ASSET PROTECTION AND FINANCIAL STATEMENT FRAUD: THE AUDIT AND MANAGEMENT FUNCTION IN NIGERIA BUSINESS ORGANISATION

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Abstract
The study examines the effect of the internal control system and audit on the financial report as well as on the assets of the organisation. The issue of probity is persistence due to fraud and irregularities in the financial dealing of the firm and on the financial report of the firm, the role of the internal audit com-management of the firm in this regard remain on clear and non specific. Structured questionnaire, a survey method was adopted for the study, the simple random sampling method was adopted for variable selection, while the chi-square was used to analysis data collected. The result shows that the internal auditor and management of the firm were responsible for effective working of the internal control system of the organisation and also for fraud prevention. It was also revealed, that an effective internal control system will reduce the menace of fraud and irregularities. The asset performance and protection in the organisation is also shown not to be the function of the internal audit alone, the management is also responsible for the safety of the firm’s assets. It was recommended that a system that will allow for both upward and down ward flow of information should be established. Ethical standard and norm should be established that will reduce the incidence of fraud and irregularities within the firm. It was also recommended that enhanced and efficient corporate governance practice should be put in place to reduce the incidence of exogenous error, fraud and irregularities.

Keywords: Internal control; Fraud practices, internal audit. Management, corporate governance

Introduction
The business organisation today faces a lot of factors limiting the performance of the firm and also reduces recorded profit of the firm, many firm that would rather be blue ship firm have been robbed of this growth due to poor internal working of the system. The internal working of the system over the years has been known to either further the growth of the firm or reduce the effectiveness of the firm. Loyalty remain a problem of many a management of the firm. The cry
for ethical standard as it affect the corporate governance of the firm is an issue in point. Most time the management of business organisation fail in their fiduciary obligation to the shareholder and stakeholders of the firm. Where the management is negligent of their duties there will arise flaws in the internal control system and poor performance of the auditor, knowledge and conducive environment is prima facie to effective audit performance, sometimes it is not having the codes and ethics that is really the bane of the firm, it is compliance problem that most firm has. Rules are meant to be obeyed, however, when the rules a fraught with reckless abandon then it is certain that the best codes and ethics will produce epic errors, fraud and irregularities within the firm. Sometime over-zealous management might also apply the rules to the detriment of the firm in an attempt to reduce errors rules might also lead to financial loss and time wastage, when the procedure become bureaucratic, time and fortune might be lost by the firm, thus the management must be proactive and good, functional and practical internal control system and internal audit system is a sine qua non for the organisation that will experience increase growth and financial performance, the internal auditor is also of prime value. Today there is new dimension to fraud and irregularities within the corporate existence which can either be endogenous and exogenous that is either by management or staff of the firm. Exogenous error and fraud will show in financial report fraud while endogenous will reveal it self in reduction in asset of the firm. Asset protection and financial statement fraud and irregularities remain issue of concern in modern management, accounting and audit, who is responsible for this role and who should bear the liability is not clear, the management and indeed the chief executive is the chief finance officer, however, the accountant and the internal auditor are charged with asset protection, internal control and financial statement preparation responsibilities, this study therefore, is an attempt to determine whose is responsible and what should be done to reduce the menace of this act in business organisation.

**Literature review**

*Internal Auditing, Internal Audit and Internal Auditor*

According to the Institute of Internal Auditors (IIA), Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The internal auditor’s roles include monitoring, assessing and analysing organizational risk and controls; and reviewing and confirming information and compliance with policies, procedures, and laws.

Internal Audit is an independent appraisal activity within the organization, for the review of operations as a service to management. It is one of those management controls which functions by measuring and evaluating the effectiveness of other controls. Internal Audit involves a periodic review of the accounting, operational and internal control systems as well as the results of operations. Internal Control functions are delegated by management to employees who have this as their sole responsibility. (Nwankwo2006). Internal audit includes financial auditing, operational auditing, and compliance auditing (Hayes, 2005; Nwankwo, 2006).
The Malaysian Institute of Accountants (2005) averred that an internal auditor is an individual who takes responsibility for carrying out internal audit work within an organization whether as an employee or as an external agency. Nwankwo (2006) also noted that internal auditors are involved in the review of accounting systems and related internal controls; examination of financial and operating information for management including detailed testing of transactions, balances and business processes; review of the economy, the efficiency, and effectiveness of operations and the functioning of non-financial controls; review of the implementation status of corporate policies, plans and procedures; and special investigation.

