

Implementing Forensic Audit Standards in Nigeria: Challenges and Opportunities

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ABSTRACT

A few challenges the Nigerian economy is struggling with include Fraud and Corruption, Mismanagement, Inflation, and Crimes such as Cybercrimes, Terrorism, Banditry, Kidnapping, and Armed Robbery. The major objective of this study is to ascertain the challenges and opportunities of implementing forensic audit standards in Nigeria. Information was sourced secondarily using descriptive research to describe and document existing practices, and conditions regarding implementing forensic audit standards in Nigeria. The findings are that there is a need for adequate funding and investment in training for professionals. Also, there should be coordination between stakeholders such as regulators, auditors, and law enforcement agencies involved in forensic audit standards implementation. A major challenge is the lack of a legal or regulatory framework for implementing forensic audits in Nigeria. There is a need for developing laws and regulations to support the implementation of forensic audit standards. To encourage people to report fraud and corruption, there is a need for an effective whistleblowing system. Due to the weaknesses in the legal system and resistance from corrupt individuals in organizations and government institutions, there are challenges of non-compliance with forensic audit standards. There is a need for an effective and efficient legal system that can enforce forensic audit standards to sanction offenders.

INTRODUCTION

1.1. Background to the Study

The history of forensic audit standards can be traced to the evolution of Forensic Accounting and Audit which brought about awareness and necessitated the need for specialized guidelines, code of ethics, and best practices in carrying out investigations of Forensic nature. These principles and frameworks constitute Forensic Audit Standards. The following are the major milestones on which the history of Forensic Audit Standards can be traced. First, in the late 19th and early 20th Centuries, Forensic Accounting emerged as a separate field. Thus, the groundwork was laid for applying accounting principles to conduct Forensic Investigations to detect misstatements due to fraud or error. Second, Regulatory bodies and Professional Organizations such as **Corporate Finance Institute's** "Top Accounting Scandal" recognized the need for Forensic Audit Standards in the wake of Corporate Scandals such as the Enron Scandal in (2001), the WorldCom Scandal in (2002), the Tyco Scandal (2002), the HealthSouth Scandal (2003), Freddie Mac Scandal (2003), American International Group Scandal (2005), Lehman Brothers Scandal (2008), Bernie Madoff Scandal (2008), Satyam Scandal (2009). Third, because of the globalization of business and finance, international bodies and standard-setting organizations have resorted to promoting Consistency and Harmonization of Forensic Audit Standards across Jurisdictions.

In Nigeria, Fraud and Corruption have become the bane of our Polity and Society since Independence. Fraud and Corruption have become endemic, systemic, and individualized; a monster infesting our everyday relational transactions as one people; a culture evolving to tear down the fabric of our national existence. In Nigeria, the Cadbury (Nig) PLC scandal has remained a reference point for fraudulent financial reporting. Other incidences of fraudulent financial reporting in Nigeria include the fraud at Afribank Plc and Lever Brothers (Nig) Plc (**Okaro, S. & Okafor, O., 2009**). Four Nigerian deposit money banks lost **N1.77 Billion** to

fraudulent activities involving the banks' employees and consumers in 2021. This was contained in the 2021 financial statements of banks such as Access Bank Plc, Guaranty Trust Bank Plc, First Monument City Bank, and Wema Bank (**Punch Newspaper 31st of March 2022**). According to the **International Monetary Fund (February 9, 2024)**, "The new administration under President Tinubu has started its term with bold reforms in challenging circumstances. The authorities quickly implemented two major reforms: removing fuel subsidies and unifying the various official foreign exchange windows. Growth is lackluster, inflation high and accelerating, and pressures on the naira persist. With widespread poverty and rising food insecurity, social demands and protests for government support are growing. The external environment—access to financing, food prices—remains difficult, high oil and gas prices notwithstanding". **Transparency International** ranks Nigeria 145th out of 180 countries in its 2023 Corruption Perception Index. Corruption has been the bane of Nigeria's economic growth and development. The lack of transparency and accountability in financial transactions has resulted in a huge loss of revenue for the organizations and government. Implementing Forensic Audit Standards can help detect, prevent, and deter financial fraud and corruption and promote economic growth and development.

