

## Forensic Accounting and Board Performance in the Nigerian Banking Industry

**Nkama Nkama .O**

Department of Accountancy  
Evangel University, Ebonyi State  
Nigeria  
nkamankama4real@gmail.com

**John Okey Onoh**

Department of Banking and Finance  
Abia State University, Uturu,  
Nigeria  
[johnonoh@yahoo.com](mailto:johnonoh@yahoo.com)

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### **Abstract**

*This study examined the relationship between forensic accounting and corporate governance. The survey design method was used for this study and primary source was used in generating data for this research. This study concentrated on fifteen (15) staff of First Bank PLC in head quarters Marina Lagos from the finance and control department of the bank. Result emanating from the finding of this study revealed that there is a significant positive relationship the application of forensic accounting and corporate governance measured by board performance. This implies that the application of forensic accounting has the potential of improving corporate governance through enhanced board performance of organizations. This study therefore concludes that forensic accounting is an essential ingredient at ensuring good corporate governance in banks. It is therefore; recommended that there should be proper separation of duties of board members. This will ensure that the boards are constituted properly thereby enhancing good corporate governance of Nigerian banks*

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*Keywords: Forensic Accounting, Board Performance and Banking Industry*

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### **1.0 INTRODUCTION**

According to CBN (2003) financial institutions constitute a critical sector of any economy. However, since the aftermath of the financial crisis, the stability of the financial system has assumed a greater focus as a key objective of economic policy in Nigeria. One of the measures taken to ensure stability of the Nigerian financial system was the enactment of a code of conduct that will entrench good corporate governance through enhanced board performance in Nigerian financial institutions.

Poor board performance due largely to inadequate corporate governance has been identified as one of the major factors in virtually all known instances of financial sector distress. Thus, it is therefore crucial that financial institutions observed a strong corporate governance ethos that will enhance board performance. In addressing the issue of corporate governance in the financial

sector, the Bankers' Committee set up the Sub-Committee on Corporate Governance to make recommendations and propose a draft Code for adoption by financial institutions. This was in realization of the need to amplify the Report of the Peterside Committee on Corporate Governance to address the peculiarities of the financial sector (CBN, 2003).

Financial scandals around the world and the collapse of major corporate institutions in the USA and Europe, again, brought out the need for the practice of good corporate governance, which is a system by which corporations are governed and controlled with a view to increasing shareholder value and meeting the expectations of the other stakeholders (CBN, 2006).

Thus, for the banking industry, the retention of public confidence through the enthronement of good corporate governance remains of utmost importance given the role of the industry in the mobilization of funds, the allocation of credit to the needy sectors of the economy, the payment and settlement system and the implementation of monetary policy.

In Nigeria, a survey, by the Securities and Exchange Commission (SEC) reported in a publication in April 2003 that corporate governance was at a rudimentary stage, as only about 40% of quoted companies, including banks, had recognized codes of corporate governance in place. It was mentioned in the report that especially the banking sector, poor corporate governance were identified as one of the major factors in virtually all known instances of a banking sector distress in the country (CBN, 2006).

Since 2003 when the Nigerian Securities and Exchange released a Code of Best Practices on Corporate Governance for public quoted companies, banks had been expected to comply with its provisions. This was in addition to a Code of Corporate Governance for Banks and Other Financial Institutions approved earlier in the same year by the Bankers' Committee. However, management of these banks has been slow in implementing and entrenching good corporate governance practices in their banks.

In order to ensure proper accountability and prevent fraud by the management, the forensic accountant who is an expert in financial fraud matters with special skills in scientific knowledge and legal matters could help management to improve corporate governance in the organisation. Also, since management are aware that the forensic accountant may be called upon by external auditors and audit committee at any time to investigate and detect financial fraud, the management will be more diligent in carrying out its function effectively knowing full well that the forensic accountant is a crime detector. The directors being aware that the forensic accountant may be invited to detect and prevent fraudulent activities, will most times ensure that their organization has a good internal control system, checks and balances which are transparent, thereby positively influencing corporate governance.

