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FORENSIC ACCOUNTING TECHNIQUES AND FRAUD DETECTION IN DEPOSIT MONEY BANKS (DMBs) IN NIGERIA

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ABSTRACT
Banking fraud remains a critical threat to Nigeria's financial system, necessitating robust detection mechanisms. This study examined the effect of forensic accounting techniques on fraud detection in Nigerian banks, using forensic audit and digital forensics as independent sub-variables, and fraud risk assessment and fraud reporting systems as dependent sub-variables. A survey design was adopted with 318 banking professionals in Lagos State. Simple linear regression analysis revealed that forensic audit significantly affects fraud risk assessment ($\beta = 0.624$, $R^2 = 0.508$, $p < 0.05$), while digital forensics significantly affects fraud reporting systems ($\beta = 0.589$, $R^2 = 0.475$, $p < 0.05$). Institutionalizing forensic accounting in Nigerian banks is strongly recommended.
KEYWORDS: *Digital Forensics, Forensic Accounting, Forensic Audit, Fraud Detection, Fraud Risk Assessment*

BACKGROUND TO THE STUDY

The global financial system has witnessed an alarming rise in fraudulent activities, particularly within the banking sector, threatening economic stability and investor confidence. Banks, as custodians of public funds, are uniquely vulnerable to sophisticated fraud schemes that undermine institutional integrity. In recent decades, forensic accounting has emerged as a critical discipline that bridges accounting, auditing, and investigative science to combat financial crimes. The increasing complexity of banking transactions has made traditional audit approaches insufficient in detecting and deterring fraud. This growing concern necessitates a rigorous examination of how forensic accounting techniques can be deployed to strengthen fraud detection mechanisms within financial institutions.

In Nigeria, the banking sector has experienced persistent fraudulent activities that have eroded public trust and destabilized financial institutions. The Central Bank of Nigeria (CBN) reported that Nigerian banks lost over ₦9.5 billion to fraud in the first half of 2023, reflecting a troubling upward trend (CBN, 2023). Despite regulatory reforms and the introduction of various internal control mechanisms, fraud remains a pervasive challenge. The ineffectiveness of conventional accounting and auditing methods in detecting sophisticated schemes has intensified calls for the adoption of forensic accounting techniques (Okoye & Gbegi, 2022). These techniques offer more proactive and investigative approaches to identifying financial irregularities.

Forensic accounting encompasses a broad range of investigative techniques that go beyond standard bookkeeping and financial reporting. Among the most widely adopted are forensic audit and digital forensics, both of which serve as sub-variables under the independent variable in this study. Forensic audits involve systematic examination of financial records to detect fraud, errors, and deliberate misstatements, while digital forensics entails the recovery and analysis of electronic data to trace fraudulent transactions (Enofe et al., 2023). These techniques, when properly deployed, provide empirical evidence that can be used in legal proceedings and institutional fraud prevention.

On the dependent variable side, fraud detection is operationalized through fraud risk assessment and fraud reporting systems, both of which represent measurable outcomes of effective forensic accounting deployment. Fraud risk assessment involves identifying, analyzing, and evaluating the likelihood and impact of fraudulent activities within banking operations (Adebisi & Matthew, 2022). Fraud reporting systems, on the other hand, refer to structured mechanisms through which identified fraud cases are formally communicated to relevant stakeholders. Together, these sub-variables provide a comprehensive framework for evaluating how forensic accounting techniques influence the detection of fraud in Nigerian banks.

The study is set against the backdrop of Nigeria's Revised Banks and Other Financial Institutions Act (BOFIA) 2020, which mandates stronger internal control and anti-fraud measures across all financial institutions. Despite legislative frameworks, the frequency and sophistication of banking fraud continue to escalate, suggesting a gap between policy intent and practical implementation. Scholars such as Nwosu and Eze (2022) argue that the limited adoption of forensic accounting practices in Nigerian banking institutions accounts significantly for the persistence of financial crimes. This study, therefore, seeks to empirically investigate the relationship between forensic accounting techniques and fraud detection in Nigerian banks.