1.2. Statement of the Problem

The challenges are as stated below:

Non-compliance of organizations and governmental institutions with Forensic Audit Standards due to a lack of legal or regulatory framework

Weaknesses in the legal system that hinder the effective implementation of Forensic Audit Recommendations and Sanctions in case of fraud or corruption

Resistance from corrupt individuals within organizations and governmental institutions who may try to undermine the implementation of Forensic Audit Standards

The lack of an effective whistleblowing system to encourage reporting of fraud and corruption in organizations and governmental institutions

Insufficient resources and expertise for implementing Forensic Audit Standards in organizations and governmental institutions.

1.3. Objectives of the Study

The Objectives of the study can be stated below:

To demonstrate how Implementing Forensic Audit Standards can challenge Professionals to acquire Skills and Expertise in Forensic Audit.

To evaluate how the Government can subsidize Technology Tools and Software to implement Forensic Audit Standards.

To assess how the Regulatory or Legal Environment enforces the implementation of Forensic Audit Standards.

To identify processes by which Implementing Forensic Audit Standards will improve the Integrity of Financial Reporting and Operational Efficiency.

1.4. Research Questions

The following research questions give direction to the entire study:

How can Implementing Forensic Audit Standards Challenge Professionals to Acquire Skills and Expertise in Forensic Audit?

In what ways can the Government subsidize Technology Tools and Software for the Implementation of Forensic Audit Standards?

How can the Regulatory or Legal Environment enforce the implementation of Forensic Audit Standards?

How can Implementing Forensic Audit Standards improve the Integrity and Transparency of Organizational Financial Reporting and Operational Efficiency?

REVIEW OF STUDY

2.1. Conceptual Review: A Conceptual Framework is expected to categorize and describe concepts related to the study.

Forensic Audit examines Financial Statements to detect misstatements due to error or fraud. It is a Specialized Audit, different from Traditional Audit, which delves into the activities, events, and pieces of evidence that may indicate fraudulent behaviors. According to the **Association of Certified Fraud Examiners (ACFE)**, a forensic auditor is, “a professional with the capability to investigate fraudulent activities, who provides an accounting analysis suitable for admission as evidence, and who is expected to take a stand and testify as an expert witness in a court of Law or other legal proceedings.” (ACFE, 2021). Similarly, the **International Standards on Auditing (ISA)** define forensic auditing as “a specialized area of auditing aimed at detecting and investigating fraud, white-collar crime, and other irregularities that may occur in an entity.” (IFAC, 2018). Therefore, Forensic Auditors are trained to detect red flags and irregularities in Financial Records, which may indicate fraudulent behaviors such as manipulation of Financial Statements, Misappropriation of Assets, or Embezzlement of Funds. Forensic Auditors carry out investigations to gather evidence, interview and in some special cases interrogate parties related to the evidence, and reconstruct transactions of a financial nature to unearth the root causes of the discrepancies. Forensic Auditors assess the extent to which Financial Transactions and Corporate Governance comply with the Company Policies, Governmental Laws, and Regulations. Forensic auditors should work closely with lawyers and law enforcement agencies in financial crime cases. The findings of Forensic Audit may be tendered as evidence during deposition once admitted by a court of competent jurisdiction.

Forensic Audit Standards constitute a set of guidelines and best practices such as the Code of Conduct Principles that forensic auditors use to conduct investigations and provide accurate, reliable, and unbiased findings. For example, **Generally Accepted Accounting Principles (GAAP)** is a set of accounting standards that provides guidance on financial reporting which forensic accountants use to identify misstatements or omissions in financial statements. The **Association of Certified Fraud Examiners (ACFE)** provides a code of Ethics and Standards of Professional Conduct such as Confidentiality, Independence, and Objectivity that forensic auditors should follow. **Institute of Certified Forensic Accountants (ICFA)** Professional Standards such as Integrity, Independence, Objectivity, Responsibility, and meeting the client’s requirements are binding on all members of the Institute practicing as Forensic Accountants. **Chartered Institute of Forensics and Certified Fraud Investigators of Nigeria (CIFOFIN)** specified Core Values that define members such as Integrity, Excellence, Courage, and Professionalism. Forensic auditors often work in legal contexts and should adhere to the Federal Rules of Evidence that govern evidence admissibility in federal courts. The purpose of designing these Standards, subject to Jurisdictions and Professional Organizations, is to ensure that Forensic Audit is carried out with **Professionalism, Independence, Objectivity, Confidentiality, Ethics, and Integrity**.

