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Effect of Fraud on Financial Performance in Ghanaian Organizations

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Abstract:

The main objective of this study was to examine the effect of fraud on company's performance in Ghana. It is encumbered on Auditors to ensure that the occurrence of fraud is brought to the barest minimum in the company. Information gathered for this work were obtained from one hundred auditors (100, one hundred staff (100), fifty managers (50) all in Accra and hundred members (100) of the academia from koforidua Technical University in Koforidua and Accra Technical University in Accra. The study revealed that sixteen (16) out of the seventeen (17) checklist used for the study on respondents perception relating to possible fraud in a company had more than 300 respondents agreeing with these factors while and one (1) recorded less than 300. It is hope that management in every organization will do it's very best to avoid the reoccurrence situation. Therefore, organizations must commit themselves to fraud prevention with the involvement of all stakeholders.

Keywords: Auditing, accounting, Ownership, Board, shareholders, Financial Performance

1. Introduction

Rezaee (2005), reiterated that fraudulent financial report in recent time has been quite unprecedented. Auditors have the responsibility to report any wrong-doing by persons or group of individuals which is not in line with the audit rules. The work of the auditor these days would not be complete without some vital information that centers on performance, environmental issues and safety. Therefore auditing these days has specialized in security audit, information system audit and environmental audits. Audit must be conducted in accordance with generally accepted standard established by the governing bodies. Auditing standards assures users on reliance on the opinion expressed by auditor about true and fairness of the financial statements. Auditing has gained prominence as a result of agency problem in recent times. Business managers are expected to increase shareholders worth in the organization. This confidence committed into the hands of these professional is to manage these resources. These managers are expected to render accounts showing the state of affairs for the period and how resources are used for the benefit of the stakeholders. All organizations have a management structure which exercises authorities and responsibilities in the organization. It is therefore a formal system that spells out managerial and job relationships that coordinate employee to achieve the company's goal.

The study looks at the effect of fraud on companies in Ghana. Specifically, the study:

- (i) Examine the fraudulent financial reporting and asset misappropriations, committed by the employees of companies.
- (ii) Ascertain the types of the transactions that are the most vulnerable to the fraudulent financial reporting,

1.1. Hypotheses

The hypotheses that guided the study are as follows:

- (i) H_0 : A fraudulent financial reporting and asset misappropriation committed by the employees of company's does not have material effect on companies.

Accounting information should be reported timely and accurately to aid users in decision making. Audit report about some companies such as Enron in 2001, in the US, Northern Rock, in 2007, in the United Kingdom, Metagelshaft in Germany, in 1999, Parmalat in

Italy, in 2003;Lever Brothers and Cadbury in Nigeria, in 2006 and Ghana Post Company Limited in Ghana, in 2016. Audit report failures produced in recent times are very disturbing to the world. Little or no study has been done in Ghana in the form of research to ascertain the level of fraud in Ghanaian companies. Work done so far by other researchers relates to different countries in different environment that may not be the same as Ghana. The finding of these work are mostly sharpened by the factors that surrounds them such as economic, social or legal which are different from that of Ghana. The researchers believed that study will bring to fore stakeholder perception one items that constitute fraudulent in the financial report. This study access the situation in Ghana in case audit independence is compromised.

2. Literature Review

2.1. Conceptual Framework

Fraud can be defined as any act which is committed by any individual or group of individuals to gain an undue advantage in the company (Adeduro, 1998 and Bostley and Drover 1972). This can be committed by workers within the organization or people outside the organization. This group of people usually prepares fake financial statement to lure people to invest in the company.

According to these researchers fraud is any activity committed to cheat and erode people confident in the organization (Weirich and Reinstein, 2000; Allyne & Howard, 2005). Perpetrators of such crime normally gain financial, material and even conceal payment due the organization. According the Association of Certified Fraud Examiners (ACFE, 2010) fraud is an intentional act to lure others. ACFE (2010), groups fraud as misappropriation of asset, corruption scheme and financial fraud scheme. Misappropriations of asset are those in which individuals or group of individuals come together dupe the business. Corrupt scheme is where an individual uses his or her position to his or her own benefit at the detriment of the organization in general. All fraudulent activities that involved the falsification of the financial statement at the detriment of the organization can be described as financial statement fraud schemes. These acts can be committed by people within or without the organization. It could also be orchestrated by management members or non-management members. Such nefarious acts are done by culprits to satisfy their parochial interest (Petrascu D., 2013, p. 35).

