International Journal of Commerce and Management Research
ISSN: 2455-1627
Impact Factor: RJIF 5.22
www.managejournal.com
Volume 4; Issue 6; November 2018; Page No. 05-10

Appraisal of auditors effectiveness in fraud prevention in corporate organization: A study of Nigeria oil industry

Abuye Samuel Emuobosa[1], Odubuasi Augustine Chukwujekwu[2], Offor N[3]
[1, 2] Ph.D. Student, Odumegwu Ojukwu University, Igbariam, Anambra State, Nigeria
[3] Department of Accountancy, Odumegwu Ojukwu University, Igbariam, Anambra State, Nigeria

Abstract
The study appraised auditors' effectiveness in fraud prevention in corporate organization with focus on Nigeria oil industry. Survey research design was adopted for the study. A sample of 40 respondents was adopted for the study selected randomly amongst four major audit firms (KPMG, Ernst & Young, Egunjobi Adegbite & Co, and PKF Professional Services Limited) of oil companies in Nigeria. A 16-item questionnaire titled "Appraisal of Auditors Effectiveness in Fraud Prevention in Corporate Organization (AAEFPCO)" was used in data collection. Data collected were analyzing using mean statistics, while t-test statistics was also adopted in testing the hypotheses that guided the study at.05 level of significance. Findings of the study show that, auditors are aware of the roles they play in prevention of fraud in Nigerian oil companies. It was also discovered that, auditors' are not effective in prevention of fraud in Nigerian oil companies. Based on the findings of the study, the researcher recommends amongst which is that, there should be continuous training and retraining on auditors on the role they need to play in prevention of fraud in Nigeria most especially amongst corporate organizations in the oil industry.

Keywords: fraud prevention, auditors, corporate organization, Nigeria oil industry

Introduction

The widespread frauds in corporate organizations have casted an aspersion on the effectiveness of auditors in prevention of frauds confronting businesses worldwide. Fraud is a deliberate act to deceive which is planned and executed with the sole aim of depriving another person of his property or rights (Aderibigbe & Dada, 2007) [2]. Fraud can also be seen as a premeditated conscious action of people with the intention of changing the truthfulness and or facts for selfish interest of monetary gain**.** The incidence of fraud continues to increase across private and public sector organizations across Nigeria, Africa and the world at large. Fraud is a universal problem as no nation is resistant, although developing countries suffer the most.

Auditors' responsibility in the prevention of fraud is one of the most important issues in audit for fraud management. An audit provides reasonable assurance that management's representations on his activities are reliable (International Standard on Auditing (ISA) 200, 2010) [12]. An audit has value because it helps in examining management's stewardship reported to the users of accounting information. An audit has a primary duty aimed at providing assurance to shareholders, bankers, creditors, government agencies and authorities, investors and the general public who needs confidence on the operations of an organizations as given by the Directors through the financial statements. As a secondary function, it is also his duty of an auditor to uncover an act of omission or commission which in his view is fraudulent in nature International Standard on Auditing (ISA) 200, 2010) [12]. It is a common thing in Nigeria that almost everybody wants to get rich very quickly without actually working very hard for it.

The auditing profession in Nigeria has caught the attention of the media following the various financial scandals that has ravaged corporate organizations in Nigeria (Idris, 2009) [11]. There have been concern on the level of fraud that threaten the growth of corporate organizations in Nigeria and the recurrent concerns of fraud rampant among organizations most especial companies operating in Nigeria oil industry (GAN Integrity, 2017) [9]. This issue had led to misconception whether auditors actually look at the various reports or corporate organizations in Nigeria most especially with the increasing fraud trend occurring in Nigeria oil industry. In response to this issue, the researcher is therefore propelled to carryout this research by appraise auditors effectiveness in prevention of fraud in corporate organizations in Nigeria with a focus on oil companies in Nigeria.

