

## **Forensic Accounting Services and its effect on Fraud Prevention in Manufacturing Firms in Anambra State**

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### **Abstract**

*This study on forensic accounting services and its effect on fraud prevention was empirically investigated. Two hypotheses were formulated to guide the investigation and the statistical test of parameter estimates was conducted using Friedman's 2- Way ANOVA. The data for the study were collected using questionnaire survey administered to the relevant accounting sections of the selected manufacturing firms in Anambra state. The statistical analysis of the study indicates that the application of forensic accounting services has reduced the incidence of frauds and has also led to fraud prevention at 5% significant level. Thus, the study concludes that the application of forensic accounting services has led to fraud prevention in manufacturing firms in Anambra state. The study therefore recommends that manufacturing firms in Anambra state should intensify the application of sophisticated forensic auditing in the fight against fraud and forgeries in the system as the probability of fraud detection and prevention will be generally low especially in this era of technological revolution.*

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**Keyword:** Forensic Accounting Services; Fraud; Fraud Prevention

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## 1.1 Introduction

According to Golden, Skalak and Clayton (2016), fraud is a feature of every organized culture in the world. It affects many organizations, regardless of size, location, or industry. Amahalu, Ezechukwu and Obi (2017); and Enofe, Olorunnuho and Okporua (2016) also confirm that the situation is not much different in Nigeria where they noted the alarming increase in the frauds and fraudulent practices both in public and private organizations. Fraud has been blamed for the failure a good number of businesses organizations causing hardship for the firms stakeholders. In such cases, investors lose their investments, jobs are lost and investors become jittery about committing funds in other viable business as they become overly cautious.

Enofe, Ochuwa, Henrietta and Nosareimen (2017), maintains that the increase gesture of fraud in the Nigerian public sector is causing a lot of confusion. This is because fraud has entered into almost every aspect of the Nigerian public sector. Modugu and Anyaduba (2013) affirm that the inability of auditor to detect, prevent, or reduce modern frauds such as money laundering security fraud, contract disparate, embezzlement and other financial crimes has put a lot of pressure on the professional accountant and legal practitioners in finding better ways of revealing fraud in corporate organizations. In addition, the priority of the Nigerian president (Buhari) led administration since 2015 was the fight against corruption so as to drastically reduce the cases of financial malpractice. Many arrests related to corruption cases have been made; however, the number of prosecution cannot be seen in the same manner. The recent major financial scandals that happened in year 2020 are the one that occurred in Niger Delta Development Commission (NDDC), over N2.6 billion school feeding scandals in Federal Government schools, Ministry of education scandal and the one done by the Economic and Financial Crimes Commission (EFCC) chairman himself which resulted in kicking him out of the office (The Punch, 2020). It has thus, become relevant to fortify the practice of forensic accounting which is one of the efforts that can be used for the detection and prevention in both corporate organizations and public sector organizations. This is due to the fact that private sector auditors may not have the essential knowledge required in detecting, preventing or reducing fraud in Nigeria.

Numerous research effort has been made in assessing the importance of the services of forensic accountants to business organizations especially in improving the quality of financial statements and uncovering fraud. However, most of these research efforts have been focused on the fraud and forensic accounting activities in banks and other financial institutions. This study has identified this lacuna in forensic accounting research especially in the manufacturing sector where very little research has been done on the subject matter. This research paper is set to investigate the relationship between forensic accounting services and the prevention of fraud in manufacturing companies in Anambra state. In order to direct the flow of this study, the following hypotheses were formulated:

**H<sub>01</sub>:** The application of forensic accounting services has not reduced the incidence of frauds in manufacturing firms in Anambra state

**H<sub>02</sub>:** Forensic accounting services has not led to fraud prevention in manufacturing firms in Anambra state

## **2.0 Review of Related Literature**

### **2.1.1 Forensic Accounting**

Forensic accounting is the use of laws of nature to the laws of man. This is normally carried out by forensic scientists as interpreters and examiners of facts and evidence in legal case that also gives expert opinion concerning their findings in a court of law. Fyneface and Oseiweh (2017) affirm that forensic accounting is essential investigative device for the detection of fraud. Mukoro, Yamusa and Faboyede (2013) opined that forensic accounting helps in introducing effective internal control and fraud prevention in an organization. He also described forensic accounting as the mixture of auditing and investigation skills. It is therefore, the process of summarizing, interpreting and presenting complicated financial issues, clearly, and factually in a court of law as an expert view and witness. Al Samara, AL Afeef and Al Ali (2017) view forensic accounting as the use of criminal method and incorporation of investigative accounting activities and law processes to investigate and detect financial crimes and other economic malpractices. Zysma (2004) views forensic accounting as the combination of auditing, accounting, and investigative skills.

