EFFECT OF FORENSIC AUDITING ON THE FINANCIAL PERFORMANCE OF LISTED FIRMS IN THE FINANCIAL SERVICE SECTOR OF THE NIGERIAN EXCHANGE GROUP (NGX)

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Abstract

This study investigates the effect of forensic auditing on the financial performance of listed firms in the Financial Services Sector of the Nigerian Exchange Group over a ten-year period, from 2015 to 2024. The study specifically examines the influence of forensic audit quality, forensic audit frequency, firm size, and audit committee size on net profit margin, which serves as the primary indicator of firm performance. Panel data were collected from the annual reports of selected commercial banks in Nigeria. The data were analyzed using multiple regression techniques within a panel data framework, including fixed and random effects models, with model selection guided by the Hausman test. The empirical findings reveal that forensic audit quality and frequency have a significant positive effect on firm financial performance, indicating that firms with higher-quality and more frequent forensic audits tend to report better profitability. Firm size also shows a significant positive relationship with net profit margin, suggesting that larger firms benefit more from forensic auditing practices. However, audit committee size does not exhibit a statistically significant impact on firm performance. The study concludes that forensic auditing is a valuable tool in enhancing financial performance, particularly when it is implemented consistently and with high quality. The research recommends that corporate governance structures prioritize forensic auditing practices and invest in training auditors to improve audit quality. This study contributes to the growing body of literature on forensic auditing and provides practical insights for policymakers, regulators, and corporate managers aiming to strengthen financial accountability and transparency in Nigerian firms.

Keywords: Forensic Auditing, Financial Performance, Net Profit Margin, Audit Quality, Audit Frequency, Corporate Governance, Nigeria

JEL Classification: M41, M42

1. INTRODUCTION

In recent years, incidents of financial and economic fraud have been on the rise. However, fraud is constantly evolving, with new techniques and strategies emerging daily, influenced by changing social behaviors and environmental factors. Implementing effective security measures and fraud detection systems capable of identifying and preventing even the most sophisticated schemes is crucial. One such measure is forensic auditing, which is primarily applied in both public and private financial sectors. It is a specialized form of audit focused on investigating fraudulent activities. Forensic auditing serves as a tool to combat fraud and corruption by providing courts and legal authorities with detailed information and credible evidence that can be used during legal proceedings. This enables a determination, based on legal standards of whether or not fraud has occurred. Also referred to as forensic accounting, this practice is conducted by forensic auditors, who are Certified Public Accountants (CPAs) trained in using specific techniques to detect or prevent criminal activity within organizations. According to Okoye et al. (2019), a forensic audit involves a detailed examination and evaluation of a firm's or individual's financial records. The goal is to derive evidence that can be used in a court of law or other legal proceedings. Forensic auditing is a specialization within accounting and is often required when there is suspicion of fraud, embezzlement, or other financial crimes. A regular audit reviews financial records for accuracy, while a forensic audit is specifically designed to identify and document fraudulent activities. Forensic audits also involve preparing evidence that can be presented in court if necessary, and forensic auditors may serve as expert witnesses. A forensic audit is critical for investigating financial misconduct and gathering evidence for potential court proceedings. Whether it is fraud, embezzlement, or financial statement manipulation, forensic audits help uncover illegal activities and provide essential evidence that can be used in court. Forensic auditors play an important role in simplifying complex financial matters and ensuring justice is served (Tardi, 2025). Though forensic accounting has been in operation as far back as the 1800s, the course was never in the spotlight not until the collapse of big multinational companies like Enron when some legislations like the Sarbanes Oxley was brought into existence, increase the demand for forensic accounting services.

Ismaila et al., (2023) documented that Forensic auditing goes a step beyond the traditional financial audit. It examines the very nature of transaction and checks for possibility of any asset-theft taking place by means of investigative techniques. For example, an employee may create a fictitious account and release payment in order to siphon off money from the company firm. Such a transaction may go unreported as far as the financial reporting is concerned provided it is properly accounted for. In the instant case, the company will get an unqualified report in a financial audit. Mircheska et al., (2020) argued that organizations increasingly recognize the importance of establishing robust forensic auditing practices to protect their financial resources and detect anomalies effectively. Beyond merely satisfying regulatory obligations, forensic auditing plays a vital role in maintaining stakeholder

trust and upholding the ethical standards of the organization (MHR Accountants, n.d).

In today's fast-paced business environment, where financial fraud risks are ever-present, organizations must take a proactive approach to forensic auditing (Abdi, 2021). In addition to uncovering fraudulent activities, forensic auditing serves as a deterrent to unethical conduct within organizations. As corporate scandals and regulatory pressures continue to rise, businesses are increasingly recognizing the need to establish robust forensic auditing mechanisms to protect their financial resources and effectively uncover irregularities (Meiryani *et al*., 2022).

1.1. STATEMENT OF PROBLEM

Audit departments have faced significant criticism regarding their role in enhancing financial reporting quality. For financial statements to be useful in decision-making, they must accurately and objectively reflect a company's condition and performance, something only achievable through consistent, thorough audits. However, the effectiveness of independent audits has diminished over time, especially in light of recurring corporate failures. These shortcomings led to the creation of independent audit committees to provide additional oversight. Yet, recent credit scandals involving Nigerian corporations have exposed the limitations of these committees, casting doubt on their ability to safeguard shareholder interests and improve firm performance. This has also questioned the effectiveness of forensic auditing as a tool for combating fraud (Umoh, 2024).

The recent surge in financial fraud has negatively impacted Nigeria's image, especially as law enforcement struggles to identify and prosecute offenders. This situation underscores the urgent need for stronger measures to curb fraud in the financial sector. Globally, corporate fraud is on the rise, as seen in widespread cases of bribery, corruption, embezzlement, money laundering, racketeering, false reporting, tax evasion, and forgery. Major accounting scandals, such as those involving Enron and WorldCom, have already brought about major changes in the accounting field. In response, forensic accounting has emerged, representing a new wave of professionals focused on fraud detection and prevention.

Today, the rise of technology and internet access has made it easier to commit financial crimes and harder to detect or prevent them. This growing trend of fraud and financial misconduct poses a threat to traditional auditing practices. Despite statutory audits being designed to promote accountability and deter fraud, especially in sectors like commercial banking, they have failed to inspire public confidence. This has highlighted statutory auditing's passive role in combating corruption and fraud (Ajayi, 2022). The central issue identified by this research is that conventional auditing has proven largely ineffective in preventing fraud and financial crimes within Nigeria's financial service sector.