Statement of the Problem

Nigeria has been experiencing increased fraudulent practices among corporate organizations over the years. In the observation of Ojaide (2000) [18] there is an alarming increase in the number of fraud and fraudulent activities in Nigeria emphasizing the non-visibility of the duties of the auditor profession. Various researchers have all acknowledged the increasing incidence of fraud and fraudulent activities in Nigeria and these studies have argued that in Nigeria, financial fraud has become a normal way of life both private and public sector in Nigeria as individual perpetrates fraud and corrupt practice according to the capacity of their office (Okoye & Akamobi, 2009; Owojori & Asaolu, 2009; Izedomin & Mgbame, 2011; Kasum, 2009; Modugu & Anyaduba, 2013) [19, 22, 13, 14, 16]. Ezeamalu (2017) [8] also noted that, out of the companies suspected to have been involved in financial fraud in the oil sector, not less than six of the companies were fingered in the 2009-2011 fuel subsidy fraud and are still facing criminal charges over the matter. With the challenges of fraud popular among oil companies has called to question on the effectiveness of auditors in fraud prevention in oil companies.

Objective of the Study
The study appraised auditors' effectiveness in fraud prevention in corporate organization with focus on Nigeria oil industry. To achieve this objective, the following objectives guided the study:

1. To ascertain whether auditors are aware of their roles in prevention of fraud in Nigerian oil companies.
2. To determine auditors effectiveness in prevention of fraud in Nigerian oil companies.

Research Question
The following research questions are structured the guide the study

1. Are auditors aware of the roles that play in prevention of fraud in Nigerian oil companies?
2. How effective do auditors prevent of fraud in Nigerian oil companies?

Research Hypotheses
The hypotheses following the study are stated in its form and tested at 0.05 level of significance:

$H_0$1: Auditors are not significantly aware of the roles they play in prevention of fraud in Nigerian oil companies.

$H_0$2: Auditors are not significantly effective in prevention of fraud in Nigerian oil companies.

Literature Review
Literatures reviewed for the study are reviewed under three major headings including the conceptual framework explaining the meaning of terms used in the study, theoretical framework focused on the theory that guided the study, and finally empirical studies reviewing studies related to the study.

Conceptual Framework
Concept of Auditors
An auditor is any person who is charged with the Responsibility of examining the books and accounts of an organization or association in such detail as would enable him to form an independent opinion as to the trueness and fairness of the financial statement (Okpala, 2012) [20]. There are two types of auditors according (Okpala, 2012) [20], namely, external auditor and internal appointment, scope of work, reporting, independence, responsibility and approach to work among others. An internal auditor is an employee of the, and review. In fact the scope of his work, appointment, promotion are determinable by the management. The reports of the internal auditor are made to management and by this, the internal auditors independence as' a necessity for effective audit is not all that encouraging. In respect of external auditor, one of the criteria for appointment is the presence of reasonable degree of independence of auditor. This "independence" is necessary but it must be pointed out here that it is a thing of the mind rather than having any previous relationship with the client or its staff. External audit or statutory audit is conducted because it is mandatory by law and the terms of reference and scope of work is as filtrated by law. In the contest of this study, we refer an auditor to indicate the external auditor who is an independent evaluator of financial records of an organization to give a fair opinion as to the information contained in the report.

Auditors' Role in Fraud Prevention
The role of auditors is not properly defined from inception. ISA 315 also requires that an auditor should evaluate the effectiveness of an entity's risk management framework to prevent misstatements, through fraud or other related means in the course of an audit (Alleyne & Howard 2005) [3, 4]. Boynton, Johnson and Kell (2005) [5] stress that this requirement was not previously necessary, it was explain that such an evaluation was only required when they chose to place reliance on the framework and reduce extent of the audit investigation. Audit staffs are required in recent time to communicate their findings with each other, to prevent fraudulent observations. Auditors need to be more proactive in observing fraud during the course of audit under ISA 240 (Revised) (Boynton, *et al*., 2005) [5]. Auditors' duties may include the consideration of incentives on the opportunity presented to potential fraudsters, as well as the rationalizations that the fraudulent act can be justified. Auditors are expected to adequately inquire into reasons behind such matters which may include, accounting estimates errors, transactions that are unusual which may appear to lack business rationale, and a reluctance to correct immaterial errors discovered during the audit process (Boynton, *et al*., 2005) [5].

