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FORENSIC AUDIT AND FINANCIAL CRIME REDUCTION

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ABSTRACT

This study examined the effect of forensic audit on reducing financial crimes. Data were collected using a structured questionnaire from which 256 valid responses were retrieved. The study was carried out using descriptive statistics, and regression analysis. The results of the analyses showed that the use of technology in forensic auditing had a positive and significant effect ($\beta = 0.412$, $p < 0.05$) on financial crime reduction; and frequency of forensic audits also demonstrated a significant positive correlation ($r = 0.421$, $N = 286$, $p < 0.05$) with financial crime reduction. It was recommended that forensic auditing should be strategically implemented in organizations to enhance detection and prevention of fraudulent activities thereby improving financial transparency and integrity.

Keywords: forensic audit, financial crimes, information technology, fraud reduction.

1.0 Introduction

The spread of financial-related crimes in these developing economies is worrisome and disastrous, as many business organizations have collapsed due to financial fraud incidents and fund misstatements. Continuous fight against the spread of financial crimes should be a concern of researchers and business owners worldwide. Just like the public sector, the Nigerian private sector also needs forensic auditing due to statutory audit failure, as a way of investigating any reported case of fraud allegations or assets misappropriation (Adu et al., 2025).

The various financial crimes being committed by people in organizations or ordinary individuals include different financial frauds, laundering of money, bribery, embezzlement, extortion, tax evasion, and public corruption. Detecting some of these crimes through statutory audits is difficult and those incidentally are not usually reported for the fear of unwanted publicity. Corruption and other related financial crimes are global phenomena but their menace rates in developing countries just like Nigeria call for alarm (Adu et al., 2023).

Forensic auditors use a variety of techniques, including data analysis and digital forensics, to investigate financial records and identify discrepancies that may indicate fraudulent activity. These techniques enable forensic auditors to provide concrete evidence that can be used in legal proceedings to prosecute individuals or organizations involved in financial misconduct. The role of forensic auditors extends beyond detecting fraud; they also help organizations

design and implement internal controls to prevent future occurrences of financial crimes. By evaluating existing systems and recommending improvements, forensic auditors play a vital role in enhancing the overall governance and risk management frameworks within organizations (Adu&Adu, 2022).

According to Adu et al. (2024), Financial crime encompasses a range of illegal activities such as money laundering, bribery, looting, embezzlement, fraud, tax evasion, foreign exchange malpractice, and oil bunkering. Financial crimes are driven by a need for money resulting from greed, gambling, indebtedness, business failures, unwise investments, or attempting to sustain a lifestyle that exceeds one's financial capabilities. In Nigeria, corruption, money laundering, misuse of resources, and other related crimes have reached significant levels and are widespread in both the public and private sectors of the economy.

Adu et al. (2015) emphasized that in addition to detecting financial crimes, forensic auditors also have a vital function in preventing them. These professions assist organizations in implementing strong internal controls and fraud prevention procedures by conducting risk assessments and taking proactive steps. Forensic accountants play a crucial role in discovering any weaknesses in financial systems, which helps in devising measures to prevent fraudulent acts in advance.

Forensic auditors frequently act as advisors to organizations, offering essential expertise in fraud prevention and risk management. Due to their proficiency in financial analysis, they can suggest and execute strategies that improve the overall reliability of financial systems, thereby making it more challenging for criminals to take advantage of vulnerabilities (Adu et al., 2025).

In addition to identifying financial wrongdoing, forensic auditors play a crucial role in proactively preventing financial crimes within commercial organizations. With their specialized knowledge, they assist in establishing strong internal controls and implementing proactive actions to protect against fraudulent activity (Adu et al., 2024).

Forensic auditors are also responsible for educating and training personnel on fraud awareness and prevention. By fostering a culture characterized by attentiveness and adherence to ethical principles, firms can diminish the probability of financial crimes taking place among their employees. Training programme may encompass instructions on identifying phishing efforts, comprehending the significance of secure financial procedures, and swiftly reporting any suspicious actions (Adu&Abimboye, 2025).

