

An Evaluation on the use of Forensic Accounting in Curbing Fraud in the Public Sector. A Case Study of Local Authorities in Masvingo Province.

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Abstract

Masvingo Province was used as a case study in the study to assess the use of forensic accounting in reducing fraud in the civil service at the local government level. Four research questions and two hypotheses served as the framework for the mixed research technique. One hundred forty-four auditors employed by local authorities in Masvingo Province made up the study's sample. A semi-structured questionnaire and in-depth interviews with both internal and external auditors, comprising forensic auditors from the Auditor General, were used to obtain the data. Due to Covid constraints, questionnaires and interviews were conducted remotely. Using statistical analytic techniques, the findings were examined and presented (SPSS version 12.0). The study's findings revealed that while 80% of the respondents thought forensic accounting was valuable, they did not endorse it in their business. Lack of education and expertise, a lack of forensic auditing tools, a risk to one's life, judicial delays, and meddling from administration and politics were cited as the causes. The study suggests that auditors receive thorough training that will enable them to incorporate forensic accounting methods into their work. The political and legal framework should be strengthened to allow forensic accounting practice, and executives should have a supportive attitude towards its usage.

Keywords: *Forensic Accounting, Fraud, Local Authorities, Masvingo Province, and Public Sector.*

1. Introduction

Local government entities are a model of decentralised administration and style of governance that are meant to be important for urban and rural development (Mabika, 2015). They are responsible for a variety of capital development initiatives, including community improvement, programmatic improvements to the built environment, social amenities, and trash management (Musingafi, 2014). Several parties have voiced concerns about the overall reduction in municipal service delivery in local authority-administered regions, including municipal citizens' groups, the non-governmental organisation community, the Minister of Local Government, and many more (Mawanza, 2014; Musingafi, 2014).

The minister has occasionally been forced to fire the head of the council, head of oversight, top employees of the council, or perhaps everyone in severe circumstances like Harare, Chitungwiza, Bindura, and Redcliff. According to Mabika (2015), the majority of these instances involve accusations of bad management, misappropriation of public funds, abuse of power or office, dishonest business practices, and corrupt inclinations.

For the Zimbabwean public sector in general and local authorities in particular, fraud has proven to be expensive. According to estimates, diamond frauds cost consumers \$15 billion in 2015. (Magombedze & Gunduza, 2017). This sheer volume was significantly greater than Zimbabwe's

Gross National Income, which for that year was \$13.8 billion. High-profile financial crimes in Zimbabwe's civil service were reported from 2015 to 2020 and covered by both national and local news outlets. Senior management continues to defraud government agencies of millions of dollars using work-related fraud (Magombedze & Gunduza, 2017). The findings from the Auditor-General for several fiscal years have persisted in sparking concern over administrative flaws and widespread theft of public monies in Zimbabwe's government and public enterprise. While the majority of councils were unable to submit accounts for audit in 2016, unfavourable reports relating to fraud risk factors were found in 63% of local authorities.

The expertise of a forensic accountant has been retained in industrialised countries and even emerging countries to reduce white-collar crimes. However, there hasn't been enough research done on the application of forensic accounting in the Zimbabwean public sector, particularly at the local government level. This research, which is focused on the Masvingo Local Authorities, aims to determine the extent to which forensic accounting has been used as a tool to combat fraud at the national and local levels.

2. Aim

The overarching objective of this investigation was to determine the use of, and barriers to, forensic accounting in combating fraud in the public sector.

3. Research questions

The following research questions guided this study:

- To what extent is forensic accounting used in the public sector?
- What are the difficulties in using forensic accounting to combat fraud in the public sector?
- What steps are being taken to overcome the barriers to the use of forensic accounting in the public sector?

4. Hypotheses

H0. The use of forensic accounting would not help curb fraud in the public sector of Zimbabwe.

H1. The use of forensic accounting would help curb fraud in the public sector of Zimbabwe.

