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## **FORENSIC ACCOUNTING EVIDENCE AND CRIME DETERRENCE IN NIGERIA.**

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### **ABSTRACT**

*The objective of this paper is to explore the most common construct for forensic accounting evidence that influence financial crime deterrence and also the moderation effect of quality prosecution on forensic accounting evidence and financial crime deterrence. Questionnaires were used to collect data from 244 valid respondents by a simple random sampling method. SPSS version 18 was used for the descriptive statistics and a hierarchical regression was used for the analysis. The results of the study showed that there is a positive and weak link between forensic accounting evidence and financial crime deterrence and it also showed that quality prosecution does not moderate the relationship between forensic accounting evidence and financial crime deterrence. Consequently, anti-graft agencies and the court have to specifically focus on producing evidence that is relevant, admissible, material and also relates to the facts in issue. Finally, there should be quality prosecution punishment by anti-graft agencies for effective conviction in order achieve severe, certain, swift and proportional punishment. Hence the persistent increase in financial crimes in the federal republic of Nigeria and the world at large will be significantly reduce.*

**Keywords:** *Forensic Accounting, Evidence, Financial Crime, Judgment, Deterrence.*

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### **BACKGROUND OF THE STUDY**

One of the major challenges facing the development of a Country in any part of the world is financial crimes. It runs across all human race irrespective of its

social and economic status. This can be seen in the alarming rate of increase in corrupt and fraudulent practices while public services, infrastructure and facilities are fast worsening (Olumide, 2012) and (Ugwu, 2012). Financial crimes are reported in the area of pensions, salaries and wages, in legislative process as well as other areas of government business. It undermines good government, fundamentally distorts public policy, leads to the misappropriation of resources, harms the public sector and private sector development, and particularly it hurts the poor (Musa, 2013). Nigeria is characterized by high incidences of fraudulent and corrupt practices particularly in the public sector. Kasum (2009) and Ekwueme & Jugu, (2013) observed that financial crimes have affected the lives of citizens of third world countries negatively, it is engraved in the systems, it is alarming and seriously devastating.

Hence, the only solution is punishment. This means that the punishment must be severe, certain, swift and proportional to enhance effective deterrence. Thus a causal analysis of the effects of forensic accounting evidence and punishment of financial crimes is expected to significantly reduce financial crimes in Nigeria.

### **STATEMENT OF THE PROBLEM**

Cases of corrupt practices both in the public and private sectors appeared to be on the increase in Nigeria, therefore, the only solution is punishment. Musa (2013) posit that it is very difficult for anti-graft agencies to successfully prosecute many of the alleged cases of corruption involving billions of naira by government functionaries, contractors, as well as private individuals and organizations. Therefore, the importance of forensic accounting evidence in prosecution of financial crimes cannot be over-emphasized. This is manifested in the fact that punishment is not severe, certain, swift and proportional (Anzaku, Ismaila & Agube, 2015). Punishment can only be achieved only when the judiciary is provided with cogent, complete and unequivocal evidence by forensic accounting practitioners which will guide them in judgment. The evidence must be material, relevant, admissible and must also relate to the facts in issue for effective adjudication (Pendleton, 2013).

Issues that provide impetus for this research includes problems of evidence, quality prosecution and deterrence. Hence the vexing issue which is the persistent increase in financial crimes can be significantly reduced when punishment is severe, certain, swift and proportional.

## **OBJECTIVES OF THE STUDY**

The objective of the study is:

1. To examine the relationship between forensic accounting evidence and financial crime deterrence
2. To determine if quality prosecution moderates the relationship between forensic accounting evidence and financial crime deterrence.

## **RESEARCH HYPOTHESES**

Based on the statement of the problem and research objective, the following research hypothesis was formulated for the study:

1. There is no significant relationship between quality prosecution and financial crime deterrence.
2. Quality prosecution moderates the relationship between forensic accounting evidence and financial crime deterrence.

## **SCOPE OF THE STUDY**

This study considers only the effects of forensic accounting evidence and financial crime deterrence in Nigeria. The research focus group is drawn from a pool of lawyers, judges and staff of Economics and Financial Crimes in Nigeria. The time horizon is from 2004 – 2020.

