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AUDIT DETECTION OF FRAUD AND BUSINESS GOING CONCERN IN NIGERIA

1.0 Introduction

The going concern assumption is a fundamental principle in the preparation of financial statements. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations (Nogler, 2008 as cited in Enofe, *et al* (*2013*). Accordingly, unless the going concern assumption is inappropriate in the circumstances of the entity, assets and liabilities are recorded on the basis that the entity will be able to realize its assets, discharge its liabilities, and obtain refinancing (if necessary) in the normal course of business. (Enofe, *et al*, 2013)

The concept of fraud focuses on any deliberate action or in-action of man either as an individual or as a group to deceived others or take possession of an item deceitfully at the expense of others (Halbouni *et al*, 2016 in Abang & Onyia, 2020). The survival of any organization to a large extend depends on its ability to detect and prevent fraud and its attendance consequences by the adoption of auditing practices in both the public and private sector of any economy. Auditing is the arts of checking the books and accounts of any business to protect the business from fraud and fraudulent activities, highlighted by any discrepancies in accounting methods of the day to day business transaction of an organization for its growth and survival. The constant review and verification of the accuracy of financial records of any organization is the certain way to curb if not eliminates completely fraud and fraudulent activities in any organization be it private or public (Bello & Orah, 2019 in Abang & Onyia, 2020).

According to (Abang & Onyia, 2020) The cardinal responsibility of auditing in addition to examining and preparing financial documentations, writing financial reports, examining financial statement for compliance with laws and regulations, prepare tax owed and returns, looking at the validity of a company financial statement and writing report at the end of the investigation all geared toward the detection and prevention of fraud and fraudulent activities in any organization. These core principles of auditing and auditors seems to have failed over the years as fraud cases in Nigeria private sector has assumed an alarming proportion evident by the recent cases of fraud by bank and company MD's and Directors by the Economic and Financial Crime Commission (EFCC).

Globally, there are increasing occurrences of fraud in corporate organisations and this has adversely affected the firms' bottom line due to its non-detection and prevention by statutory audit. These high spates of fraudulent activities perpetrated by management of organisations which cannot be detected nor prevented by statutory auditors which eventually led to the collapse of many high profile companies such as Enron, Tyco, WorldCom, Pamalat, Cadbury Nigeria, etc., (Uniamikogbo, Adeusi, Amu, 2019). Therefore, the main objective of the study is to conceptually investigate the role of auditing in detecting and preventing fraud and going concern issues in Nigeria.

1.1 Statement of the Problem

Fraud cases has taken a bullish turn in recent times which has resulted in a downturn in several business activities. This has caused for a raise in alarm and awareness among businesses and their stakeholders as to the duty of auditors to stakeholders. Furthermore, the number of businesses filing for reorganization and bankruptcy due to financial distress has significantly increased, there is concern about auditors' treatment of matter relating to the going concern assumption in preparing the financial statements. Companies and their stakeholders are aware of the global economic crisis and are faced with the challenge of evaluating the effect on the companies' ability to continue as a going concern.

The statement of the problem is that auditors have not so far adequately performed their duties to organizations as to highlighting the going concern status of organizations as well as detect and prevent fraud which inevitably leads to corporate failures.

1.2 Research Objectives

1. To examine the effect of Benchmarking on the going concern of the business.
2. To ascertain the effect of Internal Audit on the going concern of the business.
3. To assess the Management Review on the going concern of the business.

1.3 Research Questions

1. To what extent has Benchmarking aided organizations prevent corporate failures.
2. To what degree has Internal Audit helped organizations identify fraud and accomplish its objectives.
3. To what extent can Management Review support organizations in prevention of fraud.

1.4 Research Hypothesis

1. There is no significant relationship between benchmarking and the going concern of business
2. There is no significant relationship between internal audit and the going concern of business.
3. There is no significant relationship between management review and the going concern of the business.

2.0 Literature review

2.1 The Fraud Triangle Theory

The theory of the fraud triangle was propounded by Donald Cressey. In 1950, a criminologist, started the study of fraud by arguing that there must be a reason behind everything people do. The three elements of fraud summarized by Cressey (1953) are commonly presented in a diagram.