Forensic Auditors are expected to maintain professionalism by possessing the requisite skillset, knowledge, and expertise to carry out their work with competence, diligence, and due care. Forensic Auditors are required to maintain independence in the conduct of their work free from conflict of interest or undue influence from parties having a proprietary interest in the entity. Forensic Auditors are expected to maintain objectivity in their work by gathering evidence free from biased mental attitudes and ensuring no quality compromises are made. Forensic Auditors are required to adhere to high ethical standards such as confidentiality per non-disclosure and non-circumvention agreements. Forensic Auditors are expected to maintain integrity such as honesty in their work and relationship with the staff of the audited entity.

Forensic Audit Standards emphasize that evidence gathering and analyzing be done systematically thereby ensuring the relevance and reliability of the audit findings which are expected to be communicated concisely and objectively with evidential documents and annexures.

Professional Organizations, Regulatory Bodies, and Standard-setting Bodies establish these Standards to promote consistency and quality in Forensic Audit Practice.

2.2. Theoretical Review: A Theoretical Framework is expected to drive the Research Questions and inform the findings.

There are several ways to implement Forensic Audit Standards to challenge professionals to acquire skills and expertise in Forensic Audit, thereby creating a more competent workforce equipped to tackle Forensic Audit engagements' complexities. By implementing Forensic Audit Standards, a demand is made for specialized training programs on Fraud Examination, Investigative Techniques, and Forensic Accounting which may challenge Professionals to update their skills to stay relevant in the field. To remain abreast of industry developments and best practices, Accounting and Auditing Professionals may be motivated to explore Continuous Professional Education that addresses Forensic Audit Standards and Practices. To demonstrate expertise in Forensic Audit and comply with Forensic Audit Standards, Professionals may pursue Certifications such as Certified Fraud Examiner (CFE), Certified Professional Forensic Accountant (CPFAcct), and Chartered Certified Forensic Accountant (CCrFA). Professionals are challenged to develop new technical skills such as digital forensics proficiency, data analysis, and e-discovery techniques to utilize technology tools and software in Forensic Audit Processes. Professionals are challenged to deepen their understanding of regulatory requirements, legal frameworks, and ethical considerations to ensure compliance with standards and regulations.

The government can subsidize technology tools and software, reducing the Financial barriers to acquiring these Tools and Software for Implementing Forensic Audit Standards. The initial investment costs can be offset, encouraging wider adoption of advanced technology solutions across various sectors through funding and grants to small and medium-sized enterprises (SMEs) for forensic audit. The government can waive or reduce import duties, value-added tax, and other taxes and levies on forensic audit technology tools and software. Thus, when the overall cost of acquiring and implementing such tools is reduced, they are made accessible to businesses. By collaborating with private technology providers to establish public-private partnerships, the Government can make technology tools and software accessible and affordable for organizations implementing Forensic Audit Standards. Governmental Technology Tools and Resources for Forensic Audit purposes can be made available to organizations at subsidized rates, providing cost-effective access to Technology Solutions. Technology companies and academic institutions specializing in developing cost-effective technology tools for forensic audit can be offered research and development grants, which can create more affordable and efficient solutions.

The regulatory environment can enforce the implementation of forensic audit standards through several measures. To raise awareness and understanding regarding the standards, regulatory bodies can educate and guide organizations on the importance of Forensic Audit Standards and how to implement them effectively. To develop, promote, and ensure that forensic audit standards are widely recognized, regulatory bodies can collaborate with professional bodies offering Accounting and Auditing Services. By conducting regular audit inspections, organizations ensure compliance with the standards, regulatory bodies oversee and monitor Forensic Audit Standards implementation. Regulatory bodies can make it a regulatory requirement for organizations to comply with specific audit standards by establishing laws requiring organizations to implement forensic audits. By imposing penalties and sanctions such as suspension of licenses to incentivize organizations to comply with the standards, regulatory bodies can regulate organizations to comply with Forensic Audit Standards.

