FORENSIC ACCOUNTING TECHNIQUES AND CORPORATE GOVERNANCE PRACTICES IN PUBLICLY QUOTED COMPANIES IN NIGERIA

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Abstract

The study is designed to examine the effect of forensic accounting techniques on corporate governance of publicly quoted companies in Nigeria. The population is focused on finance professionals in one hundred and seventy-nine listed companies on the Nigerian exchange. The sample is made up of finance professionals scattered across selected public quoted companies. Questionnaire was administered and the analysis of variance and regression were used to examine the influence of forensic accounting practices on corporate governance of publicly quoted companies in Nigeria. The result reveals that forensic accounting techniques have a positive influence on corporate governance practices in public quoted companies in Nigeria. It is concluded from the study that forensic accounting techniques have a significant influence on corporate governance practices in public quoted companies in Nigeria. It is recommended that forensic accounting techniques be encouraged to enhance corporate governance practices among public quoted companies in Nigeria.

Keywords: Corporate governance, Fraud, Forensic accounting, Public quoted companies

BACKGROUND TO THE STUDY

Forensic accounting has been instrumental in investigating high-profile cases of corporate fraud, such as the Enron and WorldCom scandals in the early 2000s, and more recently, the Wirecard scandal in Germany. These investigations highlighted the importance of forensic accounting in uncovering complex financial schemes and holding perpetrators accountable (Bhasin, 2020).

Forensic accountants have played key roles in auditing financial institutions to detect and prevent fraud. For instance, in the aftermath of the 2008 financial crisis, forensic accountants were essential in examining the practices of banks and financial institutions to identify fraudulent lending and investment practices (Akinbowale et al., 2020).

In the public sector, forensic accountants help ensure that government funds are used appropriately and that public officials are held accountable for their financial management. This is particularly important in developing countries where corruption and misappropriation of funds are significant concerns (Popoola et al., 2023).

Forensic accounting has emerged as an important part of accounting in combating financial fraud, particularly in developing economies like Nigeria, where financial misrepresentations have significant implications for economic stability and investor confidence (Oyedokun, 2024). The discipline involves the use of accounting, auditing, and investigative skills to examine transactions recorded in the financial statements, thereby uncovering fraudulent activities and ensuring the integrity of financial reporting (Desi et al, 2023).

In Nigeria, publicly quoted companies have been plagued by instances of financial fraud, ranging from earnings manipulation to asset misappropriation (Audu, 2020). These fraudulent activities undermine the credibility of financial markets, erode investor trust, and deter foreign investment. The prevalence of such financial misrepresentations is exacerbated by weak regulatory frameworks, inadequate enforcement of existing laws, and a lack of transparency in corporate governance (Akinyomi, 2021).

The Nigerian financial landscape has witnessed numerous high-profile cases of corporate fraud. For example, the Cadbury Nigeria Plc accounting scandal in 2006, where the company was accused of inflating its financial results, highlighted the systemic issues within corporate Nigeria (Oyedokun, 2024). This case, among others, underscores the critical need for robust forensic accounting practices to detect and prevent such malpractices. Forensic accounting practices involve the application of specialized skills and techniques to investigate suspected fraud and gather evidence suitable for litigation (Oranefo & Egbunike, 2021). These practices include forensic audits, fraud risk assessments, and the use of technology for data analysis. Forensic accountants play a pivotal role in identifying discrepancies, tracing illicit financial flows, and providing expert testimony in court proceedings (Owojori & Asaolu, 2019).

The advent of forensic accounting has introduced new methodologies for investigating financial discrepancies and providing litigation support. Forensic accounting encompasses a range of skills and techniques aimed at detecting, investigating, and preventing fraud. Forensic accountants employ advanced analytical tools, conduct thorough financial audits, and gather evidence suitable for legal proceedings (Modugu & Anyaduba, 2019). However, despite its potential, the integration of forensic accounting practices in Nigeria's economic system remains low. Lot of factors contribute to the underutilization of forensic accounting in Nigeria. First, there is a general lack of awareness and understanding of forensic accounting among stakeholders, including corporate executives, regulators, and the judiciary (Lucy et al, 2016). This lack of awareness results in a failure to recognize the importance of forensic accounting in fraud detection and prevention. Second, there is a shortage of trained forensic accountants equipped with the necessary skills to handle complex financial investigations. The absence of specialized training programs and professional development opportunities further exacerbates this issue (Okoye & Akamobi, 2019).

