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THE EFFECT OF FORENSIC ACCOUNTING ON BANK PERFORMANCE

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ABSTRACT

This study investigated the effects of forensic accounting on bank performance in Nigeria using four (4) measures of forensic accounting (money laundering fraud control, point of sales, money transfer fraud and automated teller machine fraud control) and one (1) performance measure (return on asset). Data were obtained from the annual reports and accounts of the banks and Central Bank of Nigeria Statistical Bulletin from 2012-2020. Data obtained were analyzed using descriptive statistics (mean, standard deviation, skewness, kurtosis and correlation) and inferential statistics (variance inflation factor and ordinary least square). Findings of the study showed that all the forensic accounting measures of the study (money laundering fraud, point of sales, money transfer fraud and automated teller machine fraud controls) negatively and significantly affected performance of banks in Nigeria. Based on the findings, it was recommended among others that bank management should employ forensic accounting by amending the existing statutes in such a way that forensic accountants are included in the management process. Through this, forensic accountants will have more tools to effectively deal with challenges in fraud control. Also, the negative relationship between forensic accounting and performance of banks suggests that it has not been effectively used by management; thus, there is need for Nigerian banks to further enhance and employ forensic

accounting support services, fraud investigation and forensic audit by ensuring that they achieve what they intend to do for banks

Keywords: Forensic Accounting, Bank, Performance, Nigeria.

INTRODUCTION

Fraud is an endemic that are gradually becoming a normal way of life in both public and private sectors, from the presidential cabinets, down to the political officer, to the ward councillors, from managing directors of companies, through middle management cadre and to lower managers in Nigeria. Gbegi and Adebisi (2014). Several legislations were put in place to reduce, alleviate and if possible eliminate the occurrence and incidences of fraud in the industry most popular and prominent among them are Economic and Financial Crime Commission (EFCC) and Independent Corrupt Practices and other related offences Commission (ICPC), Banking and other financial institutions Act, (BOFIA) 1991, Financial Reporting Council of Nigeria. Despite of these arrangements put in place, it is worrisome that incidences of fraud have become so widespread that it is fast assuming an epidemic proportion in banking industry. This situation is making it difficult for banks to perform as expected.

Forensic accounting has been identified as tool for detecting and implementing white-collar investigations (Hansen, 2009). Degboro and Olofinsola (2007) described forensic accounting as the application of criminalist methods, and integration of accounting investigative activities and law procedures to detect and investigate financial crimes and related accounting misdeeds. Dhar and Sarkar (2010) also defined forensic accounting as 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 evidence in the court of law or in administrative proceedings. Gbegi and Adebisi, (2014) concluded that the forensic accounting skills and techniques could help to investigate fraud occurrence since the external auditors do not or may not have the required training to be able to tackle modern frauds like white collar crimes such as security fraud, embezzlement, bankruptcy, contract disputes, and possible criminal financial transactions. In the light of this, the study seeks to investigate the impact of forensic accounting on bank performance in Nigeria.

REVIEW OF LITERATURE

Forensic Accounting

Forensic accounting is a type of accounting and auditing where investigative skills are utilized to assess data that is fit for use in a court of justice. In support of this, Popoola, Che-Ahmad, Samsudin, Salleh, and Babatunde (2016) consider forensic accounting as a process of using accounting skills and knowledge to investigate fraud or misappropriation of fund and to analyse the financial information for use in legal proceedings. 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 means that forensic accounting inquiry is concerned with the application and application of accounting knowledge and abilities to legal difficulties in order to identify financial facts and evidence.

Bank Performance

Measuring the performance of banks has been a controversial issue over the years. Determining the performance of banks is usually very subjective and strongly dependent on the aspect which is to be investigated. Accordingly, Hunger and Wheelan (1997) defined performance as “the

end result of activity and the appropriate measure selected to assess corporate performance is considered to depend on the type of organisation to be evaluated and the objective to be achieved through that evaluation” as cited in Ifionu & Keremah, 2016). Performance has also been defined as how well an organisation uses resources at its disposal (Masud & Haq, 2016). Traditionally, performance of banks are measured using quantitative financial ratios such as Profit before Tax (PBT), Return on Asset (ROA), Return on equity (ROE), Profit After Tax (PAT), Earnings Per Share (EPS) to mention a few. However, researchers are beginning to find other measurement of bank performance as the traditional measurements do not meet the needs and interest of other groups other than shareholders and prospective investors Central Bank of Nigeria (CBN, 2013).

