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FORENSIC ACCOUNTING AND FINANCIAL MALPRACTICES: A CONCEPTUAL REVIEW

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ABSTRACT

This study carried out a conceptual review of forensic accounting and financial malpractices. Forensic accounting involves the examination of a firm's records especially in cases of financial malpractice. This paper gives a broad conceptual review of forensic accounting, its history, the composition of forensic accounting, practitioners of forensic accounting, forensic investigation, financial malpractices and fraud, types of financial malpractices, steps in achieving forensic accounting engagement and empirical review on studies which examined forensic accounting and financial fraud using primary and secondary data. This study concludes that forensic accounting is an advanced method of detecting high level of fraud perpetrated in organizations and provides enabling stability in operation system of organizations.

KEYWORD: *Forensic, Accounting, History, Investigation*

INTRODUCTION

Forensic accounting is the practice of examining a company's financial accounts using accounting, auditing, and investigation abilities. According to Hopwood, Leiner, and Young (2012), as cited in Pedneault et al. (2012), it is a method of using investigative and analytical abilities to solve financial difficulties in a way that meets the standards set by court regulations. The goal of forensic accounting is to give an accounting study that can be used in court if necessary. Both forensic investigations and forensic audits fall under the umbrella of forensic accounting. It encompasses financial data auditing to establish or refute fraud, the interviewing procedure utilized throughout an inquiry, and the act of testifying as an expert witness. As a result, both litigation support and investigative accounting are covered. To collect, analyze, and evaluate the evidence at hand, forensic accountants use unusual talents in accounting, auditing, finance, particular areas of the law, research, and investigation abilities, as well as to interpret and present results to their clients.

It entails conducting exceedingly comprehensive research and analysis of financial data in order to uncover fraud or financial manipulation.

History of Forensic Accounting

According to the research carried out by Singleton & Singleton (2010), the first major corporate fraud is the fraud known as the South Sea Bubble. The South Sea Company was established in 1711 with exclusive trading rights to Spanish South America. The company made its first trading voyage in 1717 and made little actual profit to offset the £10 million of government bonds it had assumed. South Sea had to borrow an additional £2 million. Tensions between England and Spain resulted in Spain seizing South Sea ships in 1718. (Singleton & Singleton 2010). In 1719, the business presented a proposal in which it would assume the entire remaining national debt in the United Kingdom, totaling over £30 million, in exchange for government bonds that would endure until 1727. Despite the Bank of England's offer to assume the debt as well, parliament authorized the South Sea Company's assumption. In a speculative frenzy, its shares increased from £128 in January 1720 to £550 by the end of May that year. The corporation artificially raised the stock price using a combination of new subscribers and the distribution of pro-trade with Spain tales designed to give the impression that the stock could only go higher. Not only did capital remain in England, but many Dutch investors purchased South Sea shares, adding to inflationary pressures. Other joint-stock corporations entered the market afterwards, frequently making false claims about international operations, and were dubbed "bubbles" by the public (Singleton & Singleton 2010). Meyer v. Sefton, a bankrupt estate, was decided in 1817. The judge authorized the expert witness who reviewed the bankrupt's finances to testify to his examination because the nature of the evidence prevented it from being reviewed in court. Dr. Larry Crumbley, a forensic accounting professor and author, considers this accountant to be the first forensic accountant in records and the start of the forensic accounting profession (Singleton & Singleton 2010). Furthermore, banking sectors and all other major, medium, and small-scale organizations around the world today have forensic departments, also known as fraud alert departments, to ensure adequate and reliable financial representation and efficiency, as the case may be.

Composition of Forensic Accounting

According to Zysman (2019), forensic accounting involves both investigative accounting and litigation support. Litigation support helps in all nature in a matter involving present or awaiting litigation. It also mainly deals with issues related to the quantification of economic damages. On the other hand, Malcolm(2020) went further to explain litigation support by saying, litigation support is the way of giving consultation and support services to attorneys regarding present and awaiting cases. This type of support services obtainable will depend on the requests of the attorneys and may range from research and documentation of proofs and instances before a case comes to trial or to assist in the determination of damages once a case has been tried. Consultants rendering this type of professional service may work alone or work with several consultant firms providing litigating support services. Forensic accountants assist on several issues under litigation support. They can help in obtaining documentation necessary for backing up a claim. They provide assessment of the relevant documentation to form an initial charge of the case and identify areas of loss. They also support in examining the formulation of questions to be asked concerning the financial evidence. Furthermore, they assist with settlement discussions and negotiations (Malcolm 2020). Investigative accounting according to Zysman (2019) is usually associated with investigations of criminal issues. A good example of investigative accounting assignment would be an investigation of worker theft. Other examples include securities fraud, insurance fraud, and incomes of crime investigations. Investigative accounting helps in issues such as the assessment of the accurate situation and provide suggestions concerning possible courses of action. More so, they can help with the guard and retrieval of assets, co-ordination of other professionals (including private investigators, forensic document examiners and consulting engineers), and also help in the line of criminal prosecution (Zysman 2019).

