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- I. Title page
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- V. Literature Review
- VI. Methodology
- VII. Results and Discussion
- VIII. Conclusion and Recommendations
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TABLE OF CONTENT

1. Ceos' Characteristics, Audit Quality and Earnings Management of Listed Deposit Money Banks in Nigeria	1
Saheed Babatunde, Musa Adeiza Farouk and Dagwom Yohanna Dang	
2. Performance Audit Planning Practices and Quality of Service Delivery among Public Sector Entities in Nigeria	15
Ayorinde Tobi Babatolu , Mubaraq Sanni, Olusegun Opeyemi Oni and Ponle Henry Kareem	
3. Moderating Effect of Training on The Relationship Between Forensic Accounting Practice Skills And Tax Fraud Detection in Nigeria Federal Inland Revenue Service ..	28
Dagwom Yohanna Dang, Abdullahi Ya'u and Ishaya Pius Papka	
4. Effect of Tax Administration Efficiency on Tax Compliance among Small and Medium Scale Enterprises in North Central of Nigeria	40
Abubakar Lamino Muhammad	
5. Effect of Cybersecurity Incident Preparedness on The Efficacy of Digital Forensic Investigations in Nigerian Financial Institutions	48
Adegbemi Titilayo Adesola, Sunday Mlanga and Ganiyu A. Mustapha	
6. Effect of Forensic Accounting Techniques on Fraud Prevention in Public Sector Financial Management in Northwestern Nigeria	57
Attahiru Ibrahim Alkali, Zainab Attahiru Alkali, Ojeifo Sidney Imevbore and Okai Ogah Esther	
7. Effect of Information Communication Technology on Liquidity of Banks in Nigeria ...	67
Chimin, Stanley Iorwundu	
8. Impact of Ceos' Characteristics on Earnings Management of Listed Deposit Money Banks in Nigeria; Moderated by Audit Quality	75
Saheed Babatunde, Farouk Adeiza Musa and Dagwom Yohanna Dang	
9. Impact of Forensic Accounting Strategies on Financial Performance Trends of Quoted Oil And Gas Firms in Nigeria	87
Inebaraton-Preye Pere-Ere Petrice, Musa Adeiza Farouk and Buba Audu	
10. Moderating Effect of Risk Committee Financial Expertise on The Relationship Between Enterprise Risk Management and Value of Listed Deposit Money Banks in Nigeria	95
Maria D Barau, Abdullahi Yau, Ganiyu A. Mustapha and Musa Adeiza Farouk	
11. Effect of TETFUND Intervention on Research and Development in Nigerian Tertiary Institutions .	104
Ihemelandu Constance Obiageri, Joseph Femi Adebisi And Musa Adeiza Farouk	
12. Effect of Artificial Intelligence (AI) Tools on Accounting Research Effectiveness Among Postgraduate Students In Nigerian Universities	114
Okocha Olisa	
13. Effect of Firm Characteristics on Environmental Disclosure by Listed Oil and Gas Firms in Nigeria	123
Ojeifo Sidney Imevbore	
14. Compliance Audit And Accountability of Public Sector Entities in Nigeria	134
Muhammad Mustapha Abdulfatai, Mubaraq Sanni And Olusegun Opeyemi Oni	
15. Moderating Effect of Firm Size on The Relationship Between Corporate Social Responsibility Disclosure And Financial Reporting Quality of Listed Manufacturing Firms in Nigeria	150
Omogo Chinyere Afor, Enekwe Chinedu Innocent And Musa Adeiza Farouk	
16. Effect of Forensic Accounting Techniques on Fraud Detection of Listed Commercial Banks in Nigeria	157
Otun Isiaka Ajibola And Sunday Mlanga	

