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The Impact of Forensic Audit on Investment Decision Among Listed Deposit Money Banks in Nigeria

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Abstract: The impact of forensic auditing on investment choices in Nigeria's listed Deposit Money Banks (DMBs) is investigated in this study. Conventional auditing techniques have failed to combat fraud and advance transparency in the face of pervasive financial irregularities and frequent business scandals in the public and private sectors. In order to address financial fraud, forensic accounting—an methodology that combines auditing, investigative, and legal methodologies—has become more popular. The study focusses on how Return on Investment (ROI) in the Nigerian DMB sector is impacted by audit quality and auditor skill. The study found a positive but statistically insignificant correlation between audit quality and ROI by employing a census technique that included all 14 mentioned DMBs and multiple regression analysis of secondary data in SPSS (version 25). On the other hand, auditor expertise showed a notable positive impact on ROI, underscoring its crucial role in better financial results. The results highlight how crucial it is to improve auditor competency in order to increase investor confidence and guide wise investment choices. The study promotes more funding for auditor education and capacity building in order to boost investment performance and increase the accuracy of financial reporting.

Keywords: Forensic Audit, Auditor Expertise, Audit Quality, Return on Investment (ROI), Deposit Money Banks, Nigeria.

BACKGROUND TO THE STUDY

Banks are the foundation of any economy, and the financial sector includes both banking and non-banking financial firms. Fostering economic development requires a banking system that is both stable and effective (Sunday & Christian, 2019). However, corruption is pervasive in both public and private institutions in Nigeria, and financial accountability is still lacking. The credibility, timeliness, and transparency of financial reports have all been severely damaged by these unethical actions (Owolabi, 2021).

Given the increasing complexity of financial crimes, traditional auditing techniques have continuously failed to identify and stop fraud. The rise in financial scandals around the world has made financial integrity a top priority for both international stakeholders and regulators (Full-Paper-FORENSIC-ACCOUNTANTS-RESPONSIBILITY-COMPETENCY.Pdf, n.d.).

As consumers of financial statements—especially investors—demand information that is reliable and pertinent, the accuracy of financial reporting has come under more scrutiny. The reliability of financial reporting has been called into question by the demise of multiple corporate entities (Muhammad *et al.*, 2024). Investors and stakeholders, including DMBs, usually consider growth, profitability (e.g., net profit margin, gross profit margin, EBITDA), liquidity (e.g., current and quick ratios), and leverage (e.g., debt-to-equity and debt-to-asset ratios) when making investment decisions. However, questions have been raised concerning the validity of statutory auditors' opinions due to the ongoing frequency of institutional failures and corporate scandals.

Forensic accounting and auditing have become a global response, including in Nigeria, to the incapacity of traditional auditors to identify and resolve financial wrongdoing in the public and commercial sectors (Abu *et al.*, n.d.). Corporate fraud is becoming more and more common, as evidenced by high-profile cases in Nigeria involving Oceanic Bank, Afribank, and Intercontinental Bank, as well as worldwide events like the failures of Enron (2001), WorldCom (2002), Tyco (2002), Freddie Mac (2003), and AIG (2005). Other noteworthy scandals include those involving local businesses such Union Dicon Salt, Cadbury, and Lever Brothers (now Unilever), as well as Parmalat in Italy, Xerox, and Global Crossing in the United States. The necessity for a more efficient fraud detection system is further highlighted by the Central Bank of Nigeria's decision to fire a number of bank officials due to fraud allegations (2-1.Pdf, n.d.).

The need for forensic accountants to acquire the skills required to recognise and address indications of poor corporate governance, poor management, and fraudulent conduct has grown as a result of these company failures. These days, forensic experts need to

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be skilled in methods that aid in identifying, looking into, and preserving proof of financial irregularities. Modern financial fraud, particularly in electronic forms, has become so sophisticated that it frequently eludes detection despite advancements in accounting standards (2-1.Pdf, n.d.).

Forensic accountants of today are required to have specific abilities that allow them to identify management shortcomings, evaluate governance flaws, and expose fraud. In legal and financial situations, forensic accounting—which combines accounting, auditing, and investigation skills—is essential for identifying financial irregularities and assisting with legal proceedings (Agboare, 2021). According to Agbo *et al.* (2023), forensic accounting is a speciality area of accounting that focusses on activities pertaining to current or potential legal problems.

