

EFFECT OF FRAUD ON THE DEPLETION OF ASSETS OF SOME SELECTED CORPORATE ORGANIZATIONS IN NIGERIA

Nwadighoha, Chinedum Ephraim

Department of Accounting,

Michael Okpara University of Agriculture, Umudike Abia State, Nigeria.

Email:chinedumnwadighoha@yahoo.com

ABSTRACT

This study is an expo facto research, which examined the effect of fraud on corporate organizations in Nigeria using secondary data from twenty two (22) listed firms in the Nigeria stock exchange. Three hypotheses were formed in line with the three specific objectives. The three hypotheses were tested using multi regression analysis with a computer based statistical model with the aid of econometric (E-view) version 3.1. The findings of the study showed that the amount lost to fraudsters has a strong and positive relationship with the asset depletion of corporate organizations in Nigeria, it reduces the profit of the corporate institutions and the cost of litigation to recover the amount defrauded are not always proportionate to the amount recovered. The following recommendations were made, institutionalization of strong and workable internal control measures, zero tolerance for incidences of fraud and preventive mechanisms are the best approach to avoid creating opportunities for fraudsters and incurring additional cost of litigation to recover amount stolen by fraudsters.

Keywords: Corporate Organizations, Fraud Prevention, Detection, Investigation, and Litigation.

INTRODUCTION

The corporate organizations in Nigeria operate in a very challenging environment with increase incidences of fraudulent cases, such as, employee theft, embezzlement of funds, defalcation of assets, outright stealing, organized and electronic fraud. This scenario necessitated the need for good internal control measures, and auditing to serve as a check against fraud part of the solution to this problem are covered by auditing, investigation, assurance services and “forensic accounting and auditing”. (Nwadighoha, 2008). With the growing size and complexity of the corporate organizations in recent years in Nigeria, the improvement and enhancement of the quality of service rendered by the corporate organizations in Nigeria, requires the services of the fraud experts and auditors who have the responsibility of developing a scientific and systematic approach and procedure in a well documented manner for

policy formulators, policy executors, and technocrats to achieve a high performance with respect to accountability, transparency, probity and stewardship so as to prevent fraud, detect fraud, and investigate fraud in corporate organizations in Nigeria. (Nwadihoha 2016). The auditor is vested with the power of independence, check and balance, statutorily, in order to assess and investigate compliance to established rules and regulations, also whether there are effective fraud control measures in the organizational internal control system, these measures require the commitment and co-operation of the management, employees and all stakeholders, because, the consequences of fraud goes beyond the institutions affected and by extension, the entire economy, the image of the country and the integrity perception of the country by the global community.

STATEMENT OF PROBLEMS

The growing rate of the incidence(s) of fraud in corporate institutions in Nigeria, in particular in the banking industry is very alarming, some of these frauds are covered under non- performing loans and complete deviation of the single obligor limit of lending as recommended by the Central Bank of Nigeria. The high level of corruption by politicians, public servants, private organized sector, Non-Governmental Organizations even Religious institutions in Nigeria, is now a source of worry to the Government and the international community.

OBJECTIVES OF THE STUDY

The broad objective of the study is to analyze corporate fraud prevention, detection and investigation in Nigeria.

The specific objectives are as follows:

- i. Investigate the effect of fraud on the depletion of the assets of the corporate organizations in Nigeria.
- ii. Determine the effect of fraud on the profit of the corporate institutions.
- iii. Identify cost of litigation in pursuance of fraud recovery.

RESEARCH HYPOTHESES

H₀₁: There is no significant and positive relationship between loss incurred in fraud and the depletion of assets of the corporate organizations in Nigeria.

H₀₂: There is no significant and positive relationship between the amount defrauded and the profit of the corporate organizations in Nigeria.

H₀₃: There is no significant and positive relationship between the amount lost to fraudsters and the cost of litigation to recover the amount defrauded in corporate institutions in Nigeria

RESEARCH QUESTIONS

1. To what extent does the amount lost in fraud affect the depletion of assets of corporate organizations in Nigeria?
2. What is the effect of the amount lost to fraudsters on the profit of the corporate organizations in Nigeria?
3. Can the cost of litigation and the amount lost to fraudsters affect the financial status of corporate institutions in Nigeria?

SCOPE OF THE STUDY

It is practically impossible to include all the corporate institutions in Nigeria in this study. Consequently, the scope of this study will be limited to such corporate organizations that had been involved in fraud scandal that made newspaper headlines, either nationally or internationally. The study will focus on the indices of corporate fraud prevention, detection and investigation. Twenty-two (22) quoted companies on the Nigerian Stock Exchange Market will also be considered in this study as the population and the sample size.

