ADOPTION OF FORENSIC ACCOUNTING IN FRAUD DETECTION PROCESS BY ANTI-CORRUPTION AGENCY: A CONCEPTUAL FRAMEWORK

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ABSTRACT

Global incidences of fraudulent practices have led to the collapse of major businesses, public institutions and governments. Fighting corruption requires the investigation, detection and prevention of frauds. Advancement in fraud detection process includes the use of forensic accounting and empirical studies reported its effectiveness in fraud detection process. However, there seems to be low adoption rate of forensic accounting by organization including anti-corruption agencies (ACAs). This study reviewed the literature to identify the probable factors that influence organization’s decision to adopt forensic accounting in fraud detection process and proposed a framework for an in-depth investigation into possible factors influencing Economic and financial Crimes Commission’s adoption of forensic accounting in Nigeria. In so doing, possible policy and academic implications will emerge which form the basis for implementation and further study.

Keywords: Anti-corruption, EFCC, fraud, forensic, innovation

INTRODUCTION

Organizational adoption of innovation has been studied by several authors (Damanpour, 1987; Dewar & Dutton, 1986; Frambach, Barkema, Nooteboom, & Wadel, 1989; Walker, 2008). According to these studies, innovation has been conceived as new idea, process, technique, product or methods that are adopted by organization for survival and performance. Basically, organizational adoption of new techniques or ideas is influenced by the characteristics of organization’s top management, the characteristics of the adopting organization and the environmental characteristics (Damanpour & Schneider, 2009; Damanpour, Szabat, & Evan, 1989; Kimberly & Evanisko, 1981).

Public sector organizations, especially anti-corruption agencies are characterized by government funding, pressure to accomplish government policies, and the need for investigative skills in line with best practices and global trend (Ampratwum, 2008; Doig, Watt, & Williams, 2005; Quah, 2009). Specifically, the effectiveness of ACAs depend to a larger extent on their investigative capacity including the adoption of modern fraud detection process (Choi, 2009; Persson, Rothstein, & Teorell, 2013).

Previous studies have revealed that forensic accounting is an effective fraud detection tools used by organizations (Bierstaker, Brody, & Pacini, 2006). Accordingly, Muthusamy (2011)
argued that the escalating growth in fraudulent practices can be averted by adopting forensic accounting. Similarly, Dada, Owolabi, and Okwu, (2013), Enofe, Okpako and Atube (2013) and Owolabi, Dada and Olaoye (2013) all reported the effectiveness of forensic accounting in fraud detection in Nigeria.

However, as observed by Bierstaker et al., (2006) and Muthusamy (2011) organizational use of forensic accounting indicates underutilization of the tools despite its effectiveness in fraud detection process. Likewise, studies have recommended the adoption of forensic accounting by ACAs in Nigeria especially the Economic and Financial Crimes Commission (EFCC) (Augustine & Uagbale-Ekatah, 2014; Dada, 2014; Kasum, 2009).

Consequently, this study aims to review the literature on the organization adoption of forensic accounting and to propose a framework for an in-depth investigation into the factors influencing organizational decisions to adopt forensic accounting by ACAs in Nigeria. To achieve this objective, this paper is sectioned into four parts. The next section will review the literature on adoption of innovation, anti-corruption agencies and forensic accounting. Section three, proposes the framework and conclusion is made in section four.

CONCEPTUAL OVERVIEW

Innovation has been argued to be complex a phenomenon largely due to the multiple perspectives in which it is studied (Damanpour & Schneider, 2009). At a general level, innovation has been seen as the source of organizational change and effectiveness and described as the development and use of new ideas (Damanpour & Wischnevsky, 2006; Damanpour, 2014). According to Damanpour and Schneider (2009), innovation may pertain to a product, technology, system, or process. Likewise, innovation has been classified into administrative, technological and ancillary (Damanpour, 1987), radical and incremental (Dewar & Dutton, 1986). Although there exist other forms, technical and administration innovations dominate the literature.

Administrative innovation is that new idea or change that occurs in the administrative component of an organization affecting rules, procedures and structures (Damanpour et al., 1989) and includes the introduction of new management system and staff development (Kimberly & Evanisko, 1981). On the other hand, technological innovation occurs in the operational activities of the organization and affects technical system of an organization. As argued by Damanpour et al. (1989), technical innovation takes the form of equipment and methods of operations.

