

Management Involvement and the Limit of Forensic Investigation in Nigeria

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ABSTRACT- The study evaluates the extent to which management involvement in the control environment, risk assessment, control activities, information and communication and monitoring could limit the usage of forensic investigation in Nigeria. The study used the staff of selected organization from five industries, namely: Health care, Food/Beverages & Tobacco, Conglomerate, Banking and Insurance. The study adopts a survey research design. Information were obtained from 982 respondents through the research questionnaire. The analytical tools applied were descriptive statistics, Pearson Product Moment Correlation Coefficient and One Way Analysis of variance. The result shows that management involvement in the internal control structures is inversely related with negative publicity of firms' related issues; loss of confidential information during forensic investigation, loss of employee's trust and increased cost of the forensic investigation. Other results show that management involvement reduces the tendency of engaging forensic investigation. This was because; they directly involve in strict risk assessment, control, communication and monitoring, so as to detect fraud, avert litigation and all forms of disputes. It was therefore recommended that management should be adequately involved in the entire process of the internal control structure, and they should foster a control environment that does not only encourage integrity but also communicate written policies and procedure and other issues on fraud and impending risk.

Keywords: Management involvement, forensic investigation, control environment, risk assessment, control activities, information and communication and monitoring, negative publicity,

I. INTRODUCTION

The potency of forensic investigation in detecting, preventing, remediating and deterring fraud and other forms of illegality has been proven several times over. Forensic accounting which is the tripartite

practice of utilizing accounting, auditing and investigative skills to assist in legal matters, are mostly used in cases relating to criminal investigation, professional negligence, arbitration service, settlement of insurance claim and dispute settlement (Modugu&Anyaduba, 2013; Naik, 2015). This is not devoid of the fact that the dexterous inculcation of forensic investigation by firm is encumbered with confidentiality issues, increased chances of threat and negative publicity, high forensic costs and loss of employee trust among others.

Management that is expected to be equal partners with their auditors in creating an environment that will neither condone, nor be conducive to the existence of illegal activities, is grappling with nuisance that would have been ordinarily averted, had they been involved in the observation of strict internal control measure and assumption of a state of fraud proof. It was specifically identified that most firms that used forensic investigation lose confidential data to outsider, since the scrutiny of a company' financial statement is done by an external forensic accountant and the chances of leakages of the confidential matter is always there (Sonkushre, 2012). This is coupled with the huge cost of forensic accounting because the procedure used involves high-end accounting software; while in most cases if no fraud is identified, employees are left with the feeling that employers does not have faith in them.

As a corollary, management involvement that would have lend credence to effective control environment and appropriate risk aversion and monitoring were relaxed by most firms who instead, engaged the forensic accounting investigators. It is in this light, the study evaluates the extent to which management involvement through control environment, risk assessment, control activities, information and communication and monitoring could limit the usage of forensic investigation in Nigeria.

1. Management involvement

The responsibility of preventing, detecting and investigating frauds and other irregularity in financial statements and all possible risk lies in the hands of management and the control mechanisms of the firm (Krstić, 2009). Management is responsible for "setting the tone" for their organization. They are expected to foster a control environment that encourages: integrity and personal and professional standards, leadership philosophy and operating style while promoting internal control throughout the organization and assignment of authority and responsibility.

Management involvement is usually exhibited when they establish and effectively communicate written policies and procedure, while ensuring that code of ethics are observed and the standard of conducts are religiously implemented in all ramifications of the organization's engagements. NSMFC (2005) confirmed that all levels of management must work together to create an integrated framework that lowers risk to an acceptable level and assists the organization in meeting its goals and objectives of serving public interest, instead of creating rooms or loopholes for frivolity that might amount to forensic investigation.

However, management involvement is the formation of a control environment, where commitment and competency thrive; together with all possible platforms to checkmate risk, manage changes, and communicate progress. It is a collective approach between management and auditors to monitor the organization's activities and respond appropriately to all forms of deficiencies or irregularities in organization's operational and financial responsibilities. Management involvement can therefore be fully exhibited through the control environment; risk assessment; control activities; information and communication & monitoring (CSOTC, 1994).