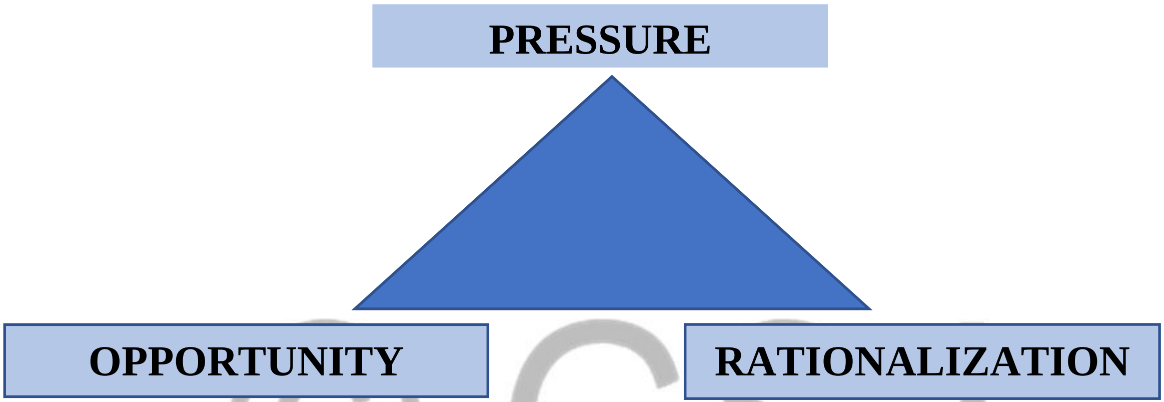

Figure 1: Fraud triangle

Source: Abdullahi, Mansor, Nuhu, (2015)

2.2 The Fraud Diamond Theory

The FDT was first presented by Wolfe and Hermanson in the CPA Journal in December 2004. It is viewed as an expanded version of the FTT. In this theory, an element named capability has been added to the three initial fraud components of the FTT. Wolfe and Hermanson (2004) argued that although perceived pressure might coexist with an opportunity and a rationalization, it is unlikely for fraud to take place unless the fourth element (i.e., capability) is also present. In other words, the potential perpetrator must have the skills and ability to commit fraud. Wolfe and Hermanson (2004) maintained that opportunity opens the doorway to fraud, and incentive (i.e. pressure) and rationalization lead a person toward the door. However, capability enables the person to recognize the open doorway as an opportunity and to take advantage of it by walking through repeatedly. (Abdullahi & Mansor 2015)

2.2.1 Pressure

Every perpetrator must face some type of pressure to commit fraud. Perceived pressure is defined as the motivation that leads the perpetrator to engage in unethical behaviors. It is important to point out that perceived pressures can occur with all employees at any level of the organization and can occur for various reasons. Such pressure does not have to be real, if the perpetrators believe they are being pressured, it can lead to fraudulent behavior. (Albrecht, Hill, & Albrecht, 2006. As cited in Ruankaew 2016). Although an individual may demonstrate different motives, research has shown that fraud often occurs as a response to economic pressures, and most pressures involve a financial need such as greed, living beyond one's means, large expenses or personal debt, poor credit, personal financial losses, and an inability to meet a financial forecast. (Albrecht, *et al.*, 2006; Albrecht, Turnbull, Zhang, & Skousen, 2010; Howe & Malgwi, 2006. As cited in Ruankaew 2016).

2.2.2 Opportunity

This is the second element necessary for fraud to occur. Opportunity is created by weak internal controls, poor management oversight, and/or through use of one's position and authority to override control, organisation's failure to establish effective and adequate procedures that mitigate and detect fraudulent activity has also increased the opportunities to commit financial crimes (Matoussi & Gharbi, 2011; Beasley & Carcello, 2000 as cited in Imagbe, Abiloro & Saheed 2019). Rae and Subramaniam (2008) as cited in Ruankaew (2016) suggested that, if a susceptible individual perceives opportunities due to a lack of or inefficient internal controls and has the ability or power to exploit these opportunities, that individual may perpetrate a fraud. Perceived opportunity is similar to perceived pressure; the opportunity does not have to be real, the perpetrators simply have to believe or perceive that the opportunity exists in order to take fraudulent action (Albrecht, *et al*., 2006; Zikmund, 2008 as cited in Ruankaew 2016).