Fraud Management Life Cycle Theory

Economic losses are of increase as a result of fraudulent activities which has a great impact almost every country world of business. Caveat Emptor, let the purchaser be careful, tells only half the story. The other half is told by Caveat Vendor, let the seller be careful. The outlays of fraud are passed on to society in the form of increased customer inconvenience, opportunity costs, unnecessarily high prices for goods and services, and criminal activities funded by the fraudulent gains (Wesley, 2004). The study also draws from the Fraud Management Lifecycle theory, which describes the network made up of eight interrelated, (stages) which do not, necessarily, occur in a sequential or linear flow (Wilhelm, 2004). The stages are: Deterrence, prevention, detection, mitigation, analysis, policy, investigation prosecution.

Empirical Review

Ekechukwu, Ugwu and Mbah, (2018) examined the effect of forensic accounting on the performance of Nigeria banking sector. The study used primary source of data, multiple regression technique was employed. The finding shows that forensic audit has significant effect on net profit margin of selected banks in Nigeria. It also observed that forensic audit influence profit after tax of Nigeria banks.

Osavwe-Okoroyibo and Omoregie (2019) investigated the effect of forensic accounting on the performance of Nigeria banking sector, the study used primary source of data. The study employed multiple regression technique. The finding revealed that forensic audit significant effect on retained earnings and dividend per share it also revealed that forensic audit has an effect on the net profit margin of selected banks.

Inyada, Olopade and Ugbede (2019) examined the effect of forensic audit on bank fraud in Nigeria, the study employ survey design and the sample of the study was 128 out of a population of 165. The study employed ordinary least square (OLS) regression model techniques. The findings revealed that forensic audit helps in an enhanced bank fraud detection and prevention.

Agbaje and Adeniran (2017) examined the effects of forensic accounting services on fraud reduction in the Nigerian banking industry. To achieve these objectives, survey research method was adopted for the study while primary data were collected, questionnaire were administered. Correlation regression model was used to analyse the data. The findings revealed that forensic accounting services reduce fraud in banking industry.

Jomo (2014) examined the effects of forensic accounting on the performance of commercial bank in Nigeria. A sample of 61 respondents was used which was spread proportionately across 6stratum. The study used primary data that was collected through self-administered

questionnaires. The study findings that forensic investigation and forensic litigation were statistically significant in explaining changes in financial performance of commercial banks in Nigeria. It was also possible to conclude that use of forensic financial information influenced and improved performance of commercial banks in Nigeria.

Adeniyi (2016) this study examined the effect of forensic auditing on financial fraud in Nigerian (DMBs). The study adopted cross sectional survey design. The study used purposive sampling technique for questionnaire administration while logistic regression analysis was used for data analysis. The results of the study revealed that forensic audit has significant effect on financial fraud control in Nigerian (DMBs) with P value (0.007) which is less than 0.05 and that forensic audit report significantly enhances court adjudication on financial fraud in Nigeria with P value (0.000) which is less than 0.05.

Kolapo and Olaniyan (2018) examined the effect of fraud on deposit money banks' success in Nigeria between 1994 and 2015. They employed the generalized method of moment estimation technique. Their findings revealed that, the huge amounts that are involved during fraudulent act, the financial amount lost and staffs involvement in the fraudulent act impacted negatively and has significant influenced on the deposit money bank.

Bassey (2018) focused on forensic accounting as it affects the management of fraud in microfinance institutions in Cross River State. Data collected from both primary and secondary sources were analysed using the ordinary least square technique. The regression results showed that the estimated coefficients of the regression parameter are all negative signs. The study further showed that audit failures over decades have prompted a paradigm shift in accounting and thus concluded that forensic accounting play a significant roles in the prevention of crimes and corruption

Onodi, Okafor and Onyali (2015) examined the effect of forensic investigation methods in corporate fraud deterrence in Nigerian banks. The study adopted a survey research design and data from primary source were collected through interviews and administration of questionnaires, while secondary source consists of reports on fraud and forgery in the banking sector. Statistical tools used to analyse the data include percentages, mean score, frequency tables, regression analysis and Z-test. The result revealed that there is a significant relationship between the forensic investigative methods and corporate fraud deterrence. The findings revealed that expert services of forensic investigators are normally required in the prosecution of fraud, but majority of the audit and accounting personnel in Nigeria are suffering from poor perception and knowledge of forensic investigative methods.

Akenbor and Ironkwe (2014) examined the relationship between forensic auditing and fraudulent practices in Nigerian public institutions. The survey method of research design was adopted in generating the necessary data. Population of the study consisted of 12 public institutions in Rivers State, Nigeria. In order to gather the data for the study, a structured questionnaire was administered on the internal auditors and chief accountants of the selected public institutions. The data generated for the study were analysed with frequencies and percentages, while the stated hypotheses were statistically tested with the Pearson Product Moment Correlation Coefficient, which was computed with the aid of the Statistical Packages for Social Sciences (SPSS) Version 17. The findings suggested that both the proactive and reactive forensic auditing techniques have a negative significant relationship with fraudulent practices in Nigerian public institutions. Based on the above, it was recommended that, The

Economic and Financial Crime Commission (EFCC), the Independent Corrupt Practices and other related offences Commission (ICPC), and other anti-corruption bodies in Nigeria should have, in their payroll, internal forensic auditors to supplement the duties of the internal auditors, Forensic auditors should regularly undergo training and development programs to acquaint them with relevant knowledge and skills for effective forensic auditing; and Forensic auditing should be made mandatory for public institutions by regulatory authorities rather than being voluntary.

