FRAUD PREVENTION IN NIGERIA: APPLYING THE FORENSIC ACCOUNTING TOOL

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by

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Abstract
The spate of global scandals and corporate misadventures that began with the energy giant, Enron in the years 2000 to 2002, the Asian Financial Crisis of 1997/98, and the global Financial Meltdown of 2008, rocked the accountancy profession and sharply drew attention to the need for the profession to re-invent itself and re-define its focus in the new millennium. Accounting practitioners world-wide, have tested the limits of creative accounting, and the verdict of the marketplace is that the era of sharp and unwholesome practices are over for good. Part of the professional response to challenge of this era, is the growth of fraud management and forensic accounting, as a distinct practice within the discipline. This paper explores how the forensic accountant can contribute meaningfully in the fight against fraud and white-collar crimes.

Keywords: Forensic Accounting, Forensic Audit, Fraudster, Detection Techniques.

I  INTRODUCTION
Three major global phenomena have defined the agenda for recent developments in the accounting profession. First was the Enron scandal accompanied by a series of corporate misadventures. These incidents were typified by such practices as using doubtful and questionable accounting practices to conceal huge losses, concealing extensive borrowing by keeping them off the balance sheet to receive favourable credit ratings, treating huge revenue expenses as capital expenditure, massive inflation of corporate earnings, over-priced acquisitions, under-secured loans and overall fraudulent reporting.

Next was the Asian Financial Crisis. The crisis was triggered by an unfortunate coincidence of four basic issues: a shortage of foreign exchange that led to a dramatic fall in the value of currencies and equities poorly developed financial systems and mechanisms for allocating capital, the global implications of the burgeoning crisis, and the role, operations, and replenishment of funds of the International Monetary Fund. In sum, the weaknesses in Asian financial systems were at the root of the crisis; and the weaknesses were caused largely by the lack of incentives for effective risk management created by implicit or explicit government guarantees against failure.

The final phenomenon was the global financial meltdown. Though caused in the main by the collapse in the mortgage industry in the US, the meltdown was made possible because there was a failure on the part of gatekeepers including auditors, boards of directors, regulatory authorities (SEC) and even career
politicians, to rein in rampaging firms and managers. Managed earnings, with the main focus on share price advantage rather than the creation of real value, were prevalent; and managers’ capitalism gradually replaced *owners’ capitalism* - where management ran the firm for its own benefit rather than the benefit of the shareholders, thus reversing the principal-agent relationship.

In consequence thereof, major changes were introduced into the development of regulatory landscape for accountancy profession, and new emphasis arose in the development of the discipline. Forensic Accounting and forensic audit are beneficiaries of this novel emphasis. Forensic accounting has been defined as the comprehensive application of investigative accounting, auditing and legal skills to the task of extracting, verifying, interpreting and communicating transactional and reporting event evidence, in an objective, legally sustainable fashion for use by attorneys involved in civil litigation, and in giving trial testimony.

Accounting procedures generally record the financial and operational activities of businesses, while basic auditing verifies and validates the accuracy of the recordings, noting any errors and irregularities. Forensic accounting goes beyond this to investigate the history and circumstances that gave rise to the transactions and the entries. Thus, forensic accounting identifies the propriety of accounting entries, and combines strong auditing procedures with sophisticated investigative techniques, in verifying the accuracy and legitimacy of financial reporting. Put in another way, forensic accounting actually melds auditing, accounting and investigation, not just looking at and analysing the numbers, but looking “behind” the numerical data with the deliberate intention of uncovering accounting irregularities. The underlying principle is to use financial records to find evidence of crimes and to track criminals.

A few cases will illustrate the rigour of forensic accounting:

- A Nigerian Federal-Government owned Refinery and Petro-chemical Company was experiencing several hiccups in its operations and ceaseless breakdowns, in spite of huge sums of money spent (₦15 billion in 1993) on its Turn-Around Maintenance (TAM). An investigative team was appointed to find out what was amiss. The team discovered that the funds released by government for the TAM, were received and paid into a dedicated account, not the Central Bank; and the interests paid on the deposits were withdrawn and transferred into private accounts. The original manufacturers were sidelined in the TAM, and a completely different firm was engaged to execute the task with sub-standard
spares and poor quality results. Payments to the foreign experts were made through Letters of Credit obtained from a non-existent bank; and the regulator of the financial system never issued any queries but rather continued to release foreign exchange.