In order to combat financial malfeasance, organisations like the Independent Corrupt Practices and Other Related Offences Commission (ICPC), the Financial Reporting Council of Nigeria, and the Economic and Financial Crimes Commission (EFCC) were established in response to the rise in scandals in both the public and private sectors in Nigeria.

Addressing fraud is crucial to ensuring banks operate at their best, either by completely eliminating it or drastically reducing its incidence. The practical use of forensic auditing techniques is essential to forensic accountants' capacity to successfully stop fraud in Nigeria's financial sector, especially among Deposit Money Banks (DMBs).

Thus, the main goal of this study is to evaluate how forensic auditing affects investment choices made by Nigerian listed Deposit Money Banks.

The specific objectives are;

- To determine the effect of audit quality to return on investment of DMBs in Nigeria
- To Determine the effect of auditor's expertise to return on investment of DMBs in Nigeria.

Furthermore, in other to achieve the specific objectives, the following research questions were asked;

- What is the effect of audit quality on return on investment of DMBs in Nigeria?
- What is the effect of auditor's expertise on return on investment of DMBs in Nigeria?

The following testable hypothesis were formulated:
HO_1: There is no significant impact of audit quality on return on investment of DMBs in Nigeria.
HO_2: There is no significant impact of auditor's expertise on return on investment of DMBs in Nigeria.

LITERATURE REVIEW

Forensic Auditing

The demand for forensic accountants has grown dramatically as businesses come under more scrutiny for their financial practices, highlighting the critical role that this profession plays in promoting accountability and transparency (Paramole, 2025). The Latin word forum, which denoted public debate or court proceedings, is where the word "forensic" comes from. Peloubet originally used the term "forensic accounting" in 1946 to describe the application of accounting knowledge to settle legal issues (Efosa & Kingsley, n.d.).

Many academics have studied and defined the terms forensic accounting and forensic auditing, which are frequently used interchangeably. The term "forensic" refers to the application of scientific methods to handle issues emerging from criminal activities or legal difficulties and is linked to crime solving. As a reliable and fact-based approach to bolster financial investigations and stop financial malfeasance in all of its manifestations, it was brought into accounting (Muhammad *et al.*, 2024). The legal aspect of forensic accounting also includes litigation support, when forensic accountants evaluate, interpret, and present financial data while frequently testifying as experts in court. Forensic audits differ from regular audits, which usually focus on internal control assessment, error discovery, and prevention, by applying investigative techniques specifically designed for fraud detection.

Accounting, auditing, and investigative skills are used in forensic auditing to assist legal procedures. In the context of legal or financial issues, it entails gathering, verifying, evaluating, and reporting financial facts in addition to providing preventive advice (Adams, n.d.).

Due to stakeholder demands for more efficient fraud mitigation techniques, forensic accounting has drawn significant attention in recent years. Because they have sophisticated investigation skills that enable them to go beyond standard financial audits, forensic accountants carry out a wider range of tasks than regular auditors (Muhammad *et al.*, 2024). The discipline's crucial significance in fraud detection has made it a focus of research in several nations (Agboare, 2021). Even though fraud cannot be completely eradicated in any environment, including the family, workplace, or society at large, it can be efficiently addressed by experts who have received the necessary training and are skilled in fraud detection.

Forensic accounting is designed to identify financial fraud, guarantee the truth of financial reports, and encourage adherence to regulatory norms, as stated by Paramole (2025). When called upon, forensic accountants can provide expert court testimony, assess financial statements, and spot financial irregularities.

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Investment Decision

Long-term planning is required when making investment decisions, where current consumption is exchanged for future returns with the hope that today's investments will eventually generate more revenue.

A company's financial statement is a tool for communicating to stakeholders, including lenders, investors, and the general public, about its financial health. Potential investors can use these reports to make well-informed choices. By highlighting a company's financial position's advantages and disadvantages, financial statement analysis is essential when making investment decisions.