The control environment is the control consciousness of a firm in which the audit committee in most cases is often expected by the board of directors to give a view of the control environment in specific areas as well as on the organization as a whole (The Institute of Internal Auditors, 2014). The audit committee who liaises with both the internal and external auditors is usually separated from management so as to objectively examine management practices, strategies and financial operations. The control environment also evaluates the proficiency of staff in relation to their job prescription and also takes cognizance of the organization's risk tolerance level.

Risk assessment is also associated with the mechanism that is established to identify, analyze and manage risk. Risk which is the probability that an event or action will adversely affect the organization can be primarily categorized as errors, omissions, delay and fraud. For this to be fully achieved, management must inculcate the organization's strategic plan, operational objectives, identify the risk that is associated with the achievement of these plan and objectives and also manage changes that ensue. In view of this, several questions could be raised and answered by management. Such questions could include: What could impair our going concern? What is our greatest legal exposure? What must we do to succeed? How, when and where are we susceptible? How do we safeguard our assets? How could a person pilfer from the organization? What is the most useful information that we must rely on? And how reliable and relevant are the information we are giving out? (Modugu&Anyaduba, 2013).

These entire questions can be answered with appropriate action taken to avert any impending risk. It follows therefore that assessment of risk must be done from the top, down to the lower management, while paying more priority to risks that have the highest magnitude of occurrences. By this action, management together with the auditor will be more concerned with errors and irregularity rather than engaging the forensic accountant who distinct between errors of judgement and deliberate misrepresentation.

As regards control, the approach through which management involves in risk assessment is the same way they do in designing, implement and monitoring internal control system. Management must ensure that mechanisms are put in place to prevent and detect the occurrence of fraud and irregularity through approvals, authorizations and verifications. Prevention requires segregation of duties, where no one individual must be made to complete the cycle of a transaction, while detective function are achievable where management reviews performance, secure its assets and engages in the reconciliation of the organization's activities (Hayes, 2003).

Information and communication are also regarded as components management must involve into. Information is the vehicle by which control policies and procedures are introduced and reinforced and communication is the conduit by which employees become aware of management's commitment to internal controls (Dinapoli, 2010). Relevant, reliable, understandable and comparable information must be sorted for, processed and communicated within and outside the organization. Information on risk, performance, and plan is

expected to be communicated up, down and across an organization.

Under monitoring, management evaluates the effectiveness of the organization's internal control and examines its entire operations to ascertain their level of success, and to assess if applicable laws and regulation are being complied with (Noordin, 1997).

2. Management Involvement and the limitation of Forensic Investigation

Management involvement in control environment; risk assessment; control activities; information and communication & monitoring of the organizational activities is much more potent for organizational success with less possibility of byproducts. This is because, management involvement in the internal control framework together with its auditors brings about a much more formidable and reliable financial statement. Assets are safeguarded and other forms of risks are managed to a barest minimal. With all this in place, the possibilities of engaging forensic investigators are needless and likewise are the accompanying itches that come with it, such as: disruption of activities in the work place and negative publicity. This because any trial that confirms a fraud happening in the company comes under the public eye and gains negative publicity, which directly affects the reputation and investors relations of the company.

Forensic investigations into some forms of exposure are likely to be expensive and could be far from substantiating any proofs or ascertaining the level of negligence (Beredugo, Inah& Edom, 2014).

Ozkul and Pamukcu (2012) added that most management have taken step to improve the infrastructure of their internal control and accounting systems drastically in order to avoid fraud, theft and restoration of the badly needed public confidence. It follows therefore that forensic investigation might not necessarily be needed when the internal control structure are intact and where there is no room for litigation support or any form of dispute within and outside the organization; being that management have involved in the entire process of making sure circumstances that would warrant dispute or litigation requiring the forensic investigation are averted with utmost alacrity.

Moreover, Al Matarneh (2011) established that the monitoring mechanisms of internal auditing, external auditing and directorship do not only ensure the credibility of the financial reporting process but also raise the reliability of the internal control system. This mutual obligation also improves the process of risk management and guarantees the satisfaction of the internal and external users (Anderson, Rippey& Gibson, 1993).