Modugu and Anyaduba (2013) examine forensic accounting and financial fraud in Nigeria. The study examined if there is significant agreement amongst stakeholders on the effectiveness of forensic accounting in financial fraud control, financial reporting and internal control quality. The survey design was used in the study with a sample size of 143 consisting of accountants, management staffs, practicing auditors and shareholders. The simple random technique was utilized in selecting the sample size, while the binomial test was employed in the data analysis. The findings of the study indicated that there is significant agreement amongst stakeholders on the effectiveness of forensic accounting in fraud control, financial reporting and internal control quality. In line with the above findings, the study recommended that the Institute of Chartered Accountants of Nigeria, Association of National Accountants of Nigeria and the National Universities Commission should encourage formalization and specialization in the field of forensic accounting.

METHODOLOGY

Research Design, Population and Sample of Study

Given the nature of this study, the ex-post-facto research design and secondary data will be employed. The population of the study consist of 21 banks listed in the Nigeria exchange group. While, The sample size of the study are 10 banks randomly selected which are; Abbey Mortgage Bank, Access bank, Fidelity bank, First bank, First city monumental bank, Guaranty trust bank, Stanbic IBTC holdings, Sterling bank, Union bank of Nigeria, and Zenith bank from 2012-2021.

Method of Data Collection and Analysis

Secondary data was used for this study, the secondary data were obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin, and the Annual report of 10 selected banks during the period 2012-2021. Data obtained were analyzed using descriptive statistics and inferential statistics to test the association between the dependent variable and independent variables.

Model Specification

$$ROA = f(\Delta MLF, \Delta POSF, \Delta MTF, \Delta POSF) \dots \dots \dots \text{Eqn. 1}$$

$$ROA = \beta_0 + \beta_1 \Delta MLFC + \beta_2 \Delta POSF + \beta_3 \Delta MTF + \beta_4 \Delta ATMF + \mu \dots \dots \dots \text{Eqn. 2}$$

Where

ROA- Return on Asset, ΔMLF - Money Laundering Fraud Control, $\Delta POSF$ - Point of Sales Fraud Control, ΔMTF - Money Transfer Fraud Control, $\Delta ATMF$ - Automated Teller Machine Fraud Control. $\beta_1, \beta_2, \beta_3$ and β_4 = coefficients of explanatory variables, β_0 = intercept
 $\Delta ATMF, \mu$ = stochastic term or error term

DATA PRESENTATION AND ANALYSIS

Data Presentation

The data obtained in this study comprised of the forensic accounting measures of the study (money laundering fraud control, point of sales fraud control, money transfer fraud and automated teller machine fraud control) and the performance measure (return on asset).

Data Analysis

Table 1

Result of Forensic Accounting and Bank Performance Measures

Items	Mean	Std. Dev.
Return on Asset	4.6	0.95
Money Laundering Fraud Control	3.3	1.3
Point of Sales	3.8	1.6
Transfer Fraud	4.5	0.6
Automated Teller Machine Fraud	4.5	0.8

Source: Researcher's Computation via STATA 13.0

Table 1 showed the mean and standard deviation results which were used to provide answers to the research questions on forensic accounting and bank performance. Overall, the forensic accounting and bank performance measures beat the mean benchmark of 2.5, which is an indication that to a large extent forensic accounting measures of the study are good predictors of performance of banks.

Table 2

Result of the Normality Test

Stats.	ROA	MLF	MTF	POSF	ATMF
Skewness	-1.029	-1.009	-0.628	-0.625	-0.612
Kurtosis	3.020	2.798	1.611	1.684	1.604

Source: Researcher's Computation via STATA 13.0

Table 2 showed the results of the normality test using Skewness and Kurtosis. The kurtosis results revealed that *MTF* (1.611) had the least kurtosis, which is the smallest possible value of kurtosis and *ROA* (3.020) the most. Besides, the skewness values revealed that all the forensic accounting measures of the study skewed towards one direction (negatively skewed) with bank performance (*ROA*). Overall, all the kurtosis values for the variables are not too far away from 3; an indication that the variables are normally distributed.

Table 3

Result of Pearson Correlation Matrix

	ROA	MLF	MTF	POSF	ATMF
ROA	1.000				
MLF	-0.767	1.000			
MTF	-0.859	0.866	1.000		
POSF	-0.857	0.848	0.936	1.000	
ATMF	-0.660	0.667	0.724	0.730	1.000

Source: Researcher's Computation via STATA 13.0

Table 3 present the Pearson correlation matrix of the dimensions of forensic accounting (*MLF*, *MTF*, *POSF* and *ATMF*) and bank performance (*ROA*) of the study. The result revealed that all the forensic accounting measures were negatively correlated with bank performance (*ROA*).