Practitioners of Forensic Accounting Profession

Forensic accounting is an offshoot of the general professional accounting and it is affiliated to professional accounting institutes. For the purpose of practice, individual firms of general accounting consultants departmentalize and train experts in investigative accounting within their general practice (Idowu 2012). Forensic accountants are basically certified public accountants which focus on using scientific method to detect fraud when the need for evidence arises. Forensic accountants also do arrangement of analysis for their investigation in order to get the fact which form an expert decision (Idowu 2012). On the other hand, separate bodies are also emerging for forensic accountants and firms of the same area of profession are being established, e.g. National Association Of Forensic Accountants, Association Of Certified Fraud Examiners, Certified Fraud Deterrence, Certified Forensic Financial Analyst, America College Of Forensic Examiners, and Forensic Certified Public Accountant Society. Some specialist practice firms include Zysman Forensic Accounting Incorporated, Kessler. The practice is just gaining popularity in Nigeria. As such, there can only be few instances of professionals engaging in investigative activities and there are knowledgeable and experienced persons in investigative accounting. According to Pedneault et al, (2012), the forensic accountant can work in the insurance company, with government regulatory agencies like Economic and Financial Crime Commission and Department of State Service in Nigeria. Forensic accountants are often employed to prepare for litigation associated to insurance claims, insolvency, divorces, embezzlement, fraud, skimming, and any type of financial crime. The forensic accountant can perform their duty in the banking sector when the internal and external auditors have lost their confidence and credibility. Also, they perform their task in the court area by doing some scientific investigation on cases that are extremely critical for the judge to decide on. Forensic accountant could also perform their duty in small or large-scale business which is the most popular place you can find the forensic accountant performing their duty because that is the area where fraud takes place the most.

Forensic Investigation

This is a process in which a forensic accountant performs operations in order to obtain evidence that may be utilized in legal actions or to resolve disputes. According to Alan Zysman, forensic investigation is the use of specialist investigative abilities to perform an investigation in such a way that the results can be used in a court of law. This could include, for example, an investigation into money laundering. A forensic investigation involves many stages (similar to an audit), including planning, evidence gathering, quality control reviews and reporting

Financial Malpractices and Fraud

According to Idowu (2012), financial malpractices can be traced to corrupt practices. He defines corrupt practice as any immoral, illegal, and unethical act and include cheating, lying, defrauding etc. It is also the mismanagement of entrusted power for personal benefit. The forms include bribes, favoritism and discrimination, governmental donations, kickbacks and artificial pricing and fraud of all kinds. Asset misappropriation, corruption, and fraudulent assertions are among the three types of fraud. They include asset theft or misappropriation, improper use of influence in a transaction for personal gain, and financial statement fabrication. According to reports and research, Nigeria's banking sector is responsible for the highest incidence of financial malpractices.

Types of Financial Malpractices

- Identity theft: The use of someone's personal financial information without the person's consent (e.g. credit card number, social security number, bank account number) to make fraudulent transaction or withdrawals from your accounts. Sometimes the information stolen from victim can be used to open credit card or bank accounts with the victim left accountable for all the payment. In other words, identity theft can occur when someone illegally uses another person's identifying information (such as a Social Security Number) to commit crimes relating to fraud, such as credit card fraud.
- Embezzlement: A crime that occurs when an individual steals money or property that he or she has been entrusted to manage.
- Money laundering: A crime involving the transfer of unlawful funds and other gains into normal channels in order to conceal the money's illegal origins and elude tax authorities.
- Securities fraud: A crime committed when a corporate officer, for example, makes false representations regarding the company's stock performance or reveals confidential information about the company's shares.
- Tax evasion fraud: The act of failing to pay one's legally necessary portion of federal or state taxes, which is penalized by law and can result in asset forfeiture or jail.