## **CONCEPTUAL DEFINITION OF VARIABLES**

### **Forensic Accounting Evidence**

Forensic accounting is the science of using accounting as a tool to identify and develop proof of money flow. According to the Association of Certified Fraud Examiners (ACFE) (2004), forensic accounting is the use of skills in civil or criminal disputes, including generally accepted accounting and auditing principles; establishing losses or profit, income, property or damage, estimations of internal controls, frauds and others that involve inclusion of accounting expertise into the legal system.

According to Phipson (1990), evidence is testimony, which could be oral, documentary or real which may legally be received in order to prove or disprove some facts in dispute and that evidence in the real sense, is that which may be placed before the court in order that it may decide the issue of facts. Therefore, forensic accounting evidence looks at relevance, admissibility, materiality and facts in issue of an evidence.

### **Financial Crime Deterrence**

Classical theorists such as Beccaria believe that if individuals know that their undesirable acts will be punished, they will refrain from offending in the future. The theory of deterrence that has developed from the work of Beccaria (1963) and Bentham (1948) relies on three individual components: severity, certainty, and celerity. The more severe a punishment, it is thought, the more likely that a rationally calculating human being will desist from criminal acts (Musa, 2013).

### **Quality Prosecution**

The prosecutorial responsibility is to establish its case beyond reasonable doubt in order to secure a conviction. Section 138(1) of the Nigerian Evidence Act makes it mandatory that the standard of proof required in criminal trials by the prosecution is proof beyond reasonable doubt and the burden of prove rest with the prosecutor.

### **Underpinning Theory (Deterrence)**

The theory of deterrence that has developed from the works of Beccaria (1963) and Bentham (1948) relies on three individual components: **severity, certainty, and celerity**. The more severe a punishment, it is thought, the more likely that a rationally calculating human being will desist from criminal acts. To prevent crime, therefore, criminal law must emphasize penalties to encourage citizens to obey the law. Punishment that is too severe is unjust, and punishment that is not severe enough will not deter criminals from committing crimes. In short, deterrence theorists believe that if punishment is severe, certain, and swift, a rational person will measure the gains and losses before engaging in crime and will be deterred from violating the law if the loss is greater than the gain.

However, it can be criticized that even though the deterrence theory captured the three variables “Severity, Certainty and Celerity” as the best approach to reduce crime in the society. The theory itself is an inadequate tool for reducing crime significantly in the society. This is because the three indicators of deterrence (Severity, Certainty and Celerity) are not enough to measure deterrence when proportional punishment and equality before the law is ignored. The research suggests five sources of punishment deterrence to be identified with the acronym SCCEP which stands for Severity, Certainty, Celerity, Equality before the law and proportional punishment

## **EMPIRICAL REVIEW**

### **Relationship between Forensic Accounting Evidence and Financial Crime Deterrence**

Prior literature argued that forensic accounting evidence is a strong predictor of financial crime deterrence. Okoye and Gbegi (2013) acknowledged that there is a positive and significant relationship between forensic accounting evidence and financial crime deterrence. On the other hand, Paternoster (1987) disagree that forensic accounting evidence does not influence financial crime deterrence. Based on the above discussion this study asserts that: H 1. forensic accounting evidence does not have positive relationship with financial crime deterrence.

### **The moderation effect of quality prosecution on Forensic Accounting Evidence and Financial Crime**

Anzaku, Ismaila & Agube (2015) in their study ‘The theoretical Exploration of Punishment and Incarceration in Nigeria with severity, certainty and celerity of punishment as the key variables of study. It was concluded that quality prosecution can enhance financial crimes deterrence in Nigeria.

Paternoster (1987) examined twelve studies that analyzed the deterrent effect of perceived certainty in more fully developed causal models. As a result of controlling for other exogenous variables, support for deterrence again diminished due to poor quality prosecution. The expected relationship between perceived certainty and criminal behaviour was statistically significant in only two of the eight studies. Support for deterrence decreased further when multivariate tests and longitudinal models were employed. The study reveals that there is need for quality prosecution to enhanced financial crimes deterrence in Nigeria. This is because the position of the law states that evidence without quality prosecution is no evidence and quality prosecution without evidence is no case submission

Deterrence as a punishment measure for financial crime can only be adjudicated by a competent court of law. Beccaria (1963) and Bentham (1948), findings revealed that for punishment to significantly reduce financial crimes, it must be severe, certain and swift for all convicted persons, and this can only be achieved with sound evidence and quality prosecution. Based on the above discussion this study asserts that: H 2. Quality prosecution moderates the relationship between forensic accounting evidence and financial crime deterrence.