However, where these responsibilities are adequately discharged; delinquency among stakeholders may not abound (IIA, 2003). The need for a forensic investigation will not arise. For this reason, the required scrutiny, the firm might have engaged into, had they contracted the forensic accountant, whose activities could amount to leakages of the confidential matter is avoided. The possibility of spending huge cost on forensic investigation, likewise the hard feeling that may befall employees, where cases of no fraud is identified and no one is indicted, while employees are left with the feeling that the employer does not have faith in them will also be offended (Sonkushre, 2012). This can be achieved if management involvement in the control environment; risk assessment; control activities; information and communication & monitoring of the organizational activities are highly substantive.

3. Research methodology

The study adopts the survey research design. Information were collated distinctively from five industries namely: Health care (Neimeth International, GlaxoSmithKline, May & Baker Nig. Plc.); Food/Beverages & Tobacco (Nestle Nigeria, Flour Mills, Coca Cola); Conglomerate (Unilever, P Z industries, John Holt Plc.); Banking (Eco Bank, GTBank, Union Bank Nig. Plc); Insurance (Mutual Benefit, Standard Alliance, Nem insurance Plc.). Information was elicited primarily from the staff of all these organizations located in Lagos state, Nigeria. The estimated staff strength of the industries used was 3169. However a sizeable number of 1200 was adopted as the sample size of the study. This figure far exceeds the true representation of the population, in order to cater for low response that may abound. The instrument used for data collection was the research questionnaire, while the analytical tools used include Pearson Product Moment Correlation Coefficient, Descriptive Statistics and the one way Analysis of Variance.

4. Presentation and analysis of result

Information collected from the respondents of the firms that makes up the five industries used in the study shows that, out of the 1200 copies of questionnaire distributed, only 982 copies were retrieved, representing 82 percent response rate. The Information collected from these groups' perception on management involvement in internal control structures and the limitations of forensic investigation are as presented below using PPMCC:

Table 1: Correlations

| | | Control Env | Risk Assessment | Control Activities | Info. & Comm. | Monitoring | Negative Publicity | Loss of Confidential info. | Loss of employee trust | Cost of forensic investigation |
|--------------------------------|---------------------|-------------|-----------------|--------------------|---------------|------------|--------------------|----------------------------|------------------------|--------------------------------|
| Control Env. | Pearson Correlation | 1 | .908** | .829** | .880** | .816** | -.024 | -.108** | -.078* | -.112** |
| | Sig. (2-tailed) | | .000 | .000 | .000 | .000 | .461 | .001 | .014 | .000 |
| | N | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 |
| Risk Assessment | Pearson Correlation | .908** | 1 | .926** | .973** | .907** | -.031 | -.097** | -.081* | -.112** |
| | Sig. (2-tailed) | .000 | | .000 | .000 | .000 | .336 | .002 | .011 | .000 |
| | N | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 |
| Control Activities | Pearson Correlation | .829** | .926** | 1 | .903** | .834** | -.058 | -.117** | -.099** | -.116** |
| | Sig. (2-tailed) | .000 | .000 | | .000 | .000 | .072 | .000 | .002 | .000 |
| | N | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 |
| Info. & Comm. | Pearson Correlation | .880** | .973** | .903** | 1 | .878** | -.025 | -.096** | -.079* | -.113** |
| | Sig. (2-tailed) | .000 | .000 | .000 | | .000 | .428 | .003 | .013 | .000 |
| | N | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 |
| Monitoring | Pearson Correlation | .816** | .907** | .834** | .878** | 1 | -.096** | -.075* | -.065* | -.108** |
| | Sig. (2-tailed) | .000 | .000 | .000 | .000 | | .003 | .018 | .040 | .001 |
| | N | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 |
| Negative Publicity | Pearson Correlation | -.024 | -.031 | -.058 | -.025 | -.096** | 1 | .278** | .205** | .206** |
| | Sig. (2-tailed) | .461 | .336 | .072 | .428 | .003 | | .000 | .000 | .000 |
| | N | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 |
| Loss of Confidential info. | Pearson Correlation | -.108** | -.097** | -.117** | -.096** | -.075* | .278** | 1 | .546** | .315** |
| | Sig. (2-tailed) | .001 | .002 | .000 | .003 | .018 | .000 | | .000 | .000 |
| | N | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 |
| Loss of employee trust | Pearson Correlation | -.078* | -.081* | -.099** | -.079* | -.065* | .205** | .546** | 1 | .303** |
| | Sig. (2-tailed) | .014 | .011 | .002 | .013 | .040 | .000 | .000 | | .000 |
| | N | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 |
| Cost of forensic investigation | Pearson Correlation | -.112** | -.112** | -.116** | -.113** | -.108** | .206** | .315** | .303** | 1 |
| | Sig. (2-tailed) | .000 | .000 | .000 | .000 | .001 | .000 | .000 | .000 | |