TABLE OF CONTENT

17. Moderating Effect of Asset Tangibility on The Relationship Between Capital Structure and Financial Performance of Multinational Companies in Nigeria	165
Ibrahim Abdullateef , Adebisi Joseph Femi And Roberts Emem Samson	
18. Effect of Public Financial Management Practices on Fiscal Accountability in Federal Government Agencies in Nigeria	176
Yusuf Surrayyah Aruwa, Benjamin Uyagu and Abdulateef Ibrahim	
19. Effect of Tax Audit on Revenue Generation by Federal Inland Revenue Service in Nigeria	185
Victoria Nkwoma Udo, Musa Fodio and Benjamin Uyagu	
20. Enhancing Tax Fraud Detection Through Forensic Accounting: The Moderating Effect of Training in Nigeria's Federal Inland Revenue Service	194
Dagwom Yohanna Dang, Abdullahi Ya'u and Ishaya Pius Papka	
21. Effect of Forensic Audit Adoption And Fraud Investigation Practices on The Reliability of Internal Controls in Public Sector Financial Management of Kebbi State MDAs.	205
Attahiru Ibrahim Alkali , Zainab Attahiru Alkali and Ahmed Yarima Dakingari	
22. Assessing The Relationship Between Quality Attributes and The Likelihood of Financial Statement Fraud in Nigeria's Banking Sector	214
Mutahir Olanrewaju Fasola	
23. Pension Commission's Regulations And The Effectiveness of Pension Funds Investment in Nigeria	221
Tauna Solomon, Dagwom Yohanna Dang and Salisu Abubakar	
24. Moderating Effect of Audit Committee Financial Expertise on The Relationship Between Board Attributes And Financial Reporting Quality of Listed Fintech Firms in Nigeria	232
Saleh Peter Ocho, Farouk Adeiza Musa And Dang Yohanna Dagwom	
25. Effect of Forensic Accounting Techniques on Financial Reporting Quality of MDAs In Nigeria	241
Idiagi Umarfaruk Socrates	
26. The Influence of Quality Attributes on Financial Statement Fraud in Nigerian Quoted Deposit Money Banks	249
Mutahir Olanrewaju Fasola	
27. Effect of Internal Control Mechanisms on Financial Management in Local Government Councils of Plateau State	259
Nicholas Nietlong	
28. Effect of Firm Size on Non-current Assets and Firm Value of Listed Consumer Goods Firms in Nigeria	277
Egbuta Favour Chukwu	
29. Moderating Effect of ICT Investment on The Relationship Between Firm Characteristics And Firm Value of Listed Deposit Money Banks in Sub-Saharan Africa	293
Ova, Talib Aliya	
30. Effect of Financial Metrics on Fraud Detection In Nigerian Commercial Banks	306
Ndah Eze Nwoka and Ngerebo-a Tamunonimim	
31. Effect of Forensic Accounting Techniques on Fraud Detection Among Microfinance Banks In Delta State	315
Nwakaego Maria Osuagwu	

EFFECT OF FORENSIC ACCOUNTING TECHNIQUES ON FINANCIAL REPORTING QUALITY OF MDAs in NIGERIA

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ABSTRACT

This study examined the effect of forensic accounting techniques on the credibility of financial reporting in Nigerian Federal Ministries, Departments, and Agencies (MDAs). The techniques considered were ratio analysis and trend analysis. The study adopted a survey research design, and data were collected through the administration of 344 questionnaires to staff in finance and audit departments of selected MDAs. Out of these, 337 valid responses were analyzed using regression analysis. The findings revealed that ratio analysis has a significant positive effect on financial reporting credibility by improving accuracy and exposing irregularities. Similarly, trend analysis was found to significantly enhance financial reporting credibility by revealing inconsistencies across accounting periods and strengthening transparency. The study concludes that forensic accounting techniques are effective in promoting accountability in the public sector. It recommends that ratio analysis and trend analysis be institutionalized in financial reporting processes of Federal MDAs to improve the reliability of financial information and restore public confidence.

KEYWORDS: Forensic Accounting, Ratio Analysis, Trend Analysis, Financial Reporting Credibility.