Statement of the Problem

Financial crimes such as set misappropriation, money laundering, embezzlement, and fraud have increased in frequency in recent years, endangering the stability and integrity of financial institution as well as the whole economy, financial crime identification, prevention, and conviction continue to be difficult despite several legislative framework and enforcement tools. To detect, stop, and lessen financial crimes, forensic accounting which applies accounting knowledge to investigate financial anomalies is becoming more and more important (Adu et al., 2023).

With an estimated $5 trillion lost yearly because of fraud, money laundering, and corruption, financial crimes remain a serious problem worldwide despite tremendous developments in forensic auditing technologies and procedures. Since forensic auditors frequently find it difficult to trace illegal transactions across decentralized systems, the quick development of financial technology like block chain and cryptocurrencies has presented additional difficulties. Furthermore, there are gaps in the worldwide effort to reduce financial crimes because, despite regulatory organizations' efforts to tighten anti-money laundering (AML) and fraud detection requirements, the efficiency of these measures varies by location (Adu&Abimboye, 2025).

Although forensic auditing is crucial for detecting financial fraud and improving compliance, there is growing worried that the complexity and scope of contemporary financial crimes cannot be adequately addressed by present procedures and technology. Resource limitations, a lack of standard operating procedures, and a lack of cross-border cooperation in investigations are common problems for financial institutions and regulatory bodies. Delays in identifying crimes, a low rate of illicit asset recovery, and continuous financial harm to people, governments, and enterprises are the outcomes (Adu&Abimboye, 2025).

Research Objective

The main objective of this study is to ascertain the effect of forensic auditing on financial crimes reduction in an organization. The specific objective is to:
examine the effect of forensic technology on crime reduction

Research Question

How does forensic technology influence financial crime reduction?

Research Hypothesis

H_o: Forensic technology does not significantly influence financial crime reduction in KPMG Company, Lagos state, Nigeria.

2.0 Literature Review

Concept of Forensic Auditing

Forensic auditing is an investigative approach to financial management that focuses on detecting and preventing financial crimes such as fraud, embezzlement, and money laundering. It involves a detailed examination of financial transactions, records, and systems to uncover irregularities that could indicate misconduct. Unlike traditional auditing, which primarily ensures compliance with accounting standards and regulatory requirements, forensic auditing delves deeper into identifying the intent and methods behind fraudulent activities (Adu et al., 2023).

Forensic means searching, examining, tracking, and gathering information applicable to the court. On the other hand, forensic audit is a viable weapon for investigating financial frauds, embezzlement, corruption, money laundering, and the like. A forensic audit is all about using specific investigative audit procedures and accounting principles to obtain evidence applicable to the court (Adu et al., 2024).

The techniques of forensic audit include business intelligence, forensic analytic, database collection, whistleblowing, and background investigation. Data mining is the searching and analyzing of data in the gigabytes of systems to root out already buried useful information due to the passage of time. Ratio analysis may be computed to determine the well-being and to check on the financial health of a firm, which could also point to waste and abuse of funds and fraud. In the ratio analysis results, if the highest value to the lowest value is close to 1, then not many accounts doctoring exists, but if it was large, it indicates the possibility of fraud (Oyedokun, 2021).

Ezekiel (2021) in his study views forensic auditor skills and techniques as an essential predictor for fraud detection and prevention, which in turn could cause a reduction in fraudulent financial practice. The application of forensic auditing skills and experience has the probability of detecting and preventing the incidence of fraud, thereby resulting in the reduction of fraudulent financial activities in an organization. A major goal of forensic auditing is to gather evidence that can be used in court. A range of procedures are employed by forensic auditors, such as data analysis and looking at financial records and finding discrepancies that can point to fraud, using digital forensics. Forensic auditors can use these methods to produce tangible proof that can be used in court to bring charges against people or entities engaged in financial fraud. Beyond just identifying fraud, forensic auditors assist businesses in creating and putting in place internal controls that stop financial crimes from happening again. Forensic auditors are essential to strengthening an organization's overall governance and risk management frameworks since they assess current systems and suggest changes. By taking a proactive position, fraud is reduced, and a strong financial environment is created.