1.2. OBJECTIVES OF THE STUDY

The main objective of this study is to examine the effects of forensic auditing on the financial performance of firms in the financial services sector of the Nigerian Exchange Group (NGX). Specifically, the study aims to:

1. To assess the relationship between forensic audit quality and the financial performance of firms in the financial services sector of the Nigerian Exchange Group (NGX).
2. To analyze the impact of forensic audit frequency on the financial performance of firms in the financial services sector of the Nigerian Exchange Group (NGX).

2. LITERATURE REVIEW

CONCEPTUAL REVIEW

Conceptual Framework

This study's conceptual framework was to establish the link between the independent variable and the dependent variable. The independent variable is forensic auditing (FA), proxied with forensic audit quality (FAQ) and forensic audit frequency (FAF). Financial performance is the dependent variable, measured by net profit margin (NPM). The conceptual framework depicts the interaction between forensic auditing, (forensic audit quality and forensic audit frequency), and firms' financial performance (net profit margin).

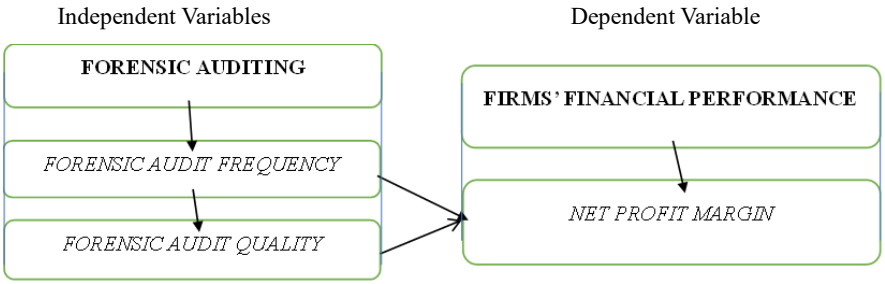

Figure 1: *Conceptual Framework*
Source: Author's Conceptualization (2025)

2.1. CONCEPTS OF DEPENDENT VARIABLES

2.1.1. FINANCIAL PERFORMANCE

Firm performance is a multifaceted concept that encompasses both **financial** and **non-financial** aspects of a company's operations (Saha et al., 2020). Financial performance refers to how effectively a company utilizes its resources to generate profits and achieve its financial goals. It is commonly measured using key financial indicators such as **Return on Assets (ROA)**, **Return on Equity (ROE)**, **net profit margin**, and **liquidity ratios**, which provide insights into profitability,

operational efficiency, and financial stability (Corporate Finance Institute, n.d.). In today's fast-paced and competitive business landscape, companies must strive to achieve and sustain high performance levels by focusing on sustainable growth, operational efficiency, and creating value for their stakeholders. Firm performance reflects how effectively a company utilizes its resources, manages operations, and generates value for its various stakeholders, including employees, customers, investors, and the broader community. A company's performance is often a key factor in shaping its reputation and industry standing. Moreover, continuous performance monitoring, identifying areas for improvement, and taking proactive steps to enhance overall effectiveness are essential for firms (Darwazeh et al., 2024).

Financial metrics like the **debt-to-equity ratio** and **interest coverage ratio** assess an organization's ability to manage its debt and make repayments. These ratios are important indicators of financial stability and risk management, which impact the organization's creditworthiness and borrowing capacity. By evaluating these financial metrics, stakeholders can gain a comprehensive view of the organization's financial health and make well-informed decisions (Alao & Odum, 2019). In addition to financial metrics, **qualitative factors** also play a crucial role in evaluating performance. Factors such as **market share**, **brand reputation**, **customer satisfaction**, and **innovation** capabilities are important. While quantitative metrics provide measurable insights into financial performance, qualitative aspects offer a broader strategic perspective (Enofe et al., 2019). For example, a high **profitability ratio** might indicate strong financial performance, but it may not reflect long-term sustainability if it results from cost-cutting or unsustainable practices.

2.1.2. NET PROFIT MARGIN

Net Profit Margin (NPM), also known as the **revenue-to-sales ratio**, is calculated by dividing **net income** by **net sales**. This ratio indicates the percentage of net income generated from each unit of sale. A higher net profit margin suggests a commercial bank's strong ability to generate profits (Gayatri & Erwin, 2024). Claudi and Indrati, (2021) stated that NPM is an important measure of a commercial bank's ability to generate net profits from its core operations. This ratio is highly valued because it evaluates the overall effectiveness of a bank's primary business activities, helping investors assess its financial health before making investment decisions. An increase in the Net Profit Margin typically signifies improved bank performance, which can lead to higher stock prices and greater investor confidence.

Net Profit Margin is a crucial profitability ratio that measures the percentage of total revenue that translates into net income. It is an indicator of a commercial bank's ability to manage costs efficiently, reflecting overall firm performance. In capital-intensive industries like banking, NPM is particularly useful for assessing how well a bank's management converts revenue into profit. The formula for NPM is:

Net Profit Margin = (Net Profit / Revenue) × 100

This ratio highlights companies' ability to turn revenue into actual profit after covering all expenses, such as operating costs, interest, taxes, and depreciation. A higher NPM signifies better efficiency and profitability, while a lower margin could indicate higher operational costs or pricing difficulties.

The connection between **Net Profit Margin** and firm performance is well-documented in financial analysis. A positive NPM generally correlates with strong financial indicators, like **Return on Assets (ROA)** and **Return on Equity (ROE)**. A high NPM indicates effective cost management and operational efficiency, which positively influences overall performance. In contrast, a declining or negative NPM suggests potential inefficiencies, excessive costs, or external factors that negatively impact the bank's financial health. These issues have been evident in the performance of **commercial banks**, particularly during periods of regulatory scrutiny and financial restatements.