5. Literature review

5.1 Fraud

According to the Association of Certified Fraud Examiners (ACFE 2014), fraud is the intentional abuse or improper application of an organisation's assets or funds for the purpose of enhancing one's own financial well-being. This can involve obtaining money or property under false pretences and fraudulent conversion. Fraud is defined under the Zimbabwean Criminal Law and Codification Act as a deliberate act or omission intended to deceive people, which results in a loss for the victim and/or a gain for the offender.

In its truest sense, fraud includes the aspects of embezzlement, misuse of funds, and certain other fiscal discrepancies, which include, but are not constrained to, any malicious or deceptive act; mismanagement of funds, equities, merchandise, or other resources; improper handling or disclosing of finances or financial activity; profiteering as a direct consequence of privileged information of organisational operations; disclosing confidential and proprietary information to

outside parties; disclosing private and proprietary data information to third parties; revealing confidential and proprietary information to competitors third parties (ACFE,2014)

According to Francis Jaida, who was referenced in Mukoro (2011), fraud can be aggressive or peaceful, illegal or legitimate, and detrimental, disruptive, or offensive to the financial health of a person, an organisation, or a community as a whole. On the other hand, criminalists hold that fraud is brought on by the three fundamental components known as "WOE": Will, Opportunity, and Exit. It is imperative to remember that in order for any fraud to succeed, all of the essential elements must be present, including the presence of the Will, the Opportunity, the Opportunity to Escape, and the Exit, regardless of whether or not it is likely to succeed.

5.2 Concept of forensic auditing

According to Black's Law Dictionary, the term "forensic" refers to evidence that is "used within or appropriate to legal proceedings or public discourse." So, what is commonly referred to as "forensic accounting" is essentially accounting-related litigation support. The Association of Certified Fraud Examiners (ACFE 2014) distinguishes forensic accounting as the application of professional accounting skills in cases involving a probable or actual felony or civil court action, which would include, but not confined to, the application of generally recognised auditing and assurance principles; the assessment of internal controls; the determination of lost revenue, wealth, assets, or destruction; and the application of accounting expertise in any other lawsuit concerning the legal system. By integrating accounting, auditing, and intelligence-gathering abilities when handling theft and fraud investigation and prosecution, Bhasin (2007) agreed with this description of forensic accounting.

So, in this sense, forensic accounting should be seen as the fundamental knowledge that includes knowledge of accounting, auditing, surveillance, law, psychology, computer, and criminal justice in order to provide the evidence required in a legal procedure.

According to empirical data, fraud is a pain in the flesh and is frequently done without internal or external auditors' knowledge, which is why the public sector needs forensic accountants to find it and help put fraudsters in jail (Magaisa 2005; Magombedze & Gunduza, 2017; Rezaee, 2005). A technique for preventing fraud, forensic accounting is a relatively recent phenomenon worldwide and in Zimbabwe in particular.

Due to traditional auditing's inability to prevent and identify fraudulent actions in business organisations, this accounting discipline was created (Dumitresca & Deliu, 2012; Okaro, 2006). According to studies on fraud protection, the current susceptibility of traditional accounting and auditing mechanisms to financial crime can be somewhat mitigated by forensic accounting (Njanike, Duve, & Mashayanye, 2009: ACFE 2006: ACFE, 2014: ACFE,2016).

There are some well-known instances when forensic auditors have discovered the fraud and the offender has been prosecuted. The fraud scheme at Company Houston is one such (2014). According to reports, the swindle cost the owners, employees, and investors their jobs and their investments. A fraud investigator later learned about the fraud scheme. One further instance is the Enron case (2001), in which CEOs Jeff Skilling and Ken Lay committed fraudulent activity. Massive debts were avoided on financial statements. Arthur Anderson, the auditor, was unable to

find this scam. Turned, an interior whistle-blower, discovered this afterwards. Another instance is the case of Satyam (Pvt) Limited's Chief Financial Officer, who admitted guilt to committing significant fraud, as reported by Timmons & Wassener in 2009. Forensic accountants were the ones who first noticed this (Timmons & Wassener, 2009). The aforementioned instances show emphatically that forensic accountants are required globally to combat fraud since regular auditors are failing to do so.

