Fraud Triangle and Financial Statement Fraud in Nigeria

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Abstract

The study examines the effect of forensic accounting on fraud triangle and financial statement fraud detection in Nigerian firms. The aim of this study is to determine the relationship between fraud detection and forensic accounting. The study adopted the survey method to look at characteristics and skills that make forensic accountants competent for effective financial fraud control. Emphasises was place on public and private sector. Top management has overall responsibility for an organization and therefore progressive top managers are interested in learning about the activities of a very important control element of the company which is fraud auditing. The auditor has a strategic position within the company. It may be assumed that the auditor is the first person who is aware that a crime could have been committed. The external audit is conducted every year by audit specialists, professional audit companies. The fraud auditor reviews an internal control system to determine its strengths, weaknesses and redundancies for the purpose of internal control.

Key words: fraud auditor, financial statement fraud detection, investigation process.

1. Introduction

Following the corporate scandals experienced by numbers of large multi-national corporations, reliability of corporate reports has been debated worldwide since year 2002 in a manner that called to question the integrity of corporate leaders (Bahram, 2014). The most renowned among these corporate scandals are the financial statement fraud by Enron Corporation and investment scam by Bernie

Madoff (Kershaw, 2005). Along with this largest ponzi scheme in history are financial statement frauds of Worldcom, Tyco International Ltd, Adelphia Communications Corporation, Lehman Brothers, Saytam, and Cadbury Nigeria among others (Agrawal & Sharma, 2009; Black, 2018; Boostrom, 2011).

These unfolded stories of large scale frauds have increased the concerns of investors not only in the reliability of corporate report but also in the ethical values, tone at the top in which the influence of Chief Executive Officers (CEOs) and other top managers has contributed to a dysfunctional tone at the top. The nature of these cases reflected the effect of "tone at the top" on drivers of fraud as establish by Wolfe and Hermanson (2004). In Enron case, the tone at the top was such that jettison corporate code of ethics and that the 'culture of the organisation encouraged breaking of the rules and pushing the envelope – anything to keep the stock price propped up' (Cunningham, 2005, p.6). A process described in Salter (2008) as 'ethical drift' come to play, where top leaders openly encouraged an atmosphere of corporate arrogance, self-interest and indulgence in cooking the financial books, which the discovery by the investors resulted into panic disinvestment that seriously threatened the going concern of the company.

Tone at the top is the way and manner in which Chief Executive Officers, Board of Directors, and Top Managers perceive their responsibilities in setting corporate tone of an organisation. Corporate ethical standards of an entity influence the behaviour of the employees. All employees who are involved in the firm's activities usually follow the top hierarchies' lead (Schwartz, Dunfee, & Kline, 2005; Schroeder 2002). Hambrick (2007) stated that people consider the dispositions of organisation's top executives in understanding why the rank and files do the things they do. Tone at the top is directly related to ethical climate, ethical behaviour and ethical leadership (Reed, Vidaver-Cohen, & Colwell, 2011; Shin, 2012). The tone at the top is a reflection of top management corporate conducts, and it has potential to make strong or weak internal control system as an integral element of corporate governance system. Weak corporate governance mechanisms are thresholds for incessant fraud (Norwani, Mohamad & Chek, 2011); incessant corporate fraud usually culminates in financial statement fraud in a desperate bid to cover up those frauds.

Lease (2005) undertook a post-mortem assessment of Enron, WorldCom, Tyco International and HealthSouth and concluded that top management conducts are characterised by culture of winning at all costs. It was observed from recent fraud cases that the top management known corporate conducts has influence on drivers of fraud (Cunningham, 2005). This position reinforces the argument that conducts of top management in most of the recent fraud cases were the catalyst that enabled fraud to grow in those organisations, and the major corporate instrument to cover up fraud is the financial statement. It is the responsibility of the management to prepare financial statement, hence, financial statement fraud is usually spearheaded by the top management.

The external auditors have been observed colluding with the top management in committing financial statement fraud to deceive unsuspecting stakeholders. Kennedy (2012) posited that fraud consists of misrepresentation of financial statements and misappropriation of assets. Misappropriation of assets involves stealing of corporate properties whether physical or monetary. Misrepresentation of financial statement is the manipulation of the figures in financial reports to achieve desire results. As a matter of fact, misappropriation of assets precedes misrepresentation of financial statements in fraud chain of events. Once stealing has been committed at both individual and corporate level, the figures might not add up naturally, therefore, financial statement fraud is usually consummated to make the figures add up.

2. Literature Review

2.1 Introduction

The study seeks to determine the empirical relationship between "tone at the top" and fraud diamond theory in determining the occurrence of financial statement fraud. This section covers conceptual issues, fraud diamond theory and its component, theoretical framework and review of empirical studies.