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Statement of the Problem

Nigerian banks continue to grapple with escalating fraud despite the existence of regulatory frameworks and internal control systems. The Nigeria Inter-Bank Settlement System (NIBSS) reported 46,126 fraud cases in 2022 alone, resulting in losses exceeding ₦5.1 billion (NIBSS, 2023). These figures underscore a systemic failure in existing fraud detection mechanisms, raising urgent questions about their adequacy. The persistence of fraud threatens depositor confidence, bank liquidity, and the broader macroeconomic stability of Nigeria. Without effective detection systems, fraudulent actors exploit vulnerabilities in banking processes with increasing impunity.

Conventional auditing and compliance procedures have proven insufficient in addressing the dynamic and technology-driven nature of modern banking fraud. Most Nigerian banks still rely heavily on periodic audits and manual controls, which are reactive rather than proactive in nature (Ifeanyi & Chukwu, 2023). Forensic accounting techniques, which offer real-time investigative capabilities, remain underutilized in many banking institutions. There is also a shortage of trained forensic accountants in Nigeria, with the Association of Certified Fraud Examiners (ACFE) estimating that fewer than 2,000 certified professionals practice in the country compared to the demand (ACFE, 2022). This professional gap compounds the problem of ineffective fraud detection.

Empirical research on the nexus between forensic accounting and fraud detection in Nigerian banks remains sparse and inconclusive. While some studies have explored forensic accounting in the broader public sector, specific investigations within the banking industry are limited (Gbegi & Adebisi, 2023). Furthermore, existing studies have not comprehensively examined how forensic audit and digital forensics independently influence fraud risk assessment and fraud reporting systems. This study addresses this gap by providing focused empirical evidence on the role of specific forensic accounting sub-techniques in enhancing fraud detection outcomes within Nigeria's banking sector.

Aim and Specific Objectives

This study aims to examine the effect of forensic accounting techniques on fraud detection in Nigerian banks. Specifically, the study seeks to:

1. Evaluate the effect of forensic audit on fraud risk assessment in Nigerian banks.
2. Determine the effect of digital forensics on fraud reporting systems in Nigerian banks.

Hypotheses

H_{01}: Forensic audit has no significant effect on fraud risk assessment in Nigerian banks.
H_{02}: Digital forensics has no significant effect on fraud reporting systems in Nigerian banks.

Significance of the Study

This study holds significant value for multiple stakeholders across Nigeria's financial and regulatory landscape. For bank management and boards of directors, the findings provide empirical guidance on which forensic accounting techniques yield the greatest returns in fraud detection, enabling more informed resource allocation toward anti-fraud infrastructure. As fraud losses continue to erode bank profitability, understanding the relationship between forensic techniques and detection outcomes is critical to sustainable banking operations (Okoye & Gbegi, 2022).

For regulators such as the CBN and the Financial Reporting Council of Nigeria (FRCN), this study offers policy-relevant evidence to strengthen existing directives on fraud prevention and forensic investigation mandates. The findings can inform the revision of prudential guidelines to include standardized forensic audit requirements for all licensed banks. Regulatory bodies may also use the study's insights to benchmark minimum forensic accounting competencies required of bank compliance officers (Adebisi & Matthew, 2022).

The study contributes significantly to academic knowledge by filling empirical gaps in the forensic accounting literature specific to the Nigerian banking sector. It advances the application of Agency Theory and the Fraud Triangle Theory within an African banking context, providing a theoretical framework that future researchers can build upon. The research also opens new scholarly conversations on the integration of digital forensics into banking compliance systems, a relatively underexplored area in Nigerian accounting research (Enofe et al., 2023).

Scope of the Study

This study is geographically delimited to deposit money banks (DMBs) operating within Lagos State, Nigeria, which hosts the highest concentration of banking headquarters and financial activity in the country. The study focuses specifically on the forensic accounting sub-variables of forensic audit and digital forensics, and their effects on fraud risk assessment and fraud reporting systems as measures of fraud detection. The study covers the period from 2019 to 2024, capturing pre- and post-COVID-19 banking operations, major

regulatory reforms under BOFIA 2020, and recent digital banking expansion that has altered the fraud landscape. This timeframe ensures that findings reflect the most current realities of banking fraud in Nigeria.

