

## Forensic Accounting and Corporate Fraud in Nigeria

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### **Abstract**

*This study examined the relationship between forensic accounting and corporate fraud in Nigeria. Data were collected through primary source, with the help of a well structured questionnaire of three sections which was administered to both public and private workers in Benin City, Edo State. A total of hundred (100) questionnaire were administered to respondents out of which 82 were received from the respondents and analyzed with simple percentage and statistical tools Analysis of Variance (ANOVA) and Statistical Package for Social Statistics (SPSS) was applied to compute the data.*

*The study found that forensic accounting has not been effective in preventing corporate fraud in the public and private sector in Nigeria. Also, forensic accounting has not improved the internal control system of corporate entities in the public and private sector in Nigeria. Findings revealed that the application of forensic accounting is still at a very low level due to the high cost of forensic accounting equipment, non-availability of appropriate litigation support services in the court of law and the time and resource required in the training of the forensic accountants.*

*The study recommends among others that the Nigerian government should enact an Act that will make forensic accounting a practice in Nigeria so that corporate fraud in Nigeria can be a thing of the past.*

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**Keywords:** *Forensic accounting, corporate fraud, financial crimes.*

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### **Introduction**

Forensic accounting is perceived to have evolved in response to certain emerging fraud related cases. But going by the increasing rate of corporate fraud and collapse of corporate organizations, one has had to argue the credibility of the true and fair opinion of the statutory auditor. This in turn, has eroded the confidence in the users of the financial statements that wish to make investment decisions (Okolie, 2004). This was clearly manifested in a number of widely publicized cases of fraud or corporate scandals such as Enron, Worldcom, Xerox, Global Crossing, Tyco in United States of America (USA), Parmalat in Italy and Union Dicon Salt, Lever Brother now UniLever, Cadbury in Nigeria and the sacking of the management of five (5) bank by the Central Bank of Nigeria (CBN) due to fraud and financial abuses. In Nigeria, different form of corporate fraud like bribery and corruption; theft of cash, physical assets and confidential information; misuse of accounts; procurement fraud; payroll fraud; financial accounting misstatement; inappropriate journal vouchers; suspense account fraud, false

employment credentials and other frauds have assume alarming proportions in the public and private sector of the economy (Balarebe, 2009; Williams 2010).

Ojaide (2000) noted that there is an alarming increase in the number of corporate fraud and fraudulent activities in Nigeria, requiring forensic accounting services. According to Center for Forensic Studies (2010) report, the increasing need for forensic and investigative accounting is as a result of the complexities of modern day business with the volume of complex data. Though accounting practices has improved tremendously, but recently corporate fraud has gone electronic making it complex and sophisticated to a magnitude that they could go unrecognized (Haynes, 2009).

There is the general expectation that forensic accounting may offer respite and bring back hope to the seeming vulnerability of convectional accounting and audit systems to corporate fraud. Hence, the introduction of modern forensic auditing techniques to auditing in Nigeria is seen as timely in order to prepare the accounting professionals to deal decisively with the problem of corporate fraud in Nigeria.

### **Statement of the research problem**

With the Nigerian government committing huge sums of money to tackle the most pressing problems that ranges from instability of financial market to unemployment, security and poverty to corporate fraud, the menace of the latter remains an obstacle to achieving the much desired corporate goals. Despite the establishment of several anti- corruption agencies, cases of corrupt practices in both public and private sector appear to be on the increase (Owolabi, Dada & Olaoye, 2013). It seems difficult for anti-corruption agencies to successfully prosecute many of the alleged cases of fraud involving billions of naira by government functionaries, contractors, politicians as well individuals and organizations due to the lack of forensic expert who provides litigation support in the law court (Okoye & Akamobi, 2009).

Adegbe and Fakile (2012) observed that before the establishment of Economic and Financial Crime Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC), successive governments have been handling cases of fraudulent activities by setting up special military tribunals, bank and miscellaneous offences tribunal, Okigbo panel, as well as many ad hoc bodies. None of such efforts seem to have yielded results. It has been know that forensic accounting technique has been employed by the anti-corruption agencies in the investigation and detection of corrupt practices in Nigeria. But it has not been applied in the right direction. It has not been applied into the corporate World instead it is used for political manipulations and individual interest. To this end, this study is designed to critically examine the role of forensic accounting in the fight against private and public sector fraud in Nigeria.