The indigenous engineers certified that the TAM was duly and properly executed justifying that further payments be made, even when the contractors were yet to commence work, or even arrive Nigeria on some occasions. The internal audit/quality assurance unit of the Refinery and its supervising agency, were fully in the know of the anomaly, yet they continued to certify that nothing was wrong.

The Report of the Investigating Team was submitted to the Presidency at the time; it was ignored and no action was taken. When a new President assumed office, he set up a Committee to study the Report. The Committee undermined the Report and watered down its main submissions. Finally, a second Committee was set up by the President to put in place the modalities for implementing the watered down Report. They worked until the Report and its findings disappeared from public view and national significance.

- Mr. Lionel (not real name) was elected Governor in a Nigerian State. At the end of his eight-year tenure, he was arraigned for corrupt enrichment while in office. He quickly entered a plea bargain, and opted to pay a fine of N3.5 million in lieu of imprisonment. Meanwhile, fresh facts are emerging of the extent of the fraud that attended his days in Government house. A team of forensic accountants retained to probe some contracts of Mr. Lionel’s term, disclosed some embarrassing facts:
  - Under Mr. Lionel’s watch, the State government incurred a capital expenditure of N100 billion on roads. An in-depth inquiry showed that out of the 50 contractors listed in the road construction and rehabilitation projects, 10 are non-existent, 4 had never ever worked for the State Government, 6 did not work for the Government in the period under review, 20 stoutly refuted the length of roads ascribed to their company, and 5 companies did not bother to respond. Only 5 companies in which the family of the Governor had controlling shares accepted all the responsibilities ascribed to them.
  - The accountants further discovered that the bill of quantities revealed extensive over-valuation of the construction materials, to the tune of
412%. After the netting of all costs, the firm of forensic accountants came to the conclusion that out of a capital expenditure of \( \text{₦}100 \text{ billion} \) on roads, Mr. Lionel’s government misappropriated a total of \( \text{₦}81.3 \text{ billion} \). That is a record by any African or Asian standard - 81% attrition rate.

In the Health sub-sector, Mr. Lionel’s government paid first, 15%, and then 75% of agreed contract payment to foreign suppliers, ostensibly for the State hospitals. The foreign firms made no supplies. Upon investigation, the foreign experts presented letters of agreement which stipulates that the money given to them was meant for the development of pharmaceutical companies in Asia for the family of the Governor. The total amount involved was \( \text{₦}19.8 \text{ billion} \).

Mr. Lionel claimed \( \text{₦}20 \text{ billion} \) for the supply of Rural Water to the communities in his State. Out of the 9 Urban water schemes the government claimed to have launched, it was discovered that only the one in the State capital actually attracted government patronage. Out of 300 sunk boreholes in the different communities, it was discovered that over 80% of them had only a length of 18” pipe buried underground. The overhead water tanks were filled on commissioning day with the help of water vendors, and thereafter the taps ceased to run. The forensic accountants concluded that out of an outlay of \( \text{₦}20 \text{ billion} \) on the Water project, \( \text{₦}18.9 \text{ billion} \) was misappropriated.

These cases well illustrate the impact and thoroughness of true forensic work. The terms, “forensic accounting” and “forensic audit” are often used interchangeably. However, an attempt can be made to distinguish one from the other can be an uphill task. While forensic accounting relates to the science of gathering and presenting financial information in a form that will be accepted by a court of jurisprudence against perpetrators of economic crimes, forensic audit is seen as a concentrated examination of all the transactions of an entity to find the correctness of such transactions and to report whether or not any financial benefit has been attained by way of presenting an unreal picture. Thus, fraud audit aims at legal determination of whether or not fraud has actually occurred, with a view to identifying the culprit for purposes of legal action. A fraud audit therefore has to focus on the following:

- Proving the loss;
- Proving the responsibility for the loss;
- Proving the method or motive;
- Establishing knowledge of guilt;
Identifying other beneficiaries.

