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Effect of Fraud Control Mechanism on Inventory, Fund and other Related Assets of 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 aimed at the effect of fraud control mechanisms on the inventory, fund and other related assets of the company. Fraud is said to be rare in Botswana, widespread in Ghana and systemic in Nigeria. Hope and Chikuloas cite in (Osisioma, 2012). To achieve the purpose of this study, hypotheses were formulated and research question were raised and tested. A dummy of proxies were provided for the testing of hypotheses with multiple regression analysis with the aid e-view Watson Durbin F. Statistic which is a computer based model. Our findings revealed that, there is a direct and strong relationship between fraud control mechanisms on inventory, fund and other related assets of the companies under study. The following recommendations were made, there should be a strong and workable internal control measures to prevent any kind of fraud, more attention should be given to the areas where fraud indices are prevalent and preventive and proactive measures should be adopted, since prevention is better than cure.
Keywords: Fraud, Control Mechanisms, Assets, Prevention, Detection and investigation.

INTRODUCTION

One of the reasons why Nigeria introduced cashless transactions in its economy and the issue of monetization was predicated on the fact that cash purchasing and expense-related fraud are the most common fraud encountered, and is likely to affect the majority of Small and Medium Enterprises (SMEs) and other large scale business in Nigeria (Nwadighoha 2016).

The opportunities for fraud in purchasing are high, as this is one of the main areas where inventories and funds are commonly abused in business. Fraudulent transactions can be easily concealed in these outward flows, in the purchase of materials and assets and the payment of expenses. The automated detection tests as one of the mechanisms, can help to identify purchasing "fraud profiles" when properly applied and which may also require an indept investigation of other incidences of fraud where the interest of the investigator is aroused on any "evil appearance" called fraud "suspicion". (Nwadighoha, 2016).

The most and commonly encountered frauds here involves discounting and granting of credits. The tendency for excessive discounting in return for "kickbacks" and transactions at "arms length" are relatively common (and a particular problem in agency dealings in Nigeria and Asia). Similarly, millions of money is lost from organizations through bad credit obtained fraudulently, often by corrupt employees of the organization who engaged such employees to grant credit facilities and other normal business rebates. Other surprising concern is that, those frauds are prevalent in organizations with a very good internal control system, well articulated in paper but not workable in real life situation. Other control procedures may also usually be in place with special attention to cash, yet they are often ignored. Cheque theft and resulting fraud, usually on a "small" scale, is surprisingly common with Small Scale Enterprises. Larger scale frauds can occur where bank reconciliations are weak and separation of duties is not observed. The physical controls over access to potentially sensitive areas such as cash management, inventory storage, and accounts payable are rarely as strong as they should be in many organizations. This can lead to large scale organized fraud resulting from the theft of treasury payment instructions, passwords, sensitive information not meant for third parties such as the business secrets not meant for their competitors.

STATEMENT OF THE PROBLEM

The growing rate of incidence of fraud in Small and Medium Scale Enterprises and Large Scale Businesses in Nigeria is not only a source of worry to Nigeria but also to the global community. Fraud control mechanism should be the concern of all the citizens, in particular, the government and other regulatory agencies such as the Economic and Financial Crime Commission (EFCC) and the Independent Corrupt Practices and other Related Offences Commission (ICPC). They should see to the timely investigation of the offenders, their speedy trails and conviction, so that it will serve as a deterrent to other offenders.

OBJECTIVES OF THE STUDY

The broad objective of the study is to examine the effect of fraud control mechanisms on the inventories and other fund related items. Specifically, the study is aimed at achieving the followings to:

i. Investigate the effect of fraud on the company's inventory
ii. Determine the effect of fraud on the company's Sales Revenue
iii. Examine the effect of fraud on the company's Cash
iv. Identify the effect of fraud on the Company's Credit Facilities.

RESEARCH QUESTIONS

The following research questions are raised in line with above objectives:

i. To what extent does fraud affects the company's inventory
ii. What is the effect of fraud on the Company's Sales Revenue?
iii. How could uncontrolled fraud affect the company's cash
iv. To what extent would fraud affect the credit facilities of the company?