Owojori and Asaolu (2019) reveal that there is an alarming increase in the number of fraud and fraudulent activities in various sectors in Nigeria calling for the use of forensic accounting services. Several studies such as Modugu and Anyaduba (2013) and Okunbor and Obaretin (2010), had been done on the concept of forensic accounting services in Nigerian banks. Notwithstanding the volume of research work dedicated to the topic of forensic accounting, the nature of the recommendation's literature reveals the need to carry out more research into the subject matter.

Therefore, the purpose of this study is to investigate forensic accounting practices and corporate governance in publicly quoted companies in Nigeria.

2.0 LITERATURE REVIEW

This section of this study covers the review of the main concepts in this study which are corporate governance and forensic accounting. The theoretical framework for this study is built on the fraud triangle theory and the extent of past literature are all discussed in this section.

2.1 Corporate Governance

Effective corporate governance is essential for ensuring accountability, transparency, and ethical behavior within an organization. Forensic accountants contribute to good corporate governance in several ways:

Board Oversight: Forensic accountants provide independent assessments of financial practices and internal controls to boards of directors. Their insights help boards fulfill their oversight responsibilities and make informed decisions (Okoye, 2019).

Ethical Standards: Forensic accountants promote ethical standards within organizations by identifying and addressing unethical behavior. Their work helps foster a culture of integrity and accountability (Akinyomi, 2021).

Whistleblower Programs: Forensic accountants assist in developing and implementing whistleblower programs that encourage employees to report fraudulent activities without fear of retaliation. These programs are crucial for early detection of fraud and misconduct (Wells, 2019).

Forensic Accounting

Forensic accounting has a profound impact on Nigerian publicly quoted companies, particularly in enhancing financial transparency, improving corporate governance, mitigating fraud risks, and restoring investor confidence. This role has become increasingly crucial in Nigeria's dynamic economic environment where financial misconduct will severely undermine corporate stability and market integrity.

Forensic accounting significantly contributes to improving financial transparency within Nigerian companies. By employing rigorous investigative techniques, forensic accountants can identify and rectify discrepancies in financial statements. This transparency is critical for publicly quoted companies, as it fosters trust among investors and other stakeholders. Forensic accountants scrutinize financial records to detect any form of financial misrepresentation, ensuring that all financial reports accurately reflect the company's true financial position. According to Okoye and Adeniyi (2019), the increased accuracy in financial reporting driven by forensic accounting practices enhances stakeholders' confidence and trust in the financial statements of Nigerian companies.

2.2 Theoretical Framework

The fraud triangle theory, developed by criminologist Donald Cressey in the 1950s, offers a framework for understanding the underlying factors that contribute to fraudulent behavior. According to this theory, fraud occurs when three elements converge: pressure, opportunity, and rationalization. Each of these elements plays a crucial role in motivating and facilitating fraudulent activities within organizations. This theory has significant implications for forensic accounting, as it helps forensic accountants understand the psychological and situational factors that drive individuals to commit fraud. The fraud triangle theory is premised on three factors that make individuals commit fraud.

One of such factors is pressure, it refers to the financial or personal circumstances that compel individuals to commit fraud. These pressures may include financial difficulties, such as mounting debt, gambling addiction, or unexpected expenses, as well as personal or professional stressors, such as job dissatisfaction or fear of job loss.

In addition to this, is opportunity which refers to the circumstances or conditions that allow individuals to engage in fraudulent behavior without detection. Opportunities for fraud arise when there are weaknesses in internal controls, inadequate oversight, or lack of accountability within an organization. For instance, ineffective segregation of duties, lack of supervision, or reliance on manual processes may create opportunities for employees to manipulate financial records, misappropriate assets, or conceal fraudulent activities.

Finally, the theory explains that rationalization involves the cognitive processes by which individuals justify their fraudulent actions to themselves. Individuals who commit fraud often rationalize their behavior by convincing themselves that their actions are justified or necessary under the circumstances.

2.3. Empirical Review

Oyedokun (2024) assessed forensic accounting influence on financial reporting quality of listed deposit money banks in Nigeria. Longitudinal research method was used, and it was revealed that investigative accounting has a positive and significant effect on the financial reporting quality of listed DMBS in Nigeria

Desi et al (2023) examined forensic accounting as a veritable financial tool for qualitative financial reporting systems in the 21st century. The study employed used survey research. Descriptive statistics and inferential analysis were used for the study analyses of the data. The result demonstrated that forensic accounting exerted significant effects on each of the qualitative characteristics and enhanced characteristics of financial reporting systems in the study.

