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ASSESSING THE EFFECTIVENESS OF FORENSIC ACCOUNTING ON FINANCIAL FRAUDULENT PRACTICES' DETECTION AND FINANCIAL REPORTING QUALITY IN TERTIARY INSTITUTIONS IN OSUN STATE

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ABSTRACT

The study was undertaken to assess empirically the effectiveness of forensic accounting on financial fraud detection and improving the quality of financial reporting in tertiary institutions in Osun State. Data were collected purposively from the staff of bursary and Audit units of the sampled tertiary institutions in Osun State. Descriptive statistics and Pearson Product Moment Correlation statistical tool were used to analyse the data. Results of the research showed that there was a significant relationship between forensic accounting and financial fraud detection. Also, there was a significant relationship between forensic accounting and financial reporting quality. The research recommended the adoption of forensic accounting in our tertiary institutions with a view to eradicating fraudulent financial practices.

Keywords: Fraud detection, Forensic accounting, quality financial reporting and tertiary institutions

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INTRODUCTION

Fraud is a serious and endemic corrupt practice which centres on the misrepresentation of facts and figures in order to gain underserved benefits. Ebimobowei (2022) submitted that Nigerian Tertiary Institutions is among the most controlled, organized and regulated sectors. nonetheless, past and current management and employees reportedly perpetrate frauds ranging from falsifying financial information, manipulation of the accounts, misappropriation of funds, , bribery, bankruptcy just to mention a few.

Further, this ugly trend shows is going out of hand and also confirms that financial auditors are lacking financial weapons to detect and prevent fraudulent practices in the system. Fraud detection and prevention have proved to be extremely difficult to achieve over time as because the individuals involved appear to be smarter than the auditors saddled with the onus of fraud detection and prevention. Hinged on this, Ofiafoh and Otalor (2019) opined that fraud defaulters are getting smarter and this greatly affects the quality and reliability of financial reporting virtually in all the sectors.

As a matter of fact, 21st era is a period where greed and unpatriotic acts drive both personal and corporate lives in the country. The greedy and unpatriotic acts deflate corporate wellness and enrich the pocket of fraudsters at the expense of thousands of workers feeding from the company income. This menace is against the 18th century values such as probity, integrity and good character in general terms; where selflessness is still preferred to selfishness and contentment is preferred to greed. According to Omoolorun and Abilogun (2017), fraud has stultified national development, growth and also undermined the national and corporate values and norms.

However, the inability and negative attitudes of some heads of educational institutions including board members to offer policy directives, leadership and their management's ineptitude in implementing result(s) of operation lead to poor administration which culminates in fraudulent losses. In some cases, board members and management of institutions could make away with their institutions' funds by awarding contracts which may not be executed. Some of these contracts are abandoned, inflated, awarded to friends and relations using inappropriate bidding systems for contracts within the institutions. Members of councils are perceived as seeing the tertiary institutions as goldmines to enrich themselves.

Further, principal officers of Nigerian institutions have been accused of corrupt practices and mismanagement of public funds with some of them already being prosecuted. Oyedokun (2020) stated that Nigerian tertiary institutions do not attract grants from international agencies due to lack of internal transparency and acceptable accountability.

In view of the foregoing, there is therefore the need to respond to this criminal threat by employing the skills of non-traditional investigator like accountants and legal expertise to combat these corporate ills by highly skilled fraudsters. This is where the role of forensic accounting in fraud control and quality financial reporting comes in to restore transparency and accountability in the operation and management of Nigerian tertiary institutions.

Forensic accounting is a tool that is used to account, audit and investigate the causes of fraud and how it is perpetrated with a singular aim of getting evidences that could be presented in the court of law. Ifath, Pranathi, Asra and Amathun (2022) opined that emphasis that the integration of accounting, auditing and investigative skills result to the specialty known as forensic accounting which focuses very closely on detecting or preventing accounting fraud. Forensic accounting provides accounting analysis that is highly suitable to

the court, which will form the basis of discussion, debate and ultimate dispute resolution. Forensic accountants, which are also known to be forensic auditors, combine accounting, forensic and auditing skills in preventing and detecting fraud and improving financial reporting.

Hinged on this, this study was undertaken to empirically determine the relationship among forensic accounting, financial fraud control and financial reporting quality in tertiary institutions in Osun State, Nigeria.

Research Questions

(i) Does forensic accounting have any significant relationship on financial fraud control in Osun State tertiary institutions?
(ii) Does forensic accounting have any significant relationship on financial reporting quality in Osun State tertiary institutions?

Objective of the Study

The objective of this study was to empirically determine the relationship among forensic accounting, financial fraud control and financial reporting quality in tertiary institutions in Osun State.