Concept of Fraud
Fraud is seen as an intentional act by one or more persons within an organization or third parties, which results in misrepresentation of financial statements (Adeniji, 2004; ICAN, 2006) [1, 10]. Fraud is also seen as a deliberate misrepresentation that causes one to suffer damages, which is usually monetary loss (Pollick, 2006) [24]. Weirich and Reinstein as cited in Allyne and Howard (2005) [3, 4] define fraud as intentional deception for cheating and stealing. Fraud can also be seen to include, creating fictitious creditors, ghost persons/clients on the payroll, falsification of sales, stock concealment, unauthorized write-offs, and claiming never-incurred/excessive expenses. Fraud as also defined by EFCC (2004) [7] is non-violent criminal and illicit act committed with intention of earning wealth illegally either individually or with a group or organized manner to violate existing legislation governing the economic activities of government in its administration. Nwaze (2012) [17] defined fraud as planned deceitful process which is usually undertaken with the intention of **c**heating another person or organisation to gain undue advantage which would not have accrued in the absence of such deceptive procedure. Summarily fraud can be defined as intentional misrepresentation, omission, and or concealment of the truthfulness of a financial transaction with the aim of deceiving or manipulation to the financial detriment of an individual or an organization which also includes embezzlement or any attempt to steal, misuse the asset of an organization.

Concept of Fraud Prevention

The role of an auditor in relations to the prevention of fraud is widely misunderstood. Studies have found that a large proportion of auditors have been ignorant to their duties in preventing fraud occurrence in organizations. The provisions of the Companies and Allied Matters Decree (1990) as it affect the functions and duty of auditors; section 360(1) of (CAMD 1990) states that it shall be the duty of the company's auditors in preparing their report, to carry out such investigations as may be able them to form an opinion as to the following matters whether: -

a. Adequate accounting records is been kept by the company and proper audit returns have adequately been received from branches not visited by them;
b. The company's balance sheet and (if not consolidated) its profit and loss accounts are in agreement with the accounting records and returns. In addition to the above, the CAMD also states that; It shall be the auditor's duty to consider whether the information given in the director's report for the year for which the accounts are prepared is consistent with those accounts; and if they are of the opinion that does not reflect the records, they shall state that in their report. In more recent times, it become generally accepted that such a task placed impossible burdens on auditors, hence, fraud prevention has been relegated to a subsidiary role. This is true for the fact that the development of good method of internal control and checks made this problem less serious. The draft auditing guideline on irregularities, Fraud and, errors, when irregularities and errors rests with management. The above guidelines raise a fundamental problem of confidence in financial statements by is users to emphasis that the responsibility for the prevention of fraud (Oyinlola, 2010**)** [23].

Theoretical Framework

The study is anchored on the agency theory by Jensen and Meckling (1976) [14]. A company consists of a nexus of contracts between the owner of economic resources and manager who are charged with using and controlling those resources (Jensen & Meckling, 1976) [14]. Agency theory posits that, an Agent who is the manager have more information than the principal who is the economic resources owner, and that such information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by their agent. Furthermore, an assumption of agency theory is that, principal and agents act rationally and use contracting to maximize wealth. The consequence of the assumption may be the moral or hazard problem on where to maximize their wealth. Agents may face some challenge of acting the interests of their principles (Jensen & Meckling, 1976) [14]. Since principals do not have access to all available information at the time a decision is being made by the agent, but they are unable to determine the moral hazard problem, principle and agents engage in contracting to achieve pareto-optimality. The theory is related to the study because, it will help in explaining the role of auditors as a fraud prevention agent in financial reports of corporate organization.

Empirical Studies

Studies reviewed for the study include the study conducted by Onoja and Haruna (2015) [21] focusing on analyzing internal audit techniques and fraud prevention in Bauchi State Local Government Councils. Data for the study were collected from both the primary and secondary sources. Primary source data were used in collection of data from the thirteen (13) local Governments internal audit units through self-administered questionnaires to the sample size used for the study. Secondary source data were documents from Bauchi state ministry for local government affairs. Statistical tools used in data analysis include tables, simple percentages, Chi-square and Pearson Product Moment Correlation Coefficient to analyze the data and test the null hypotheses that guided the study. It was revealed from the study that the internal audit unit at local government put necessary measures to prevent fraud but lack total independent freedom to carry out their function effectively.

