Sub-Sahara African Academic Research Publications
September, 2022 Editions

JAAS
Journal of African Advancement & Sus. Studies
Vol.25, No.2, ISSN: 3125-5521

EFFECT OF FINANCIAL FRAUD ON NATIONAL DEVELOPMENT: NIGERIA PROJECT

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Abstract
The financial scandals which have appeared in recent times have placed fraud at the heart of economic and financial issues. Fraud by executives has disastrous consequences as it results in huge losses for investors and creditors, and especially for the company itself. Most of these frauds were often in the form of accounting and financial manipulation, and they have evolved to change forms. Fraud is a hidden crime and businesses cannot assume that all frauds have been detected. It is extremely unlikely that the detected fraud within an organization will represent the total financial impact of fraud on that organization, or the total loss from fraud they have experienced. It is a fact that some individuals will look to make gains where there is opportunity, and organizations need robust processes in place to prevent, detect and respond to fraud. Fraud impacts on people, industries, public bodies, services, economy, and the environment and all of these can be irreversibly harmed. The research therefore recommends that Auditors and Accountants in organizations and financial institutions should be trained on how to carry out forensic investigation since the fraudsters are now sophisticated in their operation. Also, internal control systems should be strengthened to block opportunities that attract fraud perpetrators and oversight function of the National Assembly be strengthened to make public office holders accountable.

Keywords: *Fraud, deterrence and prevention, Return on Assets, Financial institutions, National Development*

Introduction

Fraud is a serious, underestimated and unchecked problem. Every public body is an active target for fraudsters. Unfortunately, public bodies do not always consider fraud when conducting their activities. Even when fraud is considered, public bodies can find it difficult to define, measure and articulate the problem without guidance. In addition, the focus can be too centered on financial loss (Trumpeter, Carpenter, Jones, and Riley, 2014). In reality, the impact of fraud goes well beyond this. Fraud impacts on people, industries, public bodies, services and the environment and all of these can be irreversibly harmed. Understanding the total impact of fraud and not just the financial loss allows public bodies to make better informed decisions. Serious impacts can arise from any type of fraud, whether it is perpetrated by opportunistic individuals or serious and organized crime groups. However, serious and organized crime can often amplify the scale and impacts of fraud, and professional facilitators make their activities more difficult to detect and uproot. Fraud can be committed by individuals within an organization, irrespective of their positions or status (Trumpeter, Carpenter, Jones, and Riley, 2013). Finally, fraud can be minimized if the factors encouraging fraud can also be minimized (Mohamed, 2020).

Financial fraud committed by managers and individuals have multiplied in recent years; however, they constitute a highly delicate phenomenon in the world of finance. Each year, fraud causes significant losses to the shareholders and creditors of the targeted companies, which hinders the proper functioning of the capital markets. Fraud is generally committed by executives who are very often involved and are subject to legal action by financial market regulators (Del Giudice, Carayannis 2018). Fraud can undermine national defense and security. It can also damage international standing and affect the ability of nations to get international support. The proceeds of fraud can also fund organized crime groups and terrorism, potentially leading to further crime and terrorist attacks. The revelation of a fraud tarnishes the reputation of several participants in the financial markets, thereby affecting investor confidence in the market and penalizing all businesses. In fact, any fraud announcement leads investors to question the competence and vigilance of financial market regulators, and even auditors, financial analysts, boards of directors, and credit rating agencies, all these actors have their share of responsibility (Debellis, and De Massis.2020). In addition to the financial losses suffered by investors, other losses are added, such as the socio-economic costs related to job losses, and can even go as far as the disappearance of the whole entity.

Fraud against public bodies is not a victimless crime. Fraud can be a traumatic experience that often causes real and irreversible impacts for victims, their families, cares, communities and nations (Managing Fraud for Public Bodies, 2019). Those who rely on government services, such as the elderly, the vulnerable, the sick and the disadvantaged, are often the ones most harmed directly or indirectly by fraud. Fraud can have a devastating and compounding effect on these victims; amplifying the disadvantage, vulnerability and inequality they suffer. Fraud can also cause lasting mental and physical trauma for victims, and in some cases, take people's lives. Fraud against public bodies can compromise national defense and security, putting service men and women, and citizens at risk. It can also damage international standing and affect the ability of nations to get international support. Fraud against government programs can be used to fund organized crime groups and terrorism, potentially leading to further crime and terrorist attacks. Based on international estimates, public bodies generally lose between 0.5% and 5% of their spending to fraud and related loss. The majority of fraud is hidden and undetected and can be difficult to categorize. Calculating the financial impact can assist agencies understand their potential losses and how to mitigate them.

