Determinants of Forensic Accounting Application for Fraud Detection in Nigerian Firms

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Abstract: This research work is about the ascertaining the applicability of forensic accounting procedures for fraud detection in Nigerian firms. The study is concerned with the analysis of how forensic accounting procedures can apply and uses for detection of fraud in Nigerian firms. In particular, a case study of auditing firms was undertaking, the population of the study are all firms. 40 questionnaires were administered to some selected firms and practicing accounting firms in Kano state. The study adopted a non-probabilistic distribution using quota sampling technique by selecting ten audit firms and 4 companies that formed the sample size. Two sources of data collection were employed. This is through administration of questionnaires for the primary sources and through articles, journals and the use of the internet for the secondary sources. All the data obtained from different sources were tabulated, analyze and interpreted using chi-square to test the hypothesis. The study finds out that the empirically people are of opinion that services of forensic accountants are required in both public and private sector of the Nigerian economy and their services are more for fraud and corruption related issues. This research study recommends that forensic accounting application must not deviate from International Financial Reporting Standards (IFRS), National standards and professional pronouncements. It also recommends that the relevant anti-graft agencies and stake holders should consider engaging the service of forensic accountant to enhance conviction of fraud culprits. Finally, governments must not use Anti graft agencies to satisfy their political aggrandizements.

Key Words: Forensic Accounting, Procedures, frauds, Nigeria

INTRODUCTION

The risk of financial irregularities has been in existence for a very long time. In fact it was the fear of this and the need to provide owners of wealth with a means of safeguarding their wealth from embezzlement following the rise of the Joint Stock Companies that gave rise to stewardship accounting and later auditing by the Joint Stock Company Act of 1844. Forensic accounting has been termed the fastest growing area of accounting today. Despite the recent spotlight, forensic accounting is not new. Its roots have been traced as far back as the early 1800’s to Glasgow Scotland that, notwithstanding
forensic accounting as a profession remained relatively unknown until the plethora of high-profile corporate scandals and stricter reporting and internal control regulations which brought to light its importance to the business world (Wallace, 1991).

Recent history indicates that Peloubet is credited with developing the term Forensic Accounting in his 1946 essay “Forensic Accounting” Although the term may not have been used before the 1940s, a strong argument can be made that the first high-profile forensic accountant was Frank J. Wilson, the man who spearheaded the campaign to convict Alphonse “Scarface” Capone of tax evasion in 1931 (Joshi, 2003). By this time, Forensic Accounting had proven its worth during World War II; however formalized procedures were not in place until the 1980’s when major academic works were published.

Crumbley (2001) notes that the professional history of forensic accounting may be traced back to 1992 when the American College of Forensic Examiners was established with the American Board of Forensic Accounts starting in 1997. The Journal of Forensic Accounting, Auditing, Fraud and Taxation began publication in 2000. In 2002 the Sarbanes-Oxley Act established the Public Companies Accounting Oversight Board (PCAOB) which was charged with developing auditing standards, conducting investigations and ensuring corporate compliance. As a result of the Sarbanes-Oxley Act, there has been continuing emphasis on forensic accounting.

As a discipline, it encompasses financial expertise, fraud knowledge, and a sound knowledge and understanding of business reality and the working of the legal system. Joshi (2003) ascribed the origination of forensic accounting to Kutilya, the first economist to openly recognize the need for the forensic accountant whom he said, mentioned 40 ways of embezzlement centuries ago. He, however, stated that the term “forensic accounting was coined by Peloubet in 1946. Crumbley (2001) wrote on same when he 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.

Investigation of fraud and corruption is confirmed thus, not to be new, even in Nigeria. It is only gaining prominence because of the growing wave of the crime under the seemingly new nomenclature the last five years (Coenen 2005).

