FORENSIC ACCOUNTING AND MONEY LAUNDERING INVESTIGATION IN NIGERIA (A STUDY OF POLITICAL EXPOSED PERSONS IN NIGERIA)

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Abstract

This paper has been carried out to empirically examine the forensic accounting data analysis and political exposed person money laundering (a study of political exposed person in Nigeria). The study adopted a descriptive survey research design which can be described as a method of collecting information by interviewing or administering a questionnaire to a sample of individuals with a sample size of 100 people from the overall population for this investigation. The statistical tool used to test the hypotheses was Analysis of variance, (ANOVA). The Anova was used to examine the effects of the variables; money laundering prevention, awareness of forensic accounting application, which are independent variables, on political exposed persons and money laundering committed by political exposed persons which are dependent variables. From the findings it was found that Forensic accounting application has not been able to prevent and detect money laundering committed by political exposed persons in Nigeria. Also, there is significant awareness of forensic accounting application in detecting money laundering committed by political exposed persons in Nigeria. We therefore recommended that Forensic account should be properly and adequately implemented in the investigation of money laundering by political exposed person in Nigeria.

Keywords: Forensic accounting, Data analysis, Political exposed person

Introduction

Disclosing financial abnormalities in corporate and government statements of report has become an universal trend and has consistently maintained a top priority at all times. Modern functioning financial frauds are increasingly complex, and many executives and government employees are now experts in embezzlement issues, including fraudulent activities (Ogutu & Ngahu, 2016 as cited by Kolawole, Salman, Durodola, Babatunde & Igbekoyi, 2018). Fraud can be defined as the willful omission, financial deliberate distortion, or covering-up of the truth in order to manipulate financial accounts to the detriment of businesses or nations, and includes misappropriation, dissimulation, or any attempt to illegitimately capture or misuse an organization's/government property's asset (Kolawole et al, 2018). Fraud and corruption harm everyone in the Nigerian economy by robbing owners of their assets and creating pain and suffering. Forensic accounting is widely acknowledged as a tool for proactively preventing, detecting, and aiding in the legal prosecution of corrupt individuals. The Nigerian economy is around a third of a billion dollars. Nigeria's Gross Domestic Product (GDP) was $404, 653 billion in 2016, according to the World Bank. Ike (2018) cites the World Bank's 2016 report. Regardless of the fact that Nigeria is Africa's wealthiest nation, abundant natural resources, and the sixth largest exporter of oil products, earning over $300 billion dollars in the last thirty years of the twentieth century, money laundering by PEPs has resulted in 70 percent of its citizens living in poverty and misery. Ike (2018) cites the World Bank's 2016 report.

In June 2000, the Nigerian government set up the Independent Corrupt Practices and Other Related Offences Commission (ICPC), which was followed by the Economic and Financial Crime Commission (EFCC) in 2004 (Friday & Larry, 2021). Various methods have been put in place to strengthen the applicability of forensic accounting services by using the correct tools, techniques, people, and insight to prevent and identify fraudulent acts and to ensure that the applicability of such services is effective (Kolawole et al, 2018). However, problems arise as a result of the fact that forensic accounting services are still relatively new to most enterprises and government organizations in Nigeria, while certain accounting professionals have long utilized their skills to cover up and promote anti-social behavior. Many foreign investors in Nigeria have lost billions of dollars to fraudsters as a result of corruption, resulting in reduced or even complete withdrawal of funds from the country, with negative consequences for economic.

Research Questions

In order to achieve the objective of the study, the following questions will form the basis of the research work;

- In what way has forensic accounting application been able to prevent and detect money laundering committed by political exposed persons in Nigeria?
- What is the level of awareness of forensic accounting application in detecting money laundering committed by political exposed persons in Nigeria?

Research Hypotheses

After examining the explicit and implicit objectives of the study, the following hypotheses stated in their null format are tested to validate the findings of this research, resolve the problems, and reach a conclusion:

H_{01}: Forensic accounting application has not been able to prevent and detect money laundering committed by political exposed persons in Nigeria.