Similar definition was given by Hopwood, Leiner and Young (2009), in which they argued that forensic accounting is the application and analytical skills for resolving financial issues in a manner that meets court standard. Webster's Dictionary (2000) states 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 added that forensic accounting encompasses litigation support and investigative accounting.

According to Popoola, Che-Ahmad and Samsudin (2014), forensic accountants are trained to dig beyond the figures and deal with the realities of circumstances. He also noted that forensic accounting include: investigating, examining financial evidence, developing computerized applications to support in the analysis and presentation of financial evidence and communicating their finding in form of reports, displays and collect documents, and help in legal proceedings, including attesting in court, as expert witness and setting up visual aids to in supporting trial evidence.

### **2.1.2 Fraud**

Fraud refers to human behaviour that entails deceit and strong desire and for trust violating. Fraud can be termed as non-violent crime and unlawful activity committed with the desire of getting wealth illegally either individually or in group in a planned manner. This act violates the existing government legislation and its economic activities and administration. Enofe, Okpako and Atube (2013) also see fraud as an organised complicated process generally undertaken by a person or a group with the full desire of cheating an individual or organisation to get ill-gotten benefits. Kasum (2009) affirm that forensic accountants need exceptional skills, professional knowledge and training that is beyond acquired academic degree. They also noted that for forensic accountants to be effective they must attain relevant level of skills and knowledge.

Similarly, Udeh and Ugwu (2018), define fraud as intentional misstatement of facts (falsification or fabrication) with the intention to benefit or conceal shoddy deals such that reliance on the information may be misleading resulting eventually in loss to users.

## **2.2 Theoretical Framework**

### **2.2.1 Anomie Theory**

The theory was propounded by Merton and Chinoy in the year 1957. The theory tends to explain the pressure the society exerts on members that lead to anti-social behaviours including fraud/corruption. They argue that the society set goals for individuals and groups and also prescribes the means of attaining them. Some individual resources were not enough to attain the expectation of the society; this brings about corrupt and unethical behaviours. The society also sends messages of what is normal and acceptable behaviour to individuals through societal institutions. 'Normal' is that which is psychologically acceptable and sometimes, culturally approved. However, pressure from the society might compel most individuals to engage in unethical behaviours like fraud/corruption. Merton therefore, asserts that criminal behaviours are functions of emphasis on goal of accumulation of wealth with a great disconnect with the goal value of the society and the means available to achieving the goal (Murphy & Robinson, 2008). Thus, the study is anchored on Anomie theory as Nigerian society emphasizes on goal attainment without any recourse to the legitimate means of attaining the goal.

## **2.3 Empirical Review**

Suleiman and Othman (2016) on their study on forensic accounting investigation for fighting public sector corruption in Nigeria note that forensic accountants are required in the Nigerian banking sector and a useful tool for addressing financial crimes in the banking system. Consequently, conventional accounting techniques are not effective in preventing financial crimes. The study concludes with the view that frauds been detected by auditors is valid as

auditors are more sufficiently qualified to detect frauds rather than emphasizing the traditional separation of duties and protection of assets. In lieu of the findings of the study, the study recommends the need to examine the wider scope by extending it to adequate number of Federal Government Ministries that are mostly the battling ground of fraud and corruption as mention the problem statement. This will assist in obtaining relevant data that is capable of revealing appropriate and dependable findings.

Olukowade and Balogun (2015) investigated the roles of forensic accountants in combating fraudulent activities, differences between a forensic accountant and traditional accountant, features of a forensic accountant and the impact of forensic accountants to detect and prevent fraud. From the research, it was found out amongst others that their services will assist audit committee members in carrying out their oversight functions by providing them assurance on internal audit report. The study recommended that government should ameliorate the cost of hiring the services of forensic accountants and to treat culprits equally without any favouritism.