The operations of anti-corruption agencies include the investigation, prevention and detection of allegation of fraud in an organization (Ampratwum, 2008; Gregory, 2015; Quah, 2015). These requires the adoption of advance fraud detection techniques (Koh, Arokiasamy, Lee, & Suat, 2009; Muthusamy, Quaddus, & Evans, 2010). Previous studies have enumerated a number of fraud detection techniques. These include data mining, auditing and forensic accounting (Kirkos, Spathis, & Manolopoulos, 2007; Pamukc, 2012; Sharma & Kumar Panigrahi, 2012).

The concept forensic accounting evolved from the need to properly, prevent, detect, investigate and prosecute fraudulent activities (Prabowo, 2013; Tommie, Aaron J., Jack,

Forensic accounting is defined as the use of accounting, auditing and investigative skills used in fraud detection and expert witness in court of law (Albrecht, Albrecht, Albrecht, &Zimbelman, 2012; Pamukc, 2012; Rezaee, Lo, & Ha, 2014). In the same view, Gottschalk (2011) defined forensic accounting as a process of identifying, extracting, reporting, and verifying past financial data. Therefore, this study acknowledges that forensic accounting is the application of specialized knowledge of accounting, auditing and legal skills in the identification, detection, prevention and prosecution of financial crimes.

International law enforcement agencies like the FBI have acknowledged the relevance of forensic accounting in fraud detection process. According to information available on the FBI’s webpage, forensic accountants are responsible for a number of activities including but not limited to the following(FBI, 2012):

- Conducting financial analysis of individuals and corporate organization with the aim of profiling individuals identified in illegal activity
- Actively, partaking in evidence gathering and preparing warrants in association to financial analysis
- Being part of interrogation process such as interview of suspect and key witness
- Involvement in the identification and tracking of fund sources and other related financial transactions
- Preparing investigation reports related to financial transactions and
- Conducting meetings to discuss strategies with attorneys and providing experts witnessing.

Previous studies have reported the increasing demand for forensic accounting services primarily because it is concerned with the detection and prevention of financial fraud and related economic crimes (Dhar&Sarkar, 2010). Additionally, forensic accountants are usually engaged in finding where funds went, how it got there, and who was responsible. They are generally engaged in the investigation and the analysis of financial evidence, assisting in presenting and communicating findings for legal proceeding and expert testimony (Dhar&Sarkar, 2010).

Despite the effectiveness of forensic accounting in fraud detection, previous studies have depicted non-adoption of the service by EFCC in Nigeria (Dada, 2014; Dickson, Ogijo, & Samuel, 2013; Owolabi et al., 2013). Although similar studies have tried to assess the factors behind non-adoption of the service by large companies in Malaysia (Muthusamy et al., 2010; Muthusamy, 2011), among accountants, auditors and fraud examiners (Bierstaker et al., 2006), none of the studies have come up with the factors that influence the adoption of forensic accounting, especially in the Nigerian public sector.
Owing to the limitation of studies on organizational adoption of forensic accounting, related studies on adoption of innovation have demonstrated the influence of environmental characteristics, the characteristics of the organization and top management on organizational adoption decisions (Hameed, Counsell, & Swift, 2012; Maelah & Ibrahim, 2007).

ACAs like any other organization emerged from the environment in which it exist and interact with the environment for input and service delivery. Existence of competition between organizations encourages the adoption of new ideas or methods to enhance organizational performance (Kimberly & Evanisko, 1981). Accordingly, Damanpour and Schneider (2006) argued that the environment provides resources and poses obstacles to organizational performance. In essence, adoption of forensic accounting may be influenced by environmental characteristics such as availability of resources and external pressures. ACAs were found to be influenced by government policies, political pressures and inadequacy of funds (Doig, Watt, & Williams, 2007). Thus, this study proposes that inadequacy of human and financial may contribute to the decision to adopt forensic accounting by the EFCC.

Furthermore, organizational structures were found to influence organizational decision making processes (Wisdom, Chor, Hoagwood, & Horwitz, 2014). Kimberly and Evanisko (1981) reported the significant influence of organizational factors on adoption Electronic Data Process (EDP) in hospitals. Accordingly, centralization, specialization, differentiation, professionalism and organizational size were among the organizational factors identified by previous studies (Chor, Wisdom, Olin, Hoagwood, & Horwitz, 2015; Kimberly & Evanisko, 1981). Similarly, organizational slack, complexity, external communication and economic health were found to significantly influence the organizational adoption decision (Damanpour, 1991). Going by the findings on the influences of organizational factors on adoption of new ideas, the current study proposes that the EFCC’s decision to adopt forensic accounting will be influenced by organizational size and complexity, specialization and professionalism, availability of slack resources and external communication with similar agencies.