2.2. CONCEPTS OF INDEPENDENT VARIABLES

2.2.1. FORENSIC AUDITING

"Forensic" relates to the application of systematic methods and procedures to investigate crime. The main steps involved in forensic analytics are data collection, data preparation, data analysis, and reporting. The forensic evidence received through detection of crime is susceptible to prosecution (Ariyie et al., 2022). According to Adesina et al. (2020), forensic auditing entails carrying out an exhaustive investigation, spotting, and halting fraudulent activities, and providing assistance for legal proceedings in court. Forensic auditing is a thorough and multifaceted process investigating financial discrepancies within organizations. The forensic audit is a method of prevention of fraud and corruption, it puts in the hands of judges and the relevant legal authority's information and sufficient evidence to analyze and put as evidence in the judicial process, thus determining, based on legal texts, whether or not it is a fraud case or not (Okoye et al., 2019). Forensic auditing is a specialized branch of auditing that integrates accounting, investigative techniques, and financial crime analysis to detect fraudulent activities and enhance corporate transparency.

Unlike traditional financial audits, which mainly aim to verify the accuracy of financial statements and ensure adherence to accounting standards, forensic audits go further by closely examining financial transactions to uncover irregularities, misstatements, and signs of fraud (Corporate Finance Institute, n.d). Forensic auditing is not limited to regulatory compliance; it also plays a key role in investigations that support legal proceedings, manage fraud risks, and promote improvements in corporate governance (Koenig Solutions, 2024). Its primary functions include detecting fraud, investigating financial crimes, and providing litigation support. Fraud detection specifically involves analyzing financial documents to reveal misstatements, theft of assets, and corrupt practices (Nandini & Ajayi, 2021). Forensic audit is considered to be an independent professional

judgment, which can present findings as to records, inventories, or the presentation thereof that is of such quality and that would be sustainable in some adversarial legal proceeding, or within some judicial or administrative review. Apart from this, lack of financial surveillance; forensic audit, investigation, and deterrence skills; computer assisted review and document review; and level of competence of both management and finance and accounts staff on fraud and fraudulent activities are several of the threats to the going concern of firms which financial statements may not portray, this is where forensic accountants are needed in the view of accountants. It is hoped that fraud detection tools if applied in firms would detect and prevent fraudulent activities and related irregularities (Ismaila et al., 2023). By leveraging automated fraud detection models, forensic auditors can proactively monitor financial activities and detect fraud before it escalates into larger financial crimes. Another fundamental forensic auditing technique is transaction monitoring and anomaly detection. Continuous real-time monitoring of financial transactions enables organizations to identify suspicious activities, such as irregular fund transfers, unauthorized withdrawals, and duplicate payments, which may indicate fraudulent behavior (Okafor et al., 2025).

This process often includes preserving a secure chain of custody for evidence, compiling comprehensive reports, and offering expert testimony in court proceedings.

In the words of Enofe et al., (2019), forensic auditing plays an essential role in enhancing corporate transparency, strengthening internal controls, and supporting the integrity of financial institutions. The integration of advanced forensic techniques and regulatory compliance frameworks not only helps organizations mitigate financial risks but also ensures accountability in corporate financial reporting. As financial fraud continues to evolve, forensic auditors must remain proactive in leveraging technological advancements to detect, investigate, and prevent financial crimes effectively.

2.2.2 AUDIT QUALITY

Hu et al. (2023) elucidated Audit quality as the likelihood that an auditor will both detect material misstatements in the financial statements and report them appropriately. It reflects the rigor and reliability of the audit process. The quality of an audit is directly related to an auditor's ability to detect accounting misstatements and their independence, as evaluated by the market. Onodi et al. (2023) stated that audit quality refers to how well an auditor conducts an audit in line with Generally Accepted Auditing Standards (GAAS), providing reasonable assurance that the financial statements and disclosures conform to Generally Accepted Accounting Principles (GAAP) and are free from material misstatements, whether due to errors or fraud. If the audit does not meet these criteria, it is considered to reflect poor audit quality. Audit quality reflects an auditor's ability to uncover and report financial irregularities, and maintaining high quality is essential for promoting transparency,

ensuring compliance with accounting standards, and bolstering stakeholder and investor trust.

Nejad et al. (2024) emphasized that audit quality is affected by various factors, including audit tenure, audit fees, and the audit firm's size. Studies have shown that these elements interact and significantly influence audit outcomes. One critical factor is audit tenure, which is the duration of the auditor's relationship with a client. Research indicates that longer auditor-client relationships enhance audit quality by allowing auditors to gain a deeper understanding of the client's operations and financial reporting (Cassell et al., 2020). Similarly, audit fees play an important role in quality; higher fees often lead to better audits, as they allow auditors to dedicate more time and expertise to the process. Salih and Flayyih (2020) defined audit quality as adherence to established auditing standards, ethical guidelines, procedures, and regulations set by professional bodies, all of which safeguard the auditor's independence and integrity. According to Reid et al. (2018), audit quality encompasses all measures an audit firm takes to ensure high-quality audit services are provided. Nurjannah and Daulay (2019) views audit quality as the effective and efficient performance of audit procedures according to set criteria, including identifying and reporting errors or irregularities, while also meeting the needs of users of financial statements.

Audit quality is a key factor in maintaining a company's financial performance. An objective, high-quality audit is vital for building trust in the integrity and credibility of financial reports, which is crucial for the proper functioning of markets and for enhancing financial performance.

2.2.3. FORENSIC AUDIT FREQUENCY

As stated by Abdullahi (2023), Audit frequency refers to how often forensic audits are conducted within a specific time frame. Conducting audits frequently is vital for monitoring financial activities, identifying fraud, and ensuring regulatory compliance. Regular forensic audits help strengthen internal controls, prevent fraudulent behavior, and promote a culture of accountability and operational efficiency. This proactive strategy not only protects assets but also improves financial performance metrics, such as profitability and shareholder value. Bello et al. (2022) highlight that frequent forensic audits serve as a strategic approach to fight fraud and improve financial health. Haris et al. (2019) noted that the frequency of audit committee meetings can be a measure of the audit committee's activities. Okoye et al. (2020) found that the frequency of audit committee meetings and institutional shareholdings positively influence market performance and firm valuation. It was also noted that the frequency of board meetings and the presence of independent directors significantly improve both the quality of bank assets and the overall performance of banks. Singhania (2024) emphasized that the frequency of audit committee meetings reflects the level of rigor, thorough involvement, and diligence of committee members in fulfilling their duties. A high frequency of audit meetings increases the opportunities for members to prepare, ask questions, and seek

answers when engaging in management, internal auditors, external auditors, and other relevant stakeholders.