### **Research questions**

Consequently, the study fills this gap by addressing the following research questions:

- I. What is the effectiveness of forensic accounting in preventing corporate fraud in public and private sector in Nigeria?
- II. To what extent can forensic accounting improves the internal control system of corporate entities in the public and private sector?

## **Objectives of the study**

The main objective of this study is to determine the extent to which the application of forensic accounting technique has ensured prevention of corporate fraud in the public and private sector. Specifically, the objectives of this study are to:

- I. Determine the effectiveness of forensic accounting in preventing corporate fraud in both public and private sector.
- II. Access the extent at which forensic accounting help in improving the internal control system of corporate entities in the public and private sector.

## **Statement of hypotheses**

The following null hypotheses were formulated

Ho1: Forensic accounting is not effective in preventing corporate fraud in the public and private sector.

Ho2: Forensic accounting cannot improve the internal control system of corporate entities in the public and private sector.

## **Scope of the study**

The population of this study is both public and private sector of the Nigerian economy. The sample size was restricted to fifteen firms in both private and public sector in Edo state, Nigeria. The time frame for the study is the year 2015.

## **Literature Review**

### **Concept of Forensic Accounting**

Joshi (2003) attributed the origination of forensic accounting to Kutilya, the first economist to openly recognize the need for forensic accountant. He, however, stated that the term “forensic accounting” was coined by Peloubet in 1946. Crumbly (2001) stated that a form of forensic accounting can be traced back to an 1817 court decision. He stated also that a “young Scottish accountant issued a circular advertising his expertise in arbitration support in 1824” but that Peloubet was probably the first to publish the phrase forensic accounting.

Owolabi, Dada and Olaoye (2013) stated that forensic accounting provides an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution. It encompasses litigation support, expert witnessing and investigative accounting

Akintoye (2008) asserted that forensic accounting is an accounting that is suitable for legal review, offering the highest level of assurance, and including the new generally accepted connotation of having been arrived at in a scientific fashion and providing the needed findings in setting disputes.

Crumbly, Heitger and Smith (2009) define forensic accounting as the action of identifying, recording, settling, extracting, sorting, reporting and verifying past financial data or

other accounting activities for settling current or prospective legal disputes or using such past financial data for projecting future financial data to settle legal disputes.

Mehta and Mathur (2007) posited that forensic accounting involves a financial detective with a suspicious mind, a financial bloodhound, someone with ‘sixth sense’ that enables reconstruction of past accounting transactions and an individual who looks beyond the numbers. The forensic accountants are trained to look beyond numbers and deal with business reality of the situation (Coenen, 2008; Zysman, 2010). The court evidence indicates that a high level of expertise is necessary to analyze current complicated financial transactions and events (Razae, Crumbley & Elmore, 2006). This means that a forensic investigation may be applied in various fields such as engineering, medicine and some other disciplines (Owojori & Asaolu, 2009).

Corporate scandals and failure in the past have put the professional accounting bodies into a new perception that goes beyond the traditional statutory audit. There is need to respond to this changing criminal threat and the skills of non- traditional investigators like accountants and legal experts are needed to arrest this corporate ill, this has increased the quest for the services of forensic accountant (Uche, 2009; Mojeed, 2007). According KPGM’S fraud barometer, more than \$100 million worth of fraud has been passing through the courts every six month since January 2008 in the United States of America (USA) (Bolgna & Linqvist, 2010; Rumaswamy, 2009). According to Okolo (2007) corporate fraud has become really pervasive and the likelihood of corporate fraud occurring has also become more severe. Kopmag (2008) posited that fraud cost businesses in the United States more than \$84 billion dollars annually and an average organization loses about six percent of its total revenue to fraud and abuse committed by employees. The Senate Committee Chairman on Public Services, Aloysius Etok described the pension fund fraud of N273.9 billion as a “syndicated and institutionalized fraud and embezzlement in the management of pension fund in the country” (Aderibigbe, 2013). The immediate past governor of Central Bank of Nigeria (CBN), Lamido Sanusi stated that 3380 cases of fraud involving N17.97 billion was reported in 2011 in Nigerian banks (CBN, 2013)

