

Forensic Accounting as A Tool for Detecting and Preventing Financial Fraud in South West Nigeria

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Abstract

Financial fraud poses a significant threat to the economic stability of organisations and nations. In Nigeria, cases of financial fraud have led to massive losses, affecting both public and private sectors. Forensic accounting has emerged as a critical tool for detecting and preventing financial fraud. This study investigates the effectiveness of forensic accounting in combating financial fraud in Nigeria. Using a descriptive survey approach, data were collected from 350 respondents, including accountants, auditors, and financial managers. A self-structured questionnaire was used, and its reliability was tested using the test-retest method, yielding a reliability coefficient of 0.82. Data were analysed using one-way analysis of variance (ANOVA). The findings revealed that forensic accounting significantly enhances fraud detection and prevention. It was concluded that adoption of forensic accounting enhances transparency, accountability, and trust in financial systems, and organisations that leverage forensic accounting are better equipped to identify and mitigate fraudulent activities, thereby safeguarding their resources. It was recommended that organisations integrate forensic accounting practices into their financial systems and train staff to improve fraud detection capabilities.

Keywords

Forensic accounting, financial fraud, fraud detection, fraud prevention

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Introduction

Financial fraud is a pervasive challenge in Nigeria, undermining economic growth, eroding public trust, and causing significant losses to businesses and government institutions. From corporate accounting scandals to public sector embezzlement, fraudulent activities continue to evolve, necessitating advanced detection and prevention mechanisms. Forensic accounting has emerged as a critical tool in uncovering financial malfeasance, providing litigation support, and strengthening fraud prevention frameworks. According to the Association of Certified Fraud Examiners (ACFE, 2022), organisations lose approximately 5% of their annual revenue to fraud. High-profile cases such as the \$6.8 billion NNPC oil subsidy scandal and the \$2.1 billion arms procurement fraud highlight the urgent need for robust fraud detection and prevention strategies.

Forensic accounting is a specialised field that integrates financial expertise, investigative techniques, and legal knowledge to detect and prevent financial misconduct. Adeyemi (2019) defines forensic accounting as the application of accounting principles to analyse financial records for evidence of fraud or irregularities. Unlike traditional auditing, which ensures compliance with accounting standards, forensic accounting delves deeper into financial transactions to identify fraudulent activities and provide expert testimony in legal proceedings (Okafor & Adejumo, 2021).

Beyond fraud detection, forensic accountants play a proactive role in risk assessment and internal control reviews to prevent financial crimes. Ogunseye (2020) notes that forensic accountants assess vulnerabilities in financial systems and recommend mitigation strategies. This involves tracing illicit funds, analysing suspicious transactions, and quantifying financial losses. By addressing both reactive and preventive aspects of financial fraud, forensic accounting strengthens financial integrity in Nigeria. Forensic accounting extends beyond fraud detection to encompass areas such as bankruptcy analysis, business valuation, and cybercrime investigations. The integration of technology, including data analytics and artificial intelligence, has enhanced forensic accounting efficiency, enabling practitioners to analyse large datasets and detect fraud patterns (Bello & Adebayo, 2022). While forensic accounting and traditional auditing share similarities, they differ in objectives, methodologies, and outcomes. Traditional auditing ensures the accuracy and fairness of financial statements, whereas forensic accounting investigates financial records to uncover fraud or misconduct (Adesina et al., 2020).

Corruption remains one of the most prevalent financial crimes in Nigeria. Cases such as the \$6.8 billion NNPC oil subsidy fraud highlight the extent of corruption, which drains national resources and weakens governance structures. Embezzlement, money laundering, and financial misstatements further contribute to corporate and public sector fraud, necessitating enhanced detection and prevention strategies (Adebayo & Olanrewaju, 2022).

Forensic accounting provides critical support in legal proceedings by offering expert testimony to help judges and juries understand financial

complexities (Adebayo & Olanrewaju, 2022). Regulatory bodies such as the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices and Other Related Offences Commission (ICPC) rely on forensic accountants for investigations and prosecutions (Oyedele & Ogunniyi, 2023).