Daft (1978) argued that there is evidence that top management have impact on organizational adoption decision. However, the study argued that the precise role of organizational leader was unclear. However, Damanpour and Schneider (2009) emphasized that as organizational leaders, top management influence employee motivation, job satisfaction and encourage creativity. Consequently, the characteristics of organizational leader were found to significantly influence the adoption of new ideas (Damanpour & Schneider, 2009). Studies have aligned top managers’ age, job tenure, educational background, involvement in policy making and attitude as the predictors of organizational performance and strategic decisions (Damanpour & Schneider, 2009; Hambrick, 2007; Kimberly & Evanisko, 1981). Subsequently, the decision to adopt forensic accounting in fraud detection process may be influenced by the age, tenure, educational background and/or attitude of EFCC’s individual leaders.
PROPOSED CONCEPTUAL FRAMEWORK

Government’s creation of the EFCC to fight economic and financial crime was lauded by various reports (Economic Commission for Africa, 2010; Human Right Watch, 2011; United State Department of International Affairs, 2012) and research findings (Ayodele, 2014; Obuah, 2010; Raimi, Suara, & Fadipe, 2013) largely due the efforts advanced against white collar crimes in Nigeria.

Despite this imprints by the EFCC, the literature suggests that the EFCC has not been able to reduce the perceived level of corruption in Nigeria (Aluko & Bagheri, 2012; Human Right Watch, 2011; Shehu, 2015; Sowunmi, Adesola, & Salako, 2010). The argument advance for the ineffectiveness of the EFCC was largely on the absence of political will and incompetence on part of the EFCC (Shehu, 2015). Consequently, studies have recommended the adoption of forensic accounting by the EFCC (Dada, 2014; Owolabi et al., 2013).

Given the limited empirical studies on the adoption of forensic accounting, the current paper proposes that contextual factors, organizational characteristics and individual top management background characteristics influence the adoption of forensic accounting in fraud detection. Figure 1 shows the proposed framework.

![Proposed Conceptual Framework for Adoption of Forensic Accounting by EFCC](image)

As can be observed in figure 1, three fundamental factors seem to influence the adoption of forensic accounting in fraud detection by the EFCC. Environment is proposed to influence both organizational and individual characteristics. This is because organizations response to environmental changes and adapt to the changes created by the environment. Similarly, individual attitude and background characteristics are products of environmental changes and factors.

In analogy, the environment in which the EFCC operates may influence the organizational decision process which are carried by top management and consequently influence the adoption of forensic accounting by the EFCC. However, these propositions is subject to empirical findings and therefore the study proposes an in-depth research approach through multiple data sources so as to allow participants views and opinion rather than being subjected to pre-coded research instruments (questionnaire and hypothesis) or a mixed method approach.
CONCLUSION

It is apparent that the growing trend and the discoveries of economic and financial crimes in Nigeria require a proactive measure on the part of the Anti-Corruption Agencies (ACAs) especially the Economic and Financial Crimes Commission (EFCC). Adopting forensic accounting in fraud detection process will enhance the effectiveness of the EFCC in the war against corrupt practices in Nigeria. Therefore investigating the factors influencing the adoption of forensic accounting by the EFCC becomes handy as several studies have recommended the adoption of the tool in fraud detection process.

The context in the EFCC resides plays a significant influence on the opportunity and constraints in achieving organizational objective. Hence, an in-depth study of the environmental antecedents on organizational adoption of forensic accounting is necessary especially in Nigeria. Changes in the environment affects organizational decision and performance leading to need for structural adjustment, staff requirement and associated changes in organizational set up. In analogy, adopting forensic accounting may be a function of organizational current condition as posed by size, structure and resources. Although the environment determine the organizational direction, top management make the strategic decisions and these have been associated with their individual background characteristics as found in other study on organizational decision making process.

In conclusion, this study proposes and in-depth study using multiple data source to describe the influences of environmental factors, organizational characteristics, individual background characteristics and any other identifiable factor on the EFCC’s decision to adopt forensic accounting in fraud detection process. It is therefore suggested a case study approach provided the need strategies to achieve this objective.

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