2.2.3 Rationalization

Rationalization refers to the justification and excuses that the immoral conduct different from criminal activity. If an individual cannot justify dishonest actions, it is unlikely that he or she will engage in fraud. Some examples of rationalizations of fraudulent behavior include "I was only borrowing the money", "I was entitled to the money because my employer is cheating me." Additionally, some fraudsters excuse their action as "I had to steal to provide for my family", "some people did it why not me too" (Cressey, 1953 as cited in Abdullahi & Mansor 2015). Rationalization is difficult to notice, as it is impossible to read the mind of the fraud perpetrator. Individuals who commit fraud possess a particular mind-set that allows them to justify or excuse their fraudulent actions (Hooper & Pornelli, 2010 as cited in Abdullahi & Mansor 2015).

2.2.4 Capacity

A person's position or function within a company may give him or her the ability to create or exploit an opportunity for fraud not available to others. According to Wolfe and Hermanson (2004), the fraudster also has the necessary traits and abilities to be the right person to pull it off, and that this person has recognized this particular fraud opportunity and can turn it into reality. Wolfe and Hermanson identified important observable traits related to individuals' capacity to commit fraud. Those threats include: (a) authoritative position or function within the organization; for example, a CEO might have the ability to influence and perpetuate frauds due to his or her position within the organization; (b) intelligence to exploit the accounting and internal control systems' weaknesses to the greatest advantage and have the ability to understand how the system works; (c) ego and confidence that fraudulent behaviors will not be detected, which will have an impact on their decision-making process; thus, the more confident they are, the greater chance that they will commit fraud; and (d) capability to effectively deal with stress due to the risk of getting caught and manage the fraud over a long period of time. That person also must effectively and consistently lie to avoid detection and may even have to persuade others to believe that fraud does not take place. (Ruankaew, 2016)