1.0 INTRODUCTION

Public sector accountability depends critically on the integrity and quality of financial reporting produced by Ministries, Departments, and Agencies (MDAs). In Nigeria, where MDAs manage substantial public resources, implement government programmes, and are custodians of taxpayer funds, reliable financial information is essential for informed policy-making, budgetary control, and public trust (Adebayo & Ogundele, 2021). However, recurrent audit qualifications, irregularities, and high-profile cases of misstatement and misappropriation have repeatedly exposed weaknesses in the financial reporting system of many Nigerian MDAs (Okonkwo, 2020; Umeadi & Eze, 2022). These weaknesses undermine fiscal transparency and impair the ability of oversight institutions to hold officials accountable, thereby fueling public skepticism and eroding confidence in state institutions.

Forensic accounting, which combines accounting, auditing, investigative skills, and legal knowledge, has emerged globally as a powerful tool to detect, prevent, and respond to financial misreporting, fraud, and corrupt practices (Chan & Miller, 2019). Forensic

techniques include data mining and analytics, transaction tracing, forensic auditing procedures, digital forensics of electronic records, and the reconstruction of financial events to establish intent and causation (Dasgupta, 2021). When applied within the public sector, these techniques strengthen internal control environments, improve the evidential basis of financial statements, and enhance the probative value of audit findings that are submitted to prosecutorial and oversight bodies (Nguyen & Bello, 2023).

In the Nigerian context, the adoption of forensic accounting techniques is still uneven across MDAs. Structural constraints such as limited technical capacity, weak digital record-keeping, inadequate legal frameworks for evidence handling, and resistance to external scrutiny have limited their full-scale deployment (Afolayan, 2020; Ibrahim & Chukwu, 2024). At the same time, recent policy reforms and donor-supported capacity-building initiatives have introduced forensic approaches in some agencies. These efforts have yielded early but inconsistent improvements in investigation outcomes and financial statement reliability (Katsina & Olorunfemi, 2022). Such outcomes suggest the

potential for broader gains, but systematic empirical evidence linking forensic techniques to measurable improvements in financial reporting quality within Nigerian MDAs remains limited.

Financial reporting quality is a multi-dimensional construct that includes accuracy, completeness, timeliness, compliance with accounting standards, and the extent to which reports are free from material misstatement or manipulation (Peterson & Adeyemi, 2019). In public-sector entities, high-quality financial reports facilitate parliamentary oversight, enable effective fiscal policy, and support anti-corruption initiatives (Raji & Okoye, 2021). Conversely, poor-quality reporting often masks misallocation of resources and creates barriers to efficient service delivery. Forensic accounting techniques can improve reporting quality directly by uncovering and correcting misstatements, and indirectly by deterring fraudulent behaviour through stronger detection capabilities as well as prompting improvements in record-keeping and internal controls (Sarma & Ibe, 2020).

Despite the theoretical promise, several operational questions persist. Which forensic techniques produce the greatest improvements in accuracy and compliance within MDAs? How do organizational factors such as IT infrastructure, staff expertise, and management support influence the effectiveness of forensic methods? What legal and institutional reforms are necessary to translate forensic findings into sustained improvements in reporting practices? Answering these questions is vital for policymakers who must prioritize scarce resources across competing public-sector reforms (Olatunde, 2023).

This study therefore evaluates the effect of forensic accounting techniques on the financial reporting quality of MDAs in Nigeria. By combining evidence from forensic engagements, audit outcomes, and assessments of reporting attributes, the research aims to provide empirically grounded recommendations on the selection, implementation, and institutionalization of forensic practices in the Nigerian public sector. The findings are expected to inform auditors, anti-corruption agencies, and policymakers about where forensic investments can most effectively raise the transparency and reliability of public financial reporting. In doing so, the study contributes to strengthening governance and restoring public confidence in state institutions (Eze & Musa, 2024).

