OPPORTUNITY AND THE OCCURRENCE OF FRAUD IN NIGERIAN QUOTED COMPANIES

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Abstract

One bedeviling world economic menace is fraud of varying shapes and degree that threatens economic stability of the world over. The objective of the study is to examine the effect of opportunity on the occurrence of fraud in Nigerian quoted companies with particular reference to Commercial Banks in the South Western part of Nigeria. We made use of primary data. 397 questionnaires were administered while 350 were adequately filled and returned. Tables and simple percentages were used to analyse the data. The statistical tool used to test hypotheses was Analysis of Variance (ANOVA). The proxies for opportunity in the study are weak internal control, absence or inefficient internal audit unit and weak audit committee; all other variables are held constant. We discovered from the test that, weak internal control, inefficient internal audit and weak audit committee do encourage the occurrence of fraud in Nigerian commercial banks. This then call for a truly independent and competent audit committee as provided by CAMA 1990 CAP E20 LFN 2004 to stem the tide of reckless disregards to internal audit and internal control. The regulatory bodies, SEC, CAC etc, equally have to braise up to their monitoring and supervisory roles.

Keywords: Internal Control, Audit Committee, Internal Audit, Fraud, Fraud Deterrence,

Introduction

Fraud has variously been described as deceptive means of obtaining illicit gain from an unsuspecting victim. Fraud is said to have been pervasive as it cuts across the multi-facets of human endeavors. It is seen as the characteristics of every developed country. According to Okoye and Gbegi (2013, p2), "Fraud includes all the multifarious means human ingenuity can devise that are resorted to by individuals to get an advantage over another by false suggestion or suppression of the truth. It includes surprises, tricks, cunning, or dissembling, and any unfair way by which another is cheated. Fraud cannot be totally eradicated but can be reduced to the barest minimum."

The effects of fraud can be devastating both on the victim company, the innocent employees and the investing public. According to the Survey carried out by Certified Forensic Examiners in 2010 Report to the nation, it was estimated that a typical organization loses 5% of its annual revenue to fraud. Applied to the estimated 2009 Gross World Product, this figure translates to a potential total fraud loss of more than $2.9 trillion. In the banking sector alone, Nigeria had 10,612 and 12,279 reported fraud cases in 2014 and 2015 periods respectively with corresponding loss of N25.608 billion in 2014 and N18.021 in 2015(NDIC 2015 annual report).

In Nigeria, fraud has been demonstrated frequently through corrupt practices which have had a negative effect on its image. Fraud has led to high mortality rate of business stemming from instability in economy. Fraud can be prevented by plucking the holes that encourage fraud i.e, blocking all fraud opportunities which may be a weakness or absence of internal controls, internal audit and audit committee. According to Steve, Chad, Conan and Mark (2012), a weak audit committee may be a perceived opportunity for executives to perpetrate fraud.

Even when there are incentives for fraud, it cannot be perpetrated if there is no opportunity for it. This weakness does not have to be actually real but must be real in the sight of the perpetrator. According to Cressey (1953), the lower the risk of being caught, the more likely it is for fraud to occur. Akharayi (2015), opined that weak controls promote corruption and people in management make corruption possible when controls are nonexistent or exist without enforcement.

The need to maintain a strong internal control, internal audit and audit committee may be the only route of escape for Nigerian organizations from fraudulent practices as these are basically the inhibitors to the occurrence of fraud in which if encouraged, will bring about safeguard of organisation's assets, accurate and timely reporting and enhancement of better performance of the business. It will foster a good image for Nigeria companies and a healthy investment environment. Many Nigerians have lost confidence in Nigeria stock market. This ugly trend can only be reversed if fraud is brought to barest minimum.

The study examines the relationship between opportunity and the occurrence of fraud in Nigerian companies. Most prior studies in Nigeria have considered this area of interest but in their approach, very few students have considered the three proxies: internal control, inefficient audit committee and ineffective internal audit unit. Hence, the need for the study.