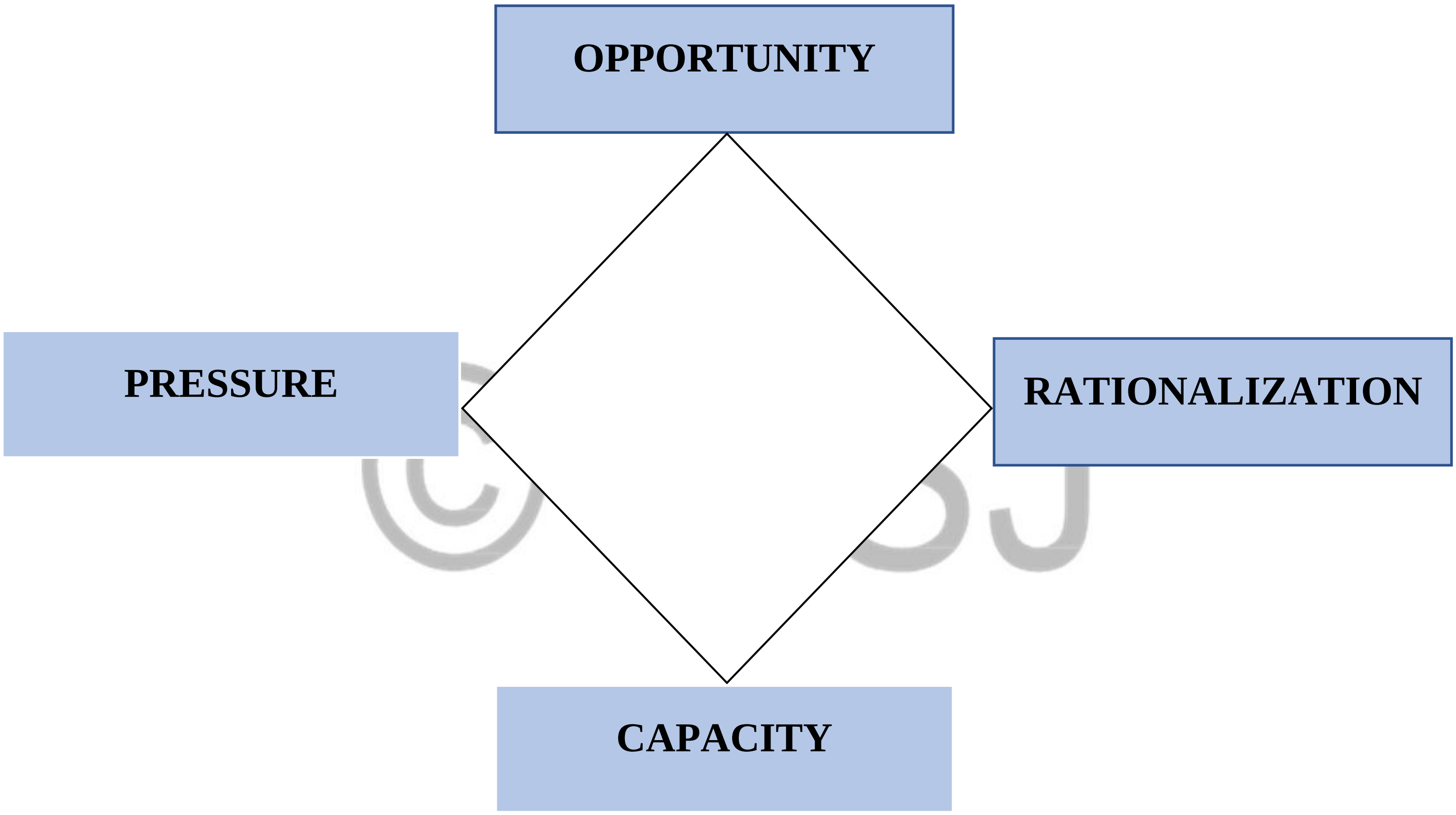

Figure 1: Fraud diamond

Source: Kebeh Sunday Eloma, (2022)

2.3 Fraud Detection and Prevention

The Association of Certified Fraud Examiners defined fraud as the use of one's occupation for personal enrichment through deliberate misuse or misapplication of the employing organization's resources or assets. It is therefore any act of misappropriation, theft or embezzlement of corporate assets in a particular economic environment. The legal dictionary defines fraud as "when a person deliberately practices deception in order to gain something unlawfully or unfairly".

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The leading methods of detecting fraud in any organization include:

- Benchmarking
- Internal audit
- Management review

2.3.1 Benchmarking

Benchmarking is first and foremost a tool for improvement, achieved through comparison with other organization recognized as the best within the area. The philosophy of benchmarking is that one should be able to recognize one's shortcomings and acknowledge that someone is doing a better job, learn how it is being done and then implement it in one's business. APQC 1996 (as cited in Bhutta & Huq 1999)

The Association of Certified Fraud Examiners 2018 Report to the Nations on Occupational Fraud and Abuse offers a treasure trove of data you can use to assess how your organization's fraud profile stacks up against other organizations in terms of industry, size, and location.

The Report is based on case data reported from Certified Fraud Examiners (CFEs) from all over the world. It lends itself to benchmarking your organization because it allows you to compare your own experiences against the medians reported from broadly similar organizations. Perhaps most important, you can learn about how other organizations responded to fraud. (Lowers and Associates 2018)

2.3.2 Internal Audit

There is a mis-understanding of the professional role of auditors in relation to fraud detection, prevention and control (Okoye, 2016), the prevention and detection of fraud within a company is primarily the responsibility of management under the oversight of those charged with the governance. (EY 2019)

The institute of internal auditors (IIA, 2022) defined Internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes". Auditing whether financial or otherwise is a veritable tool for the survival and growth of any organization through the routine audit to ensure the organization has the ability to survive in a competitive and turbulent business environment and continue to prosper. This is achieved through monitoring, analyzing and assessing the risk and controls of the organization by reviewing the organization compliance with states and federal policies and laws (Abang & Onyia 2020). In recent years the increasing role and usefulness of internal auditors have demanded that internal auditing an integral part of the management in

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organisations due to the monitoring role, investigative role as well as compliance and other roles they play in an organisation.