According to Ramaswamy (2009) the failure in corporate communication structure has made the financial community realize that there is a greater need for skilled professionals that can identify, expose, and prevent weaknesses in poor corporate governance, flawed internal controls, and fraudulent financial statement. The forensic accounting skills are especially needed to address these areas mention above and are becoming increasingly relied upon within a corporate

reporting system that emphasizes accountability and responsibility to stakeholders especially banks. Therefore with the forensic accountant expert knowledge in crime, corporate reporting system designed by management can improve and this is expected at translating to an enhanced good corporate image thereby leading to good corporate governance. It is therefore against the need to explore this important knowledge gap that this seminar paper examined the relationship between forensic accounting and corporate governance of Nigerian banks.

## **1.2 Statement of Problem**

The issue of corporate governance in Nigerian commercial banks has become especially important given the role of the sector in national development. Poor corporate governance in public entities have led to disagreements between board and management giving rise to board squabbles; ineffective board oversight functions; fraudulent and self-serving practices among members of the board, management and staff; overbearing influence of chairman or MD/CEO, especially in family-controlled banks.

Poor corporate governance have also led to weak internal controls; non-compliance with laid-down internal controls and operation procedures; ignorance of and non-compliance with rules, laws and regulations guiding banking business; passive shareholders; poor risk management practices resulting in large quantum of non-performing credits including insider-related credits; abuses in lending, including lending in excess of single obligor limit; sit-tight directors even where such directors fail to make meaningful contributions to the growth and development of the bank; succumbing to pressure from other stakeholders e.g. shareholder's appetite for high dividend and depositors quest for high interest on deposits; technical incompetence, poor leadership and administrative ability; inability to plan and respond to changing business circumstances and ineffective management information system (CBN, 2006).

As a result of these weaknesses many organizations have began searching out means by which to improve corporate governance that will ensure more transparent business practice as well as enhancing a more ethical business market. This is especially true for banks due to the homogenous nature of banking products. The risk of fraud being committed from within the organization is one of the greatest difficulties standing in the way of these goals. New companies have varieties of options by which to investigate any threats with a much greater success rate, rather than having to go through the traditional route of handling the situation with account audit which has a tendency to be time consuming and highly inefficient.

Even the best laid plans aimed at limiting incidences of fraud in banks unfortunately are rarely adequate. In order to address the incidences of fraud, a number of compliance tactics had been incorporated into risk management strategies to help prevent any acts of fraudulent activity. It is therefore necessary to conduct a thorough investigation once any such activity has been detected or rumored to occur. Fortunately, in the last few years, the knowledge of the forensic accountant has become available to companies to conduct thorough investigation and handle fraud situations in a more ethical manner. The forensic accountant can trace the source and delve into a company's books and bring to light any sort of fraudulent dealings.

Employing the forensic accountants' techniques in such a proactive manner seems like the next logical step in risk management tactics in order to stay ahead of the game and handle these matters more efficiently than ever, given the importance being placed on better corporate governance. It does appear that forensic accounting can certainly help augment these other strategies to create a more highly developed programme than ever before, while this is not to say

that other methods of internal investigation should be disregarded.

### **1.3 Objective of the Study**

The main objective of the study will be to assess the relationship between forensic accounting and corporate governance of Nigerian banks. Specifically, this study seeks to:

- i. To ascertain the extent of relationship between forensic accounting and board performance of Nigerian banks.

### **1.4 Research Question**

As a follow-up to the above objective, this study seeks to provide answer to the question below. This is:

- i. What is the extent of relationship between forensic accounting and board performance of Nigerian banks?

### **1.5 Statement of Hypothesis**

The hypothesis of this seminar paper is:

**Ho:** There is no significant relationship between the application of forensic accounting and board performance in Nigerian banks.

### **1.6 Significance of the Study**

This study will be significant in many ways with particular reference to the following groups:

#### **i. Management**

This research will enable management to understand what must be done in order to act in the best interest of shareholders in choosing accounting measures which will help the bank achieve an optimal maximization of shareholders' value.

#### **ii Investors and Potential Investors**

This research will contribute along with other similar literature available in this area of accounting in enhancing the maximization of investors and potential investors' objectives as concern the performance of the banks in their financial intermediation role.

#### **iii The Academia**

Essentially, this research shall contribute significantly to the volume of literature available. In academics, the unknown is never exhausted, as the list of what we do not know could go on forever. Therefore, as a contribution to this area, it will help to increase frontiers of knowledge. Localizing the research to the Nigerian settings and environment is also particularly important.