Oyinlola (2010) [23] study investigates the role of auditors in the detection, prevention and reporting of fraud. Survey research design was adopted in conduct of the study. Data for the study were obtained from 184 respondents in Nigeria. Percentage analysis was adopted to analyse data collected for the study. Findings of the study revealed that the respondents are very concerned about the fraud challenges. The respondents also placed very high expectation on auditors' duties on fraud prevention and detection.

Methodology

The researcher adopted the use of survey research design in conduct of the study. Population of the study includes audits staffs of audit firms auditing oil companies in Nigeria. Since there is no actual law insisting on firms to audit oil companies, 4 major audit firms (KPMG, Ernst & Young, Egunjobi Adegbite & Co, and PKF Professional Services Limited) of oil companies is therefore selected using simple random sampling technique. 10 audit staffs are selected from the firms making a total sum of 40 respondents adopted for the study. Primary data were used in collection of data for the study. The instrument is a 16-item questionnaire titled "Appraisal of Auditors Effectiveness in Fraud Prevention in Corporate Organization (AAEFPCO)". Data collected were analyzing using mean statistics with an accepted point of 3.0. t-test statistics was also adopted in testing the hypotheses that guided the study at.05 level of significance.

Results

Research Question 1

Are auditors aware of the roles that play in prevention of fraud in Nigerian oil companies?

Table 1: Mean ratings on auditors' awareness of the roles they play in prevention of fraud in Nigeria oil companies.

S/N	Are auditors aware of applying interview and analytic audit techniques to	Mean	Decision
1	prevent over-valuation of contracts and supplies in corporate organizations	2.89	Reject
2	prevent improper related party transactions in corporate organizations	3.81	Accept
3	prevent fictitious contracts and supplies in corporate organization	3.79	Accept
4	prevent diversion of funds and unauthorized payment to third parties illicit deals in corporate organizations	4.56	Accept
5	prevent unauthorized disposal of corporate organizations assets	3.85	Accept
6	prevent misappropriation of funds/assets of corporate organizations	4.62	Accept
7	prevent falsification of financial records of corporate organization	4.26	Accept
8	prevent submission of claims for services/goods not supplied in corporate organizations	3.89	Accept
Average Mean Ratings		3.96	**Accept**

***Source*:** Field Survey, (2018)

Findings on table 1 above shows that items 1 with mean ratings of 2.89 is rejected which indicated that auditors are not aware of their roles on the item. Items 2 – 8 with mean ratings of 3.81, 3.79, 4.56, 3.85, 4.62, 4.26, and 3.89 were accepted to indicate there awareness to auditors fraud prevention roles on the items. The result also show a mean rating of 3.96 which is accepted to indicate that auditors are aware of their fraud prevention roles in corporate organizations.

Research Question 2

How effective do auditors' prevent fraud in Nigerian oil companies?

Table 2: Mean ratings on auditors' effectiveness in prevention of fraud in Nigeria oil companies

S/N	Are auditors effective in the use of interview and analytic audit techniques to	Mean	Decision
9	prevent over-valuation of contracts and supplies in corporate organizations	2.16	Reject
10	prevent improper related party transactions in corporate organizations	2.79	Reject
11	prevent fictitious contracts and supplies in corporate organization	2.92	Reject
12	prevent diversion of funds/assets and unauthorized payment to third parties in corporate organizations	3.05	Accept
13	prevent unauthorized disposal of corporate organizations assets	3.32	Accept
14	prevent misappropriation of funds/assets of corporate organizations	3.16	Accept
15	prevent falsification of financial records of corporate organization	3.38	Accept
16	prevent submission of claims for services/goods not supplied in corporate organizations	2.37	Reject
	Average Mean Ratings	2.89	Reject

***Source*:** Field Survey, (2018)

Findings on table 2 shows that, items 12, 13, 14 and 15 with mean ratings of 3.05, 3.32, 3.16 and 3.38 were adequately accepted to indicate that auditors are effective on the items in prevention of fraud in Nigeria oil companies. The average mean rating of 2.89 which was rejected shows that auditors are not effective in prevention of fraud in Nigeria oil companies.