Cressey D., (1950), investigated the causes of fraud and came out with the “triangle of fraud” as follows:

FRAUD = f (Pressure, Opportunity, Rationalization)

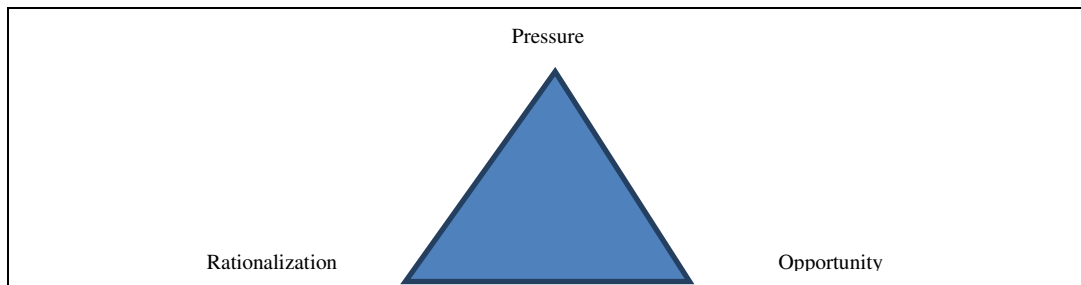


Figure 1

This is made up of pressure, opportunity and rationalization. Rezaee and Riley (2010), also confirmed Cressey, D. (2010) findings that fraud normally takes place in most organisations due to pressure and opportunity that perpetrators had to commit it. Albrecht *et al* (1995 cited in Allyne & Howard, 2005:287) also observed that most fraudulent act are committed by workers, management members within or without such as embezzlement, investment scams, vendor fraud, customer fraud, and miscellaneous fraud. This shows that if these activities are not carefully investigated would be very difficult to come to light because it is committed by sophisticated people with dearth of experience at their work place. Alleyne & Howard,(2005) therefore stated Auditors’ have a herculean task in unveiling of all forms or kinds by critically examining the statement of account to avoid future reoccurrence.

2.2. Empirical Studies on Fraud Detection

Research conducted by Oyinlola O., (2010), on the duties and responsibilities of Auditors in combating fraudulent activities in Nigeria, express great concern that a great responsibility is required from auditors’ duties on the prevention and detection of fraud. Petraşcu, D. and Tianub, A. (2014), in similar work on the Role of Internal Audit in prevention fraud in Romania, intimated that the activity of fraud prevention should not be regarded strictly as an activity generating expenditures, but it should be considered with respect to benefits that stakeholders would derived from it by countering fraud and to avoid its future increase to add value to stakeholders. Abdullah B. I Z. et. al., 2015, on stakeholders’ assurance on relying on the financial Statement: Do They Exist? With their work in Malaysia, believed auditors and management with an intention of hiding the truths behind transparency and reliability of financial statements has a serious implication on the company and users of the accounting information. He eluded that, the most commonly practice are audit fees and audit sizes are the main truths that are hidden by the auditors. Amara Anis et. al.,2013,the impact of the "Fraud Triangle" elements, extensively concluded that performance issue exerting on the manager is a factor of pressure leading him commit fraud in the financial statements. Brazel, F. J. et. al., 2009, in their work on investor Perceptions about Financial Statement Fraud and their Use of Red Flags, positive association between, identified the importance of making fraud risk assessments and investors’ use of fraud red flags. Hogan, E. C et. al.,2008,in their work on Financial Statement Fraud: Insights from the Academic Literature said auditor’s has the responsibility of detecting financial fraud and that auditors are willing to assume as responsibility in

this area. They used in their work check list which are part of International Standard on Auditing 240 – The Auditor’s responsibilities with respect to fraud detection in the financial statements (ISA, 2009). This work adopts these checklist found on the bases that indicate the possibility of fraud. For this reason the study expects similar expectations or due to the Ghanaian environment we expect different outcome from other researchers.