Fraud

Pedneault et al. (2012) Fraud is defined as an activity that occurs in a social setting and has serious ramifications for the economy, businesses, and individuals. When greed collides with the possibility of lying, an unprincipled infection emerges. The fraud investigator is similar to a doctor who is on the lookout for signs and symptoms that indicate an outbreak.There are two principal methods of getting something from others unlawfully. Either you physically force someone to give you what you want (using a gun, knife, or other weapon), or you hoax them out of their assets. The first type of theft we call robbery, and the second type we call fraud. Robbery is generally more violent and more traumatic than fraud and attracts much more media attention, but losses from fraud far exceed losses from robbery (Albrecht et al., 2011).Fraud, as we know it now, is dishonesty in the form of a deliberate deceit or a wilful misrepresentation of a material fact. The phrases lying, which denotes the deliberate telling of a lie, and cheating, which denotes getting an unfair or unjust advantage over another, could be used to further describe fraud because these two words suggest the intent or readiness to deceive (Singleton & Singleton 2010). Nowadays, fraud is more complex and disturbing than ever. The complex nature of modern fraud has fueled the creation of forensic accounting, a specialty subject that is sometimes referred to as accounting's crime scene investigation, with practitioners trained in both accounting and criminal investigation. In criminal justice and civil litigation, forensic accountants play a critical role.

Forensic Accounting and the Accounting Graduate

According to Kreuter (2017), accounting graduates can specialize in forensic accounting in a variety of ways. They might work for a non-profit, a commercial corporation, a university, a hospital, or the government. Because a forensic expert in the private sector is valued and compensated more highly, forensic accounting knowledge is most useful for people engaged in the private sector. Internal auditors and controllers should also be familiar with forensic accounting.A certified public accountant who has forensic skills and working in a private accounting position can expect higher rewards; there should be a developing need for this skill across the field. Forensic accounting is not a complex concept; it is basically litigation which supports accounting. It is straightforward and direct to apply forensic accounting techniques. The lawful cases to answer questions concerning damages, generally with an economic bearing, or where there is a concern expressed by a company potentially experiencing fraud or suffering from unprofessional internal control system, then forensic accounting skills are needed to fix the problem. Final step is to prepare the report, which may include sections on the nature of the assignment, scope of the investigation, approach utilized, limitation of scope and findings and/or opinions (Zysman 2012).

Steps to Achieving Forensic Accounting Engagement

Zysman (2012) outlined the following steps in executing forensic accounting engagement. The first factor forensic accountants need to do before carrying out their investigation is to meet with the client to understand the important facts, know the players, and the cause of the problem then, perform a conflict check when the relevant parties are established. After that, they perform an initial investigation to allow subsequent planning to be based upon a more complete understanding of the issue. Next step is to develop an action plan that considers the knowledge gained by meeting with the client and carrying out the primary investigation and which will set out the objectives to be accomplished and the methodology to be utilized to accomplish them. Following step involves, obtaining relevant evidence to make the work more interesting, this may involve locating documents, economic information, asset, a person or company, another expert or proof of the occurrence of an event. Following that, the forensic accountant should conduct the analysis by calculating economic damages, summarizing a large number of transactions, tracing assets, performing present value calculations using appropriate discount rates, performing regression analysis or sensitivity analysis, using a computerized application such as a spreadsheet, database, or computer model, and explaining the findings with charts and graphs.

Empirical Reviews

Modugu and Anyaduba (2013) while studying "Forensic Accounting and Financial Fraud, adopted the survey researchapproach,distributed5-Scale Likert questionnaire to a sample size of 143 respondents, drawn from accountants in public and organised private sector The hypothesis demonstrates that stakeholders are in agreement about the effectiveness of forensic accounting in fraud prevention, financial reporting, and internal control.

Ogodogun(2011) studied 'Reducing Corruption in the Public Sector: The Forensic Accounting Pedagogy". The study adopted the descriptive approach and tested hypotheses. The study used the Pearson Product Moment Correlation Coefficient and the Spearman rank order correlation. A sample size of 124 of accountants in public service of Edo, Delta and Bayelsastates, 4-Point Likert Scale questionnaires were administered. Findings of the study were that there exists a significant relationship between corruption and forensic accounting; there is a very strong relationship between poor accounting records and corruption practices in the public sector and there is significant relationship between corruption and poor economic development.

Enofe et al. (2013) in Forensic Accounting: A Tool for Detecting Fraud in Nigeria Business Environment while adopting the descriptive survey, distributed 50 questionnaire based on 5-Scale Likert Scale,3 research hypothesis formulated and used SPSS to analyse data. The findings show that forensic accounting services are required in Nigeria; forensic Accounting is an effective tool for detecting fraud in Nigeria business environment.

Ahmadu et al.(2013)in their study titled "An empirical examination of the role of forensic audit in enhancing financial investigations in Nigeria" employed the use of primary data collated via questionnaire based on 5 Likert-Scale administered among 240 accountants. They used the Pearson correlation coefficient statistical too land multiple regression for analysis of data. They concluded that while forensic audit ensure earlier detection and confirmation of fraud and thus enhance financial crime investigations in the country but submitted that introducing independent audit skill into periodic audit will most likely not boost financial crime investigations especially in the aspect of early detection and confirmation of fraud.