### **1.7 Scope of the Study**

This seminar paper will focus on the forensic accountants' responsibility at ensuring good corporate governance measures with particular reference to the Nigerian environment. According to Forbes (2013), Nigerian Banks are currently enjoying the dividend of consolidations, mergers and acquisitions and 11 banks in Nigeria are among the top fifty (50) banks in Africa. These are Zenith Bank PLC, Access Bank PLC, United Bank for Africa PLC, Union Bank PLC, First Bank PLC, Guaranty Trust Bank PLC, Fidelity Bank PLC, Diamond Bank PLC, First City Monument

Bank PLC, Wema Bank PLC and Ecobank PLC. However, among these banks, First Bank has remained in existence, cutting across all the generational history of banking in Nigeria. It is therefore, against the foregoing that this study will specifically examined the relationship between forensic accounting and corporate governance of First Bank PLC.

## **2.0 LITERATURE REVIEW**

### **Theoretical Framework**

In this study, several theories explain the theory of the firm. These are the attribution theory, the property right theory, the contingency theory, the role theory as well as the agency theory. While the Attribution theory is a social psychology theory concerned with how people interpret events and behaviors, and how people ascribe causes to the events and behaviors. The property rights theory assumes the view that contracts are incomplete as they contain gaps or missing provisions, which are accepted by both contract parties (Hart, 1989). As a consequence, the allocation of control is a point of focus.

The contingency theory of the firm indicates the possibility of applying contingency framework in the public sectors. The Role theory of the Firm took its footing from the role model and assumed that the environment provides the auditors job, the providers and owners of the economic resources. The role set has expectations about the role model and if the role model performs up to the expectations of the set, it will be rated good otherwise there will be role incompatibility and poor performance.

Lastly, the agency theory deals with the relationship between the owner/shareholder of a firm and the chief executive officer. In this context, the firm's chief executive officer is viewed as the principal who attributes decision rights to the lower level management (agents), and thus inducing agency costs due to information. It defines the corporation, in which the firm has been incorporated, as a legal fiction that serves as a nexus for contracting relationships among individuals, which is also characterized by the existence of divisible residual claims on the organization's assets and cash flows, generally to be sold without the permission of the other contracting individuals.

However, the theoretical underpinning on which this study is based is mainly the agency theory of the firm. The forensic accountant is a spook in the wheel of the firm and acts in conjunction with other employees of the firm as an agent of the principal (shareholders). Thus, it is expected that the agent should take all things necessary step to protect the property of the firm.

In most of the literature, the agency theory deals with the relationship between the owner/shareholder of a firm and the chief executive officer (Jensen and Meckling, 1976). In this view, ownership is widely held by shareholders at least and managerial actions deviate from the required maximization of shareholder returns. On the other hand, Pratt and Zeckhauser (1985) utilized the principal-agent theory to examine the hierarchical inter-manager relationships that exist within large firms.

In this context, the firm's chief executive officer is viewed as the principal who attributes decision rights to the lower level management (agents), and thus inducing agency costs due to information Jensen and Meckling (1976) define the corporation, in which the firm has been incorporated, as a legal fiction that serves as a nexus for contracting relationships among individuals, which is also characterized by the existence of divisible residual claims on the organization's assets and cash flows, generally to be sold without the permission of the other contracting individuals. It should be noted that Jensen's concept of the firm as a nexus of

contracts, and also the agency theory in general, does not provide an answer to the question of why a firm exists; it focuses on (the lack of) the boundaries of a firm and on its internal organization. They mentioned that there are a multitude of complex relationships, i.e. contracts, between the legal fiction (i.e. the corporation/firm), executives, employees, customers, and suppliers of goods and capital.

The assumptions behind the agency theory primarily relate to the separation of ownership and management, and motives and preferences behind human behavior (Eisenhardt, 1989). Principals and agents each may be seen as utility maximizers, chasing self-interest and maximizing their own personal economic gain, which will not be necessarily be aligned. Different people can strive for different goals (Pratt et al.), which may lead to possible goal conflicts between a principle and an agent. Information asymmetry between a principal and an agent arises when the principal is uncertain of the alignment of the agent's behaviour with the firm's goals, and because it may be prohibitively expensive either to measure effort, performance, the relation between effort and performance or all of these three. This is the so-called issue of hidden information and hidden action (Pratt et al., 1985).