One of the primary ways forensic auditing reduces financial crimes is by identifying fraudulent transactions and discrepancies in financial records. By analyzing financial data, forensic auditors can detect anomalies, such as unexplained cash flows, irregular payment patterns, or inflated expenses, which may indicate fraudulent activities. These findings help organizations take corrective actions before financial crimes escalate, protecting assets and maintaining trust among stakeholders (Adebimpe, 2022).

Forensic auditing also strengthens corporate governance by enforcing accountability and transparency within organizations. Companies that implement forensic auditing practices are more likely to establish strong internal controls, reducing the opportunities for fraud to occur. When employees and executives are aware that financial transactions are subject to forensic scrutiny, they are less likely to engage in unethical practices. This creates a culture of integrity and compliance, which is essential for long-term financial stability (Adu et al., 2023)

Forensic Audit

A forensic auditing is the application of auditing principles, investigative techniques, and legal procedures to establish damages, loss, or gain on properties and collect evidence that is suitable for court purposes. Forensic auditing emerged due to the high incidence of fraud. It is a specialized area of auditing practices employed to provide suitable evidence that is relevant to legal issues. Forensic audit can prosecute the fraudsters, embezzlers, and other financial criminals or suspects.

Number of Forensic Auditors Employed

The presence of qualified forensic auditors significantly impacts the effectiveness of forensic auditing in organizations. The number of forensic auditors employed serves as an indicator of an organization's commitment to fraud detection and financial crime prevention. A higher number of forensic auditors typically suggests a stronger forensic audit function, leading to better oversight, timely identification of financial irregularities, and enhanced fraud mitigation (Adu et al., 2025).

Forensic auditors are skilled in fraud investigation, litigation support, and financial crime detection. Their expertise in forensic accounting, digital forensics, and regulatory compliance enables them to uncover financial misstatements and fraudulent activities effectively. Organizations with a well-structured forensic audit team are better positioned to enforce corporate governance and financial accountability (Ezekiel, 2021).

Use of Technology in Forensic Auditing

The integration of technology in forensic auditing has revolutionized the detection and prevention of financial crimes. Digital forensic tools, data analytics, artificial intelligence, and blockchain technology enhance fraud detection and investigation processes. The use of technology serves as a key proxy for measuring the efficiency and accuracy of forensic auditing practices (Oyedokun, 2021).

Block chain technology has further strengthened forensic auditing by ensuring transparency and immutability in financial transactions. Transactions recorded on a block chain ledger are secure, tamper-proof, and easily traceable, reducing the chances of financial fraud. Similarly, forensic auditors use cybersecurity tools to investigate financial crimes related to cyber fraud, digital transactions, and unauthorized access to financial systems (Adu et al.,2015).

The effectiveness of forensic auditing is enhanced when organizations invest in technological tools such as forensic accounting software, automated fraud detection systems, and forensic data analysis platforms. By leveraging technology, forensic auditors can conduct more comprehensive investigations, improve efficiency, and reduce the time required to detect and resolve financial crimes (Adu&Adu, 2022).

Characteristics of Forensic Auditing

Forensic audits require analysis of financial transactions and compilation of the information for use in court cases. The forensic auditor may also examine a company's financial systems to determine the reliability, accuracy, and strength of internal control systems. Court cases requiring the evidence provided by a forensic accountant may include commercial litigation, business valuation, divorce, bankruptcy, and, of course, fraud. A forensic accountant's report must meet the standards of presentation before a court of law (Adebimpe,2022).

Importance of Forensic Auditing

In forensic auditing, an unsolved problem is addressed using financial expertise and investigative skills within the framework of the rules of evidence. Forensic auditors ought to be knowledgeable about various accounting, auditing, legal, and investigative techniques (Adu et al., 2023). They should be accompanied by soft skills and strong ethical principles.

3.0 Methodology

Population of the Study

The population of this study comprised 1,000 employees of KPMG Company in Lagos State. These individuals were selected as the focus of the study because they represent professionals likely to have knowledge and experience in auditing, internal control, and financial crimes reduction.

Sampling Sizes and Sampling Techniques

The sample size for this study was determined using Taro Yamane's Formula, which yielded a sample size of (286) from a population of (1,000) population size.