2.2 Financial Statement Fraud

American Institute of Certified Public Accountants [AICPA] (2008) described fraud as an intentional act of deception, which causes loss to the victim having relied on deceit for the pecuniary gain of the perpetrator. Fraud has been described as any intentional falsehood, portraying failure to disclose information

voluntarily; abuse of corporate position perpetrated for personal gain; or expose others to risk of loss (Chartered Institute of Public Finance & Accountancy [CIPFA], n.d.). In United Kingdom, concept of fraud is used to conceptualise acts such as deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts and collusion (CIPFA, n. d.). Fraud is an unethical act capable of diminishing firm's value. Fraud is a corporate poison that destroys the going concern of an entity within a short time. It causes organisation to amass elusive wealth that fades easily. Zimbelman and Albrecht (2012) saw fraud as all multi-facet nefarious means that human ingenuity can devise, which are resorted to by individual or group of individuals, to gain undue advantage by false representations; including deceitful, trickery, cunning, and other unfair ways by which another is defrauded. Fraud is a social menace having multi-dimensional appearances with long-run political, social and economic implications. This menace has created pressure for negative tone at the top in corporate environment. This reflects the view of Nenyiaba and Okoye (2015) that, Fraud is systemic. Fraud has hindered corporate growth and subverted corporate values. Any remedial measure that does not look at the drivers of character defects in corporate players may not be successful. Strong accountability framework and integrity system driven by top corporate leaders are essential requirements for fighting fraud (Omoolorun & Abilogun, 2017). Private entities or public corporations need to define fraud and make it part of their fraud policy. This helps in guarding against fraudulent tendencies (Fasua & Osifo, 2016).

As a behavioural phenomenal, fraud is an elusive concept. In social sciences literature, diverse definitions of fraud have been propounded, from concise ones as "the obtaining of goods and/or pecuniary benefit by deception" (Levi, 2009,p.224) to expository ones which posit fraud as human endeavor involving deception, purposeful intent, intensity of desire, risk of apprehension, violation of trust , and rationalisation (Ramamoorti & Olsen, 2007).

Fraud from legal perspective is ambiguous, and legal scholars have considered the laws dealing with it as 'conceptual morass' (Green, 2007). Fraud does not occur as a glaring sequence of activities, single activity or statutory offence, and has no single legal definition (Reurink, 2016). The legal concept of fraud varies across

jurisdiction and the definition is dynamic, depending on the legal framework and statute in force. In United Kingdom, an individual is guilty of fraud; if he/she makes a false representation, fails to disclose information he/she is under legal duty to disclose, or abuses position of trust with intention to make personal gain, or exposes another to a risk of loss (Fraud Act 2006).

Fraud as financial market phenomenal is robed in transparent apparel as falsification or manipulation of financial reports (Fligstein & Roehrkasse, 2013). Financial reports prepared and presented in line with extant standards and laws; in a manner devoid of manipulation is the basis for productive financial market. Market participants exchange intangible obligations, the present or future benefits of which depend on financial outlook of the issuers (Reurink, 2016). Qualitative financial reports are essential requirements for assessing the present financial position, potential financial performance of an entity, and to establish future benefits of financial instruments. Fraud undermines financial information quality. Fraudulent financial report has been conceptualised as an intentional omission of vital disclosures in financial reports with deceptive intent capable of jeopardising the interest of the users of financial reports (Omoolorun & Abilogun, 2017).

Fraud in context of financial reporting involves wrongdoing that is not in strict legal sense seen as fraudulent. However, wrongdoing must be intentional for it to fit the description of fraud. It involves falsification and manipulation of material information contained in the financial books and records (Jeremy, 2005). Financial statement is usually window dressed to cover up frauds. Abiola and Oyewole (2013) and Ayozie (2013) concurred that financial reporting fraud are of two forms namely concealing inadequate business operations performance and prohibited business activities.

ACFE (2008) classified fraud as occupational fraud and financial statement fraud. Occupational fraud is an act of using employee's occupational influence for personal gain through deliberate theft or misappropriation of the employer's assets while financial statements fraud is deliberate act of fraudulent financial reporting via intentional omission of material disclosure in the financial statements to deceive the users. Financial statement fraud for the purpose of this study could be measured using F-Score Model (Akbar, 2017).

2.3 Tone at the Top

Tone at the top (TATT) is a corporate language that convey ethical value as a basis for firm's operations. TATT creates ethical atmosphere in the workplace as a leadership gesture by the organisation's top management (ACFE, 2006). The top management, personified in the chief executive officer (CEO), is saddled with fiduciary duty of "ownership" of the corporate system. More than any other corporate players, the CEO has the sole responsibility to set TATT, and this tone affects ethical orientation, integrity and other corporate traits underlying a positive corporate environment (Nakashima & Ziebart, 2016). TATT at the highest echelon of corporate ladders of any firm sets the pedestal for effective internal controls system (Ahamed & Epps, 2011). The strength of internal control is dependent on the body language of the top executives. There is significant association between management involvement in firm's operation both financial and otherwise, and internal controls (Nakashima & Okuda, 2014).