### **Concept of corporate fraud**

According Bhasin (2013) corporate fraud involves using deception to dishonestly make a personal gain for oneself and/ or create a loss for another. The term ‘fraud’ commonly includes activities such as theft, corruption, conspiracy, embezzlement, money laundering, bribery and corruption etc. The types of corporate fraud are theft of cash, physical assets or confidential information; misuse of accounts; procurement fraud; payroll fraud; financial accounting misstatement; misappropriate journal vouchers; suspense accounts fraud; fraudulent expense claims; false employment credentials; bribery and corruption etc (Bhasin, 2013)

Nwaze (2012) defined fraud as a predetermined as well as planned tricky process or device usually undertaken by a person or group of persons with the sole aim of cheating another or organization to gain ill-gotten advantage which would not have accrued in the absence of such deceptive procedure

Ramamoorti (2007) argued that fraud is a human endeavour, involving deception, purposeful intent, intensity of desire, risk of apprehension, violation of trust, and rationalization. It is therefore important to understand the psychological factors that might influence the

behaviour of fraud perpetrators. The rationale for drawing on behavioural science insights is evident from the intuition that one needs to think like a crook to catch a crook

Fraud has been defined by EFCC (2004) as “... the non-violent criminal and illicit activity committed with objective of earning wealth illegally either individually or in group or organized manner theory violating existing legislation governing the economic activities of government and its administration...” .

Okunbor and Obaretin (2010) reported that the spates of corporate failures have placed greater responsibility and function on accountants to equip themselves with the skills to identify and act upon indicators of poor corporate governance, mismanagement, frauds and other wrong doings. It has become imperative for accountants at all levels to have the requisite skills and knowledge for identifying, discovering as well as preserving the evidence of all forms of irregularities and fraud (Onuorah & Appah, 2012).

Hansen (2009) stated that fraud requires more sophisticated approach from preventive to detection. One of the modern approaches that can be used from the prevention to detection is called forensic accounting. This is currently the investigators best tools in detecting and implementation of fraudulent activities

Karwai (2002) reported that the identification of the causes of fraud is very difficult. He stated that the modern organizations fraud usually involve a complex modern of conspiracy and deception that often mask the actual cause

Ajie and Ezi (2000) are of the view that studies have shown that on the average out of every 10 staff would find ways to steal if given the opportunity and this only 4 could be normally honest.

## Methodology

This study intends to assess the effectiveness forensic accounting in reducing corporate fraud in Nigeria. The study shall be conducted in Edo State, Nigeria. The population of the study shall consist of stakeholders in the public and private sector which shall include contractors/ businessmen, academics, civil servants, users of financial statements and auditors.

Primary data shall be used for the study. The data will be generated using well-structured Likert scale questionnaire. The questions shall be designed in five response options of Likert scale (that is, strongly agree, agree, undecided, disagree and strongly disagree). Sauders and Thornhill (2003) suggest that a minimum number of thirty (30) for statistical analysis provide a useful rule of thumb. Nevertheless, we adopt a sample of one hundred (100) respondents which consist of civil servants, academics, government contractors/ businessmen and internal and external auditors. The sample will be done using random sampling method.

Tables and percentages shall be used in the analysis of the data that will be collected from the respondents. The statistical tool that shall be employed for testing shall be the Analysis of Variance (ANOVA). The formula is as follows:

### ANOVA TABLE

SOURCE	SS	DF	MS	F- RATIO	REMARK
BETWEEN	SS <sub>B</sub>	T – 1	SS <sub>B</sub> /df <sub>B</sub>	MS <sub>B</sub> /MS <sub>w</sub>	ACCEPT

					<b>OR REJECT</b>
<b>WITHIN</b>	<b>SS<sub>w</sub></b>	<b>N – t</b>	<b>SS<sub>w/dfw</sub></b>		
<b>TOTAL</b>	<b>SS<sub>T</sub></b>	<b>N – 1</b>			