2.3.3 Management Review

Management review is an essential process and is a review of the complete system to consider possible improvements. Companies are required to carry out regular management reviews to consider the effectiveness and adequacy of the current Quality Management Systems (QMS) and potential improvement opportunities. The review should assess the need to make changes and keep a record of the actions to be taken. (Robin Kent, 2016)

2.3 Going Concern

ISA 570 requires that management review the going concern assumption of an entity and its ability to continue as a going concern, it also requires auditors to review the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements as required by the applicable financial reporting framework. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements, the auditor shall request management to extend its assessment period to at least twelve months from that date. (Enofe, Mgbame, Otuya, Ovie, 2013) For the auditor's professional judgment, the going concern principle is not simply a test of a balance sheet. (Mgbame, Erhaghe & Osazuwa 2012 in Enofe, Mgbame, Otuya, Ovie, 2013), ISA 570 requires that If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:

(a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.

(b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.

(c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions: Evaluating the reliability of the underlying data generated to prepare the forecast; and determining whether there is adequate support for the assumptions underlying the forecast.

d) Considering whether any additional facts or information have become available since the date on which management made its assessment.

(e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

2.4 Empirical Review

Prior to this study a lot of research works have been conducted by other researchers related to this topic; some of such works have been reviewed below: Chimeocha (2018) carried out a study on the examination of internal audits as an effective tool for fraud control in a manufacturing organization. The main objective of the study is to examine the internal audit system in the operation of companies in Nigeria and evaluate the effectiveness of the system as a strategy for fraud control. The data were collected through the primary source, and using Taro Yamane's 1964 formula out of the population of eight (8) staff in Michelle laboratory Enugu. The data were analyzed using t-test analysis. The study revealed that internal audit has statistical significance association on fraud prevention in manufacturing, organization, also that internal audit has statistical significance association on fraud detection in manufacturing, organization, and finally, internal audit has no statistically significant association on fraud remediation in manufacturing, organization. Enofe, Abilogu, Omoolorun, and Ehailo (2017) carried out a study on the measures of fraud prevention in the banking industry. Primary data were used for this study. This study was carried out by collecting data from 15 quoted commercial banks in Nigeria as of 31st November 2015. The study utilized, ordinary least square regression model. It was observed that a strong internal control system, good corporate governance, and compliance with banking ethics have a positive, and significant influence on fraud prevention in the banking industry. The study recommended that banking institutions should establish, and ensure effective and strict implementation of all these variables which is strong enough to prevent fraud, errors, and misappropriations. Obonyo (2017) carried out a study on the effect of internal audit practices on fraud risk management in state corporations in Kenya. The study sought to establish the extent to which internal audit practices contribute to the success of fraud risk management in State Corporations. The target population was all-state corporations in Kenya; Stratified random sampling was used to sample the state corporations under study. Structured questionnaires were used to collect data. 40 state corporations were sampled for the study. The researcher used Pearson Chi-Square to analyze the data. The study concludes that internal audit practices; fraud policy, periodic assessment of fraud risk exposure, fraud prevention, and fraud detection when combined contribute to the success of fraud risk management in state corporations in Kenya. Olatuji and Adekola (2017) conducted a study titled ‘the role of auditors in fraud detection, and prevention in Nigeria deposit money banks: evidence from Southwest. This study examined the impact of auditors captured by risk assessment, system audit, and verification of financial reports on banking fraud control. The study relied on primary data. Multiple regression techniques and ANOVA were used for the analysis. The results indicated that the level of fraud control in Nigerian banks during the period covered was low; the result revealed that risk assessment management, system audit, and verification of financial reports adopted by the banking industry in Southwest Nigeria limit the fraudulent activities among the Nigerian banks.

3.0 Methodology

This study adopted the survey research design and data were drawn from primary sources the primary sources elicited from auditing firms in main cities of Calabar and Rivers states using the simple random and convenient sampling technique from ICAN members in the areas. A sample size of 100 respondents was used and a total of 100 questionnaires were distributed. However, we were only able to retrieve 95 of the completed questionnaires due to time constraint. We analyzed the data collected using regression by SPSS. With a view to harvesting information from respondents, a self-developed questionnaire designed using the 5-point Likert scales ranging from strongly agree (5) to strongly disagree (1) was deployed. The instrument has 15 items.