Consequently, the objective of this enquiry is to clarify forensic accounting as well as determine if it is an effective tool for identifying and discouraging financial misconduct in Zimbabwe's civil service. The development of established bodies to protect their interests, as well as material and technical capabilities to increase their efficacy and responsibility, are the most important aspects, according to the studies that have already been conducted (Institute of Internal Auditors, 2007). The influence of forensic accounting, meanwhile, is the subject of several differing viewpoints. While some people feel that forensic accounting as a technique is beneficial in preventing fraud, others hold the view that there is no such prevention, making their application ineffective in stopping fraud. Scholars argued that fraud is difficult to identify (Chandler, Edwards, & Anderson, 1993; Best, Buckby, & Tan, 1993). They reasoned that there must be something more a forensic accountant can do if the best external auditors, like PWC, were unable to uncover massive fraud totalling billions of dollars in the United States. According to the opposing school of thought (Ezejofor, Nkiru, & Okoye, 2016; Humprey, 1997; Njanike, Duve, & Mashayanye, 2009), forensic auditors can be helpful even if fraud is a complicated issue.

The integration of forensic accounting methods into auditing, nevertheless, might be utilised to stop the leaks that led to business failures, claim Okoye & Gbegi (2013). This is due to aggressive forensic accounting, which looks for errors and suspicious transactions before they develop into fraud (Centre for Forensic Studies, 2010). According to Magombedze and Gunduza (2017), an accountant acts as a financial detective and considers all data to be suspect unless proven otherwise. In the profession of forensic accounting, 2 + 2 does not necessarily equal 4 in every scenario.

An accountant who specialises in accounting and auditing, combined with investigative work, is referred to as a "forensic accountant." Forensic accounting involves specialised knowledge that includes the capacity to synthesise, think critically, act ethically, be computer literate, be introspective, and recognise and look into fraud substantiation that may be used as evidence at the trial of law (Okoye & Gbegi, 2013 ;Okunbor & Obaretin, 2010). On the contrary end, a typical auditor issue reports that are substantially false under the guise of accurate and fair views, failing to disclose any fraud that may be taking place within a corporation's accounting processes. (Ezejofor, Nkiru, & Okoye, 2016; Magombedze & Gunduza, 2017).

A positive result of the new style of auditing is the capacity to defend oneself in court against a fraudster (Ogotu & Ngahu, 2016; Njanike, Duve, & Mashayanye, 2009). When both internal as well as external auditors uncover corruption, especially in Zimbabwe, but also no action is implemented to punish the offenders or perpetrators, it is highly frustrating (Magombedze & Gunduza, 2017). According to (Okoye & Gbegi, 2013), forensic accounting is frequently used as a bloodhound exercise to smell out fraud, which can lead to the prosecution of criminals. To stop any money leaks resulting from corruption and other financial mishaps in the civil service, Zimbabwe requires expertise in financial forensics. These experts must possess the necessary

qualifications to testify in court. These specialists may be identified in the forensic accounting field (Dzomira, 2014).

5.3 Theories underpinning the study

The agency model by Jensen and Mackling from 1976 and the newly expanded diamond fraud theory serve as the theoretical foundation for this investigation. Jensen and Mackling (1976) brought the agency hypothesis to management circles.

The hypothesis describes the growth in fraud as a result of dishonest agents and the requirement for efficient auditors to hold these agents accountable. The idea presupposes that the principal (shareholders) and agent (managers) have competing interests. It presupposes that all agents (managers) act only in their own best interests. They are wealth maximisers who do not behave in the principal's best interests. According to Douglas Macgregor's theories Y and X, managers are by nature sluggish and despise doing labour, and their actions work against the interests of the principal.