This implies that there is a negative correlation or relationship between forensic accounting measures and bank performance.

Table 4

Result of Variance Inflation Factor (VIF)

Variables	VIF	1/VIF
Money Laundering Fraud	9.83	0.1018
Money Transfer Fraud	9.48	0.1055
Point of Sales Fraud	8.33	0.1200
Automated Teller Machine Fraud	2.27	0.4397
Mean VIF	7.48	

Source: Researcher's Computation via STATA 13.0

Table 4 is a computation of the Variance Inflation Factor (VIF) and results for the independent variables of the study (money laundering fraud, money transfer fraud, point of sales fraud and automated teller machine fraud) to assess the presence or absence of multicollinearity for the data. The result of $VIF = 7.48$, which is less than the accepted VIF value of 10.0, indicating that there is the absence of multicollinearity problem in the model of forensic accounting and bank performance.

Discussion of Results

First, it was found that to a large extent forensic accounting measures of the study are good predictors of performance of banks (see Table 4.3.1). Second, the results showed that the dataset are normally distributed as indicated in the kurtosis and skewness values (see Table 4.3.2). Third, the result revealed that all the forensic accounting measures were negatively correlated with bank performance (ROA). This implies that there is a negative correlation or relationship between forensic accounting measures and bank performance (see Table 4.3.3). Furthermore, the variance inflation factor results revealed that there is the absence of multicollinearity problem in the model of forensic accounting and bank performance (see Table 4.3.4). Finally, the test of research hypotheses revealed that all the forensic accounting measures (automated teller machine fraud control, money transfer fraud control, point of sales fraud control and money laundering fraud control) negatively and significantly affects the performance of the selected banks in Nigeria. The findings of the study are in line with the results of Modugu and Anyaduba (2013); and Akenbor and Ironkwe (2014) who found that forensic accounting affects the performance of companies or institutions in Nigeria.

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Summary of Findings

Based on the test of research hypotheses at 0.05% level of significance, the following findings emerged:

1. That there is significant relationship between Money Laundering Control and Return on Asset (ROA) of selected banks in Nigeria
2. That there is significant relationship between Point of Sale (POS) fraud Control and Return on Asset (ROA) of selected banks in Nigeria
3. That there is significant relationship between Money Transfer fraud Control and Return on Asset (ROA) of selected banks in Nigeria
4. That there is significant relationship between Automated Teller Machine (ATM) fraud control and Return on Asset (ROA) of selected banks in Nigeria.

CONCLUSION

This study investigated forensic accounting and the performance of some selected banks in Nigeria so as to see if forensic accounting via the divides of certain money laundering control, point of sale fraud control, money transfer fraud control, and automated teller machine fraud control affect return on asset from 2012-2020. The study concluded that forensic accounting is vital to increasing the performance of banks in Nigeria; however, this veritable tool has not been proven to be effectively used among banks in Nigeria, especially in the aspects of controlling for money laundering, point of sale, money transfer as well as automated teller machine.

More importantly is the fact that forensic accounting can be effectively used if fraud must be detected and prevent in order to bolster the performance of banks in Nigeria. The implication of the findings is that the forensic accounting is pivotal to enhancing bank performance, particularly in area of enhancing return on assets. The finding of the study is in agreement with prior studies conducted by Modugu and Anyaduba (2013); and Akenbor and Ironkwe (2014) who found that forensic accounting affects the performance of companies or institutions in Nigeria.

Recommendations

Based on the findings of the study, the following recommendations were proffered:

1. That bank management should employ forensic accounting by amending the existing statutes in such a way that forensic accountants are included in the management process. Through this, forensic accountants will have more tools to effectively deal with challenges in fraud control.
2. The negative relationship between forensic accounting and performance of banks suggests that it has not been effectively used by management; thus, there is need for Nigerian banks to further enhance and employ forensic accounting support services, fraud investigation and forensic audit by ensuring that they achieve what they intend to do for banks.
3. Forensic accountants should take advantage of the modern accounting software in order to enhance efficiency and smooth operation of bank processes, as it will help improve bank performance, particularly in areas of automated teller machine, money transfer, money laundering and point of sales fraud
4. The Financial Reporting Council (FRC) should ensure the harmonization and unification of any conflicting regulatory codes that can guarantee best practices and service delivery of the forensic accountant.
5. Accounting bodies such as the Institute of Chartered Accountant (ICAN) should encourage formalizing and specialization in the field of forensic accounting while at the same time academia should place emphasis on skill development in the field of forensic accounting.

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