Research Questions

1. How does weak internal control system encourage fraud?

2. What is the relationship between inefficient audit committee and the occurrence of fraud?
3. In what ways will an effective internal audit encourage fraud?

Objectives of the Study

The broad objective of this study is to examine how opportunities influence fraud perpetratation. Whereas, the specific objectives of the study are to:

1. Determine the significant relationship between weak internal control system and the occurrence of fraud;
2. Ascertain the significant relationship between inefficient audit committee and the occurrence of fraud
3. Examine the significant relationship between ineffective internal audit and the occurrence of fraud.

Statement of Hypothesis

In order to achieve the specific objective of the study, the following hypotheses shall be tested which are expressed in their null form

Ho_1: There is no significant relationship between weak internal control system and the occurrence of fraud

Ho_2: there is no significant relationship between inefficient audit committee and occurrence of fraud

Ho_3: there is no significant relationship between ineffective internal audit and the occurrence of fraud.

Literature review

Introduction

Fraud occurs where there is opportunity. Opportunities are the loopholes the fraudsters take advantage of in order to perpetrate their immoral act. These opportunities may come in form of weak internal controls, like lack of segregation of duties, lack of audit trails; weak audit committee where the members are composed of non-independent shareholders or those who are apologetic to the executives or are not having adequate experience in business, auditing and accounting; and absence or weak audit unit (Steve, Chad, Conan and Mark, 2012). The opportunity may not have to be real, it only has to be perceived in the mind of the fraudster to exist (Cressey, 1953).

Fraud Elements

There are various theories that have been propounded on the motives for committing fraud by the fraudsters. These motives are referred to as the fraud elements. The popular ones are the fraud triangle by Ronald Cressey, 1953 and Fraud Diamond developed by Wolfe and Hermanson, 2004.

Fraud Triangle Theory

A fraud triangle is a theory on fraud propounded by Donald Cressey, 1953. It suggested three elements before fraud can be perpetrated. Cressey believed that there are always reasons for doing anything. Questions such as why people commit fraud led him to focus his research on what drives people to violate trust. He relates that three factors (pressure, opportunity, and rationalization) must be present for a fraud to take place.

Pressure

Individuals are faced with different challenges, which may lead them into committing fraud. These challenges are termed pressure, incentives or inducement to commit fraud. Lister (2007:63) defined the pressure to commit fraud as "the source of heat for the fire." It can come in various ways e.g mounting debt, greed, need to meet family financial needs, addiction to drugs, attempt to meet up with an industry standard performance, to dominate market, to meet up with regulatory demand etc. About 95% of all fraud cases have been perpetrated due to the fraudster's financial pressures (Albrecht et al., 2006). Perceived pressure refers to the factors that lead to unethical behaviors. Every fraud perpetrator faces some pressure to commit unethical behavior (Abdullahi and Mansor, 2015). In Nigeria, greed, unethical work environment and societal applauds for wealth irrespective of the source are highlighted pressures to commit fraud.

Opportunity

Opportunities are the loopholes the fraudsters take advantage of in order to perpetrate their immoral act. This opportunity can be created within an organization through various means which include weaknesses in internal control system, inefficient audit committee, ineffective internal audit unit to mention but few. According to Thomas et al.,(2006), individuals under pressure are susceptible to incentives to perpetrate a fraud are not a grave threat to an organization unless an opportunity exists for them to act on their need. An opportunity must exist to commit fraud, and the fraudster must believe that the fraud can be committed with impunity. The concept of perceived opportunity suggests that people will take advantage of circumstances available to them (Kelly and Hartley, 2010). The nature of perceived opportunity is like perceived pressure in the sense that the opportunity does not have to be real. However, the opportunity exists in the perception and belief of the perpetrator. In most cases, the lower the risk of being caught, the more likely it is that fraud will take place (Cressey 1953).