Where: N = The total number of individuals scores in all

Q = The grand total of all the data

t = Number of groups

n = Number of elements or cells in each group

SS<sub>T</sub> = Sum of the square of each of the individual scores in all the groups, subtract Q<sup>2</sup>/N  
 = (X<sub>1</sub><sup>2</sup> + X<sub>2</sub><sup>2</sup> + X<sub>3</sub><sup>2</sup> + ----- + Z<sub>3</sub><sup>2</sup> + Z<sub>4</sub><sup>2</sup> + Z<sub>5</sub><sup>2</sup>) – Q<sup>2</sup>/N

SS<sub>B</sub> = Square of each group sum, divided by the corresponding group (n), then sum all these and subtract Q<sup>2</sup>/N  
 = ( $\frac{XX^2}{n} + \frac{YY^2}{n} + \frac{ZZ^2}{n} - \frac{Q^2}{n}$ )

SS<sub>w</sub> = The outcome of SS<sub>T</sub> less the outcome of SS<sub>B</sub>

SS<sub>w</sub> = SS<sub>T</sub> - SS<sub>B</sub>

df<sub>B</sub> = degree of freedom for “variance between” = t-1

df<sub>T</sub> = degree of freedom for total of all the data = N -1

df<sub>w</sub> = degree of freedom for “variance within” = df<sub>T</sub> – df<sub>B</sub> (N - t)

Ms = mean square for “variance between” and “variance within”.

**Decision Rule**

The null hypothesis shall be rejected if the calculated value of F-ratio i.e. (MS<sub>B</sub>/MS<sub>w</sub>) is greater than the critical value of F. i.e. (F<sub>t – 1, N – t</sub>) as given in the F distribution table at a level of significance of 5% otherwise, it stands accepted.

If MS<sub>B</sub>/MS<sub>w</sub> > F<sub>t – 1, N – t</sub>, then, reject the Null hypothesis

If MS<sub>B</sub>/MS<sub>w</sub> < F<sub>t – 1, N – t</sub> then, reject the ultimate hypothesis

The choice of ANOVA for this research is based on the fact that it determines the extent of variance in dependent variables that are caused by independent variables, also used in comparing the variation in more than two independent samples that are drawn just once from population with the same variance. More so, ANOVA reduces the type 1 error rate (rejecting null hypothesis instead of accepting) thus, the equality of several means can be tested in a single classification, where the relationship between one independent and one dependent variable is examined.

**Presentation of Results**

This section focuses on the presentation, analysis and interpretation of the questionnaire administered and retrieved from the respondents with simple percentage and statistical analysis tools Analysis of Variance (ANOVA) from which our conclusion and recommendations were drawn. A total of hundred (100) questionnaire were administered to respondents out of which eighty two (82) were retrieved from the respondents and used for the analysis.

**Table 1**

<b>Ages</b>	<b>Responses</b>	<b>Percentages (%)</b>
25-30	54	66
31-35	18	22
35 and above	10	12
<b>Total</b>	<b>82</b>	<b>100</b>

**Source: Field Survey, 2015**

From table 1 above, 54 (66%) of the respondents were within the age range of 25-30, 18 (22%) of the respondents were in the age range of 31-35years, 10 (12%) were 36 and above.

**Table 2**

Sex	Responses	Percentages (%)
Male	40	49
Female	42	51
<b>Total</b>	<b>82</b>	<b>100</b>

**Source: Field Survey, 2015**

From table 2 above, 40 of the respondents were male which represents 49% while 42 of the respondents were female which represent 51% of the sample.

**Table 3**

Education Status	Responses	Percentages(%)
WASSCE	10	12
OND/NCE	48	59
BSc/BA	6	7
M.Sc/PhD	14	17
Others	4	5
<b>Total</b>	<b>82</b>	<b>100</b>

**Source: Field Survey, 2015**

From table 3 above, 10(12%) were WASSCE of the respondents, 48(59%) were OND/NCE, 6(7%) were BSc./BA while 14(17%) of the respondents were M.Sc/PhD and 4(5%) belong to others.

**H<sub>01</sub>**

**Variables Entered/Removed<sup>a</sup>**

Mode	Variables Entered	Variables Removed	Method
1	QUESTION 6, QUESTION 4 <sup>b</sup>		Enter

a. Dependent Variable: QUESTION1

b. All requested variables entered.

