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FRAUD AND FINANCIAL MANAGEMENT IN THE NIGERIAN ORGANIZATIONS

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Abstract

This study discussed the impact of fraud on financial management of some organizations in Nigeria using descriptive and qualitative methods of analyses. Some comparative studies were carried out based on previous works done in this topic. It was recommended that organisations should make employees aware of setting up reporting system of fraud risk policy including types of fraud and the consequences associated with them.

Keywords: impact, fraud, organizations, financial management, corruption, Nigeria.

Introduction

Fraud is an intentionally deceptive action designed to provide the perpetrator with an unlawful gain or to deny a right to a victim. Types of fraud include tax fraud, credit card fraud, wire fraud, securities fraud, and bankruptcy fraud. Fraudulent activity can be carried out by one individual, multiple individuals or a business firm as a whole (Adu and Ojo, 2013).

The Economic and Financial Crimes Commission (EFCC, 2014) and Nigeria Bureau of Statistics (NBS, 2007) revealed in their studies that crime and corruption represent a huge concern for business executives in Nigeria. This study also showed that over 75% of business obstacles were caused by crimes and corruption. At the international level, organizations are not spared. Then, the smaller organizations, they are even at more risk. Huge sums are lost due to crime and corruption. The Nigerian Deposit Insurance Commission (NDIC) in 2006 reported a total of 1193 cases of fraud and forgeries in the industry with a value of 4.83 billion. Out of this amount, N2.77 bill representing 57% were expected to be lost.

The report was corroborated by another report by the FITC October 2008 which showed that during the quarter a total of 480 cases of fraud and forgeries were reported (which means 19.9% increase) (NBS, 2007). During the preceding quarter the amount rose from 1.57 billion to 3.4billion. This means an increase of 116.56%. If all these are observed within the organized sector, then the unorganized sector will be experiencing more serious challenges. In business, every organization is susceptible to failure and this potential is heightened when organizations and their management do not pay adequate attention to major business hazards occasioned by fraud (EFCC, 2014).

Conceptual Review

The concept of the Fraud Triangle is divided into three, namely, Pressure, Opportunity, and Rationalization. This theory was made by Cressey (1953) and is still used by researchers today. Until now, fraud in financial reports still occurs frequently, so researchers try to use the Fraud Triangle concept with "Pressure" which can be categorized into four conditions, namely: First, Financial Stability using a change proxy. Because developing companies generally require a lot of assets and companies want to see their development quickly, they are prone to fraud in the asset division.

Second, External Pressure uses LEV proxy. Because companies that have a high level of debt will have a low repayment capacity and they will also find it difficult to get additional through loans, therefore a high level of debt will allow management to commit fraud.

Third, Personal Financial Need using OSHIP proxy. Because the executive has a financial or share the role in the company he leads, it will be very prone to financial statement fraud because all investors or shareholders want good financial reports (Adu, 2016).

Forth, Financial Target uses ROA as a proxy because every company has an important goal of making a profit. In generating profits, every company needs to pay attention to principles so that the profits generated can be accounted for. Profitability is a measure to see the company's ability to generate profits. From various profitability ratios, ROA and ROE are often used to measure a company's ability to generate profits. And ROA is a ratio that describes, in general, the company's ability to generate profits based on total assets (Annisya, Lindrianasari, and Amaranth, 2016).

"Opportunity" can be categorized into two conditions, namely: First, Nature of Industry
Opportunity can be categorized into two conditions namely: First being nature of industry using inventory proxy. Because if the company has a larger amount of inventory than the previous year, it means that the company's finances have settled the inventory and the company's financial turnover is disrupted. Thus, management will have the incentive to commit fraud so that the company's performance can still look good in the eyes of investors and other parties. Second, Ineffectiveness is the condition of a company that does not have or that lacks supervision of management so that management can be more flexible to commit fraud (Adu and Ojo, 2013).

Rationalization using TATA proxy, because the accrual concept is being able to record transactions even though there is no cash-out or in, that is when management can commit fraud. In a research conducted by Oktarigusta (2017), it is written that Rationalization is proxied by Total Accrual to Total Asset and Supervision Effectiveness which is proxied by the number of independent commissioners (BDOUT) has an effect on fraud in financial statements. However, research conducted by (Nugraheni and Triatmoko, 2016) states that effective monitoring, which is proxied by the number of independent commissioners, does not affect fraud in financial statements.

The classic framework for studying fraud is the so-called 'fraud triangle', consisting of the incentive (or pressure) to commit fraud, the opportunity for fraud, and its rationalisation by perpetrators (Hollow, 2015). In a study conducted by Nugraheni and Triatmoko in 2016, an expanded understanding of (accountancy) fraud by adding three elements to the triangle: the act of fraud, its concealment, and the resulting 'conversion' (the benefit to the fraudsters). Cooper, Dacin, and Palmer in 2013 discussed broadly on fraud. They distinguished four domains of fraudulent behaviour: individual, firm, organisational field, and society at large. Such a multi-layered perspective can direct the search for general insights to be obtained from business historical studies on fraud and scandals.