The variables were represented by the model stated below:

$$GC = \beta_0 + \beta_1 BM + \beta_2 IA + \beta_3 MR + e$$

Where:

GC = Going Concern of business

β_0 = Intercept

BM = Benchmarking

IA = Internal Audit

MR = Management Review

β = Co-efficient (slope of regression line)

e = Standard Sample Error

4.0 Results and interpretations

4.1 Test for Linearity

Linearity describes the relationship amongst variables. The person product moment correlation was used to test the variables. The results are shown below.

Table 4.1

Correlation among the variables

	GC	BM	IA	MR
GC	1			
BM	0.023	1		
IA	-0.150	-0.096	1	
MR	-0.182	0.208	.201	1

*Correlation is significant at 0.05 level (2-tailed)

The results show a linear relationship among the variables of the study. There is also absence of multicollinearity due to the absence of high correlation among the variables.

4.2 Model summary

The results in table 4.2 shows the values for the model.

Table 4.2

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.268[a]	.072	.041	2.406

a. Predictors: (Constant), MANAGEMENT REVIEW, INTERNAL AUDIT, BENCH MARKING

Table 4.3

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	40.695	3	13.565	2.343	.078[b]
	Residual	526.842	91	5.789		
	Total	567.537	94			

a. Dependent Variable: GOING CONCERN

b. Predictors: (Constant), MANAGEMENT REVIEW, INTERNAL AUDIT, BENCH MARKING

The results above show the multiple regression results of the predictors: benchmarking, internal audit and management review which accounted for approximately 7% of the variation in the going concern of businesses ($R^2 = 0.072$, $F (3, 91) = 2.343$, $p > .005$). This implies that only 7% of the changes in the dependent variable is explained by the interaction of the independent variables. The F value is not statistically significant indicating that the independent variables do not reliably explain the variations in the going concern issues of businesses, this implies that there are other factors other than the independent variables used in this study that predominantly influence the going concern of entities

4.3 Test of hypothesis

The results in table 4.4 shows the test results used in hypothesis testing.

Decision rule: the null hypothesis is accepted If the p-value of the variables is greater than 0.05, however, the null hypothesis is rejected and the alternate hypothesis is accepted if the p-value is less than 0.05.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	18.685	4.212		4.436	.000
	BENCH MARKING	.064	.125	.053	.510	.611
	INTERNAL AUDIT	-.187	.101	-.191	-1.847	.068

MANAGEMENT REVIEW	.232	.105	.231	2.198	.031

a. Dependent Variable: GOING CONCERN

Hypothesis One

H_{O1}: *There is no significant relationship between benchmarking and the going concern of business.*

H_{A1}: *There is a significant relationship between benchmarking and the going concern of business.*

The result in the multiple regression in table 4.4 shows a p-value of .611 which is greater than .05, therefore the null hypothesis is accepted, thus, benchmarking has no significant relationship with going concerning.

Hypothesis Two

H_{O2}: *There is no significant relationship between internal audit and the going concern of business*

H_{A2}: *There is a significant relationship between internal audit and the going concern of business.*

The result in the multiple regression in table 4.4 shows a p-value of .068 which is greater than .05, therefore the null hypothesis is accepted, thus, internal audit has no significant relationship with going concerning.

Hypothesis Three

H_{O3}: *There is no significant relationship between management review and the going concern of business*

H_{A3}: *There is a significant relationship between management review and the going concern of business.*

The result in the multiple regression in table 4.4 shows a p-value of .031 which is less than .05, therefore the null hypothesis is rejected, and the alternative hypothesis is accepted, thus, management review has a significant relationship with going concerning.

4.4 Findings

The results shows that benchmarking does not have a significant relationship with going concern of businesses. Sarkis (2001) outlines that benchmarking is a continuous, systematic process for evaluating the products, services and work processes of organizations that are recognized as representing best practices, for the purpose of organizational improvement. Benchmarking can affect the going concern of a business by providing a basis for comparison and evaluation of the business's financial and operational performance. By comparing its performance against industry standards or best practices, a business can identify areas for improvement and take action to address any weaknesses or threats to its continued operation. Despite the importance of benchmarking, a business's survivability depends on so many other factors other than benchmarking. A company's continuous improvement based on its benchmarking will have no effect in the face of an ever changing (adverse) economic and political environment in which the business operates.