2.3. THEORETICAL FRAMEWORK

2.3.1. FRAUD DIAMOND THEORY

This study is grounded in the Fraud Diamond Theory, originally introduced by Wolf and Hermanson. According to Umoh (2024), this model developed in 2004 builds upon the earlier Fraud Triangle by adding a fourth key element: Capability. While the traditional triangle includes Pressure, Opportunity, and Rationalization, the Fraud Diamond argues that fraud often cannot occur unless the individual also has the necessary skills and traits to execute it.

Wolf and Hermanson emphasized that many fraudulent acts would not have been possible without someone possessing specific attributes. These include:

1. Holding a position of authority within the organization,
2. Having a strong under, standing of the organization's accounting systems and internal controls,
3. Feeling confident they will not be caught or believing they can avoid consequences,
4. Being able to handle the psychological pressure associated with unethical behavior.

To mitigate these risks, organizations must implement and rigorously monitor checks and balances. Preventing fraud and boosting performance requires the involvement of skilled professionals, such as forensic auditors, who are capable of detecting and investigating suspicious activity.

The Fraud Diamond Theory provides the conceptual basis for this research because it highlights how individual traits and capabilities influence the likelihood of fraudulent behavior. Forensic auditors, therefore, need to assess not only the internal control environment but also the personal attributes of employees that may pose fraud risks. By doing so, they can design effective control strategies and ensure thorough oversight to safeguard organizational resources.

Ultimately, reducing fraud and improving performance in commercial banks depends on deploying experienced investigators who can proactively detect risks and recommend sound control practices.

2.3.2. AGENCY THEORY

This study also draws on Agency Theory, first introduced by Jensen and Meckling (1976), as the foundation for examining corporate governance and the conflicts that can arise among shareholders, company executives, and major creditors. The theory defines the agency relationship as a contractual arrangement in

which the owners (principals) delegate authority to managers (agents) to make decisions and run the company on their behalf. While shareholders expect managers to act in their best interest, ensuring this alignment is difficult in practice. This is because managers may also act based on personal incentives, which may not always align with shareholder goals. As Eisenhardt (1989) noted, a core issue in agency theory is how to effectively motivate or incentivize agents to act in the best interest of the principals.

Agency theory offers valuable insight into organizational behavior by focusing on the principal-agent dynamic. In the context of deposit money banks, shareholders (as principals) are primarily focused on maximizing returns, whereas managers may prioritize personal benefits or engage in risky ventures for their own gain. A central concern of the theory is developing strategies to align these often-divergent interests. In the banking sector, this could involve executive compensation systems, clear performance benchmarks, and robust governance frameworks designed to drive behavior that enhances shareholder value. The success of such measures has a direct bearing on the financial performance and market valuation of banks (Dada et al., 2023).

Forensic auditing plays an important role within this theoretical context by serving as a monitoring tool that helps mitigate agency conflicts. By producing detailed and credible financial information, forensic audits reduce information asymmetry—a key issue in agency theory—between managers and shareholders. This transparency enhances accountability and contributes to better decision-making.

In essence, when effective governance mechanisms such as forensic audits are implemented, they help reduce agency costs associated with managerial self-interest, bolster investor confidence, and improve organizational performance. For commercial banks, this means lower perceived risks and improved financial outcomes.

2.4. EMPIRICAL REVIEW

Several studies have examined how forensic auditing impacts financial performance, aiming to determine whether these practices contribute to better financial outcomes for organizations. Enofe et al., (2019) examined the effect of forensic auditing on the financial performance of quoted food and beverage firms in Nigeria using judgmental sampling technique and ordinary least square regression analysis. The findings shown that, forensic auditing has a positive and statistically significant effect on ROA, ROE, and EPS of food and beverage firms quoted on the floor of Nigerian stock exchange at 5% level of significance. Alao and Odum (2019) carried out a qualitative study on the role of forensic auditing in fraud detection within Nigeria's banking industry. Using in-depth interviews and case studies, they found that banks utilizing forensic auditing practices reported lower occurrences of financial fraud. This indicates that forensic auditing significantly contributes to fraud

prevention in the banking sector. Their findings suggest that implementing comprehensive forensic auditing procedures enhances fraud detection mechanisms, allowing banks to better protect financial assets and maintain customer and stakeholder confidence. Additionally, their research underscores the need for financial institutions and regulatory bodies to encourage the adoption of forensic auditing as a proactive strategy against financial fraud. By strengthening forensic auditing capabilities, banks can improve their risk management frameworks, ensuring financial integrity and operational transparency, which ultimately supports the stability of the banking sector. Similarly, Abdi (2021) used a mixed-methods approach to analyze the impact of forensic audit services on fraud detection in Kenya's commercial banking sector. By combining quantitative analysis with qualitative interviews, the study found a positive relationship between forensic auditing and fraud detection. The findings reinforce the role of forensic auditing in enhancing financial transparency and accountability while reducing fraudulent activities. These results are particularly relevant for commercial banks in Kenya and other financial institutions, emphasizing the need for forensic auditing integration into risk management systems. By investing in forensic audit services, banks can improve their ability to detect and prevent financial fraud, thereby protecting assets and maintaining stakeholder confidence. Moreover, the study highlights the importance of regulatory authorities in promoting forensic auditing as a standard industry practice to uphold financial stability and integrity. Umoh, (2024) examined the influence of forensic auditing on organizational performance in Nigeria, specifically focusing on Nigeria Breweries Plc from 2013 to 2023. The researcher employed the Ordinary Least Squares (OLS) regression technique using e-views 10 statistical software to test the formulated hypotheses. The results revealed that auditors' independence does not have a significant effect on ROA at Nigeria Breweries Plc, whereas auditors' size does have a meaningful impact. Conversely, auditors' remuneration showed no significant correlation with ROA. Okemwa et al. (2023) analyzed the relationship between forensic fraud investigation on financial performances of sugar processing firms in Western Kenya. The target population consisted of 108 members of the management team, finance and account department, and audit department, who were stratified into lower, middle, and upper levels. A pilot study was conducted with 10 respondents. A census of the remaining target population was taken for data collection purposes, utilizing questionnaires and descriptive measurements of the mean and standard deviation. Inferential analysis was performed using correlation and multiple regression analysis, and the results showed that forensic fraud investigation affects financial performance positively and significantly. Talha et al. (2024) investigated the character of forensic accounting practices in detecting and preventing financial frauds, emphasizing their impact on corporate profitability and the reliability of financial reporting. The study employed statistical analysis tools such as SPSS and Smart PLS to analyze a dataset comprising 179 responses out of 250 sample sizes from various financial professionals, experts, and corporate stakeholders. The findings of the research show that forensic accounting practices significantly impact the detection and prevention of financial

fraud, positively influencing corporate profitability and financial reporting reliability. Eguando (2024) examined forensic investigation dynamics and financial reporting fraud beverage companies in Nigeria. The research design adopted in the study is the survey research design. Data was collected through the distribution of questionnaires. Method of data analysis adopted is linear regression with the adoption of Ordinary Least Squares (OLS) techniques. The findings revealed that forensic investigations have a profound impact on detecting, addressing, and preventing fraud in financial statements.