**Fraud**

Fraudulent financial reporting is an intentional misstatement or omission of amounts or disclosures with the intent to deceive others. Most cases of fraudulent financial reporting involves intentional misstatement of amounts, not disclosures; overstatement of assets and income or omission of liabilities and expenses in an attempt to overstate income. Less frequently is the case of fraudulent financial reporting involving inadequate disclosure. Fraud is the intentional misrepresentation, concealment, or omission of the truth for the purpose of deception/manipulation to the financial detriment of an individual or an organization which also includes embezzlement, theft or any attempt to steal or unlawfully obtain, misuse or harm the asset of the organization. Aderibigbe and Dada (2007) see fraud as a deliberate deceit planned and executed with the intent to deprive another person of his property or rights directly or indirectly, regardless of whether the perpetrator benefits from his/her actions.

Bostley and Dover (1972) and Adeduro (1998) noted that fraud has increased considerably over the recent years and professionals believe this trend is likely to continue. To Arens (2010) it is an intentional misstatement of financial statements and it can be divided into two main categories which are fraudulent financial reporting and misappropriation of assets. ISA 240 ‘The Auditor’s Responsibilities to Consider Fraud in an Audit of Financial Statement (Revised)’ refers to fraud as “an intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage”.

Pollick (2006) also regards fraud as a deliberate misrepresentation, which causes one to suffer damages, usually monetary losses. He stressed that it involves complicated financial transactions conducted by white collar criminals, business professionals with specialized knowledge and criminal intent.

Gagrani and Jhurani (2010) on the other hand categorized fraud as management fraud, employee fraud, and external fraud. They explained that management fraud is perpetuated by senior management who manipulate financial statements. Employee fraud involves the non-senior employee theft while external fraud is a theft by individuals who are neither management, nor employees of the firm.

Idris, kehinde et al (2012) study the effect of creative accounting on the financial report of business organisation, they chose to recognise financial statement fraud as path of creative
accounting. The study revealed that the practice of creative accounting is always a deliberate attempt to gain undue advantage by management and also to deceive the stakeholders of the firm. It was recommended that GAAP usage should be subjected to basic SAS and IAS standard. Moreover punitive measure should be taken against those executive found culpable in the act of creative accounting.

**Fraud Conditions and Fraud Risk Management**

Arens (2005) described three conditions for fraud which arises from fraudulent financial reporting and misappropriation of assets. Management or other employees have incentives or pressure to commit fraud. A common incentive for companies to manipulate financial statements is a decline in the company’s financial prospects. Secondly Circumstances provide opportunities for management or employees to commit fraud. Weak internal controls create opportunities for theft. Inadequate separation of duties is practically a licence for employees to steal. Lastly, An attitude, character or set of ethical values exists that allows management or employees to commit a dishonest act; or they are in an environment that imposes sufficient pressure that causes them to rationalize committing a dishonest act. Management’s attitude toward controls and ethical conduct may allow employees and managers to rationalize the theft of assets.

Obelewicz (2004) stated that all organizations are exposed to a degree of fraud risk in any process where human input is required. The degree to which an organization is exposed relates to the fraud risks inherent in the business, the extent to which effective internal controls are present either to prevent or detect fraud, and the honesty and integrity of those involved in the process. Fraud risk is the probability that fraud will occur and the potential severity or consequences to the organization when it occurs. They noted that The probability of a fraudulent activity is based, typically, on how easy it is to commit fraud, the motivational factors leading to fraud, and the company's fraud history. Fraud management includes limiting or eliminating consequences, which is more than limiting or eliminating financial loss.

Enterprise Risk Management framework provides a useful model to managing and monitoring fraud risk.

**Internal Control System**

Internal Controls are those procedures, rules, regulations, policies which are set up by organizations faced with the problem of limited resources in order to ensure that the use of these resources are maximized and the potential risk of intentional and unintentional irregularities are reduced to the barest minimum (Nwankwo, 2006).

