

Auditing and Fraud Control in Corporate Organisations

Edori Daniel Simeon¹ & Edori Iniviei Simeon²

¹Business Department, C. S. S. Mgbuoshimini, Port Harcourt, Rivers State, Nigeria. E-mail-
edssdern@yahoo.com

²Edori Iniviei Simeon, Department of Finance and Banking, Faculty of Management Science, University of Port
Harcourt, Port Harcourt, Nigeria

Corresponding author's e-mail: edssdern@yahoo.com

Abstract

This research work assessed the relationship between auditing and fraud control in corporate organizations and also assessed the most effective between internal and external auditing and forensic auditing as it regards fraud unearthing. The quasi experimental research design was employed in this work. The primary data were collected from respondents using the questionnaire. The data collected was then subjected to analysis. Three hypotheses were formulated and the Pearson product moment correlation coefficient was used in testing H_{01} and H_{02} while the chi-square was used in testing H_{03} . From the results, we found out that significant relationship exist between the dimensions of auditing (traditional auditing and forensic auditing) and fraud control and we also find out that forensic auditing is more effective than internal and external auditing in unearthing fraud. We then recommended that traditional auditing should be strengthened by training and retraining of the staff, expanding the scope of the work of traditional auditors to cover fraud detection, employment of forensic auditors in corporate organisations and constant training of such staff to be up to date with modern technology and sophisticated ways of committing fraud and their antidotes and that forensic auditors should be included during statutory auditing. We then concluded that there is an existence of positive and significant relationship between auditing and fraud control, that is, increase in auditing will lead to increase in fraud control.

Key words: *Auditing, Fraud, Corporate Organisations*

1. Introduction.

The negative and cancer worm spread of fraud in corporate organisations have rendered traditional auditing inefficient and ineffective. The number of frauds committed are continuously on the increase both in private and public sector institutions, and it cuts across the globe. Fraud is a worldwide problem as no nation is resistant, although countries that are developing and their various states suffer the most pain. In spite of the activities of both internal and external auditors in corporate organisations cases of fraudulent practices seems to be common and on the upward trend. Ojaide (2000) submits that in Nigeria, there are startling increase in the figure of fraud and fraudulent activities. Different authors, such as Owojori & Asaolu, 2009; Kasum, 2009; Okoye & Akamobi, 2009; Izedomin & Mgbame, 2011 and Gbegi & Adebisi 2014, in their distinct studies all established the fact that there is the existence of an increase in the occurrences of fraud and activities that are fraudulent in Nigeria.

“Globally, the occurrence of fraud in corporate organisations is becoming rampant and this can be shown in the large number of reported cases of bribery, corruption, embezzlement, money laundering, racketeering, fraudulent financial reporting, tax evasion, forgery and other means through which both financial and economic dishonesty are being perpetrated” (Ofiafoh & Otalor, 2014)

The occurrence of fraud and funds misappropriation in latest times poses a danger to the traditional auditing as a part of the accounting profession due to its perennial nature that has brought about the question whether the statutory audit is really playing any significant role as it regards the accomplishment of accountability and fraud (Adeniyi, 2016). The past decades, Nigerian banks suffered so much frauds and the result was distress and liquidation. Both auditors (internal and external) cannot be exonerated from the incidence because they failed to detect the frauds while performing their functions as the fraud were committed under the watch of internal auditors that should be the “policeman” and the external auditors could not uncover it during the statutory audit. While the internal auditor is expected to check and also monitor necessary procedures and the level of compliance with rules of the corporate organization, the external auditor is to monitor the accuracy of financial information and also act as a mechanism for prevention and discouragement of financial irregularities.

2. Statement of the Problem

Different panels of inquiries has be set up in Nigeria for the investigation of cases of fraudulent practices and such panels usually end up with minor or no result (Akenbor & Ironkwe 2014). Fraud and fraudulent activities has gone so complex and sophisticated as a result of technological advancement. The advancement in technology has made it easier for fraudsters to perpetrate fraud but complicated to unearth the fraud. Onodi, Okafor &

Onyali (2015) submits that, as a result of advancement in technology, fraud has become so sophisticated that it is no longer something that independent and internal audit can guide with their periodic audits.