Administrators have a contradiction since they strive to maximise their personal wealth at the expense of the investors. Because of the agency issue, the principal does not trust the agent; thus, they hire a third party (an "auditor") to offer confidence and perform investigative duties to uncover fraudulent activities and errors.

There are two ideas that demonstrate why employees commit fraud occurs: the Fraud Triangle Theory and the Fraud Diamond Theory. Chrissey (2004) noted that the key drivers of fraud are opportunity, pressure, and rationalisation. The fraud triangle hypothesis proposed by Chrissey is supported by Wolf and Herman Son (2004), who also included capacity as a fourth component.

Forensic accountants ought to bear in mind that there is a motivation or a motive to perpetrate corruption; thus, these ideas are crucial. In their model known as the "New Fraud Diamond," Dorminey, Fleming, and Riley (2010) criticised the diamond theory for failing to recognise other significant motivations for engaging in fraud despite the addition of the fourth component, "capacity." The acronym NAVSMICE, which stands for NAVS, National Value System; M = money; I = Ideology; C = Coercion; and E = Ego, outlines the drivers of fraud in the new fraud diamond. The business administration and current national sense of morality in Zimbabwe must be noted by forensic accountants. The value of moral behaviour, such as trustworthiness, integrity, and moral personality, is either negligible or nonexistent (Mabika, 2015, Magombedze & Gunduza, 2017). The origin of "wealth" is not contested by society. Any individual who unexpectedly acquires fortune or riches is promptly acknowledged, elevated, and honoured. Fraud is prevalent in Zimbabwe because it is condoned, as said (KPMG, 2019). In a culture where wealth is revered without a doubt, fraud exists (KPMG, 2019). The materialistic civilisation that underpins Zimbabwean society and, to a greater extent, encourages deception is centred on riches (Mawanza, 2014). The model demonstrates how the absence of sound corporate governance is the key to every element that contributes to fraud in Zimbabwe.

6. Methodology

6.1 Design

A mixed-methods study approach was used, which included a survey and in-depth interviews. The current study's researcher obtained data from internal and external auditors in Masvingo Province's five (5) local authority districts, as well as the Auditor-General, to assess whether forensic accounting is utilised to combat fraud in the civil service.

6.2 Study area

Masvingo Province is one of the five provinces in Zimbabwe. The Province has five local authorities and one Municipality. At each local authority, there is a section or department of internal auditors. External auditing services are provided for by external audit firms, or they are provided for by the Auditor General.

6.3 Sample and sampling technique

A targeted sampling technique was used to select all the internal auditors, while purposive sampling was used to pick the external auditors and the Auditor General's auditors.

6.4 Instrumentation

Three pieces made up a questionnaire that was created. Demographic information such as gender, religion, marital status, educational background, and service years are included in Section A; open-ended questions and closed-ended constructed questions with the options of Yes or No, regular, frequent, and Cannot Remember are included in Section B. Spaces were provided in Section C for the recording of in-depth interviews that were to be conducted. Two auditing academics from Great Zimbabwe University validated the instrument, and their recommendations were included in the revised version of the measure before it was finalised. Testing for reliability was done utilising the test-retest methodology.

6.5 Data assembly and analysis

Individualised face-to-face in-depth interviews were used and transcribed by the investigators. With the agreement of the Auditor General, a zoom conference was held, and both internal as well as external auditors were invited to join through a link. Questionnaires were distributed through email. While the assumptions were conceptually assessed, the questionnaire data was statistically investigated using methods such as frequency counts, percentages, and charts. The data was examined by the Statistical Package for the Social Sciences (SPSS). In addition, topic areas from the interviews were used to corroborate the quantitative findings.

7. Findings

Following the collection of the measure, it was discovered that just 102 respondents were deemed usable, accounting for a 71% return rate. As a result, this value was employed in future studies. The acquired findings are shown in the tables below.