Statement of the Problem

Financial reporting quality in Nigeria's Ministries, Departments, and Agencies (MDAs) has remained a persistent challenge despite various reforms aimed at strengthening accountability and transparency. Reports from the Office of the Auditor General of the Federation frequently reveal issues such as

misstatements, irregularities, non-compliance with accounting standards, and weak internal controls (Umeadi & Eze, 2022). These recurring deficiencies not only undermine public trust in government institutions but also limit the effectiveness of fiscal policy and service delivery.

Although forensic accounting techniques have been identified as effective tools for detecting, preventing, and addressing fraud and financial misreporting (Nguyen & Bello, 2023), their application within Nigerian MDAs remains limited and inconsistent. Structural constraints, inadequate technical capacity, and weak legal frameworks hinder their full utilization (Ibrahim & Chukwu, 2024). As a result, many MDAs continue to produce financial reports that fall short of the expected standards of accuracy, transparency, and reliability.

The problem therefore lies in the insufficient application of forensic accounting techniques as a mechanism for improving financial reporting quality in Nigerian MDAs. Without stronger adoption and institutionalization of these practices, cases of mismanagement, fraud, and poor accountability are likely to persist, further weakening governance and eroding public confidence in state institutions.

Research Questions

- i. To what extent does ratio analysis influence the credibility of financial reporting in Federal Ministries, Departments, and Agencies (MDAs) in Nigeria?
- ii. How does trend analysis affect the credibility of financial reporting in Nigerian Federal MDAs?

Objectives of the Study

The main objective of this study is to examine the effect of forensic accounting techniques on the credibility of financial reporting in Federal Ministries, Departments, and Agencies (MDAs) in Nigeria. The following specific objectives were examined:

- i. To determine the extent to which ratio analysis influences the credibility of financial reporting in Federal MDAs in Nigeria.
- ii. To evaluate how trend analysis affects the credibility of financial reporting in Federal MDAs in Nigeria.

Research Hypotheses

H₀₁: Ratio analysis has no significant influence on the credibility of financial reporting in Federal MDAs in Nigeria.

H₀₂: Trend analysis has no significant effect on the credibility of financial reporting in Federal MDAs in Nigeria.

Significance/Relevance of the Study

This study is significant because it highlights the role of forensic accounting techniques in improving the

credibility of financial reporting within Nigerian Federal MDAs. By focusing on ratio analysis and trend analysis, it provides practical evidence on how these tools can reduce misstatements, detect irregularities, and enhance accountability in the management of public funds.

The findings will be useful to policymakers in designing stronger financial oversight frameworks, to auditors and forensic practitioners in improving investigative procedures, and to anti-corruption agencies in strengthening preventive and corrective mechanisms. For the academic community, the study expands existing literature on forensic accounting and public sector financial reporting, while serving as a valuable reference for future research. Ultimately, the study contributes to promoting transparency, public trust, and good governance in Nigeria's public sector.

2.0 LITERATURE REVIEW

Conceptual Review

Forensic Reporting Credibility

Financial reporting credibility stands as a cornerstone in the architecture of transparent governance, sound financial management, and informed decision-making in both the private and public sectors. It refers to the degree to which stakeholders can trust that financial statements are accurate, reliable, and free from material misrepresentation or bias. Credible financial reporting provides a faithful representation of an entity's financial position, performance, and cash flows. It ensures that the information disclosed in financial statements is not only compliant with relevant accounting standards and legal frameworks but also reflects the true economic substance of transactions (Obadiah & Salawu, 2022).

Ratio Analysis

Ratio analysis is one of the most fundamental and widely used tools in financial analysis, offering a structured and interpretative approach to understanding the relationships among financial statement items. It involves the quantitative evaluation of a company's financial performance and position by calculating and interpreting various ratios derived from the balance sheet, income statement, and cash flow statement. These ratios are critical in assessing liquidity, profitability, efficiency, solvency, and overall financial health (Gitman & Zutter, 2021).