Tone at the top is basically hinged on top management of an entity. The vision, values and strategy established by an entity will be undermined, if they are less driven by the top management. Corporate concerns are created and financed by investors, and the onus to harness the available resources both human and material to achieve the corporate objectives rest on the management. In essence, tone at the top is all about leadership (Nederlandse Beroepsorganisatie Van Accountants (NBA), 2012). Tone at the top sets by example has great influence on the ethical conduct in the business environment of any firm. This leadership role draws attention to their responsibilities of oversight on the financial performance of the firm. The assumption that ethical behaviour on the part of corporate leaders leads to the best long-term interests of the corporation reinforced this position (Schwartz et al., 2005).

The role of CEO in influencing tone at the top of corporate entity, and the quality of the company's financial reporting cannot be overemphasised. Corporation's leadership strongly influences tone at the top and cultural tendencies of companies. Such a view is line with the assertion of Edgar Schein, a prominent management scholar, that; culture is created by shared experience with the leader as the initiator of this process by imposing his or her beliefs, values orientation, and assumptions (Schein, 2004). Tone at the top is a moral construct that is formed

in a work place (Kershaw, 2005). Corporate tone is set by the top management within corporate environment where reporting occurs (King, 2013).

A computer-assisted quantitative approach has been used to assess tone at the top of an organisation; it involves the use of the DICTION text analysis software program (Hart, 2000). A modified DICTION text analysis method to measure manually Tone at the Top from CEOs' reports in which numeral is given to any expression indicating Tone at the Top of the company in line with established criterion, addition of which is divided by the total number of standard criterion (Ahmed & Epps, 2011); is suggested.

2.3.1 Positive Tone at the Top

Positive tone at top is described by business ethics experts as corporate tones that prevent fraud and other unethical practices. Positive tone at the top encompasses integrity, objectivity, independence, competence and leadership. It involved implementation of right ethical code within an organisation with intent to prevent fraud and fraud related activities (Norwani et al., 2011). Bannon, Ford and Meltzer (2010) put forward factors that reinforce positive tone at top; an organisation's board of directors must enforce by complying with organisation's rules; creating concrete yardsticks for measuring ethical business standards compliance; providing framework for right corporate decisions, personality assessment and character evaluation as part of hiring, retention, and promotion practices; leaders should demonstrate, through their actions, that the organisation's reputation and achievement of long-term goal are important than short-term gains; leaders should have feedback mechanism to ensure the organisation's operations align with its core values; leaders should engender trust through transparency and accountability; keep their words as their bonds; and entrench transparency and truthfulness.

2.3.2 Negative Tone at the Top

Negative tone at the top creates weak ethical environment where fraud and other unethical practices strive with impunity (Pickerd, Summer, & Wood, 2015). Negative tone at the top reflects weak corporate governance mechanisms that increase incidences of fraud. It reflects in; violation of code of ethics; corporate conducts that tolerate financial crime and fraud; creating workplace where

dishonesty is technically fashionable; and close door policy. The case of Enron, where corporate culture encouraged breaking of corporate rules, and leaders without fear and stress created an atmosphere of corporate rascality, self interest and indulgence in financial malfeasance (Cunningham, 2005; Salter, 2008), adequately reflected the true concept of negative tone at the top.

However, if top management are less concerned with ethics and focus primarily on the performance indicators such as net earnings, net income or earnings per share (EPS), employees would be prone to fraud to meet up with organisation's priorities. Employees do justify their behaviours with the actions and conducts of their corporate leaders, and they usually follow their lead. In summary, employees tend to do the behavioural biddings of their bosses. Therefore, corporate leaders should lead by example, provide secure mechanism for reporting violations, and reward integrity. Positive tone at the top is capable of minimising corporate greed. Corporate greed driven by contemporary materialistic tendencies at the higher echelon of corporate ladder has caused many investors and employees their life savings.

2.4 Tone at the Top, Components of Fraud Triangle Theory and Financial Statement Fraud

Tone at the Top is corporate tendencies that affect policy direction towards realising corporate objectives (NBA, 2012). Achievement of corporate objectives is portrayed in the financial statement whether genuine or counterfeit. Therefore, this section reviews the nexus between tone at the top and each component of fraud triangle theory as its affects financial statement fraud.

2.4.1 Tone at the Top, Pressure and Financial Statement Fraud

Pressure in ordinary corporate parlance refers to factors that influence fraudulent behaviour. Corporate fraudsters face pressure to violate trust and commit fraudulent act (Abdullahi & Mansor, 2015a). Pressures can either be financial or non-financial. Albrecht, Hill, and Albrecht (2006) pointed out that personal greed at times motivate fraud, hence the word perceived. Not all pressures are perceived. Perceived pressures are instigated by personal motivations of the perpetrators. Perceived pressure crystallised in various forms of non-sharable pressing financial need. Financial pressure is considered as the commonest driver

of fraudulent actions. The research by (Albrecht et al., 2006) revealed that 95% of all fraud cases have been motivated by fraudster's financial pressures.