Table 1: Demographic information of the respondents

Demography	frequency	Percentage
Gender		
Female	32	31.78
Male	70	68.22
Total	102	100
Job Description		
internal auditors	48	47.28
Forensic auditor	9	8.52
External auditor	45	37.27
Total	102	100
Years of experience		
1-5	32	30.96
5-10	40	38.8
Above 10	30	23.1
Total	102	99.36

Source: Survey 2021

Question 1: To what extent is forensic accounting used in the local authority?

Table 2 below indicates the number of auditors that use forensic accounting.

Table 2: The number of auditors who use forensic accounting techniques in the public sector in Masvingo

Used Forensic Accounting	Frequency	Percentage (%)
No	76	75
Yes	26	25
Total	102	100

Survey Results 2021

From the table above, very few respondents (25%) indicated they had used forensic accounting in their professional activities. Of the users, only 40% use it regularly, while 60% use it sometimes, as reflected in table 3 below.

Table 3: Extent of use of forensic accounting

Extent of use	Frequency	Percentage (%)
Regularly	10	40
Sometimes	16	60
Total	26	100

Survey Results 2021

Question 2: What are the challenges against the use of Forensic Accounting

The accountants responded to the question "what are the barriers against the non-use of forensic accounting" with a list of responses. The following categories were inferred from this collection of answers after they were grouped based on similarity. The results show that the legal element, followed by the educational component and then the political aspect, provide the biggest obstacles to the application of forensic accounting techniques. Figure 1 below provides a summary of these results.