Popoola, et al., (2023) investigated forensic accounting and corporate governance in selected Nigerian publicly quoted companies. Interviews were conducted with key stakeholders, including board members, executives, and forensic accounting professionals, to understand their perspectives on the role of forensic accounting in promoting effective corporate governance. The study found that the adoption of forensic accounting practices had a positive impact on corporate governance in Nigerian publicly quoted companies. Companies that implemented robust forensic accounting measures demonstrated stronger internal controls, more effective board oversight, and greater transparency in financial reporting. Additionally, there was evidence of improved investor confidence and stakeholder trust in companies with enhanced forensic accounting and corporate governance practices. Based on the findings, it is recommended that Nigerian publicly quoted companies integrate forensic accounting principles into their corporate governance frameworks to strengthen internal controls and enhance transparency. Boards of directors should prioritize the appointment of qualified forensic accounting professionals to oversee fraud detection and prevention efforts. Additionally, regulatory bodies should provide guidance on best practices for integrating forensic accounting into corporate governance processes and encourage collaboration between companies and forensic accounting experts to address emerging risks and challenges.

Oranefo and Egbunike (2021) explored the viability of forensic accounting techniques in combating financial statement fraud in Nigerian organizations. Survey research design was used, and primary data was collected and analysed using inferential statistics. The study shows positive association between forensic accounting techniques (FAT) and fraud deterrence. Secondly, there is a positive association between forensic accounting techniques and the enforcement of corporate policies.

Akinbowale *et al* (2020) carried out a study on the examination of fraudulent financial misrepresentations in Nigerian publicly quoted companies. They employed statistical techniques to identify anomalies and patterns indicative of fraudulent financial misrepresentations. Additionally, interviews were conducted with forensic accounting experts to gain insights into the challenges and strategies associated with fraud detection and prevention in Nigeria. The study found evidence of fraudulent financial misrepresentations in a significant proportion of Nigerian publicly quoted companies. Common methods of financial misrepresentation included revenue manipulation, expense inflation, and asset misappropriation. Forensic accounting techniques, such as data analytics and internal control assessments, were effective in detecting and preventing fraud, but challenges related to regulatory compliance and organizational culture hindered their implementation. Based on the findings, it is recommended that Nigerian publicly quoted companies enhance their adoption of forensic accounting practices by investing in training for staff and implementing robust internal controls. Additionally, regulatory bodies should provide clearer guidelines and enforcement mechanisms to deter fraudulent behavior and promote transparency in financial reporting.

Okoye and Adeniyi (2019) investigated the impact of forensic accounting on investor confidence in Nigerian publicly quoted companies. The researchers conducted a survey of investors and financial analysts to gather data on their perceptions of forensic accounting practices and their influence on investor confidence. Additionally, financial data from Nigerian publicly quoted companies were analyzed to identify trends in investor behavior following the implementation of forensic accounting measures. The study found a positive correlation between the implementation of forensic accounting practices and investor confidence in Nigerian publicly quoted companies. Companies that adopted robust forensic accounting techniques were perceived as more transparent, accountable, and trustworthy by investors. Additionally, there was evidence of increased investor participation and market activity in companies with effective forensic accounting practices, indicating a higher level of investor confidence. Based on the findings, it is recommended that Nigerian publicly quoted companies continue to prioritize the adoption of forensic accounting practices to enhance investor confidence. Companies should communicate their commitment to transparency and accountability through improved disclosure practices and regular communication with investors. Furthermore, regulatory authorities should encourage the adoption of forensic accounting standards and provide incentives for companies to implement best practices in fraud detection and prevention.

Ogundana et al., (2018) assessed the effectiveness of forensic accounting practices in detecting financial fraud in Nigerian public sector organizations. The researchers employed a survey research design, using structured questionnaires to collect data from 150 forensic accountants and auditors in Lagos State, Nigeria. Data were analyzed using descriptive statistics and regression analysis. The study found that forensic accounting practices significantly improved the detection of financial fraud in the public sector. The use of forensic techniques, such as digital analysis and investigative auditing, was particularly effective in uncovering fraudulent activities. The study recommended that public sector organizations should invest in advanced forensic accounting tools and provide regular training for forensic accountants to enhance their effectiveness in fraud detection. In addition, regulatory bodies should enforce the mandatory use of forensic accounting in financial investigations.

