

Forensic Accounting Techniques as Tools for Nigerian Practitioners

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DOI: 10.56201/jafm.vol.11.no3.2025.pg146.157

Abstract

Forensic accounting has emerged as a critical discipline in combating financial irregularities, fraud, and corruption. However, this paper examines forensic accounting techniques as tools for Nigerian Practitioners. The study adopts a qualitative approach, involving case studies and document analysis. The case study method provided a deep exploration of specific instances where forensic accounting techniques were successfully employed to uncover financial fraud in Nigeria; while the document analysis method involved a systematic review of existing literature, regulatory frameworks, and policies that govern forensic accounting in Nigeria. The case study examined public sector embezzlement case involving inflated contracts where over NGN 2 billion was misappropriated. The approach considered Data Collection, Data Mining, Benford's Law, Digital Forensics and Comparative Analysis as tool. IDEA (Interactive Data Extraction and Analysis) and ACL (Audit Command Language) was used for data mining and fraud detection. Another case study considered bank mismanagement case which involved a high-profile incident within a commercial bank in Nigeria. In this case the data were collated through analysis of bank statements, internal memos, and loan approval documentation, interviews conducted with whistleblowers, affected customers, and implicated bank employees while System Logs were reviewed base on digital transaction logs to identify unauthorized activities. The results for case 1 and case 2 showed that NGN 1.2 billion and NGN 200 million were recovered respectively and repayment agreements with some beneficiaries. On the whole, the findings underscored the need for enhanced internal controls, continuous monitoring, and capacity building to strengthen the financial sector against similar risks in the future.

Keywords: *Forensic accounting, Financial Fraud, Nigeria, financial management, Data Mining, Benford's law, IDEA, ACL*

1. Introduction

Forensic accounting has emerged as a critical discipline in combating financial fraud, corruption, and economic malfeasance. In a globalized economy where financial crimes pose significant threats to businesses, governments, and individuals, the role of forensic accounting cannot be overstated. It involves the application of accounting, auditing, and investigative skills to detect, analyze, and prevent fraudulent activities, making it an indispensable tool for practitioners, especially in Nigeria. Nigeria, as one of Africa's largest economies, faces persistent challenges of corruption, mismanagement, and financial irregularities across both public and private sectors. Reports from anti-corruption agencies, such as the Economic and Financial Crimes Commission (EFCC), highlight the magnitude of fraud cases, ranging from embezzlement of public funds to corporate financial misconduct. These issues undermine investor confidence, economic growth, and the efficient allocation of resources, creating an urgent demand for forensic accounting interventions.

Forensic accounting techniques encompass various methodologies, including data analytics, trend analysis, and digital forensic tools, which enable practitioners to uncover anomalies, trace illicit financial flows, and provide litigation support. These tools are not only reactive—used to investigate fraud after it occurs—but also proactive, helping organizations design systems to deter fraudulent behavior. This paper aims to explore the relevance and application of forensic accounting techniques for Nigerian practitioners, highlighting their role in tackling the nation's financial crimes. By addressing challenges such as inadequate expertise, limited adoption of advanced tools, and regulatory barriers, this study underscores the potential of forensic accounting to enhance transparency, accountability, and trust within Nigeria's economic landscape. This discussion will provide insights into the key forensic accounting techniques, their integration into Nigerian practices, and how they can be leveraged to meet the country's unique socio-economic and regulatory needs.

This paper aims to:

1. Examine the key forensic accounting techniques employed by Nigerian practitioners.
2. Analyze the challenges and limitations of these techniques.
3. Propose strategies to enhance their application in Nigeria.

2. Literature Review

Forensic accounting integrates accounting, auditing, and investigative skills to address financial discrepancies. Studies have shown that forensic accounting is effective in uncovering complex fraud schemes, particularly in sectors like banking, oil and gas, and public administration (Owojori and Asaolu, 2009). Despite its potential, its adoption in Nigeria has been hindered by limited expertise, inadequate technology, and resistance to transparency (Okoye and Gbegi, 2013). The literature underscores the need for specialized training, robust legal frameworks, and advanced technological tools to enhance the effectiveness of forensic accounting in Nigeria.