Game Theory

Dixit and Nalebuff (1960) coined the game theory and the emphasis of the theory was on games of pure conflict. As stated by Dixit, the essence of a game is the interdependence of player's strategies and decision making strategically. According to the theory, there are two distinct types of strategic interdependence, sequential and simultaneous. In the former, the players proceed in order with each being aware of the others' foregoing actions. In the latter, the player act at the same time with each being ignorant of the others' actions (Montet and Serra, 2003).

The theory is imperative to the impact of fraud on management functions since it is a formal study of decision-making where several players must make choices that potentially affect the interests of other players. Maintaining fraud policy and training, annual auditing, good remuneration, employee's background check, bank reconciliation, and good corporate governance in financial institution industry in Nigeria are crucial constituents that require strategies and decision making. Every organization aspiration's aim is to gain profits for the expansion, while that of the customers is to receive value for the monies and services. If such is not met, consumers will use some unwonted ways to recover them. It was clearly demonstrated that finite games must always have equilibrium point, at which all players choose actions which are best for them given their opponents' choices (Dixit and Nalebuff, 1960) as cited by Gill and Goldstraw-White (2010).

Empirical Review

A lot of studies have been carried out since the emergence of fraud as a major impediment to financial management of Nigerian organisations, according to Okoye and Gbedi in 2013, their objective was to determine the impact of fraud and related financial crimes on the growth and development of Nigerian economy. Data for the study were collected from secondary sources only. The research analyzed the data generated using regression analysis. The research findings revealed that, fraud and related financial crime has significant effect on the Nigerian economy while fraud and financial crime have no significant effect on inflation. It was recommended that auditors and accountants in organizations and financial institutions should be trained on how to carry out forensic investigation since the fraudsters are now sophisticated in their act. Also internal control systems should be strengthened to block opportunities that attract fraud perpetrators and oversight function of the National Assembly be strengthened to make public office holders accountable.

Ijeoma and Aronu, (2013) worked on the impact of fraud management on organizational survival which was about the contribution fraud has on the survival of different organizations. The objective of the study was to determine if business organization or companies adopt holistic approach to fraud management, to examine if the various stages of fraud management were effectively balanced so as to reduce losses contributed by fraud and the extent to which the coordination of fraud management has reduced fraudulent activities. A sample size of forty-four (44) staff was used to evaluate the Chi-Square test statistics. From the result of the analysis it was observed that adoption of holistic approach to fraud management do not help companies in preventing fraud in Nigeria, also the successful balancing of activities within and among the fraud management lifecycle do not result in improved fraud management performance in Nigeria. The effective coordination of fraud management activities was observed to help in reducing fraudulent activities in Nigeria.

Okaro, Okafor, and Ofoegu (2013), in their comparison of Corporate fraud in a profit making organisation and a non-profit making organisation in the particular circumstances of a developing country like Nigeria with a view to drawing out similarities and differences between them. A case study approach was adopted using Cadbury (Nig.) Plc. and the Nigerian Stock Exchange as organisations of study. This approach was also supplemented with the use of newspaper reports and interviews granted by knowledgeable persons in the industries. The study was anchored on the acronym "CRIME" representing Cooks, Recipes, Incentives, Monitoring and End results. The findings suggest that there are similarities which include the fact that top management were mainly the architects of frauds; top management were buoyed in part by greed; the end result was massive loss to investors and loss of employment by both perpetrators and innocent other employees. There were also differences. The vehicles used in perpetrating the fraud were different reflecting the different the different objectives of the organisations. Some of the incentives also differed. The monitoring mechanisms put in place in both organisations also differed in breath. The study results are based on only two cases and should therefore be interpreted with caution. The paper has practical implications for the Nigerian regulators including the Nigerian Security and Exchange Commission. The Central Bank of Nigeria, investors, Board of directors and all those interested in reigning in the monster of corporate fraud in Nigeria. The findings of this study were generally in line with similar studies in other climes. However, the study identified some other factors peculiar to corporate frauds in Nigeria.