In addition to highlighting the company's profitability and performance possibilities, financial statement analysis assists investors in identifying any risks or "red flags" in an investment opportunity. A positive return on investment (ROI) is the primary objective of any investment since no investor wants to waste money. Since ownership and management are kept apart in contemporary corporations, it is presumed that professional managers, who are thought to have greater skills, are tasked with running these businesses. However, the public's confidence in audited financial accounts has been damaged by well-known financial scandals like those involving Cadbury Nigeria, Enron, WorldCom, Qwest, and Parmalat.

Nigerian Deposit Money Banks

Deposit money banks, which offer services including savings, loans, and financial transactions, are essential to Nigeria's financial system. Investors, regulators, and auditors keep a close eye on the banks that are listed on the Nigerian Stock Exchange (NSE). Forensic auditing is intended to strengthen the operational openness and public trust that are essential to these institutions' success.

THEORITICAL REVIEW

Experts have created a number of hypotheses over time to explain the psychological state of fraudsters. Forensic accountants must first understand how criminals think in order to identify and stop fraud. Three major theoretical frameworks—the Fraud Triangle, the Fraud Diamond, and the Fraud Box Key Model—serve as the foundation for this investigation.

Theory of Fraud Triangle

Donald Cressey, a criminologist, developed the Fraud Triangle in 1950 to investigate the root reasons of fraudulent activity. People who first accepted positions of trust in good faith but later broke that trust were the subject of Cressey's inquiry. After speaking with more than 250 of these people, he determined that pressure, opportunity, and rationalisation are the three essential components needed for fraud to happen.

According to Cressey, pressure—which frequently originates from personal issues like financial hardship, medical bills, addictions, or the desire for an opulent lifestyle—is what propels dishonest behaviour. Opportunities come from gaps in an organization's internal systems, especially inadequate internal controls, which facilitate fraud. The term "rationalisation" describes the reasoning fraudsters employ to justify their behaviour, persuading themselves that the advantages outweigh the dangers. To successfully spot possible fraud schemes, forensic auditors need to comprehend how these components function, particularly the chances brought forth by system faults (Godwin E., 2018).

Theory of Fraud Diamond

In 2004, Wolfe and Hermanson presented the Fraud Diamond theory, which adds capability as a fourth component to the Fraud Triangle. According to this view, the person must be able to repeatedly take advantage of the circumstance, even though pressure, opportunity, and justification are necessary.

Wolfe and Hermanson define capability as having qualities like intelligence, self-assurance, and the capacity to control others or subvert internal systems. When someone with the requisite power and capabilities recognises a fraudulent opportunity, they are more likely to take advantage of it more than once. The inclusion of capabilities offers a more thorough comprehension of the fraud execution process.

Fraud Box Key Model

The Fraud Box Key Model, created by Okoye and Onodi in 2014, tackles the alleged shortcomings of the Fraud Triangle and Fraud Diamond. It alters the Fraud Diamond by adding a fifth component, corporate governance, which oversees the previous four components: capability, opportunity, pressure, and rationalisation.

According to the model, a fraudster's decision-making process might be triggered by flaws or shortcomings in corporate governance frameworks, increasing the likelihood of fraud. Ineffective management or neglect of corporate governance essentially "unlocks" the possibility of fraudulent activity by creating the conditions required for fraud to flourish.

METHODOLOGY

The research design adopted for this study the ex-post facto research design or correlational research design which fall under non- experimental class of quantitative research design. This design was adopted because it helps to explain the relationship between the dependent and independent variables and also the researcher is not able to manipulate the variables because they first are assumed to have occurred against the fact that they have actually occurred and are verifiable. Furthermore, the adoption of this research design is also

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as a result of the reliance on secondary data that are quantitative in nature and does not require or involve experiments in the process of data collection. The population of this study is made up of fourteen (14) listed deposit money banks on the floor of the Nigeria Exchange Group. All the fourteen DMBs were used for the analysis using census approach. This analysis (census approach) is used because the process of data collection involves gathering data from the entire population. Data were analyze using multiple regression with the use of SPSS 25 version.

Variable Measurement

- Return on investment (ROI): Net profit divided by Cost of investment multiply by one hundred percent.
- Auditor's quality (AUQ): measured by audit firm reputation and audit committee independence
- Auditor's Expertise (AUDEXPERT): The number of years of experience.

