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## Policy Implementation of Forensic Accounting in Nigeria's Revenue Leakage: A Literature Review

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### Abstract

*Accounting system has remained the bedrock in the management of financial activities. Over the years the traditional accounting system and accountants have dominated the human accounting activities. In modern days accounting systems and its attention have shifted to the deployment and use of technological driven accounting skills known as 'forensic accounting' and the use of forensic accountants especially in the areas of financial crime detection, control and reporting both for organizational financial control and judicial uses. The objective of this paper is to evaluate the policy implementation of forensic accounting in Nigeria from the standpoint of government revenue leakages. Fraud triangle theory forms the theoretical framework of this paper. Methodologically, the paper solely relied on empirical literature for data collection, content and documentary analysis. The finding of the paper shows that government revenue leakages come due to poor or unpriced transactions, operational inefficiencies, incorrect pricing of goods and services, missing transactions. It is further found that income denial activities happen during onboarding, monitoring, prospecting, processing of transactions, invoicing and recovering, and closure of transaction with customers and clients. One of the recommendations of the paper is that government must make it compulsory the application and deployment of forensic accounting and forensic accountants in all the ministries, departments and agencies (MDAs). The paper concludes that application of forensic accounting and forensic accountants in determining, collection and recovering of government revenues would help to detect, control and deal effectively the problem of these leakages.*

**Keywords:** Policy, Forensic Accounting, Forensic Accountants, Government Revenue.

## **1. Introduction**

Crime in various contexts and in every society has become a common challenge that faced human being. Before now, efforts to investigate, detect and fight crime have in most developed and developing countries remained elusive due to the lack of reliable, sustainable approach and application. Globally, financial crime has remained the most prevalent crime due to poor and non-functional scientific approach to investigate, detect and fight the menace, until when application of scientific technique in investigating, detecting and fighting crime came into existence. This is where the word ‘forensic’ came to be. One of such modern techniques in the fight against financial crime is what gave birth to forensic accounting. Anthony and Gavine (2022, p. 19) observe that “forensic accounting is gaining popularity worldwide. It has been taught as a major course in many educational institutions in various countries.” Forensic accounting has also been applied these days by various organizations and institutions in their fight against financial frauds.

Nigeria, as a developing country has in recent time introduced forensic application especially, in the area of fighting financial corruption both in the public and private sectors. The financial corruption can be linked to revenue leakages in the various sources of government revenues both in oil and non-oil sectors. It is generally expected that forensic accounting can offer remedy to the level of vulnerability that accustomed the traditional accounting and audit systems. Therefore, bringing forensic accounting and auditing skills and techniques into play would help to improve the accounting profession in an effort to detect fraudulent activities that are witnessed in Nigeria (Anthony & Gavine, 2022).

## **2. Statement of the Problem**

There has been serious drop in the revenue generation of the Nigerian government of the years notwithstanding the increasing number of sources of revenue and the amount expected from such sources. But, the annual revenue of the government has continued to decline, which has affected the economic development of the country. This is premised on the fact that according to Emeke et al. (2023), oil and non-oil revenue leakages have negatively affected Nigeria’s gross domestic product (GDP). The revenue leakages come inform of low rate of tax compliance, tax evasion and avoidance. In Nigeria, sources of government both in the oil and non-oil activities include among other things: Company Income Tax (CIT), Personal Income Tax (PIT), Customs and Excise Duties (CED), Value Added Tax (VAT), Withholding Tax (WHT), Petroleum Profit Tax (PPT), Proceeds from Sales of Crude Oil and Gas, Education Tax, Stamp Duties, Capital Gains Tax (CGT), Fines and Penalties, Printing of Paper Money, Surplus of the Public Sector Ministries, Departments and Agencies, License Fees. The paper believes that with the application and implementation of forensic accounting, this ugly trend will be largely checkmated.

Afokuyomi (2017) and Agu et al. (2015) are of the opinion that Nigeria’s economy is passing through difficult times due to unwholesome leakages in revenue collection by different government ministries, departments and agencies. Like Ugochukwu and Oruta (2021) state, there is an urgent call for a policy check and implementation of the policy thrust that has been emphasized to bring about government revenue with the use of forensic skills by forensic accountants.

The objective of this paper is to discuss the policy implementation of forensic accounting on Nigeria’s revenue leakages. The problem is not generation but poor revenue collected and recovering as result of none application and implementation of forensic accountants to detect and investigate and possibly recover the leaked revenues.