REVIEW OF RELATED LITERATURE

Conceptual Framework

Corporate fraud is an undeniable fact of business activities, it affects small and large scale business. New technologies such as the internet, and the development of fully automated accounting softwares and packages have increased the chances and opportunities for fraud to be committed instead of reducing the incidences of fraud. Once fraud is suspected or discovered the next likely step is investigation and litigation. The investigation of fraud is a specialist task that requires experience and skill.

There is no doubt that, fraud is best prevented rather than dealt with after it had been discovered. Albrecht, Howe, & Romney (1984) asserted that “unfortunately, there is no full proof method of preventing fraud, although there are ranges of fraud prevention techniques, which have been proven to be successful. Other techniques may be used to proactively test for fraud

profiles, and to further investigate how fraud incidences can be satisfactorily resolved.

Therefore, fraud prevention, detection and investigation should be the concern of every citizen, the government and other such regulatory authorities such as Economic and Financial Crime Commission (EFCC) Independent Corrupt Practices and other Related Offences Commission (ICPC), the Law Courts, Forensic Auditors, Fraud Examiners and External Auditors.

Theoretical Framework

Theory of Differential Association

Edwin, H Sutherland, (2012) teaches criminology at Indiana State University, he is credited with being the first to attempt to develop a general criminology theory to encompass both conventional and “white - collar crime”. He develops the theory of Differential Association, which is today widely accepted as theory of criminal behaviour:

1. The basic tenet of the theory is that criminal behaviour is learned, much as we learn mathematics or accounting, and that the learning of criminal activity usually occurred within intimate personal groups.
2. Criminality was learned in association with other offenders, and resulted from an excess of received opinions favourable to law violation over attitudes unfavourable to violation.
3. The theory posits that learning process involves two specific areas” the techniques to commit the crime, and the attitudes, drives, rationalizations, and motives of the criminal mind.
4. White-collar criminals comprise wealthy, powerful and articulate unit of society able to participate in the legal process in ways which control how crimes are defined and enforced.
5. Furthermore, the white collar crimes of embezzlement, falsified accounts, bribery of public officials, fraudulent advertising and other big crimes, differ from the crimes of the lower social class which are incidentals rather than essentials.
6. Finally, in organizations, dishonest employees, eventually will infect a portion of honest ones, and vice-versa. Slapper & Tombs, (1999).

(Glaser 1978), offered a refinement of Sutherlands theory of Differentiation, to include the effect of television and cinema to be some of

the sources of influence upon the potential criminal. Glaser's with attempt to commit a crime" wherever and whenever the expectations of gratification from it, as a result of social bonds, differential learning, and the perceptions of opportunity which exceeds the favourable anticipation from those source" (Glaser, 1978, cited by Slapper & Tombs, 1999).

Empirical Framework

(Okafor 2011), He opined in his study "Types of fraud" the objective of the study was to categorize corporate fraud into three categories, Management Fraud, Employee Fraud and External fraud. In their findings, it was discovered that employee fraud are made up of stock theft, misappropriation of cash, petty cash, kickbacks, loans and investment. Management Fraud covers all employees fraud, including false financial statement. Unnecessary purchases, ghost vendors and diversion of sales revenue. External frauds includes, cheque forgery, false representation of funds, false invoices, product substitution, bribes and secret commissions, bid rigging, price fixing, false insurance claims and credit card fraud. The researcher anchored this study on this theory because it has all the variables and indices to explain the effect of corporate fraud on the assets depletion of the corporate organizations in Nigeria. Fraud at top management level covers not only the direct miss appropriation of funds but also the manipulation of accounts of the entity. This type of fraud is more often difficult to detect, because, the internal controls can be overridden by members of the board.

RESEARCH METHODOLOGY

The research design used in this study is a descriptive one, with conceptual, theoretical and empirical frameworks. The research methodology adopted in this study is partly ex-post facto work and partly survey. Ex post-facto research according to (Chukwuemeka, 2006), is a form of descriptive research in which the researcher observes the dependent variable(s) and studies the independent variable which has already occurred, for any possible relationship or effect on the dependent variable(s).

Types and Sources of Data

The research work relied mostly on the use of Aggregate Secondary Data (ASD) key factors and indices that are incidental to corporate fraud, prevention, detection and investigation in national and international news. Information from the Central Bank of Nigeria (CBN) Statistical Bulletin, Federal Bureau of Statistic (FBOS), information from the office of the Accountant -General of the Federation, Auditor-General for the Federation, Institute of Chartered Accountants of Nigeria (ICAN) and Association of

National Accountants of Nigeria (ANAN) Journals and other official sources of information.