The results also showed that Internal audit does not have a significant relationship with going concerning. This result is plausible because the role of internal audit is primarily advisory in nature. Internal audit provides recommendations and observations to management and the audit committee, but it does not have the authority to make decisions or implement changes on behalf of the organization. Ultimately, it is the responsibility of management to take action on the recommendations provided by internal audit and address any issues that could affect the going concern of the business (Al-Tabbaa and Ali, 2015). Additionally, internal audit focuses on current processes and systems, and while it may identify potential future risks, it is not responsible for forecasting the long-term viability of the business. It is the responsibility of management and other stakeholders to take action on the recommendations provided by internal audit and address any risks to the business's long-term viability.

Finally, the results show that management review has a significant relationship with going concern. This result agrees with the position of Al-Tabbaa and Ali, 2018, who posited that management review has a significant impact on going concern because it provides senior executives and managers with an opportunity to assess the performance of the organization, identify areas for improvement, and make decisions about future strategy. This review process helps ensure the long-term viability of the business by enabling top-level management to address any issues that could affect the company's future. Management review gives the decision makes of the business the necessary insights to tailor future policies and actions on areas that ensure or protect going concern. They are able to identify risk and mitigate such as well as ensure compliance with corporate governance codes and other regulatory requirements.

5.0 Conclusion and Recommendation

In conclusion, Auditors play an essential role in businesses one which if done lackadaisically can result in various problems for a business, hence, should be treated with importance and diligence. The study highlights how failure by auditors to carry out their duties to the latter can result in business failures resulting from fraud and going concern issues in organisations. This is evident with both historic cases such as Cadbury and Enron and even more recent cases of business failures as a result of the auditors not performing their vetting and supervisory roles in preparation and vetting of financial statements as well business-related activities.

Based on the findings of this study suggest that benchmarking and internal audit do not significantly affect going concern while management reviews significantly impact going concern. This suggests that management reviews are a more crucial aspect in ensuring the ongoing viability of the company compared to benchmarking and internal audits. These findings can provide valuable insights for organizations seeking to improve their going concern status. The role of internal audit is severely limited due to its advisory nature, this limitation has reduced the importance of internal audit in business viability other than compliance to regulations.

It is recommended that companies place a greater emphasis on management reviews as a means of assessing and improving the going concern of the organization. Additionally, companies may want to consider adjusting their internal audit and benchmarking processes to better align with the factors that are found to positively impact going concern.

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"The Role of Internal Audit in Assessing Going Concern: Evidence from UK Companies" by S. Al-Tabbaa and M. Ali (Journal of Applied Accounting Research, 2015)

Table 1. Descriptive statistics of primary data

	GOING CONCERN	N	SA	A	UN	D	SD

1	Accounting concept of Going Concern is important in analysis of a company						
2	Going concern disclosures should be reported in other non-accounting report						
3	Going concern assumption is a concept that has not been taken seriously by most audit firms						
4	Going concern reporting helps in preventing corporate failures						
5	Going concern reporting in areas of trend analysis helps to measure year on year performance.						
	BENCHMARKING						
6	Are budget estimates realistic as a yardstick of measuring performance of income and fraud reduction.						
7	Should budget be reviewed regularly in reference to price level changes to inspect fraud.						
8	The need for volume growth is an indicator of fraud increase year-on-year.						
9	Should there be a department responsible for assessing fraud benchmarking for the organization.						
10	The time period to assess whether an entity will continue as a going concern should be more than twelve months from						

	date of financial statements.						
	MANAGEMENT REVIEW						
11	Should periodic technical training be carried out regularly.						
12	Review of technical placement of staff is key to business production.						
13	Management should constantly review competitor's fraud prevention techniques						
14	Management business review can assist in fraud detection and prevention at its conception						
15	Government policy is a threat to the availability of raw materials						
	INTERNAL AUDIT						
16	Auditor's responsibility should include fraud detection in line with their going concern obligation.						
17	Every entity should have an internal audit department						
18	Independence of the internal audit department is key to fraud prevention in businesses.						
19	Auditors should be encouraged to use I.T systems for audits to aid them detect fraud.						

20	Fraud is one major indicator leading to business failure.						