Forensic accounting, also called investigative accounting or fraud audit, is a merger of forensic science and accounting. Forensic science according
to Crumbley (2003) “may be defined as application of the laws of nature to the laws of man”. He referred to forensic scientists as examiners and interpreters of evidence and facts in legal cases that also offers expert opinions regarding their findings in court of law. The science in question here is accounting science, meaning that the examination and interpretation will be of economic information. Similarly, Okoye, Emmanuel, Ndah & Nwoka (2019) described Forensic accounting as the practice of utilizing accounting, auditing and investigative skills to assist in legal matters and the application of specialized body of knowledge to the evidence of economic transaction and reporting suitable that is suitable for the purpose of establishing accountability or valuation of administrative proceeding. Joshi (2003) defined Forensic accounting as the application of specialized knowledge and specific skill to stumble up on the evidence of economic transactions while Zysman (2001) put Forensic accounting as the integration of accounting, auditing, and investigative skills. Simply put, forensic accounting is accounting that is suitable for legal review offering the highest level of assurance and including the now generally accepted connotation of having been arrived at in a scientific fashion (Crumbley, 2006).

In recent times, the emerging issues of falsification of financial statement in the 21st century, that has dominated the headlines for years now, most especially the case of Enron and WorldCom has made people to ask if auditors actually exist or if auditors really play any vital role towards the accountability and avoidance or detection of fraud Bassey, Eyo, Ahonkhai & Ebahi (2017). These emerging issues have made the term forensic accounting very popular, Enofe, Okpako & Atube (2013).

Series of fraud have been committed both in public and private sector of the economy. This in no doubt is perpetrated under the supervision of the internal Auditors of the organization. It suffices to say that the independence of the internal auditor is not guaranteed because he works as an employee of the government or organization. Then come the idea of external auditors, yet frauds are still being committed on daily basis.

Ojaide (2000) submits that there is an alarming increase in the number of fraud and fraudulent activities in Nigeria emphasizing the visibility of forensic accounting services. Okoye and Akambi (2009), Owojori and Asaonu (2009), Izedomin and Mgbamen (2011) have all acknowledged in their separate works the increasing incidence of fraud is gradually becoming a normal way of life. As kasum(2009) notes, the perpetuation of financial irregularities are becoming the specialty of both private and public sector. In Nigeria as individuals perpetrate
fraud corrupt practices according to the capacity of their office. Consequently, there is a general expectation that forensic Accounting may be able to stem the tide of financial malfeasance witnessed in most sectors of the Nigeria economy. Many scholars, authors and researchers have conducted research about the role of forensic accounting for fraud detection and prevention, mostly in revenue generating centers, in public sectors such as FIRS, NNPC, M.D.A and few private sectors in the Nigerian economy. However the paper or study tries to fill the gap by addressing the applicability of forensic accounting for detection of fraud in private sector of the economy specifically in Nigeria firms.

It has now become pertinent that forensic accounting be introduced and practiced since Auditors are busy ensuring compliance with laid down Accounting laws and principles and as such will not be able to tackle modern frauds like white collar crimes such as security fraud, mbezzlement, bankruptcies, contract disputes and possibly criminals and also it is the duty of the forensic accountant to provide litigation support and investigative accounting. These areas have become a complex area of concern for the accounting profession. However large companies such as Cadbury Nigeria plc, oceanic bank plc and Afribank have been found involved in frauds.

The main objective thrust of this study has concentrated on the issues relevant to the current status of the application of forensic accounting in Nigeria and how efficiently it works as a fraud detection tool. However, the specific objectives of this study are as follows;

to examine challenges to be faced by forensic accountant in curbing fraudulent activities in Nigerian firms and to ascertain the applicability of forensic accounting procedures for detection of fraudulent activities in Nigerian firms. The rest of this study is divided as follows: Section 2 contains the review of extant literature. Section 3 contains the underpining theories of the study. Section 4 contains the research methods of the study. Section 5 reveals the analysis of the result while Section 6 conclusion and recommendations of the research study.

2. LITERATURE REVIEW

2.1. Conceptual framework

The oxford Advanced Learners English Dictionary (2000: 548) defines forensic as belonging to, used in, or suitable to a court of judicature or to the public discussion or debate. Forensic accounting in the view of Howard and Sheetz
(2006) is simply the process of interpreting, summarizing and presenting complex financial issues clearly, succinctly and factually often in a court of law as an expert witness. It is concerned with the use of accounting discipline to help determine issues of facts in business litigation. Form business, government, regulatory authorities, and the counts, evidence indicates that a high level of expertise is necessary to analyze current complicated financial transactions and events (Razaee, Crumbley and Elmore, 2006). As a result, forensic accounting has been thrown into the forefront of the crusade against financial deception (Ramaswamy, 2005). Forensic accounting, also called investigative accounting or fraud audit, is a merger of forensic science and accounting.

Bassey et al. (2017) defined the word forensic accounting as the application of investigative and analytical skills for the purpose of resolving financial issues in a manner that meets standards required by courts of law. Forensic accountants apply special skills in accounting, auditing, finance, quantitative methods, certain areas of the law, research and investigative skills to collect, analyze and evaluate evidential matter and to interpret and communicate findings.

Joshi (2003) defined Forensic accounting as the application of specialized knowledge and specific skill to stumble up on the evidence of economic transactions. Zysman (2001) put Forensic accounting as the integration of accounting, auditing, and investigative skills. Simply put, forensic accounting is accounting that is suitable for legal review offering the highest level of assurance and including the now generally accepted connotation of having been arrived at in a scientific fashion (Crumbley, 2006). And also Bolgna and Linquist (1995) defined forensic accounting as the application of financial skills and an investigative mentality to unresolved issues, conducted within the context of the rules of evidence.

Manning (2002) also defined forensic accounting as the application of financial accounting and investigative skills, to a standard acceptable by the courts, to address issues in dispute in the context of civil and criminal litigation. In the view of Damilola and Olofinsola (2007), Forensic accounting is the application of criminalities methods and integration of the accounting investigative activities and law procedures to detect and investigate financial crimes and related economic misdeeds. To them, forensic accounting is a highly technical and specialized area of practice within the principles and ethics of accounting profession. They further assert that it is not every forensic accounting engagement that ends up in the court of law.

Baird and Zelin (2009) say that forensic accounting is an important investigative tool for detection of fraud. Gray (2008) reported that the forensic
accountants investigation include identification of fraud. Gottschalk (2010) stated that the focus of forensic accounting is on evidence revealed by the examination of financial documents. The evidence collected or prepared by a forensic accountant may be applied in different contexts. According to Curtis (2008), forensic accountants are essential to the legal system, providing expert services such as fake invoicing valuations, suspicious bankruptcy valuations, and analysis of financial documents in fraud schemes. Coenen (2005) stated that forensic accounting involves the application of accounting concepts and techniques to legal problem. It demands reporting, where the accountability of the fraud is established and the report is considered as evidence in the court of law or in the administrative proceeding (Joshi). It provides an accounting analysis that is suitable to the court, which will form the basis of discussion, debate and ultimately dispute resolution (Zysman, 2001).

These means that forensic accounting is a field of specialization that has to do with provision of information that is meant to be used as evidence especially for legal purposes. The persons practicing in this field (i.e. forensic accountants) investigate and document financial fraud and white-collar crimes such as embezzlement and investigate allegations of fraud, estimates losses damages and assets and analyses complex financial transaction. They provide those services for corporation, attorneys, criminal investigators and the Government (Coenen, 2005). Their engagements are usually geared towards finding where money went, how it got there, and who was responsible. They are trained to look beyond the numbers and deal with business reality of the situation (Zysman2001).

2.2. Organization of Forensic Accounting Profession

Forensic Accounting is an offshoot of the general professional accounting and it is affiliated to professional accounting institutes. For the purpose of practice, individual firms of general accounting practitioners departmentalize and train specialist in investigative accounting within their general practice firm. For example, the Canadian Institute of Chartered Accountant established the Alliance for excellence in investigative and forensic accounting in 1998.