Lister (2007) argued that pressure is an essential motivator of fraud. He put forward three types of pressure which are employment pressure, external pressure, and personal pressure. Forms of personal pressure include intense greed, extravagant lifestyle, personal debt, excessive materialistic tendencies, health challenges, drug addiction, and gambling. While employment pressures include meeting analysts' expectation, compensation and incentive for performance, and pressure to reach organisation's goal at all cost. External pressures are financial and non-financial. Financial external pressures include but not limited to; threats to business financial stability, financial covenants, and market expectation. Non-financial external pressures revolve around ego, reputation, and social pressure (Kassem & Higson, 2012).

Personal and corporate pressures are the key motivators of fraud (Rasha & Andrew, 2012). Chen and Elder (2007) recognised six basic categories for pressure which are described as a transgression of obligations, personal problems, corporate inversion, position achievement and relationship between employees. This is in line with the position of Sutherland and Cressey (1978) that persons who engage in criminal behaviour have accumulated enough feelings and rationalisation in favour of law violation that outweigh their pro-social definitions. Criminal behaviour is learned, and will occur when perceived rewards for criminal behaviour exceed the reward for lawful behaviour. Albrecht et al. (2006) categorised sources of pressure into four including economic, vice, job-related and other pressures. Hooper and Pornelli (2010) opined that pressure could be either positive or negative force depending on individual traits, and corporate culture reflected through the tone at the top.

The proxies for pressure are financial stability, external pressure and financial target (Manurung & Hardika, 2015). Akbar (2017) added Institutional Ownership to the variables proposed by Manurung and Hardika (2015). They measured financial stability with ratio of change in total assets (ACHANGE), external pressure with the leverage ratio (LEV), and financial target with return on assets

(ROA) while Institutional Ownership was measured with the ratio of Shares owned by Institutions to the Total Outstanding Shares.

As import from this position, if an organisation is facing financial instability to the extent that the top managers are not really sure of meeting their financial target (ROA), external pressure to meet up with the stakeholders' expectations become potent force to influence top management engagement in fraud, especially, financial statement fraud. Financial instability could be a resultant effect of long term undetected fraud driven by personal pressure (Akbar, 2017; Skousen, Smith, & Wright, 2008). Sunardi and Amin (2017) posited that management do find themselves under pressure to generate high return on asset and high return for investors, so they usually utilised financial statement as a tool to cover up financial instability for the fear of stakeholders panic disinvestment. They posited further that, the higher the company's targeted return on asset, the more vulnerable is the top management to earning management.

Financial stability is influenced majorly by the operating conditions, industrial average performance indicators, and general economic conditions. Company with large assets is considered capable of providing maximum returns to investors. Top management will experience pressure when total assets decline. For this reason, management usually engaged in fraudulent financial reporting (Puspitha & Yasa, 2018). The importance of tone at the top in curbing fraud and fraudulent financial reporting is significant. National Business Ethics Survey in 2009 found that an environment where there were strong ethical cultures; the pressure to commit misconduct reduced from 16 percent to 4 percent, rates of misconduct reduced from 77 percent to 40 percent, failure to report misconduct reduced from 44 percent to 27 percent (Volkov, 2013). Recent Enron fraud case, where corporate culture encouraged breaking of rules and leaders indulgence in financial malfeasance, revealed the significant role of top management in influencing large and long term corporate fraud (Cunningham, 2005; Salter, 2008).

2.4.2. Tone at the Top, Opportunity and Financial Statement Fraud

The responsibility of management to prepare financial statement gives them the unique opportunity to intentionally manipulate financial statement when it is perceived necessary for short term organisation's survival. Similarly, opportunity

to perpetrate fraud is often created by top management through governance system which allows people to commit organisation fraud. This is usually achieved by collapsing the internal control system. Opportunity suggests that people will take advantage of circumstances available to them in corporate environment to meet their perceived financial needs (Kelly & Hartley, 2010). Opportunity exists in the perception, belief and imagination of fraudsters.