It was observed by Nnam and Eneh in 2018 that with the previous reforms in corporate governance requirement, risk assessment has become a prominent feature in organizational control and management. Their study looked at the risk assessment practices of some selected firms in Nigeria to determine the presence and therefore the impact of this practice. The population comprised of firms listed on the stock exchange that is audited by the big four audit firms (KPMG, E&Y, PWC & AWD) in Nigeria. Using judgment sampling, two senior management and four internal control staff were selected. Data were collected by means of a questionnaire with response options graduated into five likert scales. The questionnaire captured responses from questions on risk assessment practices and fraud occurrence in the organizations. Logistic regression was used to test the hypothesis and the result showed a positive and significant relationship between risk assessment and fraud in Nigerian organizations. The study provided insight into the organizational practice with reference to risk assessment. From the study, Nigerian Organizations have not imbibed the prescriptions of the recent corporate governance codes. The study, therefore, recommended that sanctions should be put in place to enforce compliance to these corporate governance codes and attention should be paid to the appointment of board members to ensure that a vibrant audit committee is constituted.

Consequences of Fraud
Top Management

CONSEQUENCES OF TOP MANAGEMENT FRAUD
Top management fraud has pervasive and wide reaching effects. It has afflicted share-holders, employees, the communities in which firms work, and society at large. Fraud can also damage managers' reputations, end their careers, lead to their firing, and cause their imprisonment. Understandably, recent revelations of massive and widespread management fraud around the globe have stirred a heated debate about the roles of auditing firms, corporate boards of directors and regulatory agencies in uncovering and preventing such activities (Okoye and Gbedi, 2013).

Shareholders and Debt Holders
Shareholders are invariably the first victims of top management fraud. When news of fraud by a firm becomes public knowledge, it immediately reduces the stock market value of the companies involved. Bond holders and other creditors of the firm can also end up bearing the negative effects of management fraud. If the company's credit rating is lowered when fraud is revealed, bonds issued by the firm lose value and the bond holders immediately suffer. In many cases, banks may have lent money against either overvalued or nonexistent collateral or inflated cash flow projections. This makes the recovery of these loans problematic, and shareholders of banks may end up paying a price because of the decline in the share prices of the bank itself, if the amounts involved are substantial (Oktarigusta, 2017).

Employees
Employees whose top managers engage in fraud often are hit the hardest, even when they are unaware of their executives' illegal activities. Fraud can cause employees to lose their jobs, their retirement savings (which often are tied up in company stock) and their reputations. In the case of Global Crossing, employees were not allowed to unload their stock for five years, according to their employment contract. Adding insult to injury, while this was happening Chairman Gary Winnick was spending $94 million to purchase and renovate a massive California estate. Frequently, the very fact that employees have worked for a fraudulent

company taints their resumes to the point that some find it difficult to find jobs elsewhere. For example, in the aftermath of the crash of BCCI as a result of fraudulent and illegal actions of it stop management, many of the middle-level managers who were in no way connected to these illegalities found it impossible to find employment in the banking industry (Adu, 2016). These seriously negative effects have made some employees more vigilant of what their top managers are doing and are more willing to blow the whistle on suspected offenders. Companies have also started to develop in-house whistle-blowing programs, hoping to stop fraud. These programs encourage employees to anonymously disclose concerns about accounting and operational issues (Oktarigusta , 2017).

Corporate Reputation

Reputations. Fraud also damages the repu-

Reputations of the individuals and firms involved. Revelations of top management fraud have caused the public to question the ability of boards of directors to monitor senior executives and protect shareholders' wealth. In many fraud cases, senior executives have been indicted, forced to resign, or lost their jobs. Some executives have been found guilty and were fined and sent to jail. Many of these managers will never recover professionally from having their reputations tarnished by committing fraud. The companies for which they had worked also continue to struggle with their own image, hoping to salvage their reputation and regain public support (Reskino and Anshori, 2016).

Methodology

Descriptive and Qualitative Method is applied in the study.

Conclusion and Recommendations

Fraud being a purposeful deceit designed to provide the perpetrator with unlawful gain or to deny a right to a victim, the consequences are often on increase in relation to the severity of the offence in relation to financial management and thus individuals and organisations should ensure all their conducts are fair and ethical to avoid any repercussions (Adu, 2016).

However, the following recommendations could be useful in mitigating the effect of fraud on financial management because it is vital for an organisation, large or small to have fraud prevention plans in place:

i. The Organisation should know her employee because fraud perpetrators often display behavioural traits that can indicate the intention to commit fraud by observing and listening to their employees.

ii. The organisation should make employees aware or setting up reporting system of fraud risk policy including types of fraud and the consequences associated with them.

iii. The organisation should implement internal controls to safeguard the company's assets, ensure integrity of records, and deter and detect fraud and theft.

iv. The organisation should monitor vacation balances because employees who haven't missed a day of work in years could sound loyal but it could also be a sign that these employees have something to hide and are worried that someone will detect their fraud.

v. The organisation should hire trustworthy experts who have their reputations built on quality service and trustworthiness.

vi. The organisation should live the Corporate Culture because a positive work environment can prevent employee fraud and theft.

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