FORENSIC AUDIT AND FRAUD PREVENTION IN THE NIGERIAN DEPOSIT MONEY BANKS

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ABSTRACT
Banks serve as an indispensable part of the financial system, performing a crucial role in intermediation which results in a flow of financial resources in an economy. However, the recurring nature of fraud has hindered the effective performance of Deposit Money Banks (DMBs) in Nigeria. The general objective of this study is to assess the effectiveness of forensic tax audits as a panacea for preventing fraud in Nigerian Deposit Money Banks. The survey research method was adopted in this study. The sampling technique used for the study was simple random sampling. Data were collected using both primary and secondary sources. Regression analysis was used in testing the research hypothesis. Based on the findings of the study, it is concluded that forensic audit taken as the independent variable significantly affects fraud prevention by the regression model which shows a good level of prediction and that 77.9% change in fraud prevention is caused or predicted by forensic audit. Therefore, the variable added significantly to the prediction of fraud prevention, meaning that forensic audit and fraud prevention are positively correlated. The study recommends that the management of deposit money banks should undertake regular forensic audits of their operations to effectively prevent fraud that is currently bedeviling the Nigerian financial sector.

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1.0   INTRODUCTION

Where there is litigation, there is forensics. One cannot happen without another. A forensic audit is an in-depth audit itself. It is more comprehensive and elaborate. Forensic is a branch of accounting that adopts basic accounting, auditing, and investigating knowledge and skills in resolving fraudulent activities in legal matters. Forensic auditing is a tool for the prevention of financial misrepresentation or fraud, tax evasion, and violation of rules and regulations. Therefore, a forensic audit is summarizing and adapting investigative auditing, criminology, litigation services, and financial skills in preventing fraud. Due to the accumulated complexity of fraud, forensic auditing must be a part of the instruments used to effectively investigate and punish fraud cases and those who engage in fraudulent acts (Njanike, Dube & Mashayanye, 2009). Fraud auditors are typically accountants or auditors who are experts at preventing and documenting frauds in books or records of accounting and financial transactions and events due to their attitudes, attributes, skills, knowledge, and experience. Enofe (2015) affirmed that one of the best and most efficient ways to identify, curtail, and prevent fraud may be through a forensic audit. According to Bhasin (2007), forensic auditors are trained to look beyond the numbers and deal with the business realities of situations. Analysis, interpretation, summarization, and presentation of complex financial business-related issues are prominent features of the profession.

Rudewicz and Sheetz (2012) and Popoola et al. (2016) have underlined that without particular accounting knowledge, abilities, experience, and fundamental accounting principles, no fraud investigation should be conducted. Massive fraud in Nigeria was largely to blame for the cases of Cadbury Nigeria Plc, Afribank Nigeria Plc, NAMPAK, Oceanic Bank Nigeria Plc, and African Petroleum Plc (Bakre, 2007; Okaro & Okafor, 2013).

Because so much fraud is unreported and not all of which is discovered is revealed, it is an issue that affects everyone and has been for a very long time (Mahdi & Zhila, 2008). The recent wave of banking fraud has embarrassed the country, as seen by the law enforcement officials' apparent effectiveness in finding the perpetrators. Fraud is the biggest problem in business, but there is now concern that if the rising tide of fraud in financial institutions, which has been visible in recent years, is not stopped, given that no sector of the economy is safe from fraudsters, including the banking system, it might pose some risks to the stability, long-term viability, and performance of specific industries (Olasunkanmi, 2010). Fraudulent activities are rampant in every organization but more rampant in financial institutions and perhaps more common in Deposit Money Banks (DMBs) because of the instruments of their trade. Due to the use of money and items that resemble money in their daily activities, banks are particularly vulnerable to financial fraud. The fraud that happened in some Nigerian banks in 2008 resulted in the purchase (change of control) of those banks (Abdullahi, 2011). According to Eseoghene (2010), several sorts of fraud are committed at banks. A type of fraud known as embezzlement involves the illegal collection of financial benefits such as cash, traveler's cheques, and foreign currencies. According to Owolabi (2010), bank failures are as old as the banking industry itself. Despite the important roles that banks play in economic growth, they are increasingly failing. In addition, Owolabi noted that the Dictionary of Economic and Commerce confirmed that 200 banks failed in England between 1815 and 1850, a brief 35-year span, with fraud being one of the causes.