However, fraud thrives where the likelihood of detection and punishing the perpetrator is low. Opportunity is the potential to override fraud controls which actually reside in the top management. Rae and Subramanian (2008) see opportunity as the ability of employees to discover and exploit weaknesses of the organisation's control system to gain fraudulent financial advantages. Hooper and Pornelli (2010) opined that, no matter the potency of pressure, fraud might be difficult except an opportunity exist. Opportunity becomes difficult to exploit where the tone at top is positive. Opportunity has two aspects: the inherent susceptibility of organisations internal control system to manipulation, and organisation circumstances that may cause fraud. These two assertions are under the influence of top management. For instance, a situation where related parties handle key positions, constant overriding of internal control system by top management, irregular audit, unachievable target and the likes, then fraud becomes inevitable. Fazli, Mohd and Muhammad (2014) measured opportunity with CEO duality, related party transaction, and the difference between control and cash flow rights. Extant literatures rank related party transaction as the most frequently encountered opportunity to consummate fraud. Wilks and Zimbelman (2004) placed related party transaction as the third among the commonest opportunity available to fraudster. Ming and Wong (2003) used related party transaction as proxy to measure opportunity. Association of Certified Fraud Examiners revealed that irregular job rotation contributes to employees and managers exploitation of organisation failure to perfect fraud scheme (Ewa & Udoayang, 2012).

Manurung and Hardika (2015) used nature of industry and ineffective monitoring as proxy for opportunity. The ratio of receivables and ratio of non-executive directors were used to measure the nature of industry and ineffective monitoring respectively. Similarly, ratio of financial experts in audit committee is a good

measure of opportunity for fraud; it is assumed that, the higher the ratio, the lower the opportunity for fraud. Opportunity is a situation that helps people to commit fraud (Akbar, 2017). Weak internal control provides opportunity to perpetrate fraud, and this is partly due to failure of the audit committee, as many of them are not financial experts. Sunardi and Amin (2017) corroborated this position when they posited that fraud could be minimised through effective oversight of an independent audit committee.

Top management could deliberately compromise internal controls and corporate governance to perpetrate fraud as reflected in many recent fraud cases. Tyco international fraud case of 2002 was majorly driven by opportunity. Daniel Kozlowski who took over as Chief Executive Officer (CEO) after the resignation of John F. Fort compromised Tyco's corporate governance by positioning his close allies in top corporate positions to swindle millions from the company (Thanos, 2015; Brickey, 2008). The internal controls in place were not enough to stop the fraud from occurring because the Chief Executive Officer, Chief Financial Controller and the Board Members were all involved. Similarly, Adelphia fraud case was driven by opportunity considering top executives were from John Rigas and founder's family. There were weaknesses in the internal controls, as other employees lack the capacity to check the validity of the personal purchases made by the Rigas family without reprimand.

However, to perpetrate fraud of such magnitude is quite complex and at a minimum requires numerous financial records manipulations. At a point the figures in Adelphia's restated financial statements were manipulated, basic bookkeeping entries were intentional manipulated, tax returns were falsified, appraisals were falsified, and operational data disclosed to the public in corporate reports was inaccurate.

In Enron's case, the lack of complete system to supervise the top executives of the company made it possible to hide the company's operating situation with falsified financial statement. The conflicts of interest between Arthur Andersen's roles as auditor and consultant to Enron encouraged the top executives to indulge in financial statement fraud with impunity.

2.4.3. Tone at the Top, Rationalisation and Financial Statement Fraud

Rationalisation has been personally acceptable conviction based on corporate environmental assessment before engaging in fraudulent act. Rationalisation is proxy for the justification that fraudulent behaviours are not criminal. It is not certain that individual will engage in fraudulent acts if they cannot justify it. Rationalisation is an abstraction, whose potency dependent on the mindset of individual fraudster. Individuals who perpetrate fraud have common mind-sets that allow them to excuse their fraudulent acts (Hooper & Pornelli, 2010). Rationalisation has been seen as justification for fraudulent tendencies due to lack of personal integrity (Rae & Subramanian, 2008). The propensity to perpetrate fraud has been function of ethical value orientation and individual character make up (Kenyon & Tilton, 2006). Rationalisation creates moral link between pressure and opportunity for perpetrating fraud.

However, if employees are convinced that violations of organisation's ethical standards will attract serious punishment and they see top management living by strict compliance with ethical code and upholding integrity consistently, fraudulent practices become difficult to rationalise. The greatest risk of fraud is when the management creates an impression that it is needed or expected to achieve organisation's goals.

The major rationalisation for fraud by top management is their possibility of influencing external auditors to cover up fraud with unqualified auditor report on the financial statement. This informed the position of Akbar (2017) that auditors perform checks on the financial statement which affords them the opportunities of assessing hidden information about operational situation and possible indication of fraud. Companies that perpetrate fraud are more likely to change auditors, as management tends to reduce the possibility of detection by the existing auditor. Manurung and Hardika (2015) proxies rationalisation with change of auditors. Meanwhile, Sunardi and Amin (2018) posited that auditors failed to detect Enron's profit manipulation despite their long stay with the company. This informed the argument that influence of top management is the determinant of whether retention of auditors or change of auditors create rationalisation for fraud. When directors owned shares in a corporate entity, protecting their interest could provide excuses for fraudulent financial reporting. Similarly, financial statement

fraud could be justified with a bid to prevent investors' panic disinvestment, in case financial instability due to aggregate effect of other corporate frauds becomes public.