Nejad et al. (2024) conducted an investigation to find out whether enhanced audit quality has an impact on reducing financial statement fraud. The primary aim of the study was to recognize whether a higher level of audit quality relates with a decrease in fraudulent activities in Indonesia, which is one such country that has not yet adopted IFRS. The sample for the study comprised 951 observations from 2015 to 2020, and the research design utilizes a panel data approach. To test the main hypothesis, Ordinary least square and Generalized Method of Moments estimation techniques were employed. The findings show that there is a negative relationship between audit tenure and financial statement fraud while a positive relationship is identified between audit fees and financial statement fraud, suggesting that companies paying higher fees may be engaging auditors less adept at detecting fraudulent activities. Furthermore, a negative relationship is observed between Big-5 and financial statement fraud, which may be due to the greater resources, expertise, quality control, scrutiny, reputation, and ethical conduct of Big-5 audit companies.

Salih and Flayyih, (2020) conducted a study to measure impact of the quality of auditing in reducing the risks of the external audit profession in the Iraqi environment, considering the risks faced by auditors, represented by the rise in cases of administrative and financial corruption and the absence of laws that govern the work of the audit profession. A random sample was selected, including a group of specialists in accounting and auditing aspects and university professors and auditors with higher degrees in this field, and the conclusion that was reached is that the quality of the audit has had an impact on reducing the risk of the external audit profession. Data was analyzed using Alpha Cronbach's coefficient. The findings show that the quality of audit has an impact on reducing the risk of the external audit profession.

Haris et al. (2019) examined the impact of corporate governance characteristics (with frequency of audit committee meetings as one of the characteristics) and political connections of directors on the profitability of banks in Pakistan. The study uses the data of 26 domestic banks over the latest and large period of 2007–2016. Data were analyzed using Alpha Cronbach's coefficient and the results of finding among others show that there is a negative impact of frequent board meetings on bank profitability. Okoye et al. (2020) investigated the nexus between governance practices and bank profitability in Nigeria. Estimation technique of the Generalized Method of Moments was employed in the research and

the findings revealed that the audit committee's size, frequency of audit committee meetings, and institutional shareholdings positively affect market performance and firm valuation.

Claudi and Indrati (2021) conducted research on the effect of Return on Assets (ROA), Return on Equity (ROE), Earning Per Share (EPS), and **Net Profit Margin (NPM)** on stock prices. The results of the finding show that Net Profit Margin (NPM) does not affect stock prices. Gayatri and Erwin (2024) examined the effect of Current Ratio (CR), **Net Profit Margin (NPM),** Return on Assets (ROA), and Company Age on Profit Growth and the Effect of Profit Growth on Stock Prices on the Indonesia Stock Exchange 2018-2021. The study used a purposive sampling method. Methods of data analysis using descriptive statistics, comparative analysis, multiple linear regression analysis, and classical assumption test. The result of the findings show that Net Profit Margin has a positive and significant effect on profit growth. Claudi and Indrati (2021) conducted research on the effect of Return on Assets (ROA), Return on Equity (ROE), Earning Per Share (EPS), and Net Profit Margin (NPM) on stock prices. The population and sample are 35 companies with banking companies listed on the Indonesia Stock Exchange during 2017 – 2019, so that the research sample is 35 samples, namely 105 companies. Multiple linear regression analysis was used for data analysis. The results show that net profit margin does not affect stock prices

3. METHODOLOGY

The study will adopt a **quantitative research design**, relying entirely on secondary data to assess the relationship between forensic audit practices and the firm's financial performance.

3.1. RESEARCH DESIGN

This study adopts a quantitative research design that primarily relies on secondary data to explore the impact of forensic auditing on the financial performance commercial banks. By using historical financial data from 2015 to 2024, the research aims to identify any relationships between forensic audits and changes in the company's financial performance, such as profitability, liquidity, and operational efficiency. This approach will help us understand how forensic auditing influences financial outcomes over time.

3.2. THE POPULATION OF THE STUDY

The population for this study consists of publicly listed financial service sector firms as at the end of the fiscal year 2024. The annual reports of these firms will provide detailed insights into the company's financial performance during this period and any potential impacts of forensic auditing on the firm's financial position and performance. Secondary data from these reports will be used for a comprehensive analysis considering the accuracy and the crucial nature of the study.

3.3. SAMPLING SIZE AND SAMPLING TECHNIQUES

In determining the sample size of the study, a systematic sampling method has been used The study scope span between the years 2015 and 2024 and samples for the study were selected from all banks in financial sector listed on the Nigerian Exchange Group (NXG) for the time period mentioned above. The firms selected as sample should have all the following eligibility conditions:

1. Given the time period, the company is listed on the Nigerian Exchange Group (NXG) prior to 2015, and until the end of 2024, it has not been removed from the list of companies.
2. Due to the clear-cut boundaries between operating and financing activities, financial companies (mainly banks), have same reporting structures that have been selected for this sample.
3. Only companies with updated information on annual report up to 2024 with the Nigerian Exchange Group (NXG) are selected.

Considering the above strategy, from all the 13 listed banks on Nigerian Exchange Group (NXG), all the 13 banks were listed prior to 2015 and have not been delisted till 2024. From these, 2 banks (Union bank and Unity bank) have not updated 2023-2024 and 2024 financial statement respectively and finally only 11 banks were selected as eligible sample for this study.

3.4 SOURCES OF DATA

Data will be extracted from the published financial statements and forensic audit reports of the selected 11 commercial banks in Nigeria.

Measurement of Variables

This section deals with the measurement of both dependent variable (Financial Performance) and the independent variables (Forensic Auditing).