As a discipline forensic audit/accounting encompasses financial expertise, fraud knowledge, a sound understanding of business reality, and the working of the legal system. This implies that the forensic accountant should be skilled not only in financial accounting and auditing, but also in internal control systems, the law, other institutional requirements, investigative proficiency, and interpersonal skills. In the words of Crumbley (Cited by Anizoba et al, 2005):

*A good forensic accountant is like a three-layer wedding cake. On the bottom layer, that individual has to have a solid background in accounting. The second, smaller layer translates to a background in auditing, risk assessment and fraud detection; third, even smaller layer represents a legal background - understanding the courtroom and how to testify.*

Below is a table of topical differences between traditional accounting and auditing and forensic accounting investigation.

<table>
<thead>
<tr>
<th>S/ N</th>
<th>Areas</th>
<th>Financial Audit</th>
<th>Forensic Accounting/ Investigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Objective</td>
<td>Form an opinion on the overall financial statements taken as a whole</td>
<td>Determine the likelihood and/or magnitude of fraud occurring</td>
</tr>
<tr>
<td>2</td>
<td>Purpose</td>
<td>Usually required by third-party users of financial statements</td>
<td>Sufficient prediction that a fraud has or may have occurred</td>
</tr>
<tr>
<td>3</td>
<td>Value</td>
<td>Adds credibility to reported financial information.</td>
<td>Resolves suspicions and accusations; determines the facts.</td>
</tr>
<tr>
<td>4</td>
<td>Sources of evidence</td>
<td>Inquiry, observation, examination and performance of accounting transactions to support financial statement assertions.</td>
<td>Review detailed financial and non-financial data, search public records, conduct fact finding as well as admission seeking interviews, including third party inquiries.</td>
</tr>
<tr>
<td>5</td>
<td>Sufficiency of evidence</td>
<td>Reasonable assurance</td>
<td>Establish fact to support or refute suspicion or accusations.</td>
</tr>
<tr>
<td>6</td>
<td>Audience</td>
<td>Serves the public interest; specifically, investors and other stakeholders, including the regulatory community.</td>
<td>Serves the broad or narrow interest of the party that engaged them</td>
</tr>
<tr>
<td>7</td>
<td>Opinion I</td>
<td>The audit report or opinion can stand on its own.</td>
<td>The report does not stand on its own. It is a discovery device used by counsels or a company to resolve an allegation.</td>
</tr>
<tr>
<td>8</td>
<td>Opinion II</td>
<td>Expression of opinion on financial statements for general or limited use.</td>
<td>To confirm or deny the existence of a particular problem and to determine its extent and likely cause. May seek to recover misappropriated assets.</td>
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</tr>
<tr>
<td>9</td>
<td>Focus</td>
<td>The auditor’s focus is on the validity, accuracy and completeness of the financial accounting and reporting on which they opine.</td>
<td>Deeply concerned with differentiating between errors in execution or judgment and deliberate misrepresentation. He is expected to participate in meetings and activities throughout the investigation and thereafter up to the time of litigation.</td>
</tr>
<tr>
<td>10</td>
<td>Method of work</td>
<td>Auditors work is conducted in the ‘open’; it is typically known and understood by the clients’ personnel. This minimizes disruption in the flow of business.</td>
<td>The work is sharp. Personnel may not be fully informed of the purpose or full scope. Depending on the degree of needed secrecy and scope of assignment, some forensics will come and go quietly while others will come and turn the organization upside down.</td>
</tr>
<tr>
<td>11</td>
<td>Scope</td>
<td>Set the scope of work based on risk factors determined after consideration of relevant information including books and records and other data such as industry norms.</td>
<td>Develop the scope of inquiry with input from various sources including counsel, the independent auditors, and the company’s internal audit group.</td>
</tr>
<tr>
<td>12</td>
<td>Techniques</td>
<td>‘Substantive’ &amp; ‘Compliance’ Tests</td>
<td>Analysis of Past Trends &amp; In-Depth Checking of Selected Transactions.</td>
</tr>
<tr>
<td>13</td>
<td>Verification &amp; Valuation of Assets/Liabilities</td>
<td>Reliance on Management Certificate</td>
<td>Independent Verification of Selected/Suspected Items.</td>
</tr>
<tr>
<td>14</td>
<td>Off-Balance Sheet Items</td>
<td>Used to Vouch Arithmetic Accuracy &amp; Compliance with Procedures.</td>
<td>Examination of Regularity/Propriety of these Transactions/Contracts.</td>
</tr>
<tr>
<td>15</td>
<td>Timing</td>
<td>Conducted on Regular Recurring Basis</td>
<td>Conducted only with sufficient predication.</td>
</tr>
<tr>
<td>16</td>
<td>Relationship</td>
<td>The process is non-adversarial in nature.</td>
<td>Involve efforts to affix blames and so are adversarial in nature.</td>
</tr>
<tr>
<td>17</td>
<td>Presumption</td>
<td>Approach audits with professional skepticism</td>
<td>Attempt to establish sufficient proof to support or refute an allegation of fraud.</td>
</tr>
</tbody>
</table>