Through several ways, Implementing Forensic Audit Standards can improve the Integrity and Transparency of Organizational Financial Reporting and Operational Efficiency leading to a reliable Financial System that supports Economic Development. To promote robust Governance Practices and Compliance with Regulatory Requirements that can lead to Transparency in Financial Reporting, Organizations need to Implement Forensic

Audit Standards. To identify and mitigate Financial and Operational Risks that can lead to a strong Risk Management Framework, Organizations need to Implement Forensic Audit Standards. Forensic audits conduct a detailed review of operational processes and controls leading to enhanced efficiency and effectiveness of operations to detect inefficiencies and weaknesses. To identify anomalies, trends, and potential risks, Forensic Audit Standards are conducted with advanced technological analysis tools to monitor financial transactions and patterns leading to improved transparency. By carrying out investigations and analyses, Forensic Audits uncover irregularities leading to the detection and prevention of fraudulent activities and enhancing the integrity of financial reporting. Forensic audit standards should be adhered to to improve relationships with investors/creditors and increase stakeholder confidence in an organization's financial reporting and operational practices.

2.3. Empirical Review: An Empirical Review is expected to assess and evaluate the evidential value of a cross-section of studies.

A few Empirical Studies have examined the Challenges of Implementing Forensic Audit Standards in Nigeria. While discussing the Challenges facing the utilization of Forensic Accounting in Nigeria, **Uzoagba C.I., (2023)** listed Challenges such as Lack of Awareness and Education, Limited Resources, Resistance to Change, and Legal and Regulatory Framework.

2.4. Gap Analysis: A Gap Analysis is expected to state the lacuna between existing studies on the subject matter and the desired studies.

Although there are pieces of literature on forensic auditing's importance in detecting fraud and financial crimes, there is a significant gap regarding Forensic Auditing Implementation in Nigeria. There is a lack of research on how forensic audit techniques can be effectively used in Nigeria to address financial crimes and promote accountability. Most of the research is focused on developed countries, with well-established Forensic Audit Standards, such as the United Kingdom and the United States. In developing countries, such as Nigeria, challenges associated with implementing these standards include limited resources, lack of expertise, and weak legal frameworks

METHODOLOGY

Methodology involves a study of the methods employed in sourcing and analyzing information to develop an approach that matches objectives.

The methodology adopted in this study is descriptive research which aims to describe and document existing practices, and conditions regarding Implementing Forensic Audit Standards in Nigeria to identify gaps in Forensic Audit Implementation, develop strategies to improve Forensic Audit effectiveness, and inform the making of decision and development of policy.

DISCUSSION OF FINDINGS

One of the challenges identified is the limited resources and expertise available to implement forensic audit standards. Thus, there is a need for adequate funding and investment in training for professionals. Also, there should be coordination between stakeholders such as regulators, auditors, and law enforcement agencies involved in forensic audit standards implementation. A major challenge is the lack of a legal or regulatory framework for implementing forensic audits in Nigeria. There is a need for developing laws and regulations to support the implementation of forensic audit standards. To encourage people to report fraud and corruption, there is a need for an effective whistleblowing system. Due to the weaknesses in the legal system and resistance from corrupt individuals in organizations and government institutions, there are challenges of non-compliance with forensic audit standards. There is a need for an effective and efficient legal system that can enforce forensic audit standards to sanction offenders.

RECOMMENDATIONS

There should be a framework that guides forensic auditors and organizations seeking forensic audit services

and outlines the scope, methodology, techniques, and reporting standards of forensic audit.

Regulatory bodies such as the **Chartered Institute of Forensics and Certified Fraud Investigators of Nigeria (CIFCFIN)**, the **Institute of Chartered Accountants of Nigeria (ICAN)**, and the **Chartered Institute of Taxation of Nigeria (CITN)** should lead in ensuring compliance with forensic audit standards.

There should be uniformity of standards applied to forensic audit services to create a level playing field for forensic auditors, prevent fraud and corruption, and enhance integrity.

Professional associations, regulatory bodies, and educational institutions should provide training and certifications for forensic auditors and other practitioners in the sector.

To ensure that forensic audit investigations are thorough, accurate, and transparent, stakeholders such as professional associations, regulators, law enforcement agencies, and members of the public should work together.

Implications:

The role of the forensic audit Standards is to help detect and prevent fraud. Corruption leads to financial losses and thrives without these standards.

Investors may be reluctant to invest in Nigeria without forensic audit standards. This leads to a loss of investment opportunities.

Governments and Companies can have reduced revenue due to fraudulent activities which may go undetected for a long financial term in the absence of forensic audit standards

Without forensic audit standards, which enforce accountability, companies and individuals may not be accountable for fraudulent transactions.

Legal disputes caused by fraud and leading to financial losses may arise without forensic audit standards.

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