The concept of ratio analysis is deeply embedded in both theoretical finance and practical accounting. At its core, ratio analysis provides stakeholders such as managers, investors, regulators, auditors, and forensic accountants with simplified indicators that allow them to make informed decisions. It condenses complex financial data into digestible metrics that highlight trends, red flags, and performance benchmarks (Brigham & Ehrhardt, 2022). Forensic accountants, in particular, rely heavily on ratio analysis to detect anomalies, misstatements, and potentially fraudulent

behavior in financial records.

Trend Analysis

Trend analysis is a fundamental and highly informative forensic accounting technique that involves the systematic examination of financial data over a defined period in order to identify patterns, anomalies, and significant movements that may indicate underlying irregularities or misstatements. It is a time-series evaluation tool used to detect financial inconsistencies, track performance trajectories, and reveal manipulation that may not be apparent in static financial reports (Wahlen, Baginski, & Bradshaw, 2022). When applied within the framework of forensic accounting, trend analysis transcends its conventional use as a managerial or forecasting tool and serves as a critical instrument for detecting fraud, embezzlement, financial misreporting, and internal control breaches.

The core objective of trend analysis in forensic accounting is to compare financial variables such as revenue, expenses, net income, liabilities, and asset values over successive accounting periods. By analyzing percentage changes or graphical patterns over time, forensic experts are able to establish whether financial performance aligns with organizational operations, prevailing economic conditions, and expected financial behavior. Any deviation from expected trends, especially those without corresponding operational justifications may signal financial manipulation or concealment of illegal activities (Okafor & Abdulrahman, 2024).

Theoretical Review

Agency Theory

The Agency Theory, formulated by Jensen and Meckling (1976), serves as a cornerstone in the field of organizational economics, offering insights into the dynamics between two key parties: the principal, who delegates authority, and the agent, who is entrusted with decision-making power on behalf of the principal. At its core, agency theory addresses the inherent problems that arise when the goals of the principal and the agent diverge and when the principal is unable to fully monitor the agent's behavior. In the public sector context, particularly within Federal Ministries, Departments, and Agencies (MDAs) in Nigeria, this theoretical framework aptly captures the relationship between citizens (as principals) and public officials (as agents) entrusted with managing public resources and providing transparent financial disclosures.

Stakeholder Theory

The Stakeholder Theory, pioneered by R. Edward Freeman in 1984, is a strategic management and ethics theory that challenges the traditional shareholder-centric view of accountability by asserting that organizations must serve a broader community of

stakeholders. A stakeholder, in this context, is defined as any individual or group that can affect or is affected by the outcomes, activities, or disclosures of an organization. This includes not only shareholders or owners but also employees, regulators, the media, civil society organizations, creditors, customers, and, in the case of public institutions, the general citizenry.

Fraud Triangle Theory

The Fraud Triangle Theory is one of the most influential frameworks in forensic accounting and fraud examination. Originally developed by criminologist Donald Cressey in the 1950s and further advanced by Wolfe and Hermanson (2004), the theory posits that three interrelated elements must be present for occupational or financial fraud to occur: pressure, opportunity, and rationalization. This tripartite framework explains the psychological and environmental conditions that make fraud not only possible but also tempting and justifiable in the minds of perpetrators.

Empirical Studies

In a study by Oladimeji and Akanbi (2023), the researchers explored the relationship between ratio analysis and financial statement transparency within Nigerian state-owned enterprises. Their investigation, which used data from 12 enterprises across Lagos and Abuja, revealed that liquidity and solvency ratios often help expose unreported liabilities and anomalies in expenditure. Although their findings supported the relevance of ratio analysis, their work fell short of directly linking these insights to the overall credibility of financial reports. Their conceptual framing lacked a forensic accounting orientation, and their geographical limitation to state enterprises made generalization to federal-level institutions difficult. In contrast, the present study improves on this by situating ratio analysis within a forensic framework and expanding the scope to encompass federal MDAs, with a particular emphasis on the credibility of their financial disclosures.