LITERATURE REVIEW

Conceptual Review

Forensic Accounting is defined as the application of accounting principles, auditing techniques, and investigative skills to examine financial records for use in legal disputes, regulatory investigations, or fraud detection processes (Singleton & Singleton, 2021). It combines financial expertise with an understanding of legal standards and is deployed when fraud, embezzlement, or financial misconduct is suspected. Within the banking context, forensic accounting serves as both a detective and preventive mechanism that goes beyond the scope of traditional financial auditing (Okoye & Gbegi, 2022).

Forensic Audit, as a sub-variable, refers to a structured, evidence-based examination of an organization's financial records to detect, investigate, and document instances of fraud or financial misconduct (Enofe et al., 2023). Unlike conventional audits aimed at expressing an opinion on financial statements, forensic audits are designed to gather admissible legal evidence. In banking, forensic audits often target specific accounts, transactions, or individuals suspected of fraudulent activity, making them more precise and purposeful than general compliance audits (Nwosu & Eze, 2022).

Digital Forensics involves the identification, preservation, extraction, and analysis of electronic data to investigate cybercrime and financial fraud within digital banking systems (Ifeanyi & Chukwu, 2023). As Nigerian banks increasingly adopt internet banking, mobile platforms, and electronic fund transfer systems, fraudsters have migrated to cyber channels, making digital forensics indispensable. This technique enables forensic investigators to trace unauthorized transactions, recover deleted records, and identify perpetrators through electronic evidence trails (ACFE, 2022).

Fraud Detection is conceptualized as the process of identifying signs, patterns, or evidence indicating that fraudulent activities have occurred or are likely to occur within a financial institution (Adebisi & Matthew, 2022). It encompasses both reactive measures identifying fraud after it occurs and proactive strategies that flag suspicious activity in real time. Fraud detection is critical to banking integrity because undetected fraud compounds over time, eroding assets and stakeholder confidence (Gbegi & Adebisi, 2023).

Fraud Risk Assessment refers to the systematic identification and evaluation of vulnerabilities within banking processes that expose institutions to fraudulent exploitation (CBN, 2023). It involves mapping potential fraud scenarios, analyzing internal control weaknesses, and quantifying the financial impact of likely fraud events. Banks that conduct regular fraud risk assessments are better positioned to deploy targeted forensic accounting resources in areas of highest vulnerability (Okoye & Gbegi, 2022).

Fraud Reporting Systems encompass the formal and informal mechanisms through which detected or suspected fraudulent activities are communicated to appropriate internal and external authorities (NIBSS, 2023). Effective fraud reporting systems include whistleblower channels, incident reporting software, regulatory disclosures, and structured escalation protocols. The quality and timeliness of fraud reporting significantly determine how quickly institutions can contain fraud damage and cooperate with law enforcement (Enofe et al., 2023).

Theoretical Review

1. Agency Theory

Agency Theory, originally propounded by Jensen and Meckling (1976), posits that a principal-agent relationship exists when one party (the principal) delegates decision-making authority to another (the agent), and this separation creates informational asymmetry and potential for opportunistic behavior. In the banking context, shareholders (principals) delegate the management of funds to bank executives and employees (agents), creating conditions under which agents may act in self-interest at the expense of principals. This moral hazard problem is a fundamental driver of internal fraud within banking institutions (Jensen & Meckling, 1976).

The relevance of Agency Theory to this study lies in its ability to explain why forensic accounting mechanisms are necessary to close the information gap between principals and agents. Forensic audits serve as a monitoring mechanism that deters agents from engaging in fraudulent behavior by increasing the probability of detection. Digital forensics further strengthens this monitoring capacity by providing electronic surveillance of agent activities across digital banking systems (Adebisi & Matthew, 2022). By enhancing the transparency of agent actions, forensic accounting techniques directly address the principal-agent conflict that underlies banking fraud.

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2. Fraud Triangle Theory

The Fraud Triangle Theory, developed by Cressey (1953), proposes that fraud is perpetrated when three elements converge: perceived pressure (financial need or incentive), opportunity (weak internal controls), and rationalization (the perpetrator's justification of fraudulent conduct). This theory has become foundational in forensic accounting and fraud examination, providing a diagnostic framework for understanding the conditions under which fraud is likely to occur within organizations (Cressey, 1953).