## **2.2 Empirical Review**

Okoye and Gbegi (2013) carried out a study on the evaluation of forensic accountants to planning management fraud risk detection procedures. The study reveals that forensic accountants effectively modify the extent and nature of audit test when the risk of management fraud is high, forensic accountants propose unique procedures that are not proposed by auditors when the risk of management fraud is high, forensic accountants can make to the effectiveness of an audit plan when the risk of management fraud is high, involving forensic accountants in the risk of management fraud assessment process leads to better results than simply consulting them. Rezaee (2002) and Crumbley (2003, 2009) reviewed the literature on forensic accounting practices, certifications, and education. These studies also provide evidence indicating that forensic accounting education has evolved from being limited, to continuing professional education sessions for practicing accountants, to a current state of being offered as a credit course by several universities.

According to Waymark (2007), studies in South Africa show that South African companies reported, as at October 2007, an average of 23 cases of corporate fraud during the preceding two years, with each organization losing an average of over R7.4 million in that period. However, despite the introduction of new and more stringent corporate governance regulations in the country, corporate fraud remains a significant concern for South African business.

Oliver (2004) is of the opinion that, because the complexity and scope of commerce has expanded throughout the world, the need to track money and financial information has grown. There has been a corresponding increase in illegal financial activity, according to separate surveys by the U.S department of Justice, Price Water House Coopers, and the Association of Certified Fraud Examiners (ACFE). Ironically, illegal businesses and perpetrators of financial crimes also need to keep track of their cash flow and manage their operational performance to generate profits, fund activities an avoid detection and seizure of their assets. Forensic accounting also called investigative accounting or fraud audit is a merger of forensic science and accounting.

Beasley (1996) examined the relation between fraud and board of director composition and found that a higher proportion of outside directors on the board reduced the likelihood of fraud.

Similarly, Dechow, Sloan, and Sweeney (1996) show that firms with more executive directors on the board are more likely to manipulate earnings.

Sharma (2004) however examined the incidence of fraud in an Australian context. She found that as the proportion of independent directors and institutional investors increases, the likelihood of fraud decreases. In the same study, Sharma (2004) found a positive relation between CEO duality and the likelihood of fraud. These results are consistent with agency theory which advocates that corporate governance mechanisms are likely to ensure that managers do not digress from their responsibilities and engage in opportunistic behaviour.

Degboro and Olofinsola (2007) noted that forensic investigation is about the determination and establishment of fact in support of legal case. That is, to use forensic techniques to detect and investigate a crime is to expose all its attending features and identify the culprits. In the view of Howard and Sheetz (2006), forensic accounting is the process of interpreting, summarizing and presenting complex financial issues clearly, succinctly and factually often in a court of law as an expert. It is concerned with the use of accounting discipline to help determine issues of facts in business litigation (Okunbor and Obaretin, 2010).

### **3.0 METHODOLOGY**

#### **3.1 Research Design**

The research design for this study was based on non-experimental descriptive/survey design of collecting and analyzing data. Survey design was adopted in the study because it allowed data to be collected from a sample with the aim of discovering the relationship or interactions among variables. This requires that the researcher has to map out a broad view of the research questions and to provide themes and areas for investigation in more depth through interview. However, Nachmias and Nachmias (1985) observed research design as a blueprint crafted to address problems of scientific enquiry.

#### **3.2 Nature and Sources of Data**

The primary source was used in generating data for this research. Primary data according to Kotler (1997) are data gathered for a specific research. They are first hand information obtained for the purpose of the study. Primary data was obtained through survey using questionnaire.

#### **3.3 Area of Study**

This seminar paper concentrates on First Bank PLC head quarters Marina Lagos. The sample was staff in finance and control department. The choice of these staff is hinged on the role forensic accounting report can contribute to the overall financial reporting standard of banks due to their knowledge of forensic accounting and its perceived relationship with corporate governance measured by board performance. Thus, their perception in this will be highly beneficial to the study.

#### **3.4 Population of the Study**

The population of this study comprised of all staff in the finance and control department of First Bank head quarters Marina Lagos. Therefore, this study examined the relationship between forensic accounting and corporate governance of First Bank PLC as it represents one of the largest bank in Nigeria.