Research Hypothesis

Ho_1 There is no significant and positive relationship between fraud control mechanism and the company's inventories

Ha_1 There is a significant and positive relationship between fraud control mechanism and the company's inventories.

Need for the Study/ Relevance of the Study

The study will be of great significance to researchers, academia, accountants and auditors and as well as an eye opener to captains of industries, especially financial analysts.

REVIEW OF RELATED LITERATURE

Conceptual Review

Fraud is an undeniable fact in business life, both in Small and Medium Scale Enterprises (SMES) and large scale businesses. New technologies such as the internet and the development of fully automated accounting softwares have increased the opportunities for fraud to be committed. (Okoye, 2016). Once fraud is suspected or discovered, investigation also starts, which is a specialist task of auditors, forensic accountants and fraud examiners.

There is no doubt that, fraud is best to be prevented than to be investigated and that is the essence of internal control systems and other control mechanisms to be put in place and made workable in every organization, rather than to deal with fraud after it had occurred. Albrecht, Howe, & Romney (1984) "opined 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 the fraud profiles, and to further investigate the fraud discovered.

According to (Lafiaji 2004). "The most effective and appropriate response to the problem of fraud and its control mechanisms, involves the combination of fraud prevention, detection and investigations techniques which requires great experience, technical skill and expertise with the best practices, this should be the concern of those responsible to check this monster, called fraud.

Most frauds are detected either by accident or by "tip-off". Organized, pro-active fraud detection is rare in most organizations. Most smaller organizations do not have an internal audit unit, and the role of the external auditor does not include pro-active searching for fraud, the auditor may discover fraud in course of his work, to discover evidence of fraud, even where there is no prior suspicion, although it is usually obscured within the millions of items of valid data held on computer files, manual testing is rarely an effective solution, and hardly the job of a time constrained external auditor who wants to complete his job on schedule, he may not be required to search through millions of transactions and other data to identify those which might be worth a closer work".

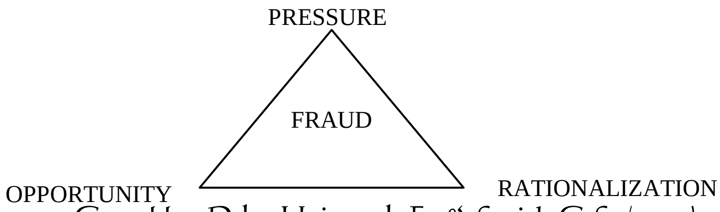
This is particularly true of purchasing transactions. A fraud detection program can be automated, and can provide management or the auditor with a detailed list of questionable transactions, supplier and so on which can be further investigated. Automated fraud detection will also compliments the existing schedule of audit visits, making the best use of valuable and often scarce resources to prevent fraud occurrence and avoid cost of litigation against the culprit.
This is a tool which will quickly identify the problem areas and can also be used where applicable to audit records where fraud is suspected. Automated fraud detection involve running an audit based software programs on company's and payment history, suppliers and employee database to quickly identify areas of possible fraud (Underwood 2013).

THEORETICAL FRAMEWORK

The Fraud Triangle

Donald R. Cressey, (1919-1987) was a student of Southerland who built on the initial work of the letter, to set forth the "Theory of the Fraud Triangle" Cressey's work focused on embezzlers who, he called "trust violators" he hypothesized as follows: "Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable, they are aware of this problem, which can be secretly resolved by violation of the position of financial trust and are able to apply their own judgment as to their conceptions of themselves as trusted persons and as users of entrusted funds or property (Cressey,1973).