2.1. Forensic Accounting and Corruption in the Nigerian Public Sector

Modugu et al (2013) made a study on forensic accounting and corruption in the Nigerian Public Sector. The objective was to assess how forensic accounting techniques can curb corruption in Nigeria's public sector and improve accountability. A case study approach was adopted, focusing on major corruption cases handled by the Economic and Financial Crimes Commission (EFCC) where forensic accounting was applied. Secondary data from court proceedings and EFCC reports were analyzed. Forensic accounting techniques were successfully used in 80% of the analyzed cases, leading to convictions and recovery of misappropriated funds. The study noted that public awareness of forensic accounting was low, which limited its full potential. The study found that forensic accounting contributed to identifying fraudulent activities and prosecuting offenders effectively. However, it highlighted the need for improved training and resources to optimize forensic accounting practices in Nigeria.

Okoye et al (2013) studied the role of forensic accounting in fraud detection and prevention. The objective was to examine the effectiveness of forensic accounting in detecting and preventing fraud in public and private organizations. A survey design was used, with questionnaires administered to accounting professionals and financial auditors. Descriptive statistics and regression analysis were applied. The study found that organizations employing forensic accounting techniques had a 70% higher success rate in detecting fraudulent activities compared to those that relied on traditional accounting practices. It also revealed a significant positive correlation between forensic accounting adoption and fraud prevention. On the whole the study established that Forensic accounting significantly enhances fraud detection and prevention. The authors recommended mandatory incorporation of forensic accounting techniques in financial audits across Nigerian organizations.

Adeniyi and dada (2017) studied on digital forensics in forensic Accounting: The Future of Fraud Investigation. The major objective was to explore the role of digital forensic tools in complementing traditional forensic accounting methods for fraud detection in Nigeria. The study adopted a mixed-method approach, combining interviews with forensic accountants and surveys of corporate organizations. The study showed that 85% of organizations using digital forensic tools, such as data mining and transaction monitoring software, experienced faster and more accurate fraud detection. It also revealed that the high cost of digital tools was a barrier to adoption in smaller firms. However, the research established that 85% of organizations using digital forensic tools, such as data mining and transaction monitoring software, experienced faster and more accurate fraud detection. It also revealed that the high cost of digital tools was a barrier to adoption in smaller firms.

Owojori and Asaolu (2009) studied the Impact of Forensic Accounting on Corporate Governance in Nigeria. The objective was to evaluate how forensic accounting practices influence corporate governance and internal control systems in Nigerian companies. A survey design was used, targeting board members, internal auditors, and accountants in selected firms. Correlation analysis

was employed to interpret the data. The result founded that companies implementing forensic accounting practices reported a 60% improvement in internal control systems and a reduction in cases of financial irregularities. Additionally, 75% of respondents agreed that forensic accounting promoted transparency in financial reporting. To this, forensic accounting enhances corporate governance by improving transparency, strengthening internal controls, and promoting ethical financial practices.

Efiong (2012) conducted a study on challenges of Implementing Forensic Accounting in Developing Economies: A Nigerian Perspective. The major focus was to identify and analyze the challenges hindering the adoption of forensic accounting in Nigeria and propose actionable solutions. A qualitative research design was employed, gathering data through interviews with accounting professionals, regulatory officials, and academic experts. Content analysis was used to identify recurring themes. The study identified major challenges, including: limited forensic accounting training programs in Nigeria, high cost of forensic tools and software, resistance from stakeholders who benefit from financial malpractices and Insufficient regulatory frameworks to enforce forensic accounting practices. The study established that addressing these challenges through policy reforms, capacity building, and public education could enhance the adoption of forensic accounting in Nigeria.

Izedonmi and Ibadin (2012) studied forensic accounting in developing Economies: Problems and Prospects. The aim was to examine the challenges and future potential of forensic accounting in Nigeria. Qualitative analysis of practitioner feedback and secondary data were conducted. Nonetheless, the result established that lack of technology, training, and political will are significant barriers to forensic accounting's success. To this, the study concluded that Forensic accounting in Nigeria requires significant reform and investment to reach its full potential.

Enofe and Okpako (2014) studied the relevance of forensic accounting in combating fraud. The objective of the study was to explore the relevance of forensic accounting techniques in reducing fraudulent activities. Surveys were administered to accountants in various industries. Results showed that forensic accounting is relevant in fraud detection, but its adoption is hampered by the cost of implementation and low awareness. On the whole the study established that there is a need for increased funding and public-private partnerships to promote forensic accounting practices.