When fraud against a public body occurs, it diverts finite resources and compromises the government's ability to deliver services and achieve intended outcomes. This can happen in the following ways:

• **Services not delivered:** finite money and resources are diverted away from the intended target, or services are not delivered to the standard required.
• **Program objectives not met:** the vision, objectives, and goal of the policy or program are compromised.
• Program/service shut down: in some circumstances the entire program is shut down, which can negatively impact those relying on that service.
• Customer/client experience: the customer experience is compromised.
• Opportunity cost: fraud can result in lost opportunities to a program or service.

Programs or services lose the opportunity to improve if shut down as a result of fraud, or if they are constrained by fraud financial losses and the business costs of responding to fraud thereby causing adverse effect on the development of an organization or country. The occurrence of fraud can result in costs and capacity drain in a wide range of government systems and services. Finite resources are diverted to deal with the fraud responses and outcomes. This reduces governments' abilities to deal with other issues (International Public Sector Fraud Forum 2019).

Financial fraud is viewed to have not only negative but damaging consequences on any nation's economy, security and social wellbeing of the general citizen. It is very necessary to note that as global and modern financial system encourages, facilitates both local and international commerce, antithetically, financial criminals are also evident through technology which enables transfer millions of dollars around the world instantly through available information communication infrastructures such as internet, electronic money transfer (wire transfer) and the rest which is referred to as "yahoo yahoo" in Nigeria ((Mohamed, 2020). There are numerous financial frauds like computer crime, identity theft, "yahoo yahoo", financial statement fraud, cash theft and money laundry and so on. A recent study has indicated that corporate corruption increases the profitability of privately held firms (Ferris et al. 2021). Moreover, several studies have provided empirical support for a positive bidirectional relation between economic growth and corruption in developing economies and a negative unidirectional relation between them in developed countries (Mohamed, 2020; Qureshi et al. 2021). Consequently, fraud can damage and sustain economic development. Fraud can affect any entity. However, when it is handled poorly, fraud can result in an erosion of trust in government and industries, and lead to a loss of international and economic reputation. This is particularly true when fraud is facilitated by corruption.

The economies in the developing countries like Nigeria were particularly vulnerable because of the dependence of many of them on western economic and financial systems. In Nigeria for example, the drop in the price of crude oil and its reduced production due to the conflict in the Niger Delta, had a telling effect on the country's revenues and budget. The demand for goods and services was generally depressed leading to factory closures and lay-offs. The financial crisis in Nigeria is more complex to decipher. It is however, well established now that the Nigeria banking system is both corrupt and inefficient (Jibo, 2008). The highly commendable work of the Central Bank of Nigeria (CBN) Governor Sanusi Lamido Sanusi has exposed the stench in the country's banking industry. Huge unsecured loans were given by the banks; their CEOs allegedly manipulated bank books and helped themselves to customer funds. Above all, bank shares were manipulated to deceive. Things were presented from a public relation (PR) perspective and many were led to purchase bank shares which were almost worthless. While this alleged scam was on, the banks presented a polished image by maintaining an elaborate scheme of deceit. Many Nigerians were ruined by a number of banks who loaned them money to purchase their worthless shares. Bank CEOs in a number of instances criminally used their customers' accounts to borrow money from banks under their charge (Mohammed, 2020).

The most prominent of frauds in banks and agencies of government detected in Nigeria in the recent times includes: Fraudulent transfer and withdrawals; Use of unauthorized overdraft;; Posting of fictitious credits; Presentation of forged cheques; Conversion of banks money into personal use; Granting of unauthorized loans; Abuse of medical scheme; Insider abuse; Illegal conversion of pension funds in various agencies and ministries; Ghost workers fraud resulting into millions of naira paid into private pockets; Abuse of political office leading to contract over billings and over invoicing. In the broader financial institution context, the cause factors, consequences, deterrence as well as the ways for preventing corporate frauds are investigated (Bonsu, Dui, Muyun, Asare, & Amankwaa, 2018). They found that fraud is damaging for corporate financial performance and advocated the use of fool proof deterrence and prevention methods for curbing its occurrence. Hence, globally, employee fraud in the financial institutions is one of the most critical causes in the major banking crises. According to; Bonsu, Dui & Muyun (2018), fraud in financial institution is diversified, as it may range from employee fraud to consumer fraud; from corporate fraud to individual fraud; and from accounting fraud to transactional fraud.

In legal terms, there are five elements to a fraud: (i) "Scienter", or knowledge of facts, events, or circumstances by one party; (ii) Misrepresentations (including non-disclosure) of that knowledge of the party in dealings with another; (iii) Reliance on those misrepresentations by the second party; (iv) An agreement, contract, or transaction between the parties which a reasonable person would not have entered into if privy to the first party's knowledge; and (v) Harm or damage to the second party as a result. The casual factors that should be removed to deter fraud are best described as fraud triangle. The fraud triangle explains three factors that are present in every situation of fraud. (i) Motive (or pressure) – the need for committing fraud (need for money etc). (ii) Rationalization – the mindset of the fraudsters that justifies them to commit fraud; and (iii) Opportunity-the situation that enables fraud to occur (often when internal controls are weak or nonexistent). Breaking the fraud triangle is the key to fraud deterrence. Breaking the fraud triangle implies that an organization must remove one of the elements in the fraud triangle in order to reduce the likelihood of fraudulent activities. "Of the three elements, removal of opportunity is most directly affected by the system of internal controls and generally provides the most achievable route to deterrence of fraud".