This theory is directly applicable to this study because it identifies the structural vulnerabilities that forensic accounting techniques are designed to eliminate or reduce. Forensic audits are particularly effective at removing the "opportunity" element by exposing weaknesses in internal controls that fraudsters exploit. Digital forensics addresses all three elements by enabling investigators to trace electronic evidence of pressure (unusual financial behavior), opportunity exploitation (unauthorized access logs), and rationalization (communication records) (Gbegi & Adebisi, 2023). The Fraud Triangle thus provides the conceptual foundation for linking forensic accounting techniques to improved fraud detection outcomes.

Empirical Review

Okoye and Gbegi (2022) investigated the impact of forensic accounting on fraud reduction in Nigerian commercial banks using a survey of 120 staff from five banks. Their ordinary least squares regression results revealed that forensic audit significantly reduced fraud incidence ($\beta = 0.612$, $p < 0.05$), concluding that its adoption enhances banking integrity. However, the study did not isolate the specific effect of forensic audit on fraud risk assessment, a gap this study addresses.

Enofe, Abilogun, Omuchesi, and Alade (2023) examined digital forensics and fraud prevention in the Nigerian banking sector using structured questionnaires administered to 200 respondents across Lagos-based banks. Their findings indicated a strong positive relationship between digital forensics deployment and fraud reduction ($r = 0.74$, $p < 0.01$). The study, however, did not measure the specific effect of digital forensics on fraud reporting systems, which forms part of the investigative focus of the current study.

Adebisi and Matthew (2022) explored fraud risk assessment practices and their effectiveness in Nigerian deposit money banks through a longitudinal review of CBN fraud reports from 2015 to 2021. Results showed that banks with structured fraud risk assessment programs recorded 43% fewer fraud incidents than those without. The study relied solely on secondary data and did not examine the role of forensic accounting techniques in driving risk assessment effectiveness, a relationship this research directly tests.

Gbegi and Adebisi (2023) assessed the relationship between forensic investigation and fraud reporting compliance in Nigerian banks using panel data from 15 listed banks on the Nigerian Exchange Group (NGX) from 2016 to 2021. Using fixed effects regression, they found that forensic investigation significantly improved fraud reporting compliance ($\beta = 0.483$, $p < 0.05$). Their study, however, did not distinguish between forensic audit and digital forensics as separate predictors, nor did it focus specifically on the reporting system as a measurable outcome.

Nwosu and Eze (2022) surveyed 150 forensic accountants and bank compliance officers in Abuja to evaluate the adoption level of forensic accounting in Nigerian banks. Their findings revealed that only 34% of surveyed banks had dedicated forensic accounting units, and adoption was positively correlated with reduced fraud losses ($r = 0.61$, $p < 0.05$). The study's geographical limitation to Abuja and its exclusion of digital forensics as a distinct variable present opportunities for a broader and more technologically focused study.

Ifeanyi and Chukwu (2023) conducted a cross-sectional study examining the effect of digital forensic tools on electronic fraud detection in five Nigerian banks. Using multiple regression analysis on data from 180 respondents, they found that digital forensics tools significantly predicted electronic fraud detection ($\beta = 0.558$, $p < 0.01$). Despite robust findings, the study did not examine how digital forensics interfaces with formal fraud reporting systems, a critical dimension explored in the current research.

METHODOLOGY

Research Design

This study adopted a survey research design, which is appropriate for collecting quantitative data from a defined population to test hypothetical relationships between variables (Creswell, 2018). The design enables systematic measurement of respondents' perceptions and experiences regarding forensic accounting practices and fraud detection in banking institutions. A cross-sectional approach was employed, with data collected at a single point in time during the 2023–2024 fiscal period to reflect current operational realities.

Population and Sample Size

The target population comprised employees of the 14 deposit money banks (DMBs) with headquarters in Lagos State, as published in the CBN Licensed Financial Institutions List (CBN, 2023). The relevant staff categories included internal auditors, forensic accountants,

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compliance officers, risk managers, and IT security personnel, representing a total accessible population of approximately 2,800 professional staff across the 14 banks. Using the Taro Yamane (1967) formula at a 5% margin of error, a sample size of 341 respondents was determined and proportionately allocated across the 14 banks.

$n = N/1 + N(e)^2 = 2800/1 + 2800(0.05)^2 = 2800/8 = 341$

Sampling Technique

A stratified random sampling technique was employed to ensure proportional representation of staff from each bank and across the relevant professional categories. Each bank was treated as a stratum, with respondents selected randomly within each stratum to minimize selection bias. This approach ensured that staff from smaller specialized banks were not underrepresented relative to larger tier-one institutions (Sekaran & Bougie, 2022).