Research Hypotheses

The null and alternative hypotheses were formulated as follows:

(i) Forensic accounting does not have any effect on fraud detection in tertiary institutions in tertiary institutions in Osun State;
(ii) There is no significant relationship between forensic accounting and financial reporting quality

Literature review

Many corporate bodies have been battling with the occurrence of fraud as it is a complex worldwide phenomenon. Developing and developed nations have witnessed its effect in great magnitude as it formed part of the bedrock of every economy and contribute adversely to growth and development of every organization. Literature is replete with various definitions of financial fraud and it varies between organizations and jurisdictions. According to Oxford Advanced Learner`s Dictionary (2011), fraud can be defined as the crime of deceiving somebody in order to get money or goods illegally. Williams (2005) described fraud to include bribes, cronyism, nepotism, political donation, kickbacks, artificial pricing and frauds of all kinds. The array of components of financial crimes, some of which are highlighted above is not exhaustive.

In an attempt to capture the variety of economic and financial fraud always found within and outside the organization, Economic Financial Crime Commission (2004) also defined fraud as illegal act that violates existing legislation and these include any form of frauds, narcotic drug, trafficking, money laundering, embezzlement, bribery, looting and any form of corrupt malpractices, illegal oil bunkering and illegal mining, tax evasion, foreign exchange malpractice including counterfeiting, currency, theft of intellectual property and piracy, open market abuse, dumping of toxic waste and prohibited good etc. This definition is all-embracing and conceivably includes financial crimes in corporate organization.

Fraud seems to be an integral part of every organization manifesting in different magnitude and sources. In the opinion of Ezeogu (2007), fraud is a deliberated deceptive act with the intention of gaining some benefits. It is a form of corrupt practice which centers on

the misrepresentation of facts and/or figures to gain benefits. Expanding this, Ezeogu (2007) submitted that the benefits desired may not be immediately however, the ultimate target of the fraudsters is to gain undue financial advantage. Supporting this definition, Chukwu (2011) defined fraud as an intentional use of deception to unlawfully obtain, misuse or harm the assets of a tertiary institution or any organization. It appears from this definition that fraud is a criminal offence and its singular aim is to reduce the earnings of organizations.

Fraud means gaining possession of money or property in an unlawful way. Put differently, Howard and Sheetz (2006) saw fraud as a legal term that refers to the intentional misrepresentation of the truth in order to manipulate or deceive a company or individual. From another perspective, Kantudu (2008) conceived fraud as any activity which involves the use of deception to obtain unjust or illegal financial advantage. Kantudu (2008) further elaborated that fraud is a generic term, and embraces all the multifarious means which human ingenuity can device, which are resorted to by one individual, to get an advantage over another by false representations. This implies that fraud involves enriching oneself intentionally by reducing the value/worth of an asset in secret.

Fraud is a suppression of truth and submission of what is false to gain unlawful financial benefits. Elaborating this, Adamu (2015) defined fraud as anything calculated to deceive, whether by a single act or combination, or by suppression of the truth, or suggestion of what is false, whether it is by direct falsehood, by speech or silence, word of mouth, look or gesture. Supporting this definition, Ogundana, Okere, Ogunleye and Oladapo (2018) defined fraud as any action, behaviour or expression deliberately aimed at deception and punishable by law. It is a sequence of activities perpetrated to criminally obtain money, services, goods, property. Explaining further, International Standards for Professional Practice of Internal Auditing (2002) concluded that fraudulent act is not always predicted on physical force.

Narrowing the definition of fraud to financial statement fraud is a necessity so as to reflect the context of this study. According to Awolowo (2016), financial statement fraud is a fraud committed by the management of organization which involves the deliberate misrepresentation of the financial condition of an enterprise accomplished through the intentional misstatement or omission of amounts or disclosure in the financial statements in order to deceive financial statement users. It is also a deliberate attempt to override the internal control established by the management that meant for the detection of financial misappropriation in organization, especially banking sector. It is a criminal act that has negative impact on the existing and prospective shareholders of organizations.

Financial statement fraud in organizations varies widely in nature, character and method of operation in general. According to Aribaba (2013), fraud may be classified into two broad ways: nature of fraudsters and method employed in carrying out the fraud. On the basis of the nature of the fraudsters, Karwi (2002) submitted that fraud may be categorized into three groups, namely; internal, external and mixed frauds. Internal fraud relates to those committed by members of staff and directors of the organizations while the external fraud is committed by persons not connected with the organization and the mixed fraud involves the outsiders colluding with the staff and the directors of the organization. Aribaba (2013) opined that modern-day organizations frauds usually involve a complex web of conspiracy and deception that often mask the actual cause.