Another significant study was conducted by Okonkwo and Bamidele (2022), who focused on the private sector by evaluating how profitability and liquidity ratios serve as early indicators of financial misstatements among listed Nigerian firms. Through logistic regression on financial statements spanning five years, the authors demonstrated that certain ratios were frequently distorted prior to financial restatements. While methodologically robust, their study was grounded in a corporate, profit-oriented context and did not consider the unique regulatory and reporting dynamics of the public sector. Moreover, the credibility of financial reports was interpreted more from the perspective of investor confidence than institutional accountability. The present study, while borrowing analytical cues from theirs, extends the scope to the public sector by applying ratio analysis to

evaluate financial reporting credibility in a governance context.

Over the years, trend analysis has emerged as a critical financial investigative tool, especially in detecting abnormalities and inconsistencies in financial statements. One notable study in this area was conducted by Ibrahim and Omole (2020), who examined how trend analysis was used by internal auditors in six federal parastatals to identify recurrent financial irregularities. The study found that agencies that tracked multi-year expenditure patterns were better able to detect fiscal anomalies, such as ghost transactions and budget padding. However, the authors focused solely on budgetary control and did not measure the influence of these findings on the perceived credibility of financial statements. The present study extends this perspective by linking such trend-based detections to the broader issue of financial reporting credibility.

In an earlier work, Ahmed and Onuoha (2016) investigated the role of trend analysis in the detection of financial manipulation in state government accounts in Nigeria. Their time-series analysis revealed patterns of overstated revenue projections over a 10-year period, which did not align with actual cash inflows. Their study provided strong evidence of trend analysis as a tool for uncovering systemic misreporting. However, their work did not frame these findings within the context of forensic accounting or explore their implications for public trust in financial reports. In contrast, the present study incorporates both the forensic lens and stakeholder perception in evaluating the relationship between trend analysis and financial reporting credibility.

3.0 METHODOLOGY

Research Design

This study adopts a quantitative survey research design, which is deemed most appropriate given the nature of the research objectives and the empirical scope of the investigation. The central aim of the study is to examine the effect of selected forensic accounting techniques namely ratio analysis and trend analysis on the financial reporting credibility of Federal Ministries, Departments, and Agencies (MDAs) in Nigeria. This focus on measurable relationships and observable outcomes aligns firmly with the positivist research paradigm, which emphasizes objectivity, quantification, and empirical validation of theoretical constructs.

Source and Method of Data Collection

This study will rely mainly on primary data, which will be gathered through structured questionnaires administered to accountants, auditors, and financial officers in selected Federal MDAs in Nigeria. The questionnaire will be designed to capture respondents' views on the application of forensic accounting



techniques and their influence on financial reporting credibility. To enrich the analysis, the study will also consider relevant insights from official government audit reports and policy documents as supportive background information.

Population

The population of this study comprises personnel directly involved in financial management, accounting operations, audit oversight, and internal control functions within the selected Federal Ministries, Departments, and Agencies (MDAs) in Nigeria. A preliminary audit of staffing records and public service directories from these agencies reveals an estimated total staff population of 2,457 personnel working within finance, audit, and compliance units across the ten selected MDAs.

Sample

In determining the appropriate sample size for this

study, the Taro Yamane (1967) formula was employed. This statistical approach is widely recognized for its efficiency in calculating sample sizes from a known population, particularly in survey-based research. The formula provides a simplified means of ensuring representativeness while maintaining a tolerable margin of sampling error.

The formula is stated as:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n = sample size

N = population size (2,457)

e = level of precision or margin of error (assumed to be 5% or 0.05)

Substituting the known values into the formula:

$$n = \frac{2457}{1 + 2457(0.05)^2} = \frac{2457}{1 + 2457(0.0025)} = \frac{2457}{1 + 6.1425} = \frac{2457}{7.1425} \approx 344$$

Therefore, the required sample size for this study is 344 respondents.

Method of Data Analysis

The study employed frequency tables, percentages, and multiple regression as methods of data analysis. These techniques were used to analyze the collected data and examine the relationship between forensic investigation techniques and financial reporting fraud.