II MIND-SET OF THE FRAUDSTER

In the celebrated case of *Wells v Zenz*, fraud was defined as:

*a generic term which embraces all the multifarious means which human ingenuity can devise and are resorted to by one individual to get any advantage over another. It includes all surprise, trick, cunning, dissembling and unfair ways by which another is deceived.*

The Institute of Internal Auditors suggests this definition of fraud:

*Any illegal acts characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the applications to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.*

There are three types of fraud that are present in fraudulent financial reporting situations. These are the 3Ms of financial reporting fraud:

- **Manipulation**, falsification or alteration of accounting records or supporting documents from which financial statements are prepared;
- **Misrepresentation** in, or intentional omission from the financial statements of events, transactions, or other significant information;
- **Intentional misapplication** of accounting principles relating to amounts, classification, manner of presentation, or disclosure (Crumbley *et al*, 2007).

Penny (2002) identifies corporate fraud as covering *three categories - management fraud, employee fraud and external fraud*. In a study by the KPMG (1995), the different types of fraud were set out as in Table 1.1

<table>
<thead>
<tr>
<th>EMPLOYEE FRAUD</th>
<th>MANAGEMENT FRAUD</th>
<th>EXTERNAL FRAUD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Theft</td>
<td>Lapping</td>
<td>Cheque Forgery</td>
</tr>
<tr>
<td>Misappropriation of</td>
<td>Misappropriation of</td>
<td>False Representation of</td>
</tr>
<tr>
<td>cash/assets</td>
<td>Cash/Assets</td>
<td>Funds</td>
</tr>
<tr>
<td>Lapping</td>
<td>False Financial Statements</td>
<td>False Invoices</td>
</tr>
<tr>
<td>Cheque Forgery</td>
<td>Expense Accounts</td>
<td>Product Substitution</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Expense Account Manipulation</th>
<th>Unnecessary Purchase</th>
<th>Bribes/Secret Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petty Cash</td>
<td>Cheque Forgery</td>
<td>Bid Rigging/Price Fixing</td>
</tr>
<tr>
<td>Kickbacks</td>
<td>Kickbacks</td>
<td>False Insurance Claims</td>
</tr>
<tr>
<td>Loans/Investments</td>
<td>Ghost Vendors</td>
<td>Credit Card Fraud</td>
</tr>
<tr>
<td></td>
<td>Diversion of Sales</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Crumbley et al, (2007)*

Fraud at top management level covers not only the direct misappropriation of funds but also the manipulation of the accounts of the entity. This type of fraud is more often difficult to detect, because internal controls can be overridden by members of the Board.