The regression model for this study is depicted below;

ROI= F(AUQ, AUDEXPERT) ……………………………………….3.1

NPM= β_O + β_1AUQ+ β_2AUDEXPERT + U …………………………..3.2

Where,

ROI= Return on investment

β_O = Constant Concept

β_1AUQ = Beta of Audit quality

β_2AUDEXPERT = Beta of Auditor's expertise

U = Error Term

RESULTS AND DISCUSSIONS

Descriptive Statistics

	Mean	Std. Deviation	N
ROI	.1378	.02745	12
AUQ	6.9583	1.09665	12
AUDEXPERTISE	7.0833	2.15146	12

From the table above, ROI is 13.78%, indicating that investments in this group generated a return of approximately 13.78% on average. The standard deviation of 2.75% indicates that most ROI values will fall within a range of 11.03% to 16.53% (i.e., 13.78% ± 2.75%). This suggests moderate variability in ROI among the investments.

Furthermore, an average audit quality is 6.96%, which might indicate a relatively low level of audit quality if higher percentages are associated with better quality. The standard deviation of 1.10% suggests that most audit quality scores will fall within a range of 5.86% to 8.06% (i.e., 6.96% ± 1.10%). This indicates relatively low variability in audit quality among the sample.

More so, an average audit expertise score is 7.08, indicating a relatively high level of expertise. This suggests that auditors in the sample have a good understanding of auditing principles and practices. The standard deviation of 2.15 indicates moderate variability in audit expertise among the sample. This suggests that while many auditors have high expertise, there is some variation in skills and knowledge.

Correlations

		ROI	AUQ	AUDEXPERTISE
Pearson Correlation	ROI	1.000	.809	.965
	AUQ	.809	1.000	.888
	AUDEXPERTISE	.965	.888	1.000

The correlation coefficient of 0.809 indicates a strong positive relationship between ROI and Audit Quality. This suggests that as Audit Quality increases, ROI tends to increase as well. Also, the correlation coefficient of 0.965 indicates an extremely strong positive relationship between ROI and Audit Expertise. This suggests that as Audit Expertise increases, ROI tends to increase very closely. Furthermore, the correlation coefficient of 0.888 indicates a very strong positive relationship between Audit Quality and Audit Expertise. This suggests that as Audit Expertise increases, Audit Quality tends to increase closely.

Table 4.3: Summary of Robust Ordinary Least Square Regression

Variables	Coeffi	T-Stat	Prob	Summary
Constant	0.072	4.019	0.003	
AUQ	-0.006	-1.311	0.222	
AUDEXPERT	0.015	6.748	0.000	
R				0.971
R^2				0.943
F-Statistics				74.461
P-Value				0.0000
Durbin-watson				2.856
VIF				4.721

Source: Result output from SPSS 25

From the result above, there is a high R-square value 0.943. This indicates that the model explains a large proportion of the variation in ROI. Succinctly, the overall model is statistically significant. The coefficient for Audit Quality is not statistically significant (p-value: 0.222), suggesting that Audit Quality may not have a significant impact on ROI. Furthermore, the coefficient for Audit Expertise is statistically significant (p-value: 0.000), suggesting that Audit Expertise has a significant positive impact on ROI.

HO_1: There is no significant impact of audit quality on return on investment of DMBs in Nigeria.

The result shows that there is no significant impact of audit quality on ROI. Therefore, this study fails to reject the null hypothesis, as the p-value (0.222) is greater than the typical significance level (0.05). This suggests that Audit Quality may not have a significant impact on ROI.

HO_2: There is no significant impact of auditor's expertise on return on investment of DMBs in Nigeria.

The study found out that there is a significant impact of auditor's expertise on ROI, hence the study rejects the null hypothesis, as the p-value (0.000) is less than the typical significance level (0.05). This suggests that Audit Expertise has a significant positive impact on ROI.

CONCLUSION

Auditor expertise is a key driver of ROI in deposit money banks in Nigeria.

While audit quality correlates with ROI, its independent contribution becomes insignificant when auditor expertise is accounted for.

The overall model is robust and statistically significant, showing the importance of audit-related competencies in financial performance.

RECOMMENDATION

- **Prioritize Auditor Expertise**: Banks should invest in engaging auditors with high technical expertise and industry experience, as this significantly enhances ROI.
- **Continuous Training**: Ongoing professional development and certifications should be encouraged to maintain auditor competence.

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