Test of Hypotheses

$H_0$1: Auditors are not that items 9, 10, 11, and 16 with mean ratings of 2.16, 2.79, 2.92, and 2.37 indicated that auditors are not effective in the discharge of the roles in prevention of fraud in Nigerian oil companies.

Table 3: One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Awareness of fraud prevention role by auditors	8	3.9588	.54758	.19360

Table 4: One-Sample Test

	Test Value = 3						
	t-cal	t-tab.	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
						Lower	Upper
Awareness of fraud prevention role by auditors	4.952	2.365	7	.002	.95875	.5010	1.4165

Findings on table 1 and 3 with a mean rating of 3.96 indicating that auditors are aware of their role in fraud prevention. The significance auditors' awareness is tested with the one sample test which gave a t-calculated value of 4.95 which is greater than the t-tabulated value of 2.365 at.05 level of significance. This indicated that the null hypothesis be rejected while the alternative hypothesis be accepted to indicate that, auditors' are significantly aware of the roles they play in prevention of fraud in Nigerian oil companies.

$H_0$2: Auditors' are not significantly effective in prevention of fraud in Nigerian oil companies.

Table 5: One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Auditors effectiveness in fraud prevention	8	2.8938	.43713	.15455

Table 6: One-Sample Test

Test Value = 3							
	t-Cal	t-Tab.	DF	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
						Lower	Upper
Auditors effectiveness in fraud prevention	-.687	2.365	7	.514	-.10625	-.4717	.2592

Findings on table 2 and five also show a mean ratings of 2.89 which indicated that auditors are not effective in prevention of fraud amongst oil companies. The result is also subjected to test of sample test to ascertain the significance of mean. The mean ratings also gave a t-calculated value of -.687 which is lower than the t-tabulated value which is 2.365 at.05 level of significance. This result indicated that the null hypothesis be accepted to indicate that Auditors are not significantly effective in prevention of fraud in Nigerian oil companies.

Summary of Findings

From the analysis of the data collected from the study, it was discovered that, Auditors are significantly aware of the roles they play in prevention of fraud in Nigerian oil companies. The finding justifies the position on ISA 315 which requires auditors to evaluate the effectiveness of an entity's risk management framework in preventing understatements, either through fraud or otherwise, in the course of an audit.

Finding also show that auditors' are not significantly effective in prevention of fraud in Nigerian oil companies. The result justifies the present menace of fraud reported amongst various oil companies in Nigeria. The result also is in support of the primary objective of an audit, as stipulated in ISA 200, which merely required auditors to form an opinion on the financial statements, but not to prevent fraud. The findings also deviates from Boynton, *et al*., (2005) [5] claim that auditors are required to be more proactive in searching for fraud during the course of an audit under ISA 240 (Revised).

Conclusion and Recommendations

This study appraised auditors effectiveness in fraud prevention in corporate organizations in Nigeria with a focused on oil companies in Nigeria. The study investigates two major issue which includes; auditors' awareness on role in fraud prevention and their effectiveness in discharge of the function. The observations of the study made the researcher to conclude that, auditors' are aware of their roles in prevention of fraud in corporate organizations in Nigeria most especially within the oil companies, and were found not to be effective in discharge of their duties in prevention of fraud in corporate organizations in Nigeria.

Based on the conclusions of the study, the researcher recommends that.

1. There should be continuous training and retraining on auditors on the role they need to play in prevention of fraud in Nigeria most especially amongst corporate organizations in the oil industry.
2. Auditors should also be carried along in negotiation of businesses of corporate organizations so as to prevention inclusion of undue goods and charges into organizations operations.
3. Auditors' remunerations and expenses should be fixed and provided for by the law establishing companies inorder to discourage organizations from engaging auditors with lower remunerations which might affects indepts analysis of financial reports of corporate organizations in Nigeria.
4. Auditors' independence status should also be protected under extant laws and regulation inorder to enhance auditors responsibility to the public and free from subjection and manipulation of financial reports to favour its employers.