Rationalization

These are justifications that a criminal usually put in place as reasons for fraud to be committed. Such justifications may include: it was a loan and I had every intention to pay back, that accounting rule is confusing and subjective, accounting for the transactions in the manner I choose is acceptable; everyone does it etc. According to Abdullahi and Mansor (2015), "rationalization is the third element of the FTT. This concept indicates that the perpetrator must formulate some morally acceptable idea to him before engaging in unethical behavior. Rationalization refers to the justification and excuses that the immoral conduct is different from criminal activity". Fraud always involves the fraud perpetrator lying to him- or herself that what they are doing is justifiable (Steve, Chad, Conan and Mark, 2012). We rationalize our dishonest acts in order to not feel guilty. Rationalization is less visible among the three elements of the fraud triangle and as such, it is termed the third element in the fraud circle.

Fraud Diamond Theory

This is an expansion to the fraud triangle theory in that it only added an additional concept called capability. It postulates that, fraud may not be committed even when the first three elements are present if there is no capacity on the part of the perpetrator. According to Wolfe and Hermanson (2004), cited in Kassem and Higson (2012), many frauds would not have occurred without the right person with right capabilities implementing the details of the fraud.

Capabiliity in the diamond implies an above average intelligence, being in position of authority, ability to influence others etc. in the occurrence of fraud. This issue of capability is a factor to note in Nigeria fraud cases.

The interaction of the fraud elements discussed above gives room to the occurrence of fraud in Nigerian companies. It has often been suggested that to prevent fraud, the links in the fraud elements theories should be broken as fraud perpetrated in most companies are always as a result of open opportunities. Since opportunity remains the key issue to the occurrence of fraud, then this study is focused on the relationship between opportunity and the occurrence of fraud. The proxies for opportunity in this study include weaknesses in internal control system, ineffective audit unit within Nigerian companies and inefficient audit committee. This is depicted diagrammatically below:

Opportunity to the occurrence of fraud

Weakness in Internal Control
- Lack of Segregation of Duty
- Lack of/inadequate Audit Trail
- Absence of Physical Safeguards
- Inconsistency in Authorization Procedure

Ineffective Internal Audit
- -Lack of implementation
- -Poor Training
- -Poor follow up

Inefficient Audit Committee
- Lack of financial expertise
- Lack of independence

Figure 3

Opportunities to The occurrence of fraud in Nigerian Companies

Weakness in Internal Control System

Internal Control can be seen as measures put in place by organization to safe guard the organization's assets, proper and timely reporting and ensure strict adherence to rules and regulation of the organization. Investopedia describes internal control as the methods put in place by a company to ensure the integrity of financial and accounting information, meet operational and profitability targets, and transmit management policies throughout the organization. Internal controls work best when they are applied to multiple divisions and deal with the interactions between the various business departments. No two systems of internal controls are identical, but many core philosophies regarding financial integrity and accounting practices have become standard management practices (Oyedokun, 2015). The internal control system may include segregation of duties, establishment of audit trail also referred to as proper recording of financial transactions, physical safeguards, independent checks, proper authorization, adequate accounting system etc. (Steve, Chad, Conan and Mark, 2012).

Where internal control is weak or not existing, it opens a leeway to the occurrence of fraud. Weakness in internal control system within an organization manifest whenever there are no physical safe guards to assets, porous accounting system, lack of segregation of duty, absence of independent checks, inconsistency in authorization procedures etc. According to Spicer and Pegler (1978, p33)," internal control is the whole system of control, financial and otherwise, established by the management in order to carry on the business of the company in an orderly manner. Internal control is "systematic measures (such as reviews, checks and balances, methods and procedures) instituted by an organization to; conduct its business in an orderly and efficient manner, safeguard its assets and resources, deter and detect errors, fraud, and theft, ensure accuracy and completeness of its accounting data, produce reliable and timely financial and management information, and ensure adherence to its policies and plans" (thebussinessdictionary.com). Cases of collapse of banks in Nigeria in the early 2000s were largely attributed to high handedness of the Directors and top management and gross override of internal controls.

AICPA (2005) explained that when the opportunity to override internal controls is combined with powerful incentives to meet accounting objectives, senior management may engage in fraudulent financial reporting. Therefore, effective internal controls cannot be relied upon to detect or deter fraudulent financial reporting perpetrated by senior management. Management override is very difficult to detect. This condition necessitates other levels of control as the audit committee.