Izedomin and Agbame(2011) in Modugu and Anyaduba(2013) recognize the rising frequency of fraud and fraudulent activities in Nigeria, which are conducted through financial statement manipulations, and regret that it is quickly becoming a way of life. Kasim(2009) observes that perpetration of financial irregularities are becoming the speciality of both private and public sector in Nigeria as individuals perpetrate fraud and corrupt practices according to the capacity of their office.

Enofe et al.(2013) regret that the specific problem with fraud in Nigeria business environment is the negative effect on corporate earnings and a loss of investors' confidence. Jristic(2009)studied "The role of Forensic Accountants in Detecting Frauds in Financial Statements’’. According to the report, erroneous financial statements present an inaccurate picture of an enterprise's earning potential and financial status, on which users, including all classes of stakeholders, make decisions and, as a result, become vulnerable to fraud.

Ozumba et al. (2016) defined forensic accounting as the application of specialized body of knowledge to the evidence of economic transactions and reporting suitable for court proceedings and accountability, and defined it as the use of accounting, auditing, and investigative skills to assist in legal matters. Economic crimes and financial scandals such as those involving Tyco International Xerox (USA), Tesco of the United Kingdom, HIH insurance, Waste Management, Sunbeam, Global Crossing, Saudi Arabian mobility, and corporate fraud perpetrated in Nigeria by the management of Lever Brothers (now Unilever), Union Dicon Salt, Cadbury (Nigeria), and fourteen distressed banks were exposed by forensic accounting experts who deployed forensic accounting experts. Unlike traditional auditing, which focuses on reviewing errors, internal control systems, identification, and prevention, forensic accounting's main goal is to uncover fraud and resolve financial concerns in a way that follows court-ordered criteria.

Efosa and Kingsley (2016) examine the impact of forensic accounting and fraud management in Nigeria. The study analyzed 29 quoted companies enlisted in the Nigerian Stock Exchange(NSE). The finding of the study indicates that forensic accounting has a significant effect on reducing financial fraud in corporate organizations. The finding of this study has a positive relationship with the result of Enofe et al. (2013) who also found forensic accounting has the impact of detecting fraud.

Alabdullah et al. (2013) also investigated the role of forensic accounting in reducing financial fraud in Iraq. Using correlation research design through administrating interviews and questionnaires. The findings of the study revealed that the forensic accounting method is effective in the control of financial fraud cases. The study also indicates fraud is easy to be narrowed and detected using forensic accounting service. The study also demonstrates the necessity for forensic accounting investigations as a result of widespread incorrect accounting information, flaws in traditional accounting and auditing that hindered fraud detection, and a lack of competent organizations that can provide forensic accounting consulting.

Popoola et al. (2016) examined whether forensic accountants knowledge, skills and competence are basically required for fraud prevention and detection in Nigeria. The study used survey research design and 400 questionnaires distributed among two groups of respondents comprising forensic accountants and auditors in the office of the Auditor General of Federation and Accountant General of the Federation in Nigeria respectively. According to the conclusions of the study, forensic accountants have extensive knowledge, abilities, and expertise in fraud prevention and detection. The study's findings show the effect and influence of forensic accounting services in both public and private organizations when it comes to fraud prevention and detection.

Suleiman et al. (2018) investigated expert opinions on the effectiveness of forensic accounting investigative methodologies in Nigeria. The study concludes that forensic accounting inquiry is more suited in fraud investigation and is eligible for use in court, based on in-depth interviews with 24 participants from Nigerian anti-corruption authorities such as the EFCC and ICPC.

The effects of a forensic accounting probe was also documented empirically in a study by Nwaiwu and Aaron (2018). The authors discovered that forensic accounting is the most effective method for detecting and preventing fraud in a company. Furthermore, the study's findings suggest that forensic accounting increases a company's overall performance.

In terms of fraud prevention and detection, Akhidime (2018) discovered that forensic accounting services give adequate results. The study indicates that forensic accounting provides a more desirable process in understanding fraud has occurred. This study highlighted the needs of forensic accounting investigation towards uncovering fraud issues.

Mukherjee (2018) examined fraud in banking industries and the role of forensic accounting in India. The study found widespread banking fraud in Indian corporate banking. The study indicated that fraud is a growing concern to the business organization. Furthermore, the study showed that the application of forensic accounting is a much needed area in reducing and detecting corporate baking fraud and other related fraudulent activities in today’s business world.

CONCLUSION

Forensic accounting identifies the significance of an agency problem as one of the major sources of fraud in many organizations. It is an advanced method of detecting the high level of fraud perpetrated in organizations and provides the enabling stability in operation system of organizations.

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