3. Methodology and Data Validity

3.1. Population

The study investigates the effect of fraud detection in the financial statements (ISA, 2009) on Ghanaian companies. The population of the study is made up of two groups: One, auditing firms two, users of financial statements based in the Greater Accra Region formed the main the population for the study.

3.2. Samples and Sampling Technique

A sample consisting of respondents in Accra Ghana was considered a good representative of the respondent groups for this study, since the ultimate test of a sample design is how well it represents the characteristics of the population it purports to represent (Emory and Cooper, 2003). A stratified sample of three hundred and fifty (350) was targeted for the respondent groups. These are made up as follows:

Group	Number	%
Auditors	100	28.6
Staffs	100	28.6
Academia	100	28.6
Managers	50	14.2
Total	350	100

Table 1

In selecting the appropriate sample size for this work, Descombe (2003), proposed a sample size of not less than thirty (30) respondents in a group of categories for any statistical work. In order to gather information on the fraudulent financial reporting in Ghanaian companies, a questionnaire survey was conducted. The sample of subjects consisted of 100 external auditors, 100 members of the academia mostly lectures from Koforidua Technical University and Accra Technical University, 50 managers of firms and 100 Staffs of different companies were asked to provide information on the fraud cases, committed in medium and large sized companies, familiar to them. Accordingly, respondents were provided with checklist on common fraudulent financial techniques. The respondents were given one week to respond to the checklist the variables which are likely to indicate the possibility of fraud in the company. As a part of the survey, external auditors also assessed, according to their opinion and professional experience, the effectiveness of some specific measures to curtail the prevalence of fraud. The concentration was to give the respondents an opportunity to express opinion on the checklist if they constitute a deviation from the normal. The questionnaire was made up of basic information and a checklist. The checklists are part of the International Standard on Auditing 240. It indicates the role of the Auditor’s responsibilities relation to fraud in auditing financial statements (ISA, 2009). A 5- point Likert scale questionnaire was designed after which it was administered to the selected respondents using the convenient sampling method.

4. Discussions

Descriptive Statistics								
	SD	D	N	A	SA	Mean	Sig(2-tail)	Std. Deviation
Transaction	8(2.3)	20(5.7)	10(2.9)	13(3.7)	299(85.4)	4.6429	.000	.95209
Unsupported	22(6.3)	25(7.1)	5(1.4)	0.00	298(85.1)	4.5057	.000	1.21061
Last minute adjustment	13(3.7)	29(8.3)	892.3)	1(0.3)	299(85.4)	4.5543	.000	1.11318
Tips to auditor	16(4.6)	30(8.6)	4(1.1)	0.00	300(85.7)	4.5371	.000	1.15679
Missing documents	17(4.9)	24(6.9)	8(2.3)	1(0.3)	300(85.7)	4.5514	.000	1.13624
Altered documents	8(2.3)	18(5.1)	7(2.0)	0.00	317(90.6)	4.7143	.000	.91066
Unavailability	0.00	26(7.4)	21(6.0)	2(0.6)	301(86.0)	4.6514	.000	.89166
Fewer Response	10(2.9)	14(4.0)	1(0.3)	3(0.9)	322(92.0)	4.7514	.000	.88180
Missing Asset	18(5.1)	14(4.0)	14(4.0)	128(36.6)	176(50.3)	4.2286	.000	1.05672
Undue Pressure	22(6.3)	14(4.0)	0.00	1(0.3)	312(89.4)	4.6257	.000	1.10996
Complaint by management	17(4.9)	18(5.1)	3(0.9)	0.00	312(89.1)	4.6343	.000	1.06949
Unusual delay	24(6.9)	9(2.6)	0.00	1(0.3)	316(90.3)	4.6457	.000	1.09971
Denial to IT facility	0.00	0.00	1(0.3)	0.00	349(99.7)	4.9943	.000	.10690
Unwillingness to revise	1(0.3)	0.00	0.00	0.00	349(99.7)	4.9914	.000	.16036
Unwillingness to address	1(0.3)	0.00	0.00	0.00	349(99.7)	4.9914	.000	.16036
Frequent Changes	0.00	10(2.9)	64(18.3)	46(13.1)	230(65.7)	4.4171	.000	.88460
Tolerance of violations	1(0.3)	0.00	41(11.7)	48(13.7)	260(74.3)	4.6171	.000	.71154
Valid N (listwise)	350							