Lack of Segregation of Duties

Segregation of duty demands that a complete circle of any business transaction should not be commenced and completed by an employee or a single unit. Segregation of Duties (SOD) is a basic building block of sustainable risk management and internal controls for a business. It is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department (Ghosn, N.D.*)*. The likelihood of the occurrence of fraud is high in any organization where segregation of duty is not in place that is, when a whole transaction is completed by single officer e.g. from raising of payment voucher to disbursement of cash and recording of transaction, such organization is prone to fraud,(Corporate Fraud Prevention, 2008).

Lack of or Inadequate Audit Trail

Audit trail entails proper and complete recording of all transaction in appropriate documents and books of accounts. (Abrecht et al., 2006). It ensures that transactions can always be traced from origination to the completion, indicating dates, time, persons involve and nature of transaction. With an audit trail in place within an organization, fraudulent activities can be put to check to the barest minimum. However, inadequate audit trail may open the door for fraud in Nigerian company.

Absence of Physical Safe Guards

According to Abrecht et al., (2006), physical safeguards are various physical measures put in place to secure the assets of an organization, which may include use of lock and key, iron and bullet proof safe, security personnel etc. In a situation whereby there are no physical measures put in place to protect organization assets, there is a high probability for loss of assets.

Inconsistency in Authorization Procedure

Authorization implies necessary approvals required for incurring expenditures on business transactions (Abrecht et al., 2006). Authorization varies across organizations, and it places limit on the key officers involved in approving business transactions. This is to ensure that expenditure above certain limits receives proper approval. Where there are inconsistencies in authorization procedures for example, signing above authorization limit or an unauthorized approvals by unauthorized personnel, for which queries are not raised, gives allowance for fraud to be perpetrated.

Absence/ Ineffective Internal Audit Unit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the companies' operations. It helps an entity in achieving its goals by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the risk management, control and governance processes (Institute of Internal Auditors). The unit monitors, enforces, and reports on compliance with the internal control of an organization. The roles of internal audit unit according to Okozie (2015), include examination and evaluation of financial operating information, review of the economy, efficiency and effectiveness of operation, including nonfinancial activities, special investigation including fraud prevention, and detection.

Weak Audit Committee

According to CAMA 1990, CAP E20 LFN, audit committee should be comprised of independent directors with some having skills in business and finance as this will help in carrying out their responsibilities. Bourke (2006) stressed that the attributes that could enhance the effectiveness of the audit committee members are independence, competence and diligence. He further described an independent audit committee member as a person who is not affiliated with the company in any way, and does not accept compensation (including consulting, advisory, or other compensatory fee) from the company, other than in their capacity as a member of the board of directors and any board committee. An audit committee is weak if the directors are dependent, and lack the requisite skills and knowledge in business and finance related matters.

Methodology

The study adopted a survey research design. The population consists of the entire staff of commercial banks in South Western part of Nigeria quoted in the Nigerian Stock Exchange (NSE) as at December 2015. We made use of primary data and the research instrument was questionnaire, which we designed in a likert scale format, which enable the researcher adduce the strength of responses gotten from respondents.

Sampling Techniques

The sample size used in this research is 397 staff which was derived using Yahmen (1967). Having considered the sample frame of 75000 staff in all the commercial banks in South Western part of Nigeria (www.ura.com.org),considering 5% level of significance

$n=N/ 1+N (e^2)$

$n= 75000/ 1+ 75000 (0.05^2)$

n= 397 staff

Method of Techniques

The techniques involved the use of percentage and tables in analyzing the data retrieved from respondents while Analysis of Variance was used as the statistical tool for hypothesis testing. Shown below:

ANOVA Table

Source	SS	DF	MS	F- ratio	Remark
Between	SSB	t-1	SSB/dfB	MSB/MSW	Accept or reject
Within	SSW	N-t	SSW/dfW		
Total	SST	N-1			

Source: Adefila (2008).