2.5 Review of Relevant Theories

There are many theories of fraud but this section is meant to review three of them which are differential association theory, fraud triangle theory, and fraud diamond theory because of their relevance in achieving the objective of this study.

2.5.1 Differential Association Theory

Edwin Sutherland (1947) developed the "differential association" theory of what motivate people to commit crimes in the fourth edition of his book titled 'Principles of Criminology'. He theorised that criminal behaviour is linked to an individual's association with criminal environment. He believed that people faces various social influences in their daily endeavour. Social engagements with individuals having criminal tendencies could influence someone to become criminal as a direct consequence of association (Matsueda, 1988). The major thrust of Sutherland's differential association theory is explained as follows (Sutherland & Cressey, 1978):

i. Criminality is learned not inherited, and individual who has been trained in crime easily imbibes criminal behaviour.
ii. Criminality is learned from daily interaction with other people through the processes of verbal communication and practical example.
iii. The learning principle of criminal behaviour is potent within group of intimate individuals.
iv. The learning of crime begins with learning the techniques, imbibing the attitude and accepting the rationalisation.
v. An individual usually becomes delinquent in response to the environmental factors favourable to violation of the law.

The main point of Sutherland's argument is that persons who perpetrate fraud have accumulated enough feelings and rationalisation for fraud that outweigh their values for integrity. Criminal behaviour is learned and will occur when perceived rewards for criminal behaviour exceed the reward for lawful behaviour.

This theory established the fundamental foundation of fraud triangle theory which could be reinforced or rendered impotent by tone at the top.

2.5.2 Fraud Triangle Theory

Donald Cressey (1950) developed Fraud Triangle Theory. He was motivated by inquisition that there must be a reason behind what people do. His curiosity to unravel why people commit fraud led him to focus his research on what motivate people to violate trust. 250 criminals were interviewed within 5 months whose behaviour revealed two things: that people do accept responsibilities of trust in good faith, and that circumstances make them violate the trust. He posited that some perceived pressure, perceived opportunity, and basis of rationalisation consistent with one's value orientation are factors motivating people to perpetrate fraud. Cressey posits further that trusted individuals do violate trust when they are faced with financial problem that is non- shareable and have awareness that this problem can be secretly resolved by violating position of financial trust (Kassem & Higson, 2012). Secret violation of position of trust can be persuasive and go undetected in the long run where tone at the top is negative.

According to Donald Cressey the fraud triangle theory; he is an American criminologist and sociologist. The study of Donald Cressey focused on the circumstances that propel people to carryout unethical and fraudulent practices. His study later became known as the fraud triangle model (Dorminey, Fleming, Kranacher& Riley, 2012; Ruankaew, 2013). The fraud triangle provides the medium which propels individuals to commit fraud and how they can be identified. The factors identified include (1) attitude/rationalization (2) opportunity and (3) pressure/incentive (Cressey, 1953). Albrecht., Albrecht., and Albraecht, (2004) used fire as a comparison to the theory, stating the three factors needed to cause fire must be present and they include heat, fuel and oxygen. Likening this to fraud, it is stated that fraud cannot occur where this three items mentioned above are absent, the degree of fraud depends on the strength level of each factors (Albrecht et al., 2004). Consequently, for individuals making unethical decisions, the following metrics must be present; opportunity, pressure to use this opportunity and a means to rationalize the act (Lou & Wang, 2011; Ruankaew, 2013).

Fraud Triangle Theory is related to this study because it shows how pressure, rationalization and opportunity explain the behavioural disposition of an individual to commit fraud. In accordance with this hypothesis, forensic accountants would be able to recognise the root cause of crime and detect the psychological characteristics of fraudsters in the process of their investigation. This understanding will allow forensic accountants to perform a thorough forensic audit when identifying wrongdoing in an organisation.

3. Review of Empirical Studies

No doubt, financial statement frauds have affected individuals, households and corporate concerns negatively, and it has casted avoidable aspersions on accounting and auditing profession across the globe. Studies have been carried out on the "the tone at the top" as it affects auditing and fraud risk assessment. Noviyanti and Winata (2015) carried out an experimental study aimed at investigating the effect of skeptical attitude, tone at the top, and awareness of fraud on auditors' skeptical behaviour during audit engagement. Data were obtained from professional auditors through questionnaire. Three findings emanated from the data analysis, one of which concluded that a high tone at the top of audit firm has positive effect on auditors' professional skeptical behaviour. Wang and Fargher (2014) in their work 'The effect of tone at the top on internal auditors' assessment of financial misstatements' investigate to determine if internal auditors' fraud risk assessments bias toward management's posture when the tone at the top is negative, and if the existence of collaboration with external auditors can mitigate this bias. The experiment involved 64 internal auditors, and the result of the analysis suggest that internal auditors report higher risk of financial misstatement, and are more skeptical when tone at the top is negative, and negative tone at the top is considered as red flag to financial misstatements. The analysis of the effect of coordination between internal and external auditors on tone at the top further suggest that the existence of coordination is capable of mitigating any effect of organisation's tone on internal auditors' fraud risk assessments.