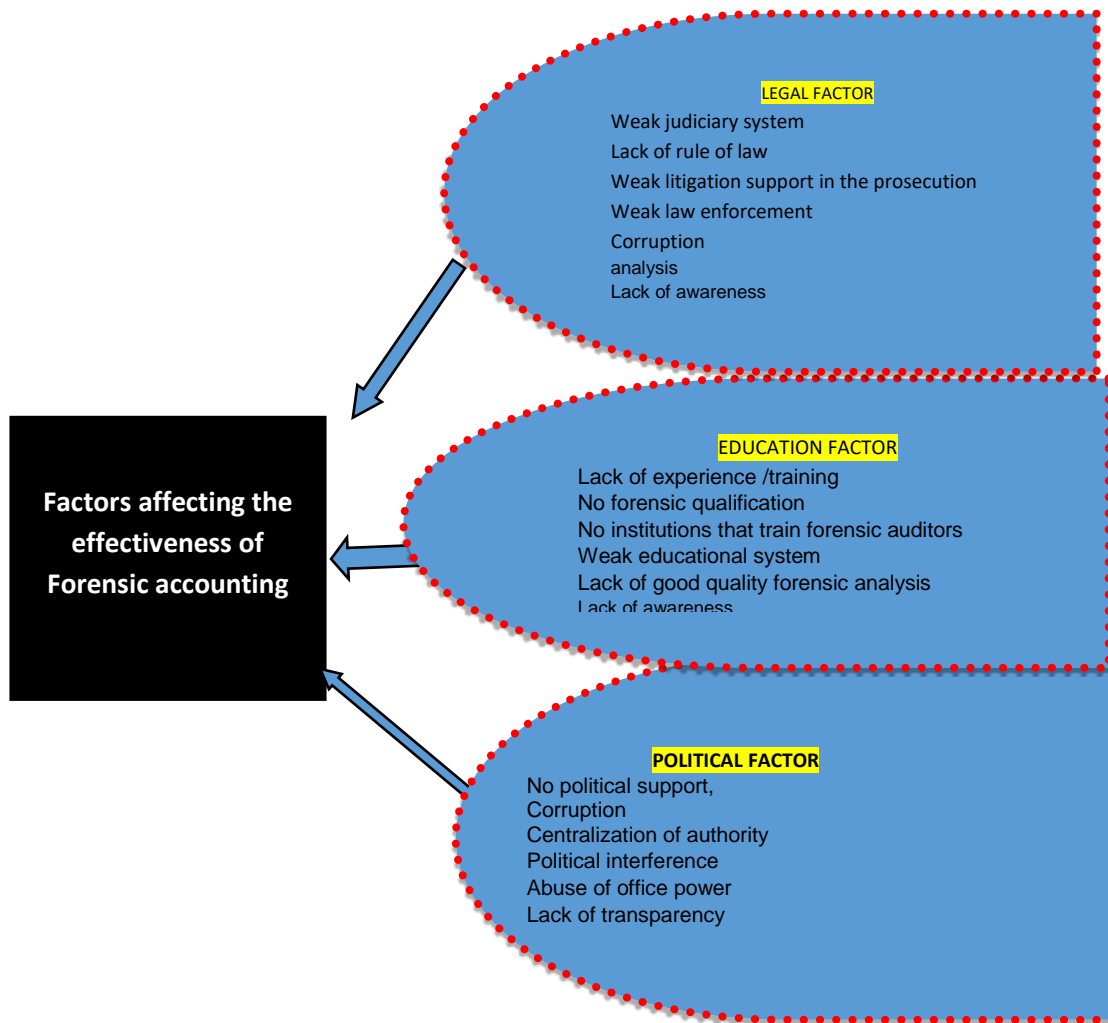


Figure 1: A summary of major factors that affect the effectiveness of forensic accounting in the local authorities

Source: Field survey (2021)

7.2 Discussion of results

According to the survey analysis results, the vast majority of research participants never had before employed forensic audit in their professional work. The majority of those who had previously used it said they had only sometimes done so. Those who have utilised it say that it is typically done for paperwork needs rather than fraud inquiries. According to the survey's findings, forensic

accounting is not widely used by auditors in Zimbabwe overall or in Masvingo province specifically. There are a number of variables that may be categorised under education, law, and politics that contribute to Zimbabwe's limited penetration of forensic accounting.

The outcomes of this investigation are consistent with those of Mukoro et al. (2011) and Magombedze et al. (2017), who discovered that while most people are aware of forensic investigation as well as its improved efficiency in identifying fraudulent activity, they rarely use it because they believe it to be complicated and insufficiently versatile to the Zimbabwean accounting process. Similar findings were made by Yekorogha (2011), who discovered that although forensic accounting is helpful in identifying fraud, it has not been widely adopted by accounting practitioners in Zimbabwe, particularly in the public sector.

The findings regarding the difficulties utilising forensic audit within the Zimbabwean civil service revealed an over-reliance on the utilisation of the classical and antiquated technique of auditing, a complete absence of political commitment on the part of the government, coupled with persistent political, governance, and religious interruption in financial crime cases. This finding was further supported when a respondent said that every audit at the local government level is frequently perceived as a witch hunt throughout the interview process. When a financial investigation is set to be done, it frequently happens that someone in the office feels targeted, and the auditor does not receive full cooperation. Additionally, there is a chance that the matter involving forensic auditors would take on a political or ethnic tinge, which might inflame unwarranted emotions and undermine the entire process.

8. Recommendations

The following suggestions are given in light of the research results and discussion:

- Local government bodies must make significant investments in forensic accounting surveillance and prevention strategies since fraud is on the rise. To make sure that forensic accounting procedures are implemented as a first-layer fraud defence rather than just a response, they should create regulations specifically on its use.
- To develop their abilities and expertise, forensic accountants should receive proper training from local authorities. Computer forensics or big data analysis is gradually replacing conventional audits, in part because the majority of thefts now take place on information systems. Therefore, local councils must teach forensic and computer capabilities to their internal auditors as well as fraud examiners.
- In order to reduce instances of political and managerial influence whenever auditors need to follow due process, forensic auditing ought to be made a regular practice.
- For personnel to expose fraud without fear of persecution, local authority entities could perhaps support red flags, whistleblowing, and fraud hotlines.
- Management must be seen to be supportive of surprise audit operations and forensic accounting operations

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