References

1. Adeniji A. Auditing and investigation. Lagos: Value Analysis Publishers, 2004.
2. Aderibigbe P, Dada SO. *Microauditing principles*. Lagos: ICAN Students Journal. 2007; 11(1).
3. Alleyne P, Howard M. An exploratory study of auditors' responsibility for fraud detection in Barbados. Managerial Auditing Journal. 2005; 20(3):284-303.
4. Alleyne P, Howard M. An exploratory study of auditors' responsibility for fraud detection in Barbados. Managerial Auditing Journal. 2005; 20(3):284-303.
5. Boynton W, Johnson R, Kell W. Assurance and the integrity of financial reporting (8th edition). New York: John Wiley & Son, Inc, 2005.
6. Company and Allied Matters Act: Company and Allied Matters Act. Sourced online from, 1990, http://www.placng.org/new/laws/C20.pdf
7. EFCC. Establishment act. Sourced, 2004, online:http://www.efccnigeria.org/efcc_homepage_files/establishment_act_2004.pdf,consulted.
8. Ezeamalu B. Company included in crude oil trade denies involvement in fuel subsidy fraud. Accessed online from, 2017, https://www.premiumtimesng.com/news/top-news/220833-company-included-crude-oil-trade-denies-involvement-fuel-subsidy-fraud.html
9. GAN Integrity. Nigeria corruption report. Accessed online from, 2017, https://www.business-anti-corruption.com/country-profiles/nigeria.
10. ICAN. Financial reporting and audit practice. Lagos: VI Publishing Ltd, 2006.
11. Idris J. Nigerian auditors are toothless bulldogs. Accessed online from, 2009, http://www.saharareporters.com/articles/external-contrib/3872-nigerias-bank-auditors-are-toothless-bull-dogs.html
12. International Standard on Auditing (ISA) 200). Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing. Accessed online from, 2010, http://www.ifac.org/system/files/downloads/a008-2010-iaasb-handbook-isa-200.pdf

13. Izedomin FI, Mgbame CO. Curbing financial frauds in Nigeria, a case for forensic accounting. African Journal of Humanities and Society. 2011; 1(12):52-56.
14. Jensen MC, Meekling WH. Theory of the firm: Management behaviour, agency costs, ownership structure. Journal of Financial Economics. 1976; 3(4):355-665.
15. Kasum AS. The relevance of forensic accounting to financial crimes in private and public sectors of third world economies: A study from Nigeria. Proceedings of The 1st International Conference on Governance Fraud Ethics and Social Responsibility, June 11-13. Sourced online from: at, 2009, SSRN: http://ssrn.com/abstract=1384242
16. Modugu KP, Anyaduba JO. Forensic accounting and financial fraud in Nigeria: An empirical approach. International Journal of Business and Social Science. 2013; 4(7):281-289.
17. Nwaze, Due process and accountability: Advance fee fraud (1). Zenith Economic Quarterly. 2012; 8(2):24-28.
18. Ojaide F. Frauds detection and prevention: the case of pension accounts *ICAN NEWS,* 2000, P8
19. Okoye0 EI, Akamobi NL. The role of forensic accounting in fraud investigation and litigation support. The Nigerian Academic Forum. 2009; 17(1):39-44.
20. Okpala A. Auditor’s role in safeguarding the going concern concept in Nigeria. Unpublished Master of Business Administration (MBA), Department of Accountancy, Faculty of Business Administration, University of Nigeria, 2012.
21. Onoja EE, Haruna U. Internal audit techniques and fraud prevention: A case study of selected local government councils in Bauch State. Mediterranean Journal of Social Sciences. 2015; 6(4):232-244.
22. Owojori AA, Asaolu TO. The role of forensic accounting in solving the vexed problem of corporate world. European Journal of Scientific Research. 2009; 29(2):183-187.
23. Oyinlola AO. The role of auditors in fraud detection, prevention and reporting in Nigeria. *Library Philosophy and Practice (e-journal).* 517. Sourced online from, 2010, https://digitalcommons.unl.edu/cgi/viewcontent.cgi?referer=https://www.google.com.ng/&httpsredir=1&article=1456&context=libphilprac
24. Pollick MY. What is fraud. Accessed online from, 2006, http://www.wisegeek.com/what-is-fraud.htm.