These days, fraud has become a custom in most institutions because of the way it is spreading and the inability of auditors in its prevention and detection has rendered conventional auditing and investigations fruitless (Zachariah, Masoyi, Ernest & Gabriel, 2014). The failure of both internal and external audit to prevent and discover fraud in corporate organisations and their numerous scandals has now led to the use of forensic audit as an option for detecting fraud. The Centre for Forensic Studies (2010) posited that only forensic auditing that is well applied, may perhaps be utilized to change the trend of leakages that resulted to corporate failure. But Kassem & Higson (2016) reported that going-over the audit standards, it is discovered that even though the efforts of audit regulators in fighting fraud is undeniable, minor attention has been given to the responsibilities of the external auditors' as it concerns corporate corruption.

3. Objective of the Study

The main objective of the study is to determine the relationship between auditing and fraud control in corporate organisations. The specific objectives are to;

- i. examine the relationship between traditional auditing and fraud control in corporate organisations.
- ii. examine the relationship between forensic auditing and fraud control in corporate organisations.
- iii. examine whether forensic auditing is more effective than internal and external auditing in unearthing fraud in corporate organisations.

4. Research Questions and Hypotheses

The following research questions are posed based on the problems stated and the study objectives.

- i. Is there any significant relationship between traditional auditing and fraud control in corporate organisations?
- ii. Is there any significant relationship between forensic auditing and fraud control in corporate organisations?
- iii. Is forensic auditing more effective than internal auditing and external auditing in unearthing fraud in corporate organisations?

The research hypotheses stated below were tested using the research questions already stated above.

- Ho₁. There is no significant relationship between traditional auditing and fraud control in corporate organisations.
- Ho₂. There is no significant relationship between forensic auditing and fraud control in corporate organisations.
- Ho₃. Forensic auditing is not more effective than traditional auditing in unearthing fraud in corporate organisations.

5. Auditing

Auditing has to do with accounts and records examination and verification, mainly as it concerns financial accounts. The auditor examines and verifies financial and accounting records of companies. You must be a chartered accountant to practice as an auditor, that is, you must be a member of an accounting professional body. The auditor can play a significant part in an organisation by assisting in the area of fraud prevention and unearthing. Both internal and external auditing serves as tools use for checking financial information accuracy. They are also to serve in preventing and discouraging financial misstatement in any corporate organisation. Auditors are expected to come out of the cover of internal documentary proofs to become more effective and efficient while discharging their duty and also gather information and evidences from sources that are not within the organisation such as users of public facilities, clients' organisations or even the public in general to be more productive. This view boosts confidence on the information produce by the auditors. The forensic auditors, though not popular in Nigeria, are hired occasional with the sole aim of unearthing fraudulent activities. Generally, it is expected that auditors should override their commercial concerns and report suspected fraud perpetrated or any fraudulent activities.

5.1 Internal Auditing

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations." (International Professional Practices Framework, 2001). It is a vital feature of the structure of corporate governance within an organisation and must be taking very serious.

Internal audit is performed by employees of the organisation the auditing is taking place. The internal auditors reports to the audit committee, if it exists in the organisation. But in the absence of an audit committee, they

report to the organisation's management and their report is for internal use. Traditionally, (Skinner and Spira, 2003), reported that, internal auditors act as "policemen" checking and monitoring the procedures and compliance level to the rules of the organisation. They are expected to fight, within the organisation, against fraud in preventing its occurrence. Their duty and responsibility tends to be a continuous one and it is based on the organisation's internal control system. They are expected to provide independent and objective evaluations of the organisation's operations and financial activities.