Purpose of the Study

The aim of this paper therefore is to examine the effect of Financial Fraud on National Development in Nigeria.

Research Question

To what extent does financial fraud affect national development in Nigeria.?

Null Hypothesis

Financial fraud has no effect on national development in Nigeria.

Methodology

The study adopts the historical research method in an attempt to determine the effect of fraud and related crimes on the Nigerian's national development. The purpose of historical research is to obtain a better understanding of the present through the evaluation of the past and intelligent prediction of the future (Adefila, 2008). The study purely used secondary data for the analysis. The use of secondary data only is because; information relating to the study is readily available from various publications. The analytical tool adopted by the researcher in analyzing the data collected for the study was the Regression Analysis.

Results

Regression Correlation between Financial Fraud and National Development in Nigeria

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.957E17	2	4.359E18	19.288	$.022^{a}$
Residual	7.372E16	4	2.191E17		
Total	**6.711E17**	**5**			

Predictors: (Constant), the gross domestic product
Dependent Variable: chances of Fraud
Adjusted $R^2 = 0.817$, t-cal = 3.898
f(2,4) = 19.288 t tab = 2.132

f(tab) = 10.13, 5% level of significance.

The result of automated data analysis (SPSS 20) reveals that Gross Domestic Product can be held responsible for 81.76% variation on fraud and related financial crime with reference to 2010 to 2019.
The F-statistics (ANOVA) indicates that the mean is statistically significant at 5% level of significance. The F (2,4) = 19.288 is greater than the F(tab) = 10.13, Therefore with respect to theoretical expectation, the coefficient Gross Domestic Product are assigned correctly. The estimated parameters are statistically significant at 5% level of significance. To test for the significance of the estimates, the student's t-test is employed. The t-cal = 3.898 is greater than t-tab = 2.132 for the parameter estimates, this means that the null hypothesis that fraud and related financial crime has no positive and significant effect on the Gross Domestic Product is rejected, while the alternate hypothesis is accepted. The implication here is that financial fraud has significant effect on the National development in Nigerian.

Discussions

The financial scandals which have appeared in recent years have placed fraud at the heart of economic and financial issues. The implication here is that financial fraud has significant effect on the National development in Nigerian.
It is in accordance with Bonsu, Dui, Muyun, Asare, & Amankwaa, (2018), They found that fraud is damaging for corporate financial performance and advocated the use of fool proof deterrence and prevention methods for curbing its occurrence. Hence, globally, employee fraud in the financial institutions is one of the most critical causes in the major banking crises.
Okoye and Gbegi, (2013) However, Nigerian government like many other governments of developing countries until recently has been very slow in putting in place strict policy measures and legislative framework in combating the effects of economic and financial crimes. As a result, economic and financial crimes have eroded the integrity of Nigerian financial institutions since sizeable numbers of them were actively

involved in money laundering and other financial crimes on the economy and socio-political development of Nigeria as a developing nation.

Conclusion

The effect of fraud and financial related crimes on the Nigerian economy are enormous when we consider the high rate of crimes and the amount involved especially on the area of advance fee fraud or 419 or Nigeria letter. Fraudulent practices and financial related crimes have portrayed Nigeria in bad light and as such foreign investors are skeptical in doing business in our country. The research therefore concludes as follows:

(i) Fraud and related financial crime have significant effect on Gross Domestic Product thereby affecting the National Income and by extension, Nigerian Economy.

(ii) Fraud and related financial crime have no significant effect on inflation. However, it has contributed in affecting the economy in a negative way.

Recommendations

Fraud Detection and Prevention Measures: It is recommended that Auditors and Accountants in organizations and financial institutions should be trained on how to carry out forensic investigation since the fraudsters are now sophisticated in their act. Also, internal control systems should be strengthened to block opportunities that attract fraud perpetrators. Fight Against Corruption: Corruption has become a way of life in Nigeria since authorities no longer frown at it because chief cronies are involved. Despite various agencies and commissions established to fight corruption and crimes in the country, the crime rate especially financial related crimes are on the increase hence the researcher suggested that government should be serious in the fight against corruption. Recently a chieftain of PDP that was jailed for corruption was released after completing his jail term, but surprise he was received by statesmen and government officials in a well celebrated reception. This type of attitude does not portray the government in good light before the international community; hence, anti-corruption agencies should improve on their strategies in fighting corruption and fraud so as to reduce the negative effect of fraud on the Nigeria economy.

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