Wang (2015) examined if internal auditors' judgments on effectiveness of internal controls are influenced by management's expectation where tone at the top is negative. The study investigated if an independent audit committee having

requisite expertise that could mitigate this bias. The study involved 80 internal auditors and data analysis revealed that internal auditors usually shy away from management-related control issues, and that effective audit committee could mitigate the influence of negative tone at the top on internal auditors' evaluation of internal control.

Association of Certified Fraud Examiners (ACFE) as far back as 1997 conducted a survey where it was found out that 83% of the fraud losses studied where perpetrated by owners and directors. Similarly, in 2003 Ernst & Young found out that more than 50% of frauds are committed by the management; though, individuals within companies have committed financial statement fraud, most of these cases involved CEOs and Chief Financial Officers (CFO) as the ringleaders. The Committee of Sponsoring Organisations of the Treadway Commission [COSO] (1999) investigated 200 companies that had committed financial statement fraud, the result of the investigation showed that 72% of the occurrence involved CEOs while 42% involved CFOs. These positions underscore the fact that, material frauds cannot be committed and concealed in the long run without the involvement of the top management. Financial statement fraud usually emanates from pressure to meet financial targets with the consciousness that stakeholders might not tolerate failure to achieve these targets. According to fraud diamond theory, four factors of pressure, opportunity, rationalisation and capacity motivate fraud (Wolfe & Hermanson, 2004). All of these factors could not be potent where tone at the top is positive. In a survey by PriceWaterhouseCooper (2012), 90% of the respondents agreed that tone at the top is effective in fraud risk mitigation. Mangoensentono (2012) argued that integrity is a contributory element of internal control system for fraud prevention. Naidoo (2012) asserted that top leadership with integrity is proficient in minimising incidences of fraud. In view of Murphy, Free and Branston (2011) and Law (2011), tone at the top should be based on the components of integrity of top leadership, managerial control systems, reward management systems, working conditions and administration of disciplinary rules as enabled by ethical climate and organisational culture. Integrity would keep pressure for fraud at low ebb. Effective managerial control systems reduce opportunity to perpetrate fraud. Reward management systems, good working environment and administration of disciplinary measures are capable of rendering rationalisation unattractive.

Nakashima and Ziebart (2016) investigated: 1) if TATT is associated with earnings quality and internal control effectiveness; 2) determinants of TATT; 3) if the TATT has influence on the trade-off between earnings management approaches. The regression results showed a mixed evidence of a link between TATT and accruals quality, discretional accruals (DA), and cash flow prediction accuracy. It was observed that there is a statistical significant relationship between TATT and the measure of cash flow prediction accuracy. The regression results also indicated that TATT has significant association with effectiveness of operations, and enforcement of compliance with law and promotion of assets preservation which are all indicators of effective internal control. This positive association is expected, since the TATT relates to the effectiveness of the internal controls system.

Hunton, et al. (2011) studied the relationship between perceived tone at the top and earnings quality. They observed that 'tone at the top' perceptions are significantly associated with board of directors, CEO age, and CEO compensation while it has positive effect on earnings quality. However, they further observed that the internal control system is a subjective subset of the entire control environment which is under the overall influence of tone at top.

Ogola, et al. (2016) examined the effect of corporate governance on occurrence of fraud in commercial banks in Kenya. The study was premised on four research questions, one of which is to know the extent top leadership's tone at the top affect occurrence of fraud in commercial banks in Kenya. Data was obtained from sample of 169 top management staff from 43 commercial banks in Nairobi. The analysis of the data showed significant correlations between top leadership's tone at the top and amount of fraud loss, frequency of fraud and fraud loss recovery rates. This was in line with previous studies which established an association between tone at the top and fraud risk management (Anca, Racula & Aurora, 2013; PwC, 2012; Law, 2011).

Manurung and Hardika (2015) carried out an empirical analysis of factors that influence financial statement fraud from fraud diamond perspective. They obtained data from the Banks listed on the Indonesia Stock Exchange from 2012 to 2014. The study used quantitative methods to analyse the independent variables which are the components of fraud diamond theory while the dependent variable

is financial statement fraud. The dependent variable is proxies by Earning Management, measured with Value Discretionary Accrual of Modified Jones Model while the independent variables; Pressures was proxy by Financial Stability, External Pressure and Financial Target while they are measured with Ratio of Change in Total Assets, Leverage Ratio and Ratio of Receivable Business respectively; Opportunity was proxy by Nature of the Industry and Ineffective Monitoring, measured with the Ratio of Receivable Business and Independent Directors respectively; Rationalization was measured with Change of Auditor, and Capacity with Change of the Board of Directors. The regression analysis results showed that pressure, opportunity, and rationalisation have negative influence on financial statement fraud, while capacity has positive influence.