The government's attention has also been drawn to the growing list of fraud in Nigeria by organizations like the Economic and Financial Crimes Commission (EFCC) Act of 2004 and

the Independent Corrupt Practices Commission (ICPC) Act of 2000 to investigate the occurrences of financial fraud.

The general objective of this study is to examine the effect of forensic audits on fraud prevention in Nigerian deposit money banks.
The specific objectives are to know:

Whether forensic audit affects fraud prevention in the Nigerian Deposit Money Banks
The extent of the relationship between forensic audit and fraud prevention in the Nigerian Deposit Money Banks

2.0. LITERATURE REVIEW

2.1. Conceptual Framework

2.1.1. Fraud

Fraud, inclusive of tax-related one, is a global phenomenon that cut across both the developed and developing economy. Fraud is the intentional use of deception to gain something for oneself or to harm another person or organization (Imagbe, Abilero & Saheed, 2019). According to Chakrabarty (2013), fraud is any conduct where one person tries to gain an unfair advantage over another, making an illegal profit while the other party suffers losses in each instance, yet it can be distinguished by the many patterns stated above.
The applications to get money, property, or services; prevent payment or loss of services, or secure personal or commercial advantage are not necessary for the conduct of fraud (Agwu, 2014). Regulations must alter across national and regional borders due to the rising tide of corruption, fraud, and financial crimes that have disastrous effects on businesses and national economies. Up until now, the prevailing consensus has been that these vices are essentially internal affairs that primarily affect the company's net earnings or earnings per share (EPS). They weren't intended to significantly alter how businesses operated. However, in recent years, that perception has significantly changed (Herbert, Tsegba, Ene & Onyilo, 2017).
Fraud and corruption charges were addressed with scorn, contempt, and disgust since the beginning of time, even in religious circles, as recounted in sacred literature such as the bible by collectors of taxes. Fraud and fraudulent-related activities are common all over the world. In Nigeria, two agencies were established to curb fraud, corruption, and other fraudulent activities. These are the Economic and Financial Crimes Commission (EFCC) and Independent Corrupt Practices and other related offenses Commission (ICPC). These agencies have tried to curb this menace in other sectors but with less emphasis on tax-related matters especially at the state level (Sri & Wasito, 2021).

2.1.2. Forensic Audit

Forensic auditing was defined by Dhar and Sakar (2010) as the use of accounting concepts and procedures to solve legal issues. It requires reporting in cases when the perpetrators of the fraud are identified and the report is used as evidence in court or administrative actions.
According to Bhasin (2007), the goals of forensic auditing include:
Calculating asset values in divorce proceedings;
Gathering evidence in criminal proceedings;
Assessing damages brought on by an auditor's negligence, and

Determining whether embezzlement occurred, how much it cost, and whether criminal proceedings should be brought.

Fraud auditors are typically accountants or auditors who are experts at preventing and documenting frauds in books of records of accounting and financial transactions and events due to their attitudes, attributes, skills, knowledge, and experience. A forensic audit may be one of the most effective and efficient strategies to identify, mitigate, and prevent fraud, according to Enofe (2015).

2.2. Theoretical Framework

2.2.1. The Fraud Triangle Theory

Cressey (1971) postulated the fraud triangle theory. The famous fraud triangle theory consists of three conditions that contribute to financial crimes; pressure, opportunity, and rationalization. These reasons all play a role in why people commit fraud. Several studies have identified the factors that lead to people committing fraud, all of which are linked to aspects of the fraud triangle. The likelihood of a worker committing fraud at work is strongly correlated with the pressure they are under, indicating that the drive to perform also raises the tendency to behave fraudulently and allows a benefit in salary increment. The pressure to obtain bonuses and higher wages also has a positive influence on the practice of fraud among employees (Hernandez & Groot, 2007). Personal pressure, employment pressure, and external pressure are the three types of pressure that exist (Lister, 2007). Without opportunity, a fraudulent act is impossible (Murdock, 2008). To put it another way, a fraudster needs to come up with some strategies for using his position to solve his financial problems while minimizing the chance of being discovered (Cressey, 1971). Opportunity is not restricted to the position held by a person that can lead him to commit fraud. Usually, poor/weak internal controls in the workplace coupled with the low chance of prevention will offer an attractive opportunity for fraudulent activities (Mui & Milley, 2015).