5.2 External Auditing

External audit serves as a monitoring and checking mechanism as it concerns financial information accuracy, prevent and discourage financial irregularities (Kimbro, 2002). External audit is performed in accordance with specific laws and rules, in order to present an unbiased and independent report of the organisation they audit. External auditors are not employees of the company they audit hence are independent of the organisation they audit. They report to the shareholders and not to the management as a result they are free from management influence.

The audit results in an audit opinion whether the financial statement gives a true and fair view of the statement of affairs of the organisation and its operation for the period, normally one year. At the end of the audit, an opinion is made by the auditor to ascertain the reliability and fairness of the financial statement. The opinion in form of a report by the auditor is relied upon by stakeholders (shareholders, potential investors, creditors, government institutions, employees etc.) to make informed financial decisions.

If fraud is detected, it is the responsibility of the external auditor to bring it to the knowledge of the management and consider withdrawing from the engagement if appropriate actions are not taken by the management. The external auditor has the responsibility of detecting misstatements that are material resulting from either errors or fraud.

5.3 Forensic Auditing

Though not much popular in Nigeria, it has a singular purpose of detection fraudulent activities perpetrated within an organisation by an insider and or any other individual or organisation that have any relationship with the organisation. Forensic audit is conducted by an expert or specialist in the field for information verification, determination of valuations, investigation of fraud and fraudulent activities, agreement with government regulations, contracts and also the investigating and reporting on other matters and the report of the forensic auditor must be suitable for use in the court room. It is done for third parties benefit and is documented to be presented in a law court (Minniti, 2008). Ohaka & Edori (2017) believes that personnel to execute forensic investigation "are specialists in the field with strong skill in criminology, accounting, anticorruption laws, communication and investigation with the ability to think like a criminal."

In forensic audit, the audit is manned in such a way to gather evidence to prove that fraud has occurred. The skill needed here is more than that required to conduct internal or external audits. Grippo & Ibex (2003) opined that forensic audits are more thorough than traditional audits and are conducted in a series of steps to find out how an allegation can be validated and also to find out the nature of any additional work needed. Thornhill (1995) stated that forensic audits need a clear and comprehensive audit plan that is planned to get information on how, when and where a wrong deed occurred and who committed it. Forensic auditors apply accounting concepts and technologies to problems that are legal. Their concern is to use accounting as a discipline to produce evidence that can be presented in the court of law.

6. Fraud and Fraud Control.

Fraud is an intentional deception in order to get an unlawful and unfair advantage. It involves denying a target of a legal right. It has to do with false representations, misleading allegations and concealment of facts.

To Kibel (2009) fraud involves;

- Altering, falsifying or manipulating document or record,
- Suppression or omission of transaction from record or document,
- Recording transactions that have no substance,
- Misapplying accounting policies with the intention to deceive and
- Assets misappropriation.

Fraud is a severe and a global problem that requires serious concern globally. It adversely affects institutions and organizations in all ramifications. Money lost to fraudsters and fraudulent activities are very high and if not checked it can destroy an entire organisation. When there is weak internal control and collusion by staff of any

organisation, there is a possibility of fraud. For fraud to occur, most a times it involves deception and conspiracy that is very complicated and it makes it, sometimes extremely difficult in identifying its causes.

Fraud control policies are implemented by corporate organizations in order to safeguard their financial assets. The policies allow such organizations to possess the muscle in investigating and if possible prosecute suspected fraudsters within and outside the organisation. The Commonwealth Fraud Control Framework (2017), posit that, “fraud control plans are encouraged to be available and accessible to all officials. It does not have to be developed as standalone document.”

The Commonwealth Fraud Control Framework (2017) further revealed the following as areas that a fraud control plan may cover;

- A summary fraud risks and weaknesses related with the entity;
- Treatment strategies and controls put in place to manage fraud risks and vulnerabilities
- Information about implementing fraud control arrangements within the entity
- Strategies to ensure the entity meets its training and awareness needs
- Mechanisms for collecting, analysing and reporting fraud incidents
- Protocols for handling fraud incidents and
- An outline of key roles and responsibilities for fraud control within the entity.