| | | | | | | | | | |
|---|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| N | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 982 |
|---|-----|-----|-----|-----|-----|-----|-----|-----|-----|

*. Correlation is significant at the 0.05 level (2-tailed).
 Source: field survey, 2020

Table 1 above shows the perceptions of the respondents through the correlational result of management involvement on internal control structures and the limitations of forensic investigation; the result shows there is an inverse relationship between management involvement in Control Environment [rcal = -.024, p-value < 0.05], Risk Assessment [rcal = -.031, p-value < 0.05], Control Activities [rcal = -.058 p-value < 0.05], Information and Communication [rcal = -.025, p-value < 0.05], and Monitoring [rcal = -.096, p-value < 0.05] and negative publicity of fraud related issues. All of which are significant at 0.05 level. Other correlations between management involvement in the internal control measures and the limitations of

forensic investigation which include loss of confidential information as a result of leakages during forensic investigation, loss of employee's trust and increased cost of the forensic investigation are inversely related.

Information from table 2 describes the mean response of the five industries used for the study. The table shows the breakdown of respondents of 145, 298, 185, 219 & 135 for Health care, Food/Beverages & Tobacco, Conglomerate, and Banking & Insurance respectively. For item one above, the responses within the industries, collectively shows the industrial mean average of 3.0031 and a standard deviation of 1.33295.

Table 2: Descriptive

| Industries | N | Mean | Std. Deviation | Std. Error |
|---|-----|--------|----------------|------------|
| 1. Management involvement reduces the tendency of engaging forensic investigators | | | | |
| Health Care | 145 | 3.3310 | 1.19056 | .09887 |
| Food/Beverage & Tobacco | 298 | 3.1007 | 1.33204 | .07716 |
| Conglomerate | 185 | 2.9676 | 1.36295 | .10021 |
| Banking | 219 | 2.7900 | 1.37530 | .09293 |
| insurance | 135 | 2.8296 | 1.29604 | .11155 |
| Total | 982 | 3.0031 | 1.33295 | .04254 |
| 2. Management involvement on strict risk assessment, control, communication and monitoring can avert litigation and dispute from all quarters | | | | |
| Health Care | 145 | 3.7517 | 1.19914 | .09958 |
| Food/Beverage & Tobacco | 298 | 3.5638 | 1.24355 | .07204 |
| Conglomerate | 185 | 3.3892 | 1.27684 | .09388 |
| Banking | 219 | 3.4932 | 1.36594 | .09230 |
| insurance | 135 | 3.8667 | 1.11837 | .09625 |
| Total | 982 | 3.5845 | 1.26285 | .04030 |
| 3. Most firms lose confidential data to outsider when they used forensic investigation. | | | | |
| Health Care | 145 | 3.8000 | 1.17023 | .09718 |
| Food/Beverage & Tobacco | 298 | 3.6141 | 1.10191 | .06383 |
| Conglomerate | 185 | 3.5351 | 1.14688 | .08432 |
| Banking | 219 | 3.8128 | 1.15997 | .07838 |
| insurance | 135 | 3.8519 | 1.11649 | .09609 |
| Total | 982 | 3.7037 | 1.13994 | .03638 |
| 4. Forensic investigation is costly and | | | | |
| Health Care | 145 | 3.6069 | 1.03613 | .08605 |
| Food/Beverage & Tobacco | 298 | 3.5537 | 1.20275 | .06967 |

| | | | | | |
|--|--------------|-----|--------|---------|--------|
| could lead to losing employees trust and corporate reputation. | Conglomerate | 185 | 3.3676 | 1.32903 | .09771 |
| | Banking | 219 | 3.3973 | 1.32796 | .08974 |
| | insurance | 135 | 3.1259 | 1.40058 | .12054 |
| | Total | 982 | 3.4328 | 1.26872 | .04049 |