H_{02}: There is no awareness of forensic accounting application in detecting money laundering committed by political exposed persons in Nigeria.

LITERATURE REVIEW

Concept of Forensic Accounting

The term forensic in the accounting profession deals with the use or application of financial data in resolving allegations of fraud. Adelusi, Akinyoade and Unuigbokhai (2017) defined forensic accounting as the practice of utilizing accounting, auditing and investigative skills to assist in legal issues. Forensic accounting is the application of accounting concepts and techniques to legal problems (Dhar & Sarkar, 2018). Forensic accounting came into existence as indispensable cronies in the war against frauds and economic crimes.

Concept of Money Laundering

Money laundering adequately describes what takes place since illegal, or dirty money is put through a cycle of transactions, or washed so that it comes out the other end as legal, or clean money. In other words, the source of illegally obtained funds is obscured through a succession of transfers and deals so that those same funds can finally appear as legitimate income (Billy & Steel, 2012). Money laundering appears in three phases which are placement phase, layering phase, and integration phase. All these would be further explain in the context of the study.

Concept of Political Exposed Persons (PEPs)

Anti-Money Laundering Combating Financing of Terrorism (AML/CFT) Compliance Manual For Capital Market Operators 2010 defines Politically Exposed Persons (PEPs) "as individuals who are or have been entrusted with prominent public functions both in foreign countries as well as in Nigeria. Examples of Nigerian PEPs would include, the President, former President, current/former Governors, current /former ministers, current/former permanent secretaries, CEO's of government agencies and representatives of the National Assembly their relatives are inclusive among others.

Mechanisms to check Money Laundering in Nigeria

Having identified money laundering as one of the most pervasive forms of crime in Nigeria, the government has enacted various regulatory mechanisms and established institutions as part of its overall reform measures. These measures include the enactment of the following laws.

i. The Money Laundering Act (Amendment) 2002
ii. The EFCC (Establishment) Act 2002
iii. The Money Laundering (Prohibition) Act 2004
iv. The Money Laundering (Prohibition) Act 2011
v. Independent Corrupt Practices Commission (ICPC)

Theoretical Review

Fraud Diamond Theory

Fraud Diamond Theory (FDT) is a new advanced fraud theory suggested by Wolf and Hermanson (2004) as a replacement for fraud triangle theory (FTT). They contend that the FDT provides a more complete picture of the

elements that lead to fraud. In addition to Cressey's three-factor theory, they included a fourth variable, capacity. The fraudster must possess the appropriate characteristics, abilities, or positional authority to carry out his crime act. The Fraud Diamond Theory (FDT) provides a more comprehensive understanding of the elements that contribute to fraud. Many scams, they feel, would not have occurred if the correct individual with the right capabilities had carried out the details of the fraud.

Deterrence Theory

Individuals act in their own self-interest and obey the law because they fear the consequences of illicit behavior, according to deterrence theory. They would rather not commit crimes since they have seen heavy punishments meted out to others. According to Simpson (2018), the fear of detection, conviction, and punishment that results from prosecution form the heart of deterrence theory in the role of criminal justice in enforcing and punishing criminals. Freidrichs (1996) advocated for the aforementioned position, claiming that an individual's decision to conduct corporate crime is based on calculating the risks of doing so.