Wells (2006) defines *occupational fraud and abuse* as the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets. It involves a wide variety of conduct by executives, employees, managers, and principals of organizations, ranging from sophisticated investment swindles to petty theft. Common violations include asset misappropriation, fraudulent statements, corruption, pilferage and petty theft, false overtime, using company property for personal benefit, and payroll and sick time abuses.

Four key elements are involved:
- The activity is clandestine and secret;
- It violates the employee’s fiduciary duties to the organization;
- The act is committed for the purpose of direct or indirect financial benefit to the employee;
- There are costs for the employing organization in terms of assets, revenues or reserves.

Researchers have attempted over time to explain the mind-set of the fraudster in various ways. Skinner’s theory of behaviourism argues that in understanding fraud, the religious affiliations of the fraudster, and his status in society, are not factors. Rather, three factors are critical to his behaviour -

i) What was the driving force for his action (the stimuli)? In other words, why
did he feel the “need” to carry out the act?

ii) What were the reinforcements in the form of money, prestige, goodwill? How has his past experience influenced his action?

iii) And finally, based on the act and his history, how likely is he to commit the act again?

There is also the technique of neutralisation, whereby criminals recognise their behaviour as being morally reprehensible, but neutralise the offence in their minds by explaining away their actions. Using concepts similar to the ones used by the law to mitigate sentences in the courts, the delinquent comes to see himself as ‘guiltless’. Thus, even hardened and persistent offenders were unwilling to admit they were criminals. Embezzlers who hold positions of trust in their establishments, would often see themselves as not stealing, but merely borrowing from the money under their control. Matza and Sykes (1957, cited by Slapper & Tombs, 1999) in relation to juvenile delinquents, propounded five techniques of neutralisation:

a) denial of responsibility - ‘after all it was not my fault’;
b) denial of injury - ‘no one is hurt, and they can afford it’;
c) denial of victims - ‘they had it coming; it is all their fault’;
d) condemn the condemners - ‘everyone is crooked anyway’;
e) the appeal to higher loyalties - ‘I did it for the good of the poor masses’.

The accountant is not equipped to handle this kind of fraud. Accounting has been defined as the system of principles and techniques which permits the classification, recording and interpretation of financial information for purposes of decision making. It seeks to satisfy a reporting function, a planning and control function and a decision-making function. At the core of the accounting function, is one basic stipulation: to ensure that accounting records maintain a true and fair view of the results of trading as shown in the Income Statement, and of the financial position as shown in the Balance Sheet.

True and fair view is a statutory and professional requirement describing accounts which in their preparation and standards of disclosure, have met generally accepted accounting principles. It stipulates that the information content of published accounts are sufficient in quantity and quality to satisfy the reasonable expectations of users to whom they are addressed. For the auditor, the term connotes a reflection of the standard and quality of the audit work, the state of the client’s internal control and accounting methods, and the extent of
conformity with the requirements of the relevant laws.

Every stage of the accounting process is susceptible to manipulation and theft. Thus the embezzler exploits the weaknesses in the system, and on occasion, the absence of controls. The regular accounting ritual of balancing the books at the end of a period of trading, only ensures that the double-entry bookkeeping has been maintained correctly; it does not ensure that the correct accounts have been increased or decreased. To cover up their activities, therefore, embezzlers typically create misinformation or disinformation, destroy information, suppress information or utilize rationalizations if authenticity or accuracy of an entry is challenged. It is not unusual to find cases of creation of fake documents and false entries, phony invoice from a phantom supplier, or a faked time card from a non-existent employee.

Auditors in the process of executing their tasks, look out for wrong and implausible entries in the books of accounts. Embezzlers know that too, so often they try to dodge control devices by creating entries that fit within the contemplation of the accounting system. They attempt to make fraudulent entries look or appear normal - for example, the amount is within established limits, the originator of the entry is an authorized official, the account classifications are proper, the place and timing of the transaction are appropriate, and the subject matter of the transaction is fitting to the needs of the business. The reason is becoming fairly clear why the auditor is in no position to pontificate with any level of finality on whether or not, a fraud has occurred. However, the times demand a change in style and emphasis for accountants in the face of burgeoning cases of fraud and malfeasance in organizations and nation states.