Despite its importance, there is limited literature on the practical application of forensic accounting specifically in the South-West geopolitical zone of Nigeria. This study aims to address this gap by exploring how forensic accounting can be used as a tool for detecting and preventing financial fraud in Nigeria. Kasum (2009), Ojaide (2000), Okoye et al. (2009), Owojori and Asaolu (2009), and Izedonmi and Mgbame (2011) have all reported the rising prevalence of fraud, suggesting that financial malpractice is becoming normalized. More recently, Alao, Adegbe, and Ogundajo (2023), in their study on the public sector of South-West, Nigeria, concluded that the application of forensic accounting techniques has a significant impact on curbing corruption. This knowledge gap necessitates the study to evaluate the effectiveness of forensic accounting in detecting and preventing financial fraud in South West, Nigeria.

Therefore, the main purpose of this study is to explore forensic accounting as a tool for detecting and preventing financial fraud in South West, Nigeria. Specifically, the study seeks to:

- i. Determine the significant impact of forensic accounting on fraud detection.
- ii. Assess the influence of forensic accounting on fraud prevention.

The following hypotheses were formulated to guide the study:

H₀₁: Forensic accounting has no significant impact on fraud detection.

H₀₂: Forensic accounting has no significant influence on fraud prevention.

Literature Review

Empirical Review

Empirical studies substantiate the critical role of forensic accounting in combating financial fraud in Nigeria. For example, Adebisi and Okoye (2022) found that forensic accounting techniques significantly enhance fraud detection in both public and private organisations, establishing a measurable decrease in fraudulent activities in organisations utilizing these practices. This highlights the practical effectiveness of forensic audits and financial forensics.

Similarly, Adeyemi (2019) emphasised the effectiveness of forensic accounting in reducing corruption through improved financial oversight and transparency in financial reporting. A study by Adebisi and Oladunjoye (2023) focused on Nigerian organisations and established that forensic accounting plays a preventive role by assessing internal vulnerabilities and recommending robust internal controls.

In the area of public sector governance, Ogunseye (2020) observed that forensic accounting significantly improves accountability by enabling governmental agencies to trace misappropriated funds. This is strongly corroborated by Alao et al. (2023), whose research in South-West Nigeria concluded that the application of specific forensic accounting techniques had a statistically significant impact on reducing corruption in the public sector. This provides a strong basis for the current study, confirming the regional relevance of forensic accounting.

Ogunlana and Adeyinka (2020) linked forensic accounting with enhanced fraud prevention strategies in Nigerian corporations, emphasising the effectiveness of deploying practices such as investigative auditing. Additionally, Bello and Adebayo (2022) underscored the role of technology in forensic accounting, showing that automation and digital tools have improved fraud detection accuracy. The consensus from these empirical findings is that forensic accounting is both a practical and strategic solution to the financial fraud crisis in Nigeria, and specifically the South-West region.

Theoretical Review

The Fraud Triangle Theory posits that fraud is likely to occur when three conditions are present: pressure, opportunity, and rationalisation (Adebisi & Okoye, 2022). Forensic accounting directly addresses the “opportunity” element by tightening internal controls, enhancing financial transparency, and installing robust detection systems. It also acts as a deterrent by increasing the probability of exposure, thus impacting the rationalisation component. By strategically mitigating the opportunity for fraud, forensic accounting significantly reduces the probability of fraud occurrence.

Agency Theory explores the relationship between principals (e.g., shareholders) and agents (e.g., company executives), emphasising the risk that agents may act in their own interest rather than the interest of the principal. Forensic accounting helps resolve such agency conflicts by ensuring financial integrity through independent verification and fraud risk assessments (Oyelami & Afolabi, 2023). It creates a system of checks and balances that limits the ability of agents to exploit information asymmetry, thus restoring faith in financial reporting. Both theories are instrumental in understanding the motives behind fraud and the comprehensive mechanisms through which forensic accounting intervenes to prevent and detect these occurrences.