## METHODOLOGY

The study used Cross-sectional design as data were collected at a single point in time.

The study respondents were Lawyers, Judges and staff of economic and financial crimes and 399 survey questionnaires were randomly distributed. The research respondents were asked the extent of their agreement with 6 items of forensic accounting evidence and 9 items of financial crime deterrence and 9 items of quality prosecution. The agreement ratings were made on a 5-point Likert scale ranging from 1 (Strongly agree) to 5 (Strongly disagree). A total of 399 individuals completed the survey from a population of 10,8641 statically obtained using the Yamane (1967). The valid usable respondents stood at 244 (61%) and were found to be usable for further analysis. Therefore, a response rate of 61% is considered adequate for the analysis in this study because Sekaran (2003) suggested that a response rate of 30% is sufficient for surveys.

## RESULTS AND ANALYSIS

Descriptive statistics (means and standard deviations) was computed with the used of IBM SPSS (Version 20.0) (Coakes, 2013; Pallant, 2010).

**Table 1.1: Descriptive Statistics for Latent Variable**

Latent Constructs	Number of Items	Mean	Standard Deviation
Forensic Accounting Evidence	6	2.511	.376
Quality Prosecution	9	3.035	.892
Financial Crime Deterrence	10	2.511	.625

**Source: Computation from the field study (2019)**

Tabbe 1.1 shows that the overall mean for the latent variables are 2.511, 3.035 and 2.678 while the standard deviation range is 0.376, 0.892 and 0.625 suggesting that the data set is okay for analysis (Sekaran, 2003).

## Evaluation of Results

This study employed SPSS version 18 for descriptive statistics in the assessment of the measurement model and hierarchical regression for the analysis. Reflective measurement model comprises reliability, convergent validity and discriminant validity (Hair, Hult, Ringle & Sarstedt, 2014).

### MODEL QUALITY CRITERIA-CONVERGENT VALIDITY AND RELIABILITY

Table 1.2 summarizes the model quality criteria-convergent validity and reliability analysis. The composite reliability (CR) values of 0.981 (FAEV), 0.973 (QLTY) and 0.961 (FCRD) illustrate that all the two constructs have high levels of internal consistency and reliability.

**Table 1.2: Descriptive Statistic of Reliability**

Variable Name	No of Items	Cronbach Alpha	Composite Reliability
Forensic accounting Evidence	6	0.976	0.981
Quality Prosecution	9	0.954	0.973
Financial crime deterrence	9	0.958	0.961

Source: Computation from the field study (2019)

In this study, the AVE range is 0.939 to 0.942 which is higher than the correlation square matrix and are well above the minimum level of 0.50. Hence, the measures of three reflective constructs have a high degree of convergent validity (Hair et al., 2014).

**Table 1.3: Average Variance Extracted (AVE) Matrix of Variables**

Variable Name	1	2	3	4
Forensic Accounting Evidence (1)	1.000			
Quality Prosecution	0.939			
Financial Crime Deterrence (2)	0.942	1.000		

Source: Computation from the field study (2019)

**Table 1.4: Results of the regression analysis (Coefficients)**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	3.976	.204		19.469	.000
FAEV	.028	.056	.031	.500	.665
2 (Constant)	3.933	.216		18.208	.000

<b>FAEV</b>	.028	.056	.035	.501	.635
<b>QLTY</b>	.007	.011	.053	.6364	.471
<b>3 (Constant)</b>	4.564	.333		13.712	.000
<b>FAEV</b>	-.158	.094	-.197	-1.666	.097
<b>QLTY</b>	-.090	.041	-.687	-2.225	.027
<b>FAEV x QLTY</b>	.029	.020	.782	1.450	.055

a. Dependent Variable: Financial Crimes Deterrence

Source: Researchers computations 2019

To know whether there is a moderation effect we look at the **t-value** and **p-value** under the coefficient. Since the t-value = 2.463, p-value < 0.05 we can conclude that quality prosecution does not moderate the relationship between forensic accounting evidence and financial crime deterrence.