Empirical Review

Donald (2021) evaluated integrating forensic accounting technique for successful investigation and prosecution of economic and financial the findings of the study have shown that the application of forensic accounting technique in the prosecution of economic and financial crimes is valuable and appropriate. The failure of traditional auditing practice in identifying frauds created the means for the use of specialized procedures called forensic accounting.
Okoye & Gbegi (2020) conducted a study in order to ascertain whether a forensic accounting investigation has an effect in detecting fraud in Nigerian Deposit Money Bank. The objectives are of the study are to ascertain the effect of forensic accounting investigation on financial fraud in Nigerian Deposit Money Bank, and to determine whether forensic accounting investigation report can enhance court adjudication on financial fraud in Nigeria. This study adopted the cross-sectional survey design. The review of the paper shows that forensic accounting investigation has a significant effect in detecting financial fraud in Nigerian Deposit Money Banks. Therefore, the results strongly support the use and application of forensic accounting investigation towards detecting financial fraud in Nigeria.
Abdulrahman (2019) conducted a study that examines forensic accounting and fraud prevention in Nigerian public sector by using some selected studies from within and outside Nigeria. The objectives of the study was to determine how does forensic accounting prevents fraud in Nigeria Public Sector and to determine whether forensic accounting prevents fraud in Nigeria Public Sector. The study found that a significant positive influence exists between forensic accounting techniques and fraud prevention. The paper is of the opinion that more steps should be taken to ensure fraud prevention with the application of forensic accounting techniques

Awe (2017) conducted a study titled Forensic accounting as a tool for fighting corruption and terrorism in Nigeria, the study concluded that Forensic accounting should be seen as a mechanism that is embedded in a broader context and should not therefore be considered in only financial crime cases, it should also be considered as it has been in use in the United States of America. Forensic accountants contribute heavily to the intelligence cycle as they help track down terrorists by reviewing the financial records of individuals or businesses suspected of an involvement with terrorism. They complete financial analysis of business and personal records to develop profiles that identify people or businesses as suspected terrorists or terrorism supporters.

Methodology

Descriptive survey research design was used in establishing an empirical relationship between forensic accounting and detection and prevention of money laundering by the political exposed persons in Nigeria. The population considered for this study would be all staffs and management of the bodies combating against money laundered by political exposed persons in Nigeria. A sample is a sub-set of the target population chosen so as to represent the population. A judgmental (which is non-probabilistic in nature) sample size of 100 representatives was adopted for the purpose of this study. Primary data was adopted for the purpose of this research work in other to generate solution to the research hypothesis using questionnaire. The questionnaire responses was closed ended opinion on a 4-likert scale, which is ordinal in scalar nature which are (strongly agree, agree, disagree and strongly disagree).

Method of Data Analysis

Multiple regression analysis will be adopted in respect to the study hypothesis which will be use to measure the degree of independent variables and dependent variable. Data was collected and analyzed through the use of the Statistical Package for Social Science (SPSS Version 26).

Presentation of Result

Table 4.1:

Forensic accounting is a valid process involved in the recovery, and the seizure of actual or as proceeds of crime or money laundering.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	5.3	5.3	5.3
	Disagree	10	10.5	10.5	15.8
	Agree	19	20.0	20.0	35.8
	Strongly Agree	61	64.2	64.2	100.0
	Total	95	100.0	100.0	

Source: Survey, December 2022

Majority of the respondents strongly agreed that Forensic accounting is a valid process involved in the recovery, and the seizure of actual or assured proceeds of crime or money laundering.

Table 4.2: Forensic accountants should have additional understanding in the fraud prevention and detection in public offices.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	11	11.6	11.6	11.6
	Disagree	16	16.8	16.8	28.4
	Agree	27	28.4	28.4	56.8
	Strongly Agree	41	43.2	43.2	100.0
	Total	95	100.0	100.0	

Source: Survey, December 2022

Majority of the respondents strongly agreed that Forensic accountants should have additional understanding in the fraud prevention and detection in public offices.

Table 4.3: Forensic accounting is a suitable and appropriate tool need to be applied in every investigation of fraud

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	2.1	2.1	2.1
	Disagree	20	21.1	21.1	23.2
	Agree	25	26.3	26.3	49.5
	Strongly Agree	48	50.5	50.5	100.0
	Total	95	100.0	100.0	

Source: Survey, December 2022

Majority of the respondents strongly agreed that forensic accounting is a suitable and appropriate tool need to be applied in every investigation of fraud.