Variables/Types	Definition of Variables	Measurement	Source
Financial performance (Dependent variables)	Financial performance refers to how effectively a company utilizes its resources to generate profits and achieve its financial goals.	In this study, financial performance is measured by the Net Profit Margin. The Net Profit for each year will be calculated by dividing the profit for the year by the revenue multiplied by 100 %	Corporate Finance Institute, n.d.).

Forensic Audit Quality (Independent variable)	Audit quality refers to how well an auditor conducts an audit in line with Generally Accepted Auditing Standards (GAAS), providing reasonable assurance that the financial statements and disclosures conform to Generally Accepted Accounting Principles (GAAP) and are free from material misstatements, whether due to errors or fraud.	In this study, forensic audit quality is measured by the number of categories of detected material misstatement or fraud per year.	Onodi et al. 2023
Forensic Audit Frequency (Independent variable	Audit frequency refers to how often forensic audits are conducted within a specific time frame	In this study, forensic audit frequency is measured by the Number of detected cases of fraud	Abdullahi (2023)
Firm Size FMS (Control Variable	Firm's size refers to the scale of its operations, commonly measured by proxies such as total assets or equity, and is used to assess its impact on performance metrics like profitability or liquidity	Natural Logarithm of Firm's total Assets	Hassan et al. (2023)
Audit Committee Size ACS (Control Variable	Audit committee size refers to the total number of individuals serving on a company's audit committee, which is a sub-committee of the board of directors responsible for overseeing financial reporting, internal controls, and the audit process	Number of audit committee members per year	Al-Matari et al. (2023)

Source: Researcher's Compilation, 2025

Methods of Data Analysis

The data collected will be analyzed using quantitative methods and the data analysis will focus on examining the effects of forensic auditing on financial performance of firms in the financial service sector of the NGX over the 2015-2024 period. The descriptive statistics was used to summarize the key variables under study while other relevant statistical techniques such as the Pearson correlation coefficient and Multiple regression analysis were used to further analyze the data and evaluate the relationship between the variables to guide this study.

Decision Rule: Whenever the calculated value of F-statistics is higher than the corresponding table value, the decision is to reject the null hypothesis (Efenyumi, Nwoye & Okoye, 2022). Additionally, where the corresponding P-value exceeds the

Alpha (α) value of 0.05, the result is deemed to be significant at 5% significance level.

Model Specification

In line with the above, a regression model will be developed to test the relationship between forensic auditing and the firm's financial performance. The regression model will be specified implicitly as follows:

FP = f(Forensic audit quality + Forensic audit frequency + Control Variables) + ϵ **…… Eqn 1**

$FP_{it} = \beta_0 + \beta_1 FAQ_{it} + \beta_2 FAF_{it} + \beta_3 FMS_{it} + \beta_4 ACS_{it} + \epsilon_t$ ……. **Model 1**

Where:

FP = Firm's financial performance (Measured by net profit margin).

FAQ = Forensic Audit Quality (Measured as the number of categories detected material misstatement or fraud per year.)

FAF = Forensic Audit Frequency (Measured as the frequency or number of detected fraud cases per year).

FMS = Firm Size (Measured as natural logarithm of firm's total asset per year)

ACS = Audit Committee Size (Measured as number of audit committee members per year)

β_0 = Intercept term

β_1- β_4 = Coefficients to be estimated (These represent the impact of each independent variable on firm performance).

ϵ = Error term (Represents other factors affecting firm performance that are not included in the model).

4. DATA PRESENTATION, ANALYSIS AND DISCUSSION

This section dealt with the presentation of data obtained in the study. For this purpose, company specific data were obtained for the period 2015 - 2024. The data obtained from the financial statements of the sampled companies were analysed and results from the analyses are presented in tabular forms in the following sections.

4.1 DESCRIPTIVE ANALYSIS

4.1.1 DESCRIPTIVE STATISTICS

The results of the descriptive statistics of the variables are presented in Table 1 below:

Table 1: *Summary of Descriptive Statistics of the Variables of the Study*

Stats	NPM	FAQ	FAF	FMS	ACS
Mean	19.97694	2.763636	7255.118	22.02095	5.763636
SD	13.48288	2.622861	52837.09	1.039543	0.63299
Skewness	0.7625727	0.360183	10.17506	0.204608	0.2365252
Kurtosis	2.815857	1.8988213	105.6523	2.691322	3.726216
Max	59.13553	9	553356	24.49148	8

Min	0.6445323	0	0	19.77691	4
N	110	110	110	110	110

Source: Researcher's Computation From STATA 13.0

Table 1 shows the summary of descriptive statistics of the variables of concern in this study. The dependent variable (Firm Performance) is measured by Net Profit Margin (NPM) while the independent variables, Forensic Audit Quality (FAQ) and Forensic Audit Frequency (FAF) are measured by the number of categories of detected material misstatement or fraud per year and the frequency or number of detected fraud cases per year respectively. In this study, two control variables, firm size (FMS) and Audit Committee Size (ACS) are measured as the natural log of total assets and the numbers of audit committee members per year respectively were however introduced. As evidenced from the results in Table 4.1, it was observed that NPM recorded a mean and standard deviation of 19.97694 and 13.48288, respectively. Note that while the mean explains the average amount of values recorded for the data on each variable, the standard deviation (sd) measures the level of variability of the data. The minimum and maximum values reported during the period under review for NPM were 0.645 and 59.136. The highest amount of NPM of 59.136 was recorded by Zenith bank in 2023.

In a similar vein, the result of the descriptive statistics for the independent variable alongside the control variable was presented in Table 4.1. Accordingly, from the result, we observe that FAQ recorded a mean and standard deviation of 2.763636 and 2.622861, with maximum and minimum values of 0 and 9 respectively revealing the highest categories detected fraud was recorded by Ecobank in 2016 while FAF recorded a mean and standard deviation of 7255.118 and 52837.09, with maximum and minimum values of 0 and 553,356 respectively revealing the highest frequency or number detected fraud cases was recorded by United Bank For Africa in 2023.

