specification

The model specification for this study will be as follows;

$$FAUD = \beta_0 + \beta_1NPM_{t-1} + \beta_2PAT_{t-1} + \beta_3RE_{t-1} + ut \dots$$

Where:

FINPEF = Financial Performance

FAUD = Forensic Audit

NPM = Net Profit Margin

PAT = Profit After tax

RE = Retained Earnings

Bo = Constant (Coefficient) to be estimated

T = Current Period/Time

ut = Error term

$\beta_1-\beta_4$ = Parameter of the independent variables to be estimated.

4. DATA ANALYSIS

This section employed the used of descriptive statistics, correlation and linear multiple regression made to analyze and interpret the data collected in the study. The data collect were presented in a tabular form. The analysis followed the model specification in chapter three of this study. The chapter is organized into five sections: section two presents the data collected, section three deals with descriptive statistic explains the regression results. The computational device used in the e-views output.

This section provides the data used in the study. These data are in relation to the variables used in the study. The variables are, return on equity, asset value per share, earnings per share, firm size, return on assets and net assets value per share per share.

Regression analysis is a statistical process for estimating the relationships among variables it also includes many techniques for modeling and analyzing several variables when the focus is on the relationship between a dependent variable and one or more independent variable and one or more independent variable (or predictors).

However, the analysis of research presented in this paper, examines the “effects of forensic accounting on the performance of Nigerian banking sector”. This section discusses the regression results in relation to forensic audit volatility and other analysis for the period under review.

The results are presented below.

Table 4.2: Regression results of the analysis Dependent Variable: FAUD

Method: Panel Least Squares

Date: 06/18/19 Time: 14:57

Sample: 2007 – 2018

Periods included: 12

Cross-sections included: 2

Total panel (balanced) observations: 24

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NPM	1.947560	0.438337	4.443065	0.0003
PAT	9.99E-11	7.61E-10	0.131256	0.8970
RTENS	-6.99E-09	1.75E-09	-3.996624	0.0008
C	0.229931	0.180738	1.272175	0.2195
R-squared	0.564254	Mean dependent var	0.719545	
Adjusted R-squared	0.491630	S.D. dependent var	0.518427	
S.E. of regression	0.369639	Akaikeinfo criterion	1.010385	
Sum squared reside	2.459391	Schwarz criterion	1.208756	
Log likelihood	-7.114231	Hannan-Quinn riter.	1.057115	
F-statistic	7.769496	Durbin-Watson stat	1.026191	
Prob (F-statistic)	0.001555			

Source: E-views 9.0 Software

Interpretation of Regression Coefficient Result

Table 4.2, indicates that an increase in Net profit margin, profit after tax and retained earnings of Nigerian banks will decrease forensic audit by 0.369639. This implies that forensic audit is affected negatively by Net profit margin, profit after tax and retained earnings of Nigerian banks.

Interpretation of Durbin Watson- Statistic

The Durbin-Watson statistic is 1.026191 which is not up to 2. In this case, the Durbin Watson statistic is closer to 2 than 0 which indicates the absence of autocorrelation in the series. The result indicates the absence of positive serial correlation

Table 4.3: Correlation of dependent and independent variables

	FAUD	NPM	PAT	RTENS
FAUD	1.000000	0.393701	0.026343	-0.249784
NPM	0.393701	1.000000	0.414279	0.628620
PAT	0.026343	0.414279	1.000000	0.448560
RTENS	-0.249784	0.628620	0.448560	1.000000

Source: E-views 9.0 Software

The table above represents that correlation analysis of the variables which reveals that forensic audit has significant effect on the net profit margin of selected Nigerian banks in the tune of 0.0003.

Hypothesis two states that forensic audit has significant effect on profit after tax of Nigerian banks. The regression analysis result of Table 4.2 reveals that forensic audit is influenced negatively by profit after tax in an insignificant amount of 0.8970.

The last hypothesis states that Forensic audit does not affect retained earnings and dividend per share of Nigerian banks. There is great relationship between retained earnings and forensic audit of Nigerian banks in the tune of 0.0008.

Findings of the study

At the end of this research work on the effect of forensic accounting on the performance of Nigerian banking sector. The researchers found out the following;

1. Forensic audit has significant effect on the net profit margin of selected Nigerian banks.
2. It was also observed that forensic audit influences profit after tax of Nigerian banks.
3. The study also revealed that forensic audit has significant effect on retained earnings and dividend per share of Nigerian banks.

5. CONCLUSION AND RECOMMENDATIONS

The study concludes that forensic investigation and forensic litigation were statistically significant in explaining changes in financial performance of commercial banks in Nigeria. It also discovered that the use of forensic financial information influenced and improved performance of commercial banks in Nigeria which has improved transparency in commercial

in the time series data extracted from the annual report and accounts of selected banks in Nigeria.

Coefficient of Determination (R²)

The Adjusted R-squared is 0.491630. The adjusted R² reveals that only about 49% of the variations in Forensic audit could be explained by Net profit margin, profit after tax and retained earnings of Nigerian banks while about 51% could be explained by other factors capable of influencing forensic audit of Nigerian banks as well as the error term and the unexplained variables.

banks hence it has curb financial fraud thus increasing profitability.

The study recommends that the management of the commercial banks should emphasize and enhance use of forensic financial information as this will help in increasing the profitability.

It also recommends that the management ensures that the bank adapts to new technological changes taking place in the world to ensure that they have a well-structured system to accommodate these changes.

Finally, appropriate sanctions should be applied when fraud is detected.

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