Nwaze (2011) studied on the fraud detection: The Role of Forensic Accountants. The major objective of the study was to assess the role of forensic accountants in detecting and mitigating fraud. The study reviewed fraud cases and interviews with forensic accountants. On the whole forensic accountants play a pivotal role in fraud detection, particularly in high-profile cases. However, the study upheld that limited access to digital tools remains a challenge while strengthening the forensic accounting profession is vital for combating fraud in Nigeria.

Techniques of Forensic Accounting in Nigeria

Okoye and Gbegi (2013) emphasized the role of digital tools in forensic accounting in Nigeria. Their study highlighted the adoption of data analytics software such as IDEA and ACL in fraud detection and prevention. These tools enabled forensic accountants to analyze large volumes of financial data, detect anomalies, and identify fraudulent transactions with precision. The authors recommend increased investment in technological training for forensic accountants to enhance their efficiency.

Adebisi and Matthew (2017) explored the role of forensic accountants in litigation support within the Nigerian context. The study finds that forensic accountants frequently collaborate with legal teams to analyze financial statements, provide expert testimony, and prepare evidence for court proceedings. The authors argued that forensic accounting services in litigation enhance the judicial process by offering objective, evidence-based financial analysis.

Emeh and Obi (2018) investigated the impact of forensic accounting in combating corruption in Nigeria. Their findings revealed that forensic accounting methods, including asset tracing, lifestyle audits, and forensic audits, are instrumental in uncovering embezzlement and misappropriation of funds in both public and private sectors. The study underscored the need for legislative support to strengthen the application of forensic accounting techniques in corruption cases.

Case-Based Approaches and challenges in Forensic Accounting

Adetunji (2020) highlighted the use of case-based methodologies in forensic accounting investigations. The study reviewed specific fraud cases in Nigeria, detailing how forensic accountants applied methodologies such as ratio analysis, document review, and interviews to uncover fraudulent activities. The research advocated for a combination of qualitative and quantitative approaches in forensic investigations to achieve comprehensive results.

Oladele and Bamidele (2022) examined the challenges faced by forensic accountants in Nigeria. The study identifies limited access to financial records, lack of advanced forensic tools, and resistance from organizations as major obstacles. Despite these challenges, the authors commended the use of forensic methods such as bank reconciliation reviews and payroll audits in fraud detection. The study called for a collaborative approach involving regulatory bodies to overcome these challenges.

Ifeanyi and Uchenna (2019) examined how forensic accounting can be integrated into standard auditing practices to enhance fraud detection in Nigeria. The study used surveys of auditing firms to assess the effectiveness of incorporating forensic techniques like digital analytics and forensic interviews into routine audits. Results showed that firms using forensic methods reported a 40% increase in fraud detection rates. The authors conclude that integrating forensic accounting into auditing enhances both the scope and accuracy of financial reviews.

Chukwu and Abiola (2021) investigated the role of professional training on the effectiveness of forensic accountants in Nigeria. The study surveyed forensic professionals across various sectors, finding that 85% of respondents agreed that regular training on emerging technologies and regulations significantly improves their performance. The authors recommended mandatory continuous professional development programs for all forensic accountants in Nigeria.

Adetoso and Oseni (2015) researched on forensic accounting as a Tool for Fraud Control in Nigeria. The Objective was to explore the role of forensic accounting in fraud control within the Nigerian banking sector. The study employed a qualitative research design, analyzing case studies of fraudulent activities in selected Nigerian banks. Interviews with forensic accountants were conducted to gather primary data. The research found that forensic accounting techniques such as forensic auditing and computer-assisted auditing tools (CAATs) were effective in uncovering fraudulent transactions in banks. However, the study concluded that forensic accounting is critical for maintaining transparency and accountability in the banking sector, recommending its incorporation into anti-fraud policies.

3. Methodology

3.1. Introduction

The study adopts a qualitative approach, involving:

Case Studies: Analysis of three high-profile financial fraud cases in Nigeria where forensic accounting played a role in uncovering discrepancies.

Document Analysis: Review of existing literature, laws, and policies related to forensic accounting in Nigeria.