### CONCLUSION AND RECOMMENDATION

It is quite evident from the results that theory and practice in different areas are closely related. For instance, forensic accounting evidence construct and financial crime deterrence are found to have a positive but weak relationship, which means that any quality evidence cannot significantly lead to deterrence in a competent court of law. Also, the results showed that quality prosecution does not moderate the relationship between forensic accounting evidence and financial crime deterrence. There, we can conclude that the results of this study showed that forensic accounting evidence has direct and weak relationship with financial crime deterrence. This finding does not supports H1 because it is not significant, and the results is not consistent with the findings of (Okoye and Begi, 2013). Based on the research results, forensic accounting evidence does not significantly affect financial crime deterrence for the sample. Therefore, financial crime judgement should be introduced as a mediator so that prosecutors can focus on the dimensions of evidence in order to prove their case beyond reasonable doubt and this will enhance judgment which will deter the persistent increase in financial crimes in Nigeria. Anti-graft agencies should only prosecute if they have cogent, reliable and credible evidence to avoid character deformation, false prosecution and waste of resources. Judges should adjudicate and convict criminals only when the evidence is relevant, admissible, material and relates to the facts in issue and the judgement should be free and fair. Finally, punishment must be severe, certain, swift and proportional to deter



the persistent increase in financial crimes in the federal republic of Nigeria and the world at large.

## LIMITATIONS AND FUTURE RESEARCH

This study is based upon easy sampling process, thus general conclusion may not reflect 100% owing to limitations of time and budget, the study was only carried out on a small scale, which could be expanded in the future. In addition, there exist a slight difference in the laws of federal republic of Nigeria and other countries on prosecution of economics and financial crimes. A cross sectional study involving different countries can be carried out. Finally, since the direct relationship is very weak, further research works should introduce financial crimes judgment and quality prosecution as mediating and moderating variables respectively to make the model more robust.

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**FORENSIC ACCOUNTING EVIDENCE**

S/N	ITEMS	1	2	3	4	5
1	Banks statements showing financial transactions are relevant evidence in prosecution of economic and financial crimes.					
	Payment receipts issued as prove of payments are admissible in the court. of law					
	Financial statements are often material in prosecution of economic and financial crimes.					
	Electronic evidence like phone calls, text messages, emails and video records from financial institutions and service providers must relates to the facts in issue					
	The Demeanor of the accused can be link to or explain economic and financial crimes					
	Assets declaration submitted to code of conduct bureau can be used to detect financial crimes					

**FINANCIAL CRIME DETERRENCE**

S/N	ITEMS	1	2	3	4	5
1	In financial crime punishment, the benefits are often more than the pains					

2	Shame by peer groups and the public is a deterrence measure					
3	A well-publicized prosecution and judgment is often used by the court					
4	There is Assurance of apprehension of suspects by anti-graft agencies					
5	There is increased surveillance of financial crimes by anti-graft agencies					
6	There is swiftness with which criminal sanctions are applied after committing financial crimes					
7	Punishment of financial crimes are often proportional to all convicts					
8	Removal of immunity clause, executive pardon and plea bargain can enhance financial crimes deterrence					
9	The public is often well educated about the risk of committing financial crimes					

### QUALITY PROSECUTION

S/N	ITEMS	1	2	3	4	5
1	The prosecutors have the necessary skills to gather evidence at the investigation stage					
2	The EFCC has public trust					
3	The doctrine of fair hearing is often granted by prosecutors					
4	Prosecutors treat all groups of people with discrimination					
5	Prosecutors have the means and resources to record testimonies, store and maintain evidence, and keep track of pending cases and hearing dates					
6	There is prosecutorial competences of the prosecuting counsel of the EFCC					
7	The EFCC has the administrative system in which recovered money is kept					

<b>8</b>	Prosecutors often cooperate with persons/institutions who can furnish relevant information					
<b>9</b>	Plead by prosecutors and convicts after judgment are often considered before sentencing					