Table 4.4:

Forensic accounting necessitates reporting and, once verified, culpability for the fraud detection.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	4.2	4.2	4.2
	Disagree	20	21.1	21.1	25.3
	Agree	41	43.2	43.2	68.4
	Strongly Agree	30	31.6	31.6	100.0
	Total	95	100.0	100.0	

Source: Survey, December 2022

Majority of the respondents agreed that Forensic accounting necessitates reporting and, once verified, culpability for the fraud detection.

Table 4.5:

Forensic accounting is properly taught in tertiary institutions and other financial colleges.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	3.2	3.2	3.2
	Disagree	9	9.5	9.5	12.6
	Agree	32	33.7	33.7	46.3
	Strongly Agree	51	53.7	53.7	100.0
	Total	95	100.0	100.0	

Source: Survey, December 2022

Majority of the respondents strongly agreed that Forensic accounting is properly taught in tertiary institutions and other financial colleges

Table 4.6:

Forensic accounting is well known to professionals and staffs of fraud detection team across the country

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	9	9.5	9.5	9.5
	Disagree	21	22.1	22.1	31.6
	Agree	22	23.2	23.2	54.7
	Strongly Agree	43	45.3	45.3	100.0
	Total	95	100.0	100.0	

Source: Survey, December 2022

Majority of the respondents strongly agreed that Forensic accounting is well known to professionals and staffs of fraud detection team across the country.

Table 4.7:

A forensic accountant should have the following qualifications in regard to being academically and professionally qualified (i.e. B.Sc., HND, ACA, CAN, CPA, etc.).

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	10	10.5	10.5	10.5
	Disagree	19	20.0	20.0	30.5
	Agree	26	27.4	27.4	57.9
	Strongly Agree	40	42.1	42.1	100.0
	Total	95	100.0	100.0	

Source: Survey, December 2022

Majority of the respondents strongly agreed that A forensic accountant should have the following qualifications in regard to being academically and professionally qualified (i.e. B.Sc., HND, ACA, CAN, CPA, etc.).

Table 4.8:

Forensic accounting is compulsory to be studied in order to be a certified analysis in fraud investigating organization.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	9	9.5	9.5	9.5
	Disagree	14	14.7	14.7	24.2
	Agree	34	35.8	35.8	60.0
	Strongly Agree	38	40.0	40.0	100.0
	Total	95	100.0	100.0	

Source: Survey, December 2022

Majority of the respondents strongly agreed that Forensic accounting is compulsory to be studied in order to be a certifies analysis in fraud investigating organization.

Table 4.9:

Forensic accounting has a significant effect on the detection and prevention of money laundry

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	4.2	4.2	4.2
	Disagree	22	23.2	23.2	27.4
	Agree	36	37.9	37.9	65.3
	Strongly Agree	33	34.7	34.7	100.0
	Total	95	100.0	100.0	

Source: Survey, December 2022

Majority of the respondents agreed that Forensic accounting has a significant effect on the detection and prevention of money laundry

Table 4.10:

Forensic account has the capability of tracking and showing the flow of funds in political exposed persons account

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	1.1	1.1	1.1
	Disagree	28	29.5	29.5	30.5
	Agree	26	27.4	27.4	57.9
	Strongly Agree	40	42.1	42.1	100.0
	Total	95	100.0	100.0	

Source: Survey, December 2022

Majority of the respondents strongly agreed that Forensic account has the capability of tracking and showing the flow of funds in political exposed persons account.