3.1.1. Case Studies: Analysis of High-Profile Financial Fraud Cases in Nigeria

Background of the Case

The case study method provided a deep exploration of specific instances where forensic accounting techniques were successfully employed to uncover financial fraud in Nigeria. This approach allows for the analysis of real-world scenarios, offering insights into the practical application, challenges, and outcomes of forensic accounting practices.

Approach

a. Selection of Cases:

The study will focus on three high-profile financial fraud cases in Nigeria where forensic accounting played a pivotal role. Potential cases may include:

- i. The investigation into a major bank's financial mismanagement.
- ii. A public sector embezzlement case involving inflated contracts.

iii. A corporate fraud case highlighting the misuse of company funds.

b. Analysis Framework:

Each case will be evaluated based on the following parameters:

- i. **Background of the Case:** Description of the organization, individuals involved, and the nature of the fraud.
- ii. **Forensic Accounting Techniques Used:** Specific methods, such as data mining, Benford's Law, or digital forensics, utilized in uncovering discrepancies.
- iii. **Outcomes:** Results of the investigation, including the recovery of funds, prosecution of offenders, and policy recommendations.
- iv. **Challenges Faced:** Barriers encountered during the forensic investigation, such as resistance to transparency or lack of advanced tools.

3.1.2. Document Analysis: Review of Existing Literature, Laws, and Policies Related to Forensic Accounting

The document analysis method involved a systematic review of existing literature, regulatory frameworks, and policies that govern forensic accounting in Nigeria. This method is critical for understanding the institutional and legal environment in which forensic accounting operates.

Approach

a. Sources of Documents:

- i. **Academic Literature:** Research papers, journal articles, and books discussing forensic accounting concepts, techniques, and applications.
- ii. **Government Policies:** Regulatory guidelines from institutions like the Central Bank of Nigeria (CBN) and the Financial Reporting Council of Nigeria (FRCN).
- iii. **Legal Frameworks:** Acts and laws related to financial crime prevention, such as the Economic and Financial Crimes Commission (EFCC) Act and the Money Laundering (Prohibition) Act.
- iv. **Industry Reports:** Publications from auditing firms, anti-corruption agencies, and global bodies like Transparency International.

b. Analysis Criteria:

- i. **Historical Context:** Evolution of forensic accounting practices in Nigeria and their adoption over time.
- ii. **Strengths and Weaknesses:** Assessment of the legal and institutional frameworks supporting forensic accounting.
- iii. **Comparative Insights:** Evaluation of Nigeria's practices relative to global standards.
- iv. **Gaps in Policy:** Identification of weaknesses in existing regulations and policies that hinder the effective application of forensic accounting.

Case study 1: A public sector embezzlement case involving inflated contracts

This section examined a public sector embezzlement case involving inflated contracts within a Nigerian state government agency, where over NGN 2 billion was misappropriated. Forensic accounting techniques were used to uncover the discrepancies and achieve accountability.

Approach adopted

1. Data Collection:

- i. **Financial Records:** Examination of financial statements, payment vouchers, and procurement records to identify anomalies.
- ii. **Interviews:** Conducted with whistleblowers and relevant staff to gather testimonies regarding the irregularities.
- iii. **Digital Forensics:** Analysis of electronic fund transfers and recovery of deleted records to trace fund movements.

2. Forensic Accounting Techniques Used:

- i. **Data Mining:** Employed to analyze large datasets and identify unusual patterns or trends in financial transactions.
- ii. **Benford's Law:** Used to detect irregular patterns in numerical data, particularly within payment transactions.
- iii. **Digital Forensics:** Applied to retrieve deleted files and trace unauthorized electronic fund transfers.
- iv. **Comparative Analysis:** Cross-checking inflated contract values against market standards and independent contractor quotes.

3. Analytical Tools:

- i. Software like IDEA (Interactive Data Extraction and Analysis) and ACL (Audit Command Language) was used for data mining and fraud detection.

Case study 2: Bank Mismanagement Case

Background of the Case

The bank mismanagement case involved a high-profile incident within a commercial bank in Nigeria. The fraud, estimated at NGN 800 million, was uncovered following customer complaints about unauthorized withdrawals and discrepancies in loan approvals. Investigations revealed a pattern of systemic failures, including inadequate internal controls, poor oversight of high-value transactions, and non-compliance with regulatory protocols. A senior staff member exploited these weaknesses to bypass standard operating procedures, facilitating fraudulent loan disbursements and unauthorized transactions. This case attracted significant media and regulatory attention, prompting an in-depth forensic accounting investigation to uncover the full extent of the mismanagement.