Research Instrument

Data were collected using a structured, closed-ended questionnaire developed on a five-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree). The instrument was divided into five sections: Section A captured demographic information; Sections B and C measured the independent variables (forensic audit and digital forensics); Sections D and E measured the dependent variables (fraud risk assessment and fraud reporting systems). Content validity was established through expert review by three senior forensic accounting academics and two CBN-licensed bank examiners.

Reliability

The reliability of the instrument was tested using Cronbach's Alpha coefficient. Results showed alpha values of 0.84 for forensic audit, 0.87 for digital forensics, 0.81 for fraud risk assessment, and 0.83 for fraud reporting systems, all exceeding the acceptable threshold of 0.70 (Nunnally, 1978). These values confirm the internal consistency and reliability of the research instrument across all variable constructs.

Data Collection and Response Rate

A total of 341 questionnaires were distributed physically and electronically to sampled respondents across the 14 banks in Lagos State between January and March 2024. Of these, 318 questionnaires were returned fully completed, yielding a response rate of 93.3%, which is considered highly satisfactory for survey research (Mugenda & Mugenda, 2019). The 23 unreturned or incomplete questionnaires were excluded from analysis to ensure data integrity.

Data Analysis

Collected data were analyzed using IBM SPSS Statistics Version 26. Descriptive statistics (mean, standard deviation, frequency distribution) were used to summarize demographic profiles and variable distributions. Simple linear regression analysis was used to test each null hypothesis, consistent with the study's two-variable objective structure. The level of significance was set at $p < 0.05$ for all hypotheses tests. Additionally, the Pearson Product-Moment Correlation coefficient was computed to examine the strength and direction of relationships between independent and dependent variables prior to regression.

FINDINGS

Descriptive Statistics

Analysis of the 318 valid responses revealed that 68.2% of respondents were male and 31.8% were female, with 74.5% holding Bachelor's degrees or higher qualifications. Respondents had an average work experience of 8.4 years in banking, suggesting adequate familiarity with fraud detection practices. The mean score for forensic audit adoption was 3.87 (SD = 0.72), indicating a moderately high level of adoption. Digital forensics recorded a mean of 3.64 (SD = 0.81), while fraud risk assessment scored 3.71 (SD = 0.76), and fraud reporting systems scored 3.58 (SD = 0.84), all on the five-point scale.

Correlation Results

The Pearson correlation analysis revealed a strong positive relationship between forensic audit and fraud risk assessment ($r = 0.713$, $p < 0.01$), suggesting that higher adoption of forensic audit is associated with more robust fraud risk assessment practices. Digital forensics also showed a significant positive correlation with fraud reporting systems ($r = 0.689$, $p < 0.01$), indicating that digital forensics deployment meaningfully strengthens the quality and timeliness of fraud reporting in Nigerian banks. Both relationships were statistically significant at the 1% level, providing preliminary support for the hypothesized relationships.

Hypothesis One: Effect of Forensic Audit on Fraud Risk Assessment

The simple linear regression analysis for Hypothesis One produced the following results: $R = 0.713$, $R^2 = 0.508$, Adjusted $R^2 = 0.506$, $F(1, 316) = 326.14$, $p = 0.000$. The regression coefficient for forensic audit was $\beta = 0.624$ ($t = 18.06$, $p < 0.000$), indicating that a unit

increase in forensic audit adoption leads to a 0.624 unit improvement in fraud risk assessment effectiveness. Since $p < 0.05$, the null hypothesis (H_{01}) is rejected, confirming that forensic audit has a significant positive effect on fraud risk assessment in Nigerian banks.

Hypothesis Two: Effect of Digital Forensics on Fraud Reporting Systems

For Hypothesis Two, regression results showed: $R = 0.689$, $R^2 = 0.475$, Adjusted $R^2 = 0.473$, $F(1, 316) = 285.73$, $p = 0.000$. The standardized coefficient for digital forensics was $\beta = 0.589$ ($t = 16.90$, $p < 0.000$), confirming that increased deployment of digital forensics tools leads to a 0.589 unit improvement in fraud reporting system effectiveness. The null hypothesis (H_{02}) is therefore rejected, establishing that digital forensics has a significant positive effect on fraud reporting systems in Nigerian banks.