### **3. Methods**

This paper relies on secondary data available in official government documents, textbooks, academic journals, newspaper, magazines and internet based materials on the subject matter. The research design is descriptive based on content and documentary analysis.

#### **3.1. Theoretical Review: Fraud Triangle Theory**

Fraud triangle theory is traceable to a criminologist, Donald Cressey who in 1950 started a study to find out why people do what they do especially in crime. According to Cressey (1953), theory of fraud triangle was applied in his work- *Other People's Money*. The theory argues that due to poor management and lack of internal control, couple with the pressure on employees, they see it as an opportunity to commit fraud. The employees who have the opportunity to access assets and information in their disposal due to their positions and job requirements are the ones likely to carry out the fraudulent deeds. The central argument of the theory is that people commit fraud based on three elements namely perceived pressure, perceived opportunity and rationalization.

##### **3.1.1 Perceived Pressure**

According to Cressey (1953) pressure can be a motive to commit a financial fraud. Sarkar (2010) observes the pressure can be inform of financial and non-financial that include “personal pressure to pay for lifestyle, employment pressure from continuous compensation structures, or management's financial interest, and external pressure such as threats to the Business Financial stability, financial covenants, and market expectations” (Sarkar, 2010, p. 48). Gupta (2015) believes that pressure can result due to unrealistic expectations of an individual, which may be inform of financial pressures or addiction pressures, or from the work environment.

Abdullahi and Mansor (2015, p. 328) explain that “it is the perceived pressure refers to the factors that lead to unethical behaviors. Every fraud perpetrator faces some pressure to commit unethical behaviour.” These pressures can either be financial or non-financial pressures. Statistics according to Albrecht et al. (2006) shows that about 95% of all fraud cases have been perpetrated due to the fraudster's financial pressures.

##### **3.1.2 Perceived Opportunity**

Opportunity according to Rae and Subramanian (2008, p. 110) is “the ability and the power of an employee to realize the weaknesses of the organizational system and taking advantage of it by making fraud possible.” So, perceived opportunity in the fraud triangle theory is created by the pressure to commit fraud. However, until the employee notices that there is an opportunity to commit the crime without being caught that the crime can be committed. This is what is known as perceived opportunity as the second element in the theory.

Cressey (1953) maintains that the perceived opportunity must be predicated on general information, and technical skill of the crime perpetrator. The general information is the information at the disposal of the employee as virtue of his position, which violates the trust that is accorded to the employee; and the technical skill talks about the ability of the employee to commit. The ability the employee applies to commit fraud is the same ability he needs to keep his position in the first place.

##### **3.1.3 Rationalisation**

This is justification the fraud perpetrator gives to justify his act. However, Cressey (1953) argues that rationalization is not convincing to justify a financial crime. But rationalization

has always been a good reason why crime takes place. This is based on the fact the people that embezzle money do not see themselves as criminals. Embezzler first justifies his action of crime even before he commits it. Nevertheless, Kenyon and Tilton (2006) contend that tendency to commit fraud is determined by ethical values and the personal attitude of the individual perpetrators of the crime. In this respect, Howe and Malgwi (2006) argue that the relationship between perceived pressure and perceived opportunity to fraud in an individual is dependent on rationalized fraudulent character.

#### **4. Conceptualisation of Forensic Accounting**

The word forensic accounting can be traced to Peloubet (1946). Conceptually, forensic accounting has been defined by Okoye and Gbegi (2013, p. 7) as “the application of accounting knowledge and investigative skills to identify and resolve legal issues.” It is a scientific accounting tool and/or techniques, skills and knowledge, which helps to identify and develop proof of money flow, is invaluable to investigators in fraud and other financial crimes. According to Al Samara, Al-Afeef and Al Ali (2017), forensic accounting is scientific criminal tool and skills for the purpose of investigating accounting issues and law processes in order to investigate and detect financial crimes and other economic malpractices. The central purpose of forensic accounting Mukoro, Yamusa and Faboyede (2013) observe is to introduce the internal control in the prevention of fraud. It involves the blend of auditing and investigation skills to have effective forensic accounting.