Lucy et al (2016) examined the effectiveness of forensic accounting on financial reporting quality in Nigeria. The research adopted empirical, survey and descriptive approach. Secondary data for this study were sourced from the annual reports of the chosen banks. The study reveals that the fundamental qualitative characteristics (relevance and faithful representation) of financial reporting accounting and the enhancing qualitative characteristics (understandability) can be significantly enhanced through Forensic Accounting.

2.4 Gap in the study

From literature reviewed, there exist a knowledge gap as studies on forensic accounting are highly concentrated on the financial institutions (banks). This study is designed to fill this gap by exploring the oil and gas and the telecommunication sector in addition to the banking sector.

3. METHODOLOGY

The cross-sectional survey research design is used in this study. This is due to the nature of the study whereby the opinion and views of people across different industries are sampled. The target population are members working in the Finance and related Units of different quoted companies in the Nigeria Exchange group. The target population was divided into three homogeneous subgroups, namely banking sector, telecommunication sector and oil and gas sector. These sectors contribute significantly to the Nigerian economy (NBS, 2019). The target population comprise of one hundred and seventy-nine companies quoted in NGX. The Taro Yamane sampling technique is used, and three hundred and thirty-three employees are determined as the sample size. Primary data is collected using the research instrument (questionnaire). Each item on the questionnaire was assigned a score, and the analysis was based on the number of completed questionnaire. The mean score was utilized to evaluate the responses. The study employed regression analysis to examine the influence of the independent variable (forensic accounting) on the dependent variable (corporate governance). Analysis of variance (ANOVA) would be used to determine the level of significance of the result from the regression analysis.

4. DATA ANALYSIS

The result from the data analysis is shown below:

Table 1. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.946[a]	.894	.893	.65946

a. Predictors: (Constant), Forensic accounting technique

Source: Researchers Analysis (2024)

The table above shows the R square with the value of .894 which indicates that 89% of changes in corporate governance practice can be influenced largely by forensic accounting. Other variables not considered in this study is responsible for 11% change in corporate governance.

Table 2. ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1197.426	3	399.142	917.798	.000[b]
	Residual	141.774	326	.435		
	Total	1339.200	329			

a. Dependent Variable: Corporate governance practice

b. Predictors: (Constant): Forensic accounting technique

Source: Researchers Analysis (2024)

The F statistic table reveals the overall significance of the model, the probability value of 0.000 which is below the level of significance indicate that we reject null hypothesis and conclude that forensic accounting technique has a significant impact on corporate governance practices in Nigeria.

Table 3. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.764	.374		-2.043	.042
	Forensic accounting technique	.462	.033	.392	14.062	.000

a. **Dependent Variable**: Corporate governance practice

Source: Researchers Analysis (2024)

The coefficient table reveals the relationship between the variables which shows that forensic accounting techniques have a weak positive relationship with corporate governance practice with 0.462. The table further reveals the significance of the explanatory variables which was however used to test the hypotheses of the study. However, the T statistic rules states that once the probability value of the variable is greater than 0.05 which is the level of significance, we therefore accept null hypothesis and if otherwise, we reject null hypothesis and accept alternate hypothesis.

Table 3 reveals that forensic accounting techniques is significant with the P value of 0.000 and 0.000 which is lesser than 0.05 level of significance.

Discussion of Findings:

The outcome from this study shows that with the increase in forensic accounting practices, it promotes sound corporate governance. This position is similar to the view of Popoola et al (2023) who also opined that forensic accounting has a positive influence on the level of corporate governance practices. This is further explained by Akinbowale *et al* (2020) who showed that forensic accounting can reduce misrepresentations in an entity. Using the fraud triangle theory, it suggests that forensic accounting reduces the exposure the opportunity and rationalization which is achieved through stronger corporate governance practices.

5. CONCLUSION AND RECOMMENDATIONS

The primary focus of this study is to examine the effect of forensic accounting techniques on corporate governance of listed firms in Nigeria. The result shows that forensic accounting techniques have a positive influence on the level of corporate governance practices in Nigeria. It is concluded in this study that forensic accounting techniques does have a significant influence on corporate governance practice in Nigeria. Hence, it is recommended that forensic accounting techniques should be established and maintain to strengthen the internal control and in the long run strengthen the corporate governance practice.

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