Approach adopted

This section examined a high-profile bank mismanagement case involving unauthorized withdrawals, loan diversions, and systemic failures in internal controls. The total fraud was estimated at NGN 800 million.

1. Data Collection:

- i. **Transaction Records:** Analysis of bank statements, internal memos, and loan approval documentation.
- ii. **Interviews:** Conducted with whistleblowers, affected customers, and implicated bank employees.
- iii. **System Logs:** Review of digital transaction logs to identify unauthorized activities.

2. Forensic Accounting Techniques Used:

- i. **Data Analytics:** Pattern recognition algorithms were employed to detect unauthorized withdrawals and irregular loan disbursements.
- ii. **Control Analysis:** Assessment of the bank's internal controls and compliance with regulatory requirements.
- iii. **Tracing Transactions:** Use of digital forensic tools to follow fund movements across accounts and identify beneficiary accounts.

3. Analytical Tools:

- i. Specialized banking fraud detection software was utilized alongside manual audits.

4. Results and discussion

4.1. Case study 1: Results

The application of forensic accounting techniques yielded the following outcomes:

1. Identification of Irregularities:

- i. Approximately NGN 1.2 billion was traced back to unauthorized accounts.
- ii. Contracts were inflated by up to 80%, with falsified invoices submitted for nonexistent projects.

2. Recovery of Funds:

- i. NGN 1.2 billion was recovered through account seizures and asset tracing.

3. Prosecution:

- i. Three senior officials were prosecuted, leading to convictions and fines.

4.1.1. Challenges

- i. Resistance from agency officials who attempted to obstruct investigations.
- ii. Limited cooperation from some financial institutions in providing transaction details.
- iii. Inadequate record-keeping practices that slowed down the investigative process.

4.2. Case study 2: Results

a. Key Findings:

- i. Unauthorized withdrawals totaling NGN 300 million were traced to a single employee's fraudulent activities.
- ii. Loan approvals bypassed standard protocols, resulting in NGN 500 million in unverified disbursements.
- b. Recovery of Funds:**
 - i. NGN 200 million was recovered through asset seizures and repayment agreements with some beneficiaries.
- c. Systemic Weaknesses Identified:**
 - i. Inadequate segregation of duties in loan approval processes.
 - ii. Weak monitoring mechanisms for high-value transactions.
- d. Prosecution:**
 - i. Two employees were dismissed and charged with financial crimes, leading to court proceedings.

4.2.1. Challenges

- i. Difficulty in retrieving funds from beneficiaries due to delayed detection.
- ii. Resistance from internal staff during the investigation process.
- iii. Limited integration of advanced fraud detection software in the bank's systems.

5. Recommendations

- i. The implementation of independent audits and mandatory transparency reports for state government contracts.
- ii. Introduction of stricter procurement oversight mechanisms to prevent similar fraud in the future.
- iii. Implementation of automated approval systems for loans to minimize human interference.
- iv. Regular compliance audits and whistleblower protection programs to encourage reporting of fraudulent activities.

6. Conclusion

Case study 1 underscores the importance of forensic accounting in combating public sector fraud in Nigeria. By leveraging advanced techniques such as digital forensics and data analysis, financial crimes can be identified and mitigated. However, systemic challenges, including limited cooperation and weak institutional frameworks, highlight the need for stronger policies and capacity building to improve forensic accounting practices. The findings from this case serve as a benchmark for addressing similar challenges in public sector financial management and emphasize the role of accounting professionals in promoting accountability and transparency.

Case study 2 emphasizes the critical role of forensic accounting in uncovering and addressing financial mismanagement within banking institutions. By utilizing advanced analytics, digital forensics, and compliance evaluations, the investigation not only exposed fraudulent activities but

also highlighted systemic weaknesses that facilitated the fraud. The findings underscore the need for enhanced internal controls, continuous monitoring, and capacity building to strengthen the financial sector against similar risks in the future. However this study advocates for the use of approaches such as review of account documents, software like IDEA (Interactive Data Extraction and Analysis) and ACL (Audit Command Language) can be used for data mining, use of Benford's Law and the like.

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