Variables Measurements

Variables	Type	Measurement
Ratio Analysis	Independent	Measured through respondents' views on the use of ratio analysis in assessing accuracy, reliability, and transparency of financial reports, using a 5 -point Likert scale (Strongly Agree to Strongly Disagree).
Trend Analysis	Independent	Measured through respondents' views on the application of trend analysis in detecting irregularities, monitoring changes, and ensuring consistency in financial reports, using a 5 -point Likert scale.
Financial Reporting Credibility	Dependent	Measured through respondents' perceptions of accuracy, timeliness, compliance, and reliability of financial statements produced by MDAs, using a 5-point Likert scale.

Model Specification

The model that was estimated in course of the study is given as:

$$FRC = b_0 + b_1RA + b_2TA + \mu$$

By definition: FRC = Financial Reporting Credibility, RA = Ratio Analysis, TA = Trend Analysis, *b*'s = Structural Parameters and μ = Stochastic Error Term.

In the course of the investigation, a total of 344 copies of the questionnaire were distributed to respondents across selected Federal MDAs. Out of these, 337 copies were duly completed and returned, representing a response rate of 97.96%. This high return rate indicates strong cooperation from respondents and enhances the reliability of the data collected for the study. This is represented in table 1 below:

4.0 RESULTS

Table 1: Questionnaire Distribution and Return Rate

Questionnaires	Number Distributed	Number Returned	Not Returned	Return Rate (%)
Distributed Copies	344	337	7	97.96



Test of Hypotheses

In this section of the study, the hypotheses specified were analyzed based on the decision rules. The data was analyzed with the regression technique and the probability statistic was used to accept or reject the null hypothesis.

Hypothesis One: Ratio analysis has no significant influence on the credibility of financial reporting in Federal MDAs in Nigeria.

Table 2: Regression on Ratio Analysis and Financial Reporting Quality

Dependent Variable: Financial Reporting Quality

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Ratio Analysis	0.388569	0.376462	4.224785	0.0053

Source: Researcher’s

Decision Rule

Reject Null Hypothesis if probability value is less than 0.05.

Decision

The probability value of ratio analysis yielded 0.0053. Given that this value is less than 5%, it entails the rejection of the null hypothesis. Hence, ratio analysis has significant influence on the credibility of financial reporting in Federal MDAs in Nigeria.

Hypothesis Two: Trend analysis has no significant effect on the credibility of financial reporting in Federal MDAs in Nigeria.

Table 3: Regression on Trend Analysis and Financial Reporting Quality

Dependent Variable: Financial Reporting Fraud

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Trend Analysis	0.277755	0.379246	3.369263	0.0098

Source: Researcher’s Computation Using E-views.

Decision Rule

Reject Null Hypothesis if probability value is less than 0.05.

Decision

The probability value of trend analysis yielded 0.0098. Given that this value is less than 5%, it entails the rejection of the null hypothesis. Hence, trend analysis has no significant effect on the credibility of financial reporting in Federal MDAs in Nigeria.

Analysis and Discussion of Findings

Ratio Analysis and Financial Reporting Credibility

The regression results (Table 2) showed that ratio analysis had a positive and statistically significant influence on financial reporting credibility in Federal MDAs, with a coefficient of 0.388569 and a probability value of 0.0053 ($p < 0.05$). This implies that ratio analysis is a strong predictor of improved financial reporting credibility in the Nigerian public sector. This finding suggests that the application of ratio analysis enables forensic accountants and auditors to uncover irregularities that may otherwise remain hidden in financial statements. Ratios such as

liquidity, solvency, profitability, and activity ratios serve as “red flag indicators” that reveal inconsistencies between reported financial data and the underlying economic activities of MDAs. For instance, a sudden decline in liquidity ratios without corresponding operational justification could signal mismanagement of funds or misstatement of cash balances.