Rationalization is widely acknowledged as a major contributor to fraud. Before committing a crime, people rationalized it. It also entails giving unnecessary explanation (s) to justify one's involvement in the fraud.

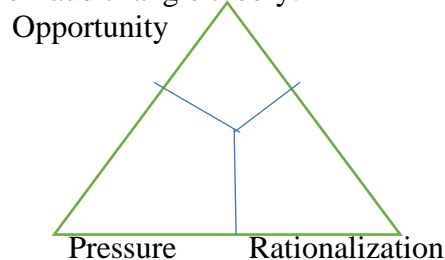The following diagram depicts the fraud triangle theory:

Figure 1: The Fraud Triangle
Source: Albrecht (1993)

2.3.   Empirical Review

Ogbeide (2018) evaluated how frauds impacted Nigeria's banking industry's financial performance. The study used data from the years 1993 to 2016. Co-integration and an error correction mechanism were the data analysis technique. The technique was used to look at the relationships, both short and long-term, between the dependent and independent variables. The technique was applied following diagnostic evaluations. The results of the estimation showed that a three-period lag in the number of fraud cases has a detrimental impact on the financial performance of the banking industry and was statistically significant. The financial performance of the banking sector in Nigeria has shown negative trends over one time of the total amount involved in the fraud and one period of the actual/expected loss, both of which were statistically significant. According to the study, banks should improve their internal control framework to cut down on fraud to a minimal minimum.

Aruomoaghe and Ikyume (2013) examined fraud as a challenge to accurate financial reporting with a focus on the banking sector. Descriptive survey research was used. The failure to account for fraud in an organization's financial statements was found to be misleading to users of those financial statements and did not reflect a true and fair assessment of those financial statements. Fraud's impact on the performance of the banking sector in the United States of America was studied by Afayi (2014). The entire banking industry was scrutinized, including the protective measures it has taken to stop fraudulent practices, the reasons why banks have failed, the number of banks that have failed or the percentage of banks that have failed in the United States as a result of fraud, and any necessary corrective action. The analysis covered the years 2000 to 2014, during which time 523 banks in the USA failed. In method 1, the percentage of bank failure attributable to fraud as opposed to other reasons showed that eight banks, or 40%, out of the 20 selected banks failed as a result of fraudulent activity.

In Nigeria between 2000 and 2007, Adediran and Olugbenga (2010) investigated the effect of fraud on bank performance. The analysis used OLS regression as its methodology. The results showed a substantial inverse relationship between commercial bank investment and the total reported cases of fraud, the amount involved in the fraud, and the actual predicted loss due to fraud. The nature, causes, effects, and cure of bank frauds in Nigeria between 2000 and 2009 were descriptively explored by Ademoye (2012). The survey used ten banks with the highest amount of fraud and forgery charges. The types of bank employees participating in fraud and forgeries were also investigated. It was determined that during the seven years from 2003 to 2009, a total of 656 bank employees were involved in 2,440 cases of fraud and forgery, with core operating staff making up 431 of those individuals or 65.7%. The catastrophic effect of fraud on bank performance was also noticed, as just 13 out of the 24 banks in 2009 were deemed sound, one was minor, and 10 were classified unsound, compared to one unsound bank the year before.

3.0.   METHODOLOGY

The research design adopted for this study is the survey research design. The survey design approach was justified on account of its economy, rapid data collection, and ability to understand a population from a part.
The population adopted for the study consists of 10 staff each from Ecobank, First Bank, Zenith Bank, Polaris Bank, Keystone Bank, GT Bank, Union Bank, UBA, Fidelity Bank, and Access Bank respectively which gives a total of 100, all in Lagos State. The sampling technique used for the study is simple random sampling. Data was collected using both primary and secondary sources.

3.1. Model Specification

To mostly ascertain the impact of forensic audits on fraud prevention in Nigerian deposit money banks, a regression model was adopted since the factors of study are economic variables that are somehow dependent on one another. Therefore, the general framework is as specified below:

The econometric model is expressed thus: $FP_{it} = \alpha + \beta_0 X_{it} + \varepsilon it$

Where;

FP_{it} = forensic prevention

X_{it} = ForensicAudit$_0$

α = Intercept of regression model

β_0 is the coefficient of the parameter estimate.

ε is the error term.