Fig: 1.1 the Fraud Triangle



Source: Crumbley D.L., Heitger L.E. & Smith G.S. (2007)

The above diagram of the fraud triangle went further to explain the actions of the fraudster with six needs which the individual has and cannot share them with other persons who have more objective point of view, when used properly could have aided in the solution of the problem. Cressey divided these non –shareable problems into six basic sub-types:

1. Violation of ascribed obligation
2. Problem resulting from personal failure
3. Business reversals
4. Physical isolation;
5. Status training
6. Employer-employee relations

The fraud triangle was explained further as follows:

1. Pressure could come from the peer group and other friends even pressure on the finances of the individual.
2. An Opportunity affords itself for the individual to solve his financial problems by violating the position of financial trust he holds with his organization. The opportunity could be in the form of inefficient control and supervision in the organization.
3. Rationalization he makes attempt at self-justification to rationalize and explains his actions and silence his conscience.
4. In line with Cressey's theory, the Australian Institute of Criminology posits that fraud has three factors:

1. Supply of motivated offenders
2. Availability of suitable targets; and
3. Absence of capable guardians (for example, effective internal controls).

Zabihollah Razaee in Crumbley (2007) offers a 3-C model to explain the fraud. He suggests that financial statement fraud is possible when these three factors are present in a company; conditions, referring to economic pressures resulting from a continuous deterioration of earnings, a downturn in organizational performance, a continuous decline in industry performance, or a general economic recession, corporate structure, referring to an environment characterized by irresponsible and ineffective corporate governance choice, which means that management, can use its discretion to choose between illegal and legal earning management of ethical or unethical accounting strategies (cited by Crumbley 2007).

Empirical Framework

According to Okoye, Okafor & Ijeoma (2009), asserted that fraud as all multifarious means which human ingenuity can devise and which are resorted to by one individual to get an advantage over another by false suggestions or suppression of truth, includes all surprises, tricks, cunning or dissembling and any unfair way which another is cheated.

Section 8 of Independent Corrupt Practices and Other Related Offences Commission (ICPC) Act 2000 describes corruption as "money, donation, gift, loan, fee, reward, valuable security, property or interest in property being property of any description whether movable or immovable, or any other similar advantages, given or promised to any person with intent to influence such a person in the performance or non-performance of his duties.

According to (Osisioma, 2012) he opined that fraud is giving and receiving of something of value (eg money, sex, gifts, etc.), whether demanded or not, to influence the receivers action favourably towards the giver Hope and Chikulo as cited in (Osisioma, 2012, said that corruption is rare in Botswana, widespread in Ghana, and systemic in Nigeria. Fraud becomes systemic in a society when: it becomes an industry on its own, complete with stakeholders, investors and risk-return profile. The fraud industry is organized, with internal coordination, share knowledge and agents. It closes off client' alternatives, creates a network of operatives, freezes out critics and non –corrupt agents, and share rewards and risks among stakeholders. (Okoye, 2016).

METHODOLOGY

The research design used in this study is a descriptive one, with conceptual plan and theoretical analysis are some of the strategies used by the researcher to enhance the provision of solutions to the research problem through effective control of the variance (systems, extraneous and error variances) the ex-post factor research design was adopted.

Types and Sources of Data

The research work tends to rely mostly on the use of Aggregate Secondary Data (ASD) key factors and indices that are incidental to fraud prevention, detection and investigation in Small and Medium Scale Enterprises and Large Scale Enterprises.

Population of the Study/Sample Size

The populations are made up of 22 companies selection from different sectors of the economy, such as Agriculture and Extraction, Manufacturing, Marketing, Production, Banking and other service industries. The entire population of 22 companies were used as sample size because the researcher can manage this number as a sample size comfortably. (see Appendix 1)