Source: Field survey, 2020

The mean averages of the various industries fall within the range (3.3310 for health care; 3.10007 for Food/Beverage & Tobacco, 2.9676 for Conglomerate, 2.7900 for Banking and 2.7900 for insurance). This therefore supports the fact that management involvement reduces the tendency of engaging forensic investigators. This result was also supported by the f-statistics = 4.666 and $p < 0.05$ from the ANOVA table below.

Items two on table 2 shows the industrial mean average of 3.5845 and a standard deviation of 1.26285 coupled with the F- statistics =3.778 and $p < 0.05$. This means that most of the respondents in each industry agreed that management involvement on strict risk assessment, control, communication and monitoring can avert litigation and dispute from all quarters.

Items three on table 2 also shows the industrial mean average of 3.7037 and a standard deviation of 1.13994. It follows therefore that most firms lose confidential data to outsider when they used forensic investigation. This was also confirmed by the f-statistics = 2.823 and $p < 0.05$ from the ANOVA table in item 3.

Items four on table 3 also reveals an industrial mean average of 3.4328 and a standard deviation of 1.26872. With this result, it can be confirmed that forensic investigation is costly and could lead to losing employees trust and corporate reputation. This result was also supported with a f-statistics = 3.535 and $p < 0.05$ from the ANOVA table in item 4 below.

Table 3: ANOVA

| | Sum of Squares | Df | Mean Square | F | Sig. |
|---|----------------|-----|-------------|-------|------|
| 1. Management involvement reduces the tendency of engaging forensic investigators | Between Groups | 4 | 8.169 | 4.666 | .001 |
| | Within Groups | 977 | 1.751 | | |
| | Total | 981 | | | |
| 2. Management involvement on strict risk assessment, control, communication and monitoring can avert litigation and dispute from all quarters | Between Groups | 4 | 5.954 | 3.776 | .005 |
| | Within Groups | 977 | 1.577 | | |
| | Total | 981 | | | |
| 3. Most firms lose confidential data to outsider when they used forensic investigation. | Between Groups | 4 | 3.641 | 2.823 | .024 |
| | Within Groups | 977 | 1.290 | | |
| | Total | 981 | | | |
| 4. Forensic investigation is costly and could lead to losing employees trust and corporate reputation. | Between Groups | 4 | 5.632 | 3.535 | .007 |
| | Within Groups | 977 | 1.593 | | |
| | Total | 981 | | | |

Source: Field survey, 2020

5. Summary of findings conclusion and recommendation

The study was on management involvement and the limit of forensic investigation in Nigeria. Information collated from the staff of selected organization in five industries in Lagos State shows that there are inverse correlation between management involvement in internal control structure - control environment, control activities, information and communication, and monitoring - and negative

publicity of fraud related issues that was exposed by forensic investigation. Identified also was that management involvement can bring about a miniaturized experiences of loss of confidential information due to leakages during forensic investigation, loss of employee's trust and increased cost of the forensic investigation.

Other results show that, management involvement reduces the tendency of engaging forensic investigators on the ground that management

involvement in strict risk assessment, control, communication and monitoring could counter fraud, avert litigation and dispute from all quarters; while, it was also discovered that during forensic investigation, organizations is susceptible to losing confidential information to outsiders, lose employees trust if no fraud is identified, and lose corporate reputation, where the cases of fraud are publicized.

It can therefore be recommended that strict internal control structure must be put in place and adhere to, while management should be adequately involved in the entire internal control processes. They should foster a control environment that will not only encourage integrity but also communicate written policies and procedure and other issues on fraud or impending risk to appropriate quarters. Management should always ask pertinent questions on: what their exposures are? How a fraudster will steal from them? How reliable and relevant are the information they are giving out and information they must rely on? However, where these are adequately answered and observed, the tendencies of involving in forensic investigation on the ground of criminal investigation, professional negligence, arbitration service, settlement of insurance claim and dispute settlement may not be necessary.

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