The result aligns with the earlier work of Oladimeji and Akanbi (2023), who demonstrated that liquidity and solvency ratios often expose unreported liabilities and anomalies in public-sector expenditure. Similarly, Okonkwo and Bamidele (2022) found in the corporate sector that ratio distortions often precede financial restatements, underscoring their diagnostic power. The present findings extend this evidence by affirming that ratio analysis not only detects anomalies but also directly contributes to enhancing the perceived credibility of financial reporting in the governance context of Nigeria's MDAs.

Trend Analysis and Financial Reporting Credibility

The regression results (Table 3) indicated that trend

analysis also had a significant positive influence on financial reporting credibility, with a coefficient of 0.277755 and a probability value of 0.0098 ($p < 0.05$). This demonstrates that examining financial data across multiple periods enhances the ability of MDAs to produce reports that are consistent, transparent, and free from material misstatements. Trend analysis, by systematically evaluating revenues, expenditures, liabilities, and asset values over time, provides a dynamic perspective on financial performance. Deviations from expected trends, especially when unsupported by operational changes, may reveal attempts at financial manipulation or concealment of misappropriated resources. For example, unexplained spikes in capital expenditure or persistent overstatement of revenue projections can signal systemic irregularities.

This outcome supports the findings of Ibrahim and Omole (2020), who established that federal parastatals that applied trend analysis were better able to detect anomalies such as ghost transactions and budget padding. Likewise, Ahmed and Onuoha (2016) found that trend analysis exposed systematic misreporting in state government accounts, particularly with overstated revenue projections. The present study contributes by explicitly linking such detections to improved financial reporting credibility, thereby affirming the role of trend analysis as a forensic tool in enhancing transparency and accountability in Nigerian MDAs.

Policy Implications of Findings

The findings of this study show that ratio analysis and trend analysis significantly improve the credibility of financial reporting in Nigerian MDAs. This has clear policy implications. First, government should institutionalize the use of forensic accounting techniques as part of regular financial management and audit processes. Second, there is a need to strengthen capacity by training accountants and auditors in the application of forensic tools. Third, the government should invest in digital record keeping systems to make financial data more reliable for analysis. Fourth, oversight bodies such as the Auditor General and Public Accounts Committees should adopt these techniques to improve monitoring of MDAs. Finally, legal and regulatory frameworks should be reinforced so that forensic findings lead to effective sanctions and improved accountability.

5.0 Conclusion and Recommendation

Summary of Findings

This study investigated the effect of forensic accounting techniques, specifically ratio analysis and trend analysis, on the credibility of financial reporting in Nigerian Federal MDAs. Data were collected from 344 respondents, of which 337 valid responses were analyzed using regression analysis. The results showed that ratio analysis has a significant positive

influence on financial reporting credibility in MDAs. This indicates that the use of financial ratios helps to detect irregularities, improve accuracy, and enhance the reliability of financial statements. Similarly, the findings revealed that trend analysis also has a significant positive effect on financial reporting credibility. This suggests that examining financial data across different periods assists in exposing misstatements and ensuring greater transparency in financial reporting. Overall, the study established that forensic accounting techniques play an important role in strengthening accountability and improving the quality of financial reporting in Nigeria's public sector.

Conclusion

This study concludes that forensic accounting techniques, particularly ratio analysis and trend analysis, are effective tools for enhancing the credibility of financial reporting in Nigerian Federal MDAs. The evidence shows that their application reduces irregularities, strengthens transparency, and improves accountability in public financial management. By integrating these techniques into routine audit and reporting processes, MDAs can achieve more reliable financial statements and restore public confidence in government financial practices.

Recommendations

1. Based on the finding that ratio analysis improves the credibility of financial reporting, it is recommended that Federal MDAs consistently apply ratio analysis in their financial reviews to detect irregularities and ensure accuracy.
2. From the finding that trend analysis has a positive effect on financial reporting credibility, it is recommended that MDAs adopt trend analysis as a standard practice for monitoring financial data across periods to promote transparency and accountability.

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