Forensic accounting clearly demands a change in scope, method and operational style for accountants. In financial audits, accountants are alert to signs or evidence of errors and irregularities of a material nature. Small errors are of less concern to financial auditors. Forensic accountants are very much concerned about small errors and irregularities, particularly if they seem to be related to the modus operandi of corrupt employees and fraudsters. Criminals usually cannot bury all their tracks; small errors and irregularities may therefore be the tip of a fraudulent iceberg.

Thus, the forensic auditor must look out for evidence of control procedure exceptions, accounting classification anomalies, oddities in financial trends, and
ratios and peculiarities in specific transactions. Forensic auditors look for evidence of unexplained gaps or missing links in transaction processing times, places, and people and for misplaced or replaced transaction documentation. In essence, financial auditors take a macro look at books, records and controls, and forensic auditors take a micro look. Financial auditors see the big picture; forensic auditors see the little picture (Shaw & Bologna, 2000).

We must now take a closer look at the operational methods of the forensic accountant.

III PROCESS OF FORENSIC ACCOUNTING

Forensic accounting combines accounting principles with investigative techniques to gather financial evidence that is admissible in a court of law. The forensic accountant must arm himself with some definite areas of useful expertise:

a) An in-depth knowledge of financial statements, and the ability to critically analyse them;

b) A thorough understanding of fraud schemes, including but not limited to asset misappropriations, money laundering, bribery and corruption;

c) The ability to comprehend the internal control systems of corporations, and to set up a control system that assesses risks, achieves management objectives, informs employees of their control responsibility, and monitors the quality of the programme so that corrections and changes can be made;

d) Proficiency in computers and knowledge of network systems;

e) Knowledge of psychology in order to understand the impulses behind criminal behaviour and to set up fraud prevention programmes that motivate and encourage employees;

f) Interpersonal and communication skills which aid conducting of interviews, extracting critical information from employees and disseminating information about company policies;

h) Command of criminal and civil law, as well as of the legal system, law of evidence, and court procedures (Anizoba et al, 2005).

Singleton et al (2006) set out a FIVE-STEP approach in the forensic accounting process:

• Predication – This refers to the set of circumstances that would lead the prudent, reasonable, and professionally trained individual to believe that a fraud
has occurred, is occurring or will occur. It could be a tip, an accidental discovery, or a call; and it is necessary to initiate fraud investigation;

▪ **Fraud Investigation Plan** – This stage is based on the forensic auditor’s knowledge and analysis of fraud schemes and the red flags associated with them. It demands the fraud theory approach – trying to reconstruct events to determine the nature and process of the fraud, and the manner it was perpetrated;

▪ **Examination of Records and Evidence Gathering** – Here an examination is made of accounting records, transaction documents, and data to obtain sufficient and competent forensic evidence. The aim is to ascertain whether or not the fraud earlier identified has actually occurred;

▪ **Interview Process** – The forensic auditor needs to interview eye witnesses to gather information that could come in useful in litigation. The final stage in this process would be to interview the suspect himself;

▪ **Report Writing** – The final stage requires the forensic accountant to put together his report for submission to the party that hired his services. And if indeed the case goes to court, that report could be the basis for prosecuting the fraudster.

Vasudevan (2004) identifies two main detection techniques employed by forensic auditors: **Critical Point Auditing (CPA)** and **Propriety Audit (PA)**. CPA aims at filtering out the symptoms of fraud from regular and normal transactions in which they are mixed or concealed. Consequently, financial statements, books and records are analysed with a view to ascertaining:

▪ Trend analysis by tabulating significant financial transactions;

▪ Unusual debits/credits in accounts normally closing to credit/debit balances respectively;

▪ Discrepancies in Debtors/Creditors/Stock balances as evidenced from the non-reconciliation between financial records and corresponding subsidiary records;

▪ Accumulation of debit balances in loosely controlled accounts e.g. deferred revenue expenditure accounts capitalized as addition to respective machinery items;

▪ False credits to boost sales with corresponding debits to non-existent (dummy) personal accounts;

▪ Cross debits and credits and inter-account transfers;

▪ Weaknesses and inadequacies in internal control/check systems.