**Source: Researchers computation using Statistical Package for Social Science (SPSS 20)**

**ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.216	2	.108	.188	.829 <sup>b</sup>
	Residual	22.947	40	.574		
	Total	23.163	42			

- a. Dependent Variable: QUESTION1
- b. Predictors: (Constant), QUESTION6, QUESTION4

**Source: Researchers computation using Statistical Package for Social Science (SPSS 20)**

Hypothesis test:  $F_{0.01}(2, 40) = 5.18$

Decision: since  $F_{calculated} < F_{tabulated}$ , do not reject the null hypothesis

**H<sub>02</sub>**

**Variables Entered/Removed<sup>a</sup>**

Mode	Variables Entered	Variables Removed	Method
1	QUESTION9, QUESTION7 <sup>b</sup>		Enter

- a. Dependent Variable: QUESTION1
- b. All requested variables entered.

**Source: Researchers computation using Statistical Package for Social Science (SPSS 20)**

**ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.476	2	.738	1.361	.268 <sup>b</sup>
	Residual	21.687	40	.542		
	Total	23.163	42			

- a. Dependent Variable: QUESTION1
- b. Predictors: (Constant), QUESTION9, QUESTION7

**Source: Researchers computation using Statistical Package for Social Science (SPSS 20)**

Hypothesis test:  $F_{0.01}(2, 40) = 5.18$

Decision: Since  $F_{calculated} < F_{tabulated}$ , do not reject the null hypothesis.

**Conclusion and Recommendations**

The inherent deceptive nature of fraud means that fraudsters will, do their possible best to cover up their tracks, endeavoring to carefully conceal their intentions. As a result, the expert skills of a competent forensic accountant will often be needed to analyze the web of dishonesty and explain the process of proof. Such skills are vital, not only to detect, identify, quantify complex fraud, but also to orderly present its proof in the court of laws .Forensic accounting practice is more in developed countries like the United Kingdom, the United States of America, Canada and Australia. The practice and development of forensic accounting are relatively very much lower in developing countries like Nigeria.

It is against this backdrop that this study examined the relationship between forensic accounting and corporate fraud in Nigeria. The study found that forensic accounting has not been effective in preventing corporate fraud in the public and private sector in Nigeria. Also, forensic



accounting has not improved the internal control system of corporate entities in the public and private sector in Nigeria. Findings revealed that the application of forensic accounting is still at a very low level due to the high cost of forensic accounting equipment, non-availability of appropriate litigation support services in the court of law and the time and resource required in the training the forensic accountants.

We recommend among others that the Nigerian government should enact an Act that will make forensic accounting a practice in Nigeria so that corporate fraud in Nigeria can be a thing of the past.

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## Appendix

### QUESTIONNAIRE

## **FORENSIC ACCOUNTING AND CORPORATE FRAUD IN NIGERIA**

Please tick or mark (√) in the boxes provided or fill where appropriate

### **Section A: personal Data**

1. Sex: Male [ ], Female [ ]
2. Age: 25-30 [ ], 30-35 [ ], 35 and above [ ]
3. Educational Qualification: WASSCE [ ], OND/NCE [ ], B.Sc/B.A [ ], M.Sc/PhD [ ], Others [ ]

### **Section B: Questions to Test the Study Hypotheses**

#### **Part A: Forensic Accounting and Corporate Fraud**

- I. Forensic accounting can be used to locate diverted funds or assets
  - a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) strongly Disagree
- (2.) Forensic accounting is an effective tool for preventing fraud
  - (a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree
- (3) Forensic accounting can identify misappropriated assets and identify reversible insider transactions.
  - (a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree
- (4) Forensic accounting can be used to prevent bribery and corruption in both public and private sector.
  - (a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree
- (5) Fraud indicators can provide early warning and increase the likelihood of discovering the fraudsters.
  - (a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree.

#### **Part B: Forensic accounting and Internal control system**

- (6) Forensic accounting is effective in designing internal control system.
  - (a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree.
- (7) Forensic accounting is effective in the monitoring and evaluation of the internal control systems.
  - (a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree.
- (8) Forensic accounting can help to strengthen the approval and authorization process in the public and private sector.
  - (a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree.

(9) Forensic accounting improves the account reconciliations and physical security in the public and private sector.

(a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree.

(10) Forensic accounting can help to develop a sound ethical culture in both public and private sector.

(a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree