

The Role of Forensic Investigation Professionals in the Prevention of Fraud and Corruption in Developing Countries

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Abstract

Fraud and corruption in developing countries is regarded as a way of life, norm in public service or a culture that cannot be wish away. Auditors concentrate of error detection and regards fraud and corruption as a secondary assignment in a given engagement. The primary role of Forensic Investigation Professionals (FIPs) or forensic accountants is to examine incidence of fraud in financial records. Auditors are fact witness, whereas Forensic investigation professionals or forensic accountants are expert witness not fact witness, they can testify in courts as expert witnesses for either the prosecution or the defense. This study evaluates the role of forensic investigation professionals in curbing the menace of fraud and corruption practice in developing countries using exploratory research design. Finding in the study point to the fact that forensic investigation professional plays a complimentary role to the government anti-fraud and anti-corruption agencies in strategies and policies to curb menace of corruption in the system. Also, finding shows that Forensic Investigation Professionals (FIPs) have significant role in curbing the menace of fraud and corruption in developing countries.

Key Words: Forensic Accounting, Forensic Investigation, fraud, corruption, anti-corruption

1. Introduction

Fraud and corruption in developing countries is regarded as a way of life, norm in public service or a culture that cannot be wish away. Corruption, according to Khan (2005) is the misuse of entrusted power for private benefit and includes; bribes, cronyism and nepotism, political donations, kickbacks and artificial pricing and fraud of all kinds.

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Corruption twin brother, fraud, according to American Institute of Certified Public Accountants (AICPA), is described as a broad legal concept that is distinguished from error depending on whether the action is intentional or unintentional. Fraud and corruption are subsets of forensic accounting. Forensic Investigation Professionals (FIPs) or forensic accountants are experts that integrate various skills such as accounting and auditing skills with investigative techniques and professional skepticism to detect, deter and prevent Fraud and Corruption (FAC) practice to unsettled issues, conducted within the context of the rules of evidence (Arokiasamy and Cristal, 2009; Mukoro, Yamusa, and Faboyede, 2013; Owolabi, Dada and Olaoye, 2013).

In examining the financial activities of a corporate body or a public entity, auditors are concerned about error and fraud detection is secondary to the term of engagement, whereas, the primary role of Forensic Investigation Professionals (FIPs) or forensic accountants is to examine incidence of fraud in financial records. Auditors are fact witness in investigation of error and fraud, and only testify on factual matter in fraud related cases. Investigations carried out by auditors are always limited to material fact and evidence obtained is not admissible in courts. Chariri (2009) asserts that as an investigator, a forensic accountant can be seen as those who are specialist in fraud detection, and particularly in documenting exactly the kind of evidence required for successful criminal prosecution; able to work in complex regulatory and litigation environments; and with reasonable accuracy, can reconstruct missing, destroyed, or deceptive accounting records.

Degboro and Olofinsola (2007) assert 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 (Moduguand Anyaduba, 2013). Forensic investigation professionals or forensic accountants, due to the nature of their training, are expert witness not fact witness, they can testify in courts as expert witnesses for either the prosecution or the defense. According to Mukoro et al (2013) forensic accounting is not limited to fraud detection but also assisting in litigations with the hope of recovering any losses, hence a forensic accountant assignment must be of such a quality that it can withstand scrutiny by attorneys, judges and juries. On the other hand a forensic accountant may be asked to calculate economic damages that occurred as a result of a breach of contractor provide insight into a case based on a claim of professional negligence (Mukoro et al, 2013). The focus of this study therefore is to evaluate the role of forensic investigation professionals in curbing the menace of fraud and corruption practice in developing countries.

2. Prior Research

The Association of Certified Fraud Examiners (ACFE) yearly produced important fraud studies tagged *Report to the Nations on Occupational Fraud and Abuse Global Fraud Study*³⁸. The 2012 study asks a group of 34,274 Certified Fraud Examiners to report on fraud through an online survey instrument. The analysis of the survey produced a fraud report based on the responses reviewing specific cases occurring and indicates a fraud metric approximately 5 percent of the revenues of an organization are subject to fraud. Going by the above fraud metric, a Cameroonian and Nigerian estimated federal revenue that is subjected to 5% fraud have adverse effect on the economic. However, the fraud metric in developing nations may be higher than this metric.

According to Bressler (2011), incidents of fraud can be noted in the media on a weekly if not daily basis. Fraud and corruption (FAC) practice is increasing unabated and affecting the socio economic well-being of a corrupt nation. Government efforts seems to have little or no significant effect in curbing the incidence of FAC, for instance, Nigeria's anti-corruption agency has made feeble attempts to clean up Nigerian mess. According to Mukoro et al. (2013) in 2005, anti-corruption agency has charged 19 former state governors with corruption, but none has gone to jail despite the charges. Recently, a former state governor, quarreled with the president and was sacked. The EFCC then said he had embezzled millions of dollars and promptly declared him a fugitive. Corruption, it seems, is only a problem when you fall from grace.

In a study, Owolabi et al (2013: 66) assert that with government committing huge sums to tackle the world's most pressing problems, from the instability of financial markets to climate change and poverty, corruption remains an obstacle to achieving much needed progress. Similarly, despite the establishment of anti-corruption agencies, cases of corrupt practices both in the public and private sectors appear to be on the increase and it seems difficult for anti-corruption agencies to successfully prosecute many of the alleged cases of fraud and embezzlement involving billions of naira by government functionaries, contractors, as well as private individuals and organizations. Many factors has been identified as responsible for the government inability to adequately fight FAC. Mukoro et al. (2013) identified weakness in auditing and reporting style and inadequate knowledge of forensic accounting practice as reason for FAC practice.

Also, there are, seemingly, inadequate competent professionals to handle cases of corruption as alluded to by Ribadu (2006) and the judicial system is slow leading to delay in the prosecution process. Ribadu (2011); Okoye (2006) identified the obstacles hindering the efficient application of forensic accounting to include the following; failure of law enforcement agencies in prosecuting offenders, constitutional constraint, attitude of defense lawyers in seeking for adjournments, inadequate of existing procedural laws, congestion and slow pace of court proceedings, jurisdiction problem and cost of investigation and prosecution. In other words, there is a weak legal framework which hinders the application of forensic accounting service in Nigeria.

Several instances of corporate scandals and failure in the recent past have put the professional accounting bodies into a new perception that goes beyond the traditional statutory audit (Okolie, 2014). There is need to respond to this changing criminal threat and the skills of non-traditional investigators like the accountant and legal experts are needed to combat the corporate ill, this has increased the quest for the services of the forensic accountant (Uche, 2009; Mojeed, 2007). In prior studies (Bressler, 2011; Mukoro et al. 2013; Owolabi et al. 2013), failure to prove FAC cases in court beyond reasonable doubts has contributed to rising cases of fraudulent activities in embezzling public fund. Engagement of Forensic Investigation Professionals (FIPs) as part of the team of prosecutors (Expert witness) helps to establish cases and obtain justice. Researchers specified specific areas of expertise forensic investigators should possess including investigative accounting, economic loss calculation, and business and intangible asset valuation (Rasmussen and Leauanae, 2004).

Forensic Investigation Professionals (FIPs) are experts that integrate various skills such as accounting and auditing skills with investigative techniques and professional skepticism to detect, deter and prevent Fraud and Corruption (FAC) practice to unsettled issues, conducted within the context of the rules of evidence (Arokiasamy and Cristal, 2009; Mukoro et al. 2013; Owolabi et al. 2013). Forensic Investigation Professionals (FIPs) according to Jordan (2006) assert that giving evidence in court deals with communicating information to individuals who often have limited experience and/or previous exposure to such testimony. Lichtman, (2009) stated that the forensic investigator“ makes the documents speak” and many times the documents themselves do not tell the whole story and that the fraud investigator must translate what the documentary evidence means.

Forensic accounting is different from the old debit and credit accounting as it provides an accounting analysis that is suitable to the organization in resolving any dispute that may arise in such firms (Okolie, 2014).

The first and most sophisticated way of carrying out the fraudulent activities in many organizations is through the accounting and financial records (Mukoro et al. 2013). It is a recognized fact that the management of Enron - the celebrated energy company in USA defrauded by her top management - used creative accounting to make the company look good and powerful on paper than it really was using special purpose subsidiaries that have a single purpose and that did not need to be included in Enron's balance sheet to hide risky investment activities and financial losses. However, forensic accounting helped subsequently to determine that many of Enron's recorded assets and profits were inflated, and in some cases, completely fraudulent and nonexistent. Some of the company's debts and losses were recorded in offshore entities, remaining absent from Enron's financial statements. (Folger, 2011)

To be successful as a FIP, one must be detail oriented, persistent, ambitious, highly organized, creativity among other attributes (Mukoro et al. 2013). The important of FIPs in any organization or institution in FAC detection, prevention and deterrence cannot be over-emphasized. American agency, the Federal Bureau of Investigation (FBI) lists the responsibilities of forensic accountants to include:

- Conducting thorough forensic financial analysis of business and personal records and developing financial profiles of individuals or groups identified as participating in suspicious or illegal activity;
- Participating in gathering evidence and preparing search warrants/affidavits associated with financial analysis;
- Accompanying case agents on interviews of subjects and key witnesses in secure and non-confrontational settings;
- Identifying and tracing funding sources and interrelated transactions;
- Compiling findings and conclusions into financial investigative reports; and
- Meeting with prosecuting attorneys to discuss strategies and other litigation support functions and testifying when needed as fact or expert witnesses in judicial proceedings.

The agency revealed that around 15 percent of agents employed by the bureau are forensic accountants' FBI, (2012). In essence therefore forensic accounting can be used to investigate and curb all manner of financial crimes and terrorism sponsorship (Mukoro et al. 2013). Business anti-corruption Portal (BACP) asserts that National Anti-Corruption Commission (CONAC) is the main anti-corruption agency in Cameroon. It has investigating capacities and has a mandate to gather and analyze allegations and information about corrupt practices. However, CONAC cannot freeze, seize or confiscate assets, nor does it have the power to refer cases to court or other disciplinary institutions.

This limitation makes employment of FIPs a mirage unlike Nigerian counterpart, the Economic and Financial Crime Commission (EFCC). In a related study, Owolabi et al. (2013), assert that it is evident that forensic accounting technique can go a long way in the investigation and detection of corrupt practices but because EFCC has not established a forensic accounting unit in carrying out its investigation, the result showed no evidence of embezzlement prevention by applying forensic accounting technique.

The study further point out that forensic accounting technique has not been adopted by EFCC in spite of the agreement by 98% of the respondents in EFCC and Professional Accounting firms that forensic accounting is needed to fight corruption in Nigeria. Currently, one of the big firms, KPMG, has been conducting training for the EFCC staff in the area of forensic accounting and investigation to enable them present reliable evidence for litigation support in cases of corruption. This has also increased the capacity of the staff of the commission to carry out forensic investigation to provide prosecutorial evidence to the courts handling such cases. Staff of the Commission also attends training courses abroad on the application of Forensic Accounting.

Kasum (2009) carried out a survey on the need for forensic accounting to fight corrupt practice in Nigeria and found out empirically that services of forensic accountants are required in both public and private sectors of Nigeria economy and their services are more required for corruption related issues.

3. Research Methodology

To analyze the role of forensic investigation professionals (FIPs) in curbing the menace of corruption practices in developing countries, exploratory research design was used in this study. The population is made up professional that are related to forensic accounting (such as auditors, lawyers, forensic accountants or investigators), accounting academic staff and anti-corruption agencies officials. on-probability sampling technique, specifically, the judgmental methods of sampling in selecting a sample size was used in the study. Both primary and secondary data collection methods were adopted. The questionnaires were designed to generate concise and precise answers from the respondents using well-structured Likert scale close-ended questions. The responses to the questionnaires were processed using electronic statistical package (SPSS) and Microsoft Excel to determine the effects on the variables under study. A total of 200 questionnaires were administered to the respondents, 167 were returned, (83.5% retrieval rate) which is a reasonable level upon which research can be based and valid conclusion drawn.

4. Discussion of Results/Findings

Findings from the field indicate that Forensic Investigation Professionals (FIPs) have significant role in curbing the menace of fraud and corruption in developing countries. Respondents were asked to give an honest opinion as to when they think anti-corruption agencies should engage forensic investigation professionals. From the findings in Table and Figure A below, approximately 59% of the respondents are of opinion that Forensic Investigation Professionals (FIPs) should be engaged immediately, and 3% have contrary opinion that there is no need to engagement FIPs in curbing fraud and corruption practice, since Police and other agency could be trusted for this assignment, however, 20% of respondents indicated that FIPs should be engaged within a year.

Table A: Engagement of FIPs			
		Frequency	Percent
Valid	Immediately	98	59%
	within a year time	34	20%
	within the next two years	21	13%
	within the next five years	9	5%
	No Need	5	3%
	Total	167	100%

Source: Field Survey, 2015

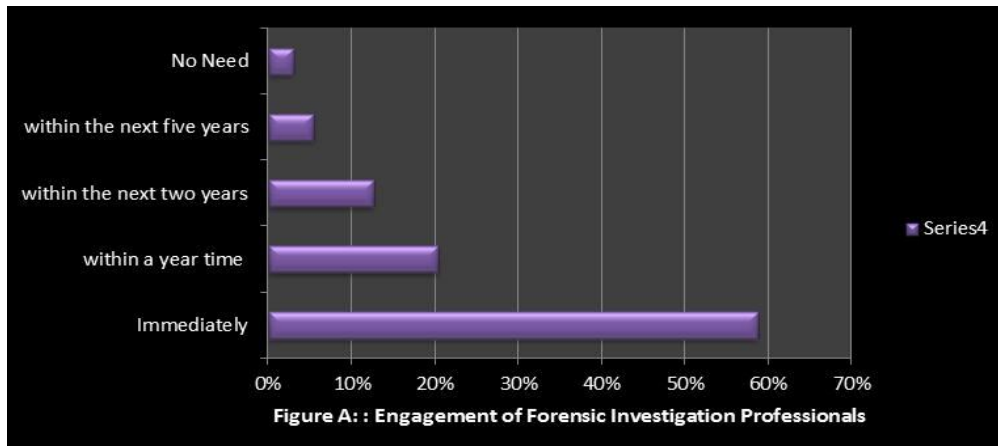


Table B below shows respondents level of agreement or otherwise with a notion that forensic investigation professionals has complimentary role to play with anti-corruption agencies in successfully curbing the menace of fraud and corruption.

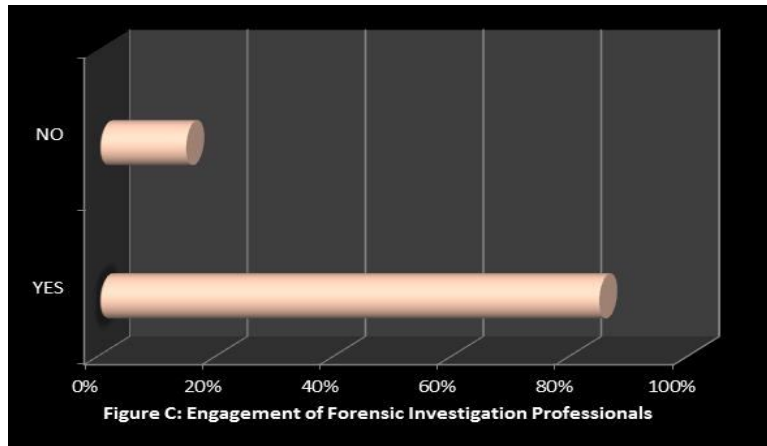
Finding in table B clearly indicate that 67% of the total respondents agreed with the assertion, whereas, 10% of the respondents strongly disagreed and 2% are undecided. This result further point to the fact that forensic investigation professional plays a complimentary role to the government anti-fraud and anti-corruption agencies in strategies and policies to curb menace of corruption in the system. Involvement of forensic investigation professional will go a long way in helping the government to achieve its objective of curbing the menace of Fraud and Corruption practice.

Table B:		Responses to Q2	
		Cameroon	
		Frequency	Percent
Valid	Strongly Agree	112	67%
	Agree	27	16%
	Undecided	3	2%
	Disagree	9	5%
	Strongly Disagree	16	10%
	Total	167	100%
<i>Source: Field Survey, 2015</i>			

From tables C, there is evidence that a significant and positive relationship exists between non-engagement of forensic investigation professionals' services and level of fraud and corruption prevention, detection and deterrence. The engagement of forensic investigation professionals has helped anti-corruption agencies worldwide in detecting, preventing and prosecuting fraud and corruption related cases.

Respondents in were asked to answer a simple YES or NO to a question that non-engagement of forensic investigation professionals have significant effect on the level of fraud and corruption prevention, detection and deterrence. Exactly 85% of respondents in agreed to the notion that anti-corruption agencies need the service of FIPs to curb fraud and corruption practice. This collaborated the findings of Kasum (2009) on the need for forensic accounting to fight corrupt practices in Nigeria and found out empirically that services of forensic accountants are required in both public and private sectors of Nigeria economy and their services are more required for corruption related issues. However, 15% of respondents answered NO to this notion, meaning that non-engagement of FIPs has no effect on fraud practices.

Table C: Engagment of FIPs and Level of Fraud			
		Frequenc	Percent
Valid	YES	142	85%
	NO	25	15%
	Total	167	100%
<i>Source: Field Survey, 2015</i>			



The summary of the result on the Pearson chi-square as depicted in table D revealed that there is a significant negative relationship between anti-corruption strategies and effect in curbing fraud and corruption. This result thus implies that anti-corruption will have significant effect on curbing FAC practice. Outcome from the Pearson chi-square based upon the responses of respondents on the perception of anti-corruption strategies. Putting into consideration the decision rule for Chi-square outcomes, the results as depicted in table D presents a Pearson chi-square value that is greater than 0.10 (i.e. $0.220 > 0.10$). This therefore implies that the null hypothesis is rejected and the alternate hypothesis is accepted which states that forensic investigation professionals is relevant to fraud detection, investigation and prosecution service..

Table D:**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20.000 ^a	16	.220
Likelihood Ratio	16.094	16	.446
N of Valid Cases	5		

a. 25 cells (100.0%) have expected count less than 5. The minimum expected count is .20.

Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	2.000	.220
	Cramer's V	1.000	.220
N of Valid Cases		5	

5. Conclusion

On the basis of this finding, the paper concludes that forensic investigation professionals can aid government to reduce the occurrence of fraud cases using forensic process. Forensic accounting provides an entity with the necessary tools to deter fraudulent activities but do not curb fraudulent activities. Finding in this study indicate that respondents were of the opinion that forensic investigation professionals can aid government anti-corruption fight, judging from Economic and Financial Crime Commission, Independent Corrupt Practice commission and other similar bodies engaging forensic investigation professionals either as a staff or consultant, and the result are well known.

Forensic investigation professionals (FIPs) play significant roles in the curbing of fraud and corruption in both the private and public sector. The following findings were made from this study:

- The relevance of the role of forensic investigation professionals is growing worldwide as crimes, fraud and corruption increase, FIPs aid in detection, prevention and reducing the menace.
- Forensic investigation professionals provide litigation support service and serve as expert witness not fact witness to either the prosecution or defense in the law courts.
- The traditional auditing concentrates on error and has limitation in detecting fraudulent practices, forensic investigation professionals primary concern is fraud detection. They have the professional ability back up by law to break into the organization system and examine the books, make discoveries and present the documentary evidences in the law courts.

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