Sunardi and Amin (2018) carried out study on fraud detection of financial statement from fraud diamond perspective. They obtained data from Manufacturing Company listed on Indonesia Stock Exchange using the same methodology with Manurung and Hardika (2015). The result of regression analysis show that pressure, opportunity and rationalisation have negative effect on financial statement fraud while capacity has positive effect on financial statement fraud.

Nindito (2018) investigated the factors that determine financial statement fraud using fraud pentagon model. The study examined empirically 14 companies listed on the Indonesia Stock Exchange that were sanctioned by the Financial Service Authority between 2013-2015, and 14 comparative companies within the Industry in term of size. It was an explanatory research that applied logistic regression analysis technique. Ten (10) hypotheses were tested on the effect of pressure, opportunity, rationalisation, capacity and arrogance on financial statement fraud in Indonesia. Free cash flow was used as a proxy for pressure, independent of the audit committee as a proxy for opportunity, total accrual as a proxy for rationalization, and disclosure of doubtful debts as proxy for capacity. The results of the regression analysis showed that pressure, opportunity, rationalization and capacity have significant and negative effect on financial statement fraud.

Supri, Rura and Pontoh (2018) investigated the effect of fraud diamond theory on fraudulent financial statements of companies listed on Indonesia Stock Exchange.

Financial stability, external pressure, financial target, nature of industry, effective monitoring, change of auditors, and change of directors were used as proxies for pressure, opportunity, rationalization and capacity respectively. Sample of 50 companies were purposively selected from the companies listed on Indonesia Stock Exchange Market for the period of 2015 to 2017. The quantitative data selected were analysed using SPSS Software with a Logistic Regression Analysis Method. The regression results showed that financial stability, external pressure, financial targets, and change of auditors have positive and significant effect on financial statements fraud. The nature of industry and change of directors have positive but insignificant effect on financial statements fraud.

5. Conclusion

Forensic auditors in fraud detection in public sector is crucial. It can be established that management are likely to identify the occurrence of fraudulent activities by applying investigation services and litigation support. Forensic auditors help lawyers and courts through the use of auditing, investigative, and accounting principles in solving fraud cases. The impact of fraudulent activities is a major setback on the public sector because it reduces customer and investor confidence. In Nigeria perpetrators of fraud are rarely prosecuted and but forensic auditors will provide evidence to the courts, and this will see individuals who commit fraud sentenced, and this will assist in improving the reputation of the civil service. The study also concludes that public sector have adopted forensic audit practices of investigation services and litigation support. It also concludes that forensic auditing has its highest application in controlling financial statement fraud and the monitoring and evaluation of ICS.

Recommendations

The study recommends that the institutional infrastructure that supports fraud prosecution should be improved. This will involve restructuring the laws, offering advanced training to the police, lawyers, and judges in the issue of banking fraud. Also, the public institutions charged with dealing with fraud cases should be reformed to enable them carry out their duties effectively. An efficient fraud prosecution system where the fraud perpetrators will be sentenced will go a long way in enhancing fraud detection and deterring future fraudulent events in the banking sector. Public sector should revise their

organizational structure to allow for better alignment with the functions of forensic auditing department. A more hands-on approach is needed to fraud detection, and this requires proper structures and policies that separate and guide the role of the forensic auditing department from others. This will ensure that the department will work without interference from anyone and avoid any conflict within the organization.

Fraud detection and preventive strategies should be the start with the Board of Director and the management. Management should take a proactive approach towards the identification of fraud by setting a specific tone about fraud. This involves communicating the organization's policies and procedures to all stakeholders. The tone at the top makes the forensic auditors work of identifying fraud easier as well as encouraging whistleblowers when a red flag is noticed. A corporate fraud policy which directs the employees on what they should do when fraud is suspected should be developed. Such a policy gives the course of action on how the organization deals with fraud and communicate that no individual has the authority to engage in fraudulent activities, even to the benefit of the company.

The management and employees should undergo training on fraud identification and prevention strategies. The training teaches them on the factors that indicate fraud and the steps that they should be taken, they should be trained on the internal controls as well as the organization's procedures. Employees should be aware of the consequences of committing fraud, and this will ensure that they follow the set guidelines and regulations.

Public sector should develop strong internal control systems. An internal control system will enable the management to identify any potential problems that may result in financial losses before they occur. It is the responsibility of the management to establish an internal control System which is strong enough to identify any indicators that signal fraud and ensure the continuity of operations. Therefore, effective internal control system will enhance the efficiency of operations, reliability of financial reporting, and ensure that the commercial banks will comply with the relevant laws and regulations.

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