COSO (Committee of Sponsoring Organization of The Treadway Commission’s Internal Control Integrated Framework, (1993) defined Internal Control as a process of providing reasonable assurance of accomplishing objectives. Specifically, it helps accomplish objectives relating to reliability of financial reporting, compliance with laws and regulations, and effectiveness and efficiency of operations. There are five components in COSO’s internal control framework, all of which are management’s responsibility to perform. They include control environment, risk assessment, control activities, information and communication, and monitoring. The control environment means the overall attitude, awareness, and actions of directors and management.
regarding their internal control system and its importance in the entity. Control activities include policies and procedures that help ensure management directives are carried out. The control activities help to ensure that necessary actions are taken to address risks to the achievement of the entity’s objectives for operations, financial reporting or compliance. An organization’s information system is the collection of an organization’s resources (people, expertise, facilities, processes, hardware, software and data). While monitoring is a process that deals with on-going assessment of the quality of internal control performance. The process involves assessing the design of controls and their operation on a timely basis and taking necessary corrective actions.

Hayes (2005) noted that the control environment serves as an umbrella for risk assessment, control activities, information and communication, and monitoring. Hayes stressed further that without an effective control environment, the other four are unlikely to result in effective internal control, regardless of their quality. The internal auditor and the managements of organizations are responsible for implementing corporate governance and control procedures to minimize fraud. Arens(2005) noted. The risk of fraud can be reduced through a combination of prevention, deterrence, and detection measures. Programs and controls implemented by management to prevent fraud help reduce opportunities for fraud.(Arens, 2005).

**Internal Auditors and Fraud Detection**

One way of evaluating the work of internal auditors is to examine how well they detect fraud and errors within an organization and there has been limited research on this topic.

Wallace & Kreutzfeldt, (1991) in their study on fraud detection found the number and magnitude of frauds and errors requiring adjustment by the external auditor to be substantially lower for entities that had an internal audit department compared to those that did not have an internal audit department.

PricewaterhouseCoopers (1993) noted that the ability to detect fraud is enhanced for organizations that have an internal audit function compared to those that do not. As the internal audit function is an important function that has been shown to add value and reduce detected errors by external auditors. Its objectives are to improve the effectiveness of risk management, control, and governance (IIA, 1999).

Alleyne (2005) also stated that the auditor’s duty is to report to shareholders all dishonest acts which had occurred and which affected the propriety of the contents of the financial statements. However, the learned judge also argued that the auditor could not be expected to uncover all fraud committed within the company, since the auditor was not an insurer or guarantor, but was expected to conduct the audit with reasonable skill and care in the circumstances.

Hillison, Pacinl, Sinason, (1999) in this regard, indicated that the primary roles of preventing and detecting fraud within organisations lie with the management. In practice, the auditor is normally concerned with a suspected rather than proven fraud or irregularity. Nevertheless, the auditor should be able to detect all material fraud. Furthermore, fraud, in whatever nature and guise, has to be detected first, since detection is an important prerequisite of rooting out any sort of fraud and irregularity.
Hemraj(2004) was of the opinion that on their own, auditors are not necessarily the most suitable group to perform the task of fraud detection. The company, by instituting appropriate fraud prevention measures within its organisation, can detect and prevent non-management fraud. Management fraud is difficult to detect due to coercion and collusion. In this concern, management should take responsibility for the establishment of security measures and control so that frauds can be prevented or minimised.

Lakshman (2009) stated that there are some general symptoms that sensitize the auditor to situations where fraud may exist: these are out of balance condition between a control account and its related chart of accounts, differences reported by customers, less responses to confirmation requests received than predicted, transactions do not have proper documentation, suspicious year-end transactions, transactions posted without management’s specific authorization, failure to correct serious weaknesses in internal control, expense accounts in use with less than desirable controls in place, tasks assigned to employees that do not fit job description, unclear or evasive replies to audit questions.

Research Methodology
The research design adopted for this study is survey research using structured questionnaire. It is used for the purpose of obtaining data to enable the researcher test stated hypotheses. This research work uses Nigerian Breweries Plc. (NB PLC) as its case study. Hence, for this study, the population is the entire staff of Nigerian Breweries Plc which is 2,240. The sample size consists of sixty members of staff comprising of the top management, the middle management, and the lower management of the organization. The sampling technique adopted is simple random sampling technique which entails random selection of subjects i.e. all members of the population has equal chances of being selected. This is adopted since we have a parametric data. The questionnaire used was designed in such a way that it contains easy to understand and unambiguous questions. The procedure for data analysis and interpretation would be based on descriptive and quantitative techniques. The statistical techniques to be used in analysing the data collected will be chi-square as in SPSS 17. The first two hypotheses will have to do with endogenous error, fraud and irregularities while the last two are endogenous in nature. While all fraud and irregularities reduce the yield of the firm assets, exogenous error and irregularities as to do with creative accounting (Idris, Kehinde et al, 2012) and meant to deceive at corporate governance level, it is externally calculated and motivated.