### **3.5 Research Instrument**

For the purpose of this seminar paper, the researcher used questionnaire as the instrument for collection of primary data. The questionnaire was designed in a Likert structured form because the structured questions provided respondents with possible answers from where they would be required to select those that apply (Monga, 2005). It is noted that the Likert structured questions are easier for the respondents to answer; more reliable because of the fixed presentation of questions and responses. Copies of the returned questionnaire were used to analyze the data for easy comprehension.

### **3.5 Determination of Sample Size**

The accuracy of statistical inference based on sample depends on the adequacy of sample and sampling method. The problems of estimating the characteristics of a population would be very simple if the data were uniform and having the same pattern as the population. The researcher purposively selected fifteen staff from finance and control department of First Bank PLC in Marina Lagos State.

### **3.6 Techniques of Data Analysis**

For presentation and data analysis, table and percentage was used to summarize the data gathered for clarity and comprehension while the Pearson moment correlation was used to test the hypothesis.

### **3.7 Model Specification**

When Pearson's  $r$  is close to 1...

This means that there is a strong relationship between your two variables. This means that changes in one variable are strongly correlated with changes in the second variable. If for instance, Pearson's  $r$  is 0.985 which is very close to 1 it is reasonable to conclude that there is a strong relationship between the two variables. However, we cannot make any other conclusions about this relationship, based on this number.

When Pearson's  $r$  is close to 0...

This means that there is a weak relationship between your two variables. This means that changes in one variable are not correlated with changes in the second variable. If our Pearson's  $r$  were 0.01, we could conclude that our variables were not strongly correlated.

When Pearson's  $r$  is positive (+)...

This means that as one variable increases in value, the second variable also increase in value. Similarly, as one variable decreases in value, the second variable also decreases in value. This means there is a positive correlation. For instance if the Pearson's  $r$  value is 0.985 was it is taken as positive because SPSS did not put a negative sign in front of it. So, positive is the default. In other words changes in the independent variable result in significant response by the dependent variable.

When Pearson's  $r$  is negative (-)...

This means that as one variable increases in value, the second variable decreases in value. This



is called a negative correlation. In for instance the Pearson’s r value is positive at 0.985 and the SPSS generated a Pearson’s r negative value of -0.985 it stands to reason that one should conclude that when the independent variable moves in a certain direction then the dependent variable moves significantly in the opposite direction.

**4.0 RESULTS AND DISCUSSIONS**

This chapter presents analyses and test the hypothesis from copies of questionnaire administered to the staff in the finance and control department. A total of five (5) copies of the questionnaire were distributed to the staff in the finance and control department. Table 4.1 presents the response rate of questionnaire distributed to the group.

**Table 4.1 Response Rates of Respondents**

<b>Stakeholders</b>	<b>Copies of Questionnaire Distributed</b>	<b>Copies of Questionnaire Returned</b>	<b>Percentage Response (%)</b>	<b>Overall Percent</b>
Finance and control department	15	15	100	100
<b>Total</b>	<b>15</b>	<b>15</b>	<b>100</b>	<b>100</b>

**Source: Field Survey, 2015**

From table 4.1, it was revealed fifteen (15) copies of questionnaire were distributed to staff in finance and control department of Banks and fifteen (15) copies of the questionnaire were correctly filled and returned representing 100% performance.

**Table 4.2 Forensic accounting and Board Performance**

<b>Stakeholders</b>	<b>Finance and control department</b>	<b>Total</b>	<b>%</b>
To a very great Extent	10	10	67
To a great extent	2	2	13
Not to a great extent	2	2	13
Not to a very great extent	1	1	7
Undecided	0	0	0
<b>Total</b>	<b>15</b>	<b>15</b>	<b>100</b>

**Source: Field Survey 2015**

Table 4.2 reveals that ten (10) respondents representing 67% of stakeholders were of the opinion that forensic accounting improves performance of the board at a very great extent. Two (2)

respondent representing 13% of stakeholders were of the opinion that forensic accounting improves performance of the board at a great extent. Two (2) respondent representing 13% of stakeholders were of the opinion that forensic accounting improves performance of the board not at a great extent. One (1) respondent representing seven (7) % of stakeholders were of the opinion that forensic accounting improves performance of the board not a very great extent. No respondent was undecided that forensic accounting reveals success factors or key strategic objectives considered by the board of directors.

#### 4.2 Test of Hypothesis

Four steps were used to test the hypothesis. These are as follows, for step one; the hypothesis were restated of in null and alternate forms. For step two, decision rule, step three the result were analysed and in step four, conclusion based on the decision reached in step three was made.