3.2. Research Hypotheses

To achieve the above objective, a hypothesis was formulated as stated below:

H_{o1}: Forensic audit has no effect on fraud prevention in the Nigerian Deposit Money Banks

Results and Discussion

Test of Hypothesis

For testing the hypothesis, the collected data was analyzed using computer programs, particularly the Statistical Package for Social Sciences (SPSS) for easy analysis and interpretation of results.

Table 1: Model Summary of Forensic audit and Fraud Prevention

Model	R	R square	Adjusted R Square	Standard Error of the Estimate
1	.883[a]	.779	.890	10.50684

Source: Result, 2022

Predictors (Constant), forensic audit

Fraud prevention

Table 1 provides the R and R^2 values. The R-value represents the simple correlation and is .883[a] (the R column), which indicates a high degree of correlation. The R^2 value (the R square column) indicates how much of the total variation in the dependent variable (fraud prevention) can be explained by the independent variable (forensic audit). Here, 77.9% can be explained which is significant.

Table 2: Analysis of Variation Goodness of Fit Model

Model	Sum of Squares	d f	Mean Square	F	Significance
Regression	10511.306	1	10511.306	127.2244	.000[a]
Residual	17083.837	334	82.62018		
Total	27595.143	335			

Source: Result, 2022

a. Predictors (Constant), forensic audit

Table 2 indicates that the regression model predicts the dependent variable very well. The regression Row "Sig" column shows that the statistical significance of the regression model was run. Here, p<0.0005, which is less than 0.5, and indicates that, overall, the regression model statistically significantly predicts the outcome variable i.e. (it is a good fit of the data).

Table 3 Models Coefficients

Model	Unstandardized Coefficients		Standardized coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	39.928	4.6761		14.2301	.000
Forensic Audit	.919	.883	.994	17.4398	.000

Source: Result, 2022
Dependent Variable: Fraud prevention

The coefficient table provides the necessary information to predict fraud prevention from forensic audit, as well as determine whether forensic audit contributes statistically to the model (by referring to the "Sig" column).

Furthermore, the values in the "B" column under the unstandardized coefficients column can be used to present the equation as:
$$FraudPrevention_0 = \alpha + \beta_0 forensic\ audit_0$$
And substituting into the equation, we have:
$$FraudPrevention_0 = 39.928 + 0.919\ (Forensic\ audit)$$

The table shows a positive (0.919) association between forensic audit and fraud prevention, and the t-value of 10.47 and P-value of 0.000 indicate that the relationship is statistically significant.
Therefore, it can be inferred that there is a statistically significant linear association between forensic audit and fraud prevention in the Nigerian banking sector and that the hypothesis that forensic audit has no impact on fraud prevention is hereby rejected.

4.0.   RESULTS AND DISCUSSION OF FINDINGS

Findings from testing the hypothesis show that the model fits the data for the prediction of the correlation between forensic audit and fraud prevention. The R correlation coefficient of .883[a] shows a good level of prediction and the model has a positive correlation. The R^2 value of .779 indicates that the proportion in the dependent variable is explained by the predictor variables. This means that a 77.9% change in fraud prevention is predicted by forensic audit.

In addition, the regression coefficient of the predictor variable in the model is significant. The coefficient contribution of forensic audit (.919) in the model is statistically significant with $P < .005$. This means that a decrease in forensic audits will lead to a decrease in fraud prevention.

The findings are also in line with Eyisi and Agbaeze (2014), Bello (2020), and Dada and Jimoh (2020) whose research showed that there is a significant positive relationship between forensic audit/accounting and fraud prevention, corruption, and misappropriation which means that a

high level of forensic audit discourages fraud, embezzlement and consequently will reduce corruption.

5.0.   CONCLUSION AND RECOMMENDATIONS

Based on the findings of the study, it is concluded that forensic audit taken as the independent variable significantly affects fraud prevention by the regression model (R coefficient) which shows a good level of prediction and that 77.9% change in fraud prevention is caused or predicted by forensic audit. Therefore, the variable added significantly to the prediction of fraud prevention, meaning that forensic audit and fraud prevention are positively correlated.
Due to the study's findings that forensic audit significantly affects fraud prevention, the study recommends that the management of deposit money banks should undertake regular forensic audits of their operations to effectively prevent fraud that is currently bedeviling the Nigerian financial sector.

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