INTERPRETATION OF RESULT

The result of this study will be interpreted in this according to the required information need in order to carry out the test of the hypothesis.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.958[a]	.917	.915	.14142

a. Predictors: (Constant), Level of awareness on forensic accounting, Forensic account in fraud detection and prevention

Source: Extracted from SPSS 26

Table 4.24 shows the autocorrelation between the dependent and independent variable, from this fact the results showed that there is positive relationship between forensic account and exposing money laundry by PEP, the R-squared of 0.917 indicates that about 91.7% variation in exposing money laundry by PEP is accounted for by variation in the variables of forensic accounting via level of awareness of forensic, prevention and detection of fraud. This implies that the model is adjudged the best fit if no other models are fitted for the data.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.381	2	10.191	509.552	.000[b]
	Residual	1.840	92	.020		
	Total	22.221	94			

a. Dependent Variable: Effect of forensic accounting in exposing money laundry by PEP

b. Predictors: (Constant), Level of awareness on forensic accounting, Forensic account in fraud detection and prevention

Source: Extracted from SPSS 26

Table 4.25 shows the analysis of variance, the F-statistic 509.552 with p-value of 0.000 < 0.05 indicates that the overall regression model is statistically significant at α = 0.05 level of chosen significance. Hence, the two (2) predictor' variables of forensic accounting jointly account for the variation in exposing money laundering by political exposed person in Nigeria, also can be concluded that the model is adequate for the research study. This is an indication that there exist an overall insignificant relationship between the selected variables of forensic accounting and money laundering exposure by PEPs.

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.137	.139		.985	.327
	Forensic account in fraud detection and prevention	.019	.034	.017	.566	.573
	Level of awareness on forensic accounting	.972	.030	.959	31.878	.000

a. Dependent Variable: Effect of forensic accounting in exposing money laundry by PEP

Source: Extracted from SPSS 26

Decision rule:

Reject H_0 if α=0.05 level of significance is greater than the probability value (p-value) generated for the t-statistics value. Otherwise, fail to reject H_0. For the purpose of this research work, the hypotheses was tested at 95% confidence level i.e. α=0.05.

Hypothesis One

H_{01}: Forensic accounting application has not been able to prevent and detect money laundering committed by political exposed persons in Nigeria.

On the significance of hypothesis one, empirical analysis of result findings in the table 4.2 indicated t-value of 0.566 with associated prob(value) of 0.573 which is greater than 0.05 level of significance. This has resulted to the failure in rejection of the null hypothesis one, implying that there is no significant effect of Forensic accounting application has not been able to prevent and detect money laundering committed by political exposed persons in Nigeria.

Hypothesis Two

H_{02}: There is no awareness of forensic accounting application in detecting money laundering committed by political exposed persons in Nigeria.

On the significance of hypothesis two, empirical analysis of result, findings in the table 4.2 indicated t-value of 31.878 with associated p-value of 0.000 which is less than 0.05 level of significance. This has resulted to the rejection of the null hypothesis two, implying thatthere is significant awareness of forensic accounting application in detecting money laundering committed by political exposed persons in Nigeria.

Conclusion

In this study, the determinant of forensic accounting (such as its level of awareness and its ability to prevent and detect fraud) was examined on the exposure of money laundering by political exposed person in Nigeria. Based on the results obtained from the use of multiple regression it was observed that from the analysis of variance that there is an overall significant relationship between forensic accounting and exposure of money laundering by political exposed person in Nigeria. However, the information obtained from the coefficient of the regression analysis showed that there is sufficient level of awareness of forensic accounting which has contributed to the exposure of money laundering but forensic accounting has not been able to significantly prevent money laundering by PEP in Nigeria.

This shows that most of the money laundering activity exposed through the application of forensic accounting might have not been put to justice.

Recommendations

Based on the findings, the study has compounded some possible suggestions and policy recommendation to ensure that the money laundering by political exposed persons is optimally reduced through the application of forensic accounting. Government and anti-corruption team should ensure that;

i. Forensic account is properly and adequately implemented in the investigation of money laundering by political exposed person in Nigeria.

ii. Accountants and other financial analyst must have forensic accounting knowledge and certification to enhance the quality of investigation money laundry by political exposed person.

iii. Government should grant necessary requirements for proper investigation of money laundering during the application of forensic accounting to boost the quality of evidence after exposure.

iv. Subsequent research similar to this study must always be conducted in order to keep track on the performance of forensic accounting in exposing money laundering by political exposed persons.

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