Population of the Study/Sample Size

The population is made up of 22 companies selected from different sectors of the economy such as Agriculture, and Extraction, Manufacturing, Banking and Insurance, Marketing, Production and other service industries. The entire population is taken as the sample size because the researcher shall be able to manage the sample size of 22 comfortably.

Measure of Variables

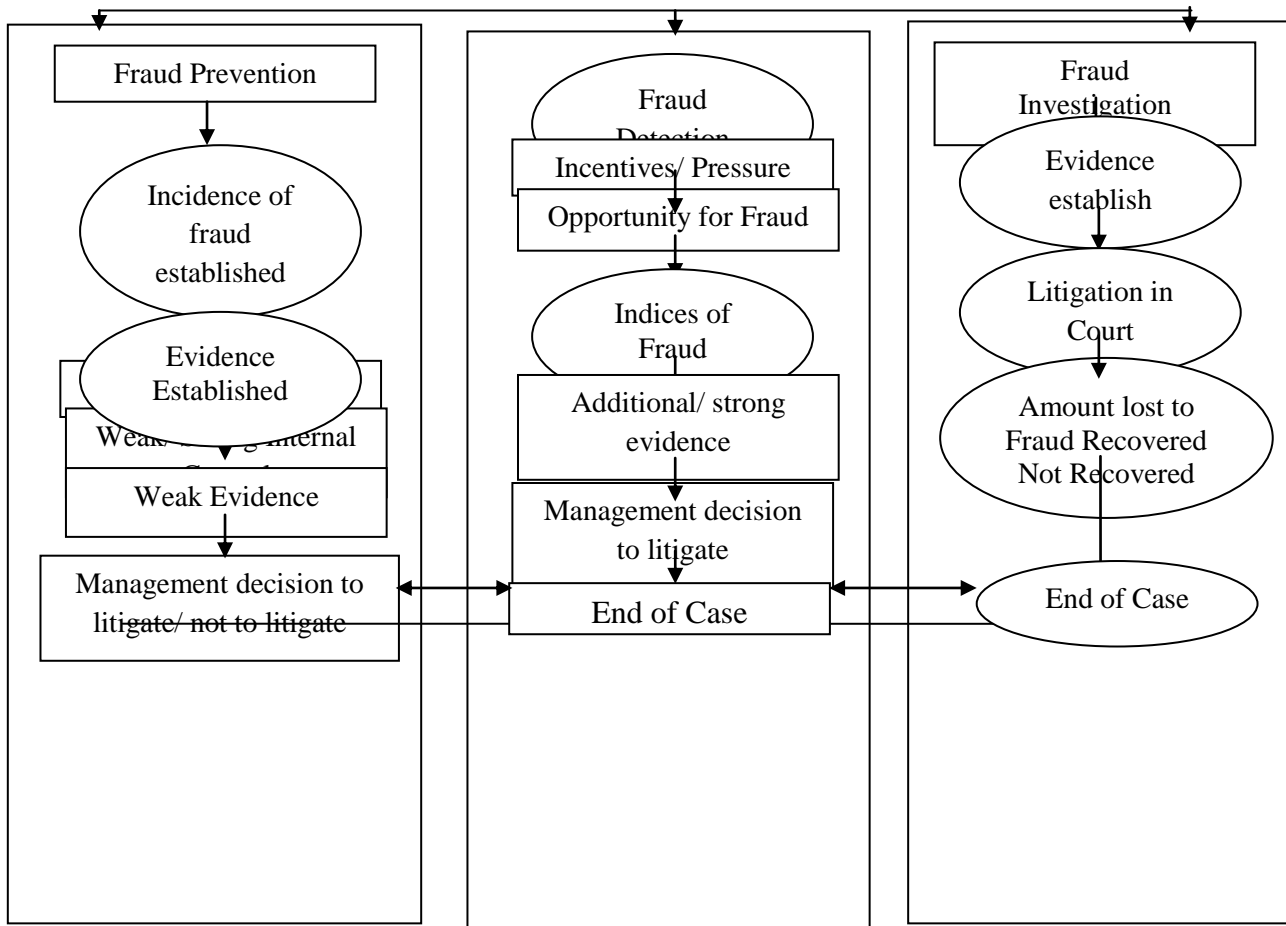
The key variable for this study are the financial statements of these corporate organizations operationalized into the effects of loss of funds, depletion of assets, cost of litigation, effect of non compliance to internal control measures, classifications of indices of fraud, rate of untimely intervention, late response to fraud prevention.