Adebisi, Okike and Yoko (2016) investigated how forensic accounting has aided the detection and prevention of fraud in Nigeria using the survey research method. Primary data collected was with the aid of questionnaire administered to a sample of 92 professional accountants in the Nigerian public sector analyzed using chi-square. The findings of the study suggest that forensic accounting have a significant role to play in fraud detection and prevention in Nigeria. It was therefore recommended that there should be more forensic accountants' involvement in fraud detection in order to reduce the rate of financial crime in Nigeria.

Enofe, Okpako, and Atube (2013) examined the effect of forensic accounting on fraud detection in Nigerian firms. data for the study was collected from primary sources through the issue of questionnaires to fifteen firms. The collected data were analyzed with descriptive statistics using ordinary least square (OLS) regression and Chi-square. The study revealed that the application of forensic accounting services on firms affects the level of fraudulent activities.

Mukoro, Ogijo, and Faboyede (2013) explored the relevance of forensic accounting in curbing crime and corruption in public sector. Data for the study was collected from primary sources and analyzed using regression analysis. The findings showed that forensic accountants are relevant in investigating crime and corruption in the public sector. Findings further showed that forensic accountants play a role in litigation support services in the public sector. It was recommended that accounting professionals should always act proactively such that the members of the profession in Nigeria are kept abreast of emerging technologies, especially in the area of forensic accounting.

According to Okoye and Ndah (2019), fraud continues to be a serious impediment to the survival and successful operations in business organizations thus requiring that they develop robust measures to as much as possible reduce the occurrence. The above necessitated the need for this

study which investigated the relationship between forensic accounting practices and the prevention of fraud in manufacturing companies in Nigeria. Data was collected from primary sources through the issue of fifty (50) structured questionnaires to the accounting staff of ten (10) manufacturing companies. The collected data was analyzed using Ordinary Least Square method of multiple regression analyses. The findings of the research showed that there is a positive and statistically significant relationship between fraud investigation practices and the prevention of fraud in manufacturing companies. The findings also showed that there is a positive and statistically significant relationship between fraud litigation practices and the prevention of fraud in manufacturing companies. From the findings, we conclude that fraud investigation practices are very important for the prevention of fraud in manufacturing companies.

### **3.0 Methodology**

A survey design was adopted in the study in order to examine the application of forensic accounting services and its effect on fraud prevention in manufacturing firms in Anambra State Nigeria. These firms include; KP pharmaceutical ltd Ogidi, Alben Pharmaceutical ltd Ogidi, Millennium Industry ltd Awka and Juhel Pharmaceutical ltd Awka. Out of 100 copies of questionnaire distributed by 25 copies each to the selected manufacturing firms in Anambra State, a total of 95 copies of the questionnaire were retrieved and used in the data analysis. The remaining copies were incomplete and were not used for the analysis. Primary data was used in the study and was collected through the use of questionnaire. The questionnaire survey was designed based on Likert scale point referred to as: (1) To a Very High Extent (THE), (2) To a High Extent (HE), (3) Neutral (N), (4) To a Very Low Extent (TLE) and (5) To a Low Extent (LE).

The Likert Scale point was used to transform the data to scale measurement and the hypotheses were statistically tested using Friedman's 2- Way ANOVA operated with SPSS Version 20 at 5% level of significance.

#### 4.0 Data Presentations and Analysis

**Table 1: The mean value on if the application of forensic accounting services reduces the incidence of frauds in manufacturing firms in Anambra state**

Questions	Senior Staff	Middle Calibre	Junior Staff	Other Senior Officers
1	2.50	2.31	1.98	1.00
2	2.04	2.01	2.01	1.20
3	2.32	2.23	2.00	0.98
4	2.10	1.99	1.90	1.10
5	2.23	2.30	2.45	1.17

Source: Field Survey (2023).

For the test of hypothesis 1, the study used the data as explicated on table 1 above. The outcome of the test using Friedman's 2- Way ANOVA is show on table 2 below:

**Table 2: Result on Respondents Distribution on Table 1**

Hypothesis Test Summary				
	Null Hypothesis	Test	Sig.	Decision
1	The distributions of SS, MC, JU and OSS are the same.	Related-Samples Friedman's Two-Way Analysis of Variance by Ranks	.011	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

**Table 3: The mean value on if forensic accounting services has led to fraud prevention in manufacturing firms in Anambra state**

Questions	Senior Staff	Middle Calibre	Junior Staff	Other Senior Officers
1	2.00	2.50	1.86	1.90
2	1.90	2.50	2.08	1.38
3	2.50	2.30	1.98	1.04
4	2.45	2.22	1.76	1.00
5	2.08	2.01	0.19	1.10

Source: Field Survey (2023).