Tertiary institutional frauds have developed in nature and complexity from the traditional system to more sophisticated level using varieties of computer ingenuity.

According to Penny (2002), there are three categories of organizational fraud which include management fraud, employee fraud and external fraud. This study focused on management fraud. According to Penny, management fraud comprises all frauds committed by the top levels of management and covers not only the direct misappropriation of funds but also the manipulation of the accounts of the organizations. The most common type of management fraud is white collar crime. Crumbley (2007) defined white collar crime as a crime committed by a person of respectability and high social status in the course of the person's occupation. Senior level management fraudsters tend to be overly ambitious people, obsessed with enhancing power and control, with an over-inflated sense of superiority. They are commonly surrounded by loyalists who believe that they are above the law. Management fraud may involve falsifying financial information, such as transactions, trades and accounting entries in order to benefit the perpetrator of the crime. Insider trading, bribes, back dating of stock options and misuse of organizations property for personal gain are also fraudulent.

Fraud in financial reporting is based on sensible effort of the perpetrator to illegally present the truth for individual gains. Omoolorun and Abilogun (2017) opined that fraudulent reporting, that includes omissions of amounts to mislead the users of the financial reports can be reflected as: manipulation, forgery, counterfeit or alteration of records or supporting documentation, misstatements or omissions regarding transactions or information, intentional misapplication of accounting principles related to values, classification or manner of presentation of information, fictitious entries records (towards the end of the year) to manipulate operating results or achieve other objectives, improper adjustments of the assumptions and changing in judgments used to estimate account balances, omissions, advances or delays in recognition of transactions that occurred during the reporting period, concealment or non- disclosure of facts that could affect the amounts recorded in the financial statements, engaging in complex transactions designed to distort the entity's financial position or performance; changing the records or conditions of significant transactions.

This implies that fraudulent acts are most times perpetrated by those who know the details of the financial status of an organization without any form of confrontation. It is always done intelligently and professionally. Vona (2008) defined fraud as all offences against ethical practices. It includes embezzlement theft or attempt to steal or acts of unlawfully obtaining, missing or harming the assets or reducing the liabilities of Tertiary Institution. From these various definitions, it can be posited that fraud in any form it comes as an erroneous act exhibited by individual or group of individuals to damage, physical or mental harm to the reputation of the victim either directly or indirectly, using the advanced modern technological networks such as Internet.

Research Methodology

Area of Study

This research was carried out in Osun State. The state is blessed with a good number of tertiary institutions ranging from public to private tertiary institutions including private and public Colleges of Education, Polytechnics and Universities in Osun State. These higher institutions have reasonable number of teaching and non-teaching staff. Financial records of their purchases and revenues are also being kept.

Method of data collection

Data were collected from the purposively sampled bursary and audit staff from the selected tertiary institutions in Osun State. 150 and 200 of bursary and audit staff were

purposively selected for this study. Data were analysed using descriptive statistics and Pearson Product Moment Correlation

RESULTS AND DISCUSSION

Hypothesis 1: There is no significant relationship between forensic accounting and financial fraud control

Table 1

Correlations

		Forensic	Fraud control
Forensic	Person Correlation	1	.376**
	Sig. (2-tailed)		.000
	N	219	150
Fraud control	Person Correlation	.376**	1
	Sig. (2-tailed)	.000	
	N	150	248

** Correlation is significant at the 0.01 level (2-tailed).

Results in Table 1 reveals the Pearson Product Moment Correlation estimating the relationship between forensic accounting and financial fraud control. Research results indicate r-value of 0.376 and a probability 0.0000 that is less than 0.05 level of significance. This establishes that there is a significant relationship between forensic accounting and financial fraud control.

Hypothesis 2: Forensic accounting has no significant relationship with financial reporting quality

Table 2

Correlations

		Forensic	Fraud control
Forensic	Person Correlation	1	.196*
	Sig. (2-tailed)		.038
	N	168	150
Reporting	Person Correlation	.179*	1
	Sig. (2-tailed)	.046	
	N	150	148

* Correlation is significant at the 0.05 level (2-tailed).

Table 2 shows that the pearson product moment correlation of the relationship between forensic accounting and quality of financial reporting. R-value of 0.196 and a probability value of 0.038less than 0.05 level of significance shows a significant relationship between forensic accounting and quality of financial reporting.

Conclusion and recommendations

The study concludes that forensic accounting can effectively detect fraudulent practices and there is an urgent need for forensic accountants to fill the gap created by traditional auditing vis-a-vis its limitations. The study recommends the adoption of forensic accounting for detection and prevention of fraudulent practices in our higher institutions.

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