With respect to the control variables (FMS and ACS), it could be observed that the FMS and ACS had a low standard deviation of 1.039545 and 0.2365252. The recorded figures for maximum/(minimum) values for FMS and ACS were 24.49148/(19.77691) and 8/(4) respectively. The largest value of 24.49148 for firm size was found in the books of Ecobank in 2024, while the minimum value of 19.77691was recorded by Wema bank in 2017 while the highest/lowest number (8/4) of audit committee members are found in annual report of Zenith bank in 2016 and Ecobank in 2018 respectively. The skewness which measures the asymmetry in the series has values above 0 in all cases (dependent and independent variables) which indicate that the series is skewed to the right. The Kurtosis, which measures the asymmetry within the series also indicates that the NPM, FAQ, FAF, FMA and ACS satisfy this condition.

4.2 ANALYSIS OF DATA

4.2.1 CORRELATION ANALYSIS

The results of the correlation analysis usually present ranges of numbers with designated signs that help to tell the direction of relationship between pairs of variables under investigation. Noteworthy, where a pair of independent and/or control variables obtains coefficient of 0.8 and above, it is a sign of the presence of multicollinearity among the data set for such variables.

With the above in mind, the data obtained for all the variables were subjected to a correlation analysis and the result is shown in the table below:

Table 2: *Result of Correlation Analysis*

	NPM	FAQ	FAF	FMS	ACS
NPM	1.0000				
FAQ	0.1184	1.0000			
FAF	0.2955	0.2283	1.00000		
FMS	0.5042	0.2542	0.1967	1.0000	
ACS	-0.1233	-0.0504	0.0142	-0.3323	1.000

Source: Researcher's Computation From STATA 13.0

Table 2 presents the correlation matrix for the entire variable set. As indicated above, the explanatory variables, FAQ and FAF had positive relationship with measures of the dependent variable NPM. In a similar vein, one of the control variables (FMS) also had positive relationship with measures of the dependent variable, NPM while the other had negative relationship with measures of the dependent variable, NPM. The correlation coefficient (Pearson *R*) between FAQ and FAF and measures of the dependent variable NPM are 0.1184, and 0.2955, respectively. It could be observed that the correlation coefficients between the independent variables FAQ and FAF) and one of the control variables (FMS) are positive (0.2542 and 0.1967) and the other control variable (ACS) has negative (0.0504) and positive (0.0142) with the independent variables FAQ and FAF, thus indicating a negative and positive relationship with each of them.

A further cursory look at the results in Table 2 indicated that with the coefficient between the independent variables (FAQ and FAF) and the control variables (FMS and ACS), signals of the existence of multicollinearity could not be spotted since the highest value of 0.5042 is not above the benchmark of about 0.80. We thus argue that the explanatory variables used in this study do not have issues of multicollinearity. To confirm this assertion, the variables were subjected to multicollinearity test, and the results are as shown in Table 4.3 below:

4.2.2. RESULT OF MULTICOLINEARITY TEST USING VIF

This section reports the result of the test for the presence or otherwise of multicollinearity among the independent variables. To achieve this, the Variance Inflation Factor (VIF) test was conducted, and the result is hereafter presented.

Table 3: *Variance Inflator Factor Results for Independent Variables*

Variable	VIF	1/VIF
FMS	1.23	0.810246
ACS	1.13	0.882556
FAQ	1.11	0.901853
FAF	1.09	0.921311
MEAN VIF	1.14	

Source: Researcher's Computation From STATA 13.0

From Table 3, the range of VIF for the explanatory variables did not exceed the standardized VIF level (1.14<10.00), suggesting the absence of multicollinearity among the explanatory variables. This result therefore confirms that the models in this study are fit.

4.2.3. RESULT OF THE TEST OF HETEROSCEDASTICITY

To further confirm the fitness of the models in this study, the data were also subjected to tests for heteroscedasticity using the Breusch-Pagan/Cook Weisberg Test and the result is presented in Table 4.

Table 4: *Result for Breusch-Pagan/Cook Weisberg Test*

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of npm

Chi2(1) = 1.90

Prob > chi2 = 0.1679

Source: Author's Computation From STATA 13.0

As evident in Table 4, the chi2(1) of the fitted values for the variables is 1.90 with a p-value of 0.1679. This result thus confirms the absence of heteroscedasticity problem in the data set. With the above results, the OLS regression outcome in the subsequent section of this report can be relied upon.

4.2.4 PANEL UNIT ROOT TEST

Before the data of this study were used to estimate the specified models, they were subjected to panel data stationarity tests. This was done in a bid to establish if their variances and covariances were relatively constant over the study period. The condition of covariance stationarity is a necessary requirement for determining the ability of the specified models to estimate the relationship between the variables of concern in this study. In this regard, several optional available tests like the Harris-Tzavallis test, and Hadri-LM stationarity test were employed. The result of the panel unit root test is shown in the table below:

Table 5: *Summary of Panel Unit Root Test Result*

Level for NPM		
	Stationarity	**Probability**
Harris Tzavalis	**0.2215**	**0.0000**
Hadri LM	**4.7525**	**0.0000**
Level for FAQ		
	Stationarity	**Probability**
Harris Tzavalis	**0.5436**	**0.0135**
Hadri LM	**8.0207**	**0.0000**
Level for FAF		
	Stationarity	**Probability**
Harris Tzavalis	**-0.0692**	**0.0000**
Hadri LM	**1.4159**	**0.0784**
Level for FMS		
	Stationarity	**Probability**
Harris Tzavalis	**1.1800**	**1.0000**
Hadri LM	**14.3983**	**0.0000**
Level for ACS		
Harris Tzavalis	**0.5000**	**0.0031**
Hadri LM	**7.3050**	**0.0000**

Source: Researcher's Computation From STATA 13.0

The result for the panel unit root test for all the variables indicates that all the variables were stationary at level. Thus, all the variables are integrated at level which permits the estimation of the models in this study. As a result of the foregoing, the result of the Ordinary Least Square (OLS) regression analysis served as the basis for our Test of Hypotheses.

4.3. TEST OF HYPOTHESIS

ANALYSIS OF ORDINARY LEAST SQUARE (OLS) RESULTS

In this study, OLS results were used to ascertain if there is any significant relationship between the independent variable and measures of the dependent variable of the selected firms during the period 2015-2024.