**Propriety Audit** is a compliance test to report on whether all expenditures
sanctioned and incurred are need-based, and all due revenues have been realized in time and entered in the necessary account. Value for Money techniques are applied to lend assurance that the goals of economy, efficiency and effectiveness have been achieved in the transactions for which expenditure has been incurred or revenue collected. Since financial frauds are often results of wasteful, unwarranted and unfruitful expenditure or diversion of funds, value for money techniques will fit the need of the audit.

Benford’s law is a mathematical tool often used by forensic accountants in detecting fraud. The law, sometimes called the first-digit law, states that the first digit in many types of data sets are distributed in a non-uniform way. In fact, the law states that the number 1 will appear as the first digit about 30% of the time, and the number 2 will appear as the first digit about 18% of the time; whereas the number 9 will only appear first about 5% of the time. This law applies to a wide variety of data sets, such as stock prices, street addresses, census data, and so on. Based on the plausible assumption that people who make up figures tend to distribute their digits fairly uniformly, a simple comparison of first digit frequency distribution from the data with the expected distribution according to Benford’s law ought to show up any anomalous results. The thrust of the law is that fabricated figures possess a different pattern from random or valid figures. A z-test would therefore throw up significant variances that will expose the existence of fraud. Thus, Benford law has been used in forensic accounting and auditing as an indicator of accounting and expenses fraud.

Yet another technique is the *Relative Size Factor*. The RSF detects outliers or unusual data, which may be due to either simple errors or frauds. It is based on the simple concept that each field in any transaction has a normal range, and any data falling outside the range is unusual or an outlier and need to be further investigated.

*Data mining* is another technique applied by forensic accountants. Data mining has the objective of digging up large amount of data to discover previously unknown, action oriented, hidden trends, patterns and complex relationships. The technique studies past data, operates on all variables and entire population, extracts variables of importance, and uncovers patterns of in the form of rules, and formulates model by using different techniques. The resulted rules or patterns help auditors to flag only those transactions most likely to be fraudulent. The three major activities of data mining techniques are Discovery, Predictive
Modelling and Deviation Analysis.

John Galt of e-How identifies five forensic audit categories:

▪ Test the defences of the client, and thereby attempt to find a path the fraudster will navigate. This is an attempt to put himself in the shoes of the fraudster;
▪ Trend analysis as an investigation of the client’s historical norms;
▪ Digital Forensic Examination - tracing the digital footprint in a computer-driven environment. Involves an examination of relevant mails, accounting records, phone logs and target hard drives;
▪ Face to Face Interview, complete with analysis of body language; and
▪ Full financial auditing.

V CONCLUSION

In the corporate scandals of 2000 to 2002, the international marketplace passed a damning verdict on competency deficiencies and ethical lapses of corporate gatekeepers and professional accountants. All over the world, the indispensable corporate accountant has been brought into disrepute, odium and ridicule by a shoddy and slipshod approach to the execution of professional briefs. This has indeed been the crisis hour for the accountancy profession. However, the crisis situation has also opened up the possibilities of alternative futures. And one such alternative is the growth and development of forensic accounting.

Forensic accounting is a rapidly growing area of accounting primarily concerned with the detection and prevention of business fraud and related white-collar crimes. It is the specialty practice area of accounting that describes engagements which result from real or anticipated litigation. The accountant of the 21st century must utilize his accounting, auditing and investigative skills to restore confidence in the credibility of corporate firms and their reports. And like the “three-layer wedding cake”, the forensic accountant must possess a solid background in accounting, a definable depth in auditing, risk assessment and fraud detection, and a veneer of good polish that represents an understanding of court procedures and law of evidence.

Thank You for listening!

Benjamin C. Osisioma
July 13, 2012.
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