Hypotheses
1) The internal auditor is not responsible for the prevention and detection of fraud and irregularities in business industry.
2) The effective internal control function in the business organisation is not the duties of the internal auditor and the management of the organisation.
3) There is no a relationship between the internal audit functions, assets performance, and financial statement fraud in the business organisation.
4) The establishment of an effective and adequate internal control system within the business organization will not assist the internal auditor in irregularities, error and fraud prevention.
Data Analysis and Interpretation
A total of sixty (60) questionnaires were distributed, fifty (50) was returned and analyzed with Statistical Packages for Social Sciences (SPSS) package version 17.0. And the hypotheses formulated were tested.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Df</th>
<th>$X^2_{cal}$</th>
<th>$X^2_{tab}$</th>
<th>Asymp. Sig.</th>
<th>Test</th>
</tr>
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<tr>
<td>Hypothesis 1</td>
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<td>34.318</td>
<td>9.49</td>
<td>0.000</td>
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</tr>
<tr>
<td>Hypothesis 2</td>
<td>5</td>
<td>144.780</td>
<td>11.07</td>
<td>0.000</td>
<td>Accept $H_1$</td>
</tr>
<tr>
<td>Hypothesis 3</td>
<td>3</td>
<td>89.891</td>
<td>7.81</td>
<td>0.000</td>
<td>Accept $H_1$</td>
</tr>
<tr>
<td>Hypothesis 4</td>
<td>4</td>
<td>103.843</td>
<td>9.49</td>
<td>0.000</td>
<td>Accept $H_1$</td>
</tr>
</tbody>
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The hypotheses were tested at 0.05 confidence level and using the asymptotic significance the result is as above, the four null hypotheses were rejected while the alternative hypotheses accepted. Thus, we accept that: The internal auditor is responsible for the prevention and detection of fraud and irregularities in business industry. The effective internal control function in the business organisation is both the duties of the internal auditor as well as the management of the organisation. There is a relationship between the internal audit functions and the assets performance of the business organisation. The establishment of an effective and adequate internal control system within the business organization will assist the internal auditor in irregularities, error and fraud prevention.

Conclusion and Recommendations
This study examine the role of auditors in relation to prevention of fraud in business organisation the internal auditor is very important in the process of securing the assets of the business organisation the internal auditor functions is to ensure that rules and regulation in relation to assets protection and maintenance are followed in the ordinary activity of the organisation. The study revealed that scope of the work of the internal auditor includes detection and prevention of error, irregularities and the report of same to management. From the study it was also discovered that a good relationship exist between the daily duties of the internal audit function and the effective working of the organisation, the management of the business organisation is responsible for the setting up and ensuring the effective working of the internal control within the firm this will assist the internal auditor in effective asset management and protection within the firm this is in line with the assertion of Hillison, pacini and sinason(1999). When the auditor performs afore stated functions very effectively the yield of the firm assets will be high, well taken and well reported. It is noted that the dwindling return reported by business organisation many times is due to the poor asset yield management of the firm as fraud errors.
and irregularities do reduce the reported yield of firm’s assets. The results obtained from this research work also establish the fact that there is a strong linkage between poor internal audit function and financial statement fraud (i.e. assets yield report). This study also shows that exogenous irregularities and fraud is a function of the management of the firm. This could be eliminated by effective corporate governance practice as this is outside the power of the internal auditor while endogenous error, fraud and irregularities remain the duties of the internal auditor. An effective internal audit will help reduce and or eliminate it. The study recommended that a well-designed internal control system should not be conducive to fraud. The management should establish monitoring controls like the establishment and communication of both upward and downward flow of information for effective working of the system. Code of conducts, ethical standards, and fraud policy should be set up by management to ensure effective working of the system. It is also recommended that enhanced and efficient corporate governance practice should be put in place to reduce the incidence of exogenous error, fraud and irregularities this is supported by the recommendation of Idris, Kehinde et al (2012).

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