7. Methodology

The quasi experimental research design was employed in this study. It tests causal hypotheses and lacks random assignment by definition (White and Sabarwal, 2014). The primary data were collected from respondents using the questionnaire. The questionnaire was distributed and later retrieved from the respondents. The primary data collected was then subjected to analysis. In testing the hypotheses of the study the Pearson product moment correlation coefficient and the chi-square were used.

8. Data Presentation and Analysis of Result

Auditors, Accountants and Chief Executive Officers (CEOs) made up the target population of the study. From the targeted population 300 copies of the questionnaire was distributed.

Table 1. Questionnaire Distributed and Retrieved

Respondents	Number Distributed	Number Retrieved	Number not Retrieved	Retrieval Percentage
Auditors	100	90	10	33.71
Accountants	100	93	8	34.83
CEOs	100	84	16	31.46
Total	300	267	34	100

Source: Field Survey

From table 1, it is clear that 90, 93 and 84 copies were retrieved from auditors, accountants and CEOs respectively. 267 copies were retrieved out of the 300 copies distributed which represents 89% response rate. Out of the 300 copies distributed 34 copies were not retrieved which represents 11%. The statistical tools used in analysing the primary data were the Pearson product moment correlation coefficient and the Chi-square. The Pearson product moment correlation was used for Ho₁ and Ho₂ while the Chi-square was used for Ho₃.

The interpretation of the results of Ho₁ and Ho₂ was based on the following decision model. That is;

- ±0.01 - 0.19 represents a very weak significance (no significance)
- ±0.20 - 0.39 represents a weak significance
- ±0.40 - 0.59 represents a moderate significance
- ±0.60 - 0.79 represents a strong significance
- ±0.80 - 1.00 represents a very strong significance

The “+” and the “-” signs in the value (r) indicates a positive relationship and a negative (inverse) relationship respectively.

Since the Chi-square was used to test Ho₃, the expected frequency was calculated using the formula

$$Fe = (Kt \times Rt) / Gt$$

Where

Fe = Expected frequency

Kt = Column total
 Rt = Row total
 Gt = Grand total

H₀₁. There is no significant relationship between traditional auditing and fraud control in corporate organisations
 Table 2. Relationship between Traditional Auditing and Fraud Control

		FC	TA
FC	Pearson Correlation	1	.345**
	Sig. (2-tailed)		.000
	N	267	267
TA	Pearson Correlation	.345**	1
	Sig. (2-tailed)	.000	
	N	267	267

** . Correlation is significant at the 0.01 level (2-tailed).

The result of the analysis from the data presented in table 2 showed a correlation coefficient of 0.345** which suggests a weak but positive relationship between traditional auditing and fraud control. That is, increase in traditional auditing will result to increase in fraud control. The p-value of 0.000 is less than the 0.05 level of significance for a 2-tailed test which is an indication that there is an existence of significant relationship between traditional auditing and fraud control. Based on the correlation decision model, correlation of 0.345** is weak suggesting a weak significant relationship.

H₀₂. There is no significant relationship between forensic auditors and fraud control in corporate organisations

Table 3: strong positive significant relationship between forensic auditing and fraud control

		FC	FA
FC	Pearson Correlation	1	.719**
	Sig. (2-tailed)		.000
	N	267	267
FA	Pearson Correlation	.719**	1
	Sig. (2-tailed)	.000	
	N	267	267

** . Correlation is significant at the 0.01 level (2-tailed).

The result of the analysis from the data presented in table 3 showed a correlation coefficient of 0.719** which suggests a strong positive significant relationship between forensic auditing and fraud control. That is, increase in forensic auditing will result to increase in fraud control. The p-value of 0.000 is less than the 0.05 level of significance for a 2-tailed test which is an indication that there is an existence of significant relationship between forensic auditing and fraud control. Based on the correlation decision model, correlation of 0.719** is high suggesting a strong significant relationship.

H₀₃. Forensic auditing is not more effective than traditional auditors in unearthing fraud in corporate organisations.