Table 2: Descriptive statistics of respondents’ perception relating to possible fraud in a company

From table 1, it is clear that sixteen (16) out of the seventeen (17) checklist used for the study had more than 80% of the respondents agreed with the items on the checklist representing more than 300 respondents. These sixteen (16) checklist are; activities or transaction that is not recorded in a complete form (85.4%), unsupported transactions (85.1%), last minute adjustment in the financial (85.4%), gifts or tips to the auditor (85.7%), missing documents (85.7%).

Also, alteration and falsification of relevant documents (90.6%), unavailability of original copies (86.0%), fewer responses to audit queries (92.0%), missing asset of significant magnitude (86.9%), undue pressure from management (89.4%), complaint and intimidation by management (89.1%).

Again, unusual delay in providing information (90.3%), denial to IT facilities (99.7%), on unwillingness to revise disclosures (99.7%), on unwillingness to address deficiencies (99.7%), tolerance of violations of the entity's code of conduct (88%)

The checklist that has less than 80% of respondents agreed is frequent changes in accounting estimates.

This finding buttress of work Hogan, E. C et. al., (2008), in their work on Financial Statement Fraud: Insights from the Academic Literature using the same International Standard on Auditing 240 – The Auditor's responsibilities relating to fraud in an audit of financial statements (ISA, 2009) said auditor's has the responsibility of detecting financial fraud and that auditors are willing to assume as responsibility in this area. This finding was supported by Oyinlola O., (2010). Amara Anis et. al., (2013), also using the "Fraud Triangle" elements said performance issue exerting on the manager is a factor of pressure leading him commit fraud in the financial statements.

Notwithstanding, the sig (2-tailed) value for these factors is 0.000 respectively which is less than 0.05. This leads to the acceptance of the alternative hypothesis (H_1) which states that: A fraudulent financial reporting and asset misappropriation committed by the employees of companies have material effect on companies. This checklist should be noted by employers and auditors of companies to avoid sudden folding up of companies. Petraşcu, D. and Ticanub, A. (2014), supported this finding by intimating that the activity of fraud prevention should not be regarded strictly as an activity generating expenditures, but it should be considered with respect to benefits that stakeholders would derived from it by countering fraud and to avoid its future increase to add value to stakeholders.

5. Conclusion

This study sought to find out respondents' perception relating to possible fraud in a company in Ghana. The analysis of the data using descriptive statistics revealed that none of the fraudulent reporting checklist selected had a mean of ($4.2286 \leq x \leq 4.9943$) and standard deviation of ($0.10690 \leq x \leq 1.21061$) meaning that the fraudulent reporting has effect on companies financial reporting. According to the conducted studies, activities or transaction that is not recorded in a complete form, unsupported transactions, last minute adjustment in the financial, gifts or tips to the auditor, missing documents, alteration and falsification of relevant documents, unavailability of original copies, fewer responses to audit queries, undue pressure from management, complaint and intimidation by management, unusual delay in providing information, denial to IT facilities, on unwillingness to revise disclosures, on unwillingness to address deficiencies, tolerance of violations of the entity's code of conduct are items respondents strongly agreed that stakeholder should carefully look at. The sole responsibility for management is the prevention and detection of fraud. Therefore all stakeholders and parties concerned with fraud prevention such as internal auditors, external auditors, audit committee and board of directors have a critical role to play in crime prevention so that benefits would accrue to stakeholders.

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