Measure of Variables

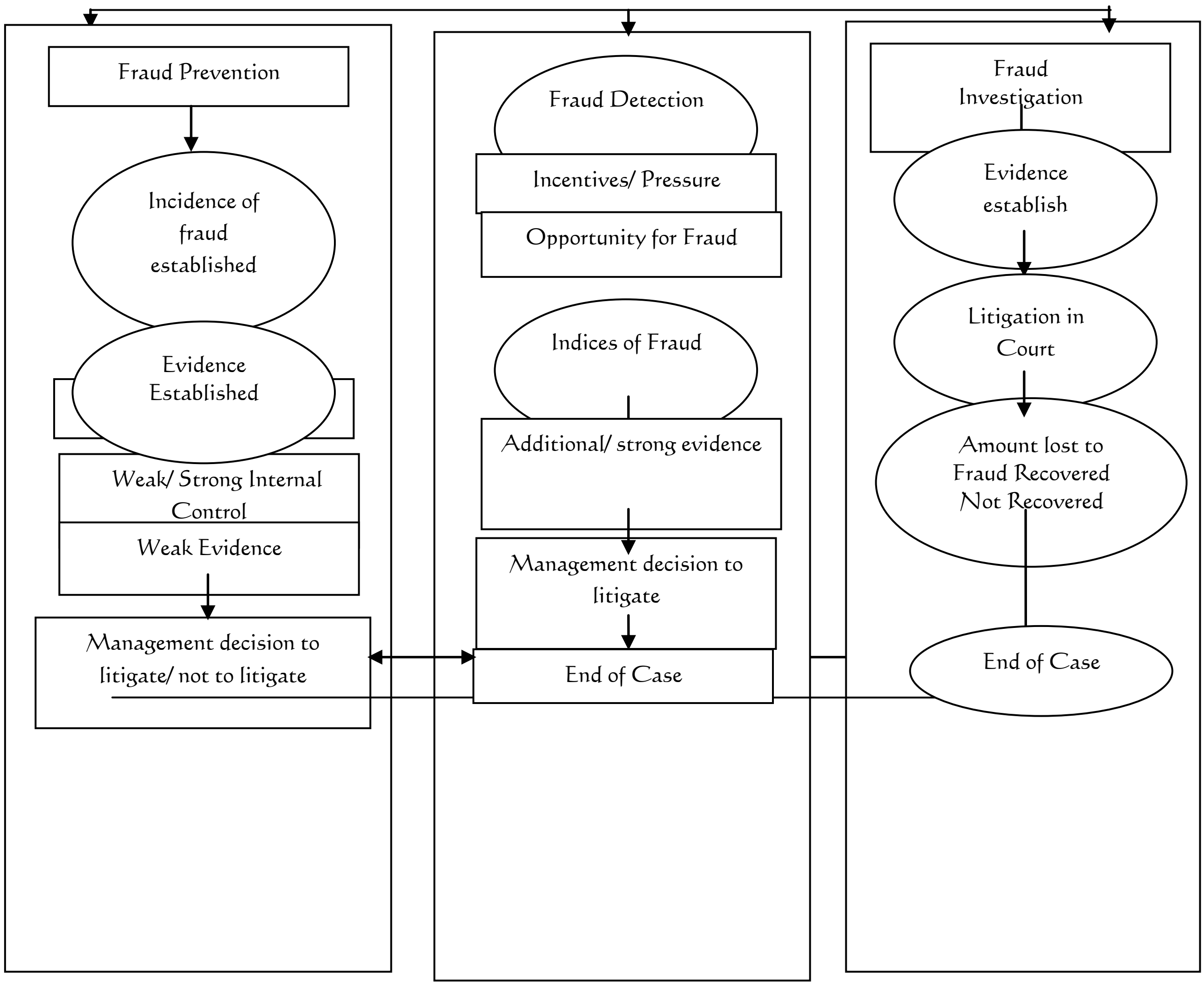
The key variable for this study are the financial statements of those companies operationalized into effects of loss of funds non-compliance to internal control measures, indices of fraud, rate of timely intervention, and chances of fraud occurrence(s).

Method of Data Analysis

There two methods of data analysis in this study are descriptive and inferential. In testing the hypothesis, a multiple regression analysis with a model specification with a computer based Waston Durbin F. Statistic with the aid of Economic (E-view) Version 3.1 and the Statistical Package for Social Sciences (SPSS) version17 were used.

CONCEPTUAL FRAMWORK AND MODEL SPECIFICATIONS

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



Source: *Researcher's 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 I: The first objective is to establish with evidence incidences of fraud.