Table 4. Forensic Auditing more effective than Traditional Auditing

Respondents	Yes	No	Total
Auditors	65	19	84
Accountants	70	23	93
CEOs	40	50	90
Total	175	92	267

From the information in table 2, we constructed a comparism of the observed and expected frequency.

Table 5. Expected Frequency

Respondents	Yes	No	Total
Auditors	65 (55.06)	19 (28.94)	84(84)
Accountants	70 (60.96)	23 (32.04)	93 (93)
CEOs	40 (58.99)	50 (31.01)	90 (90)
Total	175 (175)	92 (92)	267 (267)

The equation $X^2 = \sum(f_o - f_e)^2$ is used on the figures in table 3

Table 6. Calculation of Chi-square Statistics

Fo	Fe	Fo – Fe	(F0-Fe) ²	(Fo-Fe) ² /Fe
65	55.06	9.94	98.80	1.79
70	60.96	9.04	81.72	1.34
40	58.99	-18.99	360.62	6.11
19	28.94	-9.94	98.80	3.41
23	32.04	-9.04	81.72	2.55
50	31.01	18.99	360.62	11.63
				26.84

At 5% level of significance, the value in the chart is 5.99. To reject the null hypothesis, the Chi Square final answer must be equal to or greater than 5.99. Since the computed X^2 (26.84) is greater than 5.99, we therefore rejected the null hypothesis and accepted the alternative hypothesis. That is, forensic auditing is more effective than traditional auditing in unearthing fraud in corporate organisations.

9. Conclusion and Recommendations

The study attempts to investigate the role of auditing in fraud control in corporate organisations using traditional auditing and forensic auditing as the independent variables while fraud control was used as the dependent variable. The study ascertained that while traditional auditing is popular in corporate organisations in Nigeria, forensic auditing is unpopular and it is at the infant stage. However, hypotheses were formulated to find out if traditional auditing and forensic auditing bears significant relationships with fraud control and whether forensic auditing is more effective than traditional auditing in unearthing fraud in corporate organisations. The study showed a significant relationship between the independent variables (traditional auditing and forensic auditing) and the dependent variable (fraud control). The study also showed that forensic auditing is more effective than traditional auditing in unearthing fraud in corporate organisations.

The study therefore concluded that auditing and fraud control is a significant trend that should be taken seriously by corporate organisations.

The study made the following recommendations;

- Traditional auditing should be strengthened in all corporate organisations by training and retraining of the staff.
- There is need to expand the scope of the work of traditional auditors to cover fraud detection to enable them be a strong force in corporate organisations in terms of fraud control, prevention and discovery.
- Employment of forensic auditors in corporate organisations and constant training of such staff to be up to date with modern technology and sophisticated ways of committing fraud and their antidotes.
- Forensic auditors should be included during statutory auditing.
- Professional accounting bodies in Nigeria should train their members to become forensic auditors and not only as internal or external auditors.
- Forensic auditing should be made a field of specialisation in our higher institutions especially in the post graduate school.

References

- Adeniyi A. A. (2016). Forensic Auditing and Financial fraud in Nigerian Deposit Money Banks (DMBs). *European Journal of Accounting, Auditing and Finance Research Vol.4* (8)1-9
- Akenbor, L. O. & Ironkwe U. (2014). Forensic Auditing Techniques and Fraudulent Practices of Public Institutions in Nigeria. *Journal of Modern Accounting and Auditing, Vol. 10*(4), 451-459.
- Centre for Forensic Studies (2010). Nigerian Institute of Advanced Legal Studies, Lagos, Nigeria Roundtable on the Role of Forensic and Investigative Accounting, Challenges for the Banking Industry.