Crumbley (2003) also stated that forensic accountants are typically CPA/CAs that specialize in those types of engagements where there is need for such evidence. In the word of Crumbley (2006) forensic accountant refers to a certified public accountant who performs an orderly analysis in an attempt to obtain the truth and which to form an expert opinion. On firm practice, Crumbley (2006) stated that there are about 500 and 380 forensic accountant
in the firm of Price Water House and Coopers and Lybrand respectively. On the other side, separate bodies are also springing up for forensic accountants and firms of same are being established. Examples are Association of Certified Fraud Examiners, National Association of Forensic Accountants, America College of Forensic Examiners, and Certified Fraud Deterrence, Certified Forensic Financial analyst and Forensic CPA Society (Crumbley, 2006). Some specialist practice firms include Zymas Forensic Accounting Incorporated, Kessler International, sequence incorporated, Gottschalk forensic accounting and valuation Inc., LBC international investigative accounting inc. etc.

In Nigerian context, the practice is just gaining popularity and thus we have only one organised professional body for forensic known ….What does it mean?

2.3. The Incidence of Fraud

Moduga & Anyaduba (2013) attributes the collapse of Enron, WorldCom, Tyco, Adelphia, to corporate fraud. $460 billion was said to have been lost. In Nigeria, Cadbury Nig Plc whose books were criminally manipulated by management was credited to have lost fifteen (15) billion Naira. In the case of the nine collapsed commercial banks in Nigeria, about one trillion naira was reported to have been lost through different financial malpractice. This is still being investigated by EFCC under the EFCC Act (2004). Generally, incidence of fraud is varied and committed by individuals and institutions.

Okafor [2004] also reported that fraud is a generic term and embraces all multifarious means which human ingenuity can devise, which are resorted to by over individuals to get advantage another in false representation. Anyanwu (1993) maintain that fraud is an act or cause of deception, deliberately practiced to gain unlawful or unfair advantage; such deception directed to the detriment of another. Accounting fraud is an act of knowingly falsifying accounting record, such as sales or cost records, in order to boost the net income or sales figures, accounting fraud is an illegal and subjects the company and executives involved to civil lawsuits (Arokiasamy and Cristal, 2009) company officials may resort to accounting fraud to reverse loss or to ensure that they meet earning expectations shareholders or the public.

Anyanwu, (1993); Ajie and Ezi, (2000); Karwai, (2002); Okafor, (2004) Adeniji, (2004) and Okoye & Gbegi (2013). summarise the types of fraud on the of methods of perpetration include the following but not exhaustive as the methods are devised day in day out to include: defalcation, suppression, outright theft and embezzlement, tampering with reserves, insider abuses
and forgeries, fraudulent substitutions, unauthorized, unauthorized lending, lending to ghost borrowers, kite flying and cross firing, unofficial borrowing, impersonation, teeming and lading, fake payments, fraudulent use of firms documents, fictitious accounting, false proceeds of collection, manipulation of vouchers, dry posting, over invoicing, inflation of statistical data, ledger manipulation, fictitious contracts, duplication of cheque books, computer fraud, misuse of suspense accounts, false declaration of cash shortages etc.

Bozkut (2003) opined that there are two types committed in business: personal use of business resources and drawing up financial statements of the business falsely. Examples are embezzlement of money during its collection but before it is recorded in accounts, tampering of bank records, taking monetary advantage. Finally, Bassey et.al (2017) revealed that Personal use of business resources, Falsification of the financial statement and corruption are the major types of fraud.

2.4. Review of Empirical Studies

Recently, in the preparation of financial statements for companies care is only given if the financial statement is prepared base on adherence to the laid principles of International Fiancial Reporting Stanadrd (IFRS). Forensic accounting deals specifically with total disclosure of fact that will enable the financial statements play the key role of educating and informing existing and potential investors on the true financial position of any organization. Emphasis is laid on financial statement because this is the common means through which fraud is perpetrated. Forensic accounting is strictly based on quality assurance of financial statements, quality assurance is very critical to the usefulness that financial statement could serve. Most financial statements are to meet the need of ensuring compliance with Auditing Laws and Fiancial Reporting Stanadrd (IFRS), that is, it does not portend any materiality and misstatement and also it does not pay attention to some of those small issues of fraud.

There are many empirical studies over two decades on forensic accounting in Nigeria. For example Enyi (2009) undertook a study on how to apply forensic accounting in investigating variances and suspected fraudulent activities in manufacturing processes. He finally opined that the application of forensic accounting applies to all scenes where fraud is a possibility.