Methods of Data Analysis

Two types of data analysis are used, descriptive and inferential. Descriptive data generated from this study is presented in a table. In testing hypotheses 1-3, a multiple regression analysis is used. The statistical tests of the hypotheses is computed with the aid of Watson Durbin F. Statistic model with the aid of Econometric (E-view) version 3.1 and the Statistical Package for Social Science (SPSS).

CONCEPTUAL FRAMEWORK AND MODEL SPECIFICATIONS

The conceptual framework designed for the study is shown in the figure below:



Conceptualization (2016)

The above conceptual framework illustrated diagrammatically, shows step by step the linkage and flow of fraud prevention, detection and investigation systematic approach from the period the incidences of fraud are established to the point of litigation in court and end of the Case.

To Operationalizing the Conceptual Model

Model 1: The first objective is to establish with evidence incidences of fraud.
 $FRP = f(\alpha_0 + \beta_1 \log FRD + \beta_2 \log FRI + \beta_3 \log INC + \beta_4 \log IP + \beta_5 \log OFF + \dots) \mu_1$

Model 2: The second objective is to prove that as a result of weak internal control structures the possibility of fraud occurrence.

$FRD = f(\alpha_0 + \beta_1 \log FRP + \beta_2 \log FRI + \beta_3 \log INC + \beta_4 \log OFF + \beta_5 \log IF + \dots) \mu_1$

Model 3: The third objective is to establish the willingness or otherwise, based on management decision to litigate fraud matters in the court of law. $FRI = (\alpha_0 \log + \beta_1 \log FRP + \beta_2 \log FRD + \beta_3 \log IP + \beta_4 \log IF + \beta_5 \log WE + \dots + \mu_1)$
 Note: This should have been the outcome of the litigation, but since it is a state matter and criminal in nature there was no need to operationalize it.

PRESENTATION OF RESULTS

The presentations of the analysis of the data collected on the study are shown as follows:

Test of hypothesis one: There is no significant and positive relationship between loss incurred in fraud and the depletion of assets of corporate organizations in Nigeria.

Table: 1 Empirical Results of Loss Incurred in Fraud and Assets Depletion (See Original Data on Appendix 1)

Variable	Coefficient	Std. Error	E-statistic	Prob.
FRP	-00.40869	0.1035538	-3.0818969	0.0071
FRO	30177.24	2965.281	10.17686	0.0000
FRI	622.4025	1099.369	0.566145	0.5779
C	-33404.90	51863.83	-0644089	0.5275

R-squared 0.878237

F-statics 45.68046

Watson- Durbin 1.517622

Pro.F-statistics

0.000000

Source: Author's Computation using e- view, Watson Durbin F.Statistic Model.

Decision Rule: The calculated Watson Durbin statistic is less than 3.0 and Watson.

-Durbin is 0.867 the null hypothesis is accepted and the alternate is ejected.

Decision: Table 1 presents the result of empirical regression estimates for the amount of fraud incurred and the affect on the assets depletion.

Test of Hypothesis Two

Hypothesis Two: There is no significant relationship between the loss resulting from fraud and the Company's Profit.

Table 2: Empirical of the Company's Profit (See Original Data on Appendix I)

Variable	Coefficient	Std. Error	E-statistic	Probe
FRP	-1.348982	0.942115	-1.431866	0.0415
FRO	1123886	448231.9	2.507376	0.0263
FRI	-19227.12	1689.487	-11.38044	.0019
C	-25.53658	13.54600	-1.885174	0.0322
	3134735	5152299	0.68415	0.5505

R-squared 0.784952

F-statics 31.02149

Watson- Durbin1.533895

Pro.F-statistics

0.002936

Source: Author's Computation using e-view, Watson Durbin F. Statistic Model.

Decision Rule

From the calculated F -V valve for the model is 39.02 with a probability value of 0.002, since the probability is less than 0.05, we accept that the regression equation is statistically significant.

Decision

It could be observed that Rs coefficient for this is 0.784952 which implies that 78.4 percent changes in the dependent variables is explained by the independent variables. This indicates that it is good fit since it is closer to one. The F -statistic is used to test if there is any significant relationship between the dependent and independent variable in the regression equation; which means that the models are well specified. Therefore, the amount incurred through or by fraud, affects directly the profitability of the company no matter how small such fraud may be.