Where: N= The total number of individuals scores in all

Q= The grand total of all the data

t= Number of groups

n= Number of elements or cells in each group

SST= Sum of the square of each of the individual scores in all the groups , subtract Q^2/N

$= (X^2_1 + X^2_2 + X^2_3 + \text{------------} + Z^2_3 + Z^2_4 + Z^2_5) - Q^2/N$

SS_B = Square of each group sum, divided by the corresponding group (n), then sum all these and subtract Q^2/N

$= (\underline{XX^2} + \underline{YY^2} + \underline{ZZ^2} - \underline{Q^2})$

n n n n

SS_W = The outcome of SS_T less the outcome of SS_B i.e SS_T-SS_B

df_B = degree of freedom for " variance between" = t-1

df_T =degree of freedom for total of all the data = N-1

df_W= degree of freedom for " variance within" = $df_T - df_B$ (N – t)

MS = mean square for "variance between "and "variance within".

Decision Rule

The null hypothesis is rejected if the calculated value of F-ratio i.e (MSB/MSW) is greater than the critical value of F. i.e, (F_t -1, N – t) as given in the F distribution table otherwise, it stands accepted.

- If MSB/MSW > F_t – 1, N - t), then, reject the Null hypothesis
- If MSB/MSW < F_t – 1, N - t), then, reject the Null hypothesis

The choice of ANOVA for this research is based on the fact that it determines the extent of variance in dependent variables that are caused by independent variables, also used in comparing the variation in more than two independent samples that are drawn just once from population with the same variance. More so ANOVA reduces the type 1 error rate (rejecting null hypothesis instead of accepting) thus, the equality of several means can be tested in a single classification where the relationship between one independent and one dependent variable is examined.

Data Presentation and Analysis

This section represents the data collected in response to 397 questionnaires distributed to staff of the commercial Banks in the South Western part of Nigeria on their view about the effect of opportunity on occurrence of fraud by which 350 questionnaires were filled and returned.

Test of Hypotheses

The researcher used questions 1, 2, 3, 4, and 5 to test hypothesis one, while questions 6, 7, and 8 were used to test hypothesis two and questions 9 and 10 were used to test hypothesis three.

Test of Hypothesis One

$H_{O:}$ There is no significant relationship between weak internal control system and occurrence of fraud.

Variables	Question 1	Question 2	Question 3	Question 4	Question 5	Total
Strongly agree	102	100	155	120	100	577
Agree	162	168	105	141	168	744
Strongly Disagree	25	30	31	24	30	140
Disagree	61	52	59	65	52	289
Total	350	350	350	350	350	1750

Source: Field Survey 2017.

ANOVA SUMMARY TABLE

Source	SS	Df	Ms	f-ratio
Between	36108	5	8670	8.66
Within	5430	10	553.75	
Total	30439	15		

Critical value at 5% level of significance with degree of freedom 5 to 10 is 3.33

Decision Rule:

Since the calculated value of 8.66 is greater than the critical value of 3.33, we accept the alternate hypothesis (Ha) and reject the Null hypothesis (H_O). We can hence conclude that good internal controls will help deter fraud in Nigerian companies.

Hypothesis Two:

$H_{O:}$ There is no significant relationship between inefficient audit committee and occurrence of fraud.

Variables	Question 1	Question 2	Question 3	Total
Strongly agree	100	102	155	357
Agree	168	162	105	435
Strongly Disagree	30	25	31	86
Disagree	52	61	59	172
Total	350	350	350	1050

Source: Field Survey 2017.

ANOVA SUMMARY TABLE

Source	SS	Df	Ms	f-ratio

Between	26009	3	8670	15.66
Within	4430	8	553.75	
Total	30439	11		

Critical value at 5% level of significance with degree of freedom 3 to 8 is 4.07
Decision Rule:
Since the calculated value of 15.66 is greater than the critical value of 4.07, we accept the alternate hypothesis (Ha) and reject the Null hypothesis (H_O). We can hence conclude that efficient audit committee will help deter fraud in Nigerian organizations.