Moduga & Anyaduba (2013) in their study on forensic accounting and financial fraud in Nigeria: An empirical approach using binomial test noted
that there is significant agreement amongst stakeholders on the effectiveness of forensic accounting in fraud control, financial reporting and internal control quality.

Similarly, Okoye & Akamobi (2009) studied the role of forensic accounting in fraud investigation and litigation support. In this study on the application of forensic accounting in developing economies like Nigeria notes that forensic accounting is faced with so many bottlenecks.

Ogbonna & Ikebujo (2016) studied on economic and financial crime and forensic accounting: an antidote. They noted that lack of adequate litigation support services by forensic accountants has been the bane of Nigerian development process.

Enoife, Izvbigie & Usifo (2015) studied the impact of confidential privilege on forensic accountant in litigation services and were of the opinion that confidentiality of information influences forensic accountants effectiveness during litigation support services. Degboro & Olufinsola (2007) noted that an important challenge to the application of forensic accounting in financial fraud control in Nigeria is that the law is not always up to date with the latest advancements in technology. In their study on forensic accounting and financial fraud in Nigeria: An empirical approach using binomial test noted that there is significant agreement amongst stakeholders on the effectiveness of forensic accounting in fraud control, financial reporting and internal control quality. Akhidime & Uagbale-Ekatah (2014) in their exploratory study on the growing relevance of forensic accounting as a tool for combating fraud and corruption: The Nigeria Experience, noted that though the relevance of forensic accounting in unraveling complex official corruption is on the increase in Nigeria, despite the fact that the practice is largely considered to be at its infancy stage and lacking statutory support, it nevertheless has no significant impact on corruption, fraud and financial crime in Nigeria. Olukowade & Balogun (2015) in their theoretical research on the relevance of forensic accounting in the detection and prevention of fraud in Nigeria found out among others, that their services would assist audit committee members in carrying out their oversight functions by providing them assurances on internal audit report.

In their study effect of forensic accounting and litigation support on fraud detection of banks in Nigeria Bassey et al. (2017) they reveals that fraud has become a norm in Nigerian companies. Similarly, the study however shows that forensic accounting and litigation support does not have significant effect on fraud detection and this could be due to the fact that most of the fraud
cases in Nigerian companies don’t end up in court. Once fraud is discovered at the first phase no further forensic accounting technique is applied to establish facts that would be used as evidence in the court of law. Most companies and perpetrators of fraud in Nigeria prefer to settle out of court.

Notwithstanding, based on the available empirical studies conducted in the area of forensic accounting in Nigeria up to now there is no study on the determinants of forensic accounting procedures in fraud detection in Nigeria which is the bedrock of forensic accounting. Thus, this study has identified this lacuna in forensic accounting research especially in Nigerian context where very little research has been done on the subject matter.

2.5. Research Framework

A research framework is necessary to develop on how the relation between fraud detection and Forensic Accounting Application in Nigerian Firms.

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<th>Dependent variable</th>
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<tr>
<td>PF</td>
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<tr>
<td>TC</td>
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Figure 1: Research Framework

2.6. Underpinning Theories

The underpinning theories that are used in this study are policeman theory and the routine activity theory. These theories are frequently used in crime protection, detection and reduction as well as auditing and investigations. Ittonen (2010) explained that Policeman theory is always assumed that the forensic auditor is a policeman whose primary objective is to detect and prevent fraud so as to reduce the level of reported fraud incidences. While Felson and Clarke (1998) maintain that routine activity theory assume that fraud is an unavoidable incidence in business arena, thus, there must be a unison in time and space of a likely offender, a suitable target, and the absence of a competent sentry with functioning internal control mechanisms (PAPAMOSS) against fraud occurrence. Therefore, this assume that the existence of a fraudster and the need to employ the services of a forensic auditor to help identify red flags and build efficient and effective internal control mechanism for the organization to prevent fraud. This is inline with the study of Enofe, Omagbon & Ehigiator (2019).
3. DATA AND METHODOLOGY

The statistical analysis was performed using Structural Equation Modeling (SEM), a multivariate technique for data analysis that simultaneously estimates the structural model between latent variables and the measurement models of each latent variable [53]. Partial Least Squares (PLS) was chosen for this research because it is highly suitable for theory building and initial examinations of relationships between constructs. By contrast, other SEM-approaches are more appropriate to re-test previously identified relationships [21]. As this research is a first attempt to examine this research topic, PLS was considered suitable.