##### Step One: Restatement of the Hypothesis in Null and Alternate forms:

**Ho<sub>1</sub>:** There is no significant relationship between the application of forensic accounting and board performance in the Nigerian banking industry

**Ha<sub>1</sub>:** There is significant relationship between the application of forensic accounting and board performance in the Nigerian banking industry

##### Step Two: Decision Rule

- 1) Accept Ha and reject Ho where the p-value is less than the critical value
- 2) Accept Ho and Reject Ha where the p-value is greater than the critical value

##### Step Three: Interpretation of Estimated Model Result

Table 4.3 is reproduced here to test this hypothesis

**Table 4.3: Forensic accounting and Board Performance**

			There is no significant relationship between the application of forensic accounting and board performance in the Nigerian banks industry	There is no significant relationship between the application of forensic accounting and board performance in the Nigerian banks industry
Spearman's rho	There is no significant relationship between the application of forensic accounting and board performance in the Nigerian banks industry	Correlation Coefficient	1.000	.935(**)

	Sig. (2-tailed)	.	.000
	N	631	618
There is no significant relationship between the application of forensic accounting and board performance in the Nigerian banks industry	Correlation Coefficient	.935(**)	1.000
	Sig. (2-tailed)	.000	.
	N	5	5

**Source: SPSS Results**

From table 4.3, the result reveals that from the perception of staff in finance and control department of First Bank PLC head quarters in Marina Lagos, that there is a positive relationship between forensic accounting and board performance of banks in Nigeria (correlation coefficient (R) = 0.935). This was further supported by  $p = 0.00 < 0.05$ .

**Step Four: Decision**

Based on the results, the null hypothesis is rejected while the alternate hypothesis accepted indicating that there is a significant relationship between the application of forensic accounting and board performance in the Nigerian Banking industry.

**4.3 Discussions of Findings**

The finding of this study from the hypothesis tested is summarized below. This is:

1. There is a significant relationship between the application of forensic accounting and board performance in Nigerian banks ( $p$ -value  $< 0.05$ ).

**4.4 Conclusion**

The empirical findings of this study have reveals some critical issues as regards the relationship between forensic accounting and board performance in the Nigerian Banking industry. Most of the banks are now publicly quoted and so obliged to make their financial performance public. It also means that accountability and transparency will be of interest to the management of these banks. Some of the Nigerian banks have foreign investors and as the Nigerian banking industry opens up to international investors, the banks that do try to improve their corporate governance rating will have much to gain. The banks that adopt best practices will get the most interest from international investors. The more Nigerian banks reach out to global investors, the greater the pressure will be to enhance corporate governance (board performance).

**5.0 Recommendations**

1. Forensic accountants of banks should ensure that the position of the Chairman of the

Board should be clearly separated from that of the head of Management, i.e. MD/CEO, such that no one individual/related party has unfettered powers of decision making by occupying the two positions at the same time. This will ensure that no one person should combine the post of Chairman/Chief Executive Officer of any bank.

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## APPENDIX A

### LETTER TO RESPONDENTS

Department of Accountancy,  
Faculty of Business Administration,  
University of Nigeria, Enugu Campus  
Enugu

Dear Respondent,

#### **Forensic Accounting and Board Performance in the Nigerian Banking Industry**

I am a student of the above named Department, undertaking a seminar paper on the above topic. The objective of this study is to examine the relationship between Forensic Accounting and Board Performance in your organisation and this questionnaire has been designed to enable me collect information for the seminar paper.

Your kind assistance is hereby requested in filling this form.

All information you provide will be treated with strict confidence and shall be used strictly for academic purpose.

Thanks for your co-operation.

Yours Faithfully,  
Nkama O Nkama  
PG/MSc/PhD/13/66760

**APPENDIX B**

**QUESTIONNAIRE**

Please, tick the one you think is most appropriate

1. Sex: (a) Male [ ] b. Female [ ]
2. Highest Level of Education (a) Primary education [ ] (b) Secondary education [ ]  
(c) Tertiary education [ ] (d) No formal education [ ] (e) others [ ]

No	Question	To a very great Extent	To a great extent	Not to a great extent	Not to a very great exten t	Undeci ded
3.	To what extent does forensic accountant enhance board performance of Nigerian Banks					