Hypothesis Three
H_O: There is no significant relationship between ineffective internal audit and occurrence of fraud

Variables	Question 9	Question 10	Total
Strongly agree	120	130	250
Agree	141	131	272
Strongly Disagree	24	20	44
Disagree	65	69	134
Total	350	350	700

Source: Field Survey 2017

ANOVA SUMMARY TABLE

Source	SS	Df	Ms	f-ratio
Between	16938	3	5646	194.7
Within	116	4	29	
Total	17054	7		

Critical value of 5% level of significance with degree of freedom 3 to 4 is 6.59

Decision Rule:
Since the calculated value of 194.7 is greater than the critical value of 6.59, the alternate hypothesis (Ha) is accepted and the Null hypothesis (H_O) is rejected. Therefore, we can conclude that effective internal audit will deter fraud perpetration.

Discussion of Findings
Consequent upon the Analysis of variance used for the three hypotheses, it was discovered that fraud will be deterred if there are no opportunities to commit it. The opportunities considered include weak internal control system, inefficient audit committee and ineffective internal audit, and when they are encouraged, fraud will definitely be committed.

Conclusion
Weakness or absence of any of the opportunity proxies, namely- internal control, audit department, and audit committee, are major factors for the occurrence of fraud in any organization. Breaking the Fraud Triangle is the key to fraud deterrence. Breaking the Fraud Triangle implies that an organization must remove one of the elements in the fraud triangle in

order to reduce the likelihood of fraudulent activities. "Of the three elements according to Cressey, removal of Opportunity is most directly affected by the system of internal controls and generally provides the most actionable route to deterrence of fraud," (Cendrowski, Martin, Petro, The Handbook of Fraud Deterrence). This then implies that there must be a working and efficient internal control in place, which covers every aspect of an organization's operations if fraud must be deterred.

An internal audit unit with appropriate skilled staff and expected independence to see to effective operation of the internal control system is of utmost importance. According to CFE report to the Nations, 2010, small firms without anti-fraud control measures are more vulnerable to fraud than the big firms with controls in place. These controls also help reduce the cost and duration of occupational fraud schemes. Victim organizations that had these controls in place had significantly lower losses and time-to-detection than organizations without the controls.

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Appendix

Questionaire

Section A

Please, read the questions carefully and indicate your option by placing a tick in the appropriate box.

Please tick your category

Years of experience

0 – 5 [ ]

6- 10 [ ]

11 and above [ ]

Educational qualification

PHD [ ] M.SC [ ] B.SC [ ] HND [ ]

Professional qualification

ACA [ ] ACCA [ ] CPA [ ]

ANAN [ ] Others [ ]

Practice Profession/Office

Accountant [ ] Auditors [ ]

Fraud Auditor [ ] Economist [ ]

Manager [ ] Others [ ]

Section B

Please tick as appropriate from the following preference

Key:

SA	AG	UND	DIS	SDIS
Strongly agreed (1)	Agreed (2)	Undecided (3)	Disagreed (4)	Strongly Disagreed (5)

	Weak Internal Control Question	SA	AG	UND	DIS	SDIS
5	Segregation of duties will help segregation control fraud in Nigeria companies.					
6	Independent check on transactions will reduce perpetration of fraud in Nigeria Companies.					
7	Giving approval in form of authorization before any transaction is carried out will help reduce fraud.					
8	Putting lock and keys and other physical safeguard measures will help deter fraud in Nigeria companies.					
9	Giving a compulsory holiday to staff will strengthen internal control of Nigeria companies.					
	Audit Committee					
10	The role of audit committee to strengthen internal control system will help reduce fraud.					

11	The role of audit committee in the review of fraud risk assessment will help mitigate the occurrence of fraud.					
12	The composition of Audit committee in terms of business experience and professional qualification will help deter fraud.					
	Internal Audit					
13	The presence of internal audit unit will help strengthen the internal control and help reduce fraud perpetration in Nigeria companies.					
14	Internal audit unit help enforce compliance with an organisation transaction procedure.					