FRP = f(αO 1og+βI log FRD+β21og FRI+β31og INC+β41ogIP+β51og OFF+ ... μ_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(αo 1og+βI log FRP+β2 log FRI+β3 log INC+β4 log OFF+β5 log IF+ ... μ_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= (αolog+β_1 log FRP+β_2 log FRD+β_3 Log IP+β_4 Log IF+ β_5 Log WE+ ... μ_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 presentation of analysis of the data collected on the study are presented as follows:

Test of Hypothesis One

Hypothesis one: There is no significant and positive relationship between fraud control mechanisms and the inventory of the organization

The above hypothesis shall be tested with the use of regression analysis model.

Table 1: The Empirical Result of Fraud and its effect on fraud control mechanisms (See Original Data on Appendix I)

Cost of PDI	FRP	FRD	FRI	CWIC	COL/FR	ZCRIT
Cost of Fraud	X Million	Y (Million)	X^2(Million)	Y2 (Million)	XY	2.5
	3.2	0.4	10.24	0.16	0.128	
	3.9	0.5	15.21	0.25	1.95	
	0.5	0.5	20.25	0.25	2.25	
	4.9	0.5	22.64	0.25	2.45	
	2.7	0.6	7.29	0.36	1.62	
	0.5	0.6	0.25	0.36	0.3	
	0.4	0.6	0.16	0.36	0.24	
	20.1	3.7	7.04	1.99	10.09	0.67

Source: field survey 2016 Using e-view Durbin Watson F. Statistic Model

Note:
FRP = Fraud Prevention
FRD = Fraud Detection
FRI = Fraud Investigation
CWIC= Cost of Weak Internal Control
COL/FR= Cost of Litigation/Fraud Recovery
X=COF
y=PDI

$$X = \frac{\Sigma x}{n} = \frac{20.1}{7} = 2.87$$

$$X = \Sigma y = 3.7 = 0.52$$

$$N = 7$$

$$r = \frac{/n \Sigma xy - \Sigma xy}{\sqrt{(n \Sigma x 2 - (\Sigma x)2]- (\Sigma y)2]}}$$

$$r = \frac{7 \text{ x } 10.09 - 20.1 \text{ x } 3.7}{\sqrt{(7 \text{ x } 76.04 - (20.1) s] [7 \text{ x } 1. 99 - (3.7)2]}}$$

$$\frac{70.63 - 74. 37}{\sqrt{[432.29] [404.01] [13-136}}$$

$$\frac{-3.74}{128.27 \ x \ 0.24}$$

$$\frac{- 3.74}{30.78}$$

-35.54.74

5.54

r = 0.67

Decision Rule

The calculated is 2.5 while the z critical is 0.67, hence the null hypothesis was rejected and the alternative, hypothesis was accepted.

Decision

The result of the hypothesis tested on table 1 shows that, there is significant relationship between the effect fraud and fraud control mechanisms hence the alternate hypothesis was accepted. That means that there is a direct relationship between the effect of fraud control mechanisms and on the inventory, fund and other related assets of the organizations under study.

Summary of Findings

It was discovered from the result of the hypothesis tested that, the amount lost to fraudsters may not necessarily affect inventory and sales revenue except if the fraud committed is directly on sales revenue, otherwise this has a weak relationship but, there is also a direct and positive relationship between fraud control mechanisms and the asset depletion of the companies under study.

CONCLUSIONS

The research findings have been summarized above, based on the method employed in conducting the research. Hypothesis was formulated; research questions were raised and tested. A critical examination of the findings revealed that fraud reduces the inventory, fund and other related assets of organization. Some serious fraud can lead to the liquidation of companies and the bankruptcy of the individual operators of small and medium scale businesses.

RECOMMENDATIONS

The following recommendations were made based on the objectives of the study, the hypothesis formulated and the findings made in course of the study. There should be a very strong and workable internal control measures to prevent incidences of fraud, fraud depletes the inventory, fund and other assets of the company. All assets are susceptible and venerable to fraud; every control measure put in place must be made to be efficient, effective workable all the time. The automated or computer based fraud detectator should also be employed, this machine responds timely and quickly to fraud suspicion prone areas of the business.

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 Plc	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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