- Commonwealth Fraud Control Framework (2017). Australian Government, Attorney-Generals Department.
Available at
[:https://www.ag.gov.au/CrimeAndCorruption/FraudControl/Documents/CommonwealthFraudControlFramework2017.PDF](https://www.ag.gov.au/CrimeAndCorruption/FraudControl/Documents/CommonwealthFraudControlFramework2017.PDF)
- Ohaka, J. & Edori, D. S. (2017). Forensic Investigation: A tool for Reducing Bribery and Money Laundering among Public Office Holders in Nigeria; *Journal of Marketing Development, Vol. 2(2)*, 103-112
- Gbegi, D. O. & Adebisi, J. F. (2014). Forensic Accounting Skills and Techniques in Fraud Investigation in the Nigerian Public Sector; *Mediterranean Journal of Social Sciences, Vol.5(3)*, 243 -252
- Grippio, F. I. & Ibex, I. W. (2003). "Introduction to forensic Accounting; *The National Public Accountant*; Washington
- Izedonmi, F. & Mgbame, C. O. (2011). Curbing Financial Frauds in Nigeria, a Case of Forensic Accounting. *African Journal of Humanities and Society. 1(12)* 52-56
- Kasum, A. S. (2009). The Relevance of Forensic Accounting to Financial Crimes in Private and Public Sectors of Third World Economics: A Study from Nigeria. Proceedings of the First International Conference on Governance Fraud Ethics and Social Responsibility, June 11 – 13.
- Kiabel, B. D. (2009). *Auditing Theory and Practice*. Mgbaa Printing Press, Nigeria
- Kimbrom, M. B. (2002): A Cross-Country Empirical Investigation of Corruption and its Relationship to Economic, Cultural, and Monitoring Institutions: An Examination of the Role of Accounting and Financial Statements Quality. *Journal of Accounting, Auditing & Finance, Vol 17(4)* 325 - 350
- Minniti Robert K. (2008). *Introduction of Forensic Accounting*, Minniti CPA LLCP
- Ofiafoh, E. and Otalon J. I. (2013). Forensic accounting as a Tool for Fighting Financial Crimes in Nigeria, *Research Journal of Finance and Accounting. Vol. 4(6)*18-25
- Ojaide, F. (2000). Frauds Detection and Prevention: the case of pension Accounts, ICAN NEWS January/March p8.
- Okoye E. I. & Akamobi, N. L. (2009). The Role of Forensic Accounting in Fraud Investigation and Litigation Support. *The Nigeria Academic Forum, Vol 17 (1)*39-44.
- Okunbor J A & Obaretin O. (2010). Effectiveness of the Application of Forensic Accounting Services in Nigerian Corporate Organisations, *Ambrose Ali University Journal of Management Sciences, 1(1)* 171-184.
- Onodi B E., Okafor T. G. & Onyali C.I (2015). The impact of Forensic Investigative Methods on Corporate Fraud Deterrence in Banks in Nigeria. *European Journal of Accounting, Auditing and Finance Research Vol. 3(4)* 69-85
- Owojori A.A. & Asaolu T O (2009). The Role of Forensic Accounting in Solving the Vexed Problem of Corporate World. *European Journal of Scientific Research, Vol. 29(2)* 183-187
- Kaseem, R. & Higson, A. W. (2016). External Auditors and Corporate Corruption; Implications for External Audit Regulators. *Current Issues in Auditing: spring 2016, Vol. 10(1)* 1-10
- Skinner, D. & Spira, L. P. (2003). Trust and Control – a Symbiotic Relationship? *Corporate Governance, Vol. 3(4)* 288-35
- Thornhill W. T. (1995). *Forensic Accounting; How to Investigate Financial Fraud*, New York, NY; Irwin Professional Publishing
- Zachariah P., Masoyi, A. D., Ernest, E. I & Gabriel A. O. (2014). Application of Forensic Auditing in Reducing Fraud Cases in Nigeria Money Deposit Banks. *Global Journal of management and Business Research. Accounting and Auditing Vol.14(3)* 14-21
- White, H., & S. Sabarwal (2014). Quasi-experimental Design and Methods, *Methodological Briefs: Impact Evaluation 8*, UNICEF Office of Research, Florence.