Methodology

This study adopted a descriptive survey research approach to assess the perceptions of financial professionals. The population comprised accountants, auditors, and financial managers in selected organisations across South West, Nigeria. A random sampling technique was employed to select a sample size of 350 respondents, which is deemed adequate and well-justified for this type of quantitative study. A 4-point Likert-type questionnaire titled "Forensic Accounting and Fraud Detection/Prevention Questionnaire (FAFDQ)" was developed. The 4-point scale was anchored by 1 (Strongly Disagree) and 4 (Strongly Agree), eliminating a neutral option to encourage definitive responses. The questionnaire consisted of 25 items validated by two experts in forensic accounting. Reliability was assessed using the test-retest method, yielding a strong reliability coefficient of 0.82. Data were analysed using one-way ANOVA at a 0.05 level of significance.

Results

H₀₁: Forensic accounting has no significant impact on fraud detection.

Table 1: One-Way ANOVA on the Impact of Forensic Accounting on Fraud Detection

SOURCE	SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
Between Groups	1245.67	2	622.84	12.34	0.000*
Within Groups	17543.21	347	50.56		
Total	18788.88	349			

$P < 0.05$

The results in Table 1 show an F-value of 12.34 with a p-value of 0.000, indicating a significant impact of forensic accounting on fraud detection. Therefore, the null hypothesis is rejected.

H₀₂: Forensic accounting has no significant influence on fraud prevention.

Table 2: One-Way ANOVA on the Influence of Forensic Accounting on Fraud Prevention

SOURCE	SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
Between Groups	987.45	2	493.73	9.87	0.000*
Within Groups	16432.12	347	47.35		
Total	17419.57	349			

$P < 0.05$

The results in Table 2 show an F-value of 9.87 with a p-value of 0.000. As the p-value (0.000) is less than the significance level ($\alpha = 0.05$), the results indicate a statistically significant influence of forensic accounting on fraud prevention. Therefore, the null hypothesis (H_0) is rejected.

Discussion of Findings

The findings reveal that forensic accounting significantly impacts fraud detection and prevention in South West, Nigeria. The rejection of both null hypotheses is strongly supported by the ANOVA results, where both F-values (12.34 for detection and 9.87 for prevention) were statistically significant ($p < 0.001$). The large F-ratios suggest that the differences in opinions among the groups of respondents regarding the effectiveness of forensic accounting were substantially greater than the random variation within those groups, providing strong empirical evidence of its positive role.

Specifically, the results align with prior studies by ACFE (2022) and Okoye (2019), which emphasize the role of forensic accounting in uncovering fraudulent activities and mitigating risks. The significant findings underscore the imperative of integrating forensic accounting into organizational practices to combat financial fraud effectively. The respondents, being financial professionals, clearly perceive forensic accounting techniques (like investigative audits and data analytics) as superior to traditional methods in both proactively deterring and retroactively identifying financial crimes. This high level of perceived efficacy reinforces the theoretical predictions of both the Fraud Triangle and Agency Theory discussed earlier.

Conclusion

This study concludes that forensic accounting is a powerful and statistically effective tool for detecting and preventing financial fraud in South West, Nigeria. Its adoption can significantly enhance transparency, accountability, and trust in financial systems. Organizations that leverage forensic accounting

are better equipped to identify and mitigate fraudulent activities, thereby safeguarding their resources and contributing to overall economic stability.

Recommendations

Based on the significant findings, the following recommendations are made:

- i. Organisations in the South-West region should actively incorporate forensic accounting practices into their financial systems, moving beyond traditional annual audits.
- ii. Regulatory bodies such as the EFCC and CBN should mandate the systematic use of certified forensic accounting services in fraud-prone sectors such as banking and government agencies.
- iii. Professional and academic institutions should develop and promote specialised training programmes to equip existing accountants and auditors with essential forensic accounting skills and competencies.

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