The regression model was as follows:

\[ Y_{FA} = \alpha_0 + \beta_1 LE_{it} + \beta_2 PE_{it} + \beta_3 TC_{it} + \varepsilon \]

Where;

- \( Y_{FA} \) = Forensic Accounting Application.
- \( Bt \) = Estimate value of the year.
- \( LE \) = Forensic Accounting Application via Legal Environment
- \( PE \) = Forensic Accounting Application via Political Environment.
- \( TC \) = Forensic Accounting Application via Technical Confidence.
- \( i \) = value of transaction through internet banking.
- \( t \) = Year.
- \( \varepsilon \) = Error term.

To find the value of \( \alpha \) and \( \beta \), the multivariate regression model was employed. The individual beta estimate reliability was then tested by the p-value in the ANOVA table.

The regression model’s significance was tested at 95% confidence interval and 5% level of significance.

4. EMPIRICAL RESULTS AND ANALYSIS

Data collected for the study was analyzed using Structural Equation Modeling (SEM) on Statistical Package for Social Sciences. Results of the data analyses are shown in the tables below:

Quality Criteria for Research Model
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<th>Item</th>
<th>Mean</th>
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**Table 4**

Discriminate Validity Assessment

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</tr>
<tr>
<td>PE</td>
<td>3.41</td>
<td>1.17</td>
<td>0.984</td>
<td>0.989</td>
<td>1.00</td>
<td></td>
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<tr>
<td>TC</td>
<td>3.59</td>
<td>1.11</td>
<td>0.983</td>
<td>0.978</td>
<td>0.984</td>
<td>1.00</td>
</tr>
</tbody>
</table>
### Table 4
Hypotheses Testing

| Construct | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | Standard Error (STERR) | T Statistics (|O/STERR|) | DECISIONS |
|-----------|---------------------|----------------|-----------------------------|------------------------|--------------------------|-----------|
| LE -> FA  | 0.382               | 0.377          | 0.095                       | 0.095                  | 4.015                    | ACCEPTED  |
| PE -> FA  | 0.205               | 0.214          | 0.096                       | 0.096                  | 2.137                    | ACCEPTED  |
| TC -> FA  | 0.407               | 0.404          | 0.069                       | 0.069                  | 5.898                    | ACCEPTED  |

5. **CONCLUSIONS AND RECOMMENDATIONS**

Based on the research findings, the study is hereby concludes that, Forensic Accounting Application is a better way to combat fraud in Nigeria. It will enhance Nigerian professionals’ success in their fight against fraud, corruption and other financial crimes.

5.4. Recommendation

In line with above the findings and conclusion of the study, our recommendations are as follows:

Forensic accounting application must not deviate from International Financial Reporting Standards (IFRS), National standards and professional pronouncements.

In political environment, governments from all levels should develop interest in forensic accounting and accountants for monitoring and investigation of suspected and confirmed corruption cases. Anti graft agencies should consider engaging the service of forensic accountants to assist them in court cases involving economic or financial crimes. Finally, governments must not use Anti graft agencies to satisfy their political aggrandizements.

For technical competence, accountants should acquired up-to-date training and skills in forensics to enable them carry out this investigative aspect amicably and be in a position to offer qualitative pieces of advices that could unravel those issues, which as mitigated quality assurance of financial statements. Similarly, forensic accountants should be employed to fortify the internal control mechanisms of various organizations. Practicing accountant should works towards specialization and possibly establish firm for forensic accounting practice only. Finally, Academia should emphasis skill development in the field of forensic accounting.

There is a scope for further studies.

5.5. Recommendation for further studies

Future studies should also carry out on potentials opportunities and challenge a bound for a forensic accountant in his role to fraud investigation.
Another study should be carried out on various sector of the economy.

REFERENCES