Test of Hypothesis Three:

Hypothesis Three: There is no significant relationship between the amount lost in fraud and the cost of litigation (FRP, FRD, FRI and CO/FR)

Table 3 Result of Correlation Analysis (See Original Data on Appendix I)

	Variable	FRP	FRD	FRI
FRP	Person correlation	.201	.201	-.764
	sig, (2- tailed)	.23	.037	.044
	N	23	23	23
FRD	Person correlation	-.0746	1	-
	sig, (2 -tailed)	.037		.077
	N	23	23	23
FRI	Person correlation	-.7864	-.548	1
	stg, (2- tailed)	.044	.007	
	N	23	23	23

Source: Author's Computation of cost of fraud litigation and Recovery.

** Correlation is significant at the 0.01 level (2-tailed).

Decision Rule

Fraud prevention Detection and investigation with coefficient of 0.20 and cost of litigation fraud recovery has a negative and strong relationship with a coefficient of 0.548 the Null Hypothesis is rejected and the alternative is accepted.

Decision

From the result of the correlation analysis on table 3 above, it could be seen that the cost of fraud prevention, detection and investigation has a positive but weak relationship with that of litigation and fraud recovery expenses incurred by the company with coefficient of 0.02 and cost of litigation with coefficient of 0.548

SUMMARY OF FINDINGS:

1. It was discovered from hypothesis one, that there is a strong and positive relationship between the amount lost to fraudster and the asset depletion of the corporate institutions in Nigeria.
2. It was also found that the amount lost to fraudsters reduces the profit of corporate institutions in Nigeria
3. The cost of litigation for fraud recovery and the amount lost to fraudster was found to have a weak but positive effect on the finances of the corporate institutions.

CONCLUSION

The research findings as summarized above are based on the hypotheses tested and the critical examinations of the findings which revealed that

fraud depletes the assets and revenue of the corporate institution, the effect of fraud affects the growth, sustainability and survival of the corporate organization in Nigeria. The cost of litigation may not help matters when a corporate entity is faced with liquidation or bankruptcy.

RECOMMENDATIONS

1. There should be a very strong and workable internal control measures to prevent incidences of fraud, since it is said that prevention is better than cure.
2. All the various aspects of the business that generates profit such as cash discount, quantity discount, discount allowed. Since profit is one of the motives of operating a business, every effort must be made to reduce incidence of fraud occurrence.
3. The cost of litigation is always high and may not be proportionate to the amount recovered, therefore the best approach is to prevent fraud to avoid the issue of litigation except where it is indispensable.

APPENDIX I

EMPIRICAL DATA OF FRP, FRD, INP, and FRE					
Companies	Fraud Prevention	Fraud Detection	Indices Fraud	Incentives/ Pressure	Fraud Evidence
FTN Cocoa Processing Plc	267550	298614.4	3.2	7.5	10436.1
AG. Leventis Nig Pic	312139.7	328453.8	2.85	13	12243.5
UACN PLC	532613.8	328453.8	3.38	44.5	20512.7
Costain(WA) PLC	683869.8	328453.8	3.2	57.2	
Julius Berger (Nig) Plc	899863.2	328453.8	2.4	57	70714.6
DN Tyre & Rubber Plc	1933212	328453.8	2.8	72.8	119~91.6
Guinness (Nig) Plc	2702719	328453.8	3.8	20.3	122600.9
Inter Brew Plc	2801973	328453.8	3.2	8.5	128331.8
Nigeria Breweries Plc	2708431	328453.8	4.7	10	152409.6
P.Z Cussons Nig Plc	319401	328453.8	8.2	6.6	154188.6
Uniliver(Nig) Plc	4582127	328453.8	13.1	6.9	157535.4
Access Bank Plc	4725086	328453.8	13.6	18.9	162343.4
Diamond Bank Plc	6912381	328453.8	12.6	12.9	166631.6
Mansard Insurance Plc	8487032	328453.8	14.8	14	
Niger Insurance Plc	11411067	328453.8	13.9	15	249220.6
NPF Micro Finance Bank	14572239	328453.8	11.9	17.9	269844.7
Infinity Trust Mortgage Bank	18564595	328453.8	12.3	8.5	302843.3
Royal Exchange Plc	20657318	328453.8	12.7	6.6	364008.5
Evans Medical Plc	24296329	328453.8	14.9	15.1	399841.9
Charms Plc	24712670	328453.8	19.7	12.1	441271.3
CAP Plc	672202.6	328453.8	21.1	13	672202.55
DN Meyer Plc	718977.3	328453.8	23.1	0.98	718977.33

Source: Researcher's computation of cost of fraud prevention detection and investigation, internal control structure, incentive/pressure to commit fraud, opportunity to commit or not to commit fraud, indices of fraud and weak internal control system (2016).

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