Summary of Findings

The findings of this study establish two key empirical conclusions. First, forensic audit is a significant and strong predictor of fraud risk assessment, explaining approximately **50.8% of the variance** in fraud risk assessment outcomes ($R^2 = 0.508$). Second, digital forensics significantly enhances fraud reporting systems, accounting for **47.5% of the variance** in reporting system effectiveness ($R^2 = 0.475$). These results collectively affirm that the deployment of forensic accounting techniques meaningfully improves fraud detection capability in Nigerian banks, supporting the broader argument for institutionalizing forensic accounting in banking compliance frameworks.

Recommendations

Based on the empirical findings of this study, the following recommendations are made:

1. **Nigerian deposit money banks should institutionalize forensic audit** as a mandatory component of their internal control frameworks. Given that forensic audit explained over 50% of the variance in fraud risk assessment outcomes, banks should establish dedicated forensic audit units staffed by certified forensic accountants. The Central Bank of Nigeria should revise its regulatory guidelines to mandate quarterly forensic audits in all licensed banks, particularly in high-transaction departments such as treasury, credit, and electronic banking.
2. **Banks should significantly invest in digital forensics infrastructure** and trained cybercrime investigators to strengthen fraud reporting systems. The finding that digital forensics explains 47.5% of variance in reporting effectiveness demonstrates its critical operational value. IT security departments should be equipped with advanced forensic software tools such as EnCase, FTK (Forensic Toolkit), and ACL Analytics. Partnerships with the Economic and Financial Crimes Commission (EFCC) and the Nigeria Police Force Cybercrime Unit should be formalized to enable swift digital forensic investigations when fraud is detected.
3. **The Central Bank of Nigeria and the Chartered Institute of Bankers of Nigeria (CIBN)** should collaborate to develop a structured certification program for forensic accounting practitioners in the banking sector. Given the current deficit of fewer than 2,000 certified forensic professionals nationally (ACFE, 2022), expanding the professional base through accredited training programs will significantly improve the banking sector's collective fraud detection capacity. Banks should be incentivized to sponsor at least 10% of their audit staff for forensic accounting certification annually.
4. **Fraud reporting systems in Nigerian banks should be upgraded** to include real-time automated fraud alert mechanisms integrated with the NIBSS fraud reporting database. Since digital forensics significantly predicts reporting system effectiveness, banks should deploy AI-powered transaction monitoring systems that automatically escalate suspicious activities to compliance officers and the CBN. A standardized national fraud reporting template should be developed to ensure uniformity, comparability, and timeliness of fraud disclosures across all licensed institutions.

CONCLUSION

This study set out to examine the effect of forensic accounting techniques specifically forensic audit and digital forensics on fraud detection outcomes in Nigerian banks, measured through fraud risk assessment and fraud reporting systems. The empirical findings from 318 banking professionals in Lagos State confirmed that both forensic audit and digital forensics have significant and positive effects on fraud detection, with forensic audit accounting for 50.8% of variance in fraud risk assessment, and digital forensics explaining 47.5% of variance in fraud reporting systems. Both null hypotheses were rejected at the 5% level of significance, reinforcing the centrality of forensic accounting in combating banking fraud.

The findings are consistent with Agency Theory, which underscores the necessity of robust monitoring mechanisms to curtail opportunistic behavior by banking agents, and with the Fraud Triangle Theory, which highlights how forensic techniques systematically dismantle the opportunity element that enables fraud. Together, these theoretical anchors validate the practical and conceptual relevance of forensic accounting adoption in Nigerian banking institutions. The study advances existing literature by providing disaggregated empirical evidence on how specific forensic sub-techniques independently influence distinct dimensions of fraud detection.

Nigerian banks operating in an increasingly digitized and complex financial environment cannot afford to rely on conventional audit approaches that are reactive and temporally limited. The proactive, investigative, and legally admissible nature of forensic accounting

techniques positions them as indispensable tools in the modern bank's anti-fraud arsenal. As fraud evolves in sophistication and scale, the institutionalization of forensic accounting within banking regulatory frameworks is not merely an option but a strategic imperative for the sustainability of Nigeria's financial system.

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