Table 6: *OLS Result for Firm Performance (NPM) and Forensic Auditing (FAQ and FAF)*

Dependent Variable: Firm Performance (NPM)				
Number of Observation (N): 110				
Variables	**Coef.**	**Std Err**	**T**	**P>| t |**
FAQ	-0.2666989	0.4427125	-0.60	0.548
FAF	0.0000539	0.0000217	2.48	0.015
FMS	6.314296	1.178457	5.36	0.000
ACS	0.6988574	1.850545	0.38	0.706
CONS	-122.7515	31.00777	-3.96	0.000

F (4, 105)	**11.12**			
Prob > F	**0.0000**			
R^2	**0.2976**			
Adj R^2	**0.2709**			

Source: Researcher's Computation from STATA 13.0

In Table 6, we presented the OLS result and it was observed that the values of the R-squared and adjusted R-squared were 0.2976 and 0.2709, respectively. This indicates that the independent variables (FAQ and FAF) explain about 27.09% of the systematic variation of the dependent variable (NPM) in the model for the sampled period (2015-2024). The F-statistics (df=4, 105, = 11.12) with a p-value of 0.0000 shows that the result is significant at 5 percent level, suggesting that Forensic Audit Quality (FAQ) and Forensic Audit Frequency (FAF) appear to have a significant influence on Firm Performance (NPM) of firms and was statistically significant at 5%.

4.4. DISCUSSION OF FINDINGS

The results from both the descriptive and inferential statistics via the Ordinary Least Square (OLS), the results have some insightful revelations. From the result of the descriptive statistics, we observe from Table 4.1 that NPM recorded a mean and standard deviation of 19.97694 and 13.48288, respectively. It was further observed that FAQ recorded a mean and standard deviation of 2.763636 and 2.622861, with maximum and minimum values of 0 and 9 respectively revealing the highest categories detected fraud was recorded by Ecobank in 2016 while FAF recorded a mean and standard deviation of 7255.118 and 52837.09, with maximum and minimum values of 0 and 553,356 respectively revealing the highest frequency or number detected fraud cases was recorded by United Bank For Africa in 2023.

The relative level of dispersion recorded for this variable could be accounted for by the nature of the Forensic Audit Quality (FAQ) and Forensic Audit Frequency (FAF) recorded by the different firms which to some extent could be accounted for by the size or nature of their businesses and the number of audit committee members. The results for skewness and kurtosis which measures the asymmetry in, and within the series had values above 0 in all cases (dependent and independent variables) which indicate that the data for the series were skewed to the right.

Additionally, the results of the correlation analysis indicated that the explanatory variables, FAQ, and FAF had positive relationship with measures of the dependent variable (NPM). In a similar vein, one of the control variables (FMS) also had positive relationship with measures of the dependent variable, NPM while the other had negative relationship with measures of the dependent variable, NPM. The results of the correlation matrix also proved that there were no signs of the presence of multicollinearity among the dataset for this study. This position was further confirmed by the result of the heteroscedasticity test along with the test for multicollinearity.

With respect to the test of hypotheses 1 and 2, it was observed from the results presented in Table 4.6 that the output of OLS presents smaller beta coefficient in absolute terms for NPM than that reported for FAQ (-0.2666989), FAF (0.0000539), FMS (6.314296) and ACS (0.6988574). Judging further from the OLS result, the coefficient of NPM is -122.7515 with a t-value of -3.96. This study argued that on the basis of the test of hypothesis using the OLS result where F test, F(4, 105)=11.12, and Prob > F = 0.0000, the null hypotheses that there is no significant relationship between forensic audit quality and the profitability of firms in the financial services sector of the Nigerian Exchange Group (NGX) and that Forensic audit frequency has no significant impact on the financial performance of firms in the financial services sector of the Nigerian Exchange Group (NGX) are hereby rejected and the alternative hypotheses are accepted.

The rejection of the null hypothesis led to the conclusion that both Forensic Audit Quality (FAQ) and Forensic Audit Frequency (FAF) have significant relationship with the Net Profit Margin (NPM) of selected listed Banks in Nigerian Exchange Group (NXG).

5. CONCLUSION

This study investigated the effect of forensic auditing on firm financial performance, using net profit margin (NPM) as a proxy for financial performance, while forensic audit quality (FAQ) and forensic audit frequency (FAF) were proxies for forensic auditing. Additional control variables—firm size (FMS) and audit committee size (ACS)—were also considered.

The analysis spanned data from 2015 to 2024 and applied various statistical tools including descriptive statistics, correlation analysis, multicollinearity tests (VIF), heteroscedasticity tests (Breusch-Pagan/Cook-Weisberg), and panel unit root tests (Harris-Tzavalis and Hadri LM). The results demonstrated the absence of data irregularities such as multicollinearity or heteroscedasticity, thereby validating the reliability of the regression models.

The findings from the Ordinary Least Squares (OLS) regression analysis indicated that forensic audit quality (FAQ) and forensic audit frequency (FAF) both exhibit a positive relationship with firm performance, as measured by net profit margin (NPM). However, while FAF demonstrated a stronger positive and statistically significant relationship, FAQ's influence was weaker, albeit still positive. This supports the notion that effective and frequent forensic audit practices enhance the financial well-being of the listed financial firms.

Furthermore, the control variables—firm size (FMS) and audit committee size (ACS)—were also examined. Firm size showed a positive influence on performance, suggesting that larger firms may benefit more from forensic auditing due to better resources and internal structures. Conversely, audit committee size had a negative relationship with performance, which may imply issues such as inefficiency or lack of expertise in larger audit committees.

In conclusion, the study affirms that the implementation of effective forensic auditing mechanisms can contribute to improved financial performance in the financial service sector and that high-quality forensic audits that detect more material misstatements, and the frequency of conducting such audits, are valuable tools for improving profitability and fostering financial discipline within firms.

6. RECOMMENDATIONS

Based on the findings, the following recommendations are proposed:

1. Strengthen forensic audit practices: firms should invest in enhancing the quality of forensic audits by engaging skilled forensic auditors, utilizing modern investigative tools, and regularly updating their fraud detection techniques.
2. Increase audit frequency: more frequent forensic audits should be conducted, particularly in sectors prone to fraud and misstatement, as this appears to positively impact profitability and transparency.
3. Optimize audit committee composition: while the audit committee is essential, firms should prioritize the competence of its members over size. Expertise in forensic accounting and internal controls should be considered during composition.
4. Encourage regulatory oversight: regulatory bodies should issue guidelines mandating periodic forensic audits for firms in high-risk sectors, ensuring adherence to best practices and corporate governance.
5. Integrate forensic audits with risk management: firms should treat forensic auditing as a critical component of enterprise risk management to proactively prevent fraud and enhance financial performance.

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