For the test of hypothesis 2, the study used the data as explicated on table 3 above. The outcome of the test using Friedman’s 2- Way ANOVA is show on table 4 below:

**Table 4: Result on Respondents Distribution on Table 3**

Hypothesis Test Summary				
	Null Hypothesis	Test	Sig.	Decision
1	The distributions of SS, MC, JU and OSS are the same.	Related-Samples Friedman's Two-Way Analysis of Variance by Ranks	.019	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

#### 4.2: Discussion of Findings

The result of the analysis of the study using Friedman’s 2- Way ANOVA is expressed as follows:

**H<sub>01</sub>:** The application of forensic accounting services has not reduced the incidence of frauds in manufacturing firms in Anambra state

In view of the analysis as shown on Table 2, the result shows that there is a significant and positive relationship between the application of forensic accounting services and incidence of fraud reduction in manufacturing firms in Anambra state. The Friedman’s 2- Way ANOVA test as shown on table 2 shows a p-value of 0.011. This probability value is statistically significant at 5% level. Thus, the null hypothesis was rejected as suggested by the decision rule shown in Table 2 and alternate hypothesis was accepted which contends that the application of forensic accounting services has reduced the incidence of frauds in manufacturing firms in Anambra state.

**H<sub>02</sub>:** Forensic Accounting Services has not led to fraud prevention in manufacturing firms in Anambra state

In view of the analysis as shown on Table 4, the result shows that there is a significant and positive relationship between forensic accounting services and fraud prevention in manufacturing



firms in Anambra state. The Friedman's 2- Way ANOVA test as shown on table 4 shows a p-value of 0.019. This probability value is statistically significant at 5% level. Thus, the null hypothesis was rejected as suggested by the decision rule shown in Table 4 and alternate hypothesis accepted which contends that forensic accounting services has led to fraud prevention in manufacturing firms in Anambra state.

### 5.1 Conclusion and Recommendation

The study concludes that the application of forensic accounting services has reduced the incidence of frauds in manufacturing firms in Anambra state. It has also led to fraud prevention in manufacturing firms in Anambra state. The study therefore recommends that manufacturing firms in Anambra state should intensify the application of sophisticated forensic auditing in the fight against fraud and forgeries in the system as the probability of fraud detection and prevention will be generally low especially in this era of technological revolution.

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## Appendix 1

### QUESTIONNAIRE

#### SECTION A: Personal Data of Respondent

**Sex:** Male [ ] Female [ ]

**Designation:** Senior Staff [ ] Middle Caliber [ ] Junior Staff [ ] Other Senior Officers [ ]

#### SECTION B: Questionnaire Items

**Instruction:** Kindly read through all the item statements carefully and indicate your response against each statement by ticking [√] in the appropriate column using the following response options.

**To a Very High Extent (TVHE)**

**To a High Extent (THE)**

**Neutral (N)**

**To a Low Extent (TLE)**

**To a Very Low Extent (TVLE)**

#### FORENSIC ASSURANCE SERVICES AND FRAUD PREVENTION

S/N	STATEMENTS	TVHE	THE	N	TLE	TVLE
1	The application of forensic accounting services has reduced incidence of fraud					
2	Forensic accounting services has not let to fraud prevention in manufacturing firms					
3	Recommendations made by the forensic accountants in the course of their job are duly implemented					
4	Fraudulent activities uncovered in the course of forensic investigation are properly investigated and necessary litigation processes instituted immediately					
5	Recommendations on fraud prevention strategies proposed by your company forensic investigators have led to red flagging of some fraudulent behavior by staff					
6	Staff of the organization are noticeably apprehensive whenever forensic accountants are called in					
7	Accountants/auditors with forensic accounting skills will deliver more quality financial reporting					

8	Forensic accounting improves stakeholder confidence in corporate financials					
9	Forensic accounting is effective as a fraud detection tool					
10	In your opinion, do you think that the activities of forensic investigators is directly responsible for the reduction in fraud in the company					