Forensic accounting can be viewed from different perspectives. To fraud investigators, forensic accounting is the process of identifying and reviewing fraudulent transactions in order to ascertain the material intent of the culprit of fraud. It can be achieved through review of manual and electronic documents, and interviewing people etc. To auditor, forensic accounting entails applying auditing techniques, skills and procedures in order to resolve some legal issues, which involves integration of investigative, accounting, and auditing skills (Arokiasamy & Cristal-Lee, 2009; Dhar & Sarkar, 2010). It is of good note to state that there is a legal aspect of forensic accounting. From this perspective, Howard and Sheetz (2006), and Stanbury and Paley-Menzies (2010) state that an attorney or a litigator see forensic accounting as a tool to gather, interpret, summarise and present multifaceted financial issues in a clear, succinct and factual manner in most cases as evidence at the law courts. However, Ozili (2015, p. 64) argues that such “forensic evidence must meet standards required by courts of law and be presented in a manner that will be accepted by a court of jurisprudence.”

#### **5. Policy Implementation of Forensic Accounting in Nigeria’s Revenue Leakage**

The problem of revenue leakage in Nigeria is observed in most government ministries, departments and agencies. This section will apply general approach in the use of forensic accounting in curtailing this menace. In line with the view of Mbasiti, Gyang and Fransis (2021), the use of forensic accountants will detect and reduce the leaks due to the technological prowess of the forensic accounting. Emeke et al. (2023, p. 16) believe that forensic accounting help in the “identification and evaluation of fraudulent activity patterns, as well as the creation of various forms of digital tools” that may be used to combat economic and financial crimes.”

The income leakages of the government can be due to various factors which include but not limited unpriced transactions, operational inefficiencies, incorrect pricing of goods and services, missing transactions. These issues can take place at one or another such as during the period or time of onboarding, monitoring, prospecting, processing of transactions, invoicing and recovering, and closure of transaction with customers and clients (Emeke et al.,

2023). Eme, Chukwurah & Iheanacho, 2015, p. 12) summarily state that the “income leaks occur when money is lost to things like taxes, savings, and imports.” It is generally expected that the application of forensic accounting in the audit of Nigeria’s oil and non-oil sector would help to detect, control and deal effectively with the problem of leakages in revenue of the government (Anthony & Gavine, 2022).

The paper after thorough literature review came with the following implications in implementing the policy on the recovering leaked government revenue in oil and non-oil sectors of the economy:

### **5.1 Improvement in Management Accountability**

Ramaswany (2009) observes that there is poor corporate governance, flawed internal controls, and fraudulent financial statements in oil and non-oil environment, which have been as result of failure of corporate communication structure that made the financial community understand the need for skilled professional in accounting practices through the use of forensic technologies. With the forensic accounting skills accountants would help to improve corporate reporting system, which assist management expose and prevent this poor governance, flawed internal control and fraudulent financial statements.

### **5.2 Stopping of Income Leakages**

Forensic accounting can serve as a silver bullet in stopping income leakages in Nigeria, which will also assist in uncovering income leakages. Empirical literature show that income leakages will be reduced by the use of forensic accounting technology in its area of forensic data analysis (Mbasiti et al., 2021). In another instance, the deployment of forensic accounting would significantly reduce income leakages. It would also help identifying and evaluating fraudulent activities, as the forensic technologies would serve as a digital tool to combat economic and financial frauds (Emeke et al., 2023).

### **5.3 Police Financial Crime Investigation**

The Nigeria force among other things has the responsibility to investigate financial crimes. With the application forensic accounting technology and forensic accountants, the Police will be able to have thorough investigation of financial crime (Eiya & Otalor, 2013).

## **6. Conclusion and Recommendations**

The concept of forensic accounting is new especially in a developing country like Nigeria. Also in Nigeria, there are many sources of revenue generation among the ministries, departments and agencies (MDAs). But the much-expected revenue in term of time and value expected have become a national challenge going by the volume of financial commitment of the government. The challenge in the collection of these revenues is predicated on the leakages that exist among the MDAs.

It is therefore recommended that government should make it a matter of policy in the areas:

- i. Application and deployment of the use of forensic accounting as a technological driven approach to detect and block the revenue leakages.
- ii. Employment. Training and retraining of forensic accountants in all the MDAs.
- iii. Government must also deem it necessary and urgent to create in all the MDAs a forensic accounting unit.



- iv. Government should introduce enhanced and implementable financial and non-financial reward system and mechanism to encourage whistleblowers of financial frauds and to those who meet up with the government expectation in financial reporting, revenue generation and recovering.

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