Source of Data Collection

The questionnaire was constructed to generate the required information for the study.

Method of Data Analyses

Data were analyzed using the statistical package of social sciences (SPSS) program to interpret the data. Regression analysis was used for data. These was done to test the extent of the role of forensic auditing in reducing financial crimes in an organization.

4.0 Data Presentation, Analysis, and Interpretation

Testing of Hypothesis

Ho: Technology does not significantly influence financial crime reduction

Table : Influence of Technology Variables on Financial Crime Reduction

Variable	Sum of Squares (Regression)	df	Mean Square	t-Statistic	Sig. (p-value)
Use of forensic software in forensic auditing	1.96	1	1.96	-3.420	0.001
Computer security measures	0.16	1	0.16	1.810	0.071
Technology reduces chances of human error	4.92	1	4.92	7.021	0.000
Computer-assisted audit techniques used by forensic auditors	2.81	1	2.81	-4.445	0.000
Advanced data analysis enhances detection of financial crime	2.02	1	2.02	-3.009	0.003

Source: fieldwork 2025

The regression analysis conducted to test the hypothesis that technology does not significantly influence financial crime reduction in KPMG Lagos revealed a moderate positive relationship between the predictors and the dependent variable, as indicated by an R value of 0.536. The R Square of 0.287 suggests that approximately 28.7% of the variance in timely reporting of financial crimes to regulatory agencies can be explained by the combined technological factors entered in the model. This indicates a reasonably strong model fit in explaining the role of technology in financial crime reduction within the company.

The ANOVA results show that the overall regression model is statistically significant ($F(5, 250) = 20.154$, $p < 0.001$), which means the set of technological variables collectively predict financial crime reporting behavior effectively. This rejects the null hypothesis that technology does not influence financial crime reduction, confirming that technology has a significant impact in this context.

Looking at individual predictors, some variables have a significant positive influence, such as "Technology reduces the chances of human error in forensic auditing" ($\beta = 0.378$, $p < 0.001$), highlighting its critical role in improving audit accuracy and reducing financial crime. However, some variables like "Use of forensic software" ($\beta = -0.201$, $p = 0.001$), "Computer-assisted audit techniques" ($\beta = -0.240$, $p < 0.001$), and "Advanced data analysis" ($\beta = -0.176$, $p = 0.003$) have a significant but negative relationship with financial crime reporting, which may suggest areas where further investigation or improvements are needed. The use of computer security measures showed a positive but marginally insignificant effect ($p = 0.071$), indicating it might contribute but not strongly enough on its own. Overall, technology plays a significant and nuanced role in reducing financial crime at KPMG Lagos.

5.0 Summary, Conclusion and Recommendations

Summary of Findings

Hypothesis (H_0):

Technology does not significantly influence financial crime reduction in KPMG, Lagos State.

The regression model yielded $R = 0.536$ and $R^2 = 0.287$, indicating that 28.7% of the variance in crime reduction is explained by technology-related variables, a meaningful proportion.

The ANOVA test was significant ($F = 20.154$, $p < 0.001$*), indicating that the collective influence of the technological factors is statistically significant.

Specific predictors with significant effects: Technology reduces human error ($p < 0.001$): This was the most influential positive predictor, confirming that automation enhances audit precision. Advanced data analysis and computer-assisted audit techniques had negative coefficients despite statistical significance ($p = 0.003$ and < 0.001, respectively), possibly reflecting implementation inefficiencies or misalignment in tool use. Computer security measures had a marginally non-significant effect ($p = 0.071$), indicating limited standalone impact. The null hypothesis is rejected. Technology significantly impacts financial crime reduction in KPMG, but its effectiveness depends on how well the tools are implemented and integrated into organizational processes.

The importance of leadership involvement in audit implementation and oversight.

Conclusion

Based on the analysis of data and testing of hypotheses, the study concludes that financial crime reduction at KPMG Lagos is significantly influenced by the integrated effect of technology.

Recommendations

Strategic Investment in Technology: Organizations should invest in advanced forensic tools and ensure their consistent application across all departments